

Reykjavík, 17 March 2006

**In the light of recent international media coverage and analyses of the Icelandic economy and the banking system, Landsbanki would like to highlight the following points.**

### **Strong liquidity position**

- The remaining repayment of long-term loans maturing in 2006 is EUR 1.1 billion and EUR 2.0 billion in 2007. Of Landsbanki's current liquid assets EUR 3.2 billion are in cash and liquid securities. In addition Landsbanki has access to committed revolving facilities and backup lines, money market lines and various other sources of funding. Liquid assets cover all long-term obligations maturing during at least the next 2 years.
- The following table highlights Landsbanki's current liquid assets (in EUR billions):

Cash	1.3
Listed bills and bonds	1.2
Listed equity	0.7
Other assets, eligible for securitization	1.5
<b>Total liquid assets</b>	<b>4.7</b>

- This year, Landsbanki has already raised capital in international markets within close reach of its long-term international obligations due in 2006.
- The repayment profile of Landsbanki's long-term debt is comparable to that of its major Nordic peers.
- Substantial diversification of funding sources has been achieved by accessing new geographical markets and with greater emphasis on international deposit taking (Euro 1.7 billion at year end 2005).

### **Continued international diversification**

- Business and industry in Iceland in general have become highly globalised; more than 75% of the income and expenditure of the companies listed on the Iceland Stock Exchange is in foreign currencies.
- The Icelandic banks' lending to foreign entities comprises a weighted average of 57% of their total lending.
- According to a recent survey published by the Icelandic Bankers Association actual foreign credit risk for the banking system as a whole is 73% of their total lending, while domestic credit risk is only 27%. These figures include lending to foreign entities and Icelandic corporates with operations abroad.
- At year-end 2005, 62% of Landsbanki's loan portfolio was lending to foreign operations as defined above.
- The external borrowing of the Icelandic banking system is therefore primarily for non-Icelandic risk. Hence, the external debt of Icelandic banks should be assessed bearing this fact in mind and not only in relation to the GDP of Iceland.

### **Profitable core income**

- Landsbanki's core income has continuously improved, particularly since 2003. Disregarding all trading gains and adding back the cost of carry of the positions, the Bank's 2005 pre-tax ROE was 30% and its cost-income ratio 48% (for further details, reference is made to Note 4.7 of Landsbanki's 2005 annual financial statements).

### **Balanced stock holdings**

- The majority of equity holdings in the name of Landsbanki are held on behalf of clients or for derivative contracts. A of Landsbanki Luxembourg equity holdings are held on behalf of clients.
- The value of the Bank's equity holdings on own account amounts to ISK 58.5 billion or 4.3% of total assets end of year 2005.
- Landsbanki has shifted its equity portfolio substantially from domestic to foreign equities. At year end 2005 international equities were 53% of the portfolio and currently foreign stocks make up 59% of the portfolio.

### **Financial strength – capital adequacy (CAD) ratio well above Nordic, US and UK averages**

- The capital ratio (CAD) of Landsbanki at year-end 2005 was 13.1%. Following the issuance of the €375 million Tier 1 capital notes in February 2006, Landsbanki's pro forma capital adequacy (CAD) ratio is 15.7%, its Tier 1 capital ratio 14.5% and equity ratio 10.1%, the strongest they have ever been.
- The average Tier 1 ratio of Icelandic banks at year end 2005 (10.5%) is considerably higher than ratios of banks in the Nordic countries (7.7%), the UK (8.1%) and the US (8.3%).
- The official stress test applied by the Icelandic Financial Supervisory Authority (FME) to assess the banks capacity to withstand economic shocks entails the following simultaneous severe shocks: i) a 35% fall in domestic stock prices and 25% in foreign stock prices; ii) 20% loan default losses; iii) 7% fall in bond prices; and iv) 25% depreciation of the ISK.
- Applying the FME stress test brings Landsbanki's CAD ratio down from 15.7% to 13.6%, which is still well above the 8% regulatory requirement.
- Landsbanki has significantly increased the foreign-denominated share of the Bank's capital through subordinated loans, in order to insulate the equity ratio from exchange rate volatility.
- Landsbanki's target is to maintain an overall capital ratio of around 12%, with a minimum of 11% and a minimum Tier 1 ratio of 9%. This policy takes into account the Bank's business model and accepted equity exposure.

### **Credit ratings improved in 2005 and remain on stable outlook**

- On 16 March 2006, Standard & Poor's affirmed the Republic of Iceland's 'AA-/A-1+' FC Ratings on healthy public finances. The Outlook remains Stable.
- Fitch affirmed on 23 February 2006 the unchanged credit ratings of all the Icelandic banks.
- Moody's, in their announcement on 21 December 2005 stated that: *"The overall outlook for rated banks in Iceland remains stable, underpinned by continued strong growth in the country's economy as well as the generally good financial fundamentals, improvements in risk management and adequate capitalisation."*
- In a public interview February 24th, the sovereign analyst of Iceland at Moody's stated that: *"We have given the Icelandic national treasury a higher credit rating than Fitch Ratings, and we see no cause to change the outlook for it."*
- The stable rating outlook for the Icelandic banks was reiterated by Moody's in a press comment in Iceland on 1 March 2006.

### **Government statements and structural changes**

- Following extensive discussions with the Central Bank and the Icelandic Financial Supervisory Authority, the Icelandic Prime Minister strongly reaffirmed the soundness of the Icelandic banking system on 13 March.
- Furthermore, the Prime Minister also announced that reform in the Icelandic mortgage market would be accelerated and reiterated the importance of the financial sector to the Icelandic economy.
- The FME reported on 14 March that all the Icelandic banks passed this stress test.

### **Realignment and strengthening of the economy**

- The real exchange rate of the ISK has appreciated gradually over the last years in response to the strong growth of the Icelandic economy bringing it to 10-15% above trend level. The exchange rate has depreciated in recent weeks by around 12%, bringing it closer to the equilibrium level.
- Equity prices have fallen somewhat in recent weeks, however, they are still 12% higher than they were at year-end 2005.
- An adjustment in the currency and equity markets has been expected and does not pose any problems for the overall balance sheet of households or financial institutions. These adjustments alleviate some of the concerns that foreign analysts have expressed with regard to asset prices and the exchange rate.
- Economic growth will continue to be well above the OECD average in coming years, in part due to prospects for an increase in foreign direct investment projects in Iceland. In particular, this development reinforces and strengthens the country's economic base and its financial institutions.