

**Transcript of the Annual General Meeting of Landsbanki Íslands hf. held
on 9 February 2007 at Grandhótel**

Björgólfur Guðmundsson, Chairman of the Board of Directors: Dear shareholders and distinguished guests. It's my pleasure to welcome you to Landsbanki's Annual General Meeting for its 120th anniversary year. Before we proceed, we need to elect a Chairman of the Meeting, and it so happens that the same person has chaired all of our AGMs so far this century – and I think for most of the previous century – so I would like to nominate Kjartan Gunnarsson, Vice-Chairman of the Board. If there are other nominations, I would very much like to hear them. (applause) Well, as far as I can see, he is much welcomed. I call upon him to please take the floor.

Kjartan Gunnarsson, Vice-Chairman of the Board of Directors: Yes, Mr Chairman, I thank you for the centuries of trust. This Annual General Meeting was called in accordance with Article 11 of the bank's Articles of Association, with notices of the meeting sent on 25 January, 26 January, 31 January, 1 February and 7 February, so I hereby declare Landsbanki's Annual General Meeting for the preceding year of operation lawfully convened. I would like to nominate Ársæll Hafsteinsson, Managing Director of Landsbanki's Legal Division, to act as Secretary of the Meeting. Are there any other nominations? Since there are no other nominations, mine is approved, and I call upon Ársæll to please take the minutes. (applause)

The Agenda of the AGM consists of the report of the Board of Directors, the annual financial statements, a decision on the payment of a dividend, the election of auditors, a motion authorising Landsbanki to purchase or accept as collateral as much as 10% of its own shares, motions to amend the Articles of Association, a motion on stock options, a decision on remuneration to members of the Board of Directors and any other business lawfully raised. The Agenda is included in the meeting documents together with the main motions. I now hand you over to the Chairman of the Board, Björgólfur Guðmundsson, who will deliver the report of the Board of Directors.

Björgólfur Guðmundsson: Shareholders and honoured guests, the year 2006 was an historic one for our bank. As Landsbanki celebrated its 120th anniversary, the year also marked a watershed as, for the first time in the bank's history, overseas income exceeded domestic income. It was also a record year in terms of the bank's performance.

Extensive changes have taken place since Landsbanki was privatised four years ago. Landsbanki is fast approaching the target set by a new Board of Directors at the beginning of 2003, of becoming a strong, international bank with deep Icelandic roots. The Icelandic financial industry has gone from strength to strength in the past few years. Most important in this development are the banks' greatly expanded overseas activities. The Icelandic banks have stepped up their independent service operations abroad and stood shoulder to shoulder with Icelandic businesses breaking into foreign markets.

In recent years, the Icelandic financial sector has grown faster than any other industry in Iceland, with its contribution to GDP up 35% since 2003 to a current level of more than 8%. Financial activities have thereby become the sector contributing most to Icelandic GDP, more than fisheries and more many times over than aluminium production, for instance. An estimated one-third of Iceland's high economic growth over the past five years was due to the growth and internationalisation of financial enterprises. The number of people working in the financial sector has climbed accordingly, particularly among highly educated professionals – with nearly half of the financial workforce now having a university degree. In 2006 alone, the number of Icelandic financial workers rose by nearly 800. This demonstrates that the banks are attractive to young, talented people, women as well as men, offering interesting jobs and competitive salaries with a possibility of working in an international environment.

Iceland's public coffers are also boosted by business success. In addition to the State Treasury's high tax revenues from taxes paid by financial employees, income tax levied on the banks themselves contributed a third of all tax revenues accruing from Icelandic legal entities for 2005. Income tax paid last year by the three commercial banks for the preceding year amounted to more than ISK 21 billion, up by more than ISK 10 billion year-on-year. This clearly shows that financial enterprises are major contributors to the development of Icelandic society as a whole, making it an overarching priority to foster a healthy operating environment for the sector.

One indicator of the growth and success of the Icelandic banks in the international arena is that early in the year the Icelandic financial sector and economy became a focus of attention among the analysts of foreign credit agencies and some of the world's largest banks. This led to extensive coverage in all major media outlets on both sides of the Atlantic. Doubts were expressed regarding the Icelandic economy and risks that companies were facing in their expansion abroad – with implications for the banks. Suddenly, the banks found themselves in a sea of criticism, with a temporarily detrimental effect on their international bond market funding. This was a severe reminder that Landsbanki had become part of an international financial system, calling for new methods and new thinking.

But Landsbanki rode out the storm, taking steps to address concerns that were justified and correcting others that arose from misconceptions, which were fairly common among new analysts of the Icelandic economy in the first half of the year. The bank reacted with targeted measures, substantially increasing the dissemination of information to the foreign media and analysts. It also divested various assets in listed companies, including Straumur-Burðarás Investment Bank. Without agreeing with everything said about the Icelandic banks last year, we acknowledge that some of the criticism was warranted and constructive. It served as a warning signal to all those responsible for the banks' operations.

Landsbanki weathered the storm well and emerged stronger than ever before. The bank's performance in 2006 was the best ever – for the third year in a row. Deposits increased very sizeably, profit was higher than ever and the

foundations of the bank's operations have never been sounder. The successful integration of Landsbanki's operating units in 15 countries has exceeded expectations, providing a strong platform for further growth. Overseas business units generated more than half of the bank's profit, at a lower cost than domestic profits.

Clearly, it is important for the bank's Icelandic operations to remain a solid foundation for expansion abroad, where our growth opportunities lie. It should be borne in mind that financial companies in the Western world performed well by and large last year, and Landsbanki's external business environment was favourable in many respects. There is no guarantee that this will always be the case. In good years, banks must save for a rainy day. Many are astounded by the banks' high profits. However, they do not exceed the levels needed to meet the requirements of international credit agencies for the profitability and financial strength of the banks, which must be shielded from potential difficulty. Strong performance supports good credit ratings for the banks, which in turn will ensure better credit terms for their clients.

Honoured guests, Landsbanki has operations in 15 countries and adapts its activities and services to the economic conditions in each country. Clearly, none of these countries experienced greater turbulence, inflation or exchange-rate fluctuation than Iceland last year. These unfavourable conditions create problems, increase costs for banks and their clients and waste resources. In Iceland, Landsbanki has followed up on the Central Bank's policy rate increases as required by economic developments. Contrary to statements made in the Icelandic press, the interest margin in Iceland has not increased but decreased, as will be made clear in the CEOs' report later on. Therefore, it is not true that the banks have raised the prices of their services to the public, let alone that this explains their good performance. This is not the case.

It is true, on the other hand, that the banks' privatisation and the deregulation of financial services have transferred responsibility to individuals in their dealings with financial companies. Financial services used to be under central government control, but are now shaped by the consumers' freedom of choice. Although Landsbanki led the way in warning the public against some of the options on offer in the market and has always emphasised savings, I believe the bank can do better still and place more emphasis on informing and educating the public. Landsbanki's training programmes in household finance have been very popular, confirming a great demand for this service.

Major changes over the past few years have dramatically increased the range of available service options. It is therefore important to provide opportunities for people to learn about their options and possibilities so they can take responsibility and full advantage of their freedom of choice. For that reason, I believe that Landsbanki should step up its information and training services considerably. The bank will be seeking co-operation with other organisations and parties involved in such efforts.

I understand perfectly and share people's concerns about high interest rates, but the commercial banks are not to blame. In this respect we and our

customers have a common foe. Volatility and inflation are a menace that we all must battle together. One of Landsbanki's joint CEOs said at a results presentation in London recently that he would gladly sacrifice the bank's billions of profit for one year if this would rid us of inflation. This is very telling about our mind-set and determination to tackle the current problem.

Ladies and gentlemen, the success of the Icelandic banks since their privatisation has attracted attention far and wide. Here in Iceland, public discussion has been split into two camps: those celebrating the banks' excellent success and those who have doubts and misgivings about the benefits of privatisation and say that the banks were practically given away free. In this context, it is worth remembering that, for some time, an effort was made to find foreign buyers for the Icelandic banks, for example among overseas banks, but they were not interested. Either the Icelandic banks were too expensive or the foreign parties in question did not grasp their future potential. In any case, no foreign banks submitted bids.

But let us imagine for a moment that the Icelandic banks had been acquired by foreign ones, for example a Danish bank. What would the consequences have been? How many bank branches would there be in Iceland? Would the highly paid jobs have been created in this country? Would the Danes have supported Icelandic companies expanding into foreign markets, for example in Denmark? Would the profits have been returned into the Icelandic economy? Would dividends have been delivered to Icelandic shareholders? And would tens of billions in tax revenue from the banks and banking professionals have gone into the development of Icelandic society? Well, I simply ask. I ask the loudest critics of the Icelandic banks' success.

My answer is clear. I believe it was a tremendous boon for the Icelandic economy and society at large when politicians loosened their grip on Iceland's financial companies and entrusted them to individuals. Landsbanki has demonstrated that it cares about the society in which it has its roots. It strives to conduct its operations in accordance with, and in the spirit of, accepted best practice in corporate governance. The composition of the bank's Board of Directors and committees is in accord with the Guidelines of the Icelandic Chamber of Commerce and the Iceland Stock Exchange, and the bank endeavours to always maintain good relations with financial regulators in each country. Landsbanki has been a forerunner in corporate social responsibility, and you would be hard-pressed to find an Icelandic business contributing as much to culture, education, sports and social welfare as Landsbanki.

The bank takes the view that social responsibility is a corporate responsibility. In a small country, large companies such as ours can contribute significantly to making society creative, enriching and enjoyable. They can help build a society that encourages people to achieve their greatest potential and creates a human resource to draw upon in the future. I envision a society where everyone can develop their talents and have the opportunity to use them – this should not be an exclusive privilege. In our society, everyone should begin at the same starting post. As we all know, we run at different paces,

often head in different directions and are set on different paths, but the most important thing is that each of us reaches his or her personal goal unscathed.

I am of the opinion that we have never been as close as we are now to creating such a society. Closer than at the start of the last decade, when the Icelandic economy was largely in the fetters of restrictions and isolation. Nearer than when I was growing up in the west part of Reykjavík in the middle of the twentieth century, when job opportunities for young people were scarce and the options were limited. And much nearer than when Landsbanki opened for business 120 years ago, when the economy had been stagnant for centuries. I am personally convinced that we have trodden a fortunate path, and we must not swerve from this course of progress and prosperity.

Honoured attendees, 1 July 2006 marked 120 years since Landsbanki Íslands first opened its doors. This milestone has been celebrated in a variety of ways. The Icelandic public was invited to join a big anniversary party, a theatre troupe visited all of Landsbanki's domestic branches and art exhibitions were held in the branches as well as abroad. Landsbanki opened a history exhibition tracing not only the bank's history but also 120 years of the Icelandic economy, of Reykjavík's city centre and of Icelandic culture. The purpose of the celebrations, which are still ongoing, is to call attention to how interwoven Landsbanki's history is with that of the Icelandic nation, and the bank's deep roots in Icelandic society.

Landsbanki's strong ties with the domestic market are the source of its successful expansion into overseas markets – which again serves to nurture a thriving society at home. Even though Landsbanki continues to grow stronger abroad, it will always remain the bank of all Icelanders first and foremost, and carry the same time-honoured name.

At year-end, Landsbanki's shareholders numbered nearly 28,000. Share prices fluctuated considerably during the year, largely due to turbulence created by foreign analyst and media coverage of the Icelandic economy and business environment. In the second part of the year, demand for Landsbanki's shares increased; turnover velocity in Landsbanki shares is among the very highest on the Iceland Stock Exchange. Notwithstanding the market turbulence, Landsbanki's share price rose by 6% over the year. In the last three years, the average total annual return on the bank's shares has been 68%, and so far this year its share price has climbed 20%, the second fastest rate of appreciation on the Iceland Stock Exchange. A motion has been submitted for this meeting to pay shareholders a dividend of 40% of the nominal value of shares in the company.

As in the past, Landsbanki's employees are the main force shaping its future and destiny. A total of 2,100 people now work for the bank. All of these individuals are to be thanked for their excellent work in the preceding year. To demonstrate our gratitude, the Board of Directors has decided to pay each employee in a full-time position who does not receive other performance-related pay a bonus of 300,000 Icelandic krónur. In our view, this is well deserved.

In closing, I would like to extend thanks to all of Landsbanki's shareholders and employees for the year 2006, and I hope that our journey into the future will be both pleasurable and rewarding. Thank you. (applause)

Kjartan Gunnarsson: Honoured guests, I thank our Chairman for a fine report. It seems pretty clear that we will not be offering Danish language classes or financial training courses in Danish. But for your information, 197 shareholders are in attendance at this meeting, representing 65% of the bank's share capital, or 7,066,147,589 Icelandic krónur. In accordance with usual practice, I intend to join together items 1-3 on the Agenda and not open the floor until the Chief Executive Officers have delivered their speeches. I call upon Halldór J. Kristjánsson to please take the floor first.

CEO Halldór J. Kristjánsson: Mr Chairman of the Meeting, shareholders. Sigurjón and I would like to divide the report between the two of us. I will give a recap of the year, including the turbulence and related discussion, sum up the progress made in integrating our business units and, in conclusion, discuss how we have diversified our funding, which was one of the bank's main tasks in the year just ended. Sigurjón will then report on the bank's performance and how the balance sheet has developed.

In the year 2006, especially the first half, the whole operating environment of the Icelandic economy and the Icelandic banks was affected by international attention. It should be kept in mind that the discussion was primarily triggered by foreign apprehension over the development of Iceland's economy. The focus then moved to the possible effects on the banks' operating environment. This connection was partly based on misconception, and our job for the whole of 2006 was largely to correct such errors, which were primarily owing to wrong connections being made between imbalances in the Icelandic economy and their possible effects on the banks. I will discuss that in more detail later on.

However, there were some aspects of the banks' activities that we needed to address. These were aspects where we, the system as a whole, had possibly moved too fast, or in which foreign parties were not prepared to view things through our perspective. And although we were not necessarily convinced that we had to make changes in all those aspects, it was natural and proper for us to do so, because the banks cannot rely solely on hard facts – they also have to take overseas sentiment into account. So, in part, we were addressing concerns that we did not share in all respects.

Nevertheless, I make a clear distinction between, on the one hand, misunderstandings that needed correction and, on the other hand, points that we took into account for twofold reasons and reacted to. Our first step was to reduce Landsbanki's equity risk from approximately 4-5% of total assets to less than 3%. We also committed to ensuring a lower market risk in the future than in the previous few years. We have more than kept this promise. Market risk from equity positions stood at 2.4% of total assets at year-end, well below the 3% limit that we have set.

Second, the most prominent criticism of the Icelandic banking system was that the banks had become overly dependent on international financial markets for their funding. We reacted to this by increasing deposit taking abroad as well as the ratio of deposits to total funding. Of course, we could have used other measures, but this was the main response that Landsbanki decided to pursue. As we will see later on, our actions have spoken louder than words in this respect.

Third, foreign analysts were concerned that the Icelandic banks had grown too fast. This worry centred on the question of whether the banks would manage to integrate their business units and acquisitions. Would they be able to deal with their growth? Already at the beginning of 2006, we had made clear our intention to use the year to take the new units on board and incorporate them into our group. We were not going to acquire more units, but focus on integration and digesting the growth we had experienced in recent years. Our financial statements show that we accomplished this.

Fourth, our information dissemination was too limited, for example in comparison with the Nordic banks. We increased our information flow significantly, but our main emphasis was on making the information more accessible and presenting the bank more extensively abroad.

Independently of the sentiment expressed in foreign markets, we decided as part of our strategy for the year 2006 to strengthen our capital adequacy and capital ratios. This was done first and foremost by taking subordinated loans at the beginning of the year and completing the prefinancing of all 2007 maturities as soon as possible, which was achieved in the summer.

This slide graphically tracks last year's main events and the concurrent trend in the credit default swap spread for the bank's five-year bonds. From a stable, balanced position in late 2005, the CDS spread had already started its ascent at the beginning of 2006, owing to negative market sentiment. Perhaps the single most important triggering factor was the Fitch Ratings report, which led to changes in Icelandic credit ratings. This event supports my previous statement that negative coverage of the Icelandic economy was the chief determining factor that started to affect the banks. This was followed by a negative report from Merrill Lynch, which was partly based on misconceptions. You can see how the CDS spread peaked at almost 100 basis points on the heels of that report.

After that, of course, the banks mounted their defence. We appointed independent parties, including Professor Frederic S. Mishkin, to report on and explain the Icelandic economy. You can see what effect this already had by mid-summer. However, the greatest and fastest results were achieved with Landsbanki's US bond issue in August. This successful issue really transformed the whole discussion about the Icelandic banking system and allayed concerns about its long-term financing. You can see here how the CDS spreads dropped substantially from August until year-end. It is also worth noting that when Standard & Poor's downgraded Iceland's sovereign ratings in December, the relationship between the banks and the economy had been so well explained that the effect on the spreads was negligible.

Fortunately, the Icelandic economy is regaining its equilibrium after the commotion of 2006. Landsbanki Research forecasts somewhat lower economic growth over the next two years, agreeing with the projections of the Ministry of Finance, and that growth will then pick up steam again, as I will discuss further at a later point. What the banks said to international markets proved to be correct – that we would withstand this turbulence as we have done previously without major shocks to asset prices or business operations. We expect the imbalances to level out mainly in 2007, again without significant impact on household or corporate balance sheets. The right-hand side of this slide shows that we expect the current account balance to even out relatively quickly and find long-term equilibrium.

The ISK depreciated by 20% in 2006. As most of you know, we believe that this adjustment process is by and large complete. We think the ISK has now reached its equilibrium rate of exchange, at least in the medium term. As you can see in the top right-hand corner of this slide, we believe that equilibrium is attained around an ISK/EUR exchange rate of 90. This is not to say that we do not expect some volatility to persist, and we must make a distinction between our medium-term forecast for the equilibrium rate and possible intra-day or intra-week fluctuations, as we can expect some volatility while the adjustment runs its course. In our opinion, the outlook is that equilibrium will be achieved as the year 2007 progresses and that the Central Bank's inflation target will then be reached, although some inflationary pressure may resurface, depending on how the economy evolves in 2008 and onwards.

Interest rates are high, as the Chairman mentioned, but we think that the Central Bank will be able to lower the policy rate fairly quickly once that process can begin, either in the first or second quarter. We envision a process along the lines you see in these slides, with a drop in inflation similar to that in 2001 and 2002, and equilibrium regained in 2009 and onwards. An important factor in this is that the Central Bank's policy rate decisions have delivered results also for the long term, which is a prerequisite for cooling down the economy and getting a grip on inflation. Reining in inflation is obviously a priority for companies as well as households, not least after the transformation in household indebtedness, 85% of which is now held in inflation-indexed loans.

Now, at the beginning of 2007, the market is characterised by optimism. By international comparison, the Icelandic equity market is fairly priced, with relatively low P/E ratios, as you can see from these diagrams. The market P/E ratio estimate for 2007 is 11.3, compared with 13 to 17 in our neighbouring markets. Companies listed on the Iceland Stock Exchange are generally expected to perform well in 2007, although somewhat lower profits are forecast on average because trading gains will probably not match those of 2006. However, the P/E ratio estimates indicate relatively robust profits compared with the companies' market capitalisations.

In our opinion, the longer-term outlook will be shaped largely by investment in power-intensive industries – direct international investment in harnessing Icelandic energy resources. If we assume that moderate power development and related large-scale industry projects continue, we expect economic

growth to rebound to about 5% in 2008 to 2010. This presupposes that such development projects will be much more moderate than in the past few years, with less negative effect on the economy and a current account balance reaching long-term equilibrium when the projects are complete, without giving rise to excessive inflationary pressure.

The outlook in the overseas markets where we operate is also favourable. Economic growth in the developed countries appears to be gaining long-term balance, which is important for our activities in those markets. Looking specifically at the outlook for securities markets, which is very important for our three securities companies operating across Europe, we expect share prices to continue to rise at a fairly steep rate, although somewhat less than in 2006. The bank operates in real estate markets, especially in the UK. Some correction of real estate prices may take place, although we do not expect a sharp correction. This will not affect Landsbanki's performance, as we have proceeded with great caution in our lending in these markets, including the UK and, in fact, the domestic market.

The overall healthy growth predicted for the world's main economies will create generally favourable operating conditions for the bank this year. We predict that Icelandic businesses will continue to increase the proportion of their income generated abroad. This is perhaps one of the most important facts that we had to communicate to foreign markets last year: that domestic growth was largely driven by foreign direct investment and the Icelandic economy was undergoing huge change due to extensive Icelandic investment abroad. This slide shows this development: on the one hand, massive growth in both inward and outward foreign direct investment and, on the other, the largest Icelandic companies' estimated 2007 foreign revenues as a ratio of their total income generation.

As our Chairman mentioned, Landsbanki currently offers financial services in 15 countries. Our position in the domestic market is strong and, as the Chairman emphasised, we by no means intend to lose our focus on our most important market. It is important for Landsbanki to maintain its leading position in Iceland. We have retained a very good share of the retail banking market, at over 30%, and have traditionally had an even larger share of corporate banking, which has been on the increase. Our asset management services are among the strongest in the domestic market, with a market share of approximately 34%. We have continued to streamline the bank's branch network, as shown in this diagram, primarily focusing on enlarging the branches and making them even better equipped to serve both individuals and households than the smaller branches were previously.

Outside Iceland we have continued to build on our balanced international strategy. Our overseas focus is broadly twofold. We continue to emphasise organic growth as well as potential acquisitions. We acquire and grow banking assets that increase stable, recurring revenue streams. In parallel, we have continued to build our European investment banking activities, drawing upon Landsbanki's domestic experience in serving mid-cap companies to establish a European presence.

Our integration of new subsidiaries and implementation of this strategy have been very successful. A cornerstone of our approach has been to acquire relatively small platforms and support their organic growth. We have only bought companies that are efficiently run by management that we have faith in. We have then added employees and units and strengthened the existing product lines, with good success. In addition, we have derived synergies both from the overseas units and based on the services that the parent company can provide.

This slide shows how we are progressing in building a European presence in investment banking and securities services. We have securities brokerage and research capabilities across Europe, as you can see, and a sales office in the US. We will make further additions, first in Corporate Banking, which is the second column on the slide, and in Corporate Finance. You can see that we are already introducing or preparing such additions in a number of countries.

This will form the core of our international growth and be followed up by additions in Asset Management and Private Banking. Other financial services will also be added, possibly with FX and Derivatives next in line, really depending on what our corporate services require and how they develop in these markets. Treasury will stay in Iceland, as we find it very important to keep overall treasury management in one place. Our retail operations are primarily based in Iceland and the UK. We will increase such activities as opportunities arise, chiefly in deposit initiatives, which we will soon expand to other European countries as the conditions ripen. I will discuss this in more detail later on.

Adding to what the Chairman said about progress in the Icelandic financial sector, it is of central importance that its contribution to GDP has increased dramatically, as shown in this diagram, from 4% in 1998 to 8% in 2006. You might think that this is due to, for example, the fisheries or aluminium industry contracting, but that is by no means the case. Both of these sectors are slowly growing. The increased importance of the financial sector is primarily due to its growth outpacing that of other industries in Iceland. This has created highly paid jobs, as is clearly evidenced by that fact that while the financial sector employs 4% of the country's workforce it pays 6% of total salaries.

Increased operating efficiencies in Icelandic banking operations have reduced cost-income ratios very substantially. This cost-effectiveness, together with other successful streamlining, has delivered clear benefits to customers. The banking system's overall interest margin has dropped from 4.3% to 2% in the space of ten years. Interest margins in general banking services have dropped accordingly.

Since service charges have also been discussed much of late, I would like to point out some simple facts. The Bankers and Securities Dealers' Association of Iceland carried out a comparison of services in Iceland and other Nordic countries. In direct contrast to what many have maintained, 23 out of a total of 27 main service charges were lower in Iceland than the Nordic average. This

corresponds to approximately 85% of cases. Moreover, the average total banking charges per customer in Denmark, Sweden and Norway exceed those in Iceland by 62%. These facts speak for themselves.

One indication of the Icelandic banks' strength is that the ten largest Nordic banking operations include three Icelandic banks: Landsbanki, Glitnir Bank and Kaupthing. The list includes one Norwegian and two Danish banks. When considering this comparison, bear in mind that the Icelandic population represents merely 1% of the total Nordic population.

To conclude, I would like to discuss funding in 2006 briefly. Despite negative coverage of the Icelandic financial system and economy, overall bond issuance was very successful. The bank issued bonds worth EUR 4 billion in international markets, and at the same time lengthened its maturity profile. Together with successful deposit-taking initiatives in the UK, this has strengthened the bank's liquidity position substantially. We mentioned in the discussion of international developments that Landsbanki's long-term debt maturing in 2007 and 2008 totals EUR 3.3 billion. At year-end 2006, we had EUR 7.2 billion in liquid assets to meet these commitments. Our position in this respect has never been stronger than currently.

Our highly successful deposit programmes have also made us less dependant on international bond markets in 2007 than we have been in many recent years. We only need to raise approximately EUR 2 billion in long-term debt in 2007, compared with about EUR 4 billion in 2006 and more than EUR 5 billion in 2005.

Also worth noting is that Landsbanki's CDS spreads have developed in a distinct way. If you look closely at the diagram on this slide, you will see that Landsbanki's CDS spreads, represented by the blue line, were at the beginning of the year similar to those of Kaupthing and Glitnir. In mid-year, Kaupthing had the highest spreads and the highest perceived risk, Landsbanki was midway between the other two banks and Glitnir had the lowest spreads. Looking at year-end 2006 and the beginning of this year, Landsbanki and Glitnir are assessed as jointly having the lowest risk in the Icelandic banking market, which is a great change in one year.

The biggest change in Landsbanki's operations in 2006 was increased deposit taking overseas. Landsbanki retains its leading position in the domestic deposit market, with a market share of more than 30%, but our deposit taking has been developing fastest in the European markets. We launched deposit operations in Amsterdam, which have been very successful. Our London Branch also expanded its deposit activities considerably. Heritable Bank and Landsbanki Luxembourg continued their deposit taking. We also acquired an offshore deposit bank in Guernsey. All of this explains the huge change witnessed here: namely that customer deposits as a ratio of total loans have grown from 34% to 47% in one year. This is an extraordinary change for Landsbanki's balance sheet, and serves to strengthen the bank's growth platform.

Our most notable deposit initiative was a new online savings account, Icesave, launched in the UK on 10 October. This is a very well designed account, and it was extremely well received. You can see from these samples of newspaper headlines how positive the reaction was in the British press, due to Icesave's good return on the account, its strategic reference to Iceland and its pledge to secure favourable terms on a long-term basis. This made it the most talked about and most popular savings account in the UK. More than 50,000 Icesave accounts have already been opened, raising GBP 1.6 billion in the space of only a few months. The growth has been phenomenal, with steady weekly increases in deposits right from the start.

The UK is actually a very good deposits market. Personal savings in the UK amount to more than GBP 800 billion, and the annual inflow of new deposits from individuals is approximately GBP 40 billion. So we do not need a very large share of this increase to surpass Landsbanki's targets for deposit taking. I find this to be the biggest change and, as Sigurjón will make clearer shortly, these successful deposit initiatives have altered our balance sheet profile and strengthened Landsbanki's platform for continued growth. Thank you. (applause)

Kjartan Gunnarsson: I thank Halldór J. Kristjánsson and ask Sigurjón Þ. Árnason, CEO, to take the floor.

CEO Sigurjón Þ. Árnason: Mr Chairman of the Meeting, shareholders, ladies and gentlemen. As mentioned earlier, Landsbanki currently has operations in 15 countries. Since we have an establishment in Edinburgh, we say 15 rather than 14, to please the Scots. Let us look briefly at this slide showing the geographical distribution of our activities. In a number of countries, we have operations in more than one location. Our UK activities are based in London, Birmingham, Manchester and Edinburgh; our Irish operations are located in Dublin and Cork; and our Swiss operations are based in Geneva and Zürich. Landsbanki's activities have expanded phenomenally in a relatively short period. This is reflected in the figures that I will present shortly, which show how both our balance sheet and income statement are changing in parallel with these developments. Still, we are perhaps really just beginning.

Looking at the number of full-time equivalent positions, 61% of our employees are based in Iceland and nearly 40% in Continental Europe. Each of these four pie charts shows the geographical distribution of Landsbanki's operations from a particular viewpoint. The top right-hand pie shows income by location: Iceland 48%; the UK and Ireland 21%; Luxembourg 6%; and Continental Europe 25%. It is worthy of note how limited our operations are in Scandinavia, as yet.

The breakdown of income by currency is somewhat different. Although 48% of our income is generated in Iceland, only 38% of total income is denominated in Icelandic krónur. The simple reason for this is that it's common for Icelandic exporters to take out loans denominated in foreign currencies, and therefore we derive income in those currencies. Nonetheless, the Icelandic króna is our main currency, accounting for 38% of the bank's

income. The euro accounts for 28%, the pound sterling for 17% and various other currencies for 17%.

Looking at the number of full-time equivalent positions, 61% of our employees are based in Iceland and nearly 40% in Continental Europe. As regards lending by location, 62% of our loans are extended to Icelandic customers. Many of our Icelandic corporate clients are very internationalised, which hedges us against risk relating to the Icelandic economy. The UK and Ireland account for 18% of lending, Luxembourg for 15% and other Continental European countries for 5%.

Let's now look at the financial results. In short, 2006 was a record year in Landsbanki's history. Profit before taxes was almost ISK 45 billion and after-tax profit was about ISK 40 billion. This gives a pre-tax return on equity of 40% and an after-tax return on equity of 36%. The cost-income ratio was 43%. It has become customary for us to provide a separate outline of performance exclusive of net trading gains on securities. Formerly, we did not present these results separately, and were told in consequence that our performance figures were meaningless as they were all gains on equities. We therefore started to present *core banking operations* and *core earnings*, in other words income exclusive of trading gains on equities, bonds, foreign exchange, etc., with the cost of such positions entered instead. Obviously, financing such positions costs money. Core pre-tax profit was ISK 29 billion, which corresponds to a return on equity of 26%. You would be hard put to find other European banks with such strong core performance.

In comparing the 2006 financial statements with the 2005 figures, it is important to keep in mind that the bank is changing at a very rapid rate. First, the subsidiaries we acquired in 2005 are only partly included in the 2005 accounts, but fully in the 2006 accounts. Second, the Icelandic króna fluctuated substantially in 2006. One euro cost just under ISK 75 at the beginning of 2006, but this rate had risen to ISK 94 at year-end. The average ISK/EUR rate for the whole year was 88, and this morning it was about 88. Obviously, this affects the bank's growth in the year, because a sizeable portion of its assets is denominated in foreign currencies.

As a result, Landsbanki's total assets grew from just over ISK 1,400 billion at the beginning of 2006 to ISK 2,173 billion at year-end. Of course, part of this was real growth, but partially it was simply due to the ISK depreciation and consequent appreciation of our foreign-currency-denominated assets when expressed in ISK. Shareholders' equity stood at ISK 144 billion at year-end, which gives a Tier 1 capital ratio of 13% and a capital adequacy (CAD) ratio of nearly 15%.

This next slide shows the income statement, a summary of the bank's revenues and expenses. In short, the bank's 2006 net operating revenues were nearly ISK 90 billion, compared with just over ISK 60 billion the previous year, an increase of ISK 28 billion. Most important in this context is the growth in interest revenues as well as fee and commission income. Interest revenues increased by ISK 18.5 billion, and fees and commissions by ISK 11.5 billion to a total of about ISK 30 billion. This revenue growth is offset to some extent by

a rise in operating expenses by ISK 17 billion. So overall, underlying income increased by ISK 12-13 billion in 2006 alone. I repeat: ISK 12-13 billion. To put this in context, the 40th largest company in Iceland has a turnover of about ISK 10-11 billion. In Landsbanki's case, I'm referring to only the increase in underlying income in a single year – just to put this in context.

This next slide shows how the bank's interest margin has decreased gradually over the past few years. However, the diagram does not give the whole picture, because when the interest margin is calculated, asset composition must be taken into account. Last year, we scaled down our equity positions. This cut the capital cost of holding equities, thereby increasing the interest margin slightly, although the underlying interest margin was really decreasing. For 2007, I would project an interest margin of 2.1% to 2.15%.

Just to stress the importance of the interest margin: had it been 1% higher, that's to say 3.26% instead of 2.26%, Landsbanki's profit would have been not ISK 40 billion but ISK 60 billion. Some people talk about an interest margin of 8% or 10%. If this were in fact the case, Landsbanki's profit would have been approximately ISK 150 billion. Such figures have absolutely no basis in reality; where they come from is completely beyond me. The correct figure for Landsbanki is 2.26% for last year, and in 2007 we expect an underlying interest margin in the range of 2.1% to 2.15%.

I would like to add briefly to what was said earlier about a comment I made recently about sacrificing profit in order to rid us of high inflation. In 2007, we are likely to see our profits reduced by perhaps ISK 5-6 billion as inflation ebbs. And I simply repeat: if that's what it takes, we're happy to make that sacrifice, because few things are as important for banks and society at large as to keep inflation in check.

This next slide shows how net interest income grew from ISK 23 billion in 2005 to ISK 41.5 billion in 2006, of which 59% derived from Icelandic parties, meaning clients registered in Iceland, although in many cases their operations are largely based overseas. By comparison, in 2002 – the year before the banks were privatised – net interest income was about ISK 8 billion; at this time the bank's total assets was only one-eighth of its current size, if I remember correctly. Net commission income in 2006 was ISK 28 billion, of which 39% originated in Iceland and 61% overseas. These figures clarify the approximately 50/50 split in income generation between Iceland and other countries. We have more assets relating to Icelandic parties, but generate less fee and commission income domestically, with the proportions just about inverted.

Trading gains amounted to ISK 19.5 billion. This slide shows a breakdown of trading gains between equities, bonds and foreign exchange. Most of our trading gains derive from equity positions, with the other figures relatively low by comparison. Around 35% of trading gains derived from Icelandic equities and 65% from various foreign equities that we held last year.

All in all, these revenue streams add up to net income of ISK 89 billion, a year-on-year increase of ISK 28 billion. After-tax return on equity was robust at 36%. Although trading gains were fairly hefty last year at ISK 19.5 billion, they dropped slightly from 2005.

Operating expenses amounted to about ISK 38.5 billion, up by ISK 17 billion. This next slide shows, on the left-hand side, the bank's cost-income ratio; in other words, it shows how much of the income we generate goes towards paying costs. This ratio, represented by the red column, fell from 61% in 2002 to 34% in 2005, and was 43% in 2006. The red column includes the costs and income of all trading gains, which perhaps gives a somewhat distorted picture, with substantial fluctuation on the income side due to trading gains.

The black columns exclude trading gains to represent the core cost-income ratio, which was 53% in 2006. This ratio rose in 2006. Why? Because in 2005 we acquired business units in Europe that generate primarily fees and commissions. These operations have much higher cost-income ratios than our more conventional banking operations, as the income is largely produced using assets and shareholders' equity. We expected the cost-income ratio of the units recently acquired to be considerably higher than that of our pre-existing operations, and had in fact projected a ratio of 54% and set a target for 55%. The actual 2006 ratio of 53% turned out to be just under our target for last year.

Another important factor regarding the bank's performance is its provision against impairment on loans and advances, which is the money we put aside to meet future losses on loans as well as losses we sustain at any given time. Last year we put aside approximately ISK 6 billion for this purpose, which corresponds to 0.37% of the bank's loans and advances at year-end. This ratio has been shrinking in the past few years, for the simple reason shown in this next slide.

Here you see how the bank's delinquency rate, or past dues as a ratio of total loans, has developed in recent years. This rate currently stands at 0.21%, which means that approximately ISK 3 billion of our total loans and advances of ISK 1,400 billion have been in arrears for 90 days or more. Total overdues for 0 days amount to ISK 7.5 billion, or 1/2% of loans and advances. Provisions have been made to cover these possible losses. Total credit loss provisions amounted to ISK 16.6 billion or 1.07% of total loans at year-end. We clearly have by far the strongest provisions for credit losses among Icelandic banks.

The slide shows a clear trend over the past half-decade. The delinquency rate has fallen fast and steadily, for a number of reasons, of course. One key reason is that the Icelandic economy has been in an upward phase, so I would find it prudent to assume that the delinquency rate hit its bottom in 2006. On the other hand, I would be much surprised if the rate were to rise steeply, as happened in 2002 and 2001. But, again, I would be equally surprised if it were to stay this low, given where the Icelandic economy is positioned currently.

This next slide shows our return on equity. The dark blue column represents the after-tax return and the red column the pre-tax return. Our 2006 pre-tax profit was ISK 45 billion, with net after-tax profit of ISK 40 billion, compared with a net profit of ISK 25 billion in 2005. So net profit increased by ISK 15 billion. To put this in context, shareholders' equity was ISK 15 or 16 billion at year-end 2002, if memory serves me right. And picture this: last year's profit was equal to the bank's aggregate profit in its first 116 years of operation.

Return on equity was 40% before tax and 36% after tax, following on the heels of excellent ROE in the past few years. Even with this high percentage, it is important to note that our shareholder's equity is also very high. Some might say too high. In other words, our equity exceeds our operating needs at present, which means that we have extra capital available for investment. Obviously, this affects profitability. So, from this viewpoint, our underlying profitability is even higher than these figures would indicate. This slide shows the revenue breakdown by country as well as type of income. Net interest revenues represent 46% of total income, net fees and commissions 32% and net financial income 22%.

This next slide shows the revenue breakdown by business segments. As already mentioned, net operating revenue was almost ISK 90 billion and pre-tax profit about ISK 45 billion. You can see from this slide that Retail Banking – which includes the branch network in Iceland in addition to the retail activities of our leasing company SP-Fjármögnun and Heritable Bank in the UK – contributed approximately ISK 8 billion in pre-tax profit. Corporate Banking in Iceland, the UK, the Netherlands and other countries where we operate contributed about ISK 16 billion. Securities and Treasury activities in Iceland and across Europe contributed almost ISK 20 billion and Asset Management & Private Banking ISK 3 billion.

Operating expenses include “other” costs of ISK 1.5 billion, which are shared expenses that could not be allocated to any particular segment. About half of this “other” cost is due to an almost ISK 700 million settlement with the Bank Employees' Pension Fund, whose membership includes all of Landsbanki's employees. The settlement strengthens the Fund, especially with regard to pension benefits for employees who joined the bank before its privatisation. The bank decided to contribute ISK 700 million to the Fund to cover a deficit with respect to these benefits, even though it did not consider itself legally required to do so.

This next slide, one of the most important in this presentation, shows how the bank's core income developed in 2004, 2005 and 2006. Net gain on equity holdings as well as securities and foreign exchange trading amounted to about ISK 19.5 billion, and the cost of financing these positions was ISK 3.6 billion, resulting in a net profit of about ISK 16 billion. Subtracting that figure from the bank's net profit of ISK 44-45 billion leaves a core profit of ISK 28-29 billion. For comparison, if we apply the same method to 2005 – when trading gains were ISK 21 billion and related costs similar to those in 2006 – the outcome is a core profit of about ISK 16 billion. In the year before that, core profit was about ISK 6 billion.

If we go back to 2003, I think core profit was around ISK 2 billion, and in 2002 about ISK 1.5 billion. So, looking at just the last two years, Landsbanki's core profit has jumped from just under ISK 6 billion to nearly ISK 29 billion. I repeat: from just under 6 billion to nearly 29 billion, an increase of ISK 23 billion in only two years – or nearly one billion per month – in core profit, which should recur again and again.

I think most people find these amounts difficult to fathom. But this is obviously the reason why the bank's market capitalisation has risen to about ISK 350 billion. The rise in market cap is driven by this strong growth in core profitability. In this context, it is interesting to compare some key figures from year-end 2002 with the corresponding year-end 2006 figures. Total assets increased nearly eightfold from less than ISK 300 billion to nearly ISK 2,200 billion. Loans and advances to customers, which constitute the largest portion of total assets, rose sevenfold from just over ISK 200 billion to more than ISK 1,400 billion. Deposits from customers increased sixfold from about ISK 100 billion to almost ISK 700 billion. Income rose sixfold from less than ISK 14 billion to nearly ISK 90 billion. The cost-income ratio fell from 61% to 43%. The number of countries in which the bank operates rose from two to 15, more than sevenfold. The number of employees more than doubled from about 1,000 to over 2,000.

You see here a key reason for the hefty profit increase: assets and loans increased seven- to eightfold while the number of employees only doubled. Pre-tax profit rose eighteenfold from ISK 2.5 billion to ISK 44.5 billion. The bank's market capitalisation increased fourteenfold from ISK 25 billion to a current level of ISK 350 billion. Preferably, this should have been an eighteenfold increase, since profit rose eighteenfold. This indicates that the bank was sold at too high a price. (laughter) And I didn't say that in jest – it's my personal opinion. The delinquency rate fell from 3.2% to 0.2%, which obviously explains a great deal about loan losses.

This next slide shows how many employees we have in each country. In Iceland, we employ 450 people in corporate banking, investment banking and asset management. This leaves about 811 employees in the Icelandic branches and branch support of one type or another. The split there is approximately 1/3 against 2/3. In the UK, we have 92 employees in retail banking & speciality finance side and 214 in corporate and investment banking. Our activities in all of the other countries are primarily corporate and investment banking. The total number of staff in the UK is just over 300. We have about 100 employees in Ireland, more than 100 in France, about 50 in Germany, nearly 100 in Luxembourg, more than 60 in Switzerland, about 30 in each of Italy, the Netherlands and Spain and about 13 in the US. We also have three employees in Norway, one in the Faroe Islands, and five in Canada.

When you look at these personnel numbers, you realise how extensive our activities have become. This is a certain indicator for weighing up our corporate and investment banking footprint against the big boys, so to speak, such as Deutsche Bank, Merrill Lynch, Morgan Stanley and Lehman Brothers, all of which obviously have a very strong, global presence. Of course, we

realise fully that we're not in that league, just yet. Hence, we're not trying to compete with them. They are obviously in the large cap market, while we specialise in companies that are small- and mid-cap on a European scale, which are clearly large on an Icelandic scale.

In each of the countries in which we operate, we offer a comprehensive range of services that we are constantly broadening and improving. Although there are strong competitors in each of our markets, few of our competitors are present in all of them and in fact very few of them are present in more than one of the countries in question. In the vast majority of cases, we are dealing with different competitors in each market. Our ability to offer a comprehensive service range across many countries makes us distinctive.

Let's now turn to the bank's balance sheet. As I said earlier, the bank's total assets stood at ISK 2,200 billion at year-end, with loans and advances comprising by far the largest part thereof. This slide shows very clearly how our liquidity position developed last year. In a balance sheet of this type, liquid assets are basically entered in three places. The most liquid are cash and cash balances with the Central Bank and loans and advances to financial institutions. The latter are basically deposits from us to foreign banks, which we can withdraw at any time. This next item consists of bonds and fixed-income securities, which are usually bank bills or Treasury bills that we buy to have liquid assets.

The change last year is evident in this slide. Cash and cash balances with the Central Bank rose by ISK 15 billion, loans and advances to financial institutions by ISK 129 billion and bonds and debt instruments by ISK 118 billion. This represents an increase of about ISK 250 billion in liquid assets last year – 250 billion. And this was the year when people said we didn't have enough liquid assets! Despite the Cassandras, the bank's funding was very successful last year, and on top of that, we have increased deposit taking, which I will discuss later on.

Other important assets, which receive much attention because they generate substantial income, are shares and equity instruments. We held about ISK 60 billion in equities at the beginning of the year and about ISK 50 billion at year-end, on average about ISK 55 billion. These equity positions produced the trading gains of almost ISK 20 billion mentioned earlier. So, the return on our equity portfolio was very good last year, as you can see from this diagram. Listed domestic equities accounted for ISK 26 billion, unlisted domestic shares for ISK 2.5 billion, foreign listed shares for almost ISK 19 billion and unlisted foreign shares for ISK 2.5 billion. Some variation in these amounts took place over the period. Just over half of our position was in Icelandic shares, as we predicted gains in that market for the year.

This next diagram shows the allocation in our equity portfolio more graphically. The grey area represents unlisted foreign equities and the red area listed foreign shares, purple is for unlisted domestic shares and dark blue (or black) for listed domestic shares. Our equity exposure as a ratio of the balance sheet is about 2.3%.

We sold off two large positions last year, reducing our equity exposure accordingly, although we also bought some shares in replacement. The largest asset divested was Carnegie, which we acquired in August 2005 and sold in April 2006, after holding this stake for about nine months. If memory serves me correctly, the return on this investment was around 96% or a profit of ISK 10 billion. Half of that profit was recognised in 2006 and the other half in 2005.

On the funding side, the picture looks like this. Deposits from customers have reached almost ISK 700 billion, or ISK 683 billion to be exact, up by ISK 334 billion. This is a very substantial increase. We funded last year's lending increase principally with deposits. The funds that we raised in the capital markets were used to increase liquidity. This obviously represents an enormous change.

But this year, the change will be even greater. Just to give you an example, Icesave, our online savings account in the UK, was launched only in October and it had already attracted about 53,000 savers and collected deposits of GBP 775 million at year-end. In just 80 days, Icesave deposits had thus reached GBP 775 million. In the 40 days that have passed so far this year, the total has risen to GBP 1,650 million. In other words, what we have here is accelerated growth, as we have received more deposits in the 40 days that have elapsed so far this year than in the 80 days that Icesave was open for business last year, which many found impressive enough.

This has an enormous effect on our balance sheet and important implications for the future. It also helps explain why our CDS spreads are dropping faster than those of the other Icelandic banks.

So deposits suddenly jumped to almost ISK 700 billion last year, and are still rising at a very rapid rate this year. Shareholders' equity stood at ISK 144 billion at year-end 2006, compared with ISK 16 billion at year-end 2002. As for our capital ratios, the Tier 1 ratio was 13% and the overall CAD ratio 14.8%. As you can see from this diagram, our capital ratios considerably exceed the minimum regulatory requirements, which means that we have additional funds available for further investment and growth.

In a nutshell, 2006 was a record year in Landsbanki's history nearly any way you look at it, whether in terms of the increase in loans and advances, deposits, profit, etc. We have built a solid platform with healthy revenue streams from our core banking operations, which look set to increase steadily. Our revenues have never been more diversified than last year, both geographically and by business lines. We have solid asset quality, a very low delinquency rate and strong provisions against future loan losses.

On the negative side, lest we wax too euphoric, the macroeconomic disequilibrium in Iceland is a matter of some concern. Clearly, a policy interest rate of 14.25%, without any signs yet of a rate cut, is worrying. This is not a healthy state of affairs for any extended period of time, and inflation must be reined in as soon as possible so that interest rates can be lowered.

In closing, I would like to say a few words about how the bank's share price has developed over the past few years. When this slide was being prepared around noon today, the share price was ISK 31.5, and I understand that it ended the day somewhat higher. This translates to a market capitalisation of about ISK 350 billion. As mentioned before, shareholders' equity was ISK 144 billion at year-end.

There were about 23,000 transactions in Landsbanki shares last year, the highest number of share transactions for any company in the Icelandic equity market. These transactions were worth ISK 320 billion, an amount not far off the bank's current market capitalisation. However, considering that 40% of Landsbanki's stock has been held with very little turnover, the remaining shares in the bank are all the more liquid and actively traded, so you could say that these shares changed hands nearly twice. So far this year, in only 40 days, 2,200 transactions in the bank's shares worth about ISK 60 billion have already taken place. Landsbanki is thus among the most actively traded companies in the domestic market. This is the equity story. In brief, the share price is currently between ISK 31 and 32, giving Landsbanki a market capitalisation of ISK 350 billion. Thank you. (applause)

Kjartan Gunnarsson: I thank Sigurjón Árnason for his interesting and uplifting speech for shareholders. The remaining business of the meeting is to table for approval the annual financial statements for last year and to make a decision on the dividend and the disposition of profit from the preceding accounting year. The Board of Directors has put a motion before the meeting to pay a dividend equivalent to 40% of the nominal value of the share capital, which corresponds to over ISK 4 billion. Before we vote on these motions, I would like to open the floor for discussion on the report of the Board of Directors and the annual financial statements. All of this information has been open for shareholder inspection, including a thick annual report. No one wishes to take the floor, or none that I can see or hear.

We will then proceed to voting, beginning with the dividend motion. The motion reads as follows: "From the bank's after-tax profit for 2006 and minority interests, which amounted to ISK 38,906 million, a dividend of ISK 4,408 million shall be paid, to be divided among shareholders in accordance with their respective holdings, with ISK 0.4 paid as dividend on each share of ISK 1 nominal value. Dividends shall be paid to those parties registered in the share register at the end of the day of the Annual General Meeting, cf. Article 7 of the Articles of Association of Landsbanki Íslands hf. This dividend is equivalent to 11% of profit and 40% of the nominal value of the company's equity. The remaining profit for the year, ISK 34,498 million, shall be used to increase the equity of Landsbanki Íslands hf. The dividend shall be paid without interest on 7 March 2007." All those in favour please raise their hands. Thank you. Anyone against?

I now table for approval the financial statements for the preceding year of activities. The financial statements have been explained in detail and made available in written form, thereby satisfying all formalities. All those in favour please raise their hands. Thank you. Anyone opposed? There is no one opposed. I declare the annual financial statements approved unanimously.

The next item on the Agenda is election to the Board of Directors. Under the bank's Articles of Association, candidacy for the Board of Directors must be announced with at least five days' notice before the AGM. The number of candidates proposed equals the number of seats to be filled, so they are elected unopposed. Nominations were received for Björgólfur Guðmundsson, who is Landsbanki's Chairman of the Board, Þór Kristjánsson, business economist, Kjartan Gunnarsson, lawyer, Svafa Grönfeldt, university vice-chancellor, and Þorgeir Baldursson, chief executive. This is the motion for the directors. For alternate directors, nominations were received for Þór Kristjánsson, Andri Sveinsson, business economist, and Helga Theódórsdóttir, business economist, to be alternates for Björgólfur Guðmundsson; and Gunnar Felixson, chief executive, Helga Jónsdóttir, bank officer, and Þorsteinn Sveinsson, forest farmer, to be alternates for Kjartan Gunnarsson, Svafa Grönfeldt and Þorgeir Baldursson. Since no other nominations were received within the stipulated time, I declare these five persons, whose names I read first, elected unopposed as Landsbanki's directors for the next financial year, and the other five elected unopposed as alternate directors, in the respective order presented in the motion. Are there any comments on the conduct of this election? There are none. I hereby declare the motion carried and congratulate those elected. (applause)

The next item on the Agenda is the election of the bank's auditors. A motion has been submitted to re-elect PricewaterhouseCoopers hf., which has been the company's auditor for a number of years. Are there any other nominations? There are none. Those in favour please raise their hand. Anyone against? There are none. I declare the motion carried.

A motion has been submitted to authorise the bank to purchase own shares, or to accept such shares as collateral, amounting to up to 10% of its share capital. The Articles of Association include such an authorisation, which has been exercised in part. The Board found it proper to renew this authorisation largely unchanged. The motion reads as follows: "Authorisation to purchase own shares. The Annual General Meeting of Landsbanki Íslands hf. hereby authorises the Board of Directors to decide to purchase own shares, or to accept such shares as collateral, amounting to up to 10% of its share capital. The authorisation must be exercised within 18 months of its approval by the Annual General Meeting. Pursuant to this authorisation, the bank may acquire own shares of up to ISK 1,102 million nominal value; if the Board of Directors avails itself of its authorisation to increase share capital, the nominal value provided for shall be increased in direct proportion. The purchase price of the shares shall not be higher than 10% above nor lower than 10% below the listed share price on the Iceland Stock Exchange (OMX Iceland) at the time of purchase. This authorisation shall replace an authorisation to acquire up to 10% of the company's own share capital, which was approved by the Annual General Meeting on 4 February 2006. The CEOs are also authorised to take all further decisions on the implementation of such transactions." This motion is hereby put to the meeting for discussion. Does anyone wish to comment on it? No one who wishes to do so. All those in favour please raise their hands. Thank you. Anyone opposed? I declare the motion carried unanimously.

The next item of business is to vote on motions to amend the company's Articles of Association. There are in total five such motions, all of which have been available for inspection, as provided for in the company's Articles, both at the company's office and on its website, so shareholders have been duly afforded the opportunity to familiarise themselves with them. The motions concern either very simple linguistic amendments or amendments required as a consequence of new government regulations.

I will now read these motions, which we do not plan to present in any further detail, except upon enquiry. The first motion concerns paragraph 2 of Article 4 of the Articles of Association, and reads as follows: "The Company's Board of Directors is authorised to increase its share capital in stages, by up to ISK 1,200,000,000 nominal value, with subscriptions for new shares. Shareholders waive their pre-emptive rights, as provided for in Article 34 of Act No. 2/1995, on Public Limited Companies, to new shares issued in accordance with this paragraph. The Board of Directors is authorised to determine the details of the price and terms of payment for such an increase. This authorisation shall be valid until 9 February 2012. The Board of Directors may decide to have subscribers pay for the new shares in part or in full by other means than cash payment." This provision is identical to the present second paragraph of Article 4 of the Articles of Association, but since the current authorisation expires on 31 March 2007, it is moved that the authorisation to the Board of Directors to increase share capital be renewed until 9 February 2012. As many know, provisions of this type are common in the articles of public limited companies, as they enable the company to seize business opportunities in this manner.

Secondly, the addition of a new clause in Article 12 is proposed in relation to a motion to be put to the meeting shortly. New amendments to the Act on Public Limited Companies include a provision making it mandatory for the board of directors of a company obliged to elect auditors to adopt a remuneration policy. The wording is in typical "parliamentary speak". Consequently, it is moved here that such a clause be included in Landsbanki's Articles of Association by adding a fourth subsection in Article 12. The Board of Directors' motion for a remuneration policy is hereby put before the meeting for approval.

Thirdly, following the words "annual financial statements" in the second paragraph of Article 14 of the Articles of Association, it is moved that the words "report of the Board of Directors" be added. Under the Act on Public Limited Companies, such board reports are to be submitted in this manner, but this obligation is missing from the list in our Articles.

Fourthly, it is moved that the stipulation be added that information on nominations to the Board of Directors must be laid open for inspection two days prior to the Annual General Meeting. This requires very detailed information about the candidates, their professional background, their previous connection with Landsbanki and various other information enabling shareholders to assess their qualifications and make informed decisions in elections to the Board. Since no motion was received to elect new directors, it appears that our shareholders are satisfied with the Board and consider

themselves to be in possession of all necessary information about its members.

Fifthly, it is moved to authorise the bank to add to the Articles a provision to the effect that its foreign trade name be Landsbanki hf. The purpose of this provision is to facilitate and simplify our overseas activities. There has been some confusion about exactly which name to use, and this amendment should clarify once and for all which trade name we use outside Iceland.

These are fairly straightforward issues, but I open the floor for discussion on these motions. Does anyone wish to speak or ask questions about these motions? No one wishes to do so. If the meeting is not opposed to proceeding, I will put these motions to the vote one after another, but without reading them each time. Does anyone object to this? No one wishes to do so.

Firstly, I put to the vote the motion to increase the company's share capital and for that authorisation to remain valid until 9 February 2012. All those in favour please raise their hands. Thank you. Anyone against? No one is opposed. The motion is carried unanimously. Secondly, I put to the vote the motion to add to the Articles of Association the provision on the remuneration policy. All those in favour please raise their hands. Thank you. Those opposed? No one. I declare the motion carried unanimously. Thirdly, I put to the vote the momentous motion to add the words "report of the Board of Directors" to the Articles of Association. All those in favour please raise their hands. Thank you. Anyone opposed? No one is opposed. Motion carried unanimously. The next voting item is the motion that information about candidates to the Board of Directors be laid open for inspection two days before each AGM. It is interesting that this information is required to be made accessible only two days before the AGM, while candidacy to the Board must be announced with at least five days' notice. But that's how it is. All those in favour please raise their hands. Thank you. Anyone against? No one is opposed. The motion is carried unanimously. Next, the motion for the company to have the foreign trade name Landsbanki hf. All those in favour please raise their hands. Thank you. Anyone opposed? No one is opposed. Motion carried unanimously. This concludes the voting on the amendments to the Articles of Association, and I would like to thank those present for their good co-operation on this.

Item 8 on the Agenda is a motion by the Board of Directors on employee stock options and Landsbanki's remuneration policy. I mentioned this briefly earlier. Last year, amendments to the Act on Public Limited Companies were passed in relation to, among other things, corporate governance, including executive remuneration and shareholder relations. The amendments took effect on 1 October, and are rooted in an EU directive on this same subject. The EU Member States have already adopted equivalent changes to their regulatory frameworks. As stated in the Chairman's speech, Landsbanki has always emphasised leadership in good corporate governance, and was one of the first companies to adopt the Guidelines on Corporate Governance issued by the Iceland Stock Exchange, the Confederation of Icelandic Employers and the Icelandic Chamber of Commerce. The Guidelines include provisions on the independence of boards of directors, information disclosure,

transparency and full safeguarding of shareholder interests at all times. Landsbanki's Board decided to make a proposal on employee stock options and a remuneration policy based on the principle that the remuneration and terms of employment of Landsbanki's directors and CEOs should be transparent to everyone and submitted for voting at the bank's AGM. The proposed policy includes the stipulation that the annual costs relating to such stock options and remuneration decisions may amount to just over 2% of the bank's total income.

I will now read out these proposals. This is obviously a matter of some importance. The amounts are clearly high, and this issue is also very important for transparency and the accessibility of information. The two motions read as follows. This first one relates to the Board's proposal for employee stock options and Landsbanki's remuneration policy. "Landsbanki Íslands hf. places major emphasis on retaining the services of key employees and attracting capable employees, as they are a prerequisite for the bank's continuing growth and business strength, both at home and abroad. To this end, Landsbanki has concluded agreements with employees, enabling them to acquire shares in the bank and for this purpose issued and renewed stock options with a strike price equivalent to the market share price on the date the option is granted and takes effect, has offered credit in accordance with general lending rules to finance such acquisitions, and has also offered employees convertible bonds. In implementing this strategy, employee stock options may amount, at any given time, to as much as ISK 1,600 million of the bank's issued share capital. The strike price of an option shall be equivalent to the market price on the date the option is granted and takes effect."

This is followed by a further description of this remuneration policy. "The remuneration policy is based on the principles of good corporate governance and a long-term approach to growth and maximisation of shareholder value. Directors receive a fixed remuneration for their work. The remuneration paid to directors and alternates is to be decided by Landsbanki's Annual General Meeting and paid in accordance with salaries paid to bank employees in general. Directors' remuneration shall be based on the responsibility inherent in their positions, the bank's complex operating environment, the terms generally applicable for comparable work on financial markets in those countries where the bank's operations are located, and the work contribution required in each case. Directors who are members of the Audit Committee and Remuneration Committee shall receive a fixed fee determined by the bank's Annual General Meeting. Motions concerning remuneration of members of the Board of Directors and its committees for the coming financial year shall be submitted to the Annual General Meeting for approval. The CEOs' terms of employment shall be based on their contracts. Their remuneration shall reflect, for instance, the size and scope of the bank's operations, their responsibilities and the nature of their duties, as well as the remuneration generally practised in financial markets where the bank's operations are located and the success of Landsbanki's operations. The CEOs' remuneration may be a combination of basic salary, performance-linked benefits in cash and shares, stock options, convertible bonds, pension benefits and retirement package. At Landsbanki's Annual General Meeting, its shareholders shall be informed of the total amount of remuneration paid to

the Board of Directors and CEOs during the past year in the form of fixed salaries, the amount of performance-linked bonuses, payments in the form of shares, stock options, pre-emptive rights, payments from other companies in the Landsbanki Group and payments made upon termination of employment to persons leaving employment during the year.”

The approval of these proposals would constitute a formal decision by the bank’s Annual General Meeting to adopt this policy, which will be binding regarding information disclosure on remuneration. This information has, in fact, already been published in the annual report. I personally think this is all for the better, and done in order to underscore and reiterate our commitment to corporate governance best practice. Are there any comments on these proposals? Does anyone request to speak on this matter or ask questions? If not, I would like to put this motion to the vote. These are in fact two motions, the motion on the stock options and the motion on the remuneration policy, which I will put to the vote first. I will not read it again, and trust that those present are now familiar with it. All those in favour please raise their hands. Thank you. Anyone opposed? No one is opposed. I declare the motion carried unanimously. We will now put to the vote the motion on stock options, which is also important for the bank’s flexibility in negotiating salaries. All those in favour please raise their hands. Anyone opposed? No one is opposed. Both motions are carried unanimously.

There are now few motions left to be voted on. The only formal motion that remains is the one on remuneration to directors. It reads as follows: “The remuneration paid to each director for the period extending from the Annual General Meeting 2007 to the one in 2008 shall be ISK 350,000 monthly, paid in accordance with general practice for bank employees. Remuneration to the Chairman of the Board shall be triple that of the directors and remuneration to the Vice-Chairman double that of the remuneration to directors. Remuneration to alternates shall be ISK 100,000 for each Board meeting attended. In addition, those directors who are members of the Audit Committee and Remuneration Committee shall be paid ISK 150,000 per month for their participation in each committee and the Chairman of each committee shall receive triple that amount.” This motion has been available for inspection, as have the other motions submitted before the meeting. Does anyone wish to speak on this matter? Anyone? No one wishes to do so. I will now put this motion to the vote. All in favour please raise their hands. Anyone opposed? No one is opposed. The motion is carried unanimously.

The tenth item on the Agenda is other business lawfully submitted. No other business has been submitted.

Ársæll Hafsteinsson, Secretary of the Meeting: I will now read the minutes of the Annual General Meeting of Landsbanki Íslands hf. The Annual General Meeting of Landsbanki Íslands hf. was held on 9 February 2007 at 16:00 hours at Grandhótel. The Chairman of the Board of Directors, Björgólfur Guðmundsson, opened the meeting, welcomed those present and called the meeting to order. He nominated Kjartan Gunnarsson as Secretary of the Meeting, which was approved unanimously. Kjartan took the chair and declared the meeting to be lawfully convened and constituted. The Chairman

of the Meeting then nominated Ársæll Hafsteinsson, Managing Director of Landsbanki's Legal Division, as Secretary of the Meeting, which was approved. The Chairman of the Meeting disclosed that the shares represented at the meeting amounted to ISK 7,066,147,589, which corresponds to 65% of the bank's total share capital. 197 shareholders were represented at the meeting.

The meeting then proceeded to the publicised Agenda. The first item was the report of the Board of Directors on the preceding year of activities. Björgólfur Guðmundsson, Chairman of the Board of Landsbanki, delivered the Board's report. Subsequently, the Chairman of the Meeting proposed rescheduling discussion about the report, the approval of the annual financial statements and the decision on the dividend until after item 3 on the Agenda. This proposal by the Chairman of the Meeting was approved. The second item on the Agenda was approval of the financial statements for the preceding year of activities together with the auditor's report submitted for approval. Halldór J. Kristjánsson then took the floor and discussed, among other things, the bank's activities in the preceding year, the integration of business units and the diversification of the bank's financing. Sigurjón Þ. Árnason then took the floor and discussed the bank's annual financial statements as well as the 2006 performance results. The floor was then opened for discussion. No one asked to speak.

The meeting then proceeded to item 3 on the Agenda: a decision on the payment of a dividend and disposition of profit or loss from the past accounting year. A motion was submitted to the meeting to the effect that, from the bank's after-tax profit for 2006 and minority interests, which amounted to ISK 38,906 million, a dividend of ISK 4,408 million be paid, to be divided among shareholders in accordance with their respective holdings, with ISK 0.4 paid as dividend on each share of ISK 1 nominal value; the remaining profit for the year, ISK 34,498 million, be used to increase the equity of Landsbanki Íslands hf; the dividend be paid without interest on 7 March 2007. The floor was opened for discussion on the report of the Board of Directors, the annual financial statements and the dividend. No one asked to speak, and the annual financial statements together with the auditor's report and the dividend proposal were approved unanimously.

Next on the Agenda was item 4: election to the Board of Directors. A motion was put to the vote to elect the following as directors and alternate directors of Landsbanki until the next AGM. Directors: Björgólfur Guðmundsson, Þór Kristjánsson, Kjartan Gunnarsson, Svafa Grönfeldt and Þorgeir Baldursson. Alternate directors for Björgólfur Guðmundsson and Þór Kristjánsson: Andri Sveinsson, Helga Theódórsdóttir. If a director is unable to attend a meeting, he/she shall be replaced by the respective alternate in the order indicated. And for Kjartan Gunnarsson, Svafa Grönfeldt and Þorgeir Baldursson, Gunnar Felixson, Helga Jónsdóttir and Þorsteinn Sveinsson. Again, if a director is unable to attend a meeting, he/she shall be replaced by the respective alternate in the order indicated. No other motions were submitted regarding the election of directors or their alternates, so the candidates were elected unopposed.

The election of the auditors: A motion was put to the vote to re-elect PricewaterhouseCoopers as the company's auditors for the financial year 2007. This motion was carried unanimously.

Item 6: a motion authorising Landsbanki to purchase or accept as collateral as much 10% of its own shares. A motion was put to the vote to authorise the Board of Directors to decide to purchase shares in the company, or to accept such shares as collateral, amounting to up to 10% of its share capital. The motion was carried unanimously.

There were five motions to amend the Articles of Association, as read out by Kjartan earlier. The first was a motion to amend subsection 2 of Article 4, which was carried. The paragraph now reads as follows: The Company's Board of Directors is authorised to increase its share capital in stages, by up to ISK 1,200,000,000 nominal value, with subscriptions for new shares. Shareholders waive their pre-emptive rights, as provided for in Article 34 of Act No. 2/1995, on Public Limited Companies, to new shares issued in accordance with this paragraph. The Board of Directors is authorised to determine the details of the price and terms of payment for such an increase. This authorisation shall be valid until 9 February 2012. The Board of Directors may decide to have subscribers pay for the new shares in part or in full by other means than cash payment."

A motion was put to the vote to amend Article 12. This motion was carried, so subsection 4 of Article 12 now reads as follows: "A proposal from the Board of Directors on a remuneration policy shall be submitted to the meeting for approval." A motion to amend Article 14 was put to the vote. These were in fact two proposals, but I am merging them into one. These motions were carried. The paragraph now reads as follows: "The notice of a shareholders' meeting shall state the business to be transacted at the meeting. No later than one week prior to each shareholders' meeting, the agenda, final motions and, in the case of an Annual General Meeting, the annual financial statements of the Company, the report of the Board of Directors and the Auditor's Report shall be laid open for inspection by shareholders at the bank's offices." To the second paragraph of Article 14 of the Articles of Association, the stipulation is added that information on candidates for the Board of Directors must be available at the CEOs' office two days prior to the Annual General Meeting.

Lastly, a motion was submitted to the meeting to amend the first paragraph to the effect that the company's foreign trade name shall be Landsbanki hf. The motion was carried unanimously.

Next on the Agenda was item 8, the motion by the Board of Directors on employee stock options and a remuneration policy for Landsbanki. As Kjartan said, these are in fact two motions, one on stock options and the other on the bank's remuneration policy. Kjartan also said that the estimated total cost of the stock options is just over 2% of the bank's total income. The motion reads as follows: "Landsbanki Íslands hf. places major emphasis on retaining the services of key employees and attracting capable employees, as they are a prerequisite for the bank's continuing growth and business strength, both at

home and abroad. To this end, Landsbanki has concluded agreements with employees, enabling them to acquire shares in the bank and for this purpose has issued and renewed stock options with a strike price equivalent to the market share price on the date the option is granted and takes effect, has offered credit in accordance with general lending rules to finance such acquisitions, and has also offered employees convertible bonds. In implementing this strategy, employee stock options may amount, at any given time, to as much as ISK 1,600 million of the bank's issued share capital. The strike price of an option shall be equivalent to the market price on the date the option is granted and takes effect.”

Next up for voting was the remuneration policy: “The remuneration policy is based on the principles of good corporate governance and a long-term approach to growth and maximisation of shareholder value. Directors receive a fixed remuneration for their work. The remuneration paid to directors and alternates is to be decided by Landsbanki's Annual General Meeting and paid in accordance with salaries paid to bank employees in general. Directors' remuneration shall be based on the responsibility inherent in their positions, the bank's complex operating environment, the terms generally applicable for comparable work on financial markets in those countries where the bank's operations are located, and the work contribution required in each case. Directors who are members of the Audit Committee and Remuneration Committee shall receive a fixed fee determined by the bank's Annual General Meeting. Motions concerning remuneration to the Board of Directors and its committees for the coming financial year shall be submitted to the Annual General Meeting for approval. The CEOs' terms of employment shall be based on their contracts. Their remuneration shall reflect, for instance, the size and scope of the bank's operations, their responsibilities and the nature of their duties, as well as the remuneration generally practised in financial markets where the bank's operations are located and the success of Landsbanki's operations. The CEOs' remuneration may be a combination of basic salary, performance-linked benefits in cash and shares, stock options, convertible bonds, pension benefits and retirement package. At Landsbanki's Annual General Meeting, its shareholders shall be informed of the total amount of remuneration paid to the Board of Directors and CEOs during the past year in the form of fixed salaries, the amount of performance-linked bonuses, payments in the form of shares, stock options, pre-emptive rights, payments from other companies in the Landsbanki Group and payments made upon termination of employment to persons leaving employment during the year.” The motion was carried unanimously.

The last motion concerned item 9 on the Agenda: the decision on remuneration to members of the Board of Directors for the next term of office. A motion to the following effect was put to the vote: “The remuneration paid to each Director for the period extending from the Annual General Meeting 2007 to the one in 2008 shall be ISK 350,000 monthly, paid in accordance with general practice for bank employees. Remuneration to the Chairman of the Board shall be triple that of the Directors and remuneration to the Vice-Chairman double that of the remuneration to Directors. Remuneration to alternates shall be ISK 100,000 for each Board meeting attended. In addition, those Directors who are members of the Audit Committee and Remuneration

Committee shall be paid ISK 150,000 per month for their participation in each committee and the Chairman of each committee shall receive triple that amount.” The motion was carried unanimously.

Item 10 on the Agenda was any other business. Sigurður Jónsson took the floor and discussed pension matters. Jafet Ólafsson then took the floor and thanked the bank’s Board and management for a job well done. There was no further business transacted at the meeting. As Kjartan mentioned earlier, the report of the Board of Directors, as per item 1, and the CEOs' slide shows are attached in their entirety to the minutes. This concludes the minutes of the meeting. Thank you. (applause)

Kjartan Gunnarsson: I thank the Secretary of the Meeting for his excellent work. It beggars belief how he is able to squeeze all this material into such a tight package. Any comments on the minutes? There are none, so I declare the minutes approved. The minutes will also be laid open for inspection at the bank’s offices for the next two weeks. There is no further business to be transacted at this meeting. I thank the CEOs and the Chairman of the Board for their thorough reporting on Landsbanki’s activities in the preceding operating year. I would also like to thank you for attending and for your participation at this meeting. I invite you all to join us for refreshments in the next room. I declare the meeting closed. (applause)