



Landsbanki

Annual Report **2006**

Key figures from the Landsbanki Group Accounts

Operations	EURm		ISKm			
	2006	2006	2005	2004	2003	2002
Interest revenues	1,520	133,102	66,437	34,252	21,871	21,813
Interest expenses	1,046	91,611	43,441	19,517	12,540	14,082
Net interest revenues	474	41,491	22,996	14,734	9,331	7,732
Fee and commission income	371	32,459	18,479	10,234	6,959	4,745
Fee and commission expenses	47	4,092	1,754	1,344	843	669
Net fee and commission income	324	28,366	16,726	8,891	6,116	4,076
Other operating revenues	223	19,568	21,257	9,842	3,535	2,109
Net operating revenues	1,021	89,426	60,978	33,467	18,982	13,916
Salaries and related expenses	279	24,458	12,682	7,794	5,656	4,387
Administrative expenses	161	14,130	8,284	6,667	5,158	4,117
Operating expenses	441	38,588	20,967	14,460	10,815	8,505
Impairment on loans and advances and assets held for sale	70	6,144	6,197	4,485	4,656	2,863
Profit before impairment on goodwill and income tax	510	44,694	33,815	14,521	3,512	2,549
Impairment on goodwill	0	0	3,033	0	0	0
Income tax	51	4,479	5,764	1,798	457	475
Net profit	459	40,215	25,017	12,723	3,055	2,074
Attributable to:						
Shareholders of Landsbanki Íslands hf.	444	38,906	24,740	12,574	2,956	2,028
Minority interests	15	1,309	277	149	99	45
Balance Sheet	2006	2006	2005	2004	2003	2002
Cash and cash balances with Central Bank	338	31,669	16,611	18,237	11,642	8,145
Loans and advances to financial institutions	2,301	215,618	86,919	72,060	37,130	10,748
Loans and advances to customers	15,348	1,438,395	984,593	542,215	326,400	214,787
Financials assets at fair value and associates	4,021	376,809	218,894	64,730	63,744	36,337
Other assets	1,178	110,432	98,443	39,900	9,323	7,808
Total assets	23,185	2,172,924	1,405,460	737,141	448,239	277,824
Deposits from financial institutions	1,506	141,105	144,596	63,476	43,840	30,665
Deposits from customers	7,286	682,846	334,163	215,730	152,320	108,306
Borrowing	10,830	1,014,976	689,989	375,084	209,357	108,479
Subordinated loans	958	89,754	49,074	22,570	13,090	8,216
Other liabilities	1,011	94,785	74,022	21,572	6,389	5,057
Equity	1,540	144,282	110,059	37,705	22,382	16,309
Minority interests	55	5,175	3,557	1,004	862	792
Total liabilities and equity	23,185	2,172,924	1,405,460	737,141	448,239	277,824
Key ratios		2006	2005	2004	2003	2002
Return on equity before impairment on goodwill and taxes		40.3%	61.8%	57.2%	20.9%	17.0%
Return on equity after taxes		36.3%	45.8%	49.5%	17.6%	13.5%
Tier 1 ratio		13.0%	11.9%	7.8%	6.9%	7.7%
Equity ratio (CAD)		14.8%	13.1%	10.4%	9.9%	10.6%
Cost-income ratio		43.2%	34.4%	43.2%	57.0%	61.1%
Operating expenses as a ratio of average capital position		2.1%	2.0%	2.5%	3.0%	3.1%
Interest spread as a ratio of average capital position		2.3%	2.2%	2.6%	2.6%	2.8%
Deposits / loans to customers		47.5%	33.9%	39.6%	48.0%	50.4%
Ratio of provision to lending position at year-end		0.37%	0.58%	0.73%	1.47%	1.33%
Loan loss ratio		0.13%	0.19%	0.33%	0.55%	0.89%
Share price at year-end		26.50	25.30	12.10	5.80	3.65
Change in share price adjusted for dividend payments		5.9%	110.7%	110.3%	61.6%	10.6%
Number of positions at year-end		2,117	1,725	1,121	1,025	986
Exchange rates						
Exchange rate ISK / EUR for P/L average of year		87.57	76.59	86.97	87.39	85.92
Exchange rate ISK / EUR for Balance sheet at year-end		93.72	74.7	83.51	89.76	84.71

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My name is very old

Old Norse for "ancestral mother".

Edda is the name of a famous collection of Norse-Icelandic poetry.

Edda means "very old".



In Iceland, our name is Landsbanki

Gaining Strength From Adversity

In 2006, as Landsbanki Íslands celebrated its 120th anniversary, it also marked another major achievement: for the first time in its history, a greater share of the bank's income originated from operations overseas than from those in Iceland. Clearly, the bank is rapidly approaching the target set when the new Board of Directors was elected at the beginning of 2003, of becoming an international bank with deep Icelandic roots.

The growth of Landsbanki and the Icelandic financial sector has greatly benefited society at large: the sector's contribution to GDP has grown from 4% to 8% in the last eight years. Stronger banks are also more capable of supporting clients' growing domestic and international investments. Increased economies of scale



*Björgólfur Guðmundsson,
Chairman of the Board
of Landsbanki.*

in the banks' operations, plus increased competition in the sector, mean cost-efficiencies as evidenced by the decrease in the banks' interest margin from 3% to 2% within the last four years alone.

Like other Icelandic financial enterprises, Landsbanki was not untouched by the extraordinary financial climate of the past year. Following the very strong expansion by Icelandic companies internationally, market analysts and international financial media began to focus on various aspects of the Icelandic economy in general and the Icelandic financial sector in particular. Some aspects of this discussion were based on misconceptions but other issues drew attention to matters where there was room for improvement. Due to perceived risks in the Icelandic economy, market sentiment surrounding the Icelandic commercial banks in the international bond markets deteriorated temporarily. Landsbanki kept its balance as the waves grew, took steps promptly to address those concerns which were justified and refuted those which were not.

Specific measures taken included increasing the flow of information to international media and market analysts. The bank also lowered its market risk profile by divesting of assets in listed companies, as well as its holding in Straumur-Burðarás Investment Bank, following criticism of investments made by Landsbanki together with its major shareholders in that company. Reliance on international market funding has also been reduced through several new and highly successful international deposit programmes introduced in 2006. Without suggesting that everything claimed by critics of the Icelandic economy and banks this past year was grounded in reality, some of the comments made did serve as timely guidance on issues of importance to all of us involved in banking activities. Landsbanki has definitely ridden out the storm, and has sought strength in adversity. The bank's performance in 2006 was the best ever – for the third year in a row. Deposits have increased very sizeably, profit was higher than ever and the foundations of the bank's operation have never been sounder. The successful integration of all Landsbanki operating units in 15 different countries has exceeded expectations, providing a strong platform for further growth, especially overseas.

At year-end 2006, Landsbanki had almost 29,000 shareholders. The bank's share price fluctuated considerably during the past year following the concerns expressed about Iceland's economy and the effects of short-term economic adjustment on the financial enterprises. In the latter half of the year, confidence in the banks was restored and share prices rose again. With average daily trading of 50 million shares, Landsbanki is one of the most liquid and actively traded stocks on the Iceland Stock Exchange. At year-end Landsbanki's shares had appreciated 4.7% year-on-year, giving a total annual return of 5.9% adjusted for dividend. In the last three years, the average total return on Landsbanki's shares has been 68%.

Following accepted principles of good corporate governance is a priority for Landsbanki. The composition of its Board of Directors and administrative committees reflects the guidelines issued by the Iceland Chamber of Commerce and Iceland Stock Exchange, and the bank makes every effort to co-operate constructively with the financial supervisory authorities in all the jurisdictions in which it operates. Landsbanki leads the way in demonstrating corporate social responsibility in Iceland. The bank's primary corporate responsibility is to ensure profitable operations, as well as to continuously improve and expand its customer service. However, in Landsbanki's view, social responsibility is a corporate responsibility. The bank has made a singular contribution to cultural and educational affairs, sports and humanitarian issues in Iceland. Landsbanki is also playing an active role in the rejuvenation of Reykjavik city centre. In a small country like Iceland, a large company like Landsbanki can be instrumental in creating a vital, uplifting and enjoyable community that encourages others to make a positive contribution, and in building human capital for the future.

On 1 July 2006, 120 years had passed since Landsbanki first opened its doors to offer financial services. The objective of celebrating this important milestone is to emphasise how closely the bank's history is interwoven with the history of the nation, and how deeply it is rooted in Icelandic society. Landsbanki's strong anchoring in its home market is the key to its successful expansion in markets abroad, while its positive advances overseas contribute to increased prosperity in Iceland. The 120th anniversary has been celebrated in a variety of ways. Most recently the bank opened an historical exhibition relating its 120-year story, reflecting the life, work and culture of Icelanders through these decades. Although Landsbanki will expand and further develop its overseas operations, it will always remain the Icelandic nation's bank.

I would like to take this opportunity to congratulate all of Landsbanki's employees and shareholders upon the conclusion of yet another successful year. A motion will be presented to the Annual General Meeting to pay shareholders a dividend of 40% of the nominal value of their shares. Landsbanki's worldwide team has clearly moved mountains yet again, and for that I am truly grateful. I hope that the path leading us into the future will continue to offer both pleasures and rewards.



Björgólfur Guðmundsson

Consolidation, Integration and Diversification

This past year has witnessed Landsbanki's continuing organic growth as a European corporate and investment bank, while at the same time it has maintained market leadership as a universal bank in the Icelandic market. For the first time, more than 50% of the bank's revenues originated outside Iceland, clear evidence of the successful implementation of its strategy. The bank continued to improve its profits, which amounted to ISK 40.2 billion, while achieving 33% real growth in total assets.

The focus in 2006 was on consolidation and further development of the bank's international activities. Progressive integration of three securities brokers acquired in 2005, Teather & Greenwood, Kepler Equities and Merrion Capital, with the bank's existing corporate and investment banking capabilities, creates an ideal platform on which to build corporate and investment banking services for mid-cap companies across Europe. Landsbanki's extensive experience in assisting companies of this size enables it to offer leading-edge, highly competitive services. Being one of the few banks able to offer locally based, pan-European equity research gives Landsbanki a major advantage in this respect.

The bank currently has operations in fifteen countries, and activity is growing at each location. Landsbanki London Branch has expanded and diversified, and a number of new establishments have been opened overseas, including operations in Amsterdam, Halifax and Oslo. The total number of full-time equivalent positions in the group rose to 2,117, increasing by 392. The number of positions outside of Iceland is now 825, as compared with 586 a year ago.

Record financial results in 2006

Landsbanki's after-tax profit in 2006 was ISK 40.2 billion, a 61% increase over 2005 when this figure was ISK 25.0 billion. Net income from operations amounted to ISK 89.4 billion, a year-on-year increase of 47%. Income from operations outside of Iceland accounted for 52% of total income, with 25% from Continental Europe and Nordic countries, 21% from the UK and Ireland, and the remainder from Landsbanki Luxembourg.

Profit on core banking activities, i.e. excluding net trading gains on securities, was ISK 28.8 billion, up 77% over 2005. While active participation in equity markets remains a part of Landsbanki's business strategy, this figure confirms the solid



*Sigurjón Þ. Árnason and
Halldór J. Kristjánsson,
CEOs of Landsbanki.*

foundation of the bank's operations and strong profit generation, even if gains from proprietary securities trading are excluded.

After-tax return on equity (ROE) was 36.3% and ROE on core earnings 26%. Both of these figures are significantly above Landsbanki's target ROE of 15-17%. All business lines recorded impressive profits.

Total assets amounted to ISK 2,173 billion, increasing by 55% over the previous year; after adjusting for ISK depreciation, real asset growth was 33%. The main changes in the balance sheet during the year were a substantial increase in deposit taking and improved capital ratios.

Successfully diversifying funding sources

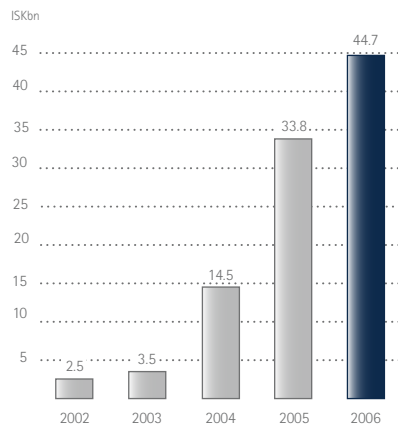
In early 2006 the Icelandic economy was the focus of considerable international attention. Financial analysts expressed concern at the national economy's ability to adjust to short-term disequilibrium and the attendant impact on the bank's funding and operations. These concerns were partly the result of misconceptions, which were corrected by supplying suitable information promptly and effectively.

The ensuing, somewhat negative, market sentiment stemmed in part from apprehension at the small size and volatility of the Icelandic economy and the im-

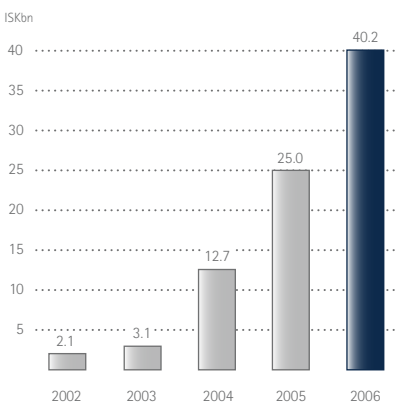
Pre-tax Core Income

ISKm	2006	2005
Adjustments		
Net interest revenues	3,640	3,652
Other operating revenues	(19,568)	(21,257)
Impairment on goodwill	0	3,033
	(15,929)	(14,572)
Core income		
Net interest revenues	45,131	26,647
Net commissions and fees	28,366	16,726
Net operating revenues	73,497	43,373
Operating expenses	38,588	20,967
Impairment on loans and advances	6,144	6,197
Profit before tax	28,765	16,210
Cost-income ratio	53%	48%
Pre-tax ROE/core income	26%	30%

Profit Before Tax and Goodwill Impairment



After-tax Profit



plications of this for the banking industry. Although many of the criticisms were valid, and subsequently addressed, others were based on misconceptions owing to Iceland's relatively recent appearance on international capital markets. These misunderstandings revealed a clear need for improved communication on the Icelandic economy's structure and situation, plus additional information dissemination on the nature of the banks' operations.

The bank has, for instance, taken steps to further reduce market risk and substantially increase the role of deposits in its overall funding. It has also raised its capital ratio during the course of the year. Together with the effective integration of the parent company and subsidiary establishments both in Iceland and overseas, this has placed Landsbanki in a position to advance confidently on highly competitive global financial markets.

As recent positive reports confirm, Landsbanki has achieved no small success in improving many of those aspects of its operations that were questioned. International investor confidence in the bank has been repeatedly affirmed. At the end of July, Landsbanki concluded a three-year EUR 600 million syndicated credit facility. At the end of August, it negotiated its first US issue under a newly established 144A programme. Due to very substantial demand, the planned USD 1 billion transaction was increased to USD 2.25 billion, putting to rest any remaining concerns over the bank's ability to secure adequate funding. This landmark transaction was also instrumental in confirming the downward trend for Icelandic credit spreads and was chosen as the runner-up deal of the year in the US MTN market by *Credit Magazine*. In December, Landsbanki completed its first Canadian market issue. With these and other successful funding moves throughout the year, Landsbanki has further diversified its funding geographically, lengthened its maturity profile and broadened its investor group.

Making deposits a priority

This year Landsbanki placed priority on attracting deposits from investors abroad. The bank's deposits-to-lending ratio at year-end was 47.5%, up from 34% at year-end 2005. The bank aims to increase that percentage to over 60% in the coming twelve months. This reflects its financing strategy aimed at minimising the effects of temporary turbulence in any one market. At year-end 2006 Landsbanki's deposits amounted to ISK 683 billion, up 104% from year-end 2005. Almost 90% of this increase can be attributed to non-Icelandic deposits.

In August 2006, Landsbanki acquired the offshore deposit bank Cheshire Guernsey Limited, an ideal platform to further diversify funding sources. This was followed up in October with the launch in the UK of Icesave, an easy-access, competitively

priced online savings scheme. Only three months later, Icesave's deposits totalled GBP 775 million, having attracted over 35,000 customers.

Landsbanki's Amsterdam Branch also began taking deposits this past year, and London Branch had added to its existing deposit product range in late 2005.

Profitability and capitalisation targets

Landsbanki's targets for profitability and capital ratios reflect its combined role as a universal bank domestically and a corporate and investment bank internationally.

With regard to proprietary trading, Landsbanki has set a cap on its equity portfolio, which may not exceed 3% of the bank's balance sheet. Conscious of the inherent risk, the bank has set clear targets for both profitability, which it has surpassed, and for risk, capital and liquidity, where it has remained well within the defined limits.

- The target pre-tax ROE is 18-20%, and the target after-tax ROE 15-17%. For the past four years running, Landsbanki has far outperformed these targets.
- Tier 1 capital ratio not lower than 9% and optimally around 10%.
- The overall capital ratio not lower than 11%, and optimally around 12%.
- To have a liquidity position to cover a situation (simulated by a stress test) where access to capital market funding is closed for up to 12 months, during which time the bank will repay all due liabilities at maturity as well as other confidence-sensitive customer deposits and maintain a stable business volume.

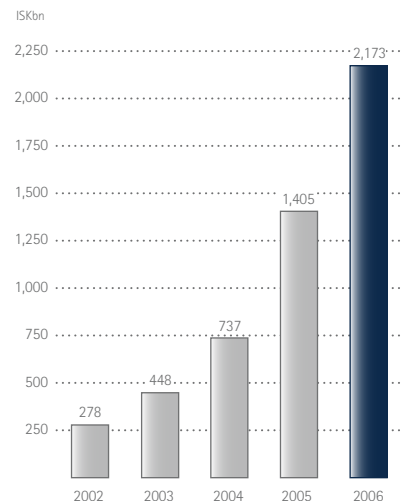
Policy and outlook

During the past four years, Landsbanki has expanded rapidly and undergone a veritable transformation. Its balance sheet has grown almost eight-fold during this time, and its international activities greatly augmented, both by acquiring operating units and establishing new operations from the ground up. Landsbanki aims at broadening its income generation base both in Iceland and abroad. Its overarching objectives are to increase shareholder value, diversify risk and attain economies of scale, thereby positively impacting the bank's credit ratings.

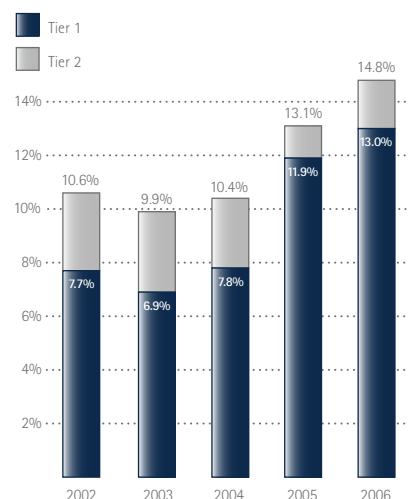
Domestic

Building on its 120 years of operation, Landsbanki aims to maintain its leading position in the domestic market as a universal provider of financial services. In tandem with a changing market environment and technological advances, further consolidation of the branch network can be expected. Although they are fewer

Total Assets



Capital Adequacy Ratio



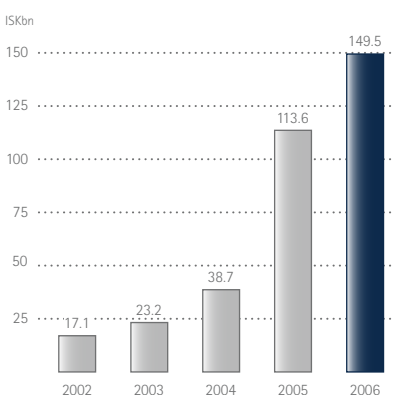
in number, the operational scale and scope of services provided by the branches have increased significantly, enabling them to provide customers with more comprehensive and customised services. Landsbanki has declared its willingness to take the initiative in further restructuring the banking sector, which would step up the efficiency of financial markets in Iceland. In addition, the bank advocates further privatisation of housing financing in Iceland.

International activities

Overseas expansion has been the key to Landsbanki's growth in recent years. Here the bank follows a balanced strategy, based on building profitable international banking operations, with strong corporate and investment banking emphases. Landsbanki will build organically on its acquired platform by adding new teams, products and services, as well as strengthening existing ones, to provide an integrated range of financial services for its target market. At the same time, the bank aims to further increase its international banking operations by acquiring additional banking assets.

After a number of acquisitions in 2000-2005, at a total estimated cost of EUR 350 million including expected earn-out payments, Landsbanki focused on integrating and consolidating its platforms and operations in 2006. The bank has also successfully established branches and representative offices in key locations to boost organic growth.

Total Equity



Landsbanki's acquisition strategy has been to buy quality assets that are efficiently run. A strategic fit is the key criterion: the asset must geographically complement existing operations and offer potential product and service synergies. The bank's past acquisitions have all been executed in a friendly manner; the acquired companies' senior management teams have remained on board and incentive schemes have been put in place to inspire trust and loyalty on a group level.

Corporate and investment banking

Corporate lending, securities brokerage and corporate finance are Landsbanki's three major service offerings to businesses. Backed up by in-house knowledge of Europe's leading companies and markets, plus a growing international client base, Landsbanki can make its income generation increasingly independent of local business cycle fluctuations.

To this end, more attention will be devoted to the bank's corporate lending, with substantial growth expected in its London and Amsterdam branches, as well as in Canada. The initial success of the bank's operations in Canada gives cause for optimism concerning future developments in that market.

To date, overseas lending has primarily taken the form of corporate lending, concentrating on asset-based as well as structured lending. Landsbanki has increasingly acted as lead arranger in syndicated facilities, especially in the UK. The bank has also placed emphasis on services to the global seafood industry, including trade finance, building on its experience as the leading provider of financial services to the Icelandic fishing industry.

Integration and consolidation

The strong anchoring and fine reputation of the bank's subsidiaries in European markets opens up new business possibilities, as well as opportunities for sharing distribution channels. To take full advantage of this, efforts to co-ordinate Landsbanki's branding and image strategy will continue, emphasising inter-departmental co-operation and integrated financial services. Additional steps towards harmonisation of the Landsbanki brand will be taken in upcoming quarters.

Having short communication channels and a proactive approach to business that fosters entrepreneurial leadership provides Landsbanki with a competitive advantage in entering new markets. By offering a stimulating working environment and competitive compensation, the bank continues to successfully attract highly qualified and capable employees.

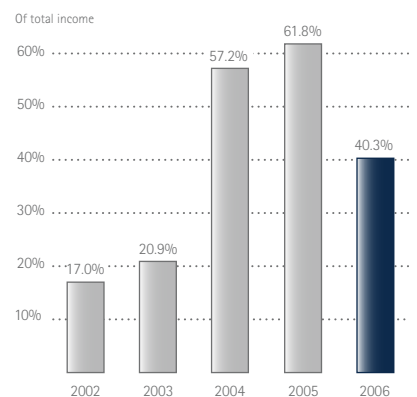
Growth and development in 2006

In the past two years, the bank's growth has been greatest in corporate banking outside of Iceland. The vital growth of Landsbanki London Branch led to the establishment in 2006 of two regional offices, in Birmingham and Manchester, specialising in asset-backed lending. A new Landsbanki branch was established in the Netherlands in March, focusing on structured finance and commercial real estate.

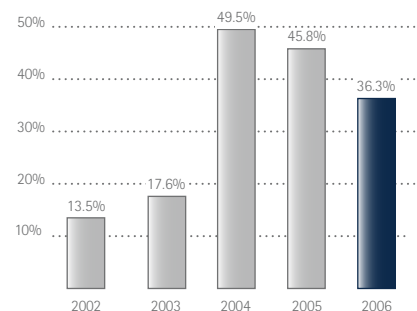
Corporate finance projects grew in number in 2006, and efforts are aimed at further developing this area of Landsbanki's activities in Europe. The integration of corporate finance departments at Teather & Greenwood in the UK, Kepler Equities in Continental Europe and Merrion Capital in Ireland with Landsbanki's Corporate Finance was a step in this direction. Kepler's New York office has been expanded and a new corporate finance team recruited for its Paris office. Merrion opened a regional office in Cork that will specialise in corporate advisory and wealth management. Furthermore, the bank has launched FX-related products through its London Branch and newly opened office in Geneva.

Research published by Landsbanki and its subsidiaries was harmonised under the Landsbanki brand, highlighting the group's wide-reaching and high-quality Eu-

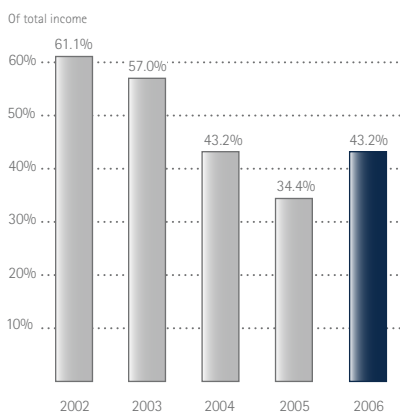
Return on Equity Before Tax, Goodwill Impairment, and Minority Interest



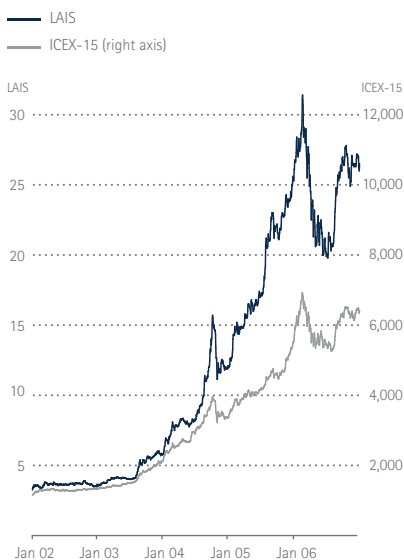
After-tax Return on Equity



Cost-income Ratio



Landsbanki's Share Price and ICEX-15 Index



Source: Mentis hf.

European research capabilities. The bank's subsidiaries, together with Landsbanki Research in Iceland, use a joint database and provide equity research on over 800 of Europe's leading companies, representing 85% of the continent's listed equity market cap.

In private banking, Landsbanki Luxembourg has expanded the scope of its operations by opening a representative office in Marbella in Spain, catering to the needs of the bank's Nordic client base. Heritable Bank in the UK continued to broaden and grow its specialist finance and SME lending.

The growth in Landsbanki's international lending activities has been reinforced by the rapid growth of its international deposit taking.

Bright business outlook for 2007

Prospects for all of Landsbanki's market areas are stable and favourable. Economic growth is expected to decelerate somewhat in Iceland and internationally, but a healthy growth rate is still predicted. The suggested risks shadowing the Icelandic economy in early 2006 have dissipated. Asset prices in Iceland and the exchange rate of the Icelandic króna have reached sustainable levels without any major setbacks to the economy or the financial system. Adjustment of current external imbalances is expected to take place in 2007-2008 without significant impact on household or corporate balance sheets.

All the large industrial economies appear to be approaching trend level growth rates, and prospects on securities markets appear to be good, even though predicted equity price rises in 2007 are less than those of 2006. Some corrections could take place in real estate prices in a number of countries, i.e. Spain, France, Denmark and the USA, according to the OECD. This would not have a significant impact on Landsbanki, as the bank's exposure to these markets is limited.

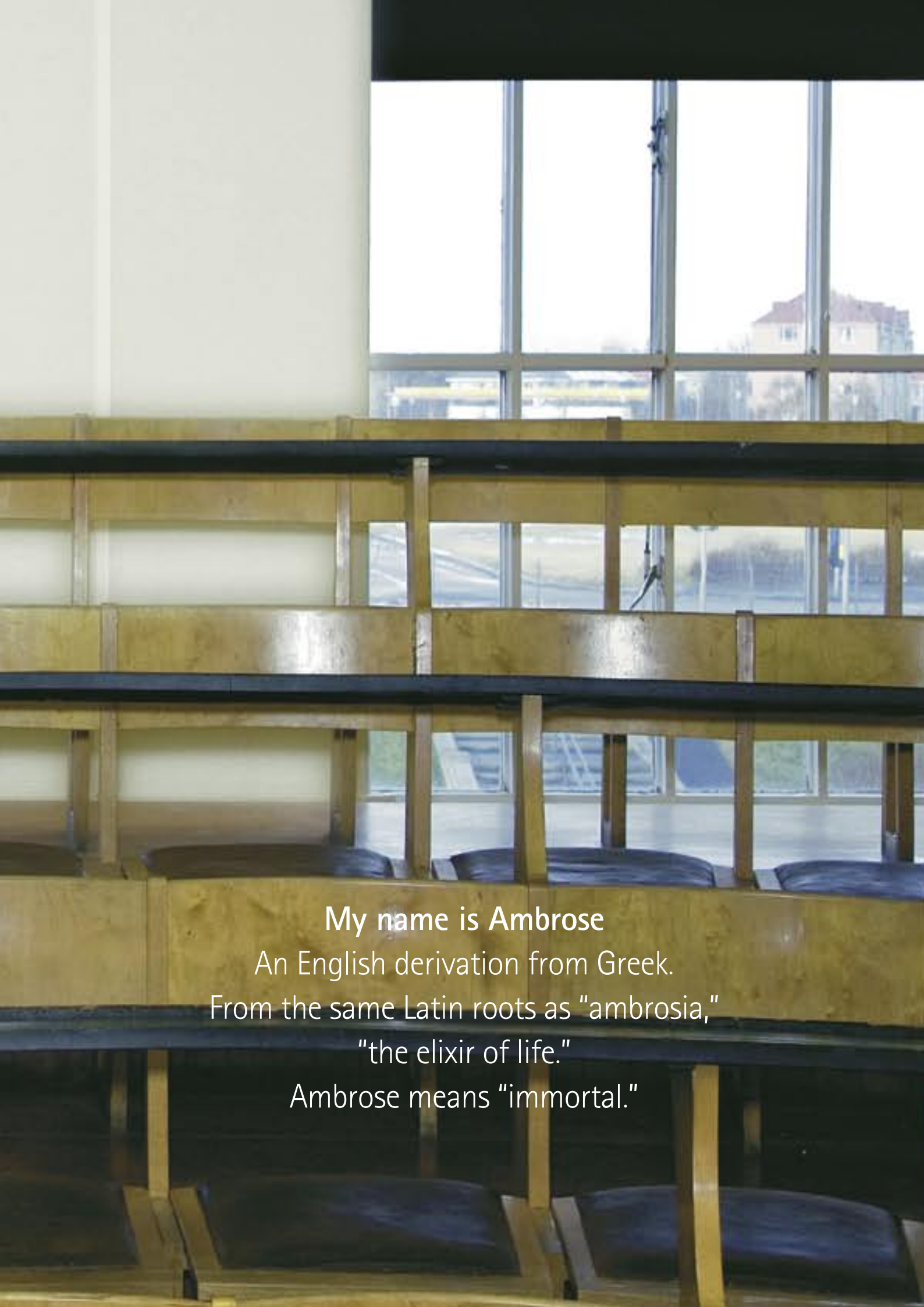
The dynamism and healthy growth rate of the international economy is likely have a favourable impact on all of Landsbanki's business areas, supporting its continued international expansion in corporate and investment banking.

Landsbanki's CEOs

Halldór J. Kristjánsson
Halldór J. Kristjánsson

Sigurjón P. Arnason
Sigurjón P. Arnason





My name is Ambrose

An English derivation from Greek.

From the same Latin roots as "ambrosia,"
"the elixir of life."

Ambrose means "immortal."



In England, our name is Landsbanki

The Economy and Financial Markets

The year 2006 was favourable for Landsbanki's operation in all markets, despite some concerns about economic imbalances in Iceland arising from the rapid investment-led growth of the past three years. In Europe, solid economic recovery has finally taken hold, as business investment has picked up and stimulated household spending. Asset prices in Iceland have undergone a significant correction and the ISK exchange rate has depreciated to a level consistent with fundamental equilibrium. These adjustments have taken place without causing setbacks to households, enterprises or financial institutions, bearing witness to the resilience and strength of the Icelandic economy.

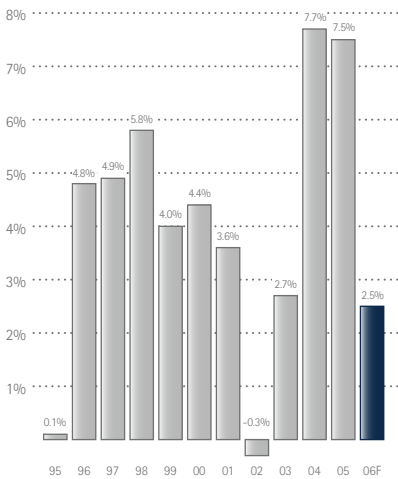
The Icelandic economy

From an economic point of view, 2006 was an eventful year, marking a turning point after several years of growth and transformation in the Icelandic economy. During the past decade, the country's GDP has grown by a total of 55% in real terms, real disposable income per capita had risen by 48% and productivity by 31%. As the business cycle approached its peak, spurred by investment in power projects and aluminium smelters, strong consumer demand and labour market tension were reflected in growing inflation and a widening current account deficit. Following fundamental changes in the residential mortgage system in 2004, housing prices rose steeply, putting an additional pressure on the already tight economic situation.

The ISK exchange rate continued to appreciate in 2005 due to capital inflows related to the large-scale investment, tightening of monetary policy and issuance of ISK Eurobonds. With the exchange rate at the beginning of 2006 well above long-term equilibrium level and clearly unsustainable, a depreciation was widely expected some time during the year. The correction needed, however, was less than suggested by the size of the current account deficit. Investment in power-intensive industry had yet to reach its peak and it was clear that once this subsided a major portion of the current account deficit would be reversed, due both to lower imports of investment goods and additional new aluminium exports.

Substantial imbalances, such as those which had developed at the beginning of 2006, are not unknown in Icelandic economic history. Because of the small size

GDP Growth in Iceland

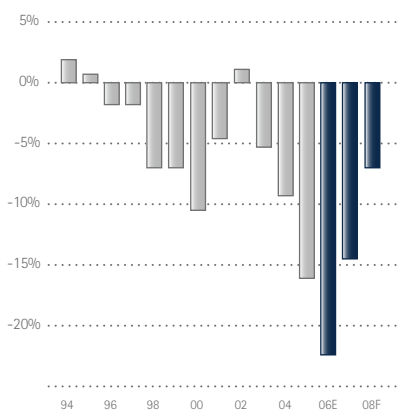


Source: Icelandic Ministry of Finance and Statistics Iceland

of the economy, fluctuations have been frequent and often fairly substantial, creating resilience in the country's financial system, enterprises and institutions. Corrections to previous economic disequilibrium have occurred rapidly, without major setbacks to industry or households, with ISK weakening playing a central role in such adjustment. For some time, Iceland has been among the world's richest economies, with per capita GDP of USD 37,300 in 2006 (in PPP terms), political stability, a well-developed institutional infrastructure and, since 1994, financial market regulation and supervision as provided for under EU legislation according to the EEA Agreement. Both household and corporate indebtedness has grown substantially during the past decade, to a point where it ranks among the highest in the OECD. On the other hand, demographically Iceland is one of the youngest nations in Western Europe, and the assets of its fully-funded pension system are currently equivalent to around 128% of GDP. Also, some 83% of the population are homeowners and net public sector debt is very low (11.1% of GDP). Finally, investment abroad by private enterprises has been both very extensive and highly profitable. Consequently, the elevated level of consumer and corporate debt is not as unsustainable as it might look at first sight.

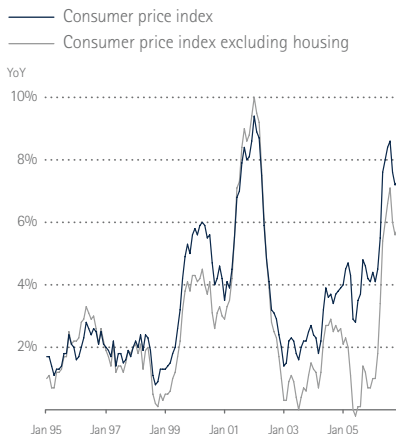
One very significant change in the situation today from that of earlier economic cycles is the size and strength of Icelandic financial undertakings. Their rapid growth began with the financial market liberalisation of the EEA Agreement at the beginning of 1994 followed by the privatisation of former state banks at the beginning of the new millennium. Iceland's financial sector has been transformed and its focus mainly on the domestic market shifted to providing financial intermediation services overseas, particularly in Europe. At the same time, activities

Current Account in Iceland, % of GDP



Source: Central Bank of Iceland and Ministry of Finance

Consumer Price Index



Source: Statistics Iceland

Housing Prices in Iceland, YoY Change



Source: Statistics Iceland

of Icelandic industry abroad have increased many times over, as has foreign investment by Icelandic pension funds. As a result both the nature and magnitude of foreign funding has changed significantly: by 2004–2005 Icelandic financial enterprises primarily obtained their foreign funding on financial markets through EMTN programmes. The changes have made both Iceland's financial system and economic development considerably more dependent on access to international financial markets. This in turn increases the impact of the opinions of rating agencies and foreign analysts assessing the domestic economic situation and stability of the financial system.

As 2006 began, it was evident that an economic adjustment was on the cards: in markets for labour, goods and services, and foreign exchange. The correction process was jump-started in late February when Fitch Ratings put Iceland's sovereign credit rating on a negative outlook due to imbalances in the economy and the potential risks for households, enterprises and financial institutions posed by the necessary correction. Fitch's action set off a chain reaction, which altered the economic landscape in the space of only a few months. The ISK weakened sharply, equity prices fell and housing price inflation gradually came to a standstill. At the end of April, after an ISK weakening of over 15%, relative calm settled over the FX market once more.

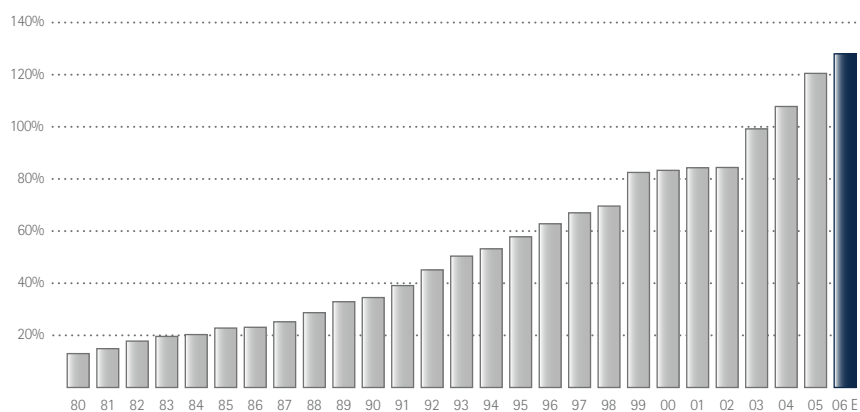
In the intervening weeks analysts of international banks and other financial enterprises issued a number of reports, several of which expressed concern at the impending economic adjustment in Iceland and the effect on its banks. Criticism from foreign analysts focused, in particular, on the banks, expressing concerns at

Icelandic Banks' CDS Spreads



Source: GFI Group

Net Assets of Icelandic Pension Funds, % of GDP



Source: Statistics Iceland and Central Bank of Iceland

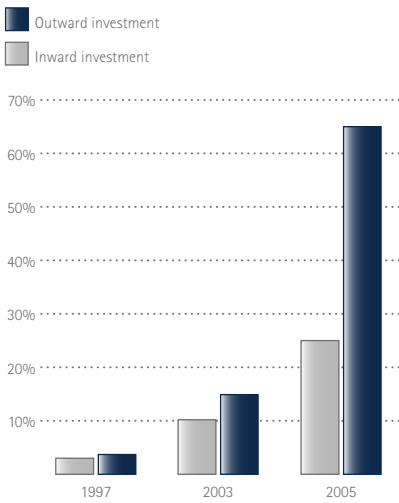
GDP per capita in Selected Countries in 2005. USD, in PPP Terms

Country	GDP per capita	Rank*
Luxembourg	69,800	1
Norway	42,364	2
United States	41,399	3
Ireland	40,610	4
Iceland	35,115	5
Denmark	34,740	6
Canada	34,273	7
Switzerland	32,571	10
Finland	31,208	13
Netherlands	30,862	15
Japan	30,615	16
Germany	30,579	17
United Kingdom	30,436	18
Sweden	29,926	19
France	29,187	20
Italy	28,534	21
Spain	26,320	25

*Rank in a number of 180 countries.

Source: IMF, World Economic Outlook Database, Sep 2006

Foreign Direct Investment in Iceland, % of GDP



Source: Central Bank of Iceland and Landsbanki Research

equity market cross-ownership, rapidly growing loan portfolios and high refinancing needs in 2006 and 2007. Lack of restraint in public finances was also decried. Many reporters saw parallels in Nordic banking crises of the early 1990s, or the Asian crises at the end of that decade, although in fact the situation was far from comparable, as would soon become evident. As far as the banks were concerned, the effect was not least to raise yields on the bonds they issued on international financial markets and their CDS spreads rose to as much as 100bp (on LIBOR).

Signs of the economy's response to these altered circumstances soon appeared. Firstly, new lending by the Icelandic banks, especially residential mortgages, fell sharply. Housing prices peaked around mid-year and have been slowly subsiding since that time. The ISK slide eventually dampened demand for imports; the number of new vehicle registrations, for instance, quickly dropped following large increases in previous years. The banks responded by improving their information disclosure, increasing transparency towards the market and diversifying their funding.

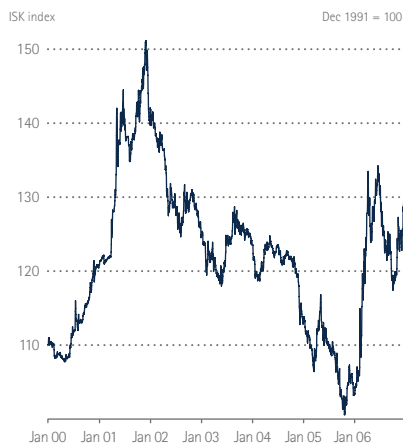
A report by Columbia professor and US Federal Reserve Board member Frederic S. Mishkin and Icelandic professor Tryggvi Þór Herbertsson on Financial Stability in Iceland, published around mid-year, reversed the attitudes of many foreign actors towards Icelandic economic affairs. Concerns about a possible Icelandic financial crisis looming ahead subsequently dwindled. It could therefore be said with some justification that the Mishkin report marked a certain watershed, as it provided a basis for more balanced markets in the latter half of 2006. The turnaround became even more evident once the banks had all published very positive 6M results

External Debt in Iceland, % of GDP



* IIP excl. FDI and portfolio equities
Source: Central Bank of Iceland

ISK Trade-weighted Index



Source: Central Bank of Iceland

Real ISK Exchange Rate



Source: Central Bank of Iceland

and all three commercial banks announced at the end of August that they had practically concluded their funding for 2007. Both the yields on the banks' bonds and their CDS spreads dropped afterwards. Landsbanki's USD 2.25 billion notes issue in the US in August was without doubt a decisive factor here.

Following the publication of the Mishkin report, the ISK began to strengthen. Policy rate hikes by the Central Bank in July, August and September provided further support for the currency and around mid-October the ISK trade-weighted index had dropped to around 117, an appreciation of over 15% from its weakest point in late April. At the end of the year the real ISK exchange rate was close to its historical average, reflecting a more sustainable level, and perceived risks related to weakening of the krona, primarily to the corporate sector and financial institutions, have dissipated.

As imports account for a major share of household consumption, the ISK weakening substantially affected the development of inflation during this past year. The 12M inflation rate peaked at 8.6% in August, only to drop rapidly once turbulence on the FX market subsided, and end the year at 7%. At one point, rising inflation looked likely to cause unrest in the labour market, as collective bargaining agreements had termination clauses if inflation exceeded set limits. The social partners managed to reach an agreement in June, however, ensuring continued stability in the labour market. The agreement did boost wage levels somewhat, and in Q3 Statistics Iceland reported a year-on-year increase of 6-11% depending on sectors. All indications point to rapidly subsiding inflation in 2007 as major VAT cuts on food take effect in March and domestic demand cools.

By the end of the year housing price rises had stopped. The 6M increase in the index showed a slight fall in prices, reflecting a slow-down in demand. The impact of changes in the mortgage system in 2004, which greatly increased household access to financing, has ebbed. No balance sheet problems have emerged in the household sector, as the household debt service burden as a ratio of disposable income has changed little, due to longer and more favourable mortgage terms. The real estate market is expected to remain stable, as purchasing power and employment remain high. While a slight drop in housing prices in 2007 cannot be excluded, this would serve to dampen the wealth effect and private consumption, encouraging the necessary economic adjustment.

Economic growth is now predicted to be around 2.2% in 2007 and 3.1% in 2008. The real ISK exchange rate is close to equilibrium at the beginning of 2007 and asset prices appear to reflect real value, paving the way for a soft landing of the economy. The high current account deficit will start to contract in 2007, as the investment projects come on stream, and the adjustment continues into 2008.

ISK Exchange Rate

Currency	Weight in TWI*	31 Dec 2005	31 Dec 2006	Change
EUR	41.14%	74.700	94.610	26.65%
USD	23.03%	63.130	71.830	13.78%
GBP	12.10%	108.850	140.980	29.52%
DKK	8.13%	10.014	12.687	26.69%
NOK	6.04%	9.344	11.453	22.57%
SEK	3.87%	7.945	10.446	31.48%
JPY	3.38%	0.538	0.604	12.41%
CHF	1.21%	48.030	58.870	22.57%
CAD	1.10%	54.290	61.890	14.00%

* ISK trade-weighted currency basket

Source: Central Bank of Iceland

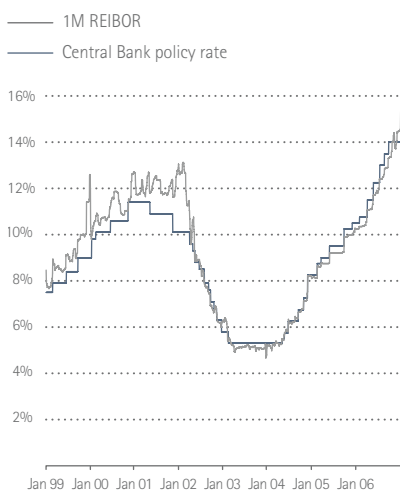
Key Economic Indicators 2005-2008

	2005	2006E	2007F	2008F
GDP growth, %	7.5	2.5	2.2	3.1
National expenditure, annual growth %	15.8	5.8	(5.0)	(3.8)
Current account, % of GDP	(16.1)	(22.4)	(14.5)	(7.0)
Registered unemployment, % of labour force	2.1	1.3	2.0	3.3
CPI, annual change %	4.0	6.8	3.8	2.3
Disposable income per capita, annual change %	2.5	5.2	4.6	2.0

Source: Icelandic Ministry of Finance

Macroeconomic disequilibrium and a lack of harmonisation between public finances and monetary policy were quoted as the main concerns prompting S&P to downgrade Iceland's sovereign credit rating from AA-/A-1+ to A+/A-1 at the end of December. The response in currency markets was short-lived and the TWI closed at year-end at 127.9, weakening by 18% during the year. Moody's affirmed its sovereign rating for Iceland of Aaa/P- with a stable outlook in late December and Fitch affirmed its rating of AA-/F1+ in November.

1M REIBOR and Central Bank Policy Rate



Source: Central Bank of Iceland

Financial markets in Iceland

At the beginning of 2006 the Central Bank's policy rate stood at 10.5%. It was raised seven times during the year, by a total of 3.75 percentage points, to 14.25% at year-end. Interbank rates rose steadily, keeping pace with these hikes, and by the end of the year the 12M interbank rate was equal to the policy rate while the 3M rate was considerably higher, just over 15%. The short-term foreign-domestic interest rate differential also rose in line with the nominal rate. At the beginning of 2006, the 6M interbank differential was 6.9%, but by the end of the year this had risen to 10.4%.

The FX market continued to expand rapidly in 2006. Trading volume on the inter-bank market grew by 107% year-on-year, spurred both by increased activity by domestic agents and significantly increased trading by foreign participants. ISK volatility from February until May clearly stimulated FX trading, as did substantial issuance of ISK-denominated Eurobonds by foreign investors that started in September 2005 and continued throughout 2006. ISK Eurobonds totalling ISK 175 billion were issued in 2006, bringing the total outstanding stock to ISK 272 billion. ISK Eurobonds maturing in 2006 totalled ISK 54 billion.

Market interest rates followed the policy rate climb until mid-year. At the beginning of the year the yield on the longest Treasury note series (RIKB13), with an average duration of seven years, was 7.71%. This rose to a peak of 9.19% in July, when expectations of policy rate cuts beginning early in 2007 grew. The yield on

RIKB13 dropped to a low of 7.66% in October, then began to rise once more, reflecting changed policy rate expectations, and ended the year at 8.85%.

There were also some fluctuations in yields on long indexed HFF bonds, e.g. 62bp on HFF44 (14.2 yr. average duration). Volatility was even greater on shorter HFF series, the yields on which jumped upwards following the announcement of VAT cuts on foods and other tax cuts in 2007, which will substantially lower indexation in H1 2007.

The securities market was extremely lively this year, with record turnover on the Iceland Stock Exchange (ICEX) which increased 77% year-on-year. Listed companies raised a total of ISK 299 billion on ICEX, ISK 177 billion with increases in share capital and ISK 122 billion through bond issues. Total equity trading amounted to ISK 2,192 billion, a year-on-year increase of 82%. Turnover velocity also increased considerably year-on-year, from 85% to 102%. Bond turnover was up by 72%, totalling ISK 2,272 bn.

During 2006, five new companies were listed on ICEX and six delisted. Of the six companies delisted, only two actually disappeared from the public market. Two of them were acquired by other listed companies and two others transferred to the iSEC (MTF) market which opened this past year. At year-end 25 companies were listed on ICEX (which is now OMX Nordic Exchange Iceland), seven of them financial enterprises. The share of financial enterprises in total market cap is around 67%.

The ICEX-15 index rose by 15.8% this past year, after rising 25% from the beginning of the year to mid-February and then sliding to a low of only 5% above its beginning level in July. The share price of 16 ICEX-listed companies rose this year, while that of seven companies dropped. At year-end, the P/E ratio of the Icelandic market was 10.8 based on earnings estimates for 2007.

The global economy and financial markets

Following an extensive period of non-inflationary growth, a global rebalancing appears to be underway. The US economy has shown some indications of weakness, such as a rapidly cooling housing market, but US consumer spending has remained high, sustained by rising incomes and strong equity markets. In Japan, economic activity seems to be picking up slowly, after a long lull. Eurozone growth was strong, particularly in the first half of 2006 and, helped by declining oil prices, inflation has edged downward. This has created optimistic sentiment in European economies, despite a VAT rate hike in Germany.

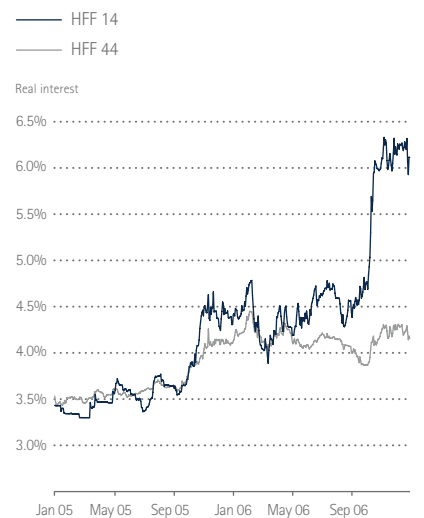
Earlier this decade, US macroeconomic policy focused on preventing potential deflation in the face of weak global demand. When the domestic economy picked up

Yield on RIKB 13 Treasury Note



Source: Mentis hf.

Yield on HFF 14 and HFF 44

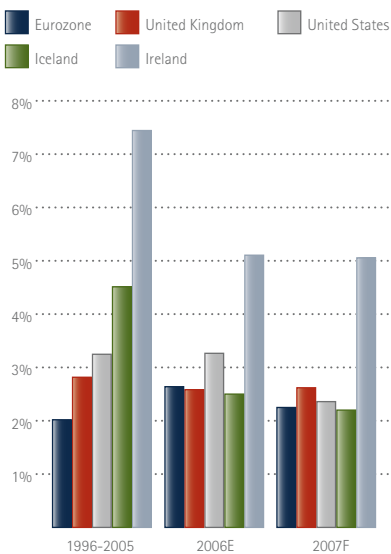


Source: Mentis hf.

swiftly, the highly accommodating fiscal and monetary policy resulted in a large and potentially unsustainable current account deficit, plus rising asset prices and a strong wealth effect. Most of this impact was channelled through the housing sector, which initially contributed to stabilisation. As housing prices have reached record highs, the risk of rapid economic deceleration cannot be entirely excluded. As long as financial and product markets remain more or less in balance, however, such risks should be relatively small.

UK output growth has remained at or above the average rate of the past decade for over a year, led by growth in the service sector and manufacturing exports. Rising labour productivity and increased labour participation have kept inflationary pressure subdued although headline inflation has edged above the Bank of England's 2% inflation target. The UK property market witnessed yet another year of strong growth in all sectors in 2006. A continued imbalance between housing supply and demand, strong buy-to-let investment and the impact of high City bonuses fuelled house price inflation to 10% in 2006, although this was skewed in particular to London and the South East. The outlook for 2007 remains positive, with a continuation of these trends, and the Council of Mortgage Lenders predicts price inflation will soften to 5% by the end of 2008. Commercial property has also been in high demand, resulting in good growth in 2006. While specific sectors such as City and West End offices remain very strong, commercial property in generally appears fully valued, and more modest growth is expected over the coming year.

GDP Growth



Source: OECD and Icelandic Ministry of Finance

As for the Eurozone, solid economic recovery has finally taken hold; business investment has risen and positively affected household spending. Job creation has been strong and unemployment is now below 8% for the first time since 2001. Assuming that policy makers continue to implement structural reforms, the expansion looks likely to continue, aided by favourable financial conditions and solid corporate and household balance sheets.

Irish economic growth has been robust at around 4½-5% per annum in recent years, and the labour market has been close to full employment. Spurred by strong domestic demand, inflation has edged up, with the HICP consumer price index rising by 2.75% in 2006. This may be cause for apprehension when combined with signs of deteriorating productivity, a change from the exceptionally strong Irish productivity growth of the recent past. Nevertheless, the Irish economy will most likely continue to outperform other EU countries, although at a somewhat reduced pace.

In early 2006 currencies in many emerging economies, and even in some developed countries such as Iceland, depreciated sharply after concerns were raised

about rising inflation and large external imbalances. This upset equity markets and, to some extent, other asset prices where large imbalances prevailed. However, conditions stabilised quickly as the market regained confidence.

Following strong appreciation in 2005, the US dollar lost some ground against the euro in 2006. This was scarcely surprising given the persistent US external imbalances and growing uncertainty about the sustainability of above-trend growth. The Federal Reserve raised its discount rate incrementally from 4.25% to 5.25%, but since June the rate has remained unchanged. The EUR/USD exchange rate at year-end was 10% below the value at the beginning of the year. The euro, on the other hand, gained ground, particularly against the Japanese yen, with the EUR/YEN reaching a nine-year high at 157. In the UK, with output growth near the medium-term average, sterling showed considerable strength, particularly vis-à-vis the US dollar, as the broad real effective GBP exchange rate continued to rise, taking the pound to levels unseen in decades.

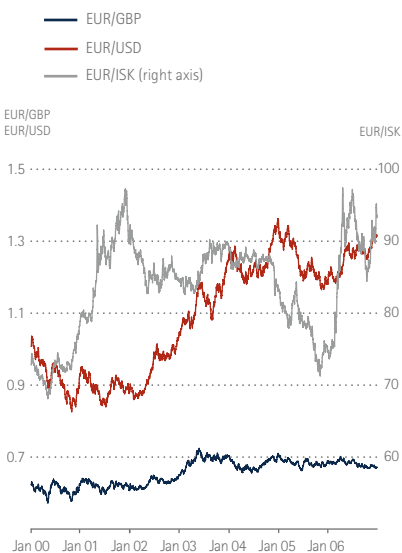
During the last few years, global liquidity has been ample, driven by record low interest rates and financial globalisation. As interest rates began rising, a liquidity squeeze was expected. The mid-year market turbulence was to some extent driven by such concerns. A rise in rates in Japan, which had been sitting close to zero for years on end, may have accentuated such fears. In the event, rates have risen less than expected, muting to some extent this bearish sentiment. In the US

World Market Oil Price



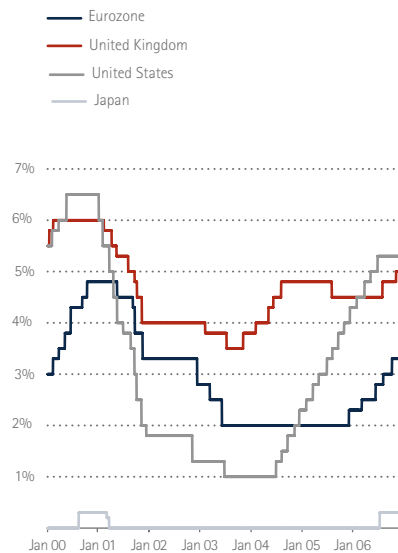
Source: Reuters EcoWin

Euro Exchange Rate



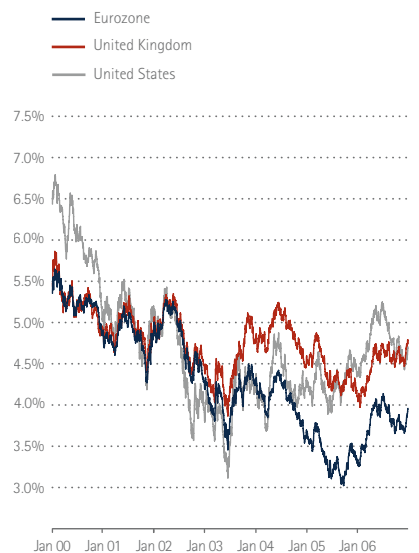
Source: Reuters EcoWin

Key Policy Rates



Source: Reuters EcoWin

Yield on 10Y Government Bonds

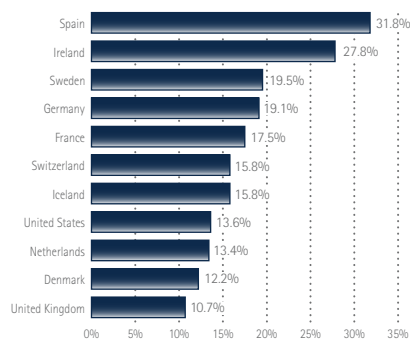


Source: Reuters EcoWin

the yield on 10-year T-bonds peaked at 5.2% at the end of June, only to drop to 4.4% towards the end of the year, but has since begun to rise again. Rate hikes in Europe continued as the European Central Bank raised its policy rate five times to 3.5%, responding to the increased buoyancy of the Eurozone economy. All in all, policy rates in major markets are now closer to neutral as global monetary accommodation lessens. Although the mid-year turbulence showed how sensitive global markets are to unexpected change in the end, market resilience prevailed.

World equity markets performed reasonably well. The S&P 500 index rose by 13.6%, the German DAX was up 22% and in France the CAC 40 climbed by 17.5%. In London the FTSE 100 gained 10.7%, and in Ireland the ISEQ was 27.8% higher at the end of the year than at the beginning.

Change in Equity Market Indices in 2006 for Selected Countries



*The indices are Amsterdam Exchanges, CAC 40, DAX, FTSE 100, IBEX 35, ICEX-15, Irish Overall, OMX Copenhagen 20, OMX Stockholm 30, S&P 500 and Swiss Market.

Source: Bloomberg

P/E Ratios for Selected Markets

Country	Index	P/E 12M trailing	P/E 2007 est.
Denmark	OMX Copenhagen 20	18.61	16.64
France	CAC 40	14.55	13.48
Germany	DAX	14.26	13.55
Iceland	ICEX 15	8.55	10.22
Ireland	Irish Overall	16.98	15.65
Netherlands	Amsterdam Exchanges	11.13	12.15
Spain	IBEX 35	13.67	14.73
Sweden	OMX Stockholm 30	15.19	15.21
Swiss	Swiss Market	18.26	16.00
United Kingdom	FTSE 100	18.02	13.05
United States	S&P 500	17.76	15.48

Source: Bloomberg

Overview of Funding in 2006

As Landsbanki has become increasingly more international and less dependent on the Icelandic economy, its international funding profile and strategy have changed. Financing has become more diversified, both geographically and by investor type. The year 2006 brought a number of challenges for the Icelandic banks, especially with regard to international funding. The operating environment of the Icelandic banks was the subject of a number of reports by financial market analysts, some indicating that the banks could be facing a difficult near-term situation, especially when it came to refinancing debt maturing in 2007. However, at year-end Landsbanki had concluded a number of highly successful transactions in European, US and Canadian markets, completed prefunding its 2007 maturities, and enhanced the trust and confidence of investors worldwide

On 21 February 2006, a revision by Fitch Ratings of the Republic of Iceland's long-term rating outlook to negative from stable triggered a series of events. The ISK weakened substantially and Icelandic equity prices began to slide. The announcement was the first of several high-profile reports to be published on the Icelandic economy and possible effects of economic adjustment on the Icelandic financial system. Although Icelandic issuers' Credit Default Swap (CDS) spreads had gradually been increasing in the months prior to the Fitch announcement, there had been no significant news to justify a sharp rise in spreads. Following its 21 February announcement, Fitch affirmed the Icelandic banks' credit ratings on 23 February, indicating, that despite the revision of Iceland's sovereign rating outlook, the banks were considered fundamentally sound and not entirely dependent on domestic economic developments. The bank concluded a EUR 375 million Tier 1 transaction in early February, strengthening its capital base.

In March, several critical reports on the Icelandic banking system were published by foreign analysts. The funding profiles of the Icelandic banks and significant repayments scheduled for 2007 were a central issue in these reports. The authors suggested that the banks' heavy reliance on market funding might make it difficult for them to refinance maturing debt in 2007. Despite widening CDS spreads, Landsbanki successfully completed its inaugural three

to seven year US private placement issuance of USD 300 million at the end of March. An important milestone transaction for the bank, it also demonstrated US private placement investors' confidence in Landsbanki's credit.

Following their peak in March, Icelandic bank CDS spreads gradually began narrowing, albeit with considerable volatility. In early May, Frederic S. Mishkin, Professor of Banking and Financial Institutions at Columbia University's Graduate School of Business, and Tryggvi Þór Herbertsson, Director of the Institute of Economic Studies and Professor of Economics at the University of Iceland, presented a report on financial stability in Iceland. Their report provided an overall profile of the financial system, showing that it was in better shape than alleged. The report received good publicity, had a significant positive impact on the CDS spreads of the Icelandic banks, and helped improve investor confidence. Together with various explanatory reports by the Icelandic banks and response by regulatory authorities in Iceland, it also put to rest many of the misconceptions in the discussion about the Icelandic financial system up to that point. Shortly after its publication, five-year CDS spreads on Landsbanki reached their lowest level since the end of January.

In July, Moody's published a report on Iceland, maintaining that fears of a potential systemic crisis in Iceland were exaggerated, and that the economy was well situated to deal with such a situation. Moody's also affirmed Iceland's Aaa stable credit rating. Towards the end of July, Landsbanki completed another milestone transaction, this time on the European syndicated loan market, the largest-ever syndicated loan taken by an Icelandic bank, totalling EUR 600 million. In August, Landsbanki completed its first public bond transaction under its new 144A MTN programme in the United States. The total deal size was USD 2.25 billion, split into a USD 1.5 billion five-year tranche and a USD 750 million three-year tranche. With this transaction - the largest ever made by any Icelandic financial institution up until that time - Landsbanki nearly completed its long-term debt refinancing for 2007. Finally, in December, Landsbanki concluded its inaugural transaction on the Canadian Maple bond market using the EMTN programme, for a total of CAD 300 million, thereby having financed 2006 maturities and prefinanced all 2007 maturities.

The number of successful bond issues by Landsbanki and other Icelandic entities made it evident that the banks were able to fund themselves in the capital markets. Landsbanki's funding efforts in 2006 turned out to be highly successful as in previous years.

Funding profile and statistics

Up until 2006, Landsbanki had sought most of its international funding in Europe, using the EMTN programme. For short-term purposes, the bank has an ECP programme of EUR 500 million. Consistent with the goal of diversifying its funding sources, Landsbanki had for some time considered the possibility of issuing debt in other markets, including the United States, Australia and Asia. In 2006, Landsbanki established a US 144A MTN programme of USD 7.5 billion, and initiated work on additional funding programmes.

In addition to diversifying its funding profile geographically and by type of issuance, and in so doing reaching new investors, the bank has sought to extend its maturity profile. Since 2003, the bank has gradually been lengthening the maturities of its bond issues. In 2006, the average maturity of international funding was 4.9 years.

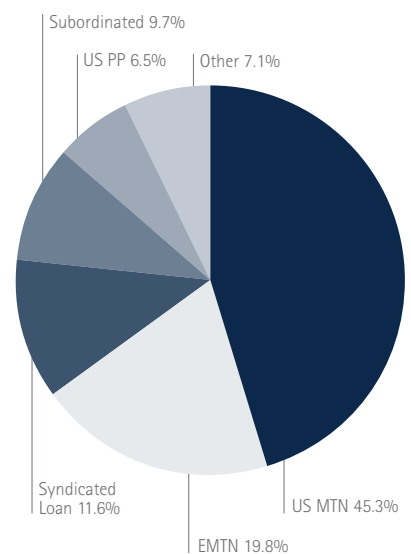
In 2006, Landsbanki raised a total of EUR 3,878 million in 39 transactions, as compared to EUR 4,889 million in 57 transactions in 2005. Diversification efforts in 2006 are evident, in the geographical distribution of capital market issuance: in 2005, 84% of international funding was obtained through the European debt market under the EMTN programme, while in 2006, EMTN issuance in Europe was only 20% of total international funding. The greatest share, or 45% of total international funding, was obtained in the US via the bank's US 144A MTN programme. An additional 6% of total funding was completed on the US private placement market, making total US market issuance in 2006 equal to 51% of international funding, compared to 8% in 2005 and zero prior to that.

In addition to the above funding activities, a number of projects were launched in 2006 to evaluate possibilities of securitisation or similar procedures for the bank's loan portfolios, especially overseas portfolios that had been growing rapidly. These loan portfolios included the syndicated loan participations of Landsbanki London Branch and Heritable Bank's mortgage loans. The Heritable Mortgage portfolio was found to be of suitable quality and granularity for securitisation, but no action has been taken yet. The Icelandic mortgage portfolio was also examined as a possible candidate for securitisation as its size is substantial and its quality high. About 40% of the mortgage portfolio risk was transferred to a domestic institutional investor in 2005, and the bank has the option of securitizing the remaining part of the portfolio.

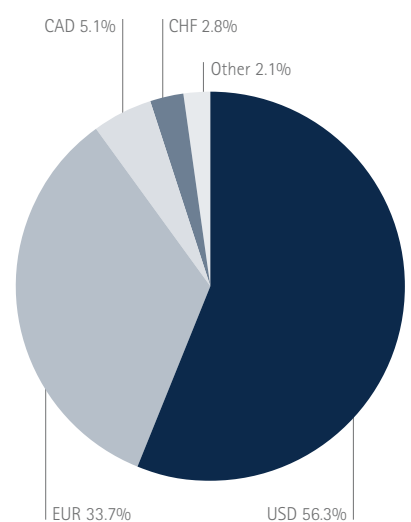
Strong growth of overseas deposit taking

In line with Landsbanki's overall objective of diversifying funding sources, the bank continues to emphasise strengthening its international deposit base. In

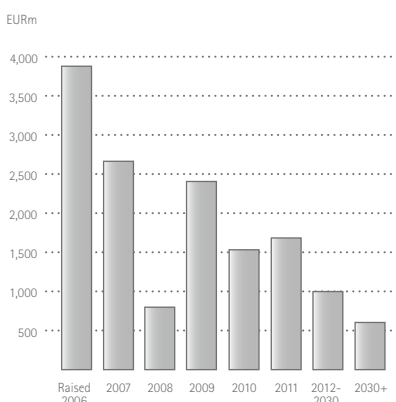
International Funding in 2006 by Type



International Funding in 2006 by Currency



Maturity Profile at 31 December 2006



2006, successful deposit projects were established in both the UK and Amsterdam. Heritable Bank and Landsbanki London Branch have successfully expanded their deposit activities and are now fully self-funded.

In August 2006, Landsbanki acquired Cheshire Guernsey Limited (now Landsbanki Guernsey Limited), a small Guernsey-based bank with a high quality customer base. Landsbanki's aim is to extend and strengthen the Guernsey operations considerably, both through the existing product range and by introducing new deposit products. Administration of the bank is outsourced to a third-party service provider in Guernsey. Entering the offshore deposit market from Guernsey adds additional breadth to Landsbanki's deposit programs.

Successful launch of Icesave

A deposit programme for the UK market, Icesave, was launched at the beginning of October 2006. An easy-access, on-line savings account offered to UK residents, Icesave became an instant success as an important part of Landsbanki's continued expansion into the UK market. Of total deposits, 42% originated outside of Iceland. The ratio of customer deposits to total lending at year-end 2006 was 47%, compared with 34% at the beginning of the year.

CREDIT RATINGS

Landsbanki's credit ratings remained stable

The stability of Landsbanki's credit ratings in 2006 underlines the bank's strength when faced with adversity. Rating agencies focused specifically on the Icelandic situation in 2006. On 2 March, Fitch Ratings issued a special report on the Icelandic banks, focusing on their resilience to systemic shocks. The report noted that the banks had made substantial progress in controlling and managing both macroeconomic and market risks. Furthermore, it pointed out that the increasing geographic diversification of the Icelandic banks' activities had made them less reliant on the Icelandic economy as a whole.

Moody's

During 2006, Moody's credit ratings for Landsbanki remained unchanged and were affirmed at A2/P-1/C. The agency did make one change to Landsbanki's ratings outlook in 2006, altering the bank's C financial strength rating outlook to negative from stable. The change in outlook reflects the potential impact of a more difficult operating environment in Iceland on the bank's financial fundamentals.

Fitch Ratings

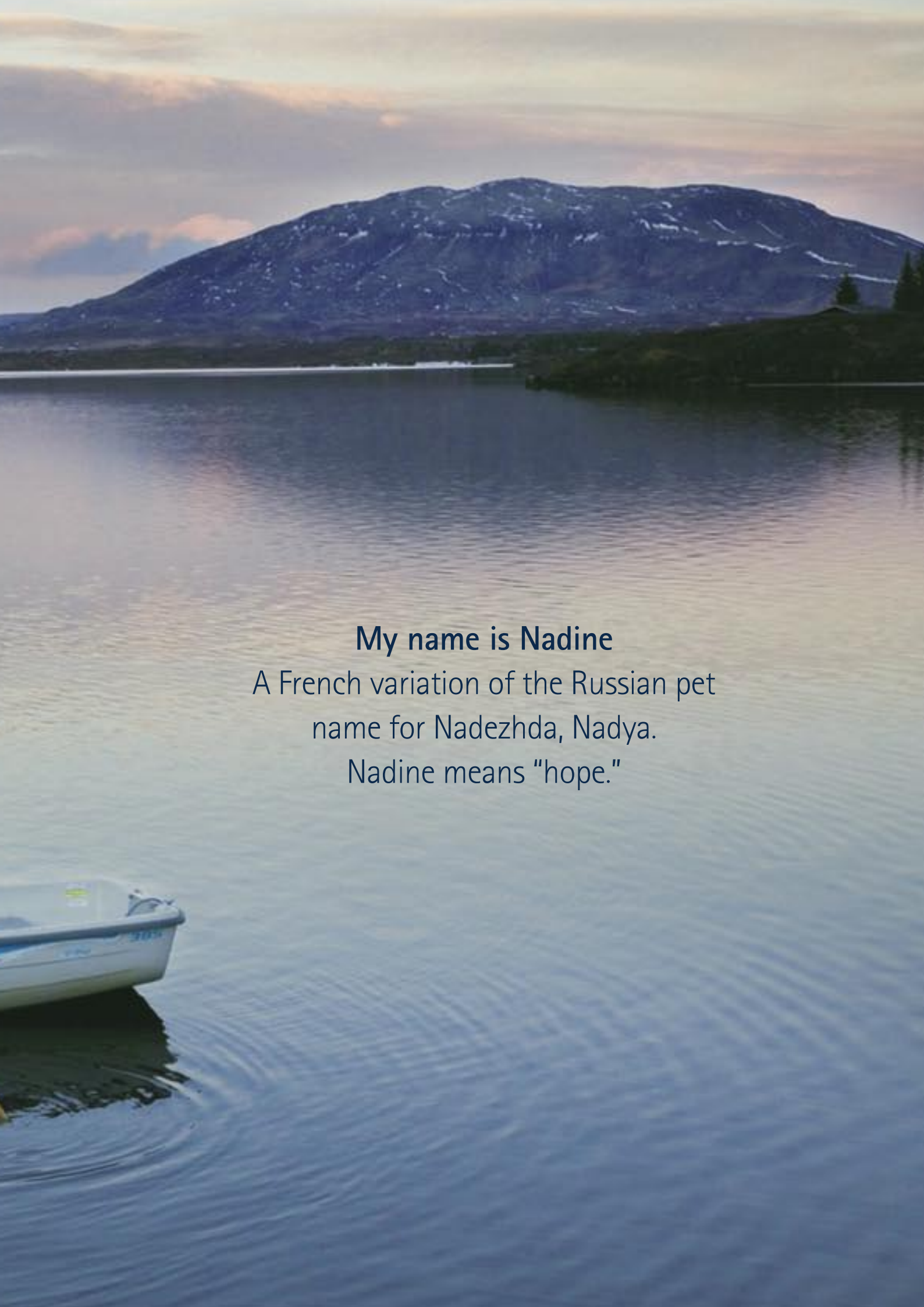
Landsbanki's ratings from Fitch remained unchanged during 2006. On 23 February, Fitch affirmed all ratings unchanged at A / F1 / B/C with a stable outlook, despite the revision of Iceland's sovereign outlook to negative on 21 February. On 28 November, the ratings were again affirmed unchanged following its annual review of Landsbanki. In its rating announcement, Fitch Ratings stated that its assessment reflected the bank's strong domestic market position, greater earnings diversification, prudent provisioning policies and high capitalisation.

Heritable Bank, Landsbanki's UK subsidiary, has separate ratings from Fitch. Heritable's Individual rating was upgraded on 26 May, from C/D to C, with Fitch citing the management's ability to develop the bank profitably, while increasing the diversification of its loan book. Fitch's other ratings for Heritable Bank were affirmed at A / F1 with a stable outlook.

Landbanki's Credit Ratings

Moody's	Rating
Long term	A2
Short term	P-1
Outlook	Stable
Financial strength*	C
Subordinated debt	A3
Junior subordinated	Baa1
<small>*BFSR changed from Stable to Negative in April 2006</small>	
Fitch	Rating
Long term	A
Short term	F1
Individual	B/C
Support	2
Outlook	Stable





My name is Nadine

A French variation of the Russian pet
name for Nadezhda, Nadya.

Nadine means "hope."



In France, our name is Landsbanki

Risk Management

The business of financial enterprises involves taking and managing risks and Landsbanki is no exception to this rule. Management of risk is intended primarily to safeguard the Landsbanki Group's financial solidity. It follows several main principles: defined risk governance, independent risk monitoring and methods of risk assessment and measurement, which are continuously refined and adapted.

The bank's risk policy and procedures ensure that risks are known, measured and monitored. Risk is managed to ensure that it remains within the limits set by the bank for its operations and complies with regulatory requirements. Landsbanki has adopted a policy on the risk structure of its portfolio to ensure that fluctuations resulting from unexpected events, affecting both the bank's equity and its performance, are both limited and manageable.

Risk factors

Landsbanki classifies exposures according to the type of risk involved, which may be credit risk, market risk, operating risk, compliance risk or risk arising from mismatch of assets and liabilities.

Risk governance

The Board of Directors is responsible for the bank's general policy on risk, ensuring that it conforms to the bank's strategy, the experience of its management, its capital adequacy and readiness to accept risk. The bank's CEOs are responsible to the Board for its daily operations and manage its risk through committees. Furthermore, managing directors are responsible to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the bank's policy. Landsbanki has four standing Group committees: the Asset and Liability Committee (ALCO), the Credit Committee, the Asset Management Committee and the Operations Committee. In these committees the relevant business areas are represented by their key managers and risk officers as well as the CEOs.

ALCO: The Asset and Liability Committee (ALCO) is entrusted with monitoring risk factors in the bank's activities and for setting limits on exposures. Policy decisions concerning market risk are taken by ALCO. ALCO has set detailed rules on the Group's maximum market risk. Before undertaking new types of transactions or new contracts with clients or on the bank's own account, a written summary of

the proposed undertaking must be submitted to ALCO for its opinion and decision. ALCO formulates liquidity management policy, monitors the bank's liquidity position and provides advice on the composition of its assets and liabilities.

Credit Committee: Landsbanki's Credit Committee sets detailed lending rules, applying the basic policy laid down by the Board of Directors. Employees' lending authorisations are well defined and incremental. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules. Comprised of the CEOs and key managers, it meets regularly to discuss all credit decisions exceeding the authorisations of branches, subsidiaries or the Corporate Banking division. The Committee checks the composition of the loan portfolio with regard to industrial sectors, geographical regions, collateral and other aspects, in addition to monitoring defaults and default trends. Detailed reports on the position of the bank's largest debtors are reviewed by the Credit Committee, together with special reports, e.g. on the situation of the economy in general and that of specific industrial sectors.

Asset Management Committee: The Asset Management Committee is involved in all major decisions concerning asset management and private banking. In addition to the CEOs, the Committee is comprised of the Managing Director of Finance and Operations together with the managing directors and directors of the bank's Asset Management and Private Banking Division. Monthly meetings review total assets under management, the overall development of the business and the market share of the bank's funds. The Committee approves all new products in Asset Management and Private Banking.

Operations Committee: The Operations Committee co-ordinates the bank's operations, directs efficiency measures, technical development, retail banking development and property matters. It also makes decisions on exposure limits and

Landsbanki Group Risk Management Governance Structure



quality procedures in retail banking, interest rate changes and pricing, as well as decisions on new products and services offered by Landsbanki branches.

In addition to these committees, meetings of managing directors serve as a forum for consultation between the CEOs and managing directors. Two committees operate within the Board of Directors: an Audit Committee and a Remuneration Committee.

Market risk

Market risk is the risk arising from the impact of changes in market prices on the value of the bank's assets and liabilities, both on and off its balance sheet. This includes both interest rate and equity risk on its trading portfolio, and currency risk on all portfolios. Market risk is, however, mainly limited to the bank's trading book transactions.

The Board of Directors has set a ceiling on the bank's market risk, which may not exceed 15% of its total risk-weighted asset base. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 2% and interest rate risk on market bonds and other financial instruments may not exceed 6%. Risk control is effected on a Group basis, under the direction of Risk Management. Authorisations to take positions subject to market risk are mainly limited to the Securities and Treasury division of the parent company, where total market risk for the Group is also managed. In addition to the Securities and Treasury division at the bank's head office, trading desks of its subsidiaries Kepler, Teather & Greenwood and Merrion Capital have limited authorisations for market risk on own account.

Total market risk for the Group is calculated at the end of each banking day and controlled by means of an authorisation system adopted by ALCO. Since no single instrument can cover all the aspects of market risk, the bank applies a number of methods in its daily risk measurements, including Value at Risk (VaR), stress testing and indicators such as net position and value per bp (Vpb).

Value at Risk

Value at Risk (VaR) is a statistical measurement indicating the likelihood of loss due to unfavourable changes in market conditions within a specific time period and with a specified probability

Landsbanki uses VaR to monitor trading book market risk. The accompanying tables show the bank's maximum expected loss for the next working day under normal market conditions for a 99% confidence interval. The bank's loss should

Value at Risk

ISKm	1 Jan 2006-31 Dec 2006			31 Dec 06 Balance
	Average	High	Low	
Interest rate risk	176	749	58	250
Foreign exchange risk	67	360	2	9
Equities risk	1,281	2,908	541	1,017
Total VaR (99% 1 day holding period)	1,524	4,017	601	1,276
Total VaR (99% 10 day holding period)	4,819	12,703	1,901	4,035

Value at Risk (excluding financial assets designed at FV through P/L)

ISKm	1 Jan 2006-31 Dec 2006			31 Dec 06 Balance
	Average	High	Low	
Interest rate risk	176	749	58	250
Foreign exchange risk	67	360	2	9
Equities risk	1,183	1,926	323	987
Total VaR (99% 1 day holding period)	1,426	3,035	383	1,246
Total VaR (99% 10 day holding period)	4,509	9,598	1,211	3,940

Value at Risk (excluding financial assets designed at FV through P/L and unlisted equities)

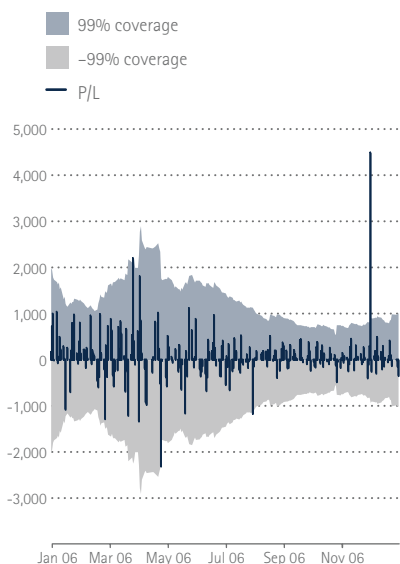
ISKm	1 Jan 2006-31 Dec 2006			31 Dec 06 Balance
	Average	High	Low	
Interest rate risk	176	749	58	250
Foreign exchange risk	67	360	2	9
Equities risk	296	427	180	293
Total VaR (99% 1 day holding period)	539	1,536	240	552
Total VaR (99% 10 day holding period)	1,704	4,857	759	1,746

only exceed the resulting value on one working day out of a hundred. VaR is shown separately for interest rates, FX and equities.

To assess VaR, the bank uses historical data and data weighted to give more significance to more recent figures. As VaR gives an assessment of the risk based on previous market conditions, very substantial changes in market conditions can result in some inaccuracy in assessment. VaR models are tested for reliability in accordance with the guidelines of the Basel Committee on Banking Supervision and were statistically significant for the entire year 2006.

The bank's VaR limits were lowered during the year, and at year-end stood at ISK 300 million for interest rate risk, ISK 200 million for FX risk and ISK 3,000 million for equities.

Value at Risk for Equities



Equity Holdings

Domestic	28.3 ISKbn
Foreign	21.1 ISKbn
Total	49.3 ISKbn

Equity risk

Equity risk is the largest component of the bank's market risk, and mostly originates from its headquarters. The equity risk ceiling is set at 12% of the bank's risk-weighted asset base. At year-end 2006, the equity risk was 4.75%. The bank currently operates under a tighter limit set by ALCO, which is 3% of total assets or about 6.5% of risk-weighted assets. The bank's equity positions were at the end of the year 57% domestic and 43% foreign equities. This is in line with the bank's objective to have an even balance between domestic and foreign equities in its portfolio. Of the bank's total equity holdings, 90% are listed on stock exchanges. Total equity holdings for the bank's own account amounted to ISK 49.3 billion, of which ISK 30.9 billion are entered as trading securities.

In addition, Landsbanki holds equity positions against forward contracts and swaps that the bank has concluded with its customers. At year-end these hedge positions amounted to ISK 59.6 billion, which are included under "Hedged securities" in the balance sheet. In August 2006, Landsbanki transferred these hedge positions to a new entity named LI-Hedge. The purpose of this transaction is to increase the transparency of the Bank's equity holdings.

Currency risk

The Group's currency risk is managed by Securities and Treasury, with the objective of limiting this total risk factor to within 2% of the risk-weighted asset base. Landsbanki aims at maintaining a balanced net currency position at all times. The total currency risk is very low in comparison with the bank's equity and interest rate risk. At the end of 2006, VaR related to currency risk was around ISK 9 million.

Concentration of Assets, Liabilities and Off-balance Sheet Items

At 31 December 2006 (ISKm)	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	20,481	10,054	333	125	591	85	31,669
Loans and advances to financial institutions	24,531	65,641	13,950	109,140	922	1,434	215,618
Loans and advances to customers	542,618	309,612	141,165	204,757	118,553	121,690	1,438,395
Bonds and debt instruments	36,463	131,544	0	1,592	0	0	169,598
Shares and equity instruments	24,810	4,860	1,005	7,131	756	10,766	49,328
Hedged securities	80,528	2,321	3,418	11,231	0	7,692	105,190
Derivatives held for trading	15,737	10,250	8,852	1,598	783	1,137	38,358
Derivatives held for hedging	1,022	7,489	505	1,444	34	3	10,498
Investments in associates	3,531	306	0	0	0	0	3,837
Property and equipment	4,083	785	0	666	288	0	5,823
Intangible assets	1,691	5,500	95	6,998	68	0	14,351
Non-current assets and disposal groups classified as held for sale	18,524	0	0	2,825	0	0	21,349
Unsettled securities trading	5,130	21,068	225	8,996	1,520	26	36,965
Other assets	16,472	12,361	29	2,549	431	102	31,944
Total assets	795,622	581,791	169,577	359,052	123,947	142,935	2,172,924
Liabilities and equity							
Deposits from financial institutions	37,427	50,728	10,585	33,201	3,668	5,496	141,105
Deposits from customers	80,440	81,128	13,159	350,257	121	157,741	682,846
Borrowing	108,800	538,249	250,896	24,699	22,219	70,113	1,014,976
Subordinated loans	6,226	78,602	2,137	0	0	2,789	89,754
Trading liabilities	12,375	3,359	1,963	1,305	97	1,767	20,866
Derivatives held for hedging	1,591	2,358	981	1,095	48	400	6,473
Tax liabilities	5,985	492	0	116	0	0	6,593
Liabilities included in disposal groups held for sale	7,242	0	0	0	0	0	7,242
Unsettled securities trading	0	20,142	581	5,886	2,003	1,375	29,987
Other liabilities	10,980	5,492	240	6,407	502	2	23,623
Total equity	149,457	0	0	0	0	0	149,457
Total liabilities and equity	420,524	780,550	280,542	422,966	28,658	239,683	2,172,924
Net on-balance sheet position	375,097	(198,759)	(110,965)	(63,914)	95,289	(96,748)	
Net off-balance sheet position	(375,993)	199,281	110,516	64,175	(95,192)	97,213	
Net position	(896)	522	(449)	261	97	465	

Interest rate risk on traded fixed income instruments

The interest rate risk on the trading portfolio is primarily the result of Landsbanki's holdings in domestic market bonds. Bond holdings are a key factor in the bank's liquidity management. In addition, Landsbanki is the principal trader and market maker in domestic government-backed bonds. The bank also takes domestic as well as highly liquid and highly rated foreign bond positions when it anticipates changes in their returns. The bank has built up a sizeable international portfolio of bonds during the year, as a part of its liquidity management. However, due to the short maturity of this portfolio, the VaR of these positions is low.

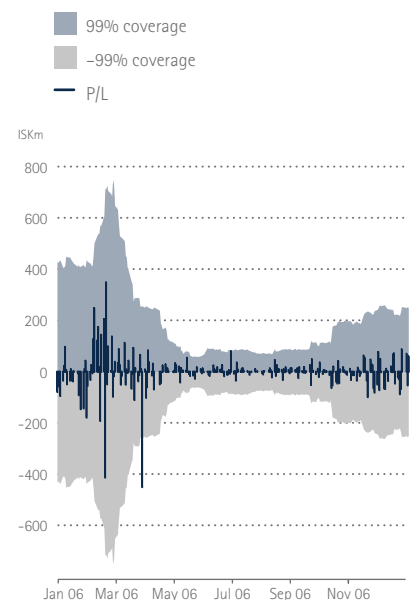
Foreign-denominated Assets and Liabilities

Foreign-denominated assets	1,377.3	ISKbn
Foreign-denominated liabilities	1,752.4	ISKbn
Net on balance sheet foreign position	(375.1)	ISKbn
Net off balance sheet foreign position	376.0	ISKbn
Net foreign position	(0.9)	ISKbn

Bond Holdings

Domestic	32.6	ISKbn
Foreign	137.0	ISKbn
Total	169.6	ISKbn

Value at Risk for Bonds



Interest rate risk on other portfolios

Changes in interest rates on the bank's assets and liabilities, other than those in its trading book, have an impact on its interest rate margin and/or the value of its shareholders' equity. This risk is primarily the result of duration mismatch of assets and liabilities. Portfolio interest rate risk is among the bank's more important risk factors. Interest rate repricing is carried out at intervals of several months, to take into account the bank's interest rate risk on assets and liabilities. There are two exceptions to this rule. Heritable Bank offers long-term loans at fixed rates of interest. The interest rate risk on this portfolio is hedged using interest rate swaps. In addition, the parent company provides fixed-rate loans in ISK, most of which

Breakdown of Assets and Liabilities by Their Repricing Date or Maturity, Whichever Comes First

At 31 December 2006 (ISKm)	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash balances with Central Bank	31,669	0	0	0	0	31,669
Loans and advances to financial institutions	202,425	12,938	254	0	0	215,618
Loans and advances to customers	966,114	270,116	93,997	108,168	0	1,438,395
Bonds and debt instruments	52,924	74,982	17,981	23,711	0	169,598
Shares and equity instruments	0	0	0	0	49,328	49,328
Hedged securities	59,496	1,819	9,037	34,838	0	105,190
Derivatives held for trading	38,358	0	0	0	0	38,358
Derivatives held for hedging	10,498	0	0	0	0	10,498
Investments in associates	0	0	0	0	3,837	3,837
Property and equipment	0	0	0	0	5,823	5,823
Intangible assets	0	0	0	0	14,351	14,351
Non-current assets and disposal groups classified as held for sale	0	0	0	0	21,349	21,349
Unsettled securities trading	0	0	0	0	36,965	36,965
Other assets	0	0	0	0	31,944	31,944
Total assets	1,361,485	359,856	121,269	166,717	163,597	2,172,924
Liabilities and equity						
Deposits from financial institutions	131,501	7,808	1,789	8	0	141,105
Deposits from customers	602,074	64,857	10,292	5,623	0	682,846
Borrowing	669,750	54,756	221,659	68,810	0	1,014,976
Subordinated loans	30,621	0	3,839	6,090	49,203	89,754
Trading liabilities	20,866	0	0	0	0	20,866
Derivatives held for hedging	6,473	0	0	0	0	6,473
Tax liabilities	0	0	0	0	6,593	6,593
Liabilities included in disposal groups held for sale	0	0	0	0	7,242	7,242
Unsettled securities trading	0	0	0	0	29,987	29,987
Other liabilities	0	0	0	0	23,623	23,623
Total equity	0	0	0	0	149,457	149,457
Total liabilities and equity	1,461,287	127,421	237,579	80,531	266,105	2,172,924
Net on balance sheet position	(99,802)	232,435	(116,310)	86,186	(102,508)	
Net off balance sheet position	59,969	(90,454)	31,553	58,538	(59,607)	
Total interest sensitivity gap	(39,833)	141,981	(84,757)	144,724	(162,115)	

are housing mortgages to households. Landsbanki has hedged a large part of its interest rate risk on housing mortgages. The Treasury department at Landsbanki's head offices manages Group interest rate risk.

Liquidity risk

Liquidity risk is the risk of losses that the bank could incur should it be unable to meet its obligations when due. The bank's liquidity risk is divided into three types: intraday liquidity risk, short-term liquidity risk extending over several months, and risk

Breakdown of Assets and Liabilities by Their Maturity

At 31 December 2006 (ISKm)	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Assets						
Cash and cash balances with Central Bank	31,669	0	0	0	0	31,669
Loans and advances to financial institutions	202,425	12,938	254	0	0	215,618
Loans and advances to customers	424,100	195,659	522,501	296,135	0	1,438,395
Bonds and debt instruments	52,924	74,982	17,981	23,711	0	169,598
Shares and equity instruments	0	0	0	0	49,328	49,328
Hedged securities	59,496	1,819	9,037	34,838	0	105,190
Derivatives held for trading	10,561	5,407	10,582	11,807	0	38,358
Derivatives held for hedging	50	3,206	6,565	677	0	10,498
Investments in associates	0	0	0	0	3,836	3,837
Property and equipment	0	0	0	0	5,823	5,823
Intangible assets	0	0	0	0	14,351	14,351
Non-current assets and disposal groups classified as held for sale	0	0	0	0	21,349	21,349
Unsettled securities trading	36,965	0	0	0	0	36,965
Other assets	0	0	0	0	31,944	31,944
Total assets	818,192	294,012	566,920	367,168	126,631	2,172,924
Liabilities and equity						
Deposits from financial institutions	129,564	7,808	3,725	8	0	141,105
Deposits from customers	573,721	66,785	36,717	5,623	0	682,846
Borrowing	71,235	189,734	638,309	115,697	0	1,014,976
Subordinated loans	0	0	4,837	24,828	60,089	89,754
Trading liabilities	13,363	2,292	3,259	1,952	0	20,866
Derivatives held for hedging	215	583	720	4,954	0	6,473
Tax liabilities	0	6,593	0	0	0	6,593
Liabilities included in disposal groups held for sale	0	0	0	0	7,242	7,242
Unsettled securities trading	29,987	0	0	0	0	29,987
Other liabilities	23,623	0	0	0	0	23,623
Total equity	0	0	0	0	149,457	149,457
Total liabilities and equity	841,709	273,796	687,567	153,063	216,788	2,172,924
Net on balance sheet position	(23,517)	20,216	(120,647)	214,106	(90,157)	
Net off balance sheet position	76,864	29,943	(23,495)	(23,706)	(59,607)	
Maturity gap	53,347	50,159	(144,142)	190,400	(149,764)	

due to mismatch of longer-term assets and liabilities. In measuring and managing liquidity risk, a distinction is also made between domestic and foreign liquidity risk.

The bank's objective is to minimise fluctuations in liquidity and ensure that the bank always has sufficient access to funding to cover outflows arising from its obligations in the coming months. Treasury implements this policy and estimates future cash flow in co-operation with Risk Management. Landsbanki follows rules on liquidity set by the Central Bank of Iceland, i.e. governing the ratio of weighted liquid assets and liabilities. The rules require a ratio higher than 1 for the next three months. The Central Bank rules involve a type of stress test, according to which assets and liabilities are weighted using specific co-efficients reflecting how accessible the asset in question would be in a liquidity crisis and how great the need is to repay the liability in question when due.

At the end of 2006, Landsbanki's liquidity ratio, calculated by balancing assets and liabilities in accordance with Central Bank Rules No. 317/2006 on the Liquidity Ratio for Credit Institutions, was 3.26.

Landsbanki has also adopted in-house criteria for foreign currency liquidity, following the issuance by the Icelandic Financial Supervisory Authority of Guidelines on Foreign Currency Liquidity Management. These Guidelines cover both short-term and longer-term liquidity risk. They provide for stress testing of the foreign liquidity position regularly, based on conceivable future scenarios resulting from limited access to foreign financial markets. The key criterion is whether the liquidity position covers a situation (stress test) where access to capital market funding is closed for up to 12 months while the bank repays all due liabilities at maturity as well as other confidence-sensitive customer deposits and maintains a stable business volume. At year-end, Landsbanki surpassed this target by a comfortable margin and has never been more liquid. Long-term debt maturing in 2007 and 2008 amounts to EUR 3.3 billion compared to liquid assets of EUR 7.2 billion at 31 December 2006.

Domestic indexation balance

According to Landsbanki's balance sheet, indexed assets exceeded indexed liabilities by ISK119 billion at year-end 2006.

Applying Basel II

In 2006, work was underway at Landsbanki on implementing new Basel II rules on the calculation of the bank's risk-weighted asset base. Information systems

have been upgraded and group databases harmonised, and specialised software, which handles the calculation of the risk-weighted asset base for Landsbanki and its subsidiaries, has been developed. When these new rules enter into force on 1 January 2007, Landsbanki will follow the Standardised Approach (SA) in calculating capital adequacy on a group basis for credit risk. The rules are in many respects similar to the previous rules, but require a more detailed analysis of the loan portfolio and different treatment of collateral. The new rules will mean relatively little change in the bank's risk-weighted asset base from that of the previous rules.

Landsbanki applies the methodology of Basel II rules in its client risk rating, calculating the probability of default (PD) based on historical data and subjective valuation by experts. Efforts have also been directed at assessing the quality of collateral and calculating the loss given default (LGD) for part of the loan portfolio. Landsbanki intends subsequently to implement the Advanced Internal Rating-Based (IRB) approach in calculating its risk-weighted asset base. This method is based in part on the use of statistical models to assess credit risk. The upgrading of information systems and databases is aimed at preparing Landsbanki's adoption of IRB. Extensive work has been directed at collecting and processing data, to ensure that suitable data on the credit history of clients is available.

Landsbanki will apply the SA in calculating regulatory capital to cover operational risk. Using this method, the bank's activities are divided into eight business lines and the capital charge for each is a specific percentage of the average total net interest income and other operating income of the business line for the last three accounting years. The bank's capital charge is calculated as the sum of the capital charges against operating risk for each business line.

Counterparty risk in derivative transactions

Landsbanki uses derivatives to hedge its own currency and interest rate risk, as well as offering derivative products to its clients. All these derivatives are OTC, recognised in the bank's balance sheet at market value as part of its trading portfolio. Derivatives are classified as either market derivatives or hedging derivatives. The counterparty risk on a derivative is assessed by evaluating its credit equivalent, based on the fair value of the derivative plus the future risk, which in turn is based on the nature and characteristics of the derivative contract. The fair value of a derivative is the amount for which a trade could be concluded that is reasonable to all parties involved in a voluntary transaction. Fair value of derivatives is determined by models developed by Landsbanki. In addition, the bank has an independent party calculate the value of its most complex derivative contracts. In order to limit counterparty risk arising from derivative contracts, Landsbanki has netting

arrangements with counterparties and often requires collateral in the form of cash or other liquid securities assets. The positions of clients with derivative contracts are checked daily and the bank can make a margin call if the negative value of a derivative (positive value for the bank) exceeds the reference in the contract.

Counterparty credit risk

Counterparty credit risk, is the largest single risk factor for the Landsbanki Group. Credit risk is the risk that a borrower in a transaction with the group will be unable to meet its financial obligations as provided for in its contract. Landsbanki Group manages credit risk by setting limits for acceptable risk for individual borrowers or groups of borrowers, specific regions or industrial sectors. Credit risks of group entities are under constant supervision and the regulatory regime controlling the bank's lending activities is reviewed regularly. Landsbanki's rules on lending deal specifically with credit risk.

Credit risk is managed by the Credit Committee. Risk is assessed and managed through regular credit assessment of clients, amending of lending authorisations and rules and requiring collateral for clients' obligations. Landsbanki's credit risk is assessed on a group basis by evaluating total exposures of clients and financially connected parties.

Lending to Customers

ISKbn	31 Dec 06	30 Jun 06	31 Dec 05
Public entities	9	8	8
Corporations	1,147	1,022	745
Individuals	299	285	245
Impairment account	(17)	(16)	(13)
Total	1,438	1,299	985
Change %	10.7%	31.9%	

Lending rules

The Board of Directors sets the bank's overall group lending rules, including maximum obligations for individual clients and connected parties. This is complemented by internal rules on the aggregate exposure of the Landsbanki Group. The rules cover group clients' total exposures, so that the indirect risk is added to direct claims of the bank and its subsidiaries. Financial instruments issued by a client, which are used to guarantee other obligations of third parties not financially connected, are also added to the direct claims. According to Landsbanki's internal rules, the maximum total exposures through an individual customer or financially connected parties may not exceed 20% of the bank's own funds. Clients classified in the best risk classes according to the bank's rating system, may comprise an aggregate exposure of as much as 25% of the bank's own funds, but only in the form of short-term obligations. Parties classified in riskier categories may not comprise overall exposures for the bank exceeding 10% of its own equity. In similar fashion, however, this exposure may be increased to as much as 15%, provided the portion exceeding 10% is in the form of short-term commitments.

Landsbanki's Credit Committee sets detailed lending rules implementing the basic policy laid down by the Board of Directors. Employees' lending authorisations are

incremental and defined in detail. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules.

Credit Control

Group Credit Control is divided into three units: Credit Risk, Corporate Credit Control and Branch Credit Control. Group Credit Control evaluates the bank's credit risk on an on-going basis, for instance, by evaluating clients' capacity to meet their obligations towards the bank. Credit Control is responsible for the systematic and regular control of the bank's lending and procedures for granting credit, in addition to maintaining an overview of the quality of all group lending. This is done by regular reporting to the Board of Directors, the Credit Committee, the bank's senior management and regulatory authorities on the development of the bank's credit risk and the quality of its loan portfolio.

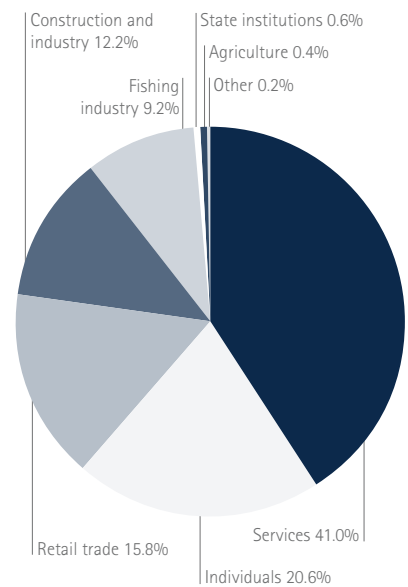
In recent years, as the bank has expanded, its credit supervision has been substantially augmented, the number of employees in credit control has been increased, the surveillance systems reinforced and specialised groups set up to monitor individual credit classes. Lending databases and IT systems have concurrently been upgraded throughout the group, to increase possibilities for very detailed analyses of the loan portfolio or of individual loans. The Credit Risk department is currently working on developing a harmonised risk assessment system for the Landsbanki Group.

Credit development

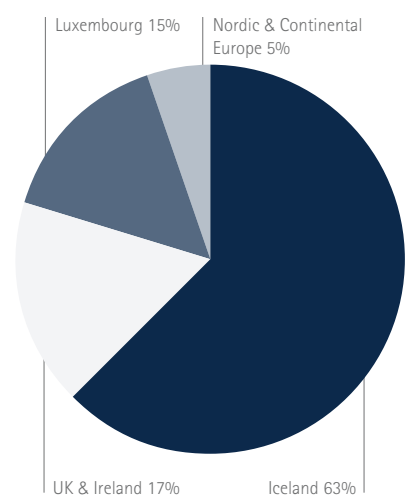
The bank's loan portfolio grew by 46.1% in 2006, with the greatest increase in loans to financially strong clients, including most of Iceland's largest corporations. International borrowers also account for a major portion of this growth, as a key aspect of this year's lending growth is increased geographical and sector diversification. All the measures used for credit risk indicate that the quality of Landsbanki's loan portfolio in general has improved in recent years.

Corporate lending has grown substantially, both in Iceland and abroad. Lending growth to corporate clients abroad can be broken down into several main types. One category is that of loans extended in connection with expansion of Icelandic companies abroad: Landsbanki has strong ties to Iceland's leading corporations and co-operates closely with them on projects abroad. Provision of structured finance for financially strong international corporations, through the intermediation of Landsbanki's London Branch, grew somewhat, as did lending to private banking clients of Landsbanki Luxembourg and Heritable Bank in London. Improved risk diversification should reduce loan impairment in the future.

Lending to Customers by Sector



Geographical Locations of Loans



Lending breakdown

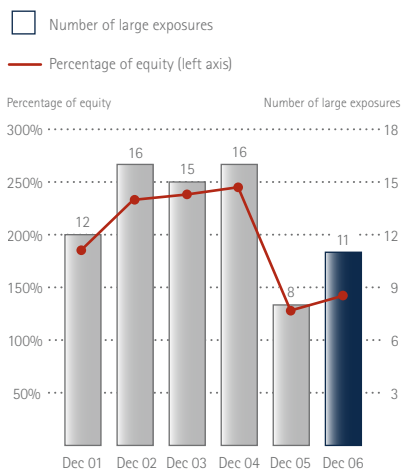
Total lending by the Landsbanki Group at year-end amounted to ISK 1,438 billion. Of this amount, ISK 1,147 billion is corporate lending, which represents an increase of 54% year-on-year, while lending to households was ISK 299 billion and increased by 22% over the previous year. At year-end, lending by the bank's international operations comprised 38% of total group lending, while at year-end 2005 it was 33%.

Collateral

Securing loans by collateral is the traditional method of mitigating credit risk. Landsbanki obtains collateral in respect of customer liabilities where considered appropriate. Collateral normally takes the form of a lien on customer assets, and gives Landsbanki a claim on these assets for both existing and future liabilities.

Credit extended by Landsbanki is secured by residential or corporate real estate, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft etc. Landsbanki also secures its loans with receivables and operating assets, such as machinery and equipment, raw materials and inventories. Residential housing mortgages are generally fully secured by a charge against residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowing. Landsbanki has credit derivatives to mitigate credit risk for a part of its mortgage portfolio. The group's mortgage portfolio amounted to ISK 194.2 billion at year-end 2006. The weighted loan-to-value ratio of the mortgage portfolio on the bank's books was 71.3% at year-end 2006.

Large Exposures



Large exposures

At year-end 2006, 11 clients were rated as having large exposures by the Landsbanki Group. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of Landsbanki's equity, in accordance with the Financial Supervisory Authority's Rules No. 531/2003, on large exposures incurred by financial undertakings. According to these Rules, total exposures of parties with obligations exceeding 10% of the bank's equity may never exceed 800% of equity. As of 31 December 2006, this ratio for Landsbanki was 142.4%. The maximum individual exposure may not exceed 25% of the bank's equity.

All of Landsbanki's large exposures were within these limits at the end of 2006. The Board of Directors regularly reviews detailed reports on the commitments of the bank's largest clients. Reports on the situation of the largest group exposures

are reviewed by the Credit Committee, together with other reports concerning the bank's loan portfolio, e.g. analyses of the economic situation and of individual sectors.

Default developments

At year-end 2006, the total amount of arrears was ISK 7.5 billion, or 0.5% of total loans outstanding. The group's default ratio has inched downwards during the past year, after having decreased in the preceding two years. Defaults vary depending on the type of loan and the nature and location of the branch extending credit. Defaults are highest, for example, for Landsbanki branches in the capital region on loans to households and small businesses, and proportionally lowest for Corporate Banking on exchange rate-linked loans to large corporations. Defaults on credit granted by the bank's establishments overseas are extremely low.

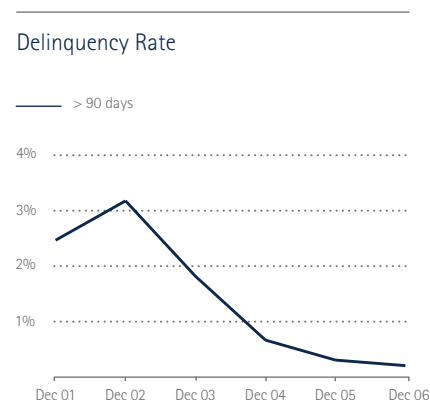
Individual loans in arrears, or other signs of imminent default, are monitored closely and efforts made to take suitable measures in response as quickly as possible. Such measures could include, for instance, refinancing, sale of assets or demanding additional collateral.

Collection

Landsbanki has prioritised improving its collection procedures, with the aim of increasing efficiency and monitoring of collections. Improved collection procedures have greatly reduced loans in arrears, for instance, both as a ratio of total lending and in absolute terms. Definitive action is taken at an earlier stage, if an increased probability of client default is perceived. Long-term defaults have fallen substantially as a result. In major default cases, or if there are signs of increasing probability of default by individual clients, an effort is made to obtain additional collateral. Efforts are also made to assist clients with debt restructuring and in so doing improve their possibility of meeting their commitments.

Calculation of loan impairment

Provisions are made for impairment (credit loss provisions) to cover possible credit losses, as provided for in IFRS. Loans and other obligations are assessed in terms of the risk of future loss. Based on this assessment, provisions are made for impairment losses and expensed against the relevant balance sheet item. Provisions to the impairment account are determined by applying an impairment test to loans which fulfil specific requirements indicating an increased risk. This involves assessing the discounted cash flow of individual loans or loan portfolios.



If the assessment proves to be less than the payback value of the loan on the date of settlement, the difference is expensed as a provision to the impairment account. Assessment involves, firstly, a detailed examination and assessment of the risk parameters of all loans by the bank exceeding a specified amount. Secondly, all the bank's other lending is divided into buckets with the same or similar risk parameters. In this manner, the quality of all the bank's loans is regularly evaluated and the size of the impairment reserve determined. For 2006, provisions for impairment amounted to ISK 16,611 million, or 1.07% of total loans and advances outstanding at year-end. Final write-offs in 2006 amounted to ISK 2.2 billion. At year-end, impairment provisions were equivalent to 1.07% of loans and advances provided, compared to 1.27% at year-end 2005 and 1.29% at year-end 2004. Provisions were 2.25% and 2.96% of loans and advances granted at the end of 2003 and 2002 respectively.

Operational risk

Operational risk is the risk of financial losses resulting from the failure or inadequacy of internal processes or systems, employee error or external events. Operational risk includes legal risk, but excludes reputational risk. It is therefore inherent in all areas of Landsbanki's activities.

While the managing directors of each division are responsible for the division's operating risk, daily management of operational risk is in the hands of department heads. Landsbanki establishes, maintains and co-ordinates its operational risk management framework on a group level. Landsbanki ensures that identification, assessment, reporting and monitoring of operational risk is consistent throughout the Group. Managing operational risk in this manner is intended to ensure that all of the bank's business units are well aware of operational risk, that a robust monitoring system is in place and that controls are implemented efficiently and effectively.

In assessing operational risk, the bank applies a range of methods developed in recent years. This includes self-assessment by the management of each business unit, focusing on the possible frequency of events and their potential financial impact in order to identify and estimate each unit's key risks. In the future, all Landsbanki business units are to carry out regular self-assessment exercises. Tracking financial losses resulting from operational risk events is a good basis for assessing and analysing this type of risk. Preparations are underway for collecting such data systematically in all areas of operation. Various risk indicators can be used in risk assessment to identify changed levels of operational risk. Work on defining and registering such indicators is in progress.

Detailed rules and procedures, available e.g. on the bank's intranet, specify how staff are to conduct their work within the bank. The bank's internal regulatory framework is continuously reviewed and procedures modified to reflect new emphases and procedural changes. The bank also offers its employees a wide range of training and continuing education programmes to augment their expertise and abilities.

IT systems represent a considerable risk for financial undertakings. Continuous effort is directed at developing and improving Landsbanki's IT systems, their risks are evaluated regularly and risk mitigating measures implemented where possible. All major system components, such as central data storages, have back-ups that are synchronised and hosted in separate risk locations, in accordance with the bank's risk management policy.

Great emphasis is placed on the bank's security and access control systems, in addition to which front line employees receive special training in responding to situations that may arise. Various external events, such as natural catastrophes, fire or terrorist attacks, can have a major impact on the bank's operations and performance.

The bank has business continuity plans in place designed to prevent disruption of banking activities and minimise financial losses arising from serious interruptions.

Like other financial institutions, Landsbanki is subject to a complex regulatory framework. Development is rapid in financial markets, with the result that legislation and regulations are reviewed regularly. Amendments to legislation can have a major impact on the bank's activities and operating environment. Impending changes to legislation and rules are followed closely, and an assessment made of the most suitable response in each case.

Compliance risk

Compliance is one of the group's support and risk functions. It is intended to assist in managing the bank's compliance risk on a consolidated basis, which can be defined as the risk of legal or regulatory sanctions, financial loss or damage to its reputation as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice.

Legal and compliance risk is a subcategory of operational risk, emphasising issues such as market abuse, fraud, anti-money laundering, codes of ethics, conflicts of interest and best practice.

The Compliance Officer ensures that the bank's rules on securities trading and

insider trading are followed, and that Group operations comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and other relevant legislation and regulations. Each of Landsbanki's subsidiaries has a compliance officer, whose efforts are co-ordinated by the parent company's compliance function. The parent company's Compliance Officer reports on the activities of subsidiaries' compliance officers to Landsbanki's senior management.

Human Resources

Landsbanki's human resources policy continues to play a key role in maintaining the bank's leading position in the domestic market and underpinning its further development internationally. In facing the rapid and far-reaching changes in the bank's operating environment in recent years, the motivation and ambition of its employees have been central factors in its success.

Our team is growing

Recruitment efforts in 2006 focused on supporting the business growth resulting from group-wide integration and co-ordination of services, particularly in corporate finance and securities trading, and the increased scale of operational support functions. The number of group employees rose to 2,313 at year-end, up 21% on the previous year. This increase was spread across a wide geographical area, with 172 new employees in Iceland and 237 overseas. At year-end, the Landsbanki Group employed personnel in 15 countries, with 61% of the workforce located in Iceland, 19% in the UK and Ireland, 19% in Continental Europe and 1% in the US and Canada.

Greater workforce diversity

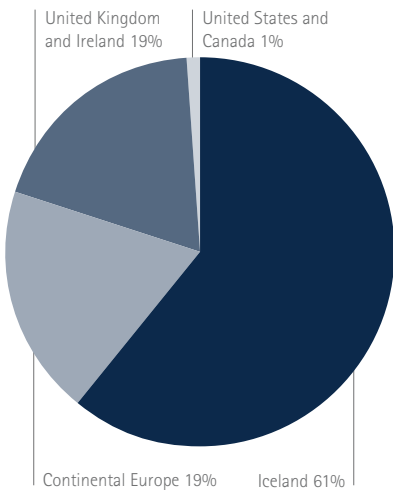
In parallel with Landsbanki's rapid expansion and growing overseas activities, its employee mix has changed substantially. This change has contributed appreciably to the diversity of the group's workforce in terms of education, expertise and experience, enabling the bank to draw on an expanding range of backgrounds, both in day-to-day operations and in high-level strategic planning.

The average age of employees is relatively low, with a high proportion of staff in their child-rearing years. Landsbanki has a very employee-friendly parental policy and makes every effort to meet the needs of staff with young children, for example through teleworking arrangements.

A focused HR policy

For Landsbanki, every employee is a valuable resource. Accordingly, the bank strives to hire the most qualified person for any given position. In order to attract, support and retain the best professionals in each field, we are committed to high job satisfaction, an excellent working environment and effective staff development. A central facet of this policy is to provide an enjoyable and interesting

Full-time Equivalent Positions by Country



workplace where facilities, equipment and overall work surroundings are second to none. Landsbanki also aims to align employee interests with those of the bank through competitive salaries and performance-linked remuneration.

Landsbanki pursues a policy of employee non-discrimination and make all decisions concerning staff members purely on the basis of merit, whether this concerns career development, assignments, training or remuneration.

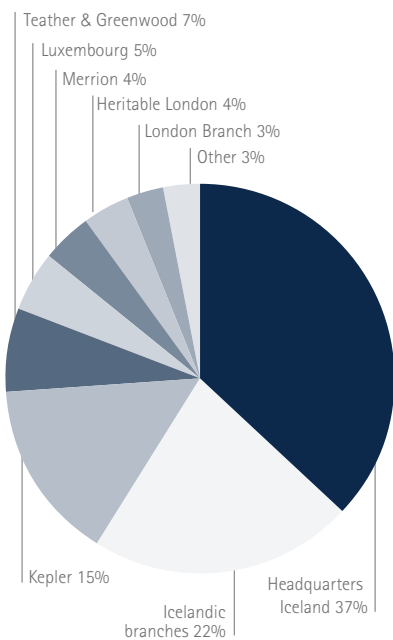
Career development and training

Landsbanki places a high priority on professional development by providing employees with training opportunities through a range of programmes designed to suit different objectives and needs, including web-based options. The courses offered cover a wide spectrum of subjects, such as sales and client relations, technologies and systems training, as well as extensive group programmes.

Performance-related rewards and remuneration policy

To attract, motivate and retain the talent it needs, Landsbanki offers competitive opportunities for reward. The key objectives of the bank's remuneration policy are to ensure that employee interests coincide with those of the bank and to maintain a balance between the performance of the business and individual employee rewards.

Full-time Equivalent Positions by Location



Executive remuneration is closely linked to shareholder return so as to maintain a business ethos that creates sustainable value for all shareholders. Landsbanki's remuneration policy is thus designed to foster an entrepreneurial, results-driven culture and support the bank's integrated business strategy.

Measuring success


The bank applies a variety of data sources to assess the effectiveness of its human resources policy. Employee surveys in Iceland have shown continuous improvements in the internal environment of Landsbanki since the first polls began in the year 2000. The result trend between the 2005 and 2006 surveys shows that ten of the largest changes from one year to the next were positive. Among these changes were improvements in giving feedback and encouragement to employees, job security, opportunities to learn and grow, fair wages and employee flexibility.

Since the first surveys in 2000, measures of employee satisfaction and commitment at Landsbanki have shown continuous improvement. On a scale of 1 to 5, employee satisfaction and commitment increased from 4.1 in 2005 to 4.4 in 2006. Employee loyalty scores have also increased correspondingly – an excellent

performance considering the growth in financial services and high demand for the best talent.

Given the importance of human resources for the bank's financial results, Landsbanki will continue to place top priority on building on the considerable improvements in recent years and strengthening Landsbanki's internal fabric.





My name is Klemens
German for Clemens,
the Latin name of 14 popes.
Klemens means "merciful."



In Germany, our name is Landsbanki

2006 Financial Results

Landsbanki's after-tax profit was ISK 40.2 billion, compared with ISK 25.0 billion in 2005, a year-on-year increase of 61%. After-tax ROE in 2006 was 36.3%.

The operations of Teather & Greenwood have been included in the consolidation as of Q2 2005, Kepler Equities as of the beginning of December 2005 and Merion Capital Group as of year-end 2005. Figures for 2006 are therefore not fully comparable with the 2005 results. Landsbanki Guernsey Ltd is included in the consolidated accounts as of the end of Q3 2006.

The ISK weakening affects figures in both the balance sheet and the income statement. Foreign-denominated assets and liabilities are recognised at the closing exchange rate at year-end 2006, whereas amounts in the income statement are recognised at the average 2006 exchange rate.

Income statement

Landsbanki's net operating income in 2006 amounted to ISK 89.4 billion, compared with ISK 61.0 billion in the previous year, up 47%.

Net interest income amounted to ISK 41.5 billion, compared with ISK 23.0 billion in the previous year, a year-on-year increase of 80%. Net interest margin as a ratio of average capital position was 2.3%, compared with 2.2% for 2005. Net fees and commissions have grown by 70%, amounting to ISK 28.4 billion in 2006, compared with ISK 16.7 billion in 2005. This increase stems partly from the addition of the three international brokerage subsidiaries and successful corporate investment projects of the group. Only 39% of net fee and commission income originates in Iceland, 28% comes from UK operations, 26% from Nordic countries and Continental Europe and the remainder from Luxembourg.

Landsbanki's trading and investment income amounted to ISK 19.6 billion in 2006, compared with ISK 21.3 billion in 2005. The greater share of these gains, or 55%, was earned in Nordic countries and Continental Europe, while only 35% originated in Iceland. In this context it should be noted that the Board of Directors decided to reduce the overall equity exposure from 5% of the balance sheet to 3%. The lion's share of such holdings will likely be listed companies outside of Iceland.

Group operating expenses in 2006 totalled ISK 38.6 billion, and the bank's cost-income ratio was 43.2% (its target cost-income ratio is 55%). The group's expenses

relative to its income have changed markedly with the inclusion of its subsidiaries abroad. These are primarily stockbrokers, which generally have higher cost-income ratios than do banks. At year-end 2006, Landsbanki's employees held 2,117 full-time equivalent positions. Of these, 1,292 were based in Iceland and 825 in the group's establishments abroad.

Impairment on loans and financial assets held for sale in 2006 amounted to ISK 6.1 billion, compared with ISK 6.2 billion in 2005. Impairment as a ratio of outstanding loans and receivables at year-end was 0.37%.

Operations abroad contribute 52% of net operating income

Net operating income originating outside of Iceland amounted to ISK 46.6 billion, or 52% of total net income in 2006, increasing more than threefold from ISK 10.4 billion, or 17%, in 2005. Activities in the Nordic countries and Continental Europe account for 25% of net operating income, UK and Ireland for 21%, and Luxembourg for 6%.

Balance sheet

Total group assets amounted to ISK 2,173 billion at year-end 2006, up from ISK 1,405 billion at the beginning of the year, an increase of ISK 768 billion or 55% during the year. Much of the 2006 increase results from ISK depreciation during the year and the resulting inflationary impact. Converted to EUR, the bank's total assets at year-end amounted to EUR 23.2 billion, compared with EUR 18.8 billion at the beginning of the year, up 23%.

Amounts due from financial institutions amounted to ISK 216 billion, compared with ISK 87 billion at the beginning of the year. The increase reflects liquid securities held by banks for the purpose of prefunding 2007 maturities.

Customer lending amounted to ISK 1,438 billion at year-end 2006, compared with ISK 985 billion at the beginning of the year, an increase of 46%. Adjusted for ISK weakening and inflation, the real increase in customer lending is 24%.

Total provisions for credit losses amounted to ISK 16.6 billion or 1.07% of total loans at the end of 2006. Provisions for credit losses do not reflect actual write-offs; when and if loans are not recovered, the provisions for credit losses are reduced by the unrecoverable amount. The delinquency rate (total arrears as a proportion of outstanding loans) has been decreasing steadily in recent years. At year-end 2006, the delinquency rate (90 days or longer in arrears) was 0.21% of total customer lending, compared with 0.4% at the beginning of the year.

Market bonds and other fixed-income securities held by the bank totalled ISK 170 billion at the end of 2006, compared with ISK 52 billion at the beginning of the year. The increase reflects prefunded 2007 maturities and the strong liquidity position of the bank. Equities and other variable-yield securities held by the bank totalled ISK 49 billion at the end of 2006, compared with ISK 58 billion at the beginning of the year. Of the ISK 49 billion, ISK 44 billion were listed equities and ISK 5 billion unlisted equities. Domestic equities amounted to ISK 28 billion and foreign equities to ISK 21 billion at year-end 2006. Equity holdings as a percentage of the bank's balance sheet have been reduced from 4.2% in 2005 to 2.3% at year-end 2006, and the goal is to keep this ratio below 3%.

Total assets under management amounted to ISK 377 billion at year-end 2006, rising from ISK 281 billion at the beginning of the year, an increase of 34%. At the same time, total assets in custody amounted to ISK 1,751 billion, compared with ISK 1,321 billion at the beginning of the year, up 33%.

Overseas deposits up 300%

The group's total deposits amounted to ISK 824 billion at year-end 2006. Of this amount, ISK 683 billion were customer deposits, compared with ISK 334 billion at the beginning of the year, an increase of 104%. Customer deposits at the bank's establishments abroad amounted to ISK 417 billion at year-end, compared with ISK 105 billion at the beginning of 2006, an increase of ISK 312 billion or 300%. Customer deposits equalled 47% of total lending to customers at year-end, compared with 34% at the beginning of 2006.

Total borrowing at year-end 2006 was ISK 1,015 billion, compared with ISK 690 billion at year-end 2005. The Landsbanki Group's subordinated debt was ISK 90 billion at the end of December, compared with ISK 49 billion at the beginning of the year.

Performance by business segment

Landsbanki Group's performance is comprised of the results of four business segments:

- Retail Banking,
- Corporate Banking,
- Securities and Treasury, and
- Asset Management and Private Banking.

Retail Banking includes the parent company's branch network and the Retail banking operations of Heritable Bank, SP-Fjármögnun and Landsbanki Guernsey

Ltd. This business segment's pre-tax profit amounted to ISK 8.0 billion in 2006, compared with ISK 3.4 billion in the previous year. The business segment's total assets were ISK 370 billion at year-end 2006, compared with ISK 262 billion at the beginning of the year

Corporate Banking includes the parent company's Corporate Banking division, including its London and Amsterdam branches, as well as corporate banking activities at Heritable Bank and Landsbanki Luxembourg. Pre-tax profit for Corporate Banking in 2006 amounted to ISK 15.7 billion, compared with ISK 7.0 billion in 2005. The business segment's total assets were ISK 937 billion at year-end 2006, up from ISK 636 billion at the beginning of the year

Securities and Treasury is comprised of the parent company's Securities and Treasury division plus the subsidiaries Teather & Greenwood, Kepler Equities and Merrion Capital. This business segment includes securities brokerage, corporate advisory, FX and derivative trading, the bank's treasury and debt management and proprietary bond and equity trading. The pre-tax profit of Securities Trading in 2006 amounted to ISK 19.4 billion, compared with ISK 19.6 billion in 2005. The business segment's total assets were ISK 565 billion at year-end 2006, compared with ISK 286 billion at the beginning of the year. All three subsidiaries in this business segment were acquired in 2005. Teather & Greenwood is included in the business segment from the beginning of Q2, Kepler Equities from the beginning of December and Merrion Capital from year-end 2005 (no impact on 2005 operations).

Asset Management and Private Banking includes the parent company's Asset Management division, Landsvaki hf. and asset management operations and private banking of Landsbanki Luxembourg SA. The pre-tax profit of Asset Management and Private Banking in 2006 amounted to ISK 3.1 billion, compared with ISK 1.2 billion in 2005. The business segment's total assets were ISK 289 billion at year-end 2006, compared with ISK 215 billion at the beginning of the year.

Core earnings

Landsbanki's pre-tax core earnings in 2006 amounted to ISK 28.8 billion. ROE on core earnings was 26% in 2006. In calculating the bank's core earnings, trading gains on equities of all types, as well as trading gains on bonds and FX, are deducted. The interest rate margin is increased accordingly to reflect the cost to the group of financing tied up in bond and equity positions. Nonetheless, maintaining a certain level of equity and bond exposures remains part of the bank's strategy and active risk management.

Corporate Banking

Ever since its founding, Landsbanki has been a major provider of credit to business and industry in Iceland. Landsbanki has always endeavoured to lead the way in offering comprehensive services to Icelandic enterprises. In the domestic market, Corporate Banking activities and branch lending have laid the foundation for the bank's strength by building a solid and well secured asset portfolio. Corporate loans stood at ISK 1,147 billion at year-end 2006 and thus comprised 79% of the bank's total loan portfolio, up from 75% in 2005.

As Landsbanki and other Icelandic businesses have expanded overseas, lending to foreign corporates has accounted for an ever-larger share of the bank's operations, broadening and diversifying its asset portfolio considerably. Following-up on substantial progress in this direction in 2005, the bank continued to step up its overseas corporate lending in 2006. As a result, 40% of corporate loans were to foreign clients at the end of the year, up from 36% in 2005.

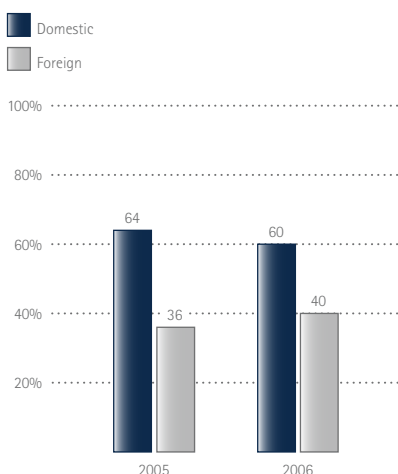
Landsbanki now serves the European corporate and structure loan market from its offices in Reykjavík, London and Amsterdam and Heritable Bank in London. The Amsterdam Branch is based on the London Branch's successful business model of lending activities mixed with a deposit-taking function. Its operational focus is on corporate and structural lending in the Netherlands and Belgium as well as commercial real estate. Representative offices were also launched in the Faroe Islands and Norway, with special emphasis on serving the fisheries and seafood industry. Another office was opened in Halifax, Canada, concentrating on trade/commodity finance. Regional offices were also opened in 2006 in Birmingham and Manchester in the UK.

As previously mentioned, the bank's total corporate loans amounted to ISK 1,147 billion at year-end, up by ISK 402 billion during the year. Part of this increase was due to the ISK depreciation, as 72% of Landsbanki's corporate loans are denominated in foreign currencies.

The service industries and retail sector account for the greatest share of Landsbanki's corporate lending, followed by construction/industry and fisheries. Lending to the commerce sector grew most in the year, followed by lending to retail trade.

These developments demonstrate how Landsbanki is expanding its corporate banking activities while diversifying risk over selected markets.

Group Corporate Lending to Domestic and Overseas Clients



Loan portfolio

The bank's corporate loan portfolio is made up of various categories. These include loans to domestic businesses with operations in Iceland and abroad as well as participation by the London and Amsterdam branches in financing for European companies. In addition, Heritable Bank in London, a Landsbanki subsidiary, provides multifirm finance for small and medium-sized enterprises (SMEs). Landsbanki's corporate loans are therefore spread across most business sectors, forming a well-diversified asset portfolio.

With its heritage of having always held the leading market share in the Icelandic corporate market, Landsbanki has long served all sectors of the domestic economy. Throughout the years, the bank has endeavoured to provide excellent services to the fisheries and seafood industry, both in Iceland and internationally. As a result, trade and commodity financing, particularly for seafood and other food products, is a growing service segment. In addition, a corporate banking team specialised in syndicated lending has worked in partnership with other domestic and foreign banks on arranging financing for Icelandic and overseas companies.

The bank's largest borrowers include several holding companies. A number of reasons account for this. Chief among them is that Icelandic business and industry have undergone substantial changes and consolidation over the past few years, with ownership changes leading to holding companies playing a central role in the economy. Many of the holding companies in Landsbanki's client base are among the largest and leading companies in their sectors. They are therefore very active businesses, and should be regarded as such.

Borrowers' currency hedging arrangements

The largest part of Landsbanki's loans to Icelandic corporates is denominated in foreign currencies. The vast majority of these creditors are covered by natural or other hedges. In most respects, there are logical reasons for this. The revenues of many of Iceland's largest companies are denominated in foreign currencies, and a very high proportion of Icelandic companies are engaged in foreign trade. These businesses are naturally hedged against fluctuations in the ISK, as their foreign-currency funding is generally structured to match their revenue cash flows in the currencies in question. For companies with a substantial part of their liabilities, but a relatively minor part of their income, denominated in foreign currencies, the bank offers a comprehensive range of hedging techniques against fluctuations, tailored to each client's specific needs. Overall, therefore, Landsbanki's domestic corporate clients are very well protected against currency risks.

Variable interest rates

The credit and interest terms offered by the bank are very flexible and adapted to client circumstances. Foreign-currency loans are generally offered at variable interest rates. ISK loans generally have variable, non-indexed rates or variable CPI-indexed rates. At year-end, foreign-denominated loans comprised 72% of Landsbanki's corporate loans. While this includes loans granted abroad, Icelandic demand for foreign-currency borrowing has also been high in recent years due to favourable exchange rates initially and the high domestic-foreign interest rate differential.

Comprehensive corporate banking services

Landsbanki's corporate banking services combine a thorough knowledge of corporate credit needs with specialised expertise in individual business sectors. The Corporate Banking division's financing activities in Iceland are arranged into a number of specialised units. All the division's corporate clients have personal customer relations managers, who provide a full range of tailored banking services. As lending to activities abroad has grown, the bank has recruited an increasing number of specialists in this field in Iceland.

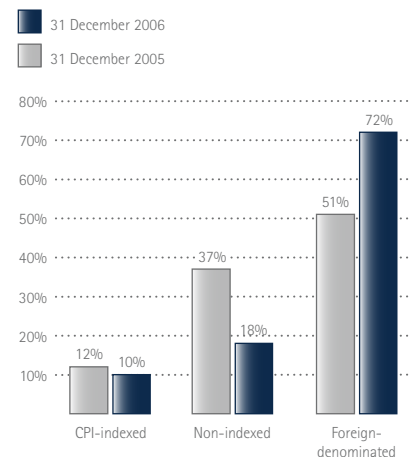
Landsbanki has played a pivotal role in supporting the ever-rising number of Icelandic businesses expanding into foreign markets. These services largely entail a high level of expertise, e.g. in acquisitions, and close co-operation with the individual companies in question. In an aim to further enhance services to small and medium-sized Icelandic firms, corporate account managers are now located in all major branches in Iceland, their numbers growing in recent years.

Prudent lending practices

All major corporate lending decisions are co-ordinated on a group basis through a centralised Credit Committee in Reykjavik, ensuring consistency and a good overview of lending activities. In all its lending, Landsbanki also strives to provide personalised guidance and expert advice to clients. These emphases played an important role in the turbulent year of 2006, not least regarding exchange rate developments.

Landsbanki carefully monitors the operating outlook of individual business sectors. Thorough consideration is always given to the current situation and outlook, as part of the bank's overarching policy of encouraging prudent financial attitudes and practices. By following developments in specific sectors, the bank can detect possible risks and proceed more cautiously in extending credit. To optimise such monitoring, the number of corporate specialists in the bank's branches has been increased greatly over the past few years. Furthermore, various lending and

Breakdown of Group Corporate Lending



Landsbanki's Market Share in Domestic Corporate Lending, Leading Sectors

	2006	2005
Corporate	40%	37%
Retail trade	54%	45%
Fishing industry	47%	45%
Fisheries	40%	35%
Services	40%	39%
Construction and industry	39%	37%

monitoring systems for corporate loans have been revamped considerably to reinforce risk assessment and obtain a more in-depth perspective. Extensive efforts have also gone into building up systems and knowledge regarding the implementation of Basel II requirements.

Solid domestic market share

Landsbanki has always held the largest share in the Icelandic corporate lending market. Near the end of 2006, this share was around 40%. Of individual business sectors, the bank's share of lending is highest in retail. It also has a very strong showing in the seafood and fisheries industry as well as general industry sectors.

Around 80% of the non-bank companies listed on the Iceland Stock Exchange at year-end had Landsbanki as either their principal bank of business or as one of two. The same was true of Iceland's 50 largest companies, ranked in terms of turnover by the business magazine *Frjáls verslun*. For 78% of them, Landsbanki was the principal bank of business or one of their two business banks. Of the country's 100 largest companies in this same ranking, 75% do business with Landsbanki.

European loan market

Landsbanki serves the European loan market from its Reykjavik headquarters together with its London and Amsterdam branches. The latter two are extensions of the Corporate Banking division in Iceland. Heritable Bank in London is also part of Landsbanki's corporate lending platform in Europe.

Corporate and Structured Finance

Landsbanki's Structured Finance team takes an active part in the European corporate and structural loan market, where it has forged excellent business relationships and is consistently invited to participate in deals throughout the market. Its loan portfolio is diversified across countries and reflects the average supply of syndicated loans in Europe. Industry sectors served by the Structured Finance team include retail, manufacturing, consumer services and other core sectors. The team's focus is on lending to well-managed companies with strong recurring revenues and asset bases.

The Lead Arranging team has gained in strength through recruiting more senior managers and experienced analysts. The aim has been to target new sponsors as well as maintain good relations with current equity investors in its structured finance deals. The team has increasingly started to serve as lead arranger in its deals, often in co-operation with Corporate Finance, a good example of cross-selling between Corporate and Investment Banking.

Commercial Finance

In 2005 Landsbanki set up an asset-based lending team in its London Branch. This Commercial Finance team complements the existing Structured Finance operation and extends the bank's comprehensive range of loan products for SMEs. The team focuses on asset-based lending, including inventory, receivables and plant and property. As part of steadily expanding activities in this area, regional offices have been opened in Birmingham and Manchester.

In 2006 an equipment finance team specialising in leasing, hire purchase and operating lease for all types of equipment joined the London Branch. Its activities include financing of commercial vehicles, printing equipment and production equipment.

The above developments have added substantially to the breadth of lending products available to the bank's clients.

Heritable Bank

Founded in 1877, Heritable Bank operates in the retail and corporate banking markets from its London head office. Acquired by Landsbanki in 2000, it is separately regulated in the UK by the FSA and has its own capital supporting its retail and wholesale deposit taking activities which have grown in line with the banks expanding balance sheet, which grew by 44% in 2006.

Heritable's corporate lending is focused on structured property finance for small and medium-size property developers, mainly in UK residential and commercial markets, and includes senior debt, mezzanine and principal finance structures. Its specialist residential mortgage arm also lends to professional property investors from the UK and elsewhere, secured on UK residential properties. Heritable Asset Finance, established in 2005, undertakes leasing and hire purchase transactions for SMEs in the UK secured on vehicles and other business assets. Its subsidiary, Key Business Finance, acquired in 2005, provides short-term working capital financing for the legal profession. In 2006 Heritable experienced strong performance, particularly in its structured property finance and specialist residential mortgage businesses.

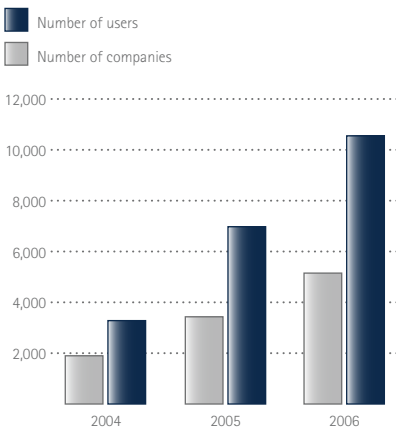
Corporate Internet Banking

Corporate Internet Banking turnover increased substantially over the preceding year, with increased take-up and usage. More than 90% of the bank's Icelandic corporate clients are now registered users. The service is continuously increasing and improving, e.g. through additional customer visits and the development of

Group Corporate Lending by Sector

Sector	31 Dec 2006	31 Dec 2005
Services	51%	47%
Retail trade	20%	19%
Construction and industry	16%	19%
Fishing industry	12%	13%
Agriculture	1%	1%
Other	0%	1%
Total	100%	100%

Number of Users of Landsbanki Corporate Internet Banking in Iceland



joint solutions. During the year a new improved version of the bank's payment service was introduced and an upgrade of the cash management service completed. Various online solutions were further refined, which was well received by users. In developing new solutions, the bank's main priority is to ensure the security of access control and handling of data. Services offered in Corporate Internet Banking include domestic payments, foreign payments, payroll services with electronic payslips, asset and debt management, risk management and currency overlay, cash pooling and netting services. Many of the services include connections to foreign banks, enabling direct, regular international transactions. The bank has also placed increased emphasis on providing in-house training at client companies, an innovation clearly appreciated by users.

Focus in 2006 was centred on enhancing security for Corporate Internet Banking clients. In 2003 Landsbanki became the first Icelandic bank to launch a cryptographic security solution for online banking using two-factor authentication technology. The bank has since continued to play a leading role in online banking security. Landsbanki is currently the only bank in Iceland offering two separate security solutions of this type, illustrating its firm commitment to secure internet banking.

Investment Banking

For Landsbanki's new subsidiaries Teather & Greenwood, Kepler and Merrion, 2006 was the first full year of group operation. Integration of the new subsidiaries has proceeded as planned and important steps have been taken towards expanding their investment banking services in corporate finance, foreign exchange and derivatives brokerage. New teams of professionals were added to the group in the UK and Ireland and on the Continent. All business units performed well and made good contributions to Landsbanki's results. The regional economic climate was favourable and securities markets in Europe performed well. In the Icelandic market, trading volume grew by nearly 80%, despite more moderate equity price rises in 2006 than in 2004–2005.

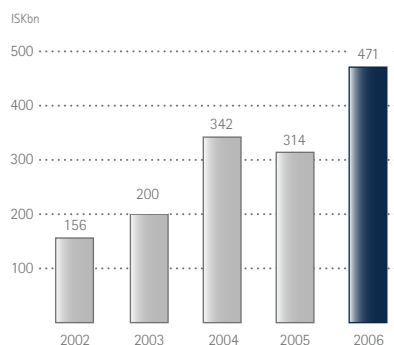
Investment in securities

Equity investments continued to contribute significantly to Landsbanki's performance in 2006. At the beginning of the year the bank had substantial equity holdings resulting from its recent merger with the investment company Burðarás. The largest single asset overtaken from Burðarás was a 20% stake in the Swedish investment bank Carnegie. After divesting itself of this holding in the first half of the year at a satisfactory profit, Landsbanki further reduced its equity holdings, selling most of its stake in the investment bank Straumur-Burðarás and the investment company Grettir. These transactions lowered the ratio of equity holdings to total assets well below 3%, in line with the bank's revised strategy. They also simplify the bank's equity holdings, limit its sensitivity to domestic market movements and eliminate joint holdings by the bank and its core investors.

At year-end Landsbanki's most significant asset held for investment banking purposes is its stake in Marel, a listed Icelandic food machinery producer, which is currently successfully expanding its international operations.

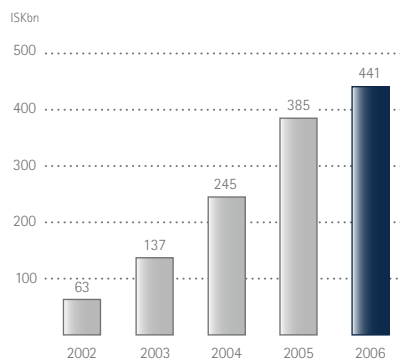
The bank's market bond holdings amounted to ISK 169 billion at year-end compared to ISK 52 billion at the beginning of the year. Although the portfolio at the beginning of the year consisted primarily of domestic instruments, by year-end the bank had built up a sizeable portfolio of liquid international assets, of a value of ISK 137 billion. This reflects the bank's increased emphasis on strong liquidity management, not least in light of the turbulence experienced by Icelandic banks

Landsbanki's Bond Trading Volume on OMX Nordic Exchange in Iceland



Source: OMX Nordic Exchange in Iceland

Landsbanki's Equity Trading Volume on OMX Nordic Exchange in Iceland



Source: OMX Nordic Exchange in Iceland

this past year on international funding markets. The domestic bond portfolio in fact contracted in the course of the year, reflecting expectations of rising domestic yields in tandem with domestic policy rate hikes.

Securities brokerage

The scope of the group's securities brokerage operations was significantly expanded and bolstered by the acquisition in 2005 of new subsidiaries acquired in the UK, Ireland and Continental Europe.

The year 2006 was another good year for the Icelandic market. Total turnover on the Iceland Stock Exchange increased by 77%, amounting to ISK 4,500 billion or more than fourfold domestic GDP. Trading volume was nearly evenly split between equities and fixed-income instruments. The bank's share of total trading was ISK 911 billion, thereof ISK 441 billion in equities and ISK 471 billion in fixed income instruments. In 2006 there was a significant increase in brokerage of international equities, as Icelandic investors increasingly focused on international assets. Corporate bond issuance in the Icelandic market also increased substantially, rising by 46% year-on-year. Most of the increase was in short-term paper with a REIBOR-related yield.

Total securities trading at Teather & Greenwood amounted to GBP 6.9 billion and its market share on the LSE was 2.1%. Merrion Capital's market share on the Irish Stock Exchange rose sharply to 7.3%, or more than double its 3.9% of the previous year. Kepler's market share on those Continental European exchanges where it has representation rose substantially.

Landsbanki Group Equity Research by Market

	France	Germany	Iceland	Ireland	Italy	Netherlands	Spain	Switzerland	United Kingdom	Other Markets ¹	Landsbanki Total
Number of companies covered	160	75	18	37	89	47	68	72	277	34	877
% of market cap covered	95%	90%	87% ³	95% ⁴	85%	80%	95%	87%	62%	na	62-95%
Number of small & mid cap companies covered ²	79	33	16	28	42	30	32	39	220	10	529
Median market cap (EURbn)	3.3	3.6	0.5	3.3	3.3	2.5	4.1	2.3	0.6	10.2	na
Number of research analysts	20	12	6	7	6	6	6	8	24	na	95

1) Includes markets such as Scandinavia and Eastern Europe.

2) Companies with market capitalisation less than 4 EURbn.

3) As is only to be expected, Landsbanki Research does not evaluate Landsbanki Group which accounts for about 11% of the market capitalisation of the OMX Nordic Exchange in Iceland.

4) Merrion is restricted from covering Aer Lingus which accounts for 1.32% of the market capitalisation of the Irish Stock Exchange.

Equity research

Strong research production provides key support for the group's securities trading. In-depth knowledge of corporations and sectors is also a major asset which its corporate finance and corporate banking activities can exploit. Landsbanki's research departments operate in nine countries and cover 880 European companies, representing 62–98% of the total market capitalisation of listed companies in their respective markets.

Major advances were made in 2006 in co-ordinating the research work of the parent company and its subsidiaries. Most significant was the creation of a new joint database for equity research, providing harmonised data presentation and facilitating intermarket comparisons. The database improves accessibility to group research by securities traders and other Landsbanki experts. Another advance was the standardisation of the content and format of publications, under the umbrella of a co-branding logo. Both the content and format of publications was standardised. Research departments have begun jointly producing individual sector reports covering the Bank's market regions, and organising seminars and customer road shows. The high quality of Landsbanki's research was confirmed by Bloomberg's ranking of Kepler as the top broker in Europe for accuracy of recommendations relative to the number of stocks covered. Instead of relying on investor surveys, Bloomberg ranked firms based on the investment advice their analysts provided. To identify the top researchers, Bloomberg tracked recommendations issued by more than 350 firms and 2,500 analysts worldwide.

Foreign exchange and derivatives brokerage

The FX market continued to expand rapidly in 2006. Trading volume on the interbank market grew by 107% year-on-year, spurred both by greater activity of domestic agents and significantly increased trading by foreign participants. ISK volatility from February until May clearly stimulated FX trading, as did substantial issuance of ISK-denominated Eurobonds by foreign investors that started in September 2005 and continued throughout 2006. ISK Eurobonds totalling ISK 175 billion were issued in 2006, bringing the total outstanding stock to ISK 272 billion at year-end. ISK Eurobonds maturing in 2006 totalled ISK 54 billion. These transactions directly impact the FX market, as investors need to buy ISK to fund their investment and issuers need to swap the ISK issue amount for the currency that they prefer, normally EUR or USD.

Strong growth also characterised derivatives brokerage, as demand from domestic agents and international participants continues to expand. Landsbanki has been developing new products, both independently and in association with international banks, focusing on the needs of corporate or institutional buyers.

Bloomberg's Ranking of Top European Research Firms

Rank	Company	Score*
1	Kepler Equities	34.2%
2	Merrill Lynch	31.5%
3-4	JPMorgan Chase	27.4%
3-4	UBS	27.4%
5	Ixis Securities	26.0%

*Percentage of accurate calls divided by stocks covered in each region.

Source: Bloomberg

Total FX trading by Landsbanki in Iceland rose by nearly 70% year-on-year, while the interest rate and equity derivative trading volume expanded by over 91%. Volatility on the FX market, however, did somewhat dampen the growth in FX derivatives. Kepler Equities opened a new unit in Geneva, Switzerland, focusing on Emerging Market Inter-dealer broking in the Bond and OTC derivative markets acting as an intermediary between major financial institutions to facilitate inter-dealer trades for a commission. The new unit employs now over 30 brokers and is active in forex, swaps, bonds and equity.

Corporate Finance

Landsbanki's Corporate Finance activities continued to grow in the year 2006. Although the pace of corporate restructuring in the Icelandic market in 2006 was not as hectic as in previous years, Landsbanki's Corporate Finance team managed to maintain its strong position. The majority of projects undertaken by the team were international projects, for both Icelandic and international investors and companies. In many of these undertakings, Landsbanki utilised to good advantage the expertise and local presence of its new subsidiaries. The bank's own Corporate Finance team finalised 19 projects, with a total value of some ISK 200 billion, managed from the Icelandic and UK Corporate Finance offices. Among the projects successfully completed was a public offering of shares in Marel, the Icelandic manufacturer of food-processing equipment; the team also advised Marel on its acquisition of Scanvaegt. Other projects included advising plastics producer Promens on its acquisition of Polimoon on the Norwegian public market, assisting 365 media in acquiring Wyndeham Press Group, as well as advising a consortium of Icelandic investors on their acquisition of the UK football team West Ham United.

Important steps were taken towards integrating the full product offerings in each of the subsidiaries, a key move towards generating higher fee revenues in the future. All of Landsbanki's recently acquired international subsidiaries increased their corporate finance activities in 2006. The addition of a new corporate finance team to Kepler Equities' Paris office was an important step to further this development. Corporate finance teams were also reinforced in London and Dublin.

Teather & Greenwood completed the largest number of transactions, many of them involving listings and secondary issuance on the London AIM market. Teather & Greenwood have a particularly strong relationship with the AIM market, as the company acts as corporate advisor to many of the companies listed on the exchange. Two large projects dominated Merrion's corporate finance work in 2006. Firstly, Merrion acted as advisor for Aer Lingus in its listing on the Irish and London exchanges. The value of the company at flotation was EUR 1.2 billion. After

the listing, Merrion advised Aer Lingus concerning a hostile takeover bid from Ryanair. Secondly, Merrion acted as broker and corporate advisor to ESOT in the delisting of Eircom, the Irish telecommunications company. Eircom's enterprise value was EUR 4.4 billion. For Kepler Equities, participation in the Natixis transaction as co-lead manager was a milestone, as it marks the first time the company has taken part in such a major deal.

Corporate Finance Deals

	Kepler	Merrion	Teather & Greenwood	Landsbanki Parent	Group Total
Number of deals 2005	3	12	49	22	86
Transaction value 2005 (EURm)	104	820	1,542	3,715	6,181
Number of deals 2006	6	13	33	19	71
Transaction value 2006 (EURm)	5,719 ¹⁾	6,274 ²⁾	1,785	2,082	15,860

1) Including the participation in placing the EUR 5.3 bn Natixis deal.

2) Including Aer Lingus IPO and eircom delisting.



A photograph taken from inside a structure, looking out through a grid of dark metal bars. The view outside shows a scenic landscape. In the background, there are blue mountains under a clear sky. Below the mountains, there's a green forested area. In the middle ground, a calm lake reflects the surrounding scenery. In the foreground, there's a field of tall, golden-brown grasses. The overall lighting is bright and natural, suggesting a sunny day.

My name is Luíseach

From the Indo-European root for "light,"
and Lug, the Celtic sun god.
Luíseach means "shining."



In Ireland, our name is Landsbanki

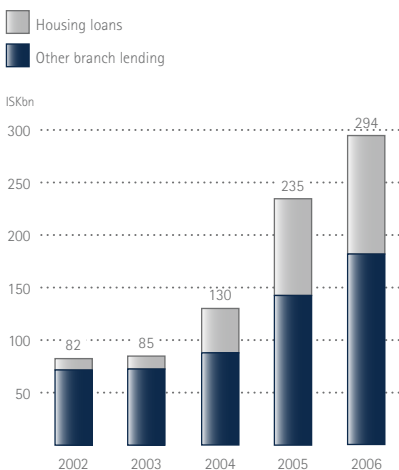
Retail Banking

Landsbanki remains Iceland's leader in all main areas of retail banking and has the country's largest branch network. Streamlining efforts in recent years have meant fewer but larger branches, able to provide a broader service range. Since 1998 the number of branches has been reduced by 24, while the network's productivity has been boosted through better co-ordination of sales and service. More emphasis is placed on personalised customer services and advice, for instance through increased use of electronic channels, including telephone and Internet banking, in combination with strong product development.

Banking in Iceland today is characterised by rapid changes in customer service channels, more customers switching banks and stiffening competition. Increasing integration of financial services is another challenge that Landsbanki is meeting proactively and innovatively. In this market scenario, the bank has led technological innovation and continued to adapt its service systems to changing customer needs.

One of the key success stories of 2006 was the launch of Icesave, a deposit-taking operation offering online, easy-access savings accounts to UK customers at very competitive interest rates. Icesave immediately attracted very favourable attention, adding 35,000 new clients to Landsbanki's customer base in only three months. Although retail banking still represents a minor part of the bank's activities outside Iceland, this will change with expansion of the group's overseas deposit-taking businesses.

Lending Development - Domestic Branches

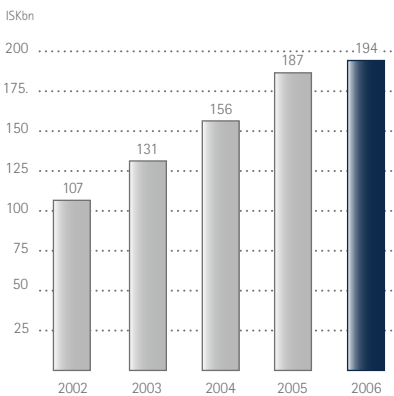


Market share and key indicators in 2006

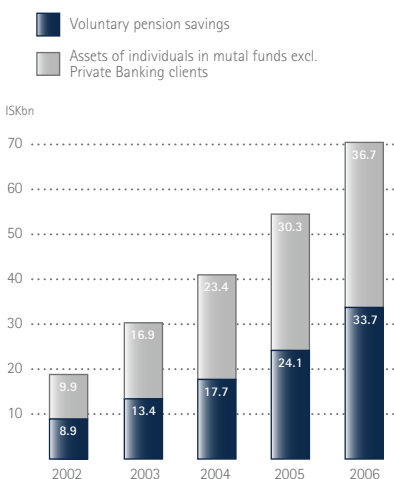
According to a telephone survey by Capacent Gallup, Landsbanki's share of the Icelandic retail banking market stood at around 30% at the end of 2006. Its share of debit card and of credit card turnover was also close to 30%. These figures confirm the bank's continued lead in the retail banking market, in line with its target of maintaining its top position domestically. The bank is also the front-runner in market share of retail loans and deposits.

Branch lending amounted to ISK 294 billion at the end of 2006, up 25% year-on-year. Corporate lending growth was highest, at 39%, while growth in personal loans was only 22%. This contrasts markedly with 2005, which saw personal loans soar by

Deposit Development - Domestic Branches



Assets of Individuals in Mutual Funds and Voluntary Pension Savings



80% as a result of the Icelandic banks' entry into the housing mortgage market. In 2006, on the other hand, personal lending was scaled down considerably, collateral requirements raised and maximum mortgage loan-to-value ratios lowered.

At year-end, branch deposits totalled ISK 194 billion, up 4% over 2005. This very modest increase reflects a clear shift away from traditional deposits towards other forms of savings in Iceland. Securities holdings, particularly in mutual funds, account for an ever-larger portion of retail savings of individuals, and were up 19% year-on-year from ISK 30.3 billion to ISK 35.9 billion. The number of customers enrolled in Landsbanki's Private Pension Savings Plan also rose substantially. Assets held by individuals in the Plan increased by 39% from ISK 24.1 billion to ISK 33.7 billion. Deposits held by individuals were up 12% in 2006, bringing Landsbanki's share of this market segment to 29%. The number of customers in the bank's loyalty programme grew by 11% to about 98,000.

Integration of financial services

The range of services offered by commercial banks has expanded rapidly over the past few years. Landsbanki's policy has been to build long-term customer relationships, always aiming to provide professional, responsible advice along with a full suite of conventional banking services. In 2006 the bank started to sell non-life insurance, enabling customers to manage all of their traditional household finances in one place. The bank's personal retail offering now include regular savings, pension savings, loans, debit and credit cards, payment services, investment in equity and bond funds and comprehensive personal and non-life insurance.

At year-end, about 13% of Landsbanki's customers had purchased insurance policies through the bank's intermediation, with the number of active policies rising by nearly 90% year-on-year.

Changes in customer service channels

Landsbanki's strong position in the retail market is due not least to its extensive branch network, excellent electronic distribution channels and solid customer relationships. In the course of the past few years, customer visits to branches have fallen steadily. Last year, 53% of Landsbanki customers said they visited their branch only once a month or less often, compared with 16% in 1999. Over the same period, the percentage of customers who reported visiting their branch more than four times a month fell from 31% to 7%.

Obviously, the other side of the coin is the increasing use of Internet and telephone communications. Landsbanki has taken an active part in shaping such changes, e.g. through targeted modifications to its service channels and new focus areas

in customer relations. At year-end 2006, 78% of Icelandic banking customers had subscribed to an online banking service, an increase of nine percentage points on the preceding year. Use of the Landsbanki's telephone service centre grew by a similar amount, with queries up 8%. The year also saw large-scale improvements to the telephone service centre and staff training. The name was changed to Advice and Service Centre to reflect its broadened role, which is to provide a full range of customer advice by phone, the Internet and e-mail. The percentage of calls answered by the centre averaged 89% in 2006, with the 2007 target set at 95%. Work is underway to update the bank's telephone system to further improve its telephone services in 2007.

Focused sales and service management

Landsbanki differentiates itself through the strength of its long-term customer relationships. To this end it builds on proactive employee initiative in customer relations and strives always to provide the best advice available. By centralising the sales structure of its branch network, the bank can promote its products more effectively and offer a fuller array of services. As part of its enhanced service offering, Landsbanki invited 20,000 of its existing customers a comprehensive financial health check in 2006. Furthermore, each Landsbanki branch now employs a Customer Service Manager responsible for day-to-day service quality. These specialised employees work under the central direction of the bank's Customer Management unit, using detailed performance data to improve service levels within their respective branches.

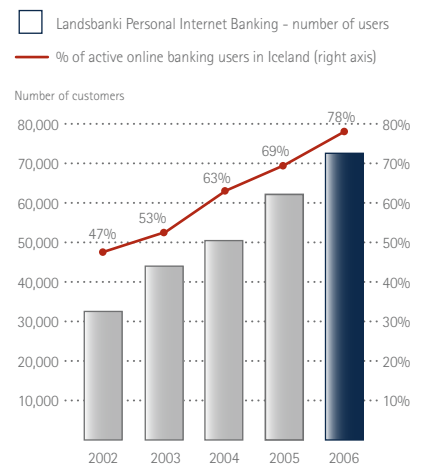
These restructuring efforts are already bearing fruit. At the end of the year, Landsbanki scored highest among Iceland's high street banks in customer satisfaction surveys. Only savings bank customers expressed more satisfaction with their banking services. This is a significant achievement considering that in 2002-2004 Landsbanki trailed behind all of its major competitors in similar polls.

Iceland's most trusted commercial bank

Surveys continue to confirm a high level of trust in Landsbanki both amongst its customers and the general public. In a survey by Capacent Gallup at year-end, 97% of the bank's customers described it as reliable or very reliable. Even in early 2006, against a backdrop of heavy international criticism of the Icelandic banks, customer confidence in Landsbanki hardly wavered.

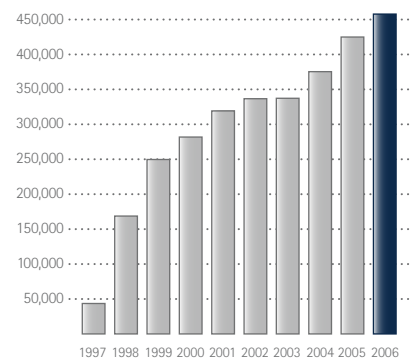
Landsbanki is a leading sponsor of cultural, sport and humanitarian activities in Iceland. Its support in this area, especially of culture and sports, benefits customers directly through discount ticket prices to a variety of interesting and exciting events. The bank is the leading sponsor of Icelandic football, a leading sponsor of art and

Customers with Access to Internet Banking



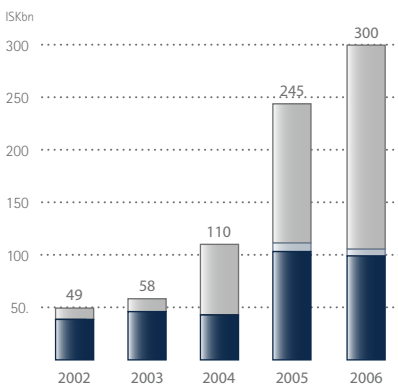
Source: IMG Gallup, May 2006 and Landsbanki

Call Centre Transactions



Individual Lending - Group Level

■ Housing loans ■ Agricultural Loan Fund
■ Other individual lending



culture and a generous donator to various humanitarian causes. This high level of social commitment and focus on corporate social responsibility are among the factors contributing to Landsbanki's continued positive image among Icelanders.

Retail markets outside Iceland

Landsbanki's launch of Icesave in the UK, the acquisition of Cheshire Guernsey Ltd, and Heritable Bank's deposit activities are the bank's first ventures into retail banking outside Iceland. So far the focus has been exclusively on raising deposits and this will continue to be the main emphasis of retail operations outside Iceland.

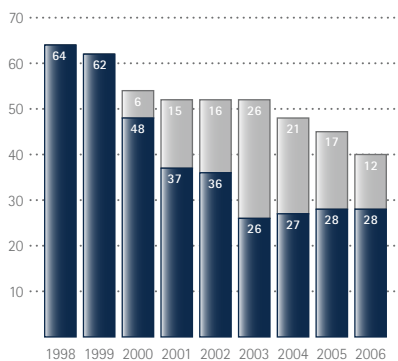
The Icesave programme was exceedingly well received immediately after launch on the UK market. Close to 35,000 accounts were opened in less than three months and total deposits totalled GBP 781 million at year-end. Landsbanki decided to market its UK online deposit product under a distinct brand name linked to its origins. This, along with very competitive interest rates and a philosophy of transparency and simplicity, helped Icesave to become instantly recognisable in the market. Favourable press coverage indicates that the market was ripe for such an approach.

Customer deposits at Heritable Bank rose 84% in 2006, totalling GBP 714 million at year-end. The bank also witnessed robust growth in mortgage lending and other areas of operation, including specialty finance. Heritable's client base was almost 20,000 at year-end, double the number in 2005.

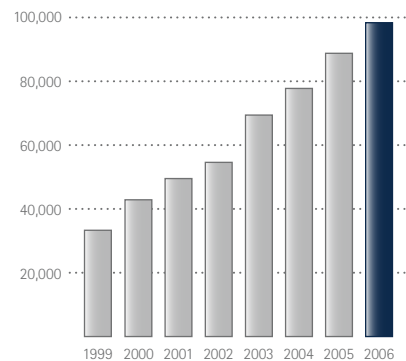
Landsbanki's strategy is to build on its experience of working in a very technologically advanced market in Iceland. Therefore, the products on offer will predominantly be Internet-based and characterised by simplicity, transparency and user-friendliness.

Branch Network in Domestic Market

■ Branches
■ Sub-branches



Number of Individuals in Landsbanki's Loyalty Programmes

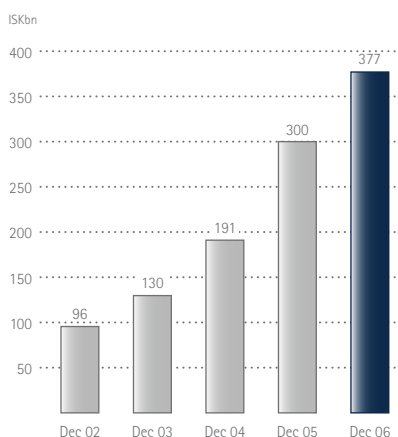


Asset Management and Private Banking

High growth was a defining feature of the year's asset management and private banking activities in the Landsbanki Group. Organic growth was driven by new mandates and investment funds, and external growth by the acquisition of asset management and private banking operations in late 2005. A second defining trend of 2006 was the steadily increasing range of investment products and services offered. Thirdly, the year was notable for strong performance in almost all asset classes.

Through the years, the bank has emphasised professional know-how and service excellence in its private banking and asset management. This has underpinned and delivered good growth rates and value creation year after year. In 2006 major steps were taken to expand the bank's private banking and asset management reach and service level, with an emphasis on international customers.

Assets Under Discretionary Management



Strong growth on all fronts

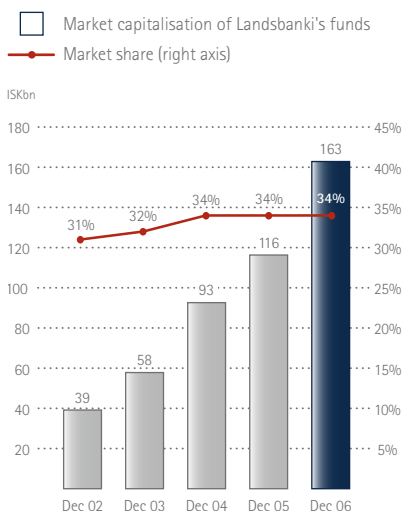
The year was one of robust growth in both asset management and private banking. At year-end, Landsbanki Asset Management was the Icelandic market leader in the management of mutual and investment funds, with a 34% market share. The bank expanded its operations geographically as well as broadening the range of its investment products and services.

Total assets under management, including assets of private banking customers and other third-party private portfolios, amounted to ISK 377 billion at year-end, up 26% from ISK 300 billion in the preceding year. Assets under management in the group's mutual and investment funds amounted to ISK 163 billion at year-end, up 40% from ISK 116 billion a year earlier. Assets managed under private banking agreements increased by 58%.

Operations

In Iceland, the focus is on both asset management and private banking. Asset management covers mutual funds (UCITS) and investment funds as well as the direct supervision of client portfolios. In the past few years, Landsbanki Asset Management has supplemented its Icelandic market expertise by diversifying successfully into international investments, in particular alternative investments. In this category, Landsbanki in Reykjavik managed two mezzanine funds, a private

Landsbanki's Market Share of Domestic Funds



equity fund of funds and a real estate fund at year-end 2006, with more new products in the pipeline.

Landsbanki Luxembourg SA focuses on private banking and wealth management services. Its target groups are primarily Icelandic, Scandinavian and UK high net worth individuals and their affiliated companies, as well as expatriates living throughout Europe, particularly in Spain and France. In addition to asset management, the Luxembourg subsidiary is active in Lombard loans and equity release lending, both as part of its private banking operations. In September, Landsbanki Luxembourg opened a representative office in Marbella in southern Spain in order to serve the growing number of customers located in southern Europe. Landsbanki has also obtained licences to operate in both France and Portugal.

In the closing months of 2005, the bank acquired two European securities firms, Kepler Equities, with offices in major European financial centres, and Merrion Capital in Dublin. The impact of these acquisitions on the bank's asset management and private banking proved considerable in 2006. Kepler's asset management business in Frankfurt currently manages three European and German equity funds. Merrion Capital is highly active in private banking and investment fund management. The company had two international equity investment funds under management at year-end, and has been active in setting up and financing various specialised investment funds, notably in real estate, both in Ireland and elsewhere.

Product development

Continuous product and service development was a key focus of the group's asset management and private banking operations in 2006, playing a large role in the growth of assets under management. The group developed and began offering 11 new investment funds, thereby increasing the number of its funds by nearly 50%. Each new fund has added to the breadth of the group's product offering and attracted additional investment from both existing and new clients.

Excellent returns

The performance of the bank's investment products was excellent in 2006, whether measured in terms of total return or by comparison with peers or benchmarks. Of the 26 mutual and investment funds managed by the group, 25 outperformed their benchmarks.

The year was especially profitable for investors in Landsbanki's mutual funds. Three funds managed by Landsbanki Asset Management in Reykjavik were the top performers in their class, and the bank's funds ranked among the top three in six classes of the seven where the bank competes, or 87%.

Landsbanki's Funds

- Best fund in group according to sjodiris
- Second-best fund in group according to sjodiris
- Third-best fund in group according to sjodiris

Funds pre 2005

Funds launched in 2005

Funds launched in 2006

Domestic Bond Funds

- Fixed Income 1
- Fixed Income 2
- Fixed Income 3
- Fixed Income 4
- Short Term Fund
- Money Market Fund ISK
- Government Saving Fund
- Government Bond Fund
- Corporate Bond Fund

International Equity Funds

- Landsbanki Global Equity
- Landsbanki Global Opportunity
- Kepler European Opportunity
- Kepler European Small/Midcap
- Kepler German Equities
- Merrion High Yield Fund
- Merrion Active Fund
- Merrion Discovery Fund
- Landsbanki LN 40

International Money Market Funds

- Money Market Fund GBP
- Money Market Fund USD
- Money Market Fund EUR
- Landsbanki Diversified Yield Fund

Alternative Funds

- Landsbanki Mezzanine Fund 1
- Landsbanki Mezzanine Fund 2
- Landsbanki Aquila Real Estate Fund
- Landsbanki Private Equity Fund
- Landsbanki Absolute Return Fund

Balanced Funds

- Savings Fund Equity/Bond
- Savings Fund Domestic/Foreign

Domestic Equity Funds


- Selected Equities Fund
- ICEX Index Fund



My name is Neckel

The local form of the French Nicolas,
originating in the Greek "Nike."
Neckel means "victory."





In Luxembourg, our name is Landsbanki

Shareholder Information

Landsbanki aims to meet the highest standards in its investor relations. The bank is committed to providing stakeholders with informative, accurate and timely news and information about Landsbanki, its subsidiaries, partners and the banking industry.

Landsbanki is continuously improving the quality, transparency and consistency of its information disclosure. Investors can watch annual and quarterly results presentations broadcast live over the Internet, in addition to having access to archived financial reporting, podcasts and RSS feeds available at www.landsbanki.com/ir.

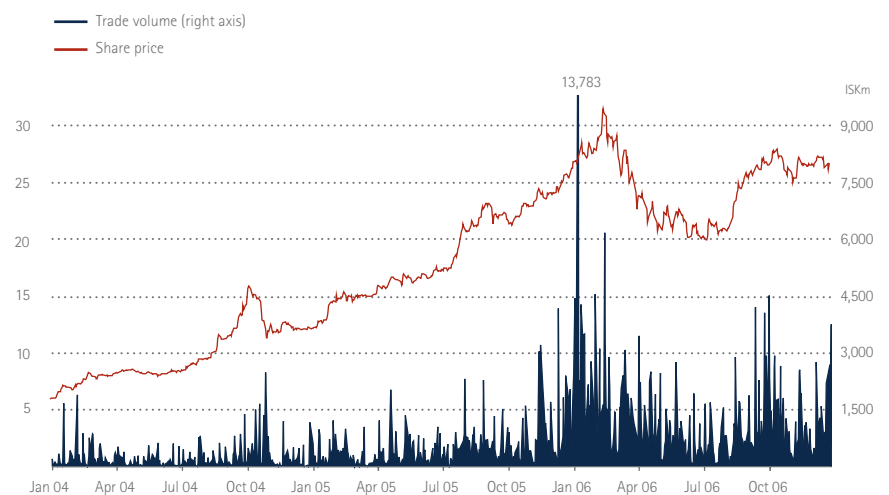
Market capitalisation

At year-end 2006 Landsbanki was the third largest company listed on the Iceland Stock Exchange (ICEX), with a market capitalisation of ISK 292.0 billion. The market cap was up 4.7% year-on-year, giving a total annual return of 5.9% adjusted for dividends. In the last three years, the average total annual return on Landsbanki's shares has been 68%.

Good share liquidity

With average daily trading of 50 million shares, Landsbanki is one of the most liquid and actively traded stocks on the ICEX. In 2006, total trading volume in Landsbanki

Landsbanki's Share Price and Trade Volume



Source: Mentis hf.

stock was 12,547 million shares, equivalent to ISK 318.8 billion, through 22,896 transactions. This represents more than double the 2005 volume of ISK 128.5 billion through 10,175 transactions.

Landsbanki was one of four companies on the ICEX with an annual turnover velocity of over 100%, which is equivalent to all of the bank's issued shares changing hands in the year. This trading activity is particularly strong, given that over 40% of Landsbanki's shares are held by one core investor. High turnover velocity in the bank's shares indicates good liquidity and positive price formation.

Dividend policy

Landsbanki has maintained a prudent dividend policy, retaining a high proportion of profits to support its capital ratio and growth strategy. Based on recommendations by the Board of Directors, this policy takes into account performance results, the bank's capital position and its growth prospects.

The Annual General Meeting of 2006 approved a dividend equivalent to 30% of nominal value, or 13% of profits, totalling ISK 3,306 million. The following table shows Landsbanki's dividends for 2001-2005. Over this period, the average dividend payout ratio was 24.8%.

Dividend History

	2005	2004	2003	2002	2001
Dividend per share, ISK	0.3	0.2	0.1	0.1	0.1
Dividend yield, %	1.2	1.7	1.3	2.7	2.9
Capital gains, %	109	52	118	8	(2)
Payout ratio, %	13	13	25	34	39
Ex-dividend date	4 Feb 06	5 Feb 05	5 Feb 04	7 Feb 03	21 Mar 02
Record date	7 Mar 06	28 Feb 05	28 Feb 04	5 Mar 03	31 Mar 02
Payment date	7 Mar 06	9 Mar 05	9 Mar 04	7 Mar 03	15 Apr 02

Supportive shareholder structure

Landsbanki is one of the most widely held public companies in Iceland, with a total of 28,735 shareholders at year-end 2006. The 30 largest shareholders are predominantly institutional investors, including investment companies, insurance companies, pension funds and mutual funds.

Major shareholders

Samson Eignarhaldsfélag ehf., a financial holding company regulated by the Icelandic Financial Supervisory Authority, held 41.37% of Landsbanki's share capital at year-end 2006. Since acquiring a majority stake in 2003, Samson has participated fully in all of Landsbanki's capital increases. No direct business relationships, such as lending, exist between Landsbanki and Samson.

In its capacity as a nominee for other investors, Landsbanki Luxembourg SA was registered with 3.04% of all issued Landsbanki shares as at 31 December 2006.

At year-end 2006, Landsbanki's treasury shares accounted for 4% of its total share capital.

Cross-shareholdings

Landsbanki has no cross-shareholdings with any other company exceeding 1% of reciprocal capital or voting rights. Such holdings are insignificant and part of actively managing the bank's trading portfolio positions.

Board of Directors

At the Annual General Meeting in February 2006, the following were elected to the Board of Directors: Björgólfur Guðmundsson (Chairman), Kjartan Gunnarsson (Vice-Chairman), Guðbjörg M. Matthíasdóttir, Þorgeir Baldursson and Þór Kristjánsson. Þór Kristjánsson replaced Andri Sveinsson as a Director. Þorgeir Baldursson, Guðbjörg M. Matthíasdóttir and Kjartan Gunnarsson are considered independent Directors as provided for in guidelines on good corporate governance.

Distribution of Landsbanki's Shares

Shareholder	Shares registered	
	Number	%
1	4,559,048,058	41.4%
2-30	4,328,875,222	39.3%
31-28,735	2,132,754,523	19.3%
Total	11,020,677,803	100.0%

Financial Calendar for 2007

1st quarter	4 May 2007
2nd quarter	2 August 2007
3rd quarter	1 November 2007
4th quarter	1 February 2008
2007 AGM	TBA in 2008
2007 annual report	TBA in 2008

SOURCES OF INVESTOR INFORMATION

Annual Report 2006

The annual report is a comprehensive publication on Landsbanki's operations, giving a detailed review of the bank's performance in 2006. The report is available in English, with the full-year consolidated accounts available in Icelandic as well.

Financial reports

Detailed quarterly financial reporting and analysis, including comments on the progress of Landsbanki's business, are available in English and Icelandic.

Results presentations

Every financial quarter, senior management presents Landsbanki's results to analysts and investors. The presentations are broadcast live over the Internet and are downloadable.

Webcasts and dial-in facilities

Key presentations, including interim results, full-year results and annual general meetings, are broadcast live over the Internet and can also be accessed via conference call. Our Investor Relations website carries the most recent webcast and transcripts, which are downloadable, as well as an archive of previous webcasts.

RSS and podcasts

RSS updates and podcasts in English are available on the Investor Relations website. Users can select their topics of interest in the subscribe section.

Website

The Investor Relations website at www.landsbanki.com/IR provides extensive information on Landsbanki for analysts and investors. Available in Icelandic and English, the site contains archived financial information, including ICEX announcements, corporate information and equity information, including share price data, shareholder lists, dividend policy and the financial calendar.

OMX Nordic Exchange in Iceland

A listed company on the Iceland Stock Exchange since 1998, Landsbanki's complete regulatory announcements can be found at www.news.icex.is.

How to order reports

All financial reports, including annual reports, full-year financial results and quarterly interim accounts, are available online as PDF and Excel files in the Financial Reports section. Printed copies can be ordered from the same website.

Corporate Governance

Landsbanki is committed to high standards of corporate governance and has maintained its position at the forefront of best practice in this field among Icelandic businesses. At the initiative of its Board of Directors, the bank was one of the first Icelandic companies to adopt the Guidelines on Corporate Governance issued in 2004 by the Iceland Stock Exchange, the Confederation of Icelandic Employers and the Icelandic Chamber of Commerce. Landsbanki has also adopted its own governance rules, meeting international best practice standards. The bank regularly reviews its internal rules and organisational structure to ensure compliance with legislation and regulations in force at any given time.

Good corporate governance within Landsbanki is reflected, for instance, in solid development of operations on a group-wide basis, good access to information, sound decision-making and effective control of all risk factors. The aim is to ensure healthy and strong business operations, as well as proper disclosure to shareholders, market participants and regulators in the jurisdictions in which Landsbanki operates. In addition, a rigorous framework is in place to prevent conflicts of interest in decision-making and to ensure that the bank's activities meet the varying legal requirements within the jurisdictions in which it does business.

The corporate governance principles that have been adopted by Landsbanki's Board are in general also applied by the boards of all the bank's subsidiaries.

Shareholders' meetings

Shareholders' meetings are the supreme authority in the bank's affairs. All shareholders have equal rights to speak, make motions and vote at shareholders' meetings. In addition, the meetings are open to members of the media. Resolutions at shareholders' meetings are adopted by majority vote unless otherwise stipulated by the bank's Articles of Association or statutory law, with each ISK 1 share in the bank carrying one vote. However, the unanimous approval of all shareholders is required in certain cases. Extraordinary shareholders' meetings may be held at the discretion of the Board further to a resolution passed at a Board meeting.

Annual General Meetings

Annual General Meetings (AGMs) are held before the end of April each year. AGMs are advertised on the radio and in newspapers or by other verifiable means with at least one week's notice and at most four weeks' notice. The notice shall specify the business of the meeting, and the final agenda must be available to shareholders at least one week prior to the AGM. Items not specified on the agenda may not be decided upon at an AGM or regular shareholders' meeting except with the consent of all shareholders in attendance.

Articles of Association

Landsbanki's Articles of Association regulate the bank's internal affairs and management. The Articles contain provisions on the name of the company, its share capital, shareholders' meetings, elections of directors, the Board of Directors' activities and the responsibilities of the board and the CEOs.

Landsbanki's Board of Directors

Landsbanki's Board of Directors has supreme authority in the bank's affairs between shareholders' meetings and is responsible for its activities. The Board is composed of five directors and five alternate directors elected at each AGM for a term of one year at a time. Directors are elected in accordance with the provisions on directors' independence in the Guidelines on Corporate Governance. These provisions state that the majority of the directors should preferably be independent of the company and at least two of the directors should be independent of major shareholders. The Board assesses the independence of its directors, and presents the results of this assessment in the bank's Annual Report. All persons elected to the Board must possess the necessary qualifications, have a good grasp of current laws and regulations applying to financial enterprises and make well-informed and considered decisions with due regard for shareholders' interests. Icelandic law and Landsbanki's Articles stipulate that the Board must have written operating procedures. Accordingly, the Board functions under clear guidelines set out in the Rules and Procedures, which have been submitted to the Financial Supervisory Authority, in keeping with the Act on Financial Undertakings. The Rules and Procedures contain provisions to the effect that the Board shall evaluate its work, working procedures and other aspects of its administrative tasks annually, assessing where improvements could be made.

Board meetings

In accordance with the Board's Rules and Procedures, regular Board meetings are scheduled for one year at a time. At its first meeting following the election of di-

rectors at the AGM, the Board elects a Chairman and Vice-Chairman from among its members. Meetings of the Board are held monthly, on average. However, extraordinary meetings may be convened with three days' notice.

Role of the Board of Directors

The Chairman of the Board presides over its meetings and serves as a spokesperson for the Board of the Bank. The Chairman's responsibilities include submitting the Board's annual work schedule, which states the dates of meetings and the principal items on each meeting's agenda.

The Board is ultimately responsible for the bank's activities, including compliance with laws and rules. The Act on Public Limited Companies and the Act on Financial Undertakings stipulate the main responsibilities of the Board. Its Rules and Procedures further outline the Board's activities, which include hiring the CEOs, who are responsible for the bank's day-to-day operations. The Board also directly hires Landsbanki's Director of Internal Audit and confirms the appointment of the bank's compliance officer.

The Board's Rules and Procedures contain detailed provisions on measures to take if a director is disqualified from discussion and decision making on an issue where there may be a conflict of interest. Conflicts of interest may arise in relation to the director's own business or companies in which he or she has a qualifying holding, is a board member, holds a position of responsibility or in other respects has substantial interests at stake. The same applies in matters involving parties personally or financially connected to directors, and involving directors' competitors or related parties.

The above provisions are designed to prevent directors' interests from unduly influencing their decisions and to ensure their full impartiality at all times. A director who is disqualified for the aforesaid reasons must recuse himself from the matter in question and is barred from access to information relating to it.

The CEOs are responsible for disclosure of information to the Board. The Rules and Procedures contain detailed provisions on such disclosure. Information submitted to the Board includes regular internal financial statements as well as audited or reviewed quarterly consolidated financial statements of the group. The Board also receives information on the bank's 100 largest clients and on defaults and their analysis. Furthermore, details on all decisions regarding directors' business transactions and their terms are submitted to the Board in addition to a breakdown, reviewed by the Director of Internal Audit, of credit granted to connected parties. The Director of Internal Audit is also entrusted with audit functions regarding

credit granted to connected parties and with comparing similar transactions of other clients. Connected parties include directors, CEOs, managing directors, the Director of Internal Audit and the Compliance Officer, together with close family members. Comparable parties in the bank's subsidiaries and related companies also fall under the classification of connected parties, as do shareholders with a holding of 5% or more in the bank, or who are listed among the bank's ten largest shareholders, as further specified in the Rules and Procedures.

Board's working committees

The Board has appointed two working committees, the Audit Committee and the Remuneration Committee, to discuss and prepare specific issues. Appointments of Directors to these committees are made in full conformity with the definition of Directors' independence in the Guidelines on Corporate Governance.

Audit Committee

The Audit Committee consists of three directors, all of whom are independent of Landsbanki as recommended by the Guidelines. The managing director of the Legal Division, the managing director of Finance and Operations and the Director of Internal Audit work with the Audit Committee. The committee prepares the Board's discussion of the bank's quarterly and annual financial statements.

Remuneration Committee

Three directors sit on the Remuneration Committee, all of whom are independent of Landsbanki in accordance with the Guidelines. The Remuneration Committee negotiates with the CEOs on their salaries and other terms of employment. Each year it proposes a remuneration policy for the bank, which is then submitted to the AGM for approval.

CEOs

Landsbanki has two Chief Executive Officers, who are responsible for the bank's day-to-day activities and serve as its spokesmen on business and administrative issues. They are empowered to make decisions in all of the bank's affairs not entrusted to others by legislation, the bank's Articles or decisions of the Board.

Managing directors

The bank's managing directors are ten in number and are directly responsible to the CEOs for day-to-day activities of their respective divisions. Fortnightly meetings are held between the managing directors and the CEOs.

Internal committees

The bank has four internal committees at Group level: the Credit Committee, the Asset and Liability Committee (ALCO), the Asset Management Committee and the Operations Committee, each of which operates within a separate division. These committees serve as a forum for important decision-making and group-wide control and monitoring, e.g. concerning credit control, market risk and operating efficiency.

The Credit Committee controls and harmonises lending procedures throughout the group by setting detailed lending rules based on a framework instituted by the Board. This structure ensures a good overview across the entire spectrum of activities. The Credit Committee also decides the total amount of credit to be extended by the bank and approves new credit products to be launched.

The functions of the Asset and Liability Committee (ALCO) include monitoring Landsbanki's investment banking activities and risks in its operations, in addition to setting restrictions for the purpose of risk management. ALCO also discusses the bank's funding and approves new products to be launched for Securities clients.

The role of the Asset Management Committee is to monitor the activities of Landsbanki's Asset Management division and oversee important aspects of that area of business. The Committee examines Asset Management's monthly report on, e.g., assets under management, revenue performance and the positions of Landsbanki's mutual funds. Key innovations in Asset Management activities are submitted to the Asset Management Committee for approval.

The Operations Committee co-ordinates the Bank's operations and directs efficiency measures, technical development, retail banking development and property issues. It also makes decisions on exposure limits and quality procedures in retail banking, interest rate changes and pricing, new products and services offered by Landsbanki branches.

External and internal audit

Each AMG elects an independent chartered accountant or auditing firm to audit the bank's annual financial statements and review the interim financial statements in accordance with laws and International Standards on Auditing.

Landsbanki's Group Internal Audit is an independent, objective assurance and consulting unit designed to add value and improve the bank's operations. It helps Landsbanki accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Director of Internal Audit is appointed by the Board of Directors and is responsible to the Board under a Statement of Duties, in accordance with the Act on Financial Undertakings and Landsbanki's Articles. The Director of Internal Audit administers internal audit activities within Landsbanki in accordance with accepted internal audit guidelines and principles. Responsibilities include providing the Board with consulting services on issues relating to audits, internal controls, risk management and risk exposures, and making recommendations to the Board and the bank's CEOs on measures to be taken or rules to be set in that context. Internal Audit performs special audits and investigations by request or in cooperation with the Board and the CEOs, and is responsible for internal auditing of sections of the bank's headquarters and branches as well as its foreign and domestic subsidiaries.

Internal Audit evaluates the adequacy and effectiveness of controls covering the organisation's governance, operations and information systems. This evaluation includes the reliability and integrity of financial and operational information; the effectiveness and efficiency of operations; safeguarding of assets; and compliance with laws, regulations and agreements.

Internal Audit's activity plans are submitted to the Board Audit Committee for approval.

Corporate Social Responsibility

Landsbanki's commitment to corporate social responsibility (CSR) is embodied in its strategic objectives as well as its corporate culture and values. Together with providing shareholders with a good return on their investment and customers with excellent financial services, meeting the highest standards of corporate governance and citizenship is a key objective of Landsbanki's business strategy. The bank's CSR Policy is therefore designed to ensure that the company's value creation also benefits the communities where it operates.

In keeping with these aims, Landsbanki has led the way in contributing to the quality of life in Iceland. Its funding and sponsorship activities have grown in parallel to its own expansion. The bank promotes sustainable development by ensuring that its own operations are environmentally, socially and ethically responsible. Landsbanki does not offer products or services, or participate in projects, that may involve a risk of environmental damage, unethical conduct, violation of basic human and social rights or corruption.

As Landsbanki continues to expand its international presence, it becomes accountable to an ever-wider group of stakeholders. This presents an opportunity to broaden the reach of its CSR policy, which is focused on the following key areas:

- a prudent environmental and resource policy and active participation in international CSR co-operation;
- a strong ethical investment policy;
- effective internal CSR framework;
- tax contributions and munificent community sponsorship;
- clear corporate governance procedures.

Globalisation and environmental policy

International companies have a duty to respond effectively to important social, ethical and ecological concerns. These include challenges such as global climate change, poverty, people trafficking, organised crime and human rights violations.

Landsbanki is a member of the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative. Launched in 2000 by former UN Secretary General Kofi Annan, Global Compact brings business together with UN agencies, organised labour, civil society and governments to advance universal principles in the areas of human rights, labour standards, the environment and

anti-corruption. Landsbanki has also declared its support for the OECD Guidelines for Multinational Enterprises and was one of the initial signatories to the International Declaration of Financial Institutions (UNEP-FI) on Environment and Sustainable Development in 1996.

In the coming years, environmental protection will become an increasingly important mission of the bank. Landsbanki has drafted its own Environmental Policy, aimed at improving the bank's environmental performance. The Board of Directors has placed increased emphasis on investing in enterprises and projects encouraging sustainable use of natural resources. The bank intends to contribute further to the development of sustainable energy and resource sectors, building on Icelandic expertise in this field. Iceland is the world leader in the renewable energy sector, obtaining 72% of its primary energy consumption from renewable sources, compared with a world average of about 13%. Through its investment strategy, Landsbanki hopes to support new ideas, new technology and new solutions to meet the increasing demand for economic development in harmony with good environmental stewardship.

Ethical investment policy

Landsbanki's growing exposure to international markets makes it increasingly crucial to have strong ethical investment guidelines in place. Traditionally, the bank has invested primarily in its home economy in Iceland, where the need for ethically based investment restrictions has been somewhat mitigated by a high degree of social consensus and legal constraints as well as in-depth knowledge of a circumscribed market. Having expanded into the global marketplace, Landsbanki now continuously reviews the set of principles, procedures and standards underpinning its Ethical Investment Policy.

Before concluding any investment or loan to a customer, the bank applies a rigorous screening process, which includes a set of ethical standards. It pays close attention to any activities that may have an impact on the environment and sustainable development, such as maritime resource depletion and fishing of stocks that may be controversial from an environmental and ethical perspective. In 2006 the bank added stricter provisions to its loan agreements, designed to prevent its funding from being used for purposes contravening the above aims.

Internal CSR framework

Within Landsbanki, a Corporate Social Responsibility Committee operates under the leadership of senior management. The Committee oversees the bank's extensive financial donations in Iceland and monitors how well it is meeting the

expectations of various interest groups in this area. CSR issues are thoroughly considered across all of Landsbanki's operations and regularly discussed by the bank's major committees, such as the Credit Committee and the Asset and Liability Committee.

Another key objective of Landsbanki's CSR policy is to attract personnel with a mindset of social responsibility that is compatible with the bank's corporate culture. In addition to formal procedures and guidelines, Landsbanki encourages employees to take an active part in social welfare activities.

Tax contributions and sponsorship

The taxes paid each year by Landsbanki have grown substantially, as have taxes paid by its employees, in step with the increased scale and profitability of operations both domestically and internationally. Increased tax revenue generated by the bank's growth helps to boost public coffers, thereby directly benefiting society at large.

Sponsorship is a key aspect of Landsbanki's community programme. In Iceland, the bank has been a forerunner in financial donations to humanitarian, cultural and educational initiatives, as well as sports and youth activities. During 2006, Landsbanki has provided more support of this kind than any company ever in Icelandic corporate history.

Landsbanki's art collection is one of the largest owned by a private company in Iceland. The bank has made it a clear priority to maintain this fine collection in prime condition and make it accessible to the general public through the branch network, exhibitions and an Internet web gallery.

Examples of organisations benefiting from Landsbanki's extensive sponsorship of the arts include the Reykjavík Arts Festival, the Icelandic Dance Company, the National Theatre, the Iceland Symphony Orchestra and Reykjavík Cultural Night. The bank has also provided strong support for various grassroots activities, such as the innovative publisher Nýhil and the progressive visual arts workshop Klink & Bank.

In 2006 the bank launched an easy-to-use online donation facility, called Give Online. This service enables both individuals and corporate clients to support charitable causes through their Internet banking accounts. Customers can either set up monthly contributions or make a one-off donation to over 70 listed charities.

In addition to providing funding and support in Iceland, Landsbanki's foreign subsidiaries and branches engage in a range of community initiatives in their various locations.

Corporate governance

Landsbanki is committed to high standards of corporate governance and has maintained its position at the forefront of best practice in this field among Icelandic businesses. Good corporate governance is reflected in, e.g., solid group-wide business development, good information access, sound decision-making and effective control of all risk factors, as further discussed in the Corporate Governance section.

Iceland's Competitiveness in Selected Social and Environmental Areas

The following results from the IMD World Competitiveness Yearbook 2006 show Iceland's ranking among 53 industrialised and developing countries and eight regional economies. The ratings scale is from zero to ten.

Categories	Rate	Ranking
Pollution problems do not affect the economy seriously	9.27	1
Harassment does not disturb the work environment	9.12	1
Bribing and corruption do not exist in the economy	8.73	4
Discrimination does not pose a handicap in society	8.28	1
Need for social reforms generally understood in society	7.91	1
Environmental laws do not hinder the competitiveness of business	7.77	2
Bureaucracy does not hinder business activity	6.74	1
Tax evasion does not hamper business activity	6.64	5

Source: IMD International, World Competitiveness Yearbook 2006



My name is Antje

The Dutch variant of Anne,
derived from Channah, Hebrew for Hannah.
Antje means "grace."





In Holland, our name is Landsbanki

Landsbanki's 120th Anniversary

Landsbanki is one of Iceland's oldest and best established companies. Founded in 1886, the bank celebrated its 120th anniversary in 2006. Its formation was an important step along Iceland's path towards independence at the time, and was led by visionaries who realised that a domestic bank was essential to stimulate economic and social development in the country. From its inception, Landsbanki has been an important source of support to both the general public and business in Iceland, and has left a deep footprint in the country's economic and cultural history.

To celebrate its 120 years, the bank organised 120 different events to be held throughout the entire anniversary year – from July 2006 to the end of June 2007 – both in Iceland and overseas. All employees of the Landsbanki Group were invited to give input and ideas for the coming events. The response exceeded all expectations. Dozens of highly inspired and original ideas were submitted, many of which have been put into practice or will be implemented in the first half of 2007.

The anniversary celebrations were launched in style in Iceland on 1 July. That day Landsbanki invited the entire nation to join the celebrations at 14 different locations around the country. It was an occasion to be remembered, with over three hundred

Landsbanki marked its 120th anniversary on 1 July 2006 with a wide variety of celebrations throughout Iceland. Anniversary events held in 14 bank branches attracted large crowds. Thousands of Reykjavík residents headed to the city centre where various forms of entertainment were on offer.



artists entertaining the tens of thousands of guests who joined in the festivities. The ensuing celebrations have been a resounding success, with one event following another. Although it is impossible to list all of them, a few merit special mention.

A profusely illustrated chronicle of Landsbanki's 120 years of history was published on 1 July, and a special history website launched. A retrospective exhibition was opened of works from the bank's collection by Iceland's most revered painter, Jóhannes S. Kjarval, accompanied by an interactive Kjarval section on the bank's website. The story of Kjarval's life is closely entwined with that of Landsbanki. As an aspiring young artist, he was commissioned by Landsbanki to paint murals depicting the fishing industry in the bank's Reykjavík headquarters. The magnificent result still stands as a monument not only to a great artist, but also to Landsbanki's close ties with Icelandic economic history.

In the autumn months, a theatre troupe visited all Landsbanki domestic branches performing "Scenes From the Bank's Past" in words and music, which met with rounds of applause. Landsbanki and Føroya Banki, which celebrated its 100th anniversary in 2006, exchanged exhibitions of artworks from each of their collections. Landsbanki also opened a history exhibition, "Glimpses From the Past," in downtown Reykjavík. The comprehensive portrayal of the bank's twelve decades traces the development of Landsbanki and the nation from quill pens to online trading.

Half a year of celebrations is behind us, and another six months of events lie ahead. Originally held in 1986 to mark the bank's 100th anniversary, the "Lands-

*Kjartan Gunnarsson, Vice-Chairman,
and Björgólfur Guðmundsson,
Chairman of Landsbanki's Board of
Directors, discuss Kjarval's art with art
expert Aðalsteinn Ingólfsson.*





Landsbanki's 120 years of history were dramatised by a theatre troupe visiting the bank's branches.

banki Run for Youngsters" will be held again in the spring. Moreover, a special photographic journal is under preparation, using the camera lens to document the spirit, character and variety of the bank's internationalisation.

The 120th anniversary serves as a prime opportunity to pause briefly, reflect on the past and speculate about the future. It also highlights the significance of Landsbanki's heritage as a strong foundation for the bank's continued development and growth, both domestically and internationally.



"Glimpses From the Past," an exhibition retelling the bank's history, has drawn thousands of guests. The exhibition featured an interactive model of the Reykjavik fire, which destroyed the original Landsbanki building.

Landsbanki - 120 Years of History



1886–1927 A bank to serve the nation

In establishing Landsbanki Íslands in 1886, the Icelandic parliament hoped to boost monetary transactions and encourage the country's nascent industries.

The bank's operations expanded steadily and in 1899 it moved to new and imposing premises on Austurstræti, in the town centre. The following year a Mortgage Department was established, which granted loans secured by municipal real estate as well as farms. Not long afterwards, Landsbanki's first branches were opened outside of Reykjavík, in Akureyri in North Iceland in 1902 and in Ísafjörður, in the West Fjords, in 1904.

Landsbanki continued to grow, opening branches in Eskifjörður in the East Fjords and Selfoss in South Iceland in 1918. During the years of WWI and afterwards, Landsbanki's activities reflected the country's economic difficulties and plummeting prices for Icelandic exports. After 1924 business picked up again, enabling the bank to re-open in new and enlarged premises after the original bank was destroyed by fire in 1915.

The year 1927 marks a turning point in Landsbanki's history, as it became an independent public institution with three departments: a Central Bank Department, Mortgage Department and Savings Department. Landsbanki was now the National Bank of Iceland.

Landsbanki opened in 1886, on the ground floor of a stone building on what was then Baker's Hill and was later renamed Bank Street. It had three part-time employees and was open two days a week.



1927–1961 The National Bank of Iceland

Landsbanki made no small contribution to keeping the wheels of business and industry in motion after the Great Depression had reached Iceland. The economy was eventually transformed by the outbreak of WWII. Growth during the war-time years was so rapid, that turnover at Landsbanki's main branch in Reykjavik increased tenfold.

After the war, however, foreign currency was soon in such short supply that a variety of restrictions were imposed on trade and commerce. In an attempt to cope with the difficulties, the currency was devalued, but correcting the persistent current account deficit proved difficult. A severe housing shortage prompted the introduction of state funding for housing mortgages implemented through Landsbanki's Mortgage Department to help rectify the situation.

Concerned at the sluggish economic growth, the government sought ways to stimulate industry. A Fisheries Credit Department was established under Landsbanki's auspices. As a result of its lending, borrowing by the sector doubled in the following two decades. The development was reflected in a major surge in the contribution of fisheries to GDP.

In 1957 Landsbanki was split up into a central bank and a state-owned commercial bank. In 1961 the final connections between the two were severed and an independent Central Bank established.



Youngsters crowded into Landsbanki in 1954, when a special children's savings campaign for 7-12-year-olds was launched. The campaign was intended to encourage savings and thrift among youngsters.



1961–1986 Contraction and development

As the 1960s drew to a close, export prices fell sharply and Iceland once again ran into economic difficulties. A major ISK devaluation hit savings owners hard. Landsbanki, however, managed to keep the wind in its sails, boosting still further its rural services and branches in the capital area. Technology was making major inroads in banking.

At the beginning of the 1970s, the fisheries sector picked up once more following high investment in new fishing vessels and processing plants. Savings, however, were swallowed up by the insatiable inflation. Non-indexed loans soon shrank to a mere pittance. The unacceptable situation was eventually brought to an end by legislation providing for indexation of savings and loans in 1979.

The banks struggled to attract savings from Icelanders. No less urgent was the need to combat excessive and often unprofitable investment which had become endemic in times of negative real interest rates. Although inflation was far from contained, the indexation used by the banks to protect their operations managed to mitigate its damaging impact. A new króna was introduced, various technological changes transformed the banking system and new financial services appeared.

After rampant inflation had eroded the currency, a new ISK was introduced at the beginning of 1981. Youngsters examine the new ISK banknotes.



1986–2006 Banking liberalisation

In 1986, a new Act on Commercial Banks and Savings Banks granted deposit institutions increased independence from the Central Bank. They now began to set their own deposit and lending rates and service charges. Free competition arrived in the financial market practically overnight. Price levels in Iceland underwent a transformation following the collective bargaining agreements of 1990 generally referred to as a "national consensus". The entrenched inflation subsided rapidly. At last a long-sought era of stability had dawned. Business operations were altered to conform with more modern practices and electronic communications began to change the face of banking.

Privatisation of the state-owned bank began in the autumn of 1997 with the incorporation of Landsbanki Íslands hf. The first cautious steps were taken with public share offerings, following which the state sold a 45.8% holding in Landsbanki to Samson Holding ehf. at the end of 2002.

Landsbanki's profit in recent years is of a magnitude far different from that of the preceding century and today its activities extend far beyond the shores of Iceland. The bank, which formerly looked with pride on its rural branches, can now boast of establishments in fifteen countries, and over 2,200 employees. Competition between financial service providers is stronger than ever, encouraging customers to demand even better service.



A leader in European equity research, Landsbanki has been an active participant in the expansion of Icelandic financial enterprises abroad and now operates establishments both in North America and Europe. In 2006, around half of the bank's income originated from overseas operations. The photo shows employees of the Frankfurt office of Kepler Equities, a Landsbanki subsidiary.

Chief Executive Officers



Halldór J. Kristjánsson holds a law degree from the University of Iceland (1979), an LL.M. in International Law from New York University (1981) and read contractual law at Harvard Law School in 1986. He was appointed Chief Executive Director of Landsbanki in 1998. Prior to that he served as Director and later Secretary-General at the Icelandic Ministry of Industry and Commerce between 1994 and 1998, having been Alternate Executive Director at the European Bank for Reconstruction and Development (EBRD) in London from 1991 to 1994. He was formerly Director of Legal and International Affairs at the Ministry of Industry and Commerce from 1989 to 1991.

In his capacity at the Ministry, he was involved in the development of power-intensive industries in Iceland as well as serving on numerous committees and boards, including representing Iceland at the IMF. After joining Landsbanki, he has served on numerous corporate and industry boards including the European Banking Federation, the Confederation of Icelandic Industry and as chairman of the Association of Icelandic banks. He has served as chairman of the Landsbanki subsidiary Heritable Bank Ltd in London since 2000 and of Landsbanki Luxembourg SA since 2003, and as a Board Director of Lex Life & Pension SA as well as of Landsbanki's subsidiaries Teather & Greenwood Ltd, Kepler Equities SA and Merrion Capital Group Ltd since 2005 and of Landsbanki Guernsey Ltd since 2006.



Sigurjón P. Árnason has a BSc degree in mechanical engineering from the University of Iceland (1992) and an MBA in Finance from the University of Minnesota (1994). He also studied economic engineering at Technische Universität Berlin in 1994-1995. Sigurjón joined Landsbanki in April 2003 as its second CEO, having previously been Managing Director of Administration and Operations at Búnaðarbanki Íslands hf. since 1998. From 1995 to 1998, he was Senior Manager of Economics and Budgeting at Búnaðarbanki and a part-time lecturer at the University of Iceland in 1995-1997.

He is Chairman of Landsbanki's subsidiary Kepler Equities SA and of the Icelandic Banks' Negotiation Committee, and has served as a Board Director of Heritable Bank Ltd since 2003, Landsbanki Luxembourg SA since 2001, Teather & Greenwood Ltd since 2005, Merrion Capital Group Ltd since 2005, Lex Life & Pension SA since 2005, Landsbanki Guernsey Ltd since 2006, Hömlur hf. since 2003, Landsafl hf. since 2003 and Intrum Justitia AB since 2005.

Managing Directors

Atli Atlason, Managing Director of Human Resources, is a business administration graduate of the University of Iceland (1992). He was appointed Managing Director of Human Resources in May 2003. Prior to that he was personnel director at Búnaðarbanki Íslands hf. from 1999. Between 1992 and 1999 he was financial and personnel director of the Directorate of Fisheries. He represents the Minister of Education on the Board of Icelandic Student Services.



Ársæll Hafsteinsson is Managing Director of Landsbanki's Legal Division, Credit Control and Branch Support. A law graduate of the University of Iceland, he was admitted to the bar as a district court solicitor in 1992 and became a licensed securities broker in 1999. He was appointed to his current position with Landsbanki in May 2003. Joining Búnaðarbanki Íslands hf. in 1988, he was Director of that bank's legal department from 1991 and its chief legal counsel from 2000. He has served on various company boards, including those of Creditinfo Group hf., Intrum Iceland hf., Nomination Committee Intrum Justitia SA, Landsafl hf., Hömlur hf. and Fjárfestingarfélagið Grettir hf.



Brynjólfur Helgason, Managing Director of International Banking and Deputy Chief Executive, holds an MBA from INSEAD in France (1979) and a cand. oecon. degree in business administration from the University of Iceland (1977). He joined Landsbanki in 1979 and steers the Bank's international relations as well being Deputy CEO. Brynjólfur has filled a number of positions at Landsbanki. He was Managing Director of International Relations and Finance from 2002, Managing Director of Corporate Banking from 1998 and managing director responsible for various divisions from 1988. Prior to that he served as Managing Director of Marketing from that division's establishment in 1984, having been Senior Director of Corporate Banking up to that time. He sits on the boards of Heritable Bank Ltd in London, the International Chamber of Commerce in Iceland and the British-Icelandic Chamber of Commerce. His previous board memberships include Lýsing hf., the Icelandic Banks' Data Centre, the Icelandic Insurance Company hf., Líftryggingafélag Íslands hf., SP-Fjármögnun hf., Landsbanki Luxembourg SA and the French-Icelandic Chamber of Commerce.



S. Elín Sigfúsdóttir, Managing Director of Corporate Banking, is a business administration graduate from the University of Iceland (1979). She took up the position of Managing Director of Corporate Banking in May 2003. Prior to that she worked for Búnaðarbanki Íslands hf. for 24 years, rising to Managing Director of Corporate Banking after having been a Senior Director and Assistant Managing Director of the same division as well as Director of Research. She has been a board member of Landsbanki Luxembourg SA, SP-Fjármögnun hf. and Landsafl hf. since 2003. She previously served on the boards of Búnaðarbanki in 1998-2003 and Lýsing hf. in 2000-2003.





Guðmundur Guðmundsson, Managing Director of IT, holds an engineering degree from the University of Iceland (1990) and an MSc in industrial engineering from North Carolina State University (1991). He became a licensed securities broker in 2001. Before being appointed Managing Director of Landsbanki's IT division in 2003, he headed the corporate finance division of Búnaðarbanki Íslands hf. from 2001, having worked in that bank's securities division from 1996. He represents Landsbanki on the Co-operation Board of the Icelandic Banks' Data Centre, where he is also a board director, and sits on the board of the Internet security provider Auðkenni hf.



Haukur Þór Haraldsson, CFO and Managing Director of Finance and Operations, has a cand. oecon. degree in business administration from the University of Iceland (1986), supplemented by an MBA from the University of Minnesota (1991). He was appointed Managing Director and CFO in 1997, having previously headed securities trading and other departments since 1986. In addition to being a member of the Consultant Committee of the Icelandic Financial Supervisory Authority, his board memberships include the Bank Employees' Pension Fund, the Depositors and Investors' Guarantee Fund and the psychiatric nursing home Fellsendi.



Hermann Jónasson, Managing Director of Sales and Marketing, holds a law degree from the University of Iceland (1995). He was called to the bar in 1999 as a district court solicitor and licensed as a securities broker in 2002. Appointed Managing Director of Sales and Marketing at Landsbanki in 2004, he previously headed Securities and Pension Services from 2000 and served as Managing Director of the pension fund Íslenski lífeyrissjóðurinn hf. from 2003. Between 1995 and 2000 he worked as legal counsel for the Ministry of Finance, e.g. on tax and pension matters. He sits on the boards of VISA Iceland hf., Íslenski lífeyrissjóðurinn hf. and the insurance companies Vörður Íslandstrygging hf. and Líftryggingamiðstöðin hf.



Ingólfur Guðmundsson, Managing Director of Private Banking, earned a cand. merc./MBA degree from Ålborgs Universitet in Denmark in 1989 and joined Landsbanki that same year. He is also a licensed securities broker. Ingólfur became Managing Director of Private Banking in 2004, previously serving as Managing Director of the Personal Banking and Marketing division since 2003 and as Regional Manager at Landsbanki's head office from 1999 to 2003. He has been a board director of VISA Iceland hf. since 2000 and of the pension fund Íslenski lífeyrissjóðurinn since 1995, where he has been chairman since 2000. Since 1999 he has represented the Bankers' and Securities Dealers' Association of Iceland in the Reykjavík Downtown Development Society.

Stefán H. Stefánsson, Managing Director of Asset Management, holds a cand. oecon. degree in business administration from the University of Iceland (1995) and an MSc in International Securities, Investment and Banking (1996) from the University of Reading. Joining Landsbanki in 1996, he was appointed Managing Director of Asset Management in April 2003. Prior to that he was Managing Director of Development from 2001, having headed the Financial Advisory section from 1998 to 2001. He has been a Board Director of Landsvaki hf. since 2003 and was a director of the pension fund Íslenski Lífeyrissjóðurinn hf. from 2001 to 2006. In addition to various other board memberships for the Bank, he was chairman of Landsbanki Luxembourg from 2003 to 2005. Other significant roles include chairman of the Icelandic Software Fund hf. from 2000 to 2003 and of the telecoms company Íslandssími hf. from 2002 to 2003, where he was a board director from 2001.



Yngvi Örn Kristinsson, Managing Director of Securities and Treasury, read economics and mathematics in Gothenburg, Sweden, and holds a BA Econ degree from the University of Essex as well as an MSc Econ degree from the London School of Economics. He was appointed Managing Director of Securities and Treasury in May 2003, having formerly been Managing Director of the Securities division of Búnaðarbanki Íslands hf. from 2001 and Managing Director of Bunadarbanki International SA in Luxembourg from 2000. Prior to that he worked 20 years for the Central Bank of Iceland, where he was appointed Senior Manager in 1987 and subsequently Managing Director of the Central Bank's monetary policy division in 1994. He has sat on various committees on economic, housing and monetary affairs, and on the boards of various companies and associations, including the Icelandic Banks' Data Centre, and been chairman of the Union of Icelandic Bank Employees and of the State Housing Fund. He is currently a member of a Consultation Committee on the Iceland Stock Exchange and the Icelandic Securities Depository. For many years he served as a special advisor for the International Monetary Fund (IMF), working in countries including Jordan, Malawi, Turkmenistan and Trinidad and Tobago.



The Board of Directors

Björgólfur Guðmundsson, Chairman of the Board, is a graduate of the Commercial College of Iceland. The various management roles of his career include serving for many years as chief executive of the Icelandic shipping line Hafskip hf. He owns just under one-half of the shares in Samson Holding ehf. and is also the principal owner of Edda Publishing hf., Iceland's largest book publisher. He was first elected Chairman of the Board of Landsbanki in February 2003 following the purchase by Samson of nearly 45% of the Bank's shares from the Icelandic Government. His other roles have included board membership of many commercial enterprises, associations and institutions, both in Iceland and abroad. A strong supporter of culture, sport and youth activities, he was awarded the Order of the Falcon by the President of Iceland for his contribution to business and culture in January 2005.

Guðbjörg M. Matthíasdóttir is a graduate of the Commercial College of Iceland (1973) and the Iceland University of Education (1976). Since 1976 she has worked in education in the Westman Islands, where she has also been an active investor in Icelandic businesses. She has been a board director of Ísfelag Vestmannaeyja hf. since 2001 and of TM Insurance hf. since 2003, and was elected to Landsbanki's Board in 2005.

Kjartan Gunnarsson, Vice-Chairman of the Board, holds a law degree from the University of Iceland (1978) and is a graduate of the Norwegian Defence College (1980). He was Secretary General of the Independence Party from 1980 to 2006. Initially elected to Landsbanki's Board by the Icelandic Parliament in 1992, when the Bank was state-owned, he served as Vice-Chairman and later Chairman until 1997. When Landsbanki became a limited company in 1997, he was again elected Vice-Chairman. His other corporate board chairmanships include the insurance companies Líftryggingafélag Íslands hf. in 1997-2003 and Vátryggingarfélag Íslands hf. in 1997-2002. He has been a board director of Landsbanki's subsidiary Heritable Bank Ltd in London since March 2003, and currently chairs Landsbanki's Audit Committee.

Porgeir Baldursson is a graduate of the Commercial College of Iceland (1960) and holds an MGK degree from Denmark's Graphic College (1965). After serving as director of operations at the printing company Oddi from 1965, he became Chief Executive Officer in 1982. He has been a member of the Executive Board of the Confederation of Icelandic Employers since its consolidation in 1999, and of the boards of several Icelandic companies since 1982, including serving as Chairman of Landsbanki's subsidiary SP-Fjármögnun since 1995. In addition, he was appointed Icelandic Honorary Consul for Spain in 2000. He was first elected to the Board of Landsbanki in 2003.



Pór Kristjánsson holds a degree in business administration from the University of Iceland (1989). He has worked in various managerial positions, including financial and restructuring projects, both in Iceland and abroad. He was a consultant to the board of Actavis Group hf. in 2002-2003 and later Deputy CEO of Actavis in 2003-2004. In the past few years, he has served on the boards of Straumur-Burðarás Investment Bank hf., Burðarás hf., Brim ehf. and Icelandic Group hf. He is currently a director of Hf. Eimskipafélag Íslands, Edda Publishing hf. (Chairman), Samson Properties hf. and West Ham United Plc, and a senior advisor to Samson Holdings hf.

*From left:
Sigurjón Þ. Arnason, CEO,
Pór Kristjánsson, Kjartan Gunnarsson,
Vice-Chairman of the Board,
Björgólfur Guðmundsson, Chairman
of the Board, Þorgeir Baldursson,
Guðbjörg Matthíasdóttir,
Halldór J. Kristjánsson, CEO.*

Managing Directors of Landsbanki's Subsidiaries



Gunnar Thoroddsen, Managing Director of Landsbanki Luxembourg SA, holds a law degree from the University of Iceland (1994), an LLM degree from Duke University School of Law in North Carolina (1998) and an MBA from Reykjavík University (2002). He has also been admitted to the bar as a district court solicitor in Iceland. Prior to becoming Managing Director of Landsbanki Luxembourg in 2004, he had been Director of Debt Recovery and Managing Director of the Landsbanki subsidiary Hömlur hf. from 2003 to 2004.



John Conroy, Chief Executive of Merrion Capital Group Ltd, graduated in civil engineering from University College Dublin (1981) and later took an MBA at Trinity College Dublin (1986). A founding shareholder and CEO of Merrion Capital Group, he has 20 years experience in stock broking and investment banking, having worked as an analyst and then Head of Equities at NCB Stockbrokers prior to setting up Merrion with other senior colleagues. He is active in the Irish business community and is a board director of eircom, Ireland's largest telecom group, and of the software group IONA Technologies.



Kjartan Gunnarsson, Managing Director of SP-Fjármögnun hf., is a graduate in business administration from the University of Iceland in 1983. He took up his current post at SP-Fjármögnun in 1995. Prior to that he was employed by the investment company Fjárfestingarfélag Íslands 1985-1987 and served as Managing Director of the leasing company Féfang hf. from 1987 until joining SP-Fjármögnun. He has been chairman of Vörður Íslandstrygging hf. since 2006.



Laurent Quirin, Chief Executive Officer of Kepler Equities, holds a degree in economics from the European Business School (1986). He was one of the founders of Julius Baer France SA in 1997, serving as Managing Director and then CEO from 1999. Prior to joining Julius Baer, he was a Director of Dynabourse International, the French brokerage arm of Crédit Agricole Group SA, where he began his career 15 years ago as an equity salesman before assuming the role of Head of Equities in 1990. He is a Board Director of the Kepler Equities subsidiaries Kepler Suisse SA and Kepler Securities Inc.

Lárus Welding, General Manager of Landsbanki London Branch, holds a degree in business administration from the University of Iceland (2000). He is a licensed securities broker and a graduate in Corporate Finance from the UK Securities Institute (2003). Joining Landsbanki in 2003 as the leader of a syndicated loan team, he was appointed General Manager of Landsbanki London Branch in 2005. He previously worked for the accounting firm Endurskoðunarstofa JHR ehf. in 1997-1999, for the Central Bank of Iceland in 1998 and for the Icelandic Investment Bank (FBA) hf. from 1999, which later merged with Íslandsbanki, now Glitnir Bank.



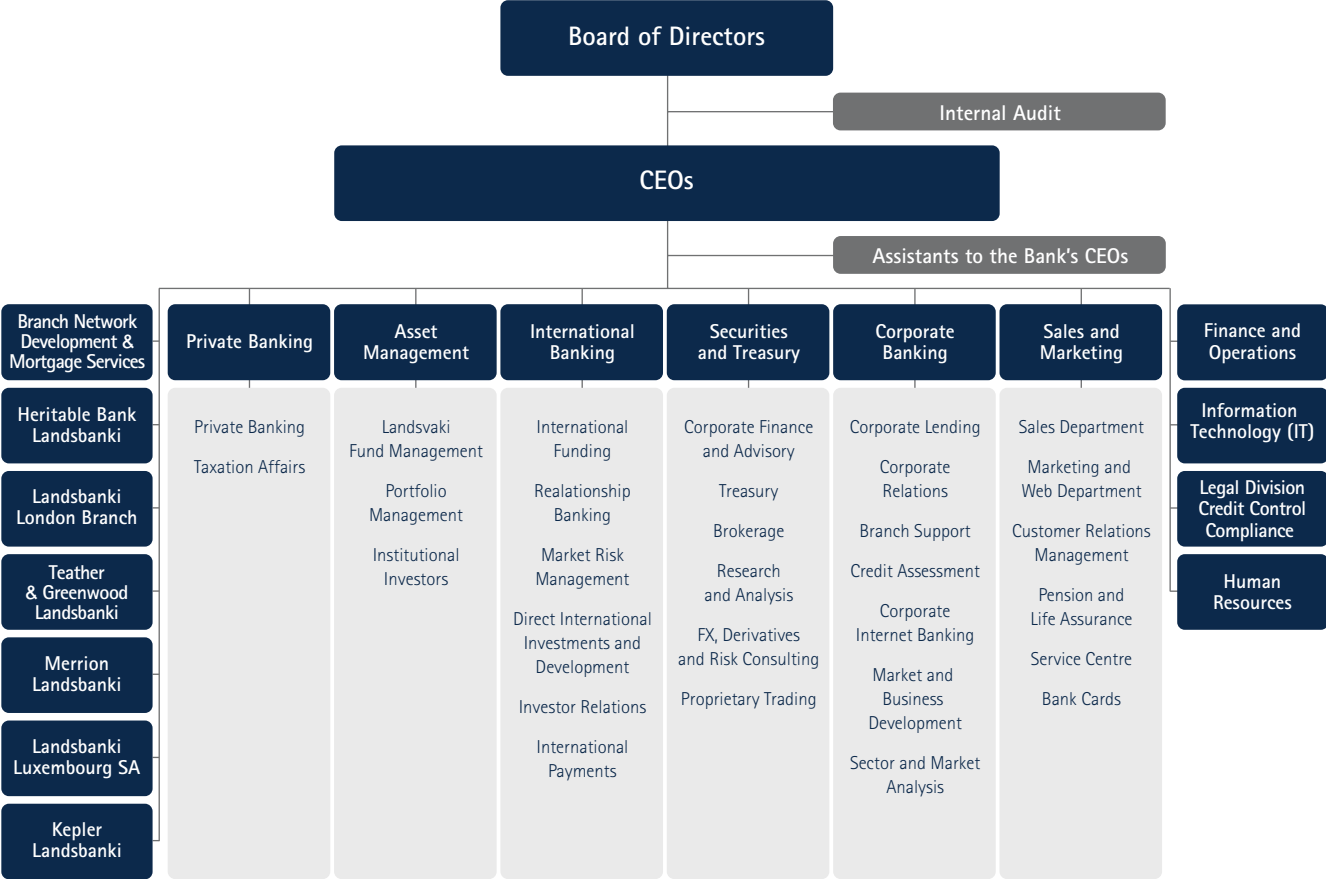
Mark Sismey-Durrant, Chief Executive of Heritable Bank and Managing Director of Icesave, holds a BSc (Hons) in Banking and Finance (1981) and an MPhil in International Banking and Economics (1983), both from Loughborough University of Science and Technology. He has headed Heritable Bank in London since 2002, prior to which he joined Sun Bank Plc in 1990, becoming CEO and deputy chairman of Sun Bank Plc and Sun Bank Offshore Ltd. Besides serving as chairman of Key Business Finance, a Heritable subsidiary acquired in 2005, he was appointed a board director of Landsbanki Guernsey Ltd in 2006. He is a BBA Council Member, chairman of the British Bankers' Association Small Bank Advisory Panel, a fellow of the Chartered Institute of Bankers and a Fellow of the Royal Society of Arts, Design and Manufactures.



Nick Stagg graduated with a BA degree in physics from University College London in 1981 and qualified as a chartered accountant in 1984 with KPMG. He worked in financial management for various firms, including Lambert Smith Hampton Plc, a UK property management company, and WS Atkins Plc, which took over the former company in 1999. Prior to that he worked for B&C Properties Ltd and London Shop Plc. In 2001 he joined Teather & Greenwood Holdings Plc as Chief Operating Officer and was appointed CEO in August 2004. He is also a director of Inventive Leisure Plc.



Organisational Chart







My name is Hernando

The Spanish form of Ferdinand,
from the Gothic roots for "journey" and "ready."
Hernando means "explorer."



In Spain, our name is Landsbanki

Consolidated Financial
Statements 2006

Consolidated Key Figures

Operations	2006	2005	2004	2003	2002
Interest revenues	133,102	66,437	34,252	21,871	21,813
Interest expenses	91,611	43,441	19,517	12,540	14,082
Net interest revenues	41,491	22,996	14,734	9,331	7,732
Fee and commission income	32,459	18,479	10,234	6,959	4,745
Fee and commission expenses	4,092	1,754	1,344	843	669
Net fee and commission income	28,366	16,726	8,891	6,116	4,076
Other operating revenues	19,568	21,257	9,842	3,535	2,109
Net operating revenues	89,426	60,978	33,467	18,982	13,916
Salaries and related expenses	24,458	12,682	7,794	5,656	4,387
Administrative expenses	14,130	8,284	6,667	5,158	4,117
Operating expenses	38,588	20,967	14,460	10,815	8,505
Impairment on loans and advances and assets held for sale	6,144	6,197	4,485	4,656	2,863
Profit before impairment on goodwill and income tax	44,694	33,815	14,521	3,512	2,549
Impairment on goodwill	0	3,033	0	0	0
Income tax	4,479	5,764	1,798	457	475
Net profit	40,215	25,017	12,723	3,055	2,074
Attributable to:					
Shareholders of Landsbanki Íslands hf.	38,906	24,740	12,574	2,956	2,028
Minority interests	1,309	277	149	99	45
Balance Sheet	2006	2005	2004	2003	2002
Cash and cash balances with Central Bank	31,669	16,611	18,237	11,642	8,145
Loans and advances to financial institutions	215,618	86,919	72,060	37,130	10,748
Loans and advances to customers	1,438,395	984,593	542,215	326,400	214,787
Financial assets at fair value and associates	376,809	218,894	64,730	63,744	36,337
Other assets	110,432	98,443	39,900	9,323	7,808
Total assets	2,172,924	1,405,460	737,141	448,239	277,824
Deposits from financial institutions	141,105	144,596	63,476	43,840	30,665
Deposits from customers	682,846	334,163	215,730	152,320	108,306
Borrowing	1,014,976	689,989	375,084	209,357	108,479
Subordinated loans	89,754	49,074	22,570	13,090	8,216
Other liabilities	94,785	74,022	21,572	6,389	5,057
Equity	144,282	110,059	37,705	22,382	16,309
Minority interests	5,175	3,557	1,004	862	792
Total liabilities and equity	2,172,924	1,405,460	737,141	448,239	277,824
Key ratios	2006	2005	2004	2003	2002
Return on equity before impairment on goodwill and taxes	40.3%	61.8%	57.2%	20.9%	17.0%
Return on equity after taxes	36.3%	45.8%	49.5%	17.6%	13.5%
Tier 1 ratio	13.0%	11.9%	7.8%	6.9%	7.7%
Equity ratio (CAD)	14.8%	13.1%	10.4%	9.9%	10.6%
Cost-income ratio	43.2%	34.4%	43.2%	57.0%	61.1%
Operating expenses as a ratio of average capital position	2.1%	2.0%	2.5%	3.0%	3.1%
Interest spread as a ratio of average capital position	2.3%	2.2%	2.6%	2.6%	2.8%
Deposits / loans to customers	47.5%	33.9%	39.6%	48.0%	50.4%
Ratio of provision to lending position at year-end	0.37%	0.58%	0.73%	1.47%	1.33%
Loan loss ratio	0.13%	0.19%	0.33%	0.55%	0.89%
Share price at year-end	26.50	25.30	12.10	5.80	3.65
Change in share price adjusted for dividend payments	5.9%	110.7%	110.3%	61.6%	10.6%
Number of positions at year-end	2,117	1,725	1,121	1,025	986
Exchange rates					
Exchange rate ISK / EUR for P/L average of year	87.57	76.59	86.97	87.39	85.92
Exchange rate ISK / EUR for Balance sheet at year-end	93.72	74.7	83.51	89.76	84.71

ISK million

Consolidated Key Figures

Operations	2006	2006	2006	2006	2005	2005	2005	2005
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest revenues	34,887	33,154	37,527	27,535	21,073	18,594	14,309	12,461
Interest expenses	25,306	23,840	23,865	18,601	13,818	12,272	9,180	8,172
Net interest revenues	9,581	9,314	13,662	8,934	7,255	6,322	5,129	4,289
Fee and commission income	9,323	7,547	7,791	7,797	5,359	4,775	4,864	3,481
Fee and commission expenses	1,325	979	849	940	598	392	403	361
Net fee and commission income	7,998	6,568	6,943	6,857	4,761	4,383	4,461	3,120
Dividend income	161	99	269	1,834	191	161	616	105
Net (loss) gain on financial assets and liabilities held for trading	492	1,943	(1,011)	750	5,503	3,550	(163)	1,978
Net (loss) gain on financial assets designated at FV through P/L	5,913	594	(489)	7,680	1,205	1,167	1,003	2,490
Fair value adjustments in hedge accounting	78	25	(25)	(96)	(361)	232	(81)	216
Foreign exchange difference	(58)	(145)	(12)	(49)	92	359	(161)	97
Profit (loss) from associates	1,133	(15)	(262)	843	643	505	275	484
Net gain of disposal groups held for sale	(479)	155	51	188	63	270	817	0
Other operating revenues	7,240	2,656	(1,478)	11,150	7,337	6,243	2,307	5,370
Net operating revenues	24,819	18,538	19,127	26,942	19,352	16,949	11,898	12,779
Salaries and related expenses	6,989	5,963	6,256	5,249	4,136	3,077	3,114	2,355
Administrative expenses	4,042	3,754	3,496	2,839	2,933	1,905	1,764	1,683
Operating expenses	11,031	9,717	9,752	8,088	7,069	4,982	4,879	4,037
Impairment on loans and advances and assets held for sale	1,332	1,597	1,660	1,555	1,805	1,687	1,359	1,345
Profit before impairment on goodwill and income tax	12,457	7,224	7,714	17,299	10,479	10,280	5,660	7,396
Impairment on goodwill	0	0	0	0	(259)	3,293	0	0
Income tax	(1,596)	1,480	1,572	3,023	1,929	1,882	602	1,351
Net profit	14,053	5,744	6,143	14,276	8,809	5,105	5,058	6,045
Attributable to:								
Shareholders of Landsbanki Íslands hf.	13,664	5,281	5,966	13,995	8,734	4,995	5,000	6,011
Minority interests	389	463	177	280	75	110	58	34
Balance Sheet	31.12.2006	30.9.2006	30.6.2006	31.3.2006	31.12.2005	30.9.2005	30.6.2005	31.3.2005
Cash and cash balances with Central Bank	31,669	25,714	22,806	19,403	16,611	8,134	8,211	14,136
Loans and advances to financial institutions	215,618	168,993	68,793	75,597	86,919	53,727	66,442	56,984
Loans and advances to customers	1,438,395	1,303,676	1,294,462	1,208,510	984,593	837,941	761,901	630,899
Financial assets at fair value and associates	376,809	305,294	275,113	300,780	218,894	156,243	119,208	82,630
Other assets	110,432	158,395	150,295	165,613	98,443	86,212	66,311	65,993
Total assets	2,172,924	1,962,072	1,811,468	1,769,902	1,405,460	1,142,258	1,022,072	850,642
Deposits from financial institutions	141,105	97,097	135,722	138,092	144,591	138,693	92,755	79,582
Deposits from customers	682,846	513,054	475,045	469,333	334,168	275,295	262,655	218,481
Borrowing	1,014,976	979,748	853,367	806,627	689,989	531,417	521,870	417,947
Subordinated loans	89,754	85,892	91,141	83,514	49,074	47,224	49,394	49,327
Other liabilities	94,785	151,746	128,714	151,130	74,022	48,804	34,378	30,241
Equity	144,282	129,876	123,088	117,187	110,059	98,749	58,954	53,988
Minority interests	5,175	4,660	4,392	4,019	3,557	2,076	2,066	1,076
Total liabilities and equity	2,172,924	1,962,072	1,811,468	1,769,902	1,405,460	1,142,258	1,022,072	850,642

Report of the Board of Directors and Group Managing Directors & CEOs

The Consolidated Financial Statements for the year 2006 consist of the Consolidated Financial Statements of Landsbanki Íslands hf. and its subsidiaries. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

At year-end the Bank's shareholders in Landsbanki numbered 28,735 compared to 29,675 as of the beginning of the year. Samson eignarhaldsfélag ehf., which holds 41,36% in the company, is the only shareholder with a stake over 10%.

According to the income statement, the Group's after tax profit for 2006 amounted to ISK 40,215 million. The Landsbanki Group's equity at year-end totalled ISK 144,282 million. The capital adequacy ratio (CAD rules) of the Group was 14.8%. As of 31 December 2006, the Group's total assets were ISK 2,172,924 million.

In August, Landsbanki Íslands hf. acquired all the shares in the UK retail bank Cheshire Guernsey Ltd. The transaction was completed in September. Subsequently the retail bank's name was changed to Landsbanki Guernsey Ltd.

At the Bank's AGM, the Board of Directors will move that shareholders be paid a dividend of 40%, equivalent to ISK 4,408 million and that the remaining profit be disposed of as indicated in the summary of changes in equity in the annual financial statement.

The Board of Directors of the Bank and the Group Managing Directors & CEOs hereby confirm the Consolidated Financial Statements of Landsbanki Íslands hf. for 2006 by affixing their signatures.

Reykjavík, 25 January 2007

Board of Directors



Björgólfur Guðmundsson



Kjartan Gunnarsson



Þór Kristjánsson



Þorgeir Baldursson



Gunnar Felixson

Group Managing Directors and Chief Executive Officers



Halldór J. Kristjánsson



Sigrún P. Árnason

Independent Auditor's Report

To the Shareholders and Board of Directors of Landsbanki Íslands hf.

We have audited the accompanying consolidated financial statements of Landsbanki Íslands hf. (the Bank) and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2006 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 25 January 2007

PricewaterhouseCoopers hf.


Vignir Rafn Gíslason


Þórir Ólafsson

Consolidated Income Statement for the year 2006

Notes	2006	2005
Interest revenues	133,102	66,437
Interest expenses	91,611	43,441
8 Net interest revenues	41,491	22,996
Fee and commission income	32,459	18,479
Fee and commission expenses	4,092	1,754
9 Net fee and commission income	28,366	16,726
10,11 Dividend income	2,362	1,073
11 Net gain on financial assets and financial liabilities held for trading	2,174	10,868
11,12 Net gain on financial assets designated at fair value through profit and loss	13,699	5,866
11 Fair value adjustments in hedge accounting	(18)	6
11 Foreign exchange difference	(263)	387
11,21 Profit from associates	1,699	1,907
11 Net gain (loss) of disposal groups held for sale	(85)	1,150
Other operating revenues	19,568	21,257
Net operating revenues	89,426	60,978
13 Salaries and related expenses	24,458	12,682
Administrative expenses	14,130	8,284
Operating expenses	38,588	20,967
14 Impairment on loans and advances and assets held for sale	6,144	6,197
Profit before impairment on goodwill and income tax	44,694	33,815
Impairment on goodwill	0	3,033
15 Income tax	4,479	5,764
Net profit	40,215	25,017
Attributable to:		
Shareholders of Landsbanki Íslands hf.	38,906	24,740
Minority interest	1,309	277
16 Earnings Per Share:		
Earnings Per Share	3.67	2.74
Diluted earnings per share	3.48	2.61

Consolidated Balance Sheet as of 31 December 2006

Notes	2006	2005	
Assets			
	Cash and cash balances with Central Bank	31,669	16,611
	Loans and advances to financial institutions	215,618	86,919
17	Loans and advances to customers	1,438,395	984,593
18	Bonds and debt instruments	169,598	51,535
18	Shares and equity instruments	49,328	58,292
18	Hedged securities	105,190	129,663
18,19	Derivatives held for trading	38,358	13,886
20	Derivatives held for hedging	10,498	4,689
21	Investments in associates	3,837	4,456
22	Property and equipment	5,823	4,260
23	Intangible assets	14,351	10,461
24	Non-current assets and disposal groups classified as held for sale	21,349	16,459
	Unsettled securities trading	36,965	11,264
	Other assets	31,944	12,372
	Total assets	2,172,924	1,405,460
Liabilities			
25	Deposits from financial institutions	141,105	144,596
26	Deposits from customers	682,846	334,163
27	Borrowing	1,014,976	689,989
28	Subordinated loans	89,754	49,074
19	Trading liabilities	20,866	26,504
20	Derivatives held for hedging	6,473	4,086
29	Tax liabilities	6,593	7,289
	Liabilities included in disposal groups classified as held for sale	7,242	4,475
	Unsettled securities trading	29,987	20,428
30	Other liabilities	23,623	11,240
	Total liabilities	2,023,466	1,291,844
Equity			
	Share capital	10,581	10,614
	Share premium	50,595	52,277
	Reserves	2,060	1,790
	Retained earnings	81,046	45,377
		144,282	110,059
	Minority interest	5,175	3,557
31	Total equity	149,457	113,617
	Total liabilities and equity	2,172,924	1,405,460

32-38 Other information

Consolidated Equity Statement

	Attributable to equity holders of the Company							Total
	Share capital	Share Premium		Reserves		Retained earnings	Minority interest	
		Additionally paid in capital	Statutory account	Translation	Fair value			
Equity 1 January 2004	7,500	4,355	268			10,259		22,382
Changes due to conversion to IFRS							862	862
Equity 1 January 2004 - adjusted	7,500	4,355	268	0	0	10,259	862	23,244
Capital increase	475	3,171						3,646
Dividends paid						(721)	0	(721)
Translation differences				(20)				(20)
Changes in minority interest							(7)	(7)
Net profit 2004						12,574	149	12,723
Equity 31 December 2004	7,975	7,526	268	(20)	0	22,112	1,004	38,865
Changes due to conversion to IFRS	(21)	(237)				103	0	(156)
Equity 1 January 2005	7,954	7,288	268	(20)	0	22,214	1,004	38,709
Capital increase	800	10,600						11,400
Merger with Burðarás	2,121	38,172						40,293
Purchases and sales of treasury shares	(260)	(4,052)						(4,312)
Dividends paid						(1,577)		(1,577)
Translation differences				(53)				(53)
Fair value adjustment of investment properties, included in disposal groups						1,864	870	2,734
Changes in minority interest							1,406	1,406
Net profit 2005						24,740	277	25,017
Equity 31 December 2005	10,614	52,009	268	(73)	1,864	45,377	3,557	113,617
Equity 1 January 2006	10,614	52,009	268	(73)	1,864	45,377	3,557	113,617
Purchases and sales of treasury shares	(33)	(1,683)						(1,715)
Dividends paid						(3,237)		(3,237)
Translation differences				269				269
Changes in minority interest							308	308
Net profit 2006						38,906	1,309	40,215
Equity 31 December 2006	10,581	50,326	268	196	1,864	81,046	5,175	149,457

Additional disclosures:

According to the Bank's Articles of Association, total share capital amounts to ISK 11,021 millions. At year-end 2006 own shares amounted to ISK 440 millions and share capital in the Balance sheet thus amounted to ISK 10,581 millions. One vote is attached to each share. The Board of Directors has proposed to the 2006 Annual General Meeting that a dividend of 40% of the share capital amounted, equivalent to ISK 4,408 million.

Consolidated Statement of Cash flow for the year 2006

	2006	2005
Interest received	112,432	32,750
Interest paid	(42,388)	(36,847)
Fees and commission received	31,259	14,810
Fees and commission paid	(3,012)	(1,814)
Dividends received	2,362	537
Net trading and other income	11,826	10,084
Cash payments to employees and suppliers	(18,618)	(19,711)
Income taxes paid	(3,915)	(1,769)
Cash flow from operating profits before changes in operating assets and liabilities	89,945	(1,960)
Changes in operating assets and liabilities:		
– net increase in loans and advances to banks	(125,964)	(4,678)
– net increase in loans and advances to customers	(387,282)	(415,215)
– net increase in trading assets	(64,076)	(146,849)
– net increase in other assets	(24,398)	(17,001)
– net increase in deposits from other banks	54,705	83,458
– net increase in amounts due to customers	305,433	113,478
– net (decrease)/increase in trading liabilities	(6,016)	18,427
– net (decrease)/increase in other liabilities	(6,194)	24,023
Cash flow used in operating activities	(163,848)	(346,317)
Change in property and equipment	(1,670)	(734)
Change in financial assets designated at fair value through profit and loss	18,076	(21,589)
Change in subsidiaries and associates	(26,589)	(5,909)
Change in intangible assets	(942)	(8,058)
Cash flow used in investing activities	(11,126)	(36,290)
Repayments and proceeds from borrowed funds and debt securities	197,333	339,613
Interest paid on long term borrowed funds and debt securities	(39,087)	(23,790)
Repayments and proceeds from subordinated loans	30,220	30,235
Interest paid on subordinated loans	(4,508)	(3,133)
Dividends paid	(3,237)	(1,577)
Change in own stock	(1,715)	44,721
Increased share capital	0	2,661
Cash flow provided by financing activities	179,006	388,730
Increase in cash	4,032	6,123
Cash at beginning of year	31,417	25,630
Foreign exchange difference	5,698	(336)
Cash and cash equivalents at year-end	41,147	31,417

1 General information

Landsbanki Íslands hf. (the Group) is a universal bank, providing retail, corporate and investment banking services. The Group operates in 14 countries and has 2,117 employees at year-end.

The Group's parent company is Landsbanki Íslands hf. (the Bank), which is a limited-liability company incorporated and domiciled in Iceland. The Bank was established in 1886 and remained state-owned until 1998 when the State decided to privatise the Bank through a public offering. Today, the Bank's shares are listed on the Main List of the Iceland Stock Exchange (ICEX).

These consolidated financial statements were approved for issue by the Board of Directors on 25 January 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in preparing these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Landsbanki Íslands hf. 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements reflect IFRS and interpretations issued and effective in December 2006.

The accounting policies, as adopted by the EU, depart from full IFRS in the following areas, relating to the Group's operations:

Standards:

- IFRS 7: Financial Instruments: Disclosures

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.

The Group will apply IFRS from annual periods beginning 1 January 2007.

Amendments to published standards effective 1 January 2007:

- IAS 19 Amendment – Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 Amendment – Net Investment in a Foreign Operation;
- IAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 Amendment – The Fair Value Option;
- IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

IAS 39 Amendment – The Fair Value Option. This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss.

IAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts. These types of contract are accounted for under IAS 39. The measurement and disclosure requirements under IAS 39 have not resulted in a material change to the Group's policies.

IAS 19 Amendment, IAS 21 Amendment, IAS 39 Amendment – Cash flow hedge accounting of forecasted intragroup transactions, IFRS 1, IFRS 6, IFRIC 4 and IFRIC 5 are not relevant to the Group's operating activities and therefore have no material effect on the Group's policies.

These consolidated financial statements have been prepared under the historical cost convention, having regard to the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying various accounting policies. Accounting assumptions and estimates of major significance are disclosed in particular in Note 3.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power generally accompanying a shareholding of more than one-half of the voting rights to govern financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. On the date of reporting, the Bank's subsidiaries were comprised of the following:

Company	Share owned	Activity
Landsbanki Holdings (UK) plc	100%	Holding company
Heritable Bank Ltd (UK)	100%	Corporate banking
Teather & Greenwood Holdings plc (UK)	100%	Stockbrokers and financial services
Landsbanki Holdings Europe SA (Luxembourg)	100%	Holding company
- Landsbanki Luxembourg SA (Luxembourg)	100%	Private and corporate banking
- Kepler Equities SA (France)	86%	Stockbrokers and financial services
Landsbanki Guernsey Ltd (UK)	100%	Retail banking

Merrion Capital Group Ltd (Ireland)	50%	Stockbrokers and financial services
LI Investments AB (Sweden)	100%	Holding company
LI Investments Europe Ltd (Cyprus)	100%	Holding company
Landsvaki hf. (Iceland)	100%	Operation company for mutual funds
Landsbankinn eignarhaldsfélag ehf. (Iceland)	100%	Holding company
Landsbankinn - Fjárfesting hf. (Iceland)	100%	Holding company
Landsbankinn fasteignafélag ehf. (Iceland)	100%	Real estate company
SP – Fjármögnun hf. (Iceland)	51%	Leasing company
Verðbréfun hf. (Iceland)	100%	Securitization company
LI Investments Ltd (British Virgin Islands)	100%	Holding company
Stofnlánadeild Samvinnufélaga (Iceland)	100%	Holding company (dormant)
Hömlur hf. (Iceland)	100%	Holding company for appropriated assets

The purchase method is used to account for the investment in subsidiaries by the Group. The acquisition price is measured as the fair value of its stated assets, equity instruments issued and liabilities incurred or assumed at the transaction date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated in the consolidated accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the share capital conferring voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of movements of reserves is recognised in reserves under equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in associates held for the purpose of investment banking and restructuring are accounted as Financial asset designated at fair value through profit and loss.

2.3 Segment reporting

A business segment is a part of the Group's assets and operations which is subject to risks and returns differing from those of other business segments. A geographical segment is a part of the assets and operations within a specific economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Group's individual entities are measured using the currency of the economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in millions of Icelandic kronas (ISK), which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates of the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions, and the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying net investment hedges. Translation differences on non-monetary items, such as equities held at fair value in the income statement, are reported as part of these income statement movements.

(c) Group companies

The results and financial position of Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) the assets and liabilities of each balance sheet are translated at the closing rate at the year-end;
- (ii) items of each income statement are translated at the average exchange rate for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
- (iii) all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges on such investments, are taken to shareholders' equity. When a foreign company is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their current fair value. Fair values are based on quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is based on comparison with comparable transactions in similar instruments. Fair value can also be based or founded on the basis of pricing models.

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value on the income statement. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of assets or liabilities (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The relationship is documented and an assessment made, both at hedge inception and at each reporting period, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(b) Net investment hedge

Any gain or loss on a hedging instrument relating to the effective portion of a hedge of net investments in foreign operations is recognised in equity as translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses on net investments accumulated in equity are included in the income statement when the foreign operation is disposed of.

(c) Derivatives that do not qualify for hedge accounting

Derivative financial instruments which do not qualify for hedge accounting are recognised as trading assets or trading liabilities. Changes in their fair value are recognised immediately in the income statement.

2.6 Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method for all instruments measured at amortised cost.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, making it equivalent to the net carrying amount of the financial asset or financial liability in the balance sheet. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised at the rate of interest used to discount the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on the net amount of the financial asset taking the write-down into consideration.

2.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans are generally deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as arrangement of transactions with equities or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle for income reporting is applied for other custody services that are continuously provided over an extended period of time.

2.8 Financial assets

The Group classifies its financial assets in the following categories: trading assets, financial assets designated at fair value through profit or loss at inception and loans and advances. Management determines the classification of its investments at initial recognition.

(a) Trading assets

A financial asset is classified in this category if it is primarily held for the purpose of selling in the short term. Derivatives are also classified as trading assets unless designated as hedging instrument.

(b) Financial assets designated at fair value through profit or loss at inception

Financial assets and financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue;
- Certain investments, such as equity investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis are designated at fair value through profit and loss; and
- Financial instruments, such as debt securities held, containing one or more embedded derivatives significantly modify the cash flows, are designated at fair value through profit and loss.

Such financial assets are reported at current fair value and changes recognised in the income statement. The classification of financial assets placed in this category cannot be changed after their original classification.

(c) Loans and advances

Loans and advances are financial assets with defined payments that are not quoted in an active market. They arise when the Group provides funds directly to a debtor with no intention of trading them.

Purchases and sales of trading assets and financial assets designated at fair value through profit or loss are recorded on the date on which the Group commits to purchase or sell the asset. Loans are recognised when the funds related to the loan are disbursed to the borrowers. All financial assets are initially recorded at fair value plus transaction costs. Transaction costs are, however, not included in the initial cost of trading assets and financial assets designated at fair value through profit or loss. Financial assets are derecognised when they have been transferred to another party, for instance when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Financial assets designated at fair value through profit or loss and trading assets are subsequently carried at fair value. Loans and advances are carried at cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value on the income statement and trading assets are included in the income statement in the period in which they arise.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using recognised valuation techniques. These include the use of recent arm's length transactions, references to other materially equivalent instruments, discounted cash flow analysis and option pricing models and other valuation techniques commonly used by market participants. In some instances when recognised valuations do not give reliable measurement for equity instruments, they are measured at cost.

The Group is involved in Total Return Swaps derivative contracts. In instances where the Group has transferred loans previously accounted for in the balance sheet to Total Return Swaps, it has evaluated that this did not fulfill the condition for derecognition under IAS 39. The loans are therefore still accounted for in the balance sheet as Loans to financial institutions, measured at amortized cost. In instances where the Total Return Swap contracts relates to off-balance sheet items, only the derivative is accounted for, at fair value.

2.9 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2.10 Sale and repurchase agreements

Repurchase agreements (repos) are financial instruments providing for the sale of securities under agreement to repurchase the same securities at a predetermined price. Control of the securities remains in the hands of the Group during their entire transaction period and the securities remain on its balance sheet as trading assets or as financial assets designated at fair value through profit or loss, as appropriate.

2.11 Securities lending and borrowing

Lending agreements are financial instruments where the securities are not sold but are returned to the Group at the end of contract. Control of the securities remains in the hands of the Group during their entire transaction period and the securities remain on its balance sheet as trading assets or as financial assets designated at fair value through profit or loss, as appropriate.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in net trading income.

2.12 Impairment of loans and advances

At each balance sheet date, the Group assesses whether there is objective evidence that a loan or loan portfolio is impaired. A loan or loan portfolio is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated. Objective evidence of impairment includes observable data about the following loss events:

- (i) significant financial difficulty of the borrower;
- (ii) a breach of contract, such as a default on instalments or on interest or principal payments;
- (iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;
- (iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation;
- (v) the disappearance of an active market for that financial asset because of financial difficulties; or
- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:
 - adverse changes in the payment status of borrowers in the group; or
 - general national or local economic conditions connected with a group of loans.

The Group defines loans that are individually significant and assesses first whether objective evidence of their impairment exists, and individually or collectively for loans and advances that have not been defined as individually significant. If the Group determines that no objective evidence of impairment exists for significant loans, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Individual significant assets for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable value. The recoverable value is the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of impairment through the use of an allowance account and the amount of the loss is recognised in the income statement. In the case of a loan at variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For impairment calculation of the present value of the estimated future cash flows of a collateralised financial asset, regard is had for estimated sale or redemption value of the collateral less costs for obtaining and selling the collateral. Such calculation is made on the basis of objective assessment of loss, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans and advances are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Such classification, based on credit risk, gives a good indication of the impairment of a group of assets.

Future cash flows in a group of loans evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience was originally based and to remove the effects of previously existing loss factors which do not exist currently.

Estimates of changes in future cash flows for groups of assets should be consistent with changes in observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual losses.

When a loan is uncollectible, it is fully written off against the provision for loan impairment on the balance sheet. Loans are written off after all the necessary procedures have been completed, as provided for in the Group's rules, and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

2.13 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate on the date of acquisition. Goodwill related to a merger and on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Impairment of goodwill, based on impairment test procedures of IAS 36, is expensed in the income statement.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and take into service the specific software. These costs are amortised on the basis of their expected useful lives (five years).

The Group assess at each reporting date whether there is any indication that an software asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Costs associated with developing or maintaining computer software programs are recognised when the expense is incurred.

2.14 Property, plant and equipment (PPE)

Land and buildings consist mainly the Bank's branches and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost of PPE includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	25-100 years,
Computer hardware	3-5 years,
Other chattels	3-10 years.

The assets' residual values and useful lives are reviewed annually and adjusted if appropriate.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be lower than the estimated recoverable value. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the income statement.

2.15 Non-current assets and disposal group classified as held for sale

Non-current assets held for sale are the Group's appropriated assets which are in the process of being sold. This item includes also a disposal group which is held for sale. Liabilities connected with the disposal group are recognised as a separate liability on the balance sheet. The presentation and measurement of these assets and liabilities are based on IFRS 5, Non-current assets held for sale and discontinued operations. Items included under non-current assets held for sale are recognised at the lower of carrying amount or fair value less cost to sell, taken into account the measurement requirement exception in IFRS 5.

2.16 Leases

(a) A Group company is the lessee

The leases entered into by the Group are primarily operating leases, including house rental agreements. The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, the total amount of the entire leasing contract until the end of the period is expensed.

(b) A Group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable as a part of loan and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as income due. Lease income is recognised over the term of the lease using a method which reflects a constant periodic rate of return.

2.17 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents are defined as cash and non-restricted balances with the Central Bank, amounts due from other banks and treasury bills.

2.18 Provisions

Provisions for restructuring cost and disputes are recognised in the consolidated financial statements when it is more likely than not that an outflow of Group resources will be required to settle the obligation and the amount can be reliably estimate.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

2.20 Employ benefits

(a) Pension obligation

Group companies operate various pension schemes. Most of the Group companies have defined contribution plans, where the companies pay contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense monthly when they are due.

A few of the Group companies have a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Share-based compensation

The Group has entered in to stock options contracts with its employees enabling them to acquire shares in the Bank. In all instances the exercise price corresponds to the market value of the shares at grant date. The stock options were granted after 7 November 2002 and cost related to the agreements is expensed during the vesting period based on the related terms. The agreements are both equity and cash settled and the expenses recognised in the income statement.

2.21 Deferred income tax

Deferred income tax is recognised in full as a liability, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated interim financial statements. Deferred income tax is, however, not recognised if it arises from the original recognition of an asset or liability in a transaction other than a merger of companies, which affects neither its accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of certain financial assets and liabilities, including derivative contracts and depreciation of property, plant and equipment. Temporary differences also include tax losses carried forward and the difference between the fair values of assets acquired and their tax base.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax arising from temporary differences in connection with investments in subsidiaries and associates is recognised in the consolidated financial statements. This is not done, however, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.22 Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

2.23 Subordinated loans

The Group has borrowed funds by issuing bonds on subordinated terms. The bonds have the characteristics of equity in being subordinated to other liabilities of the Group. In the calculation of the capital ratio, the bonds are included with equity, as shown in note 31. The loans are entered as liabilities with accrued interest and indexation.

2.24 Trading liabilities

Trading liabilities primarily consist of derivatives with negative fair values and delivery obligations for short sales of securities. Trading liabilities are measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of trading liabilities are reported as Net gain on financial assets and liabilities held for trading. Interest and dividend expense on trading liabilities are included in Net interest income.

2.25 Share capital

(a) Share issue costs

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders meeting.

(c) Treasury shares

Where the Bank, or other member of the Group, purchases the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.26 Fiduciary activities

The Group acts as custodian, holding or placing assets on behalf of individuals, institutions and pension funds. These include various mutual funds managed by the Group. These assets and income arising thereon are excluded from these financial statements, as they do not belong to the Group.

2.27 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimated based on these assumptions will by definition seldom be equivalent to the relevant real outcome. The discussion below examines estimates and assumptions which involve a substantial risk of causing material correction to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives

The fair value of financial instruments not quoted in active markets are determined by various recognised valuation techniques. When valuation techniques (e.g. models) are used to determine fair value, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however areas such as credit risk require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Securitisations and special purpose entities (SPEs)

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation, and for buying or selling credit protection. The Group does not consolidate SPEs that it does not control. Where it is difficult to determine whether the Group does control an SPE, it makes an objective assessment about its exposure to risk and reward, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

(d) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 Management of financial risk

The Group's risk policy and procedures ensure that the risks involved in its operations are known, measured and monitored. Risk is managed to ensure that it remains within the limits adopted by the Group for its operations and complies with regulatory requirements. The Group follows a policy dealing with different types of risks in combination, to ensure that fluctuations resulting from unexpected events, affecting both the Group's equity and its performance, will be both limited and manageable.

The Board of Directors is responsible for the Group's basic policy on risk, ensuring that it conforms to the Bank's strategy, the experience of its management, its capital adequacy and readiness to accept risk. The Group CEOs are responsible to the Board for its daily operations and manage its risk through committees. Furthermore, managing directors are responsible to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the Bank's policy.

The Bank has four standing committees: the Asset and Liability Committee (ALCO), the Asset Management Committee, the Credit Committee and the Operations Committee. In addition to these committees, meetings of managing directors serve as a forum for consultation between the CEOs and managing directors. Two committees operate within the Board of Directors, an Audit Committee and Remuneration Committee, preparing examination by the Board of specific areas of operation and investigating in more detail matters related to them.

The compliance officer ensures that the Bank's rules on securities trading and insider trading are followed, and that Group operations comply with the Act on Securities Transactions, Act on Actions to Combat Money Laundering and other relevant statutes and regulations. Each of Landsbanki's subsidiaries has a compliance officer, and the Group compliance officer supervises their work and reports to the Board of Directors. Since the Bank's internal auditing is carried out on a Group basis, the director of Internal Audit for the parent company audits all Group companies. Internal auditing is an essential aspect of the Bank's risk management control; each operating unit is audited at least once a year.

4.1 Financial instruments and risk management strategy

Clients' assets and liabilities can bear fixed or variable rates of interest, for a longer or shorter term. It is essential for the Group to control its investments closely, in order to maintain a balance in interest rates and maturities of assets and liabilities. The Group also endeavours to increase its interest rate margin by offering both short-term and long-term credit, while at the same time it must maintain sufficient liquidity to meet its commitments. By extending credit to both corporations and individuals, on varying terms reflecting the risk of loss in each instance, the Group endeavours to achieve an acceptable interest rate margin. This risk is not limited to interest bearing assets on the Bank's balance sheet but also includes guarantees and other financial instruments.

By taking positions and trading in listed and unlisted financial instruments, Landsbanki can take advantage of short-term movements on the equity and bond markets, as well as currency and interest rate fluctuations. Currency risk is generally kept in balance. Part of the Group's currency risk is hedged with currency swaps. Interest rate risk is also partly hedged against any drop in the fair value of fixed interest rate assets and any increase in the fair value of customers' deposits on fixed terms through interest rate swaps and currency interest rate swaps.

4.1.1 Hedge accounting

The Group designates specific derivatives as hedges of the fair value of assets or liabilities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(a) Fair value hedge

The Group uses interest rate and currency swaps to hedge part of its interest rate risk against any possible impairment of the fair value of fixed interest rate assets and liabilities in both ISK and foreign currencies. The net fair value of these swaps as of 31 December 2006 was positive of ISK 4,068 million.

(b) Net investment hedge

The Group balances currency risk deriving from net investment in activities abroad against foreign currency borrowing. Loans amounting to ISK 40,063 million (2005: ISK 11,648 million) were recognised as hedges, resulting in exchange rate loss in 2006 of ISK 6,857 million (2005: ISK 359 million profit) recognised in equity against exchange rate profit from investments in subsidiaries.

4.1.2 Counterparty Risk

Counterparty risk is the Group's greatest single risk factor. Counterparty risk is the risk that a borrower or counterparty in a transaction will be unable to meet its financial obligations. The Group manages this risk by setting limits for acceptable risk for individual borrowers or groups of borrowers, specific regions or industrial sectors. Such risk factors are under constant surveillance and are reviewed regularly. Counterparty risk is also managed through regular assessments of clients' credit ratings, modifications of lending authorisations or acquiring better collateral to secure clients' commitments.

The Board of Directors sets detailed lending rules, including maximum obligations for individual clients and related parties. The purpose of these rules is to limit the maximum risk of the Group. They cover clients' total exposures, so that the indirect risk to the Group through its clients is added to the direct claims of the Bank and its subsidiaries. Financial instruments issued by a client, which are used to guarantee other obligations of third parties not financially connected, are also added to the direct claims. According to the Bank's internal rules, the maximum total exposures through an individual customer or financially connected parties may not exceed 20% of the Group's equity.

Clients classified in the best risk classes, according to the Bank's rating system, may comprise an aggregate exposure of as much as 25% of the Group's equity, but only in the form of short-term obligations. Parties classified in poorer risk categories may not comprise overall exposures for the Group exceeding 10% of its equity. In similar fashion, however, this exposure may be increased to as much as 15%, provided the portion exceeding 10% is in the form of short-term commitments.

The Bank's Credit Committee sets detailed lending rules based on the basic policy laid down by the Board of Directors. Employees' lending authorisations are well defined and incremental. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules. Comprised of the CEOs and managing directors, it meets regularly to discuss all credit decisions exceeding the authorisations of branches, subsidiaries or the Corporate Banking Division. The Committee checks the composition of the loan portfolio with regard to industrial sectors, geographical regions, collateral and other aspects, as well as monitoring defaults and default trends. Detailed reports on the position of the Group's largest debtors are reviewed by the Credit Committee, together with special reports, e.g. on the situation of the economy in general and specific industrial sectors, etc.

(a) Derivatives

Counterparty risk from derivative contracts is managed by the Bank's Securities and Treasury division. Risk from derivative contracts is assessed as a credit equivalent, comprised of the fair value of the contract and its assessed future risk.

(b) Credit-related commitments

Guarantees and letters of credit, which irrevocably commit the Group to make payment to a third-party in the event a customer cannot fulfil his obligations, involve the same credit risk as loans. Import guarantees and documentary credits are secured by the goods shipments they cover, thus representing a lower risk than direct loans. Unused credit lines represent a commitment to increase loans or guarantees. The Group could conceivably suffer losses equivalent to the total amount of open credit lines. The Group monitors the duration of credit lines, since longer-term obligations generally imply a greater credit risk.

(c) Netting arrangements

In order to further limit counterparty risk arising from financial instruments, the Group enters into netting agreements. These arrangements ensure that in the case of foreclosure, the Group can set off all contracts covered by the netting agreement against the debt. The arrangements generally include all market transactions between the Group and the client.

4.2 Geographical location of loans and advances to customers

	2006		2005	
		%		%
Iceland (Home country)	894,328	62	661,532	67
UK & Ireland	249,958	17	150,391	14
Luxembourg	219,724	15	123,862	12
Other	74,385	5	48,809	6
Total	1,438,395	100	984,593	100

4.3 Market Risk

Market risk is the risk arising from the impact of changes in market prices on the value of the Group's assets and liabilities, both on and off its balance sheet. This includes both interest rate and equity risk on its trading portfolio, as well as currency risk on all its portfolios. Market risk is, however, mainly limited to the Bank's trading book transactions.

The Board of Directors has set a ceiling on the Bank's market risk, which may not exceed 15% of its total risk-weighted asset base. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 2% and the maximum interest rate risk on market bonds and other financial instruments may not exceed 6%. ALCO sets detailed rules on the Group's maximum market risk. Risk control is effected on a Group basis, under direction of Risk Management. Authorisations to take positions subject to market risk are mainly limited to the Securities and Treasury division of the parent company, where total market risk for the Group is also managed. In addition to the Securities and Treasury division of the parent company, trading desks of its subsidiaries Kepler, Teather & Greenwood and Merrion Capital have limited authorisations for exposures on own account.

Total market risk for the Group is calculated at the end of each banking day and controlled by means of an authorisation system adopted by ALCO. Since no single instrument can cover all the aspects of market risk, the Group applies several methods in its daily risk measurement, including VaR (Value-at-Risk) and stress testing, and uses indicators such as net position and value per bp (Vpb). VaR is used to measure trading book market risk. VaR is a statistical instrument which measures the Group's maximum expected loss for the next working day under normal market conditions for a 99% confidence interval. The Group's loss should only exceed the resulting value on one working day out of a hundred. VaR models are tested for reliability in accordance with the guidelines of the Basel Committee on Banking Supervision.

The following tables show the VaR estimate for market risk for the bank's total equity exposure with and without equity held in financial assets designated at fair value through profit and loss and market risk without financial assets designated at fair value through profit and loss and unlisted equities:

Market Risk	1 January to 31 December 2006			2006	12 months to 31 December 2005		
	Average	High	Low		Average	High	Low
Interest rate risk	176	749	58	250	228	597	27
Foreign exchange risk	67	360	2	9	10	72	1
Equities risk	1,281	2,908	541	1,017	1,127	2,456	510
Total VaR (99% 1 day holding period)	1,524	4,017	601	1,276	1,365	3,125	538
Total VaR (99% 10 day holding period)	4,819	12,703	1,901	4,035	4,316	9,881	1,703

Market Risk without financial assets designated at FV through P/L

	Average	High	Low	2006	Average	High	Low
Interest rate risk	176	749	58	250	228	597	27
Foreign exchange risk	67	360	2	9	10	72	1
Equities risk	1,183	1,926	323	987	869	1,343	469
Total VaR (99% 1 day holding period)	1,426	3,035	383	1,246	1,106	2,012	497
Total VaR (99% 10 day holding period)	4,509	9,598	1,211	3,940	3,499	6,362	1,571

Market risk without financial assets designated at FV through P/L and unlisted equities

	Average	High	Low	2006	Average	High	Low
Interest rate risk	176	749	58	250	228	597	27
Foreign exchange risk	67	360	2	9	10	72	1
Equities risk	296	427	180	293	202	286	128
Total VaR (99% 1 day holding period)	539	1,536	240	552	440	955	156
Total VaR (99% 10 day holding period)	1,704	4,857	759	1,746	1,391	3,020	493

4.3.1 Currency Risk

The Group is exposed to risk from changes in the exchange rates of major foreign currencies, which affect the Bank's financial position and cash flow. ALCO sets risk limits for each currency and for total currency exposures both overnight and intraday, which are monitored daily. The following table shows the carrying amount of the Group's assets and liabilities by currency. Off-balance sheet amounts show the notional amounts of financial instruments in foreign currencies.

Concentrations of assets, liabilities and off balance sheet items.

At 31 December 2006	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	20,481	10,054	333	125	591	85	31,669
Loans and advances to financial institutions	24,531	65,641	13,950	109,140	922	1,434	215,618
Loans and advances to customers	542,618	309,612	141,165	204,757	118,553	121,690	1,438,395
Bonds and debt instruments	36,463	131,544	0	1,592	0	0	169,598
Shares and equity instruments	24,810	4,860	1,005	7,131	756	10,766	49,328
Hedged securities	80,528	2,321	3,418	11,231	0	7,692	105,190
Derivatives held for trading	15,737	10,250	8,852	1,598	783	1,137	38,358
Derivatives held for hedging	1,022	7,489	505	1,444	34	3	10,498
Investments in associates	3,531	306	0	0	0	0	3,837
Property and equipment	4,083	785	0	666	288	0	5,823
Intangible assets	1,691	5,500	95	6,998	68	0	14,351
Non-current assets and disposal groups classified as held for sale	18,524	0	0	2,825	0	0	21,349
Unsettled securities trading	5,130	21,068	225	8,996	1,520	26	36,965
Other assets	16,472	12,361	29	2,549	431	102	31,944
Total assets	795,622	581,791	169,577	359,052	123,947	142,935	2,172,924
Liabilities and equity							
Deposits from financial institutions	37,427	50,728	10,585	33,201	3,668	5,496	141,105
Deposits from customers	80,440	81,128	13,159	350,257	121	157,741	682,846
Borrowing	108,800	538,249	250,896	24,699	22,219	70,113	1,014,976
Subordinated loans	6,226	78,602	2,137	0	0	2,789	89,754
Trading liabilities	12,375	3,359	1,963	1,305	97	1,767	20,866
Derivatives held for hedging	1,591	2,358	981	1,095	48	400	6,473
Tax liabilities	5,985	492	0	116	0	0	6,593
Liabilities included in disposal groups held for sale	7,242	0	0	0	0	0	7,242
Unsettled securities trading	0	20,142	581	5,886	2,003	1,375	29,987
Other liabilities	10,980	5,492	240	6,407	502	2	23,623
Total equity	149,457	0	0	0	0	0	149,457
Total liabilities and equity	420,524	780,550	280,542	422,966	28,658	239,683	2,172,924
Net on-balance sheet position	375,097	(198,759)	(110,965)	(63,914)	95,289	(96,748)	
Net off-balance sheet position	(375,993)	199,281	110,516	64,175	(95,192)	97,213	
Net position	(896)	522	(449)	261	97	465	

4.4 Mismatch of assets and liabilities

(a) Interest rate risk on portfolios

Portfolio interest rate risk arises from the impact on the interest margin and/or the market value of equity of interest rate changes on assets and liabilities outside of the Bank's trading book. This risk is primarily the result of duration mismatch of assets and liabilities. Portfolio interest rate risk is among the Group's more important risk factors.

(b) Liquidity Risk

Liquidity risk is the risk of losses the Group could incur should it be unable to meet its obligations when due. The Group's liquidity risk is divided into three types: intraday liquidity risk, short-term liquidity risk extending over several months, and risk due to mismatch of longer-term assets and liabilities. A distinction is also made, in measuring and managing liquidity risk, between domestic and foreign liquidity risk.

ALCO formulates liquidity management policy, monitors the Group's liquidity position and provides advice on the composition of its assets and liabilities. The objective is to minimise fluctuations in liquidity and ensure that the Group always has sufficient access to funding to cover outflows arising from its obligations in the coming month. Treasury implements this policy and estimates future cash flow in co-operation with Risk Management.

At the end of 2006, the Bank's liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's Rules No. 317/2006 was 3.26.

The following table shows the Group's assets and liabilities classified according to their maturities. The classification is based on the residual maturity as of the date of the financial statements.

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	No maturity	Total
Assets						
Cash and cash balances with Central Bank	31,669	0	0	0	0	31,669
Loans and advances to financial institutions	202,425	12,938	254	0	0	215,618
Loans and advances to customers	424,100	195,659	522,501	296,135	0	1,438,395
Bonds and debt instruments	52,924	74,982	17,981	23,711	0	169,598
Shares and equity instruments	0	0	0	0	49,328	49,328
Hedged securities	59,496	1,819	9,037	34,838	0	105,190
Derivatives held for trading	10,561	5,407	10,582	11,807	0	38,358
Derivatives held for hedging	50	3,206	6,565	677	0	10,498
Investments in associates	0	0	0	0	3,836	3,837
Property and equipment	0	0	0	0	5,823	5,823
Intangible assets	0	0	0	0	14,351	14,351
Non-current assets and disposal groups classified as held for sale	0	0	0	0	21,349	21,349
Unsettled securities trading	36,965	0	0	0	0	36,965
Other assets	0	0	0	0	31,944	31,944
Total assets	818,192	294,012	566,920	367,168	126,631	2,172,924
Liabilities and equity						
Deposits from financial institutions	129,564	7,808	3,725	8	0	141,105
Deposits from customers	573,721	66,785	36,717	5,623	0	682,846
Borrowing	71,235	189,734	638,309	115,697	0	1,014,976
Subordinated loans	0	0	4,837	24,828	60,089	89,754
Trading liabilities	13,363	2,292	3,259	1,952	0	20,866
Derivatives held for hedging	215	583	720	4,954	0	6,473
Tax liabilities	0	6,593	0	0	0	6,593
Liabilities included in disposal groups held for sale	0	0	0	0	7,242	7,242
Unsettled securities trading	29,987	0	0	0	0	29,987
Other liabilities	23,623	0	0	0	0	23,623
Total equity	0	0	0	0	149,457	149,457
Total liabilities and equity	841,709	273,796	687,567	153,063	216,788	2,172,924
Off balance sheet derivatives						
Assets						
Foreign exchange derivatives	812,419	286,390	146,518	920	0	1,246,247
Interest rate derivatives	113,379	153,549	354,004	131,552	0	752,484
Equity derivatives	56,297	3,310	0	0	0	59,607
Total off balance sheet assets	982,095	443,249	500,522	132,472	0	2,058,338
Liabilities						
Foreign exchange derivatives	812,419	286,390	146,518	920	0	1,246,247
Interest rate derivatives	92,812	126,916	377,499	155,258	0	752,484
Equity derivatives	0	0	0	0	59,607	59,607
Total off balance sheet liabilities	905,231	413,306	524,017	156,178	59,607	2,058,338
Net on balance sheet position	(23,517)	20,216	(120,647)	214,106	(90,157)	
Net off balance sheet position	76,864	29,943	(23,495)	(23,706)	(59,607)	
Maturity gap	53,347	50,159	(144,142)	190,400	(149,764)	

The following table gives a summary of the Group's interest rate risk. It shows the carrying amounts of its assets and liabilities. The carrying amount classification is based on either the repricing date of the contract or its maturity, whichever comes first.

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash balances with Central Bank	31,669	0	0	0	0	31,669
Loans and advances to financial institutions	202,425	12,938	254	0	0	215,618
Loans and advances to customers	966,114	270,116	93,997	108,168	0	1,438,395
Bonds and debt instruments	52,924	74,982	17,981	23,711	0	169,598
Shares and equity instruments	0	0	0	0	49,328	49,328
Hedged securities	59,496	1,819	9,037	34,838	0	105,190
Derivatives held for trading	38,358	0	0	0	0	38,358
Derivatives held for hedging	10,498	0	0	0	0	10,498
Investments in associates	0	0	0	0	3,837	3,837
Property and equipment	0	0	0	0	5,823	5,823
Intangible assets	0	0	0	0	14,351	14,351
Non-current assets and disposal groups classified as held for sale	0	0	0	0	21,349	21,349
Unsettled securities trading	0	0	0	0	36,965	36,965
Other assets	0	0	0	0	31,944	31,944
Total assets	1,361,485	359,856	121,269	166,717	163,597	2,172,924
Liabilities and equity						
Deposits from financial institutions	131,501	7,808	1,789	8	0	141,105
Deposits from customers	602,074	64,857	10,292	5,623	0	682,846
Borrowing	669,750	54,756	221,659	68,810	0	1,014,976
Subordinated loans	30,621	0	3,839	6,090	49,203	89,754
Trading liabilities	20,866	0	0	0	0	20,866
Derivatives held for hedging	6,473	0	0	0	0	6,473
Tax liabilities	0	0	0	0	6,593	6,593
Liabilities included in disposal groups held for sale	0	0	0	0	7,242	7,242
Unsettled securities trading	0	0	0	0	29,987	29,987
Other liabilities	0	0	0	0	23,623	23,623
Total equity	0	0	0	0	149,457	149,457
Total liabilities and equity	1,461,287	127,421	237,579	80,531	266,105	2,172,924
Off balance sheet derivatives						
Assets						
Foreign exchange derivatives	1,039,543	179,647	26,136	920	0	1,246,247
Interest rate derivatives	237,755	135,626	277,481	101,622	0	752,484
Equity derivatives	56,297	3,310	0	0	0	59,607
Total off balance sheet assets	1,333,596	318,583	303,617	102,542	0	2,058,338
Liabilities						
Foreign exchange derivatives	812,419	286,390	146,518	920	0	1,246,247
Interest rate derivatives	461,207	122,647	125,546	43,083	0	752,484
Equity derivatives	0	0	0	0	59,607	59,607
Total off balance sheet liabilities	1,273,626	409,037	272,064	44,003	59,607	2,058,338
Net on balance sheet position	(99,802)	232,435	(116,310)	86,186	(102,508)	
Net off balance sheet position	59,969	(90,454)	31,553	58,538	(59,607)	
Total interest sensitivity gap	(39,833)	141,981	(84,757)	144,724	(162,115)	

4.5 Fair value of financial assets and financial liabilities

The following table gives a summary of the carrying amount and fair value of financial assets and financial liabilities not carried at fair value. The fair value has been estimated by discounting the cash flow of financial assets and financial liabilities based on market interest rates for assets and liabilities of the same or similar duration.

	Carrying value 2006	Fair value 2006	Difference 2006
Financial assets			
Loans and advances to customers	1,438,395	1,430,638	(7,757)
Financial liabilities			
Borrowing	1,014,976	1,009,433	5,542
Net difference			(2,215)

4.6 Inflation-indexed assets and liabilities

The Bank's balance sheet has a positive balance between indexed and non-indexed assets. At year-end, indexed assets exceeded indexed liabilities by ISK 118 billion. These amounts only apply to assets and liabilities in ISK.

	2006	2005
Assets	336,303	275,615
Liabilities	(217,492)	(136,559)
	118,811	139,056

4.7 Core Income

The Group's Income with reversal of its net gain from equity holdings, securities and FX trading, reflects its Core Income. The approach is to reverse net gain/loss from equity holdings of any kind, as well as gain from securities and FX trading. Instead the net interest revenues is increased by the cost of funds of the Group's positions in these items. To calculate the net interest revenues, a risk free rate of treasury shares for each underlying currency is used. Notwithstanding the Bank's definition of its core income, its performance also depends, for instance, on equity and bond positions taken on own account. The following table gives a comparison between the Group's Income and Core Income for the years 2003-2006:

Actual Income	2006	2005	2004	2003
Net interest revenues	41,491	22,996	14,734	9,331
Net commissions and fees	28,366	16,726	8,891	6,116
Net gain on equity, securities and FX	19,568	21,257	9,842	3,535
Net operating revenues	89,426	60,978	33,467	18,982
Operating expenses	38,588	20,967	14,460	10,815
Impairment on loans and advances and assets held for sale	6,144	6,197	4,485	4,656
Impairment on goodwill	0	3,033	0	0
Profit before income tax	44,694	30,781	14,521	3,511
Cost Income Ratio	43%	34%	43%	57%
ROE before tax	40%	56%	57%	21%
Adjustments				
Net interest revenues	3,640	3,652	1,200	992
Net gain on equity, securities and FX	(19,568)	(21,257)	(9,842)	(3,534)
Impairment on goodwill	0	3,033	0	0
	(15,929)	(14,572)	(8,642)	(2,542)
Core Income				
Net interest revenues	45,131	26,647	15,934	10,323
Net commissions and fees	28,366	16,726	8,891	6,116
Net operating revenues	73,497	43,373	24,825	16,439
Operating expenses	38,588	20,967	14,460	10,815
Impairment on loans and advances and assets held for sale	6,144	6,197	4,485	4,656
Profit before income tax	28,765	16,210	5,879	968
Core Cost Income Ratio	53%	48%	58%	66%
Core ROE before tax	26%	30%	23%	6%

5 Income Statement by quarters

	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Operations					
Interest revenues	34,887	33,154	37,527	27,535	21,073
Interest expenses	25,306	23,840	23,865	18,601	13,818
Net interest revenues	9,581	9,314	13,662	8,934	7,255
Fee and commission income	9,323	7,547	7,791	7,797	5,359
Fee and commission expenses	1,325	979	849	940	598
Net fee and commission income	7,998	6,568	6,943	6,857	4,761
Dividend income	161	99	269	1,834	191
Net (loss) gain on financial assets and financial liabilities held for trading	492	1,943	(1,011)	750	5,503
Net (loss) gain on financial assets designated at fair value through profit and loss	5,913	594	(489)	7,680	1,205
Fair value adjustments in hedge accounting	78	25	(25)	(96)	(361)
Foreign exchange difference	(58)	(145)	(12)	(49)	92
Profit (loss) from associates	1,133	(15)	(262)	843	643
Net gain of disposal groups held for sale	(479)	155	51	188	63
Other operating revenues	7,240	2,656	(1,478)	11,150	7,337
Net operating revenues	24,819	18,538	19,127	26,942	19,352
Salaries and related expenses	6,989	5,963	6,256	5,249	4,136
Administrative expenses	4,042	3,754	3,496	2,839	2,933
Operating expenses	11,031	9,717	9,752	8,088	7,069
Impairment on loans and advances during the period	1,332	1,597	1,660	1,555	1,805
Profit before impairment on goodwill and income tax	12,457	7,224	7,714	17,299	10,479
Impairment on goodwill	0	0	0	0	(259)
Income tax	(1,596)	1,480	1,572	3,023	1,929
Net profit	14,053	5,744	6,143	14,276	8,809
Attributable to:					
Shareholders of Landsbanki Islands hf.	13,664	5,281	5,966	13,995	8,734
Minority interest	389	463	177	280	75

6 Business segments

The Group operates in four business segments:

- Retail Banking
- Corporate Banking
- Securities and Treasury
- Asset Management and Private Banking

Retail Banking includes the Bank's branch network, SP Fjármögnun and Heritable Bank excluding its corporate division.

Corporate Banking includes the Bank's Corporate division and Heritable's Bank's and Luxembourg's Corporate Banking divisions.

Securities and Treasury is comprised of the parent company's securities operations and Teather & Greenwood Holding plc., Kepler Equities SA and Merrion Capital Group. This division includes securities brokerage, corporate advisory, FX and derivative trading, the Bank's treasury and debt management and proprietary trading.

Asset Management and Private Banking includes the parent company's Asset Management division, Landsvaki hf. and Landsbanki Luxembourg SA without its Corporate Banking division.

Year 2006	Asset Management					Group
	Retail Banking	Corporate Banking	Securities & Treasury	Private Banking	Other operations	
Net interest revenues	15,145	22,714	1,280	2,351	0	41,491
Net fee and commission income	2,860	2,547	19,294	3,665	0	28,366
Net financial gains	(32)	62	19,235	303	0	19,568
Net operating revenues	17,974	25,323	39,809	6,320	0	89,426
Operating expenses	8,752	6,003	19,101	3,239	1,493	38,588
Impairment on loans and advances and assets held for sale	1,200	3,642	1,307	(5)	0	6,144
Profit before income tax	8,022	15,678	19,400	3,086	(1,493)	44,694
Total assets 31 December 2006	369,908	937,353	565,340	289,422	10,901	2,172,924

6 Business segments (continued)

Year 2005	Retail Banking	Corporate Banking	Securities & Treasury	Asset Management		Group
				Private Banking	Other operations	
Net interest revenues	10,466	11,866	(1,063)	1,727	0	22,996
Net fee and commission income	3,131	2,343	8,785	2,466	0	16,726
Net financial gains	66	247	20,789	154	0	21,257
Net operating revenues	13,664	14,456	28,511	4,348	0	60,978
Operating expenses	8,272	4,155	5,906	2,208	425	20,967
Impairment on loans and advances and assets held for sale	2,026	3,268	0	902	0	6,197
Impairment on goodwill	0	0	3,033	0	0	3,033
Profit before income tax	3,366	7,032	19,572	1,237	(425)	30,781
Total assets 31 December 2005	261,638	636,014	285,652	215,144	7,012	1,405,460

7 Geographical segments - breakdown of revenues

Year 2006	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest revenues	24,622	9,407	3,403	4,059	41,491
Net fee and commission income	11,334	7,907	1,845	7,281	28,366
Net financial gains	6,866	1,796	267	10,640	19,568
Net operating revenues	42,822	19,109	5,514	21,980	89,426
	48%	21%	6%	25%	100%
Year 2005	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest revenues	17,362	3,921	1,717	(5)	22,996
Net fee and commission income	12,820	2,314	1,350	242	16,726
Net financial gains	20,388	652	156	62	21,257
Net operating revenues	50,570	6,887	3,223	299	60,978
	83%	11%	5%	0%	100%

* Other=Continental Europe, Scandinavia, Canada, USA and other.

8 Net interest revenues

Interest revenues	2006	2005
Interest on deposits and loans to financial institutions	3,767	4,343
Interest on loans and advances	111,247	54,571
Interest on other financial assets	10,368	4,118
Other interest revenues	7,720	3,405
	133,102	66,437
Interest expenses	2006	2005
Interest on deposits from credit institutions	7,686	5,106
Interest on deposits from customers	32,160	15,608
Interest on borrowing	39,628	18,087
Interest on subordinated loans	4,721	1,789
Other interest expenses	7,416	2,851
	91,611	43,441
Net interest revenues	41,491	22,996

9 Net fee and commission income

	2006	2005
Fee and commission income		
Securities *	20,491	9,261
Asset management	2,554	1,860
Lending	3,980	3,515
Cards	1,244	1,139
Interbank revenues	972	989
Collection and payment services	755	526
Foreign trade	446	386
Other commissions and fees	2,017	804
	32,459	18,479
Fee and commission expense	4,092	1,754
Net fee and commission income	28,366	16,726

* Securities includes Corporate Advisory, FX and Derivatives, Treasury, Derivatives Trading and Securities Trading

10 Dividend income

	2006	2005
Trading	449	846
Financial assets designated at fair value through profit and loss	1,914	227
	2,362	1,073

11 Net gain on trading in equity, bonds, currency and associated companies

	Stock trading	Bond trading	FX	Profit from associates	Other	Total 2006	Total 2005
Dividend income	2,362	0	0	0	0	2,362	1,073
Net gain on financial assets and financial liabilities held for trading	1,917	257	0	0	0	2,174	10,868
Net gain on financial assets designated at fair value through profit and loss	13,699	0	0	0	0	13,699	5,866
Fair value adjustments in hedge accounting	0	0	0	0	(18)	(18)	6
Foreign exchange difference	0	0	(263)	0	0	(263)	387
Profit from associates	0	0	0	1,699	0	1,699	1,907
Net gain on sale of disposal groups held for sale	22	0	0	0	(107)	(85)	1,150
	18,000	257	(263)	1,699	(125)	19,568	21,257

12 Net gain on financial assets designated at fair value through profit and loss

	2006	2005
Equity securities:		
Listed	9,368	4,409
Unlisted	4,331	1,457
Total	13,699	5,866

13 Salaries and related expenses

	2006	2005
Salaries	20,204	10,512
Pension-fund contributions	2,076	1,042
Pension-fund settlement with The Bank Employees' Pension Fund	655	0
Other personnel expenses	1,523	1,128
	24,458	12,682
Number of positions at year-end	2,117	1,725

14 Impairment on loans and advances and assets held for sale

	2006	2005
Loans and advances	5,690	6,347
Financial assets	617	0
None-current assets held for sale	2	(14)
	6,309	6,333
Collected previously written-off loans	(165)	(137)
	6,144	6,197

ISK million

15 Income tax

	2006	2005
Current tax	886	2,181
Deferred tax	3,593	3,583
	4,479	5,764
	2006	2005
Profit before tax	44,694	33,815
Tax calculated at a tax rate of local 18%	8,045	6,087
Effect of different tax rates in other countries	1,320	387
Income not subject to tax	(4,684)	(646)
Other	(201)	(64)
	4,479	5,764

16 Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	2006	2005
Profit attributable to equity holders of the Bank	38,906	24,740
Weighted average number of ordinary shares in issue	10,608	9,020
Basic earnings per share (ISK per share)	3.67	2.74

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Bank's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Profit attributable to equity holders in the bank	38,906	24,740
Weighted average number of ordinary shares in issue	10,608	9,020
Adjustments for:		
– share options	573	476
Weighted average number of ordinary shares for diluted earnings per share	11,181	9,495
Diluted earnings per share (ISK per share)	3.48	2.61

17 Loans and advances to customers

	2006	2005
Public entities	8,892	7,670
Corporates		
Fishing industry	134,061	97,958
Retail trade	229,312	142,229
Agriculture	6,170	6,381
Construction and industry	177,854	138,497
Services	596,053	349,676
Other	3,529	10,691
Individuals	299,135	244,634
Allowance for losses on loans and advances	(16,611)	(13,144)
Total loans and advances to customers	1,438,395	984,593

Provisions for credit losses

Changes during the year:	2006	2005
Balance at beginning of year	13,144	8,359
(Disposals)/acquisitions	(12)	436
Impairment on loans and advances	5,690	6,347
Loans written off	(2,221)	(1,998)
Translation difference	9	0
Balance at year-end	16,611	13,144
Provision ratio (Provisions for credit losses/total loans and advances to customers)	1.07%	1.27%

18 Trading assets and financial assets designated at fair value through profit and loss

Bonds and debt instruments	2006			2005		
	Trading assets	Fin. assets designated at fair value	Total	Trading assets	Fin. assets designated at fair value	Total
Domestic						
Listed	32,593	0	32,593	28,242	0	28,242
Unlisted	0	0	0	0	0	0
	32,593	0	32,593	28,242	0	28,242
Foreign						
Listed	136,716	0	136,716	23,284	0	23,284
Unlisted	290	0	290	9	0	9
	137,006	0	137,006	23,293	0	23,293
Total Bonds and debt instruments	169,598	0	169,598	51,535	0	51,535
Shares and equity instruments						
Domestic			Total			Total
Listed	18,843	7,022	25,864	8,397	18,389	26,786
Unlisted	2,070	341	2,411	358	341	699
	20,912	7,362	28,275	8,755	18,730	27,485
Foreign						
Listed	8,849	9,804	18,654	9,021	14,911	23,932
Unlisted	1,176	1,224	2,400	6,032	843	6,875
	10,025	11,028	21,053	15,053	15,753	30,807
Total Shares and equity instruments	30,938	18,391	49,328	23,809	34,483	58,292
Hedged securities			Total			Total
Trading bonds	45,583	0	45,583	48,963	0	48,963
Trading equities	59,607	0	59,607	80,701	0	80,701
Total hedged securities	105,190	0	105,190	129,663	0	129,663
Derivatives held for trading	38,358	0	38,358	13,886	0	13,886
Total	344,084	18,391	362,475	218,894	34,483	253,377

19 Derivatives held for trading and trading liabilities

	2006			2005		
	Contract/notional amount	Fair value		Contract/notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	1,008,938	12,981	6,375	477,283	4,422	3,791
OTC currency options bought and sold	263,844	6,673	3,463	212,798	3,331	4,098
Cross-currency interest rate swaps	182,838	8,753	204	58,905	1,572	1,613
	1,455,619	28,407	10,042	748,986	9,325	9,502
Interest rate derivatives						
Interest rate swaps	523,844	5,263	4,057	214,910	3,091	2,264
	523,844	5,263	4,057	214,910	3,091	2,264
Equity derivatives						
Equity forwards	65,213	2,962	6,545	81,269	213	14,503
OTC stock options - bought and sold	14,642	1,726	222	13,454	1,257	235
Equity futures	1,747	0	0	0	0	0
	81,602	4,688	6,767	94,723	1,471	14,738
Total derivatives held for trading	2,061,066	38,358	20,866	1,058,619	13,886	26,504

20 Derivatives held for hedging

	2006			2005		
	Contract/notional amount	Fair value		Contract/notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as fair value hedges						
Interest rate swaps	324,627	5,686	5,324	96,003	3,205	3,201
Cross-currency interest rate swaps	99,722	4,812	1,149	105,011	1,484	885
	424,349	10,498	6,473	201,014	4,689	4,086

ISK million

21 Investment in Associates

Company	Total assets	Ownership %	Profit (loss) from associates	Book value 2006	Book value 2005
Eignarhaldsfélagið ehf.	1,289	49.0	(25)	929	0
Greiðslumiðlun hf.	30,173	38.0	169	823	694
Reiknistofa bankanna	1,717	33.9	0	515	515
Creditinfo Group hf.	1,530	43.2	(7)	471	184
Rockview Merrion Investments	906	50.0	105	302	0
Kreditkort hf.	10,689	20.0	55	239	224
Intrum hf.	500	25.0	4	87	83
Liftryggingamiðstöðin hf.	428	34.0	5	139	135
LME eignarhaldsfélag ehf.		40.0	(266)	0	0
Fjárfestingafélagid Grettir hf.		0.0	1,771	0	2,556
Other partially owned companies			(114)	330	64
			1,699	3,837	4,456

All these investments are unlisted.

22 Property and equipment

Fixed assets:	Premises	Other	Total
Book value at beginning of year	1,794	2,465	4,260
Additions	533	2,673	3,206
Sold	(63)	(294)	(357)
Disposals	(38)	(777)	(815)
Depreciation charge	(152)	(319)	(471)
Net book value at year-end	2,075	3,748	5,823
Depreciation (straight-line)	1-4%	10-33%	

Assessment value of land and Bank Premises:

	2006	2005
Official assessment value of land and Bank premises	1,877	1,756
Replacement value of buildings	2,799	2,470

23 Intangible assets

Goodwill	2006	2005
Opening net book amount	9,380	1,160
Exchange and other differences	2,270	(12)
Acquisition of assets and liabilities from Cedevis S.A.	272	0
Acquisition of Landsbanki Guernsey Limited	156	0
Acquisition of Teather & Greenwood	0	4,088
Acquisition of Key Business Financial Corporation	0	603
Acquisition of Kepler Equities	0	2,144
Acquisition of Merrion	0	1,397
Merger with Burðarás hf.	0	3,293
Impairment	0	(3,293)
Net book value at year-end	12,078	9,380

Software and other intangible assets

Opening net book amount	1,081	425
Additions	2,950	819
Disposals	(1)	0
Amortisation	(1,532)	(163)
Impairment	(226)	0
Net book value at year-end	2,274	1,081

Total Intangible assets

14,351 **10,461**

All goodwill has been tested for impairment at year-end. The conclusion of the test was that no charges were needed. The goodwill has been divided between the smallest cash generating units based on the required rate of return from each unit. An assessment of a recoverable value of a goodwill is based on its use value.

24 Non-current assets and disposal groups classified as held for sale

	2006	2005
Appropriated assets	564	920
Allowance for appropriated assets	(210)	(208)
	354	712
Disposal group held for sale		
– Investment properties included in disposal groups	18,206	15,613
– Other assets included disposal groups	2,789	135
	20,996	15,748
Total non-current assets and disposal groups classified as held for sale	21,349	16,459

25 Deposits from financial institutions

	2006	2005
Loans from Central Bank and repurchase agreements	46,451	44,730
Loans from other credit institutions	94,654	99,866
	141,105	144,596

26 Deposits from customers

	2006	2005
Demand deposits	229,654	113,834
Time deposits	453,192	220,328
	682,846	334,163

27 Borrowing

	2006	2005
Securities issues	865,274	620,793
Borrowing	149,702	69,196
	1,014,976	689,989
Securities issues:	2006	2005
Europe - MTN	505,287	469,919
USA - MTN	161,541	0
European Commercial Paper (ECP)	21,518	23,318
Other	176,928	127,556
	865,274	620,793

For maturity, see note 4.4

28 Subordinated loans

					2006	2005
Tier I – Non-innovative hybrid capital					41,801	7,472
Tier I – Innovative hybrid capital					18,288	14,928
Tier II					29,665	26,675
					89,754	49,074
Subordinated loans	Classification	Currency	Interest	Maturity	2006	2005
London Stock exchange	Tier I	EUR	6.25%	callable	33,439	0
Luxembourg Stock Exchange	Tier I	EUR	4.65%	callable	14,763	11,615
London Stock exchange	Tier I	EUR	Euribor+1,23%	callable	8,361	7,472
Iceland Stock Exchange	Tier I	ISK	6,5%+CPI	callable	1,210	1,106
Iceland Stock Exchange	Tier I	ISK	5,8%+CPI	callable	1,183	1,132
Iceland Stock Exchange	Tier I	ISK	8,65%+CPI	callable	1,132	1,075
					60,089	22,399
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,35%	2015	18,752	14,949
Luxembourg Stock Exchange	Tier II	JPY	3.45%	2033	2,789	2,691
Luxembourg Stock Exchange	Tier II	EUR	7.20%	2026	1,032	823
Luxembourg Stock Exchange	Tier II	EUR	5.44%	2018	960	760
Luxembourg Stock Exchange	Tier II	EUR	4.40%	2035	915	0
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,8%	2013	379	301
Unlisted	Tier II	USD	Libor+1,85%	2011	2,137	1,897
Unlisted	Tier II	ISK	5,6%+CPI	callable	1,797	1,680
Unlisted	Tier II	ISK	6,09%+CPI	callable	903	844
Unlisted	Tier II	EUR	Euribor+1,35%	2011	0	375
Unlisted	Tier II	USD	Libor+0,66%	2006	0	859
Unlisted	Tier II	EUR	0.00%	2008	0	1,494
					29,665	26,675
Total subordinated loans					89,754	49,074

Subordinated loans are a part of equity according to regulation on the calculation of capital ratio (see note 31). Subordinated loans are fully applicable to the calculation of CAD ratio.

29 Tax liabilities

Tax liabilities specified as follows	2006	2005
Tax to be paid	3,388	3,082
Taxliabilities	3,205	4,207
	6,593	7,289

The movement on the deferred income tax account is as follows:

	2006	2005
At 1 January	4,207	127
Income statement charge	(1,002)	3,583
Exchange differences	0	497
	3,205	4,207

Deferred income tax liabilities

	2006	2005
Premises and equipment	96	284
Financial assets designated at fair value through profit and loss	2,723	3,773
Non-current assets and disposal groups classified as held for sale	340	380
Miscellaneous assets	657	2
Loan commitment fee	30	2
	3,845	4,441

Deferred income tax assets

	2006	2005
Obligations	(62)	(68)
Shareholdings	(579)	(27)
Loan commitment fee	0	(22)
	(640)	(117)

The deferred tax charge in the income statement is comprised of the following temporary differences:

	2006	2005
Premises and equipment	(188)	75
Miscellaneous assets	76	167
Obligations	3	3
Non-current assets and disposal groups classified as held for sale	(41)	380
Financial assets designated at fair value through profit and loss	(1,050)	3,103
Agricultural Loan Fund	72	(72)
Loan commitment fee	126	(74)
	(1,002)	3,583

30 Other liabilities

Pension liabilities	691	358
Other liabilities	22,932	10,882
	23,623	11,240

Most of the Group companies have defined contribution pension plans, where the companies have no further payment obligation once the contributions have been paid. The pension liabilities in the balance sheet of the Group is for defined benefit pension plans that a few of the Group companies have.

31 Capital ratio

	2006	2005
Risk-adjusted assets	1,523,143	1,065,074
Capital:		
Tier I capital:		
Equity	144,282	110,059
Subordinated loans	60,089	22,399
Goodwill	(12,078)	(9,381)
Minority interests	5,175	3,557
	197,468	126,635
Tier II capital:		
Subordinated loans	29,665	26,675
– deduction in accord with Articles 28 and 85 of Act No 161/2002	(1,062)	(13,601)
Total capital	226,071	139,710
Tier I ratio	13.0%	11.9%
Capital ratio	14.8%	13.1%

32 Contingent liabilities

Off-balance sheet contingent liabilities specifies as follows:	2006	2005
Guarantees issued	95,911	40,737
Available overdrafts	59,946	28,291
Unused credit commitments	63,210	42,507
	219,067	111,536

33 Fiduciary activities

The Landsbanki Group provides asset custody, asset management, investment management and advisory services. All of them require the Group to make decisions on the treatment, acquisition or disposal of financial instruments. Assets in Landsbanki's custody are not reported in its accounts. Part of this service involves the Group approving objectives and criteria for the investment of assets in its custody. As of 31 December 2006, financial assets managed by the Group amounted to ISK 376.9 billion (31.12.2005:281 bn). Amounts in custody accounts amounted to ISK 1,751 billion (31.12.2005: 1,321 bn).

34 Executive salaries and benefits

The remuneration to the Board of Directors, CEOs and managing directors of the bank's parent company and subsidiaries and their stock option contracts are as follows:

	Salary and benefits	Options exercised 2006	Earned unexercised	Contracts 2007-2010	Total	Holdings at year-end
Björgólfur Guðmundsson, Chairman of the Board of Directors	6		0	0	0	4,559
Kjartan Gunnarsson, Vice-chairman of the Board of Directors	5		0	0	0	92
Other Directors	10		0	0	0	22
Halldór J. Kristjánsson, CEO	119		19	30	49	11
Sigurjón P. Arnason, CEO	153		80	30	110	0
<i>Managing director responsible for a division comprising 25% or more of the company's equity or performance</i>						
Yngvi Örn Kristinsson, managing director	84		22	3	25	0
16 managing directors of the bank's divisions and subsidiaries	1,039		159	52	211	11
	1,416	0	280	115	395	4,695

The strike price of call options on Landsbanki's shares held by CEOs and managing directors ranges from 3.58-14.25. The options can be transferred from one year to the next and can be accumulated and exercised at the end of the period. Measures have been taken to enable the bank to fulfil the contracts concluded and the cost of these measures has been expensed through profit and loss. Holdings include holdings of the parties concerned, their spouses, children who are not financially competent and legal entities under their control/in which they have a holding.

Remuneration to CEOs and managing directors is comprised of basic salary, benefits and performance-linked bonuses reflecting ROE and the increase in the bank's value. Basic salary and benefits comprise ISK 29.2 m of remuneration to CEO Halldór J. Kristjánsson, ISK 37.6 m of remuneration to CEO Sigurjón P. Arnason and ISK 21.2 m to managing director Yngvi Örn Kristinsson. Other payments are performance-linked bonuses.

35 Stock option plan

Employees and managers within the Landsbanki Group hold call options on Landsbanki's shares with a strike price of 3.58 to 14.25. Stock options are granted at market share price on the date granted. Measures have been taken to enable the bank to fulfil the contracts concluded and the cost of these measures has been expensed through profit and loss. The options will be earned from 2003 to 2010. Options are earned over a four-year period and can be exercised at the end of the fourth year and during the following two years. Options held by employees and managers at year-end 2006 totalled ISK 946.4 m nominal value. Earned and unexercised options as of 31 December 2006 totalled ISK 661.9 m nominal value. Options which were granted at prices 3.58-5.7 are earned in 2003-2006 and can be exercised 2006-2008 total ISK 176.7 m nominal value. Options which were granted at prices 7.0-9.0 are earned in 2004-2007 and can be exercised 2007-2009 total ISK 337.5 m nominal value. Options which were granted at prices 12-14.25 are earned in 2005-2010 and can be exercised 2008-2010 total ISK 432.2 m nominal value. In 2006 no new options were granted and no earned options were exercised.

36 Related-parties

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 153 million as of 31 December 2006.

Loans to members of the Board of Directors and their fully owned companies amounted to ISK 26,267 million, including credit granted to companies with which members of the Board are connected through membership of the companies' Boards or ownership ties.

The holding company, Samson eignarhaldsfélag ehf., has a 41.37% holding in the Bank. The Bank has not assisted the company with any provision of credit. One of the company's owners sits on Landsbanki's Board of Directors and loans granted to this person are included in the above amounts.

Total credit extended to associated companies by the Bank amounted to ISK 14,152 million as of 31 December 2006.

All of the loans referred to here have been granted in accordance with the Bank's credit rules and on normal commercial terms. No impairment has been recognised by the Bank against these loans.

37 Auditors fee

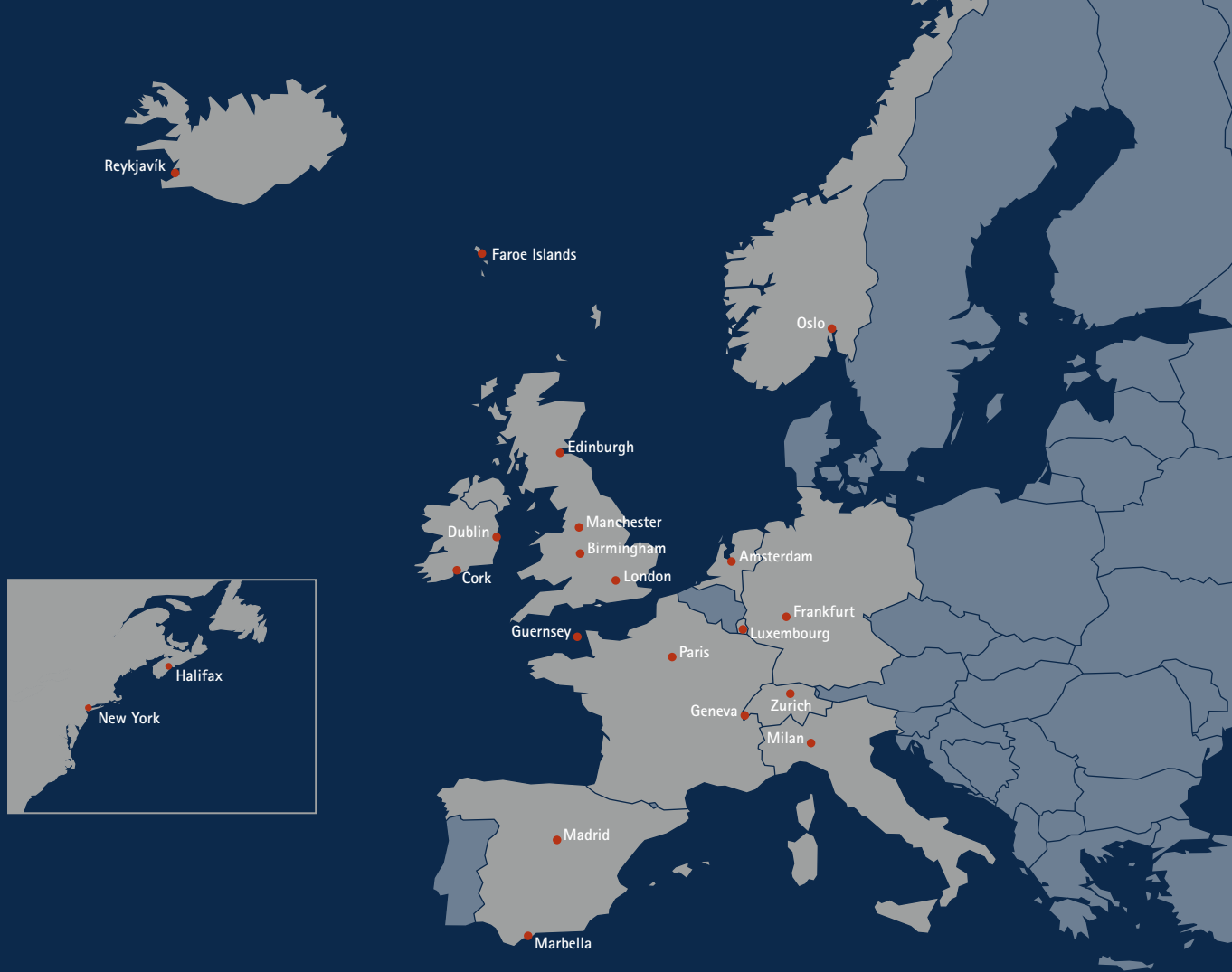
	2006	2005
Audit and audit related services	99	95
Other professional services	45	23
	145	118

38 Acquisitions

On 4. August, Landsbanki Islands hf announced that it had reached an agreement to acquire a 100% share of Cheshire Guernsey Ltd. This acquisition was achieved through Landsbanki's direct acquisition of shares in Cheshire Guernsey Ltd. The transaction was completed in September. Subsequently the bank's name was changed to Landsbanki Guernsey Limited.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Loans and advances to banks	17,246
Deposits	(14,498)
Tax liability	(17)
Goodwill (see note 23)	156
Total Cost of acquisition (discharged by cash)	2,887



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