



Landsbanki

Consolidated Interim Financial Statements

Press Release 26 October 2006

Consolidated Key Figures

Operations	2006	2005	%	2006	2006
	Q1-Q3	Q1-Q3		Q3	Q2
Interest revenues	98,216	45,364	117%	33,154	37,527
Interest expenses	66,306	29,623	124%	23,840	23,865
Net interest revenues	31,910	15,741	103%	9,314	13,662
Fee and commission income	23,136	13,120	76%	7,547	7,791
Fee and commission expenses	2,767	1,155	140%	979	849
Net fee and commission income	20,368	11,965	70%	6,568	6,943
Dividend income	2,202	882	150%	99	269
Net (loss) gain on financial assets and liabilities held for trading	1,682	5,365	-69%	1,943	(1,011)
Net (loss) gain on financial assets designated at FV through P/L	7,786	4,660	67%	594	(489)
Fair value adjustments in hedge accounting	(96)	367	-126%	25	(25)
Foreign exchange difference	(205)	295	-170%	(145)	(12)
Share of (loss) profit of associates	566	1,264	-55%	(15)	(262)
Net gain of disposal groups held for sale	394	1,087	-64%	155	51
Other operating revenues	12,328	13,920	-11%	2,656	(1,478)
Net operating revenues	64,607	41,626	55%	18,538	19,127
Salaries and related expenses	17,469	8,546	104%	5,963	6,256
Administrative expenses	10,089	5,352	89%	3,754	3,496
Operating expenses	27,557	13,898	98%	9,717	9,752
Impairment on loans and advances and assets held for sale	4,812	4,392	10%	1,597	1,660
Profit before impairment on goodwill and income tax	32,237	23,336	38%	7,224	7,714
Impairment on goodwill	0	3,293		0	0
Income tax	6,075	3,836	58%	1,480	1,572
Net profit	26,162	16,208	61%	5,744	6,143
Attributable to:					
Shareholders of Landsbanki Íslands hf.	25,242	16,006		5,281	5,966
Minority interests	920	202		463	177

Five-year summary

Operations	Q1-Q3 2006	2005	2004	2003	2002
Net interest revenues	31,910	22,996	14,734	9,331	7,732
Net fee and commission income	20,368	16,726	8,891	6,116	4,076
Other operating revenues	12,328	21,257	9,842	3,535	2,109
Operating revenues	64,607	60,978	33,467	18,982	13,916
Operating expenses	27,557	20,967	14,460	10,815	8,505
Impairment on loans and advances and assets held for sale	4,812	6,197	4,485	4,656	2,863
Profit before impairment on goodwill and income tax	32,237	33,815	14,521	3,512	2,549
Impairment on goodwill	0	3,033	0	0	0
Income tax	6,075	5,764	1,798	457	475
Net profit	26,162	25,017	12,723	3,055	2,074
Attributable to:					
Shareholders of Landsbanki Íslands hf.	25,242	24,740	12,574	2,956	2,028
Minority interests	920	277	149	99	45

Balance Sheet	30.9.2006	31.12.2005	Change	%	31.12.2004	31.12.2003	31.12.2002
Cash and cash balances with Central Bank	25,714	16,611	9,103	55%	18,237	48,772	18,893
Loans and advances	1,472,669	1,071,513	401,156	37%	614,274	326,400	214,787
Financials assets at fair value	305,294	253,377	51,918	20%	64,730	63,744	36,337
Other assets	158,395	63,960	94,435	148%	39,900	9,323	7,808
Total assets	1,962,072	1,405,460	556,612	40%	737,141	448,239	277,824
Deposits	610,150	478,759	131,391	27%	279,206	196,160	138,971
Borrowing	979,748	689,989	289,759	42%	375,084	209,357	108,479
Subordinated loans	85,892	49,074	36,818	75%	22,570	13,090	8,216
Other items	151,746	74,022	77,725	105%	21,572	6,389	5,057
Equity	129,876	110,059	19,816	18%	37,705	22,382	16,309
Minority interests	4,660	3,557	1,103	31%	1,004	862	792
Total liabilities and equity	1,962,072	1,405,460	556,612	40%	737,141	448,239	277,824

Consolidated Key Figures

Operations	2006	2006	2006	2005	2005	2005	2005
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest revenues	33,154	37,527	27,535	21,073	18,594	14,309	12,461
Interest expenses	23,840	23,865	18,601	13,818	12,272	9,180	8,172
Net interest revenues	9,314	13,662	8,934	7,255	6,322	5,129	4,289
Fee and commission income	7,547	7,791	7,797	5,359	4,775	4,864	3,481
Fee and commission expenses	979	849	940	598	392	403	361
Net fee and commission income	6,568	6,943	6,857	4,761	4,383	4,461	3,120
Dividend income	99	269	1,834	191	161	616	105
Net (loss) gain on financial assets and liabilities held for trading	1,943	(1,011)	750	5,503	3,550	(163)	1,978
Net (loss) gain on financial assets designated at FV through P/L	594	(489)	7,680	1,205	1,167	1,003	2,490
Fair value adjustments in hedge accounting	25	(25)	(96)	(361)	232	(81)	216
Foreign exchange difference	(145)	(12)	(49)	92	359	(161)	97
Share of (loss) profit of associates	(15)	(262)	843	643	505	275	484
Net gain of disposal groups held for sale	155	51	188	63	270	817	0
Other operating revenues	2,656	(1,478)	11,150	7,337	6,243	2,307	5,370
Net operating revenues	18,538	19,127	26,942	19,352	16,949	11,898	12,779
Salaries and related expenses	5,963	6,256	5,249	4,136	3,077	3,114	2,355
Administrative expenses	3,754	3,496	2,839	2,933	1,905	1,764	1,683
Operating expenses	9,717	9,752	8,088	7,069	4,982	4,879	4,037
Impairment on loans and advances and assets held for sale	1,597	1,660	1,555	1,805	1,687	1,359	1,345
Profit before impairment on goodwill and income tax	7,224	7,714	17,299	10,479	10,280	5,660	7,396
Impairment on goodwill	0	0	0	(259)	3,293	0	0
Income tax	1,480	1,572	3,023	1,929	1,882	602	1,351
Net profit	5,744	6,143	14,276	8,809	5,105	5,058	6,045
Attributable to:							
Shareholders of Landsbanki Íslands hf.	5,281	5,966	13,995	8,734	4,995	5,000	6,011
Minority interests	463	177	280	75	110	58	34
Balance Sheet	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	25,714	22,806	19,403	16,611	8,134	8,211	14,136
Loans and advances	1,472,669	1,363,254	1,284,107	1,071,513	891,668	828,342	687,883
Financials assets at fair value	305,294	275,113	300,780	253,377	156,243	119,208	82,630
Other assets	158,395	150,295	165,613	63,960	86,212	66,311	65,993
Total assets	1,962,072	1,811,468	1,769,902	1,405,460	1,142,258	1,022,072	850,642
Deposits	610,150	610,767	607,426	478,759	413,988	355,410	298,063
Borrowing	979,748	853,367	806,627	689,989	531,417	521,870	417,947
Subordinated loans	85,892	91,141	83,514	49,074	47,224	49,394	49,327
Other items	151,746	128,714	151,130	74,022	48,804	34,378	30,241
Equity	129,876	123,088	117,187	110,059	98,749	58,954	53,988
Minority interests	4,660	4,392	4,019	3,557	2,076	2,066	1,076
Total liabilities and equity	1,962,072	1,811,468	1,769,902	1,405,460	1,142,258	1,022,072	850,642

Key ratios	2006	2005	2004	2003	2002
	Q1 - Q3				
Return on equity before impairment on goodwill and taxes	40.4%	61.8%	57.2%	20.9%	17.0%
Return on equity after taxes	32.6%	45.8%	49.5%	17.6%	13.5%
Tier 1 ratio	13.0%	11.9%	7.8%	6.9%	7.7%
Equity ratio (CAD)	15.0%	13.1%	10.4%	9.9%	10.6%
Cost-income ratio	42.7%	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	2.45%	2.23%	2.59%	2.62%	2.83%
Deposits / loans to customers	39.4%	33.9%	39.6%	48.0%	50.4%
Ratio of provision to lending position at period-end	0.44%	0.58%	0.73%	1.47%	1.33%
Share price at period-end	26.60	25.30	12.10	5.80	3.65
Change in share price adjusted for dividend payments	6.3%	110.7%	110.3%	61.6%	10.6%
Number of positions at period-end	2,046	1,725	1,121	1,025	986

Profit ISK 26.2 billion

Landsbanki's pre-tax profit amounted to ISK 32.2 billion (bn) in the first 9M of this year, as compared to ISK 23.3 bn for the same period of the previous year.

The Bank's after-tax profit was ISK 26.2 billion, as compared with ISK 16.2 billion for the first 9M of 2005, an increase of 61%.

After-tax ROE for the period was 33%.

The operations of Teather & Greenwood have been included in the consolidation as of Q2 2005, Kepler Equities as of the beginning of December 2005 and Merrion Capital at year-end 2005. This should be borne in mind when making comparisons with quarterly figures in 2005. Landsbanki Guernsey Limited will be included in the consolidated accounts as of the end of Q3 2006.

The ISK weakening affects figures in both the balance sheet and the income statement. Foreign-denominated balance sheet assets and liabilities are recognised at the closing exchange rate as of 30 September 2006, whereas amounts in the income statement are recognised at the average 9M 2006 exchange rate. The following table shows exchange rate developments of foreign reporting currencies used by the Group and the ISK trade-weighted index (GVT):

	31.12.2005	Average Jan-Sept	%	31.12.2005	30.9.2006	%
EUR	74,7	86,78	16%	74,7	88,93	19%
GBP	108,85	126,67	16%	108,85	131,145	20%
GVT	104,9	120,28	15%	104,90	122,50	17%

Highlights of the Income Statement and Balance Sheet

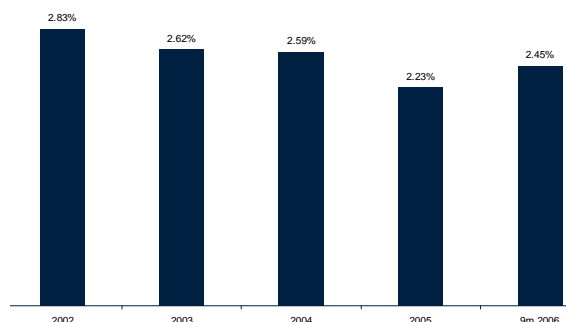
Income Statement

Comparison of January – September 2006 to January – September 2005

Landsbanki's **net operating revenues** amounted to ISK 64.6 bn in the first 9M of 2006 as compared to ISK 41.6 bn the previous year. This is a YoY increase of 55%.

The Bank's **net interest revenues** was ISK 31.9 bn, as compared with ISK 15.7 bn in the first 9M of 2005. Net interest spread as a ratio of average capital position was 2.45%.

Interest spread

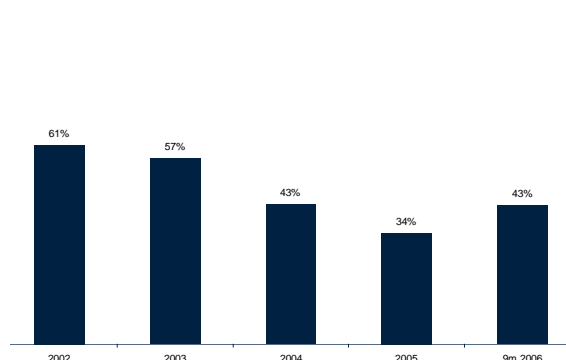


Net fees and commissions have increased by 70%, amounting to ISK 20.4 bn compared to ISK 12.0 bn during the first 9M of 2005.

The Bank's **net financial income** in the first 9M of 2006 amounted to ISK 12.3 bn compared to ISK 13.9 bn during the same period in 2005.

The Group's **operating expenses** in the first 9M of 2006 totalled ISK 27.6 billion, making its Cost Income ratio for the period 42.7%.

Cost Income ratio



The breakdown of the Group's income and expenses has changed substantially with the addition of its overseas subsidiaries. These are securities dealers, who generally have a higher cost ratio than banks.

Full-time equivalent positions in the Landsbanki group numbered 2,046 at the end of September 2006. Of these, close to 1,300 were positions in Iceland and around 800 in establishments overseas.

Impairment on loans and available-for-sale financial assets in the first nine months of 2006 amounted to ISK 4.8 bn, as compared to ISK 4.4 bn during the same period of the previous year. Impairment as a ratio of loans and receivables at the end of the period was 0.44% on an annualised basis.

Q3 2006 compared to Q2 2006

The Bank's pre-tax profit amounted to ISK 7.2 billion in Q3 of this year, as compared to ISK 7.7 billion in Q2 2006. The Bank's net after-tax profit was ISK 5.7 bn, as compared with ISK 6.1 bn for Q3 of 2006.

The Bank's **net interest revenues** was ISK 9.3 bn, as compared with ISK 13.7 bn in Q2 2006. The decrease can be attributed to the impact of inflation on the bank's positive indexation balance.

While the net interest margin in Q2 2006 increased by around ISK 4 bn due to a surge in inflation, the margin in Q3 is approximately ISK 1 bn below average due to the higher real policy rate.

The Bank's **net fee and commission income** was ISK 6.6 bn, as compared with ISK 6.9 bn in Q2 of 2006.

The bank's **net financial income** in Q3 2006 amounted to ISK 2.7 bn, compared to negative net financial income of close to ISK 1.5 bn in Q2.

The Group's **Cost Income ratio** in Q3 was 52% as compared to 51% in Q2 of 2006.

Impairment on loans and financial assets held for sale amounted to ISK 1.6 bn in Q3, as compared to ISK 1.7 bn in Q2 2006.

Overseas operations comprised 47% of net operating revenues

Net income from operations outside Iceland amounted to ISK 30.2 bn, or 47% of total income in the first 9M of 2006, as compared to ISK 6.7 bn or 16% during the same period in 2005. The YoY increase is ISK 23.5 billion.

Balance Sheet

Total assets of the Group amounted to ISK 1,962 bn at the end of September 2006, rising from ISK 1,405 bn at the beginning of this year, an increase of ISK 557 bn or 40% during the year. A good portion of this increase is the result of ISK depreciation and the accordant inflationary impact. Converted to EUR, the Bank's total assets amounted to EUR 22.1 billion at the end of September as compared to EUR 18.8 billion at the beginning of this year.

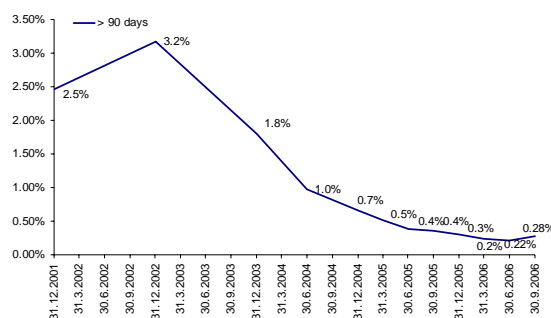
Amounts due from financial institutions amounted to ISK 169 bn, as compared to ISK 87 bn at the beginning of this year.

Loans to customers totalled ISK 1,304 bn at the end of September 2006, up 32% from ISK 985 bn at the beginning of the year. Allowing for the impact of the ISK weakening and inflation, the real increase in customer lending is 16%.

Total **provisions for credit losses** were ISK 16.7 billion or 1.19% of total loans to customers at the end of September 2006. Provisions for credit losses do not reflect actual write-offs, but amounts set aside to cover calculated future credit losses. If and when loans are not recovered, the provisions for credit losses account is reduced by the unrecoverable amount.

Loans in arrears have been decreasing steadily in recent quarters. In Q3 2006 the ratio rose slightly: loans over 90 days in arrears were 0.3% of total customer loans at the end of September 2006 as compared to 0.2% at the end of June this year and 0.4% at the beginning of the year.

Loans over 90 days in arrears



Market bonds and other fixed-income securities held by the Bank totalled ISK 106 bn at the end of September 2006, compared with ISK 52 bn at the beginning of this year.

Equities and other variable return securities held by the Bank totalled ISK 52 bn at the end of September 2006, as compared with ISK 58 bn at the beginning of this year. Of the ISK 52 bn exposure, ISK 43 bn were listed equities and ISK 9 bn unlisted equities. Domestic equities amounted to ISK 31 bn and foreign equities to ISK 21 bn at the end of September 2006.

Total assets under management amounted to ISK 348 bn at the end of September 2006, rising from ISK 281 bn at the beginning of this year, an increase of 24%. At the same time, total assets in the Group's custody amounted to ISK 1.518 bn as compared to

ISK 1,321 bn at the beginning of this year, an increase of 15%.

Liabilities and equity

The Group's **deposits** amounted to ISK 610 bn at the end of September 2006. Of this amount, ISK 513 bn were customers' deposits, as compared to ISK 334 bn at the beginning of this year, increasing by 54% during the 9M period. Deposits held by the bank's operations abroad amounted to ISK 235 bn at the end of September 2006, as compared to ISK 105 bn at the beginning of this year, an increase of ISK 130 bn or 124%.

Customer deposits as a ratio of customer loans were almost 40% at the end of September 2006, compared to 34% at year-end 2005. The Bank's objective is to further boost deposits as a ratio of lending in coming quarters.

Total borrowing at the end of September 2006 amounted to ISK 980 bn, as compared to ISK 690 billion at the beginning of 2006.

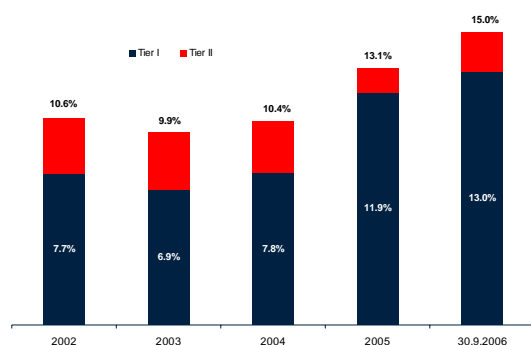
The Group's **subordinated debt** was ISK 86 bn at the end of September as compared to ISK 49 bn at the beginning of the year.

Capital ratio 15%

The Group's **equity** was ISK 130 bn at the end of September, compared to ISK 110 bn at the beginning of the year. The change in equity is the result of profit during the period, transactions in own shares and dividends.

The group's **capital ratio** according to CAD rules was 15.0% at the end of September 2006, compared with 13.1% at the beginning of this year. The Tier 1 capital ratio was 13.0% as compared with 11.9% at the beginning of this year.

Capital ratio (CAD)



Performance of Business Segments

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

- Commercial Banking,
- Corporate Banking,
- Securities Trading, and
- Asset Management and Private Banking.

The following table give a summary of performance of business segments and total assets (all figures mISK).

Summary of Business Segments

9m 2006	Retail Banking	Corporate Banking and Treasury	Securities Banking	Asset Management & Private Banking	Other	Group
Net interest revenue	11,029	16,317	2,382	2,181	0	31,910
Net commission and fees	2,235	1,852	14,000	2,281	0	20,368
Net financial income	-10	36	12,047	255	0	12,328
Net operating revenue	13,255	18,204	28,430	4,718	0	64,607
Operating expenses	6,839	3,837	13,473	2,292	1,116	27,557
Impairment on loans and advances	1,227	2,149	1,304	131	0	4,812
Profit before income tax	5,189	12,218	13,653	2,294	-1,116	32,237
Assets	349,950	840,136	502,549	260,682	8,755	1,962,072

Commercial Banking includes the parent company's branch network, Heritable Bank's commercial banking activities, SP Fjármögnun and, as of Q4 2006, Landsbanki Guernsey Ltd. The division's profit amounted to ISK 5.2 bn during the first nine months of this year, as compared to ISK 1.8 bn for the same period of the previous year. The segment's total assets amounted to ISK 350 bn at the end of September 2006 as compared to ISK 262 bn at the beginning of the year.

Corporate Banking includes the parent company's Corporate Banking division, including its London Branch, and Heritable Bank's corporate division. The division's pre-tax profit amounted to ISK 12.2 bn in the first 9M of this year, compared to ISK 4.8 bn for the same period of the previous year. The segment's total assets amounted to ISK 840 bn at the end of September 2006 as compared to ISK 636 bn at the beginning of the year.

Securities Trading is comprised of the parent company's Securities and Treasury division plus the subsidiaries Teather & Greenwood, Kepler Equities and Merrion Capital. This division includes securities brokerage, corporate advisory, FX and derivative trading, the Bank's treasury and debt management and proprietary bond and equity trading. The division's pre-tax profit amounted to ISK 13.7 bn in the first 9M of 2006, as compared to ISK 12.7 bn for the same period of the previous year. The segment's total assets amounted to ISK 503 bn at the end of September 2006 as compared to ISK 286 bn at the beginning of the year. All three subsidiaries in this division

were acquired in 2005. Teather & Greenwood is included in the division from the beginning of Q2, Kepler Equities from the beginning of December and Merrion Capital from year-end 2005 (no impact on 2005 operations).

Asset Management and Private Banking includes the parent company's Asset Management division, Landsvaki hf. and Landsbanki Luxembourg SA. Pre-tax profit in Asset Management and Private Banking during the first nine months of 2006 amounted to ISK 2.3 bn, as compared to a profit of ISK 1.1 bn for the same period of 2005. The division's total assets were ISK 261 bn at the end of September 2006 as compared to ISK 215 bn at the beginning of the year.

Funding

In Q3 of 2006, Landsbanki reached an important milestone, finalising the establishment of a new USD 7.5 bn MTN programme, and followed this up in August with the debut programme transaction. This two-tranche issue, USD 750 million of 3-year floating rate notes and USD 1.5 billion of 5-year fixed rate notes, was arranged by Bank of America, Citigroup and Deutsche Bank. Due to overwhelming demand the transaction size was increased from the planned benchmark-size USD 1.0 bn to USD 2.25 bn.

The positive reception met with by this transaction, the largest Icelandic bank issue in capital markets since the turbulence this spring, demonstrates Landsbanki's good access to funding. The broadly distributed and significantly oversubscribed benchmarks have performed strongly on the secondary market. Furthermore, during Q3 Landsbanki's 5-year CDS spreads have moved from a level of 65 bp to around 40 bp. This reflects the confidence of fixed-income investors in Landsbanki's long-term strategy and creditworthiness.

With the funding raised in Q3 through a EUR 600 m 3-year syndicated credit facility and the USD 2.25 bn MTN transaction, Landsbanki has prefunded 85% of its long term debt maturing in 2007, having already fully funded 2006.

At the beginning of October, Landsbanki launched a new deposit product in the UK, "Icesave", offered through an easy-access on-line savings account. In addition, Landsbanki began deposit taking at its Amsterdam branch in September. The bank's previous wholesale and retail deposit businesses, operated by London Branch since 2005 and Heritable Bank since 2003, have grown substantially. Landsbanki will continue to explore

opportunities to meet its objective of increasing international deposit business through both retail and wholesale deposit initiatives. The increased deposit funding will further support the bank's international expansion.

Core earnings Pre-tax ROE of 29%

The bank's core income before tax in the first 9M of 2006 amounted to ISK 23.1 bn. ROE on the first nine months core earnings was 29% compared with 30% for the whole year of 2005. A summary of performance and core earnings for January-September 2006 as compared to the year 2005 is shown in the following table (amounts in mISK):

	2006	2005	%
	30.9.2006	31.12.2005	
Profit before income tax	32.237	30.781	5%
Adjusted net gain on equity, securities and FX	(12.328)	(21.257)	-42%
Adjusted net interest revenues	3.221	3.652	-12%
Impairment on goodwill	0	3.033	-100%
Core income before income tax	23.129	16.210	43%
Adjusted Core Cost Income Ratio	50%	48%	3%
Adjusted ROE before income tax	29%	30%	-3%

In calculating the Bank's core earnings, trading gains on equities of all types, as well as trading gains on bonds and FX, are deducted. The interest rate margin is increased accordingly to reflect the cost to the Group of financing tied up in bond and equity positions. Nonetheless, maintaining a certain level of equity and bond exposures remains part of the Bank's strategy and active risk management.

Outlook

The outlook for Landsbanki's operations is generally positive. The Bank's core earnings are stable; in the past three years the underlying ROE before taxes has been very good.

The Group's income streams are well diversified, with 47% of its net operating income now originating from establishments abroad.

Landsbanki's credit risk is based on an asset portfolio which is well-diversified both in terms of sector and geography. Lending connected with activities abroad comprised 37% of total customer lending at the end of September 2006.

In the early months of this year, volatility has characterised domestic FX and markets. Both the Bank and its domestic clients have weathered market fluctuations without suffering negative long-term impact as a result, since Landsbanki's clients generally have foreign currency revenue offsetting their foreign-denominated liabilities.

As part of its pro-active risk management, the relative weight of the Bank's equity portfolio in its total assets has been reduced and amounted to 2.6% at the end of September 2006.

In view of the above, Landsbanki's management are convinced of the Bank's strong position and that it is well positioned to continue to deliver a high ROE. Landsbanki's target for after-tax ROE is 15-17%.

It should be borne in mind, in assessing the outlook for financial enterprises, that their operations are highly dependent upon various external factors, such as economic developments in Iceland and abroad, price level and currency fluctuations, and developments on domestic and foreign financial markets.

Presentations for Investors and Market Traders: In London, 26 October

Landsbanki's CEOs, Sigurjón Th. Árnason and Halldór J. Kristjánsson, will present the highlights of the Bank's performance and respond to questions. A webcast of the presentation will be available on Landsbanki's website, www.landsbanki.com where all meeting documentation will also be published concurrently.

Time: 11:00 am UK summer time (10:00 Icelandic time). Location: 5th floor, Beaufort House, St. Botolph Street, London EC3A 7QR.

The presentation will be broadcast in real time on the Landsbanki website: www.landsbanki.com Persons wishing to listen to the meeting via telephone should dial +44 (0) 1452 562,717 about 10 minutes prior to the start.

In Reykjavík, 27 October

Landsbanki's CEOs, Sigurjón Th. Árnason and Halldór J. Kristjánsson, will present the highlights of the Bank's results for investors and analysts and respond to questions. The meeting will be held on the 4th floor hall of the Iða building, Lækjargata 2, at 12.00. Meeting material and documentation will be published concurrently on the Landsbanki website.

Publication of Annual Financial Statements 2006

The publication of Landsbanki's annual financial statements for 2006 is scheduled for 26 January 2007.

Landsbanki's Consolidated Interim Financial Statements as of 30 September 2006 are available on the bank's website: www.landsbanki.is

The Interim Financial Statements have been examined by Landsbanki's auditors.

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