



Landsbanki

Consolidated Financial Statements 2006



Landsbanki

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Consolidated Key Figures

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

Consolidated Key Figures

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

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

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

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

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

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

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

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

Reykjavík, 25 January 2007

Board of Directors

Björgólfur Guðmundsson
Chairman

Kjartan Gunnarsson

Porgeir Baldursson

Pór Kristjánsson

Guðbjörg Matthíasdóttir

Group Managing Directors and Chief Executive Officers

Sigurjón Þ. Árnason

Halldór J. Kristjánsson

Independent Auditor's Report

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Reykjavík, 25 January 2007

PricewaterhouseCoopers hf.

Vignir Rafn Gíslason

Þórir Ólafsson

