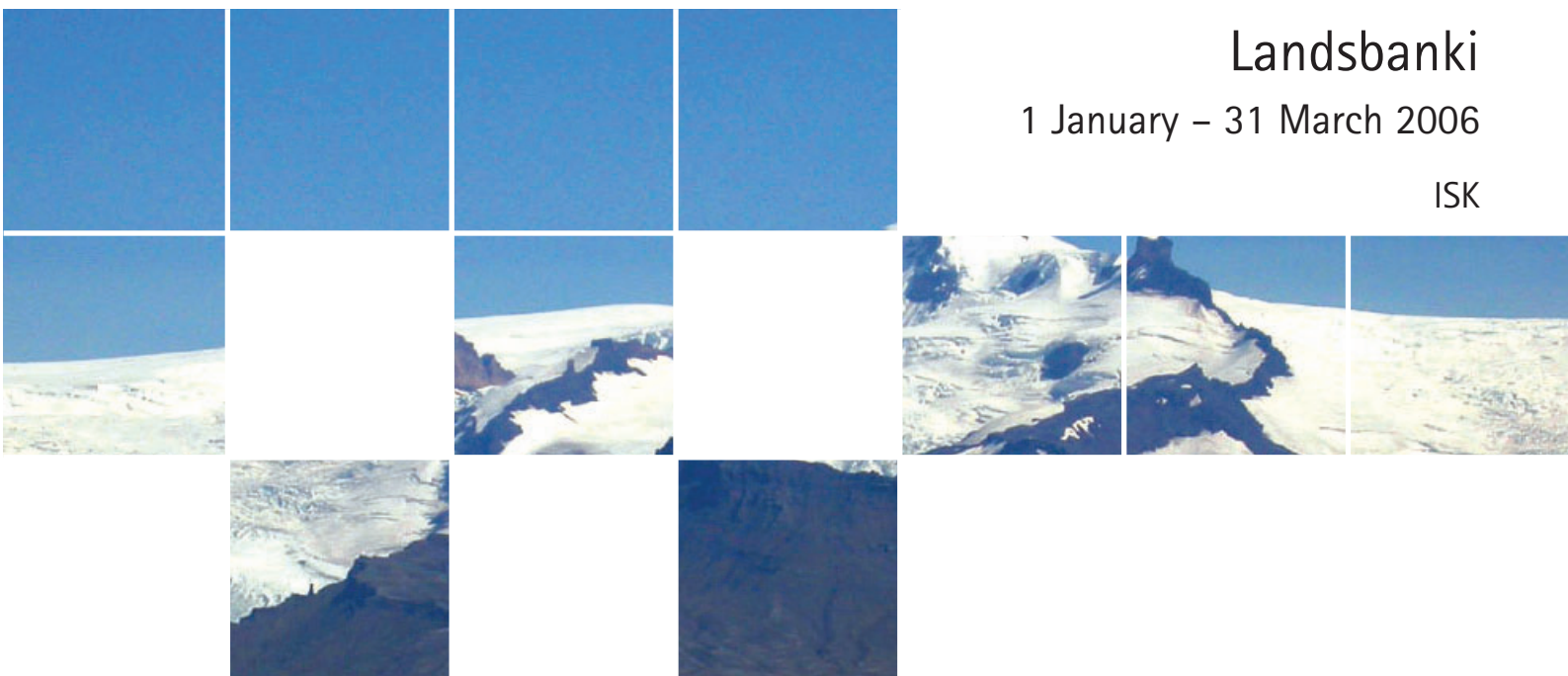


Consolidated Interim Financial Statements

Landsbanki

1 January – 31 March 2006

ISK



Consolidated Interim Financial Statements

Landsbanki

1 January – 31 March 2006

ISK



Content	page
Consolidated Key Figures	2 - 3
Report of the Board of Directors and Group Managing Directors & CEOs	4
Auditor's Review Report	5
Consolidated Interim Income Statement	6
Consolidated Interim Balance Sheet	7
Consolidated Interim Equity Statement	8
Consolidated Interim Statement of Cash Flow	8
Notes to the Consolidated Interim Financial Statements	9 - 27

Consolidated Key Figures

Operations	2006	2005	%	2006	2005	%
	Q1	Q1		Q1	Q4	
Interest revenues	27,535	12,461	121%	27,535	21,073	31%
Interest expenses	18,601	8,172	128%	18,601	13,818	35%
Net interest revenues	8,934	4,289	108%	8,934	7,255	23%
Fee and commission income	7,797	3,481	124%	7,797	5,359	45%
Fee and commission expenses	940	361	161%	940	598	57%
Net fee and commission income	6,857	3,120	120%	6,857	4,761	44%
Dividend income	1,834	105	1647%	1,834	191	862%
Net gain on financial assets and liabilities held for trading	750	1,978	-62%	750	5,503	-86%
Net gain on financial assets designated at FV through P/L	7,680	2,490	208%	7,680	1,205	537%
Fair value adjustments in hedge accounting	(96)	216	-144%	(96)	(361)	-73%
Foreign exchange difference	(49)	97	-151%	(49)	92	-153%
Share of profit of associates	843	484	74%	843	643	31%
Net gain of disposal groups held for sale	188	0		188	63	199%
Other operating revenues	11,150	5,370	108%	11,150	7,337	52%
Operating revenues	26,942	12,779	111%	26,942	19,352	39%
Salaries and related expenses	5,249	2,355	123%	5,249	4,136	27%
Administrative expenses	2,839	1,683	69%	2,839	2,933	-3%
Operating expenses	8,088	4,037	100%	8,088	7,069	14%
Impairment on loans and advances and assets held for sale	1,555	1,345	16%	1,555	1,805	-14%
Profit before impairment on goodwill and income tax	17,299	7,396	134%	17,299	10,479	65%
Impairment on goodwill	0	0		0	(259)	-100%
Income tax	3,023	1,351	124%	3,023	1,929	57%
Net profit	14,276	6,045	136%	14,276	8,809	62%
Attributable to:						
Shareholders of Landsbanki Íslands hf.	13,995	6,011		13,995	8,734	
Minority interests	280	34		280	75	
Return on equity after taxes on year basis	63.5%	81.7%	-22%			
Cost-income ratio on year basis	30.0%	31.6%	-5%			

Five-year summary

Operations	Q1 2006	2005	2004	2003	2002
Net interest revenues	8,934	22,996	14,734	9,331	7,732
Net fee and commission income	6,857	16,726	8,891	6,116	4,076
Other operating revenues	11,150	21,257	9,842	3,535	2,109
Operating revenues	26,942	60,978	33,467	18,982	13,916
Operating expenses	8,088	20,967	14,460	10,815	8,505
Impairment on loans and advances and assets held for sale	1,555	6,197	4,485	4,656	2,863
Profit before impairment on goodwill and income tax	17,299	33,815	14,521	3,512	2,549
Impairment on goodwill	0	3,033	0	0	0
Income tax	3,023	5,764	1,798	457	475
Net profit	14,276	25,017	12,723	3,055	2,074
Attributable to:					
Shareholders of Landsbanki Íslands hf.	13,995	24,740	12,574	2,956	2,028
Minority interests	280	277	149	99	45

Balance Sheet	31.3.2006	31.12.2005	Change	%	31.12.2004	31.12.2003	31.12.2002
Cash and cash balances with Central Bank	19,403	16,611	2,792	17%	18,237	48,772	18,893
Loans and advances	1,284,107	1,071,513	212,594	20%	614,274	326,400	214,787
Trading assets	300,780	218,894	81,886	37%	64,730	63,744	36,337
Other assets	165,613	98,443	67,170	68%	39,900	9,323	7,808
Total assets	1,769,902	1,405,460	364,441	26%	737,141	448,239	277,824
Deposits	607,426	478,759	128,667	27%	279,206	196,160	138,971
Borrowing	806,627	689,989	116,638	17%	375,084	209,357	108,479
Subordinated loans	83,514	49,074	34,439	70%	22,570	13,090	8,216
Other items	151,130	74,022	77,108	104%	21,572	6,389	5,057
Equity	117,187	110,059	7,128	6%	37,705	22,382	16,309
Minority interests	4,019	3,557	461	13%	1,004	862	792
Total liabilities and equity	1,769,902	1,405,460	364,441	26%	737,141	448,239	277,824

Consolidated Key Figures

Operations	2006	2005	2005	2005	2005	2004
	Q1	Q4	Q3	Q2	Q1	Q4
Interest revenues	27,535	21,073	18,594	14,309	12,461	10,879
Interest expenses	18,601	13,818	12,272	9,180	8,172	6,268
Net interest revenues	8,934	7,255	6,322	5,129	4,289	4,611
Fee and commission income	7,797	5,359	4,775	4,864	3,481	3,191
Fee and commission expenses	940	598	392	403	361	382
Net fee and commission income	6,857	4,761	4,383	4,461	3,120	2,809
Dividend income	1,834	191	161	616	105	11
Net gain on financial assets and liabilities held for trading	750	5,503	3,550	(163)	1,978	(41)
Net gain on financial assets designated at FV through P/L	7,680	1,205	1,167	1,003	2,490	(2,220)
Fair value adjustments in hedge accounting	(96)	(361)	232	(81)	216	0
Foreign exchange difference	(49)	92	359	(161)	97	122
Share of profit of associates	843	643	505	275	484	(79)
Net gain of disposal groups held for sale	188	63	270	817	0	0
Other operating revenues	11,150	7,337	6,243	2,307	5,370	(2,207)
Operating revenues	26,942	19,352	16,949	11,898	12,779	5,213
Salaries and related expenses	5,249	4,136	3,077	3,114	2,355	2,112
Administrative expenses	2,839	2,933	1,905	1,764	1,683	1,749
Operating expenses	8,088	7,069	4,982	4,879	4,037	3,862
Impairment on loans and advances and assets held for sale	1,555	1,805	1,687	1,359	1,345	1,223
Profit before impairment on goodwill and income tax	17,299	10,479	10,280	5,660	7,396	128
Impairment on goodwill	0	(259)	3,293	0	0	0
Income tax	3,023	1,929	1,882	602	1,351	(829)
Net profit	14,276	8,809	5,105	5,058	6,045	957
Attributable to:						
Shareholders of Landsbanki Íslands hf.	13,995	8,734	4,995	5,000	6,011	905
Minority interests	280	75	110	58	34	53
Balance Sheet	31.03.2006	31.12.2005	30.9.2005	30.6.2005	31.3.2005	31.12.2004
Cash and cash balances with Central Bank	19,403	16,611	8,134	8,211	14,136	18,237
Loans and advances	1,284,107	1,071,513	891,668	828,342	687,883	614,274
Trading assets	300,780	218,894	156,243	119,208	82,630	64,730
Other assets	165,613	98,443	86,212	66,311	65,993	39,900
Total assets	1,769,902	1,405,460	1,142,258	1,022,072	850,642	737,141
Deposits	607,426	478,759	413,988	355,410	298,063	279,206
Borrowing	806,627	689,989	531,417	521,870	417,947	375,084
Subordinated loans	83,514	49,074	47,224	49,394	49,327	22,570
Other items	151,130	74,022	48,804	34,378	30,241	21,572
Equity	117,187	110,059	98,749	58,954	53,988	37,705
Minority interests	4,019	3,557	2,076	2,066	1,076	1,004
Total liabilities and equity	1,769,902	1,405,460	1,142,258	1,022,072	850,642	737,141
Key ratios	Q1 2006	Q1 2005	2005	2004	2003	2002
Return on equity before impairment on goodwill and taxes	80.1%	106.1%	61.8%	57.2%	20.9%	17.0%
Return on equity after taxes	63.5%	81.7%	45.8%	49.5%	17.6%	13.5%
Tier 1 ratio	12.4%	9.7%	11.9%	7.8%	6.9%	7.7%
Equity ratio (CAD)	13.0%	14.4%	13.1%	10.4%	9.9%	10.6%
Cost-income ratio	30.0%	31.6%	34.4%	43.2%	57.0%	61.1%
Operating expenses as a ratio of average capital position	2.1%	2.1%	2.0%	2.5%	3.0%	3.1%
Interest spread as a ratio of average capital position	2.3%	2.2%	2.2%	2.6%	2.6%	2.8%
Ratio of provision to lending position at period-end	0.49%	0.78%	0.58%	0.73%	1.47%	1.33%
Share price at period-end	24.50	14.95	25.30	12.10	5.80	3.65
Share price increase adjusted for dividend payments	-2.0%	25.2%	110.7%	110.3%	61.6%	10.6%
Number of positions at period-end	1,851	1,248	1,725	1,121	1,025	986

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

The Condensed Consolidated Interim Financial Statements for the first three months of 2006 comprise the Consolidated Financial Statements of the Landsbanki Íslands hf. and its subsidiaries. The Condensed Consolidated Interim Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS).

At 31 March 2006, shareholders in Landsbanki numbered 29,639. Samson eignarhaldsfélag ehf. is the only shareholder with a stake over 10%, namely a 40.17% stake.

According to the income statement, the Group's after tax profit for the first three months amounted to ISK 14,276 million. The Landsbanki Group's equity at period-end totalled ISK 117,187 million. The capital adequacy ratio (CAD) of the Group was 13.0%. Total assets of the Group were ISK 1,769,902 million at the end of March 2006.

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

Reykjavík, 1 May 2006

Board of Directors

Björgólfur Guðmundsson
Chairman

Kjartan Gunnarsson

Pór Kristjánsson

Guðbjörg Matthíasdóttir

Porgeir Baldursson

Group Managing Directors and Chief Executive Officers

Halldór J. Kristjánsson

Sigurjón P. Árnason

Auditor's Review Report

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

We have reviewed the Consolidated Interim Balance sheet of Landsbanki Íslands hf. and its subsidiaries as of 31 March 2006 and the related Interim Statements of Income, Changes in Shareholders' Equity, Cash Flows and the accompanying Notes for the three months then ended. These Interim Statements have been prepared in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting. These Consolidated Interim Financial Statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these Consolidated Interim Financial Statements based on our review.

We conducted our review in accordance with the International Standard of Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the Consolidated Interim Financial Statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Consolidated Interim Financial Statements do not give a true and fair view in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Reykjavík, 1 May 2006

PricewaterhouseCoopers hf.

Vignir Rafn Gíslason

Hjalti Schiöth

Consolidated Interim Income Statement 1st January - 31st March 2006

		2006	2005
Notes		1.1 - 31.3	1.1 - 31.3
	Interest revenues	27,535	12,461
	Interest expenses	18,601	8,172
8	Net interest revenues	8,934	4,289
	Fee and commission income	7,797	3,481
	Fee and commission expense	940	361
9	Net fee and commission income	6,857	3,120
10,11	Dividend income	1,834	105
11	Net gain on financial assets and financial liabilities held for trading	750	1,978
11,12	Net gain on financial assets designated at fair value through profit and loss	7,680	2,490
11	Fair value adjustments in hedge accounting	(96)	216
11	Foreign exchange difference	(49)	97
11,22	Share of profit of associates	843	484
11	Net gain of disposal groups held for sale	188	0
	Other operating revenues	11,150	5,370
	Net operating revenues	26,942	12,779
13	Salaries and related expenses	5,249	2,355
	Administrative expenses	2,839	1,683
	Operating expenses	8,088	4,037
14	Impairment on loans and advances and assets held for sale	1,555	1,345
	Profit before income tax	17,299	7,396
15	Income tax	3,023	1,351
	Net profit	14,276	6,045
	Attributable to:		
	Shareholders of Landsbanki Íslands hf.	13,995	6,011
	Minority interest	280	34
16	Earnings Per Share:		
	Earnings Per Share	1.33	0.76
	Diluted earnings per share	1.28	0.71

Consolidated Interim Balance Sheet as at 31 March 2006

Notes	31.3.2006	31.12.2005	
Assets			
	Cash and cash balances with Central Bank	19,403	16,611
17	Loans and advances	1,284,107	1,071,513
18,19	Trading assets	300,780	218,894
20	Financial assets designated at fair value through profit and loss	46,687	34,483
21	Derivatives held for hedging	4,526	4,689
22	Investments in Associates	7,139	4,456
	Property and equipment	4,802	4,260
23	Intangible assets	12,057	10,461
24	Non-current assets and disposal groups classified as held for sale	17,873	16,459
	Unsettled payments	56,767	11,264
	Other assets	15,761	12,372
	Total assets	1,769,902	1,405,460
Liabilities			
25	Deposits from credit institutions	138,092	144,596
26	Deposits from customers	469,333	334,163
27	Borrowing	806,627	689,989
28	Subordinated loans	83,514	49,074
19	Trading liabilities	39,184	26,504
21	Derivatives held for hedging	4,708	4,086
	Tax liabilities	9,736	7,289
	Liabilities included in disposal groups classified as held for sale	5,045	4,475
	Unsettled payments	64,743	20,428
	Other liabilities	27,715	11,240
	Total liabilities	1,648,696	1,291,844
Equity			
	Share Capital	10,461	10,614
	Share Premium	48,693	52,277
	Reserves	1,898	1,790
	Retained earnings	56,136	45,377
		117,187	110,059
	Minority interest	4,019	3,557
29	Total equity	121,206	113,617
	Total liabilities and Equity	1,769,902	1,405,460

30-32 Other information

Consolidated Interim Equity Statement

	Attributable to equity holders of the Company							
	Share capital	Share Premium		Reserves		Retained earnings	Minority Interest	Total
		Additionally paid in capital	Statutory Account	Translation	Fair value			
Equity 1 January 2006	10,614	52,009	268	(73)	1,864	45,377	3,557	113,617
Purchases and sales of treasury shares	(153)	(3,585)						(3,738)
Dividends paid						(3,237)		(3,237)
Translation differences				107				107
Changes in minority interest							181	181
Net profit January - March 2006						13,995	280	14,276
Equity 31 March 2006	10,461	48,424	268	34	1,864	56,136	4,019	121,206

	Attributable to equity holders of the Company							
	Share capital	Share Premium		Reserves		Retained earnings	Minority Interest	Total
		Additionally paid in capital	Statutory Account	Translation	Fair value			
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
Purchases and sales of treasury shares	45	418						463
Dividends paid						(1,577)		(1,577)
Translation differences				(14)				(14)
Net profit January - March 2005						6,011	72	6,084
Equity 31 March 2005	8,798	18,307	268	(34)	0	26,648	1,076	55,064

Consolidated Interim Statement of Cash Flow 1st January - 31st March 2006

	2006 1.1 - 31.3	2005 1.1 - 31.3
Cash flows from operating activities	(74,196)	(45,675)
Cash flows from investing activities	(5,650)	2,422
Cash flows from financing activities	81,444	36,469
Net Increase (decrease) in cash and cash equivalents	1,597	(6,784)
Cash and cash equivalents at beginning of year	31,417	25,630
Cash and cash equivalents at period-end	33,014	18,846

Notes to the Consolidated Interim Financial Statements

1 General information

Landsbanki Íslands hf. (the Group) is a universal bank, providing retail, corporate and investment banking services. The Group operates subsidiaries in five countries and has 1,851 employees at period-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 1885 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 condensed consolidated interim financial statements were approved for issue by the Board of Directors on 1 May 2006.

2 Summary of significant accounting policies

The principal accounting policies applied in preparing these condensed consolidated interim 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

These condensed consolidated interim financial statements of Landsbanki Íslands hf. cover the three months from 1 January to 31 March 2006. They have been prepared in accordance with IAS 34, Interim Financial Reporting. Condensed interim financial statements such as these do not include information as extensive as annual financial statements compiled in accordance with IFRS. The consolidated interim financial statements reflect the IFRS and interpretations issued and effective in March 2006.

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 S.A. (Luxembourg)	100%	Holding company
- Landsbanki Luxembourg S.A. (Luxembourg)	100%	Private and corporate banking
- Kepler Equities S.A. (France)	85%	Stockbrokers and financial services
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) 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.

Notes to the Consolidated Interim Financial Statements

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 Company'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 end of period 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 end of period;
- (ii) items of each income statement are translated at the average exchange rate for the period;
- (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 on the balance sheet 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.

Notes to the Consolidated Interim Financial Statements

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 hedges.

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

According to IAS 39, management may classify financial assets in this category when initially recognised. Such financial assets are reported on the balance sheet 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.

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 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.

Notes to the Consolidated Interim Financial Statements

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.

2.12 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.

2.13 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.

Notes to the Consolidated Interim Financial Statements

2.14 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 special 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.

2.15 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. 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.

2.16 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.

2.17 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.

2.18 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.

2.19 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.

2.20 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.

2.21 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 29. The loans are entered as liabilities with accrued interest and indexation.

2.22 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.

Notes to the Consolidated Interim Financial Statements

2.23 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 consolidated 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.

2.24 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.

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.

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. Landsbanki 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 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.

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 Compensation 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 Landsbanki'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.

Notes to the Consolidated Interim Financial Statements

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 Landsbanki 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 March 2006 was negative of ISK 181 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 25,155 million (2005: ISK 11,648 million) were recognised as hedges, resulting in exchange rate loss in Q1 2006 of ISK 2,704 million (2005: ISK 359 million 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 enter 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

Geographic sector risk concentrations within the customer loan portfolio were as follows:

	31.3.2006	%	31.12.2005	%
Iceland (Home country)	796,146	62	722,139	67
UK & Ireland	231,139	18	154,337	14
Luxembourg	179,775	14	127,758	12
Other	77,046	6	67,279	6
Total	1,284,107	100	1,071,513	100

Notes to the Consolidated Interim Financial Statements

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 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:

Market Risk	1 January to 31 March 2006			12 months to 31 December 2005			
	Average	High	Low	31.03.06	Average	High	Low
Interest rate risk	495	749	387	406	228	597	27
Foreign exchange risk	45	282	6	44	10	72	1
Equities risk	2,519	2,908	2,106	2,908	1,127	2,456	510
Total VaR	3,059	3,939	2,499	3,358	1,365	3,125	538

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

	Average	High	Low	31.03.06	Average	High	Low
Interest rate risk	495	749	387	406	228	597	27
Foreign exchange risk	45	282	6	44	10	72	1
Equities risk	859	1,218	543	1,143	869	1,343	469
Total VaR	1,399	2,249	936	1,593	1,106	2,012	497

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 March 2006	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	7,379	9,775	56	2,125	64	4	19,403
Loans and advances	536,408	239,305	129,578	185,102	98,723	94,990	1,284,107
Trading assets	199,051	49,790	5,375	26,939	968	18,657	300,780
Financial assets designated at fair value through P&L	17,202	881	0	0	0	28,604	46,687
Derivatives held for hedging	1,010	3,468	46	0	2	0	4,526
Investment in Associates	7,064	74	0	0	0	0	7,139
Property and equipment	4,462	242	0	99	0	0	4,802
Intangible assets	1,602	4,325	0	6,130	0	0	12,057
Non-current assets and disposal groups held for sale	17,354	0	0	519	0	0	17,873
Unsettled payments	87	42,197	160	9,096	5,191	37	56,767
Other assets	3,188	10,771	41	1,756	0	5	15,761
Total assets	794,808	360,828	135,257	231,765	104,947	142,297	1,769,902
Liabilities and equity							
Deposits from credit institutions	119,271	12,655	21	5,684	395	66	138,092
Deposits from customers	278,788	74,195	23,062	80,849	703	11,735	469,333
Borrowing	3,884	549,575	117,863	47,828	29,004	58,474	806,627
Subordinated loans	5,895	72,678	2,153	0	0	2,788	83,514
Trading liabilities	38,846	0	15	324	0	0	39,184
Derivatives held for hedging	7	3,454	336	287	158	465	4,708
Tax liabilities	9,653	81	0	2	0	0	9,736
Liabilities included in disposal groups held for sale	5,045	0	0	0	0	0	5,045
Unsettled payments	87	50,336	228	8,943	5,125	24	64,743
Other liabilities	18,837	6,709	9	2,157	0	2	27,715
Total equity	121,206	0	0	0	0	0	121,206
Total liabilities and equity	601,519	769,683	143,688	146,073	35,385	73,553	1,769,902
Net on-balance sheet position	193,289	(408,855)	(8,431)	85,692	69,562	68,744	
Net off-balance sheet position	(195,407)	409,531	8,989	(85,656)	(69,599)	(67,858)	
Net position	(2,118)	676	558	36	(37)	886	

Notes to the Consolidated Interim Financial Statements

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 period-end, the Bank's liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's Rules No. 386/2002 was 1.8.

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 March 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	17,414	0	1,988	0	0	19,403
Loans and advances	450,375	177,460	382,641	273,630	0	1,284,107
Trading assets	11,543	25,934	21,326	59,613	182,364	300,780
Financial assets designated at fair value through P&L	0	0	0	0	46,687	46,687
Derivatives held for hedging	778	77	1,984	1,688	0	4,526
Investment in Associates	0	0	0	0	7,139	7,139
Property and equipment	0	0	0	0	4,802	4,802
Intangible assets	0	0	0	0	12,057	12,057
Non-current assets and disposal groups held for sale	0	0	0	0	17,873	17,873
Unsettled payments	56,767	0	0	0	0	56,767
Other assets	0	0	0	0	15,761	15,761
Total assets	536,878	203,470	407,940	334,931	286,683	1,769,902
Liabilities and equity						
Deposits from credit institutions	53,783	24,795	33,497	26,016	0	138,092
Deposits from customers	431,071	25,464	12,257	541	0	469,333
Borrowing	119,848	119,233	490,252	77,294	0	806,627
Subordinated loans	0	0	2,592	80,921	0	83,514
Trading liabilities	39,184	0	0	0	0	39,184
Derivatives held for hedging	0	170	955	3,583	0	4,708
Tax liabilities	0	0	0	0	9,736	9,736
Liabilities included in disposal groups held for sale	0	0	0	0	5,045	5,045
Unsettled payments	64,743	0	0	0	0	64,743
Other liabilities	27,715	0	0	0	0	27,715
Total equity	0	0	0	0	121,206	121,206
Total liabilities and equity	736,345	169,661	539,554	188,355	135,986	1,769,902
Off balance sheet derivatives						
Assets						
Foreign exchange derivatives	1,087,957	136,290	2,739	852	0	1,227,838
Interest rate derivatives	55,486	54,557	320,836	121,960	0	552,840
Equity derivatives	80,113	18,038	8,691	0	0	106,842
Total off balance sheet assets	1,223,557	208,885	332,266	122,812	0	1,887,520
Liabilities						
Foreign exchange derivatives	1,087,108	137,259	2,659	801	0	1,227,828
Interest rate derivatives	42,911	55,788	319,271	134,880	0	552,850
Equity derivatives	0	0	0	0	106,842	106,842
Total off balance sheet liabilities	1,130,019	193,047	321,930	135,681	106,842	1,887,520
Net on balance sheet position	(199,467)	33,809	(131,614)	146,576	150,696	
Net off balance sheet position	93,537	15,838	10,336	(12,869)	(106,842)	
Maturity gap	(105,929)	49,647	(121,278)	133,707	43,854	

Notes to the Consolidated Interim Financial Statements

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 March 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	19,403	0	0	0	0	19,403
Loans and advances	887,715	261,937	68,342	66,113	0	1,284,107
Trading assets	11,566	25,911	21,326	59,613	182,364	300,780
Financial assets designated at fair value through P&L	0	0	0	0	46,687	46,687
Derivatives held for hedging	778	77	1,984	1,688	0	4,526
Investment in Associates	0	0	0	0	7,139	7,139
Property and equipment	0	0	0	0	4,802	4,802
Intangible assets	0	0	0	0	12,057	12,057
Non-current assets and disposal groups held for sale	0	0	0	0	17,873	17,873
Unsettled payments	0	0	0	0	56,767	56,767
Other assets	0	0	0	0	15,761	15,761
Total assets	919,461	287,924	91,653	127,413	343,450	1,769,902
Liabilities and equity						
Deposits from credit institutions	63,761	14,817	33,497	26,016	0	138,092
Deposits from customers	436,328	21,369	11,098	538	0	469,333
Borrowing	679,714	67,013	50,397	9,503	0	806,627
Subordinated loans	0	0	2,592	80,921	0	83,514
Trading liabilities	39,184	0	0	0	0	39,184
Derivatives held for hedging	0	170	955	3,583	0	4,708
Tax liabilities	0	0	0	0	9,736	9,736
Liabilities included in disposal groups held for sale	0	0	0	0	5,045	5,045
Unsettled payments	0	0	0	0	64,743	64,743
Other liabilities	0	0	0	0	27,715	27,715
Total equity	0	0	0	0	121,206	121,206
Total liabilities and equity	1,218,988	103,369	98,540	120,561	228,444	1,769,902
Off balance sheet derivatives						
Assets						
Foreign exchange derivatives	1,085,832	136,290	2,739	852	0	1,225,713
Interest rate derivatives	263,315	60,281	138,502	92,867	0	554,964
Equity derivatives	80,113	18,038	8,691	0	0	106,842
Total off balance sheet assets	1,429,260	214,609	149,932	93,719	0	1,887,520
Liabilities						
Foreign exchange derivatives	1,087,108	137,259	2,659	801	0	1,227,828
Interest rate derivatives	360,098	47,110	109,779	35,863	0	552,850
Equity derivatives	0	0	0	0	106,842	106,842
Total off balance sheet liabilities	1,447,206	184,369	112,439	36,664	106,842	1,887,520
Net on balance sheet position	(299,526)	184,555	(6,887)	6,852	115,006	
Net off balance sheet position	(17,946)	30,240	37,494	57,054	(106,842)	
Total interest sensitivity gap	(317,473)	214,795	30,607	63,907	8,164	

Notes to the Consolidated Interim Financial Statements

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 31.3.2006	Fair value 31.3.2006	Difference 31.3.2006
Financial assets			
Loans and advances	1,284,107	1,280,460	(3,647)
Financial liabilities			
Borrowing	806,627	805,154	1,473
Net difference			(2,174)

4.6 Inflation-indexed assets and liabilities

The Bank's balance sheet has a positive balance between indexed and non-indexed assets. At end of period, indexed assets exceeded indexed liabilities by ISK 150 billion. These amounts only apply to assets and liabilities in ISK.

	31.3.2006	31.12.2005
Assets	330,498	275,615
Liabilities	(180,446)	(136,559)
	150,053	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	Q1 2006	Q1 2005	2005	2004	2003
Net interest revenues	8,934	4,289	22,996	14,734	9,331
Net commissions and fees	6,857	3,120	16,726	8,891	6,116
Net gain on equity, securities and FX	11,150	5,370	21,257	9,842	3,535
Net operating revenues	26,942	12,779	60,978	33,467	18,982
Operating expenses	8,088	4,037	20,967	14,460	10,815
Impairment on loans and advances and assets held for sale	1,555	1,345	6,197	4,485	4,656
Impairment on goodwill	0	0	3,033	0	0
Profit before income tax	17,299	7,397	30,781	14,521	3,511
Cost Income Ratio	30%	32%	34%	43%	57%
ROE before tax	80%	106%	56%	57%	21%
Adjustments					
Net interest revenues	1,211	651	3,652	1,200	992
Net gain on equity, securities and FX	(11,150)	(5,370)	(21,257)	(9,842)	(3,534)
Impairment on goodwill	0	0	3,033	0	0
	(9,939)	(4,719)	(14,572)	(8,642)	(2,542)
Core Income					
Net interest revenues	10,145	4,940	26,647	15,934	10,323
Net commissions and fees	6,857	3,120	16,726	8,891	6,116
Net operating revenues	17,002	8,060	43,373	24,825	16,439
Operating expenses	8,088	4,037	20,967	14,460	10,815
Impairment on loans and advances and assets held for sale	1,555	1,345	6,197	4,485	4,656
Profit before income tax	7,359	2,678	16,210	5,879	968
Core Cost Income Ratio	48%	50%	48%	58%	66%
Core ROE before tax	30%	32%	30%	23%	6%

4.8 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 March 2006, financial assets managed by the Group amounted to ISK 306,6 billion (31.12.2005: 281 bn). Amounts in custody accounts amounted to ISK 1.701 billion (31.12.2005: 1.321 bn).

Notes to the Consolidated Interim Financial Statements

5 Income Statement by quarters

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Operations					
Interest revenues	27,535	21,073	18,594	14,309	12,461
Interest expenses	18,601	13,818	12,272	9,180	8,172
Net interest revenues	8,934	7,255	6,322	5,129	4,289
Fee and commission income	7,797	5,359	4,775	4,864	3,481
Fee and commission expense	940	598	392	403	361
Net fee and commission income	6,857	4,761	4,383	4,461	3,120
Dividend income	1,834	191	161	616	105
Net gain on financial assets and financial liabilities held for trading	750	5,503	3,550	(163)	1,978
Net gain on financial assets designated at fair value through profit and loss	7,680	1,205	1,167	1,003	2,490
Fair value adjustments in hedge accounting	(96)	(361)	232	(81)	216
Foreign exchange difference	(49)	92	359	(161)	97
Share of profit of associates	843	643	505	275	484
Net gain of disposal groups held for sale	188	63	270	817	0
Other operating revenues	11,150	7,337	6,243	2,307	5,370
Net operating revenues	26,942	19,352	16,949	11,898	12,779
Salaries and related expenses	5,249	4,136	3,077	3,114	2,355
Administrative expenses	2,839	2,933	1,905	1,764	1,683
Operating expenses	8,088	7,069	4,982	4,879	4,037
Impairment on loans and advances during the period	1,555	1,805	1,687	1,359	1,345
Profit before impairment on goodwill and income tax	17,299	10,479	10,280	5,660	7,396
Impairment on goodwill	0	(259)	3,293	0	0
Income tax	3,023	1,929	1,882	602	1,351
Net profit	14,276	8,809	5,105	5,058	6,045
Attributable to:					
Shareholders of Landsbanki Islands hf.	13,995	8,734	4,995	5,000	6,011
Minority interest	280	75	110	58	34

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 the Residential Mortgages division of Heritable Bank.

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

Securities and Treasury is comprised of the parent company's securities operations and Teather & Greenwood Holding plc., Kepler Equities S.A. 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 S.A.

	Retail Banking	Corporate Banking	Securities & Treasury	Asset Management Private Banking	Other operations	Group
As at 31 March 2006						
Net interest revenues	3,375	5,227	(76)	408	0	8,934
Net fee and commission income	644	373	5,193	647	0	6,857
Other revenues	35	295	10,648	173	0	11,150
Net operating revenues	4,054	5,895	15,765	1,227	0	26,942
Operating expenses	1,954	1,211	4,378	467	78	8,088
Impairment on loans and advances and assets held for sale	181	839	510	25	0	1,555
Profit before income tax	1,919	3,846	10,876	735	(78)	17,299
Total assets 31 March 2006	282,335	779,718	445,292	254,693	7,864	1,769,902

Notes to the Consolidated Interim Financial Statements

6 Business segments (continued)

As at 31 March 2005	Retail Banking	Corporate Banking	Securities & Treasury	Asset Management		Other operations	Group
				Private Banking			
Net interest revenues	2,065	2,355	(480)	349		0	4,289
Net fee and commission income	814	317	1,686	303		0	3,120
Other revenues	16	235	5,092	27		0	5,370
Net operating revenues	2,895	2,907	6,298	679		0	12,779
Operating expenses	1,798	693	816	357		374	4,037
Impairment on loans and advances and assets held for sale	460	844	0	41		0	1,345
Profit before income tax	637	1,370	5,482	282		(374)	7,396
Total assets 31 December 2005	261,638	636,014	285,652	215,144		7,012	1,405,460

7 Geographical segments - breakdown of revenues

As at 31 March 2006	Iceland	UK & Ireland	Luxembourg	Other	Total
Net interest revenues	5,819	2,020	645	450	8,934
Net fee and commission income	3,384	1,549	321	1,602	6,857
Other revenues	4,478	486	176	6,010	11,150
Net operating revenues	13,681	4,055	1,143	8,062	26,942

As at 31 March 2005	Iceland	UK & Ireland	Luxembourg	Other	Total
Net interest revenues	2,956	982	352	0	4,289
Net fee and commission income	2,543	512	65	0	3,120
Other revenues	5,355	0	15	0	5,370
Net operating revenues	10,853	1,494	432	0	12,779

8 Net interest revenues

Interest revenues	Q1 2006	Q1 2005
Interest on deposits and loans to financial institutions	920	685
Interest on loans and advances	23,137	10,574
Interest on other financial assets	1,977	577
Other interest revenues	1,500	624
	27,535	12,461
Interest expenses	Q1 2006	Q1 2005
Interest on deposits from credit institutions	3,084	544
Interest on deposits from customers	5,175	3,316
Interest on borrowing	8,269	3,446
Interest on subordinated loans	924	241
Other interest expenses	1,149	624
	18,601	8,172
Net interest revenues	8,934	4,289

9 Net fee and commission income

Fee and commission income	Q1 2006	Q1 2005
Securities *	5,563	1,733
Asset management	492	322
Lending	826	599
Cards	312	274
Interbank revenues	237	239
Collection and payment services	150	138
Foreign trade	92	76
Other commissions and fees	126	101
	7,797	3,481
Fee and commission expense	940	361
Net fee and commission income	6,857	3,120

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

Notes to the Consolidated Interim Financial Statements

10 Dividend income

	Q1 2006	Q1 2005
Trading	207	85
Financial assets designated at fair value through profit and loss	1,627	20
	1,834	105

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

	Stock trading	Bond trading	FX	Share of profit of associates	Other	Total Q1 2006	Total Q1 2005
Dividend income	1,834	0	0	0	0	1,834	105
Net gain on financial assets and financial liabilities held for trading	847	(265)	169	0	0	750	1,978
Net gain on financial assets designated at fair value through profit and loss	7,680	0	0	0	0	7,680	2,490
Fair value adjustments in hedge accounting		(96)				(96)	216
Foreign exchange difference	0	0	(49)	0	0	(49)	97
Share of profit of associates	0	0	0	843	0	843	484
Net gain on sale of disposal groups held for sale					188	188	0
	10,361	(361)	120	843	188	11,150	5,370

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

Equity securities:	Q1 2006	Q1 2005
Listed	7,687	2,490
Unlisted	(6)	0
Total	7,680	2,490

13 Salaries and related expenses

	Q1 2006	Q1 2005
Salaries	4,156	1,909
Pension-fund contributions	648	290
Other personnel expenses	445	156
	5,249	2,355
Number of positions at period-end	1,851	1,248

14 Impairment on loans and advances and assets held for sale

	Q1 2006	Q1 2005
Loans and advances	1,622	1,341
Assets held for sale	(17)	32
	1,605	1,373
Collected previously written-off loans	50	27
	1,555	1,345

15 Income tax

	Q1 2006	Q1 2005
Current tax	1,375	1,251
Deferred tax	1,648	100
	3,023	1,351
	Q1 2006	Q1 2005
Profit before tax	17,299	7,396
Tax calculated at a tax rate of local 18%	3,114	1,331
Effect of different tax rates in other countries	58	54
Income not subject to tax	(144)	(19)
Other	(5)	(16)
	3,023	1,351

Notes to the Consolidated Interim Financial Statements

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.

	Q1 2006	Q1 2005
Profit attributable to equity holders of the Bank	13,995	6,011
Weighted average number of ordinary shares in issue	10,490	7,949
Basic earnings per share (ISK per share)	1.33	0.76

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.

	Q1 2006	Q1 2005
Profit attributable to equity holders in the bank	13,995	6,011
Weighted average number of ordinary shares in issue	10,490	7,949
Adjustments for:		
– share options	484	467
Weighted average number of ordinary shares for diluted earnings per share	10,974	8,416
Diluted earnings per share (ISK per share)	1.28	0.71

17 Loans and advances

	31.3.2006	31.12.2005
Financial institutions	82,584	86,919
Public entities	8,021	7,670
Corporates	930,047	745,435
Consumers	278,133	244,634
Allowance for losses on loans and advances	(14,679)	(13,144)
Total loans and advances	1,284,107	1,071,513

Provisions for credit losses

Changes during the year:	31.3.2006	31.12.2005
Balance at beginning of year	13,144	8,359
(Disposals)/acquisitions	(12)	436
Impairment on loans and advances	1,622	6,347
Loans written off	(292)	(1,998)
Translation difference	217	0
Balance at end of period	14,679	13,144
Provision ratio (Provisions for credit losses/total loans and advances)	1.09%	1.17%

18 Trading assets

	31.3.2006	31.12.2005
Bonds and other fixed-income securities	115,124	100,498
Equity and other variable-income securities	141,728	104,509
Derivatives held for trading	43,928	13,886
	300,780	218,894
Forward contracts against trading assets		
Bonds and other fixed-income securities	59,426	48,963
Equity and other variable-income securities	110,675	80,701
	170,101	129,663
Net trading bonds	55,698	51,535
Net trading equity	31,053	23,809
	86,751	75,344

Notes to the Consolidated Interim Financial Statements

Net trading bonds

	31.3.2006	31.12.2005
Domestic		
Listed	30,977	28,242
Unlisted	0	0
	30,977	28,242
Foreign		
Listed	24,711	23,284
Unlisted	10	9
	24,721	23,293
Total	55,698	51,535

Net trading equity

	31.3.2006	31.12.2005
Domestic		
Listed	11,072	8,397
Unlisted	84	358
	11,156	8,755
Foreign		
Listed	14,245	9,021
Unlisted	5,653	6,032
	19,898	15,054
Total	31,053	23,809

19 Derivatives held for trading and trading liabilities

	Contract/notional amount	31.3.2006 Fair value		Contract/notional amount	31.12.2005 Fair value	
		Assets	Liabilities		Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	778,276	21,585	16,040	477,283	4,422	3,791
OTC currency options bought and sold	282,645	8,512	6,497	212,798	3,331	4,098
	1,060,922	30,096	22,537	690,081	7,753	7,889
Interest rate derivatives						
Interest rate swaps	292,333	2,142	1,614	214,910	3,091	2,264
Cross-currency interest rate swaps	68,408	6,408	1,257	58,905	1,572	1,613
	360,740	8,550	2,871	273,815	4,662	3,877
Equity derivatives						
Equity forwards	107,656	3,991	13,708	81,269	213	14,503
OTC stock options – bought and sold	6,520	1,291	68	13,454	1,257	235
	114,176	5,282	13,776	94,723	1,471	14,738
Total derivatives held for trading	1,535,838	43,928	39,184	1,058,619	13,886	26,504

20 Financial assets designated at fair value through profit and loss

	31.3.2006	31.12.2005
Equity securities:		
Domestic		
Listed	18,471	18,389
Unlisted	341	341
	18,811	18,729
Foreign		
Listed	26,898	14,911
Unlisted	977	843
	27,875	15,753
Total	46,687	34,483

On 27 April 2006 the Bank sold its shares in D. Carnegie & Co AB for ISK 21,8 billions (EUR 235 millions) and realized a profit of ISK 10 billions (EUR 110 millions).

The shares in Carnegie are included in the foreign listed amount 31 March 2006. The book value at the end of the period was ISK 20,6 billions. The fair value changes have already been accounted for.

21 Derivatives held for hedging

	Contract/notional amount	31.3.2006 Fair value		Contract/notional amount	31.12.2005 Fair value	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as fair value hedges						
Interest rate swaps	191,963	1,735	4,197	96,003	3,205	3,201
Cross-currency interest rate swaps	123,039	2,792	510	105,011	1,484	885
	315,003	4,526	4,708	201,014	4,689	4,086

Notes to the Consolidated Interim Financial Statements

22 Investment in Associates

Company	Ownership %	Profit share	Book	Book
			value 31.3.2006	value 31.12.2005
Fjárfestingafélagid Grettir hf.	32.4	813	4,186	2,556
LME eignarhaldsfélag ehf.	40.0	0	834	0
Greiðslumiðlun hf.	38.0	22	675	694
Reiknistofa bankanna	34.0	0	515	515
Rockview Merrión Investments	50.0	66	262	0
Kreditkort hf.	20.0	5	189	224
Creditinfo Group hf.	26.4	(2)	182	184
Intrum hf.	25.0	2	84	83
Liftryggingamiðstöðin hf.	34.0	1	136	135
Other partially owned companies		(63)	74	64
		843	7,139	4,456

All these investments are unlisted.

23 Intangible assets

	31.3.2006	31.12.2005
Goodwill		
Opening net book amount	9,380	1,160
Exchange differences	1,381	(12)
Acquisition of Teather & Greenwood	0	4,088
Acquisition of Key Business Financial Corporation	0	603
Acquisition of Kepler Equities	0	2,144
Acquisition of Merrión	0	1,397
Merger with Burðarás hf.	0	3,293
Impairment	0	(3,293)
Net book value at end of period	10,761	9,380
Software and other intangible assets		
Opening net book amount	1,081	425
Additions	332	819
Disposals	(1)	0
Amortisation	(117)	(163)
Impairment	0	0
Net book value at end of period	1,295	1,081
Total Intangible assets	12,057	10,461

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

	31.3.2006	31.12.2005
Appropriated assets	771	920
Allowance for appropriated assets	(191)	(208)
	579	712
Disposal group held for sale		
– Investments properties included in disposal groups	17,165	15,613
– Other assets included disposal groups	129	135
	17,294	15,748
Total non-current assets and disposal groups classified as held for sale	17,873	16,459

25 Deposits from credit institutions

	31.3.2006	31.12.2005
Loans from Central Bank and repurchase agreements	48,451	44,730
Loans from other credit institutions	89,642	99,866
	138,092	144,596

26 Deposits from customers

	31.3.2006	31.12.2005
Demand deposits	171,492	113,834
Time deposits	297,841	220,328
	469,333	334,163

Notes to the Consolidated Interim Financial Statements

27 Borrowing

	31.3.2006	31.12.2005
Securities issues	679,764	620,793
Borrowing	126,863	69,196
	806,627	689,989

For maturity, see note 4.4

Securities issues:	31.3.2006	31.12.2005
EMTN	551,068	469,919
ECP	28,371	23,318
Other	100,325	127,556
	679,764	620,793

28 Subordinated loans

	31.3.2006	31.12.2005
Tier I – Non-innovative hybrid capital	38,719	7,472
Tier I – Innovative hybrid capital	16,322	14,928
Tier II	28,473	26,675
	83,514	49,074

Subordinated loans	Classification	Currency	Interest	Maturity	31.3.2006	31.12.2005
London Stock exchange	Tier I	EUR	6.25%	callable	31,188	0
Luxembourg Stock Exchange	Tier I	EUR	4.65%	callable	12,949	11,615
London Stock exchange	Tier I	EUR	Euribor+1,23%	callable	7,531	7,472
Iceland Stock Exchange	Tier I	ISK	5,8%+CPI	callable	1,137	1,106
Iceland Stock Exchange	Tier I	ISK	6,5%+CPI	callable	1,129	1,132
Iceland Stock Exchange	Tier I	ISK	8,65%+CPI	callable	1,106	1,075
					55,040	22,399
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,35%	2015	17,364	14,949
Luxembourg Stock Exchange	Tier II	JPY	3.45%	2033	2,788	2,691
Luxembourg Stock Exchange	Tier II	EUR	7.20%	2026	1,021	823
Luxembourg Stock Exchange	Tier II	EUR	5.44%	2018	939	760
Luxembourg Stock Exchange	Tier II	EUR	4.40%	2035	897	0
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,8%	2013	350	301
Unlisted	Tier II	USD	Libor+0,15%	2011	2,153	1,897
Unlisted	Tier II	ISK	5,6%+CPI	callable	1,679	1,680
Unlisted	Tier II	ISK	6,09%+CPI	callable	843	844
Unlisted	Tier II	EUR	Euribor+1,35%	2011	440	375
Unlisted	Tier II	USD	Libor+0,66%	2006	0	859
Unlisted	Tier II	EUR	0.00%	2008	0	1,494
					28,473	26,675
Total subordinated loans					83,514	49,074

Subordinated loans are a part of equity according to regulation on the calculation of equity ratio (see note 29). Subordinated loans are fully applicable to the calculation of CAD ratio.

29 Capital ratio

	31.3.2006	31.12.2005
Risk-adjusted assets	1,331,970	1,065,074
Capital:		
Tier I capital:		
Equity	117,187	110,059
Subordinated loans	55,040	22,399
Goodwill	(10,761)	(9,381)
Minority interests	4,019	3,557
	165,485	126,635
Tier II capital:		
Subordinated loans	28,473	26,675
– deduction in accord with Articles 28 and 85 of Act No 161/2002	(21,462)	(13,601)
Total capital	172,496	139,710
Tier I ratio	12.4%	11.9%
Capital ratio	13.0%	13.1%

Notes to the Consolidated Interim Financial Statements

30 Off-balance sheet items

	31.3.2006	31.12.2005
Guarantees issued	45,159	40,737
Available overdrafts	28,303	28,291
Unused credit commitments	49,207	42,507
	122,668	111,536

31 Related-parties

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 122 million as of 31 March 2006.

Loans to members of the Board of Directors and their fully owned companies amounted to ISK 17,203 million, including credit granted to companies with which members of the Board are related through membership of the companies' Boards or ownership ties.

The holding company, Samson eignarhaldsfélag ehf., which has a 40.17% holding in the Bank, is owned by four legal entities. The Bank has not provided 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 24,608 million as of 31 March 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 charges has been made by the Bank to cover these loans.

32 Litigation

The Bank Employees' Pension Fund has brought a suit in the Reykjavík District Court against Landsbanki Íslands hf. and the Icelandic State, demanding that a court verdict establish that the bank guarantee which Landsbanki Íslands, as a state-owned bank, provided for the Fund's obligations until 31 December 1997 has never been cancelled and is still fully valid. Furthermore, the plaintiff requests principally that the Court find that in the future Landsbanki Íslands should be responsible for this guarantee or, failing that, the National Treasury. Should this claim be rejected, the Fund requests, for instance, that the Bank's obligations be re-calculated due to changed assumptions, or that damages be paid.

The reason for the suit is that the Pension Fund's assets are not fully sufficient for its calculated obligations, in part due to increases in wages and purchasing power.

In 1997, Landsbanki Íslands, as a state-owned bank, together with other contributing companies of the Bank Employees' Pension Fund, reached an agreement with the fund on a final settlement, which the Pension Fund approved for its part at a meeting of fund members. The guarantee of the contributing companies was then cancelled and the Pension Fund therefore no longer has any legal entitlement to make claims on the contributing companies.

Should the Courts recognise any responsibility in this case, the claim would have to be directed at the National Treasury, as the agreement covered by the summons was concluded on the responsibility of Landsbanki as a state-owned bank and in connection with the establishment of a limited-liability company for the Bank's operation and original sale of share capital.

Claims advanced towards Landsbanki in the above-mentioned case must therefore be considered as not liable to have a significant impact on the Bank's operating performance.