

Consolidated Interim Financial Statements

Press Release
Landsbanki Íslands hf.
30 September 2005

Consolidated Key Figures

Operations	2005	2004	Change	2005	2005	2005	2004	2004	2004
	Q1 - Q3	Q1 - Q3		Q3	Q2	Q1	Q4	Q3	Q2
Interest revenues	45,364	23,373	94%	18,594	14,309	12,461	10,879	8,172	8,534
Interest expenses	29,623	13,249	124%	12,272	9,180	8,172	6,268	4,273	5,264
Net interest revenues	15,741	10,124	55%	6,322	5,129	4,289	4,611	3,898	3,269
Fee and commission income	13,120	7,044	86%	4,775	4,864	3,481	3,191	2,509	2,080
Fee and commission expenses	1,155	962	20%	392	403	361	382	365	301
Net fee and commission income	11,965	6,081	97%	4,383	4,461	3,120	2,809	2,144	1,779
Dividend income	882	442	100%	161	616	105	11	1	98
Net gain on financial assets and liabilities held for trading	5,365	4,156	29%	3,550	(163)	1,978	(41)	1,794	806
Net gain on financial assets designated at FV through P/L	4,660	7,138	-35%	1,167	1,003	2,490	(2,220)	4,693	200
Fair value adjustments in hedge accounting	367	0	0%	232	(81)	216	0	0	0
Foreign exchange gain	295	242	22%	359	(161)	97	122	111	59
Share of profit of associates	1,264	71	1668%	505	275	484	(79)	41	17
Net gain of disposal groups held for sale	1,087	0	0%	270	817	0	0	0	0
Other operating revenues	13,920	12,049	16%	6,243	2,307	5,370	(2,207)	6,639	1,179
Operating revenues	41,626	28,254	47%	16,949	11,898	12,779	5,213	12,682	6,227
Salaries and related expenses	8,546	5,681	50%	3,077	3,114	2,355	2,112	2,304	1,735
Administrative expenses	5,352	4,917	9%	1,905	1,764	1,683	1,749	1,963	1,342
Operating expenses	13,898	10,598	31%	4,982	4,879	4,037	3,862	4,267	3,076
Impairment on loans and advances and assets held for sale	4,392	3,262	35%	1,687	1,359	1,345	1,223	1,293	978
Profit before impairment on goodwill and income tax	23,336	14,393	62%	10,280	5,660	7,396	128	7,121	2,172
Impairment on goodwill	3,293	0	0%	3,293	0	0	0	0	0
Income tax	3,836	2,627	46%	1,882	602	1,351	(829)	1,333	361
Net profit	16,208	11,766	38%	5,105	5,058	6,045	957	5,788	1,812
Attributable to:									
Shareholders of Landsbanki Íslands hf.	16,006	11,670	37%	4,995	5,000	6,011	905	5,746	1,785
Minority interests	202	96	110%	110	58	34	53	42	27
Balance Sheet	30.9.2005	1.1.2005	Change	30.6.2005	Change				
Cash and cash balances with Central Bank	8,134	18,237	-55%	8,211	-1%				
Loans and advances	891,668	614,274	45%	828,342	8%				
Trading assets	156,243	64,730	141%	119,208	31%				
Other assets	86,212	39,900	116%	66,311	30%				
Total assets	1,142,258	737,141	55%	1,022,072	12%				
Deposits	413,988	279,206	48%	355,410	16%				
Funding	531,417	375,084	42%	521,870	2%				
Subordinated loans	47,224	22,570	109%	49,394	-4%				
Other items	48,804	21,572	126%	34,378	42%				
Equity	98,749	37,705	162%	58,954	68%				
Minority interests	2,076	1,004	107%	2,066	0%				
Total liabilities and equity	1,142,258	737,141	55%	1,022,072	12%				
Key ratios	2005	2004	2004	2003	2002	2001			
	Q1 - Q3	Q1 - Q3							
Return on equity before impairment on goodwill and taxes	71.9%	82.2%	57.2%	20.9%	17.0%	13.9%			
Return on equity after taxes	48.3%	65.6%	49.5%	17.6%	13.5%	13.1%			
Tier 1 ratio	12.9%	8.7%	7.8%	6.9%	7.7%	7.5%			
Equity ratio	14.3%	11.7%	10.4%	9.9%	10.6%	10.4%			
Cost-income ratio	33.4%	37.5%	43.2%	57.0%	61.1%	66.2%			
Operating expenses as a ratio of average capital position	2.0%	2.7%	2.5%	3.0%	3.1%	3.2%			
Interest spread as a ratio of average capital position	2.2%	2.6%	2.6%	2.6%	2.8%	3.5%			
Ratio of provision to lending position at period-end	0.66%	0.91%	0.73%	1.47%	1.33%	1.17%			
Share price at period-end	22.20	14.00	12.10	5.80	3.65	3.39			
Share price increase adjusted for dividend payments	85.1%	143.1%	110.3%	61.6%	10.6%	0.1%			
Number of positions at period-end	1,382	1,081	1,121	1,025	986	997			

ISK 23.3 bn Profit before Tax and Impairment on Goodwill

Landsbanki Íslands hf. reported gross profit (before allowing for taxes and impairment of goodwill) for the first nine months of 2005 of ISK 23.3 billion (bn), as compared to ISK 14.4 bn for the same period of 2004, an increase of 62%. In Q3 of 2005, the Bank wrote down goodwill amounting to ISK 3.3 bn resulting from the merger of the assets of Burðarás hf. with Landsbanki. After deducting this write-down, Landsbanki's pre-tax profit for the first nine months of 2005 was 20 bn.

Net profit for the period amounted to ISK 16.0 billion, as compared to ISK 11.7 billion for the same period the previous year.

After-tax ROE for the period was 48%.

Landsbanki's gross profit for the 3rd quarter of 2005 (before allowing for taxes and goodwill impairment) amounted to ISK 10.3 bn, a new record for the Bank for a single quarter.

Changes to Accounting Practices

Landsbanki has adopted International Financial Reporting Standards (IFRS) as of 2005. A separate news announcement explaining the impact of the transition to IFRS on Landsbanki was sent to the Iceland Stock Exchange (ICEX) together with the announcement of Q1 results on 12 May of this year. Note 4 of the interim financial statements also explains this impact.

The operations of Teather & Greenwood are included in the consolidation as of 1 April 2005, with the result that figures from the previous year are not fully comparable.

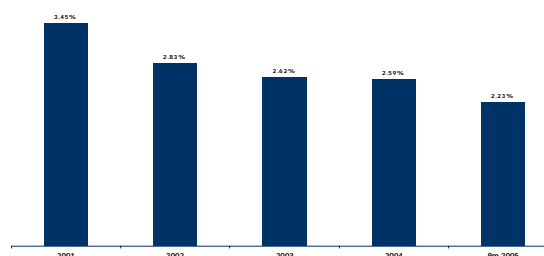
Highlights of the Income Statement and Balance Sheet

Net operating revenues amounted to ISK 41.6 bn in the first 9M of 2005, as compared to ISK 28.3 bn for the same period of the previous year. This is a YoY increase of 47%.

Net interest income amounted to ISK 15.7 bn as compared to ISK 10.1 bn in the first 9M of 2004, or a YoY increase of 55%. This reflects Landsbanki Group's increasing economies of scale, as its total assets have

more than doubled since the beginning of 2004. The ratio of interest spread to average capital position was 2.2% in the first nine months of 2005 as compared to 2.6% for 2004 as a whole.

Interest spread



97% Increase in Net Fees and Commissions

Net fee and commission income amounted to ISK 12.0 bn in the 9M of 2005, as compared to ISK 6.1 bn for the same period of the previous year, almost doubling. Increased income from fees and commissions is the result of the Bank's increased securities trading, asset management growth and expanding overseas activities of both the parent company and subsidiaries.

The increase in net interest and commission income reflects the substantial increase in the Group's basic income generation. These items have grown by close to ISK 11.5 bn, or 71%, over January to September of the previous year, and amounted to ISK 27.7 bn. By comparison, net interest and commission income amounted to ISK 15.4 bn for all of 2003. While the Group's core income generation has increased by ISK 11.5 bn, its operating expenses have grown by ISK 3.3 bn.

Landsbanki's trading and investment income amounted to ISK 13.9 bn for the first 9M of 2005, as compared to ISK 12.0 bn for the same period in 2004. Trading and investment income is comparable to the heading of trading gains under previous accounting practices, with the modifications which result from settlement of derivatives and available-for-sale financial assets. Trading and investment income includes dividend income, net income (trading gains) on current assets and other financial assets at fair value, as well as trading gains on market derivatives and hedging derivatives and foreign exchange.

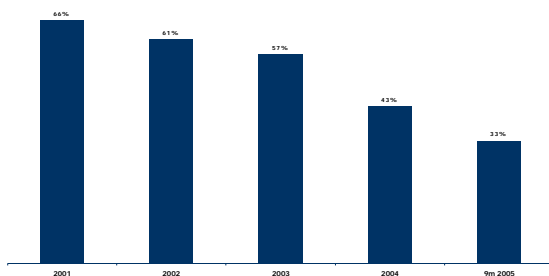
Share of profit in associates amounted to ISK 1.3 bn during the first three quarters of

this year, as compared to ISK 0.1 bn for the same period of the previous year. The increase can be attributed to Landsbanki's holding in the investment company Fjárfestingarfélagið Grettir hf.

Cost-Income Ratio 33%

Landsbanki's **operating expenses** totalled ISK 13.9 bn for the first nine months of 2005, making the cost-income ratio for the period 33% as compared with 43% for 2004.

Cost-Income ratio



Impairment on loans and financial assets held for sale in the first nine months of 2005 amounted to ISK 4.4 bn, as compared to ISK 3.3 bn during the same period of the previous year. Impairment as a percentage of loans and receivables at the end of September 2005 was 0.66%, as compared to 0.73% at year-end 2004.

Total contributions to the **credit loss allowance account** amounted to ISK 11.2 bn or 1.3% of total loans and guarantees at the end of September 2005. Provisions for credit losses do not reflect actual write-offs, but amounts set aside to cover possible credit losses. When and if loans are not recovered, the amount is credited from these provisions. During the first nine months of 2005, Landsbanki applied ISK 1.7 bn from credit loss provisions against final write-offs.

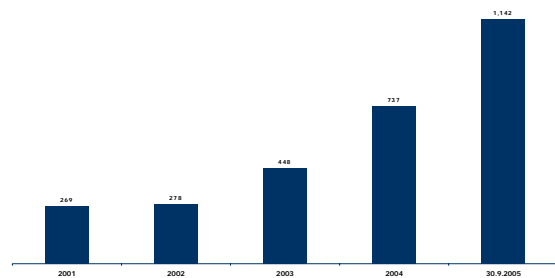
Goodwill impairment amounted to ISK 3.3 bn in Q3 of 2005. This is goodwill resulting from the merger of the assets of Burðarás hf. with Landsbanki. The goodwill should be viewed against the context of the large number of new shareholders gained by the Bank and the fact that Burðarás was acquired at LAIS market price.

Total assets grow by 55%

The Group's **total assets** amounted to ISK 1,142 billion at the end of September 2005, increasing by 55% or ISK 405 bn since year-end 2004. The Group's assets have almost quadrupled in just over two years' time, based

almost completely on organic growth in Iceland and abroad.

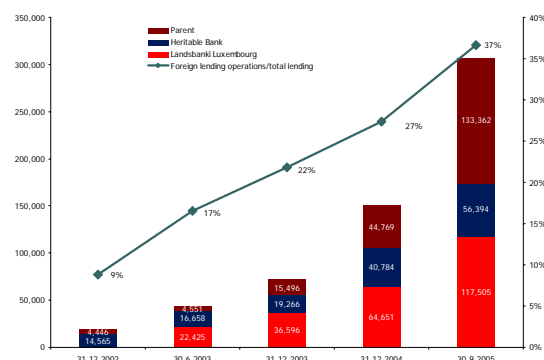
Total assets



Full-time equivalent positions in the Landsbanki Group numbered 1,382 at the end of September 2005.

Loans and advances were ISK 892 bn at the end of September 2005. Of this amount, ISK 58 bn are loans and amounts due from credit institutions, as compared to ISK 67 bn at the beginning of the year. Loans and amounts due from clients amounted to ISK 845 bn, as compared to ISK 556 bn at the beginning of this year, an increase of ISK 289 bn during the 9M reporting period. The increase is primarily in corporate lending to major clients through Landsbanki's Corporate Banking division and the Bank's London branch, as well as growth in housing mortgages in Iceland

Loans to foreign clients and lending by foreign subsidiaries totalled ISK 307 bn at the end of September 2005, as compared to ISK 150 bn at the beginning of the year, increasing by ISK 157 bn or 105%. They represent 37% of total loans to clients as compared to 27% at the beginning of this year.



The Group's **trading assets** were ISK 156.2 bn at the end of September, as compared to ISK 64.7 bn at the beginning of the year. This includes market bonds and trading equities, as well as derivatives that are in the money. The Bank's holdings in other financial assets at fair value amounted to ISK 34.0 bn at the

end of September 2005 and investment in associates amounted to ISK 4.3 bn. At the end of September, the Group's total exposures in trading bonds and equities net of forward contracts amounted to ISK 194.5 bn as compared to ISK 81.3 bn at the beginning of the year. The Bank has entered into forward contracts against these holdings in the amount of ISK 90.8 bn, making its net trading bond and equity exposure ISK 103.5 bn at the end of September 2005.

Total assets under active management amounted to ISK 263 bn at the end of September 2005, an YoY increase of 38%. Total assets in custody have grown by 95% during the year and amounted to ISK 1,072 bn at period end.

Liabilities and equity

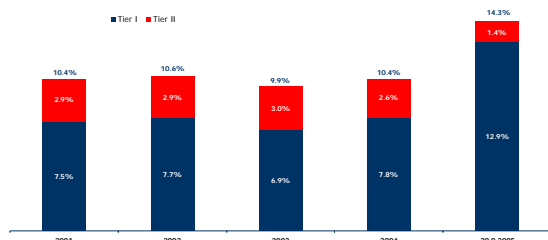
The Group's **deposits** amounted to ISK 414 bn at the end of September 2005. Of this amount, ISK 275 bn were customers' deposits, as compared to ISK 218 bn at the beginning of this year, increasing by 26% during the 9M period.

The Group's **borrowing** amounted to ISK 531 bn at the end of September as compared to ISK 375 bn at the beginning of the year.

Equity increase 162%

The Group's **equity** was ISK 99 bn at the end of September, as compared to ISK 38 bn at the beginning of the year, which represents an increase of 162% during the period. Landsbanki issued additional shares of ISK 2.1 nominal value, at a share price of ISK 19, in connection with its acquisition of the assets of Burðarás hf. Furthermore, the Bank issued new capital in March 2005 amounting to ISK 800 million nominal value at a share price of 14.25. The remaining increase in equity is the result of profits during the 9M period, dividends paid and changes to treasury shares held.

Capital ratio (CAD)



The Group's **subordinated debt** was ISK 47 bn at the end of September as compared to ISK 23 bn at the beginning of the year. The Bank issued subordinated bonds in the amount of ISK 28 bn in Q1 of 2005. The issue was comprised of Tier 1 capital amounting to EUR 150 m and EUR 200 m classified as Tier 2. The group's CAD ratio was 14,3% at the end of September 2005, of which 12.9% was Tier 1 capital. At the beginning of the year the Group's CAD ratio was 10.4%, of which 7.8% was Tier 1 capital.

Performance by Division

Landsbanki Group's performance is comprised of the results of the following four divisions:

- Retail Banking,
- Corporate Banking,
- Securities & Trading
- Asset Management and Private Banking.

A summary of divisional performance for the first nine months of 2005, compared to the same period of the previous year, is shown in the following table (amounts in MISK):

Divisional Summary

9m 2005	Retail Banking	Corporate Banking	Securities and Trading	Asset Management & Private Banking	Other operations	Group
Net interest revenue	7,109	7,900	-408	1,140	0	15,741
Net commission and fees	2,488	1,477	6,477	1,524	0	11,965
Other revenues	21	153	13,599	149	0	13,920
Net operating revenue	9,617	9,528	19,668	2,813	0	41,626
Operating expenses	6,002	2,481	3,712	1,387	316	13,898
Impairment on loans and advances held for sale	1,846	2,220	0	326	0	4,392
Impairment on goodwill	0	0	3,293	0	0	3,293
Profit before income tax	1,769	4,827	12,663	1,100	-316	20,044

9m 2004	Retail Banking	Corporate Banking	Securities and Trading	Asset Management & Private Banking	Other operations	Group
Net interest revenue	4,771	4,683	-97	767	0	10,124
Net commission and fees	2,246	662	2,265	909	0	6,081
Other revenues	0	-36	12,024	61	0	12,049
Net operating revenue	7,016	5,309	14,192	1,737	0	28,254
Operating expenses	4,659	1,584	1,473	1,091	1,791	10,598
Impairment on loans and advances held for sale	2,362	709	7	184	0	3,262
Profit before income tax	-5	3,016	12,712	462	-1,791	14,393

Retail Banking includes the parent company's branch network, Heritable Bank's mortgage operations and SP Fjármögnun. The division's profit amounted to ISK 1.8 bn during the first three quarters of this year, as compared to ISK 5 million loss for the same period of the previous year.

Corporate Banking includes the parent company's Corporate Banking division, including its London Branch, and Heritable Bank's Corporate Banking division. Pre-tax profit of Corporate Banking during the first 9M of 2005 amounted to ISK 4.8 bn, as compared to a profit of ISK 3.0 bn for the first 9M of 2004.

Securities & Trading is comprised of the parent company's Securities division plus Teather & Greenwood. This division includes

securities brokerage, corporate advisory, FX and derivative trading, the Bank's treasury and debt management and proprietary trading. Pre-tax profit of Securities Trading during the first 9M of 2005 amounted to ISK 12.7 bn, which is the same profit as for the period of the previous year. Goodwill impairment resulting from the merger of the assets of Burðarás hf., amounting to ISK 3.3 bn, is recognised under this division. Once the relevant supervisory authorities have given their approval, the activities of Kepler Equities SA will be included in the division in Q4 of 2005.

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 9M of 2005 amounted to ISK 1.1 bn, as compared to a 9M profit of ISK 462 million in 2004.

Good Results of Operations Abroad Continue

Net operating income from operations outside of Iceland amounted to ISK 6.7 bn in the first 9M of 2005, as compared to ISK 1.9 bn for the same period of the previous year, increasing by around 250%. The increased income generation from operations abroad reflects the fine performance of foreign subsidiaries as well as the expansion and profitability of the Bank's London branch.

The operations of **Landsbanki Luxembourg** were very successful during the year to date, with a pre-tax profit of EUR 10.6 million as compared to EUR 4.7 for the same period last year. The Bank's total assets amounted to EUR 2.5 bn at the end of September 2005, as compared to ISK 1.2 bn at the beginning of the year. At the end of September 2005, Landsbanki Luxembourg's employees numbered 54.

The operating profit of **Heritable Bank Ltd.** in the first nine months of 2005 amounted to GBP 5.9 million, as compared to GBP 3.1 million during the same period of 2004, an increase of 90%. Heritable's total assets amounted to GBP 551 million at the end of September as compared to ISK 364 million at the beginning of this year, increasing by 51%. At the end of September 2005, the Bank had 64 employees.

Landsbanki acquired **Teather & Greenwood Holdings Plc** at the end of Q1 and consolidated the subsidiary into its accounts

as of 1 April. The company performed well in the 2nd and 3rd quarters, reporting pre-tax profit of GBP 2 million, and continuing the growth in profitability which has characterised its operations in the past two years. At the end of September 2005, Teather & Greenwood had 130 employees.

Landsbanki opened a **London branch** which was formally licensed to operate at the beginning of this year. Its loan portfolio has grown rapidly and amounted to ISK 70 bn at the end of September 2005.

The activities of the London branch began with a syndicated loan team, operating on the European leveraged lending market. This specialised team focuses on loan originations, emphasising close working relationships with highly regarded local banks for each project. Participation in the European syndicated loan market under the lead of major foreign banks is also a central aspect of its activities.

In addition to its lending operations, the London branch has added two new divisions. One is a Landsbanki commercial finance team, which concentrates on receivables purchasing (RP) and asset-based lending. The other is a team from Landsbanki's own Corporate Finance Advisory section, which will co-operate closely with Teather & Greenwood. At the end of September 2005, Landsbanki's London branch had 32 employees.

Pre-tax profit of **SP Fjármögnun** amounted to ISK 369 million during the first nine months of 2005, as compared to ISK 246 million for the same period of the previous year. The company's total assets were ISK 20.3 bn at the end of September as compared to ISK 14.9 bn at the beginning of the year. At the end of September 2005, SP Fjármögnun had 22 employees.

Highlights of the 3rd quarter of 2005

Sales Co-operation with TM Insurance

At the beginning of July 2005, Landsbanki signed an agreement with TM Insurance providing for increased co-operation in financial and insurance operations. The Bank acquired a 34% share of TM's life insurance subsidiary, *Liftryggingarmiðstöðin hf.* To begin with, co-operation between the companies will be limited to the sale of life and sickness insurance under the brand TM-Líf. This insurance will replace the insurance included

under Landsbanki's *Launavernd* salary insurance.

Landsbanki's Consolidation of Burðarás's Assets

In mid-September this year, a shareholders' meeting of Landsbanki approved the division and merger schedule concluded by the Boards of Directors of Landsbanki, Straumur Investment Bank and Burðarás to merge Burðarás's assets with Landsbanki and Straumur. The merger project was subsequently approved by the Financial Supervisory Authority and the Icelandic Competition Authority. As a result of the merger, Landsbanki acquired assets valued at ISK 37 bn, including around ISK 20 bn in listed companies and ISK 17 bn in cash and cash equivalents, plus other assets. Goodwill from the merger amounting to ISK 3.3 bn was written off in Q3 of this year.

The asset takeover was financed with an issue of new shares of ISK 2.1 bn nominal value at a share price of 19. This reinforces Landsbanki's balance sheet considerably, boosting equity by 60% while at the same time increasing capacity to issue subordinated debt. The Group's lending capacity is almost doubled, giving it increased strength to face further challenges on international markets.

Acquisition of Kepler Equities

A Strategic Step in Corporate and Investment Banking

Landsbanki made an important move in its strategy of expanding corporate and investment banking activities by acquiring an 82% holding in Kepler Equities SA. Kepler is a leading European securities house, specialising in research-based institutional brokerage and equities placement. The company has operations in Paris, Amsterdam, Frankfurt, Madrid, Milan, Zurich and New York.

The acquisition offers singular opportunities to build up corporate and investment banking activities throughout Europe, a central focus of Landsbanki's strategy for the future, emphasising small and medium-size European companies. There are also prime opportunities for co-operation between Kepler and Teather & Greenwood, as their combined research covers 665 companies, representing 87% of the total European market cap. The company has a market share of 2-4% on those markets where it is active, and an estimated income

for 2005 of EUR 82 million. At the end of September 2005, Kepler's employees numbered around 240.

Key Employees Join Asset-based Lending

In August, several key employees from GMAC Commercial Finance joined Landsbanki's London branch to head its new asset-based lending operations. The new department's objective is to offer top quality services in asset-based lending for medium and large international companies.

Acquisition of the Agricultural Loan Fund

On 30 September 2005, the Minister of Agriculture accepted Landsbanki's bid for specific assets and liabilities of the Agricultural Loan Fund. The Bank will take over bonds issued by the Fund amounting to ISK 13.8 bn for a purchase price of ISK 2.7 bn. The takeover reinforces the Bank's business ties with farmers, in accordance with its objective of providing comprehensive and solid financial service to all of Iceland. The contract will be concluded once the approval of the Financial Supervisory Authority and the Icelandic Competition Authority has been given.

Long-term Funding for Increased Activities

In the third quarter of 2005 Landsbanki launched its two largest loan transactions. In July Landsbanki issued a 2-year EUR 600 million FRN with Bank of America and CSFB as joint lead managers. Landsbanki also issued a 5-year EUR 1.0 billion (ISK 73bn) EMTN FRN bond issue with HSBC as lead manager. This transaction is Landsbanki's largest single bond issue to date and the largest ever by an Icelandic entity. Subscribers number over 240 investors, mainly banks and asset managers, in a total of 23 countries. This is the most diverse investor base, by any measure, that Landsbanki has ever achieved in a single transaction. The focus in this transaction was on small regional investor accounts in Europe.

Following these and other loan transactions in 2005, Landsbanki's maturity profile has been lengthened and the share of long-term loans in its overall funding has increased. Furthermore the number and diversity of new investors has increased substantially.

Outlook for 2005

Market conditions have been very favourable for financial enterprises in Iceland in the past year or two. Taking advantage of these propitious circumstances, Landsbanki has consolidated its position on the domestic market, while its operations in the UK and Luxembourg have grown and returned a good profit. Through its acquisition of Teather & Greenwood and Kepler Equities, Landsbanki has paved the way towards achieving its objectives of expanding corporate and investment banking operations in Northern Europe. The Group's very strong equity position allows it considerable scope for further expansion and growth. Landsbanki's objective is an annual after-tax return on equity of 15-17%, which it expects to achieve in 2005.

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.

Maximum Loan-to-value Ratio of Housing Mortgages Lowered from 90% to 80%

In October, Landsbanki announced its decision to lower the maximum loan-to-value ratio of its housing mortgages from 90% to 80%. The decision was taken in consideration of the changing housing market situation, where price increases are levelling off. Under such circumstances, even limited upsets can result in substantial difficulties for borrowers, especially in the case of inflation-indexed mortgages. In taking this step, Landsbanki is contributing to restraining expansion in the economy as a whole and to supporting efforts by the Central Bank to suppress inflation and maintain economic stability. In the Bank's estimation, achieving these objectives is in the interests of both Landsbanki and its customers.

Investors' Presentation

A meeting for investors and market traders will be held in Iðnó, Vonarstræti 3, Reykjavík, on 28 October 2005, beginning at 12:30. Landsbanki's CEOs, Sigurjón Th. Arnason and Halldór J. Kristjánsson, will present the

highlights of the interim financial statements and respond to questions.

Announcement of 2005 results

Landsbanki will publish its annual financial statements for 2005 on 27 January 2006.

The 3rd quarter results have been reviewed by the Bank's auditors.

A copy of Landsbanki's interim financial statements for January-September 2005 is available on the Bank's website: www.landsbanki.is or from its headquarters at Austurstræti 11, Reykjavík.

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