Landsbanki

Annual Report **2007**

Key figures from the Landsbanki Group Accounts

Operations	EURm 2007	ISKm 2007	2006	2005	2004	2003
Interest income	2,306	202,095	133,102	66,437	34,252	21,871
Interest expenses	1,689	148,044	91,611	43,441	19,517	12,540
Net interest income	**617**	**54,052**	**41,491**	**22,996**	**14,734**	**9,331**
Fee and commission income	516	45,247	32,459	18,479	10,234	6,959
Fee and commission expenses	67	5,878	4,092	1,754	1,344	843
Net fee and commission income	**449**	**39,369**	**28,366**	**16,726**	**8,891**	**6,116**
Other operating income	**189**	**16,605**	**19,568**	**21,257**	**9,842**	**3,535**
Net operating income	**1,255**	**110,025**	**89,426**	**60,978**	**33,467**	**18,982**
Salaries and related expenses	430	37,688	24,458	12,682	7,794	5,656
Administrative expenses	226	19,827	14,130	8,284	6,667	5,158
Operating expenses	**656**	**57,515**	**38,588**	**20,967**	**14,460**	**10,815**
Impairment on goodwill		0	0	3,033	0	0
Impairment provisions on loans and advances and assets held for sale	79	6,956	6,144	6,197	4,485	4,656
Pre-tax profit	**520**	**45,555**	**44,694**	**30,781**	**14,521**	**3,512**
Income tax	64	5,605	4,479	5,764	1,798	457
Net profit	**456**	**39,949**	**40,215**	**25,017**	**12,723**	**3,055**
Attributable to:						
Shareholders of Landsbanki Íslands hf,	443	38,800	38,906	24,740	12,574	2,956
Minority interests	13	1,150	1,309	277	149	99

Balance Sheet	2007	2007	2006	2005	2004	2003
Cash and cash balances with Central Bank	890	81,559	31,669	16,611	18,237	11,642
Loans and advances to financial institutions	1,778	162,929	215,618	86,919	72,060	37,130
Loans and advances to customers	22,070	2,022,738	1,438,395	984,593	542,215	326,400
Financial assets at fair value and associates	7,288	667,941	376,809	218,894	64,730	63,744
Other assets	1,335	122,379	110,432	98,443	39,900	9,323
Total assets	**33,361**	**3,057,546**	**2,172,924**	**1,405,460**	**737,141**	**448,239**
Deposits from financial institutions	3,687	337,915	141,105	144,596	63,476	43,840
Deposits from customers	15,509	1,421,410	682,846	334,163	215,730	152,320
Borrowing	9,121	835,985	1,014,976	689,989	375,084	209,357
Subordinated loans	1,221	111,890	89,754	49,074	22,570	13,090
Other liabilities	1,815	166,342	94,785	74,022	21,572	6,389
Equity	1,964	180,008	144,282	110,059	37,705	22,382
Minority interests	44	3,996	5,175	3,557	1,004	862
Total liabilities and equity	**33,361**	**3,057,546**	**2,172,924**	**1,405,460**	**737,141**	**448,239**

Key ratios	2007	2006	2005	2004	2003
Return on equity before taxes	30.9%	40.3%	56.3%	57.2%	20.9%
Return on equity after taxes	27.1%	36.3%	45.8%	49.5%	17.6%
Tier 1 ratio	10.1%	13.0%	11.9%	7.8%	6.9%
Equity ratio (CAD)	11.7%	14.8%	13.1%	10.4%	9.9%
Cost-income ratio	52.3%	43.2%	34.4%	43.2%	57.0%
Operating expenses as a ratio of average capital position	2.2%	2.1%	2.0%	2.5%	3.0%
Interest spread as a ratio of average capital position	2.1%	2.3%	2.2%	2.6%	2.6%
Deposits / loans to customers	70.3%	47.5%	33.9%	39.6%	48.0%
Deposits / total assets	46.5%	31.4%	23.8%	29.3%	34.0%
Ratio of provision to lending position at year-end	0.32%	0.37%	0.58%	0.73%	1.47%
Loan loss ratio	0.07%	0.13%	0.19%	0.33%	0.55%
Share price at year-end	35.50	26.50	25.30	12.10	5.80
Change in share price adjusted for dividend payments	35.5%	5.9%	110.7%	110.3%	61.6%
Number of positions at year-end	2,640	2,117	1,725	1,121	1,025
Exchange rates					
Exchange rate ISK / EUR for P/L average of year	87.64	87.57	76.59	86.97	87.39
Exchange rate ISK / EUR for Balance sheet at year-end	91.65	93.72	74.7	83.51	89.76

Table of Contents

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Steering a Steady Course Through Rough Seas

The last five years have been by far the most successful in Landsbanki's 121-year history. They have also been favourable years for the Icelandic economy as a whole, with energetic advances and accomplishments on the home front facilitated and magnified by external conditions. Landsbanki has taken advantage of the winds in its sails to grow steadily and rapidly. It has reinforced its position as a universal bank, serving Icelandic households and corporations, as evidenced by its ranking among the country's most popular companies in recent surveys by respected market analysts. At the same time, the bank has greatly expanded its international corporate and investment banking services. Last year a branch was opened in Finland and an office in Hong Kong, and Norwegian operations were substantially expanded. The bank also added to its Canadian presence by opening a new office in Winnipeg, the centre of Canadian Icelandic settlement.

Björgólfur Guðmundsson, Chairman of the Board of Landsbanki.

Success, however, is seldom a foregone conclusion. Although the energy unleashed by the banks' privatisation just over five years ago explains part of Landsbanki's initial success, this can hardly account for its continuing advance in the past two years.

Early in 2006, the Icelandic banks began to encounter some headwinds internationally, due not least to their rapid expansion. Landsbanki promptly responded to those criticisms which were constructive: reinforcing sustainable income streams, improving information disclosure and transparency, and diversifying funding sources. In the summer of 2007, unrest began to spread on international financial markets resulting in tighter credit conditions. Since that time markets have been plagued by fear and uncertainty. Despite interventions by leading financial authorities in various countries, the flow of liquid funding has slowed to a trickle, forcing banks to cut back their lending and commitments. Securities market demand has decreased accordingly, causing a fall in asset prices.

As anyone with some experience of Iceland in previous decades can attest, the peaks and troughs of global economic cycles tend to be more exaggerated in this small economy. This instance is no exception. When the supply of capital was plentiful on international markets, no equity index rose higher than the Icelandic one, and Icelandic companies began to make their presence felt on markets throughout the world. Now, when a global market contraction has come, the downward slide is steeper in Iceland than elsewhere. We are currently somewhere near the bottom of this business cycle. The Icelandic economy is strong and there are ample opportunities in the country's abundant resource base to maintain long term economic growth and achieve stability at the same time.

Demonstrating its resilience in the face of adversity, Landsbanki has weathered the storms. The bank has not wavered from its course, despite the headwinds encountered in the past two years, and shows every sign of growing stronger for being tested.

Yet again, Landsbanki achieved its profitability target of 15-17% ROE very comfortably in 2007, with an ROE of 27% after tax, a fine result, especially considering the difficult environment. For the fifth consecutive year, Landsbanki has surpassed its ROE target and during those five years its average ROE after tax is 36%. The continuing successful integration of its operations in 16 countries gives Landsbanki a solid foundation for further growth, in particular overseas.

One of Iceland's most widely held companies, Landsbanki had 27,753 shareholders at year-end 2007. Most of its 30 largest shareholders are institutional investors, including investment companies, insurance companies and pension funds. The bank is the second-largest listed company on NASDAQ OMX Nordic Exchange in Iceland, with a market cap of ISK 397.3 billion. Its share price rose 36.1% during the past year, well exceeding the average for the OMX I15 index. The average annual return on Landsbanki's shares has been 51.2% over the past three years. Not surprisingly, Landsbanki's shares are among the most traded and liquid on the stock exchange in Iceland, with average daily trading of 42 million shares in 2007.

Long a cornerstone of Icelandic society, Landsbanki has in my estimation demonstrated that it fully deserves the respect it has held through the years – as one of Iceland's most dependable financial institutions.

Landsbanki has approved the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, Iceland Stock Exchange and Confederation of Icelandic Employers, to guide listed companies and their Boards of Directors in investor relations, and to reinforce market confidence in listed companies.

Landsbanki complies with the provisions of these Guidelines concerning the composition of its Board of Directors. All the five current directors are deemed independent of the company and three of the directors are deemed independent both of the company and its largest shareholders, as understood by the Guidelines. The bank makes a concerted effort to co-operate closely with financial regulators everywhere it operates.

Landsbanki plays an important role in Iceland today. While its primary responsibility is to ensure profitable banking operations, providing customers with dependable service which is constantly being improved, the bank is also determined to contribute to the community of which it is a part. No company in Iceland provides greater financial support for culture, education, sports and humanitarian activities. Landsbanki has also been a driving force in rejuvenating the Reykjavík city centre, for instance, with its participation in the construction of the new concert hall and convention centre on the harbour front. In a small country, large and vital companies can make a major difference in creating a dynamic and enjoyable society, where everyone is involved in building the human capital of the future.

I would like to take this opportunity to congratulate Landsbanki's employees and shareholders on yet another successful year, which in this instance demanded more determination and effort than often before. Landsbanki's teams, in all its locations throughout the world, have once more done a job they can be proud of, and for which I am truly grateful. I hope the future will continue to offer Landsbanki plenty of challenges, pleasures and major successes – for all of us to share.

Chairman of the Board

Björgólfur Guðmundsson


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Well Positioned for Challenging Times

The true test of any business is how well it performs in the face of adversity. In spite of the abrupt change in sentiment on international financial markets in August, Landsbanki posted solid results in 2007. After-tax profit was ISK 39.9bn, in line with the bank's record profit of 2006 (ISK 40.2bn). Profitability of core banking operations was reinforced, with core earnings rising to ISK 34.7bn, a 21% YoY increase.

Sigurjón Þ. Árnason and Halldór J. Kristjánsson, CEOs of Landsbanki.

Pre-tax Core Earnings

ISKm	2007	2006
Adjustments		
Net interest income	5,753	3,640
Net gain on equities, bonds, and FX	(16,605)	(19,568)
Impairment on goodwill	0	0
	(10,852)	**(15,929)**
Core income		
Net interest income	59,804	45,131
Net commissions and fees	39,369	28,366
Net operating income	**99,173**	**73,497**
Operating expenses	57,515	38,588
Impairment on loans and advances	6,956	6,144
Profit before tax	**34,703**	**28,765**
Cost-income ratio	58%	53%
Pre-tax ROE on core operations	24%	26%

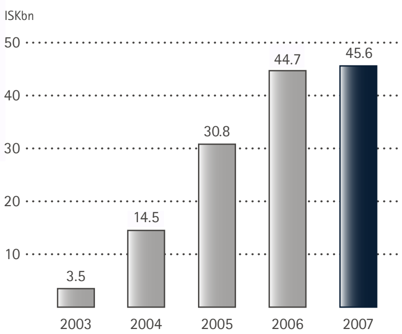
Deposits transform the balance sheet

The US subprime crisis and the consequent world wide credit crunch has affected financial institutions around the globe directly or indirectly through high volatility driven by uncertainty and bear market sentiment. Having diversified its funding pillars and greatly reduced its reliance on market funding in favour of retail deposits, Landsbanki is well positioned for challenging times. The ratio of deposits to lending has risen to 70%, placing Landsbanki in an enviable position among its peers. The decision to emphasise increasing deposits, taken in response to concerns voiced by market commentators in early 2006, proved a timely move, reducing Landsbanki's exposure to tightening credit conditions. Several new and highly successful deposit initiatives, notably the introduction of Icesave online savings accounts in the UK retail market, provide a firm foundation upon which Landsbanki can plan its further progress in today's altered financial landscape. In late 2007, Icesave introduced fixed-term deposits and by year-end 14% of the total Icesave deposits were in fixed-term accounts.

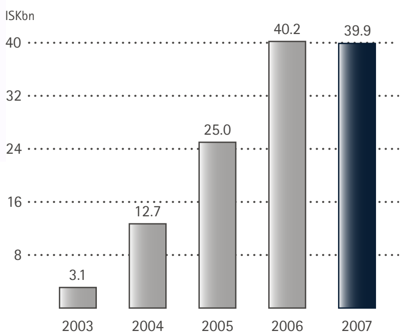
At year-end 2007 Landsbanki's liquidity position was very strong. Liquid assets amounted to EUR 8.97bn while repayments of long-term debt scheduled for 2008 are only EUR 749m. Landsbanki comfortably exceeded its target of having liquid assets sufficient to cover 12 months non-access to capital markets while continuing current business activities.

Landsbanki's after-tax profit in 2007 was ISK 39.9bn. Net income from operations amounted to ISK 110.0bn, a year-on-year increase of 23%. Revenue streams are well diversified by type and country. Net interest income and net fees and commissions together contribute 85% of net operating revenue, confirming the good quality and sustainability of earnings. Income from operations outside of Iceland accounted for 46% of total income, with 19% from Continental Europe and Nordic countries, 20% from the UK and Ireland, and the remainder from Landsbanki Luxembourg and North America.

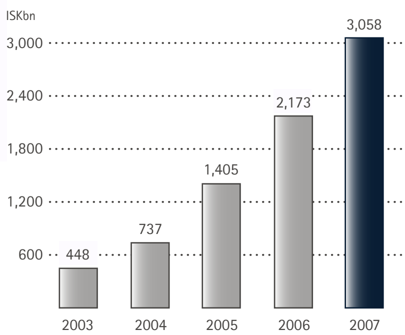
Pre-tax Profit



After-tax Profit



Total Assets

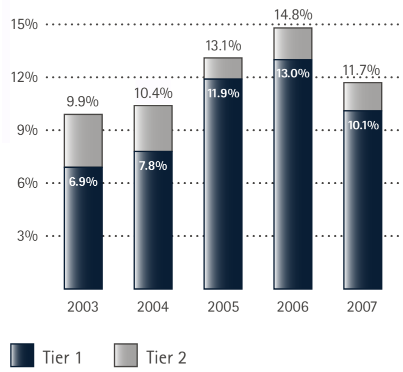


Profit on core banking activities, i.e. excluding net trading gains on securities, was ISK 34.7 billion. While active participation in equity markets remains a part of Landsbanki's business activities, this figure attests to strong profit generation, even if gains from proprietary securities trading are excluded.

All business lines recorded impressive profits. Corporate banking contributed 51% of the bank's net pre-tax profit, compared with 26% for Investment banking, 7% for Asset Management and Private Banking, and 16% for retail banking. Total assets amounted to ISK 3,058 billion, increasing by 41% over the previous year.

Landsbanki achieved its profitability target of 15-17% ROE very comfortably in 2007, with an ROE of 27% after tax and pre-tax ROE on core earnings of 24%.

Capital Adequacy Ratio



Conservative approach to risk

During the past few years, Landsbanki has gradually reduced its market risk and changed the composition of its portfolio. Total equity exposure as a percentage of the bank's balance sheet was 2.1% at year-end, well below the 3% target set in 2006 and significantly less than the levels of earlier years. Domestic equities now only account for one-third of the portfolio and two-thirds of that are listed equities.

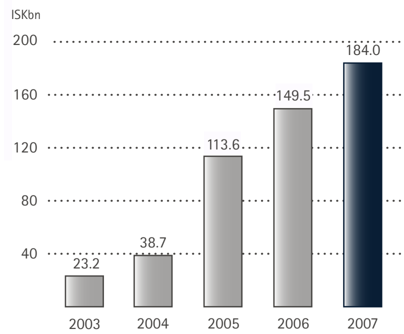
Furthermore, Landsbanki has no exposure to subprime housing loans, corporate synthetic CDOs, ABSs, SIVs, conduits, liquidity lines or monolines - or any other complex, high-risk, structured vehicles.

The bank has effective risk controls and prudent credit loss provisions. At year-end, impairment provisions were equivalent to 1.02% of loans and advances provided.

Landsbanki's core equity is ISK-denominated while more than 60% of the bank's risk weighted assets are foreign currency denominated. In order to hedge equity against currency fluctuations, a EUR 1.2bn position against the ISK was built up in 2007 to stabilise the capital adequacy ratio when the ISK fluctuates.

The bank comfortably exceeds mandatory capital and liquidity requirements and passes stringent stress tests administered by the financial authorities by a wide margin. Landsbanki's capital adequacy ratios in fact rank with the highest among European banks.

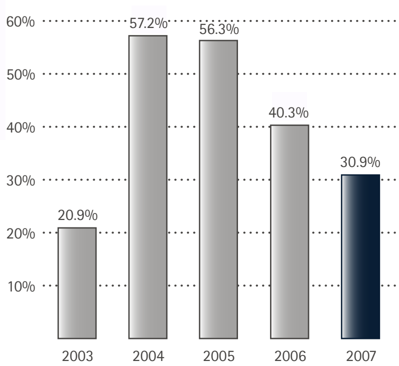
Total Equity



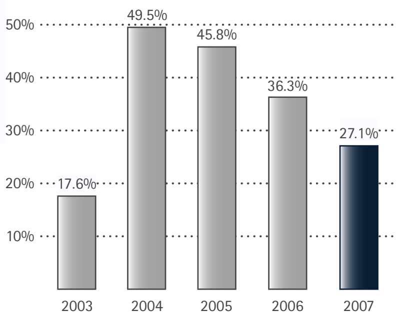
Profitability and capitalisation targets

Landsbanki's targets for profitability and capital ratios reflect its combined role as a universal bank in Iceland and a European corporate and investment bank.

Pre-tax Return on Equity



After-tax Return on Equity



The bank has set clear targets for profitability - which it has consistently surpassed - and for risk, capital and liquidity - where it has remained well within the defined limits.

- The bank's ROE target is 15-17%. For the past five years, Landsbanki has far outperformed these targets. In 2007, pre-tax ROE was 31% and after-tax ROE was 27%.
- The overall capital ratio should not be lower than 10%. At year-end 2007 this figure was 11.7% with a Tier 1 ratio of 10.1%.
- The bank's liquidity position should cover a situation where access to capital market funding is closed for up to 12 months and at the same time maintain a stable business volume. The bank comfortably meets this target, as was recently confirmed by the stringent stress tests applied by regulators and rating agencies.

Success based on a balanced business model

The past few years have witnessed Landsbanki's transformation from a local commercial bank, operating exclusively in Iceland, into a highly profitable corporate and investment banking operation stretching eastward from Iceland across Europe and westward over the Atlantic. Following a balanced strategy, the bank's expansion has for the most part been organic growth built on smaller, strategically acquired investment banking platforms in the UK, Ireland and Continental Europe. These platforms have then served as bases for introducing a wider variety of banking products to a target group of medium-sized European companies. Landsbanki's expertise lies in providing this fragmented and underserved mid-cap segment with an integrated set of financial services on par with products offered by large corporate investment banks.

Continued integration of Landsbanki's businesses and its subsidiaries was a key focus in 2007. In May, Landsbanki acquired Bridgewell plc, a UK broker and investment bank, whose operations were immediately merged with Teather & Greenwood Landsbanki to form Landsbanki Securities UK Ltd. Corporate finance operations in London, which were formerly divided between Landsbanki London Branch and the subsidiary, were merged into one unit. Operations in London have benefitted greatly from these strategic steps and an ever steadier deal flow focusing on the higher-value end of the business. Cross-selling between various units has yielded new business, while giving current clients more comprehensive services.

Our subsidiaries in Europe have taken another step towards brand integration. Kepler Landsbanki is now known as Landsbanki Kepler and Merrion Capital is now Merrion Landsbanki. Our specialty finance bank in the UK has also assumed the Landsbanki identity and is now called Landsbanki Heritable.

Landsbanki opened a new corporate and investment banking branch in Finland in August. An office was opened in Hong Kong in October and our operations in Norway were boosted by the addition of a team of 25 experienced research and investment banking professionals.

Navigating uncharted waters

The global economic slowdown can be expected to impact the bank's operations in 2008. The prognosis for the world economy in general is less optimistic than it has been for some time, not least due to uncertainties regarding housing markets and related credit activities which have yet to be resolved.

As anticipated, the Icelandic economy is returning to balance after years of impressive growth and developments this year will reflect this adjustment. Although driven by internationalisation and a growing financial sector in recent years, it is important to note that the Icelandic economy is anchored in sectors not affected by current market downturn, such as food production and technology, as well as power generation and utilisation. The government fiscal position is strong with negligible external debt and a fully funded pension system.

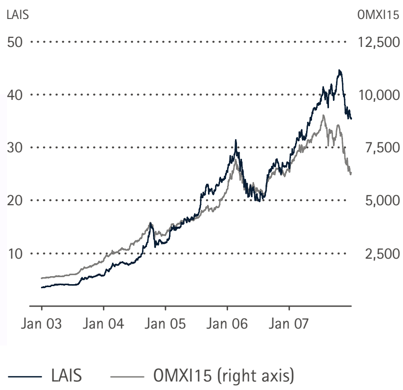
With its strong liquidity and equity position and light repayment profile of debt maturing in 2008, together with sound asset quality and no exposure to US subprime, structured credit exposure or monolines, Landsbanki is in an enviable financial position to navigate the uncharted waters of world financial markets at present. The year at hand will see continued consolidation and integration of the bank's operational platform. Current market circumstances will likely restrict growth and result in some decrease in balance sheet activities. Further development of deposit initiatives in selected European markets will provide added anchoring. While waiting out the storm, Landsbanki will seek greater cost efficiency, by realising possible synergies within its operational platform.

A general global slowdown in investment banking is forecast for the near term, as the flurry of activity characterising recent years is not sustainable in the long run. The repricing of risk that has taken place on the world's financial markets can be expected to shift the focus toward traditional banking. Such an environment will favour an institution such as Landsbanki, whose core competencies include corporate banking and specialty finance lending.

Landsbanki's CEOs

Halldór J. Kristjánsson   Sigurjón Þ. Árnason

Landsbanki's Share Price and OMXI15 Index



Source: Mentis hf.

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The Economy and Financial Markets

Conditions during the first half of 2007 were favourable for Landsbanki's operations as its markets were characterised by solid growth and general optimism. In the housing markets in a number of countries, however, a widely expected slowdown was taking place. The onset of the US subprime crisis and its global repercussions drastically altered the outlook in the second half of the year, increasing funding costs and causing a downward revision of asset prices. The slowdown in the Icelandic economy was less than expected in 2007.

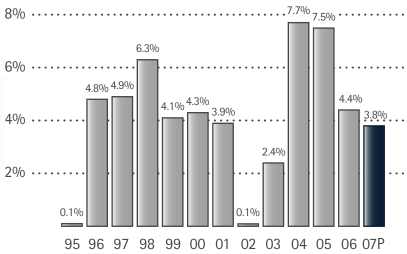
GDP growth led by stronger than expected investment and resilent private consumption, and spurred on by the wealth effect and real wage increases, is estimated to have been close to 4%. Iceland's current account deficit, however, shrank significantly as project related imports fell and aluminium production from the new smelters came on stream. Towards the end of the year there were signs that higher domestic mortgage rates were starting to cool the housing market. Further signs of slowdown appeared as higher funding costs resulting from the global credit squeeze were felt in Iceland as elsewhere.

The Icelandic economy

After years of rapid expansion Icelandic economic growth was expected to slow significantly in 2007. GDP growth in 2007, however, appears to have been well above most previous forecasts at 3.8%. Early in the year some indicators suggested that the economy was cooling, but by the second quarter activity had picked up, once again driven by investments and continued consumer buoyancy.

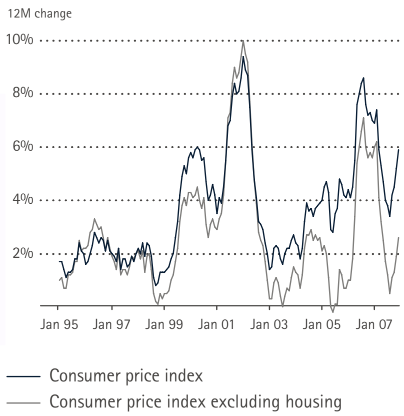
Investment in aluminium production and related power projects tapered off during the year although the decrease was significantly slower than expected due to delays in power project construction. Housing investment continued to expand rapidly as housing price inflation surged again during the year resulting in a 12M increase of 15%.

GDP Growth in Iceland



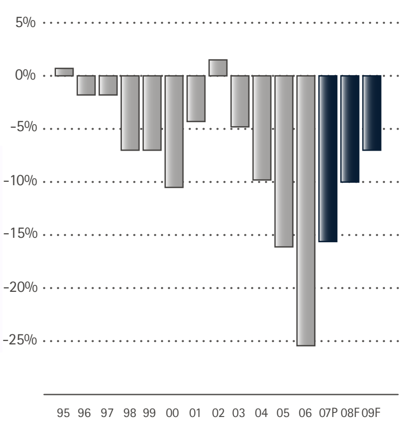
Source: Statistics Iceland

Consumer Price Index



Source: Statistics Iceland

Current Account in Iceland, % of GDP



Source: Central Bank of Iceland and Ministry of Finance

Stronger than expected investment and continued consumption growth supported high levels of imports. Exports grew significantly, particularly of services and aluminium, although the latter was below expectations due to the late start up of new smelters, as already mentioned.

In 2007, the current account deficit dropped to 15.6% from its record-breaking 25.4% of GDP in 2006. The adjustment has been somewhat slower than hoped for but further improvement is expected in 2008 when the full impact of new aluminium production capacity is felt.

Several important factors appear to exaggerate the current account deficit in 2006 and 2007, some of them cyclical and others statistical. Imports related to the construction of aluminium smelters and hydroelectric and geothermal power plants explain a significant portion of the deficit. These investment related imports will in due course add to the country's production capacity and export revenue. Mortgage market restructuring, rising housing prices, refinancing and, ultimately, higher consumption of durable and semi-durable goods accounted for a sizeable component of the deficit as well. The resulting deficit is a temporary imbalance, caused by a shift in equilibrium which will necessitate some adjustment to restore balance. Additional statistical distortions to current account statistics arise from factor income. Expenditure arising from the expansion of Icelandic banks and other corporates in foreign markets, an increasing number of Icelandic holding companies registered abroad, growth of the fully funded pension system, and of Icelandic holding companies, added not insignificant amounts to the current account deficit, while receipts from these new activities seem to be underreported.

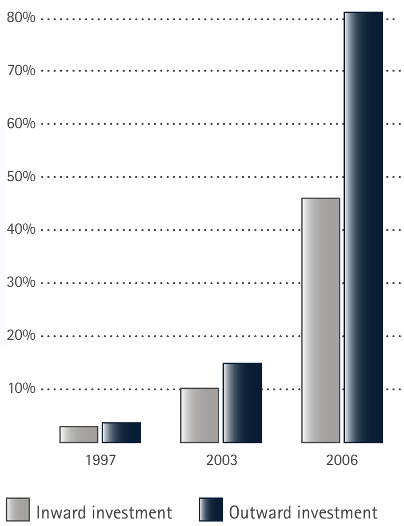
Diversification has strengthened the economy in recent years, increasing its resilience to domestic supply shocks which traditionally were the main source of economic volatility. This was highlighted in the summer of 2007 when total allowable catches (TACs) for cod and other important fishing stocks were cut significantly on the advice of the Marine Research Institute. Only a few years ago this would probably have sent the ISK plummeting but in this instance the exchange rate impact was negligible. The increased importance of manufacturing, tourism and financial services as cornerstones of the nation's revenue, in addition to the fishing sector, enables it to withstand isolated shocks better.

The economic upswing was sustained throughout 2007 by strong growth in construction, rising housing prices, rising purchasing power of wages and strong private consumption. Unemployment fell steadily all year, from 1.3% at the beginning of the year to 0.8% at the end of the year, averaging 1%. This situation put pressure on domestic price levels, although labour cost rose more slowly than wages, as the need for additional manpower continued to be met by strong immigration, expanding the labour force. The share of foreign nationals in the labour force has almost doubled during the past three years, growing from less than 5% to close to 10% in 2007.

The central government reported record surpluses in 2005 and 2006 amounting to 4.5% and 5.3% of GDP respectively. General government (including municipalities) had a surplus of 6.3% of GDP in 2006. At the end of 2007 gross central government debt totalled ISK 302 billion or about 24% of GDP, of which ISK 155 billion was in foreign currencies. This includes a EUR 1 billion loan, which matures in December 2011, taken in 2006 to strengthen the Central Bank. In addition, the government used ISK 44 billion of its accruing surplus to further reinforce the Central Bank's foreign currency reserves in 2007 by increasing its equity. The government had deposits of ISK 94 billion with the Central Bank at the end of 2007. Only a fraction thereof has been allocated to counteract the negative impact of TAC cuts in fisheries for the current fishing year. The government estimates the 2007 surplus will be close to 4% of GDP.

Although the government's foreign debt is quite moderate, gross national debt has increased significantly in recent years. At the end of Q3 2007 it exceeded 500% of GDP, having grown from about 105% of GDP at year-end 2000 and 135% of GDP in 2003. The bulk of the increase is due to financial institutions which have successfully expanded their operations abroad since privatisation of the banking system concluded in 2003. The combined balance sheet of the largest commercial banks grew from about 180% of GDP in 2003 to approximately 900% of GDP at year-end 2007. At the end of September 2007, 55% of their income originates outside of Iceland. About 85% of the country's foreign debt at the end of Q3 2007 was owed by banks; some 2/3 of it long-term debt and about 1/4 deposits. Research published in the Central Bank's Monetary Bulletin 2008:1 reassesses Iceland's net international investment position (NIIP), valuing assets at market prices rather than book value. It concludes that NIIP is negative by about 30% of GDP, rather than 120%, as previously shown in the bank's official figures.

Foreign Direct Investment % of GDP



Source: Central Bank of Iceland

ISK Trade-weighted Index

Source: Central Bank of Iceland

ISK Exchange Rate

Currency	Weight in TWI*	31 Dec 2006	31 Dec 2007	Change
EUR	41.14%	94.610	91.200	26.65%
USD	23.03%	71.830	62.000	13.78%
GBP	12.10%	140.980	124.290	29.52%
DKK	8.13%	12.687	12.230	26.69%
NOK	6.04%	11.453	11.442	22.57%
SEK	3.87%	10.446	9.685	31.48%
JPY	3.38%	0.604	0.553	12.41%
CHF	1.21%	58.870	55.110	22.57%
CAD	1.10%	61.890	64.170	14.00%

*ISK trade-weighted currency basket

Source: Central Bank of Iceland

GDP per Capita in Selected Countries in 2006. USD, in PPP Terms

Country	GDP per capita	Rank*
Luxembourg	81,511	1
Ireland	44,676	2
Norway	44,648	3
United States	43,223	4
Iceland	40,112	5
Switzerland	38,706	7
Netherlands	36,937	8
Denmark	36,920	9
Finland	35,559	12
Canada	35,514	13
United Kingdom	35,486	14
Sweden	34,735	16
Japan	32,530	21
France	31,825	22
Germany	31,390	24
Italy	31,051	25
Spain	27,914	28

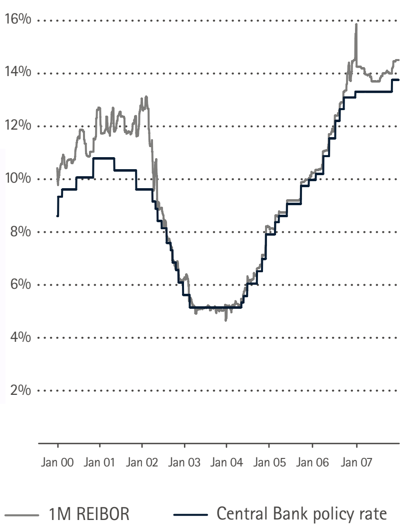
*Rank in a group of 180 countries.

Source: IMF, World Economic Outlook Database, Oct 2007

Icelandic banks have successfully diversified their funding, increasing emphasis on deposits, particularly in foreign branches. This process, which began in 2006 and continued in 2007, has strengthened the banks' liquidity position. Despite negligible direct involvement in or exposure to SIVs and other structured credit, the banks nonetheless have been negatively impacted by the global shift in risk appetite. Credit default spreads on Icelandic banks' debt issues rose in tandem with those of other European banks, despite the fact that Icelandic banks substantially improved their funding activities in response to the Icelandic mini-crisis of 2006, prompted to a large extent by a lack of information. The second round of subprime worries hit world markets full force in October, when many leading global banks revealed they were considerably more exposed to SIV-related default risk and other structures than previously reported or suggested. Interbank rates rose again, reflecting growing fears of even more widespread contagion, resulting in a credit crunch in interbank markets. Credit default spreads on the Icelandic banks surged to heights never before envisaged, despite their very limited exposure.

In March 2007, Fitch Ratings lowered Iceland's sovereign credit rating from AA-/F1+ to A+/F1, citing growing external imbalances in 2006. Moody's affirmed its Aaa/P-1 rating with stable outlook in August but in November Standard & Poor's changed its outlook for Iceland's sovereign rating to negative, while affirming its A+/A-1 rating. In June the Japanese ratings firm R&I issued its first rating for Iceland assigning it AA+ with stable outlook.

1M REIBOR and Central Bank Policy Rate



Source: Central Bank of Iceland

Financial markets in Iceland

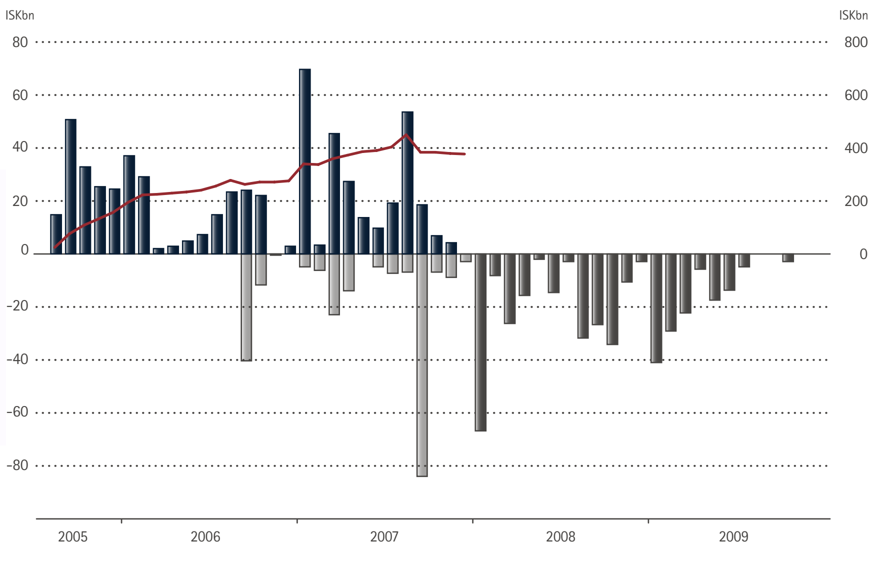
The Central Bank raised its policy rate once in 2007 by 0.45 percentage points to 13.75% in November. The Bank added an additional policy rate decision date for 20 December, but took no action at that time despite a bleak inflation outlook. The Bank justified its action with reference to the worsening situation in financial markets and expectations that falling housing prices would start to curtail inflation. In March 2007 the Bank also published an optimal policy rate path for the first time, i.e. a baseline inflation forecast given the policy rate path it considers optimal to achieve its 2.5% target within its three-year forecast period. The Bank also changed the presentation of its policy yield to a nominal discount rate from an annual yield (this was solely done to facilitate international comparison).

The higher policy rate moved interbank rates upwards in November. The 12M interbank rate had decreased somewhat around the middle of the year but remained slightly under the policy rate throughout 2007. The 3M interbank rate began the year at over 15% due to a lack of liquidity in the domestic market, but dropped to just below 14% in March as liquidity improved. As conditions in the international credit markets worsened and the policy rate increased, the 3M rate climbed yet again, to end the year at around 14.3%. The high short-term interest rate differential between ISK and major trading currencies dropped sharply at the end of the first quarter in tandem with a fall in 3M domestic interbank rates. At year-end the rate differential between the ISK and the EUR was around 9.5%.

Turnover in the FX market reached ISK 5,103 billion in 2007. The year-over-year increase of 16.2% is well below the over 100% annual growth of the two previous years. Continued growth has been spurred by both increased activity by domestic agents and a further rise in trading by foreign participants. Increased volatility from late July onwards stimulated FX turnover, resulting in a record monthly trading volume of ISK 737 billion in August and ISK 655 billion in November.

Issuance of so-called Glacier bonds (Eurobonds denominated in ISK) slowed considerably with growing risk aversion in international markets in the second half of the year. Glacier bonds for ISK 86 billion matured in September – the largest amount to date in a single month – with only minimal impact on the ISK. The total outstanding stock of Glacier bonds nonetheless grew considerably in 2007, as bonds totalling ISK 278 billion were issued while bonds for ISK 173.8 billion matured. The total stock of Glacier bonds stood at ISK 376 billion at year-end.

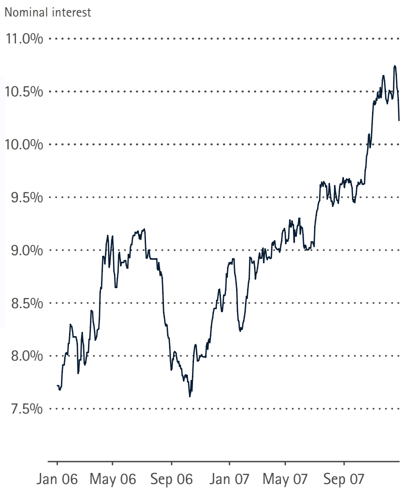
ISK Eurobonds



Source: Landsbanki Research

A high and persistent interest rate differential boosted Glacier bond issuance at the beginning of 2007, with a record ISK 71.5 billion issued in January. The ISK appreciated by 7% in January 2007 as measured by the trade-weighted index. It continued to strengthen and in late July it was 17% stronger than at the beginning of the year. Then the ISK changed course as the subprime crisis began to unfold, shifting global risk appetite away from high-yield currencies. With changes in investors' preferences came added volatility. At year-end 2007 the ISK was still 7.7% stronger than at the beginning of the year.

Yield on RIKB 13 Treasury Notes



Source: Mentis hf.

Yields on all benchmark bonds rose sharply this year – not least after the Central Bank boosted interest rate expectations upwards with the publication of its optimal policy rate path and its 45bp interest rate increase in November. Yields on Treasury notes rose during most of 2007 and were characterised by rather high volatility. Yields on 2Y Treasury notes rose by 335bp (RIKB 08 0613) and 316bp (RIKB 08 1212) and yields on the longest series, RIKB 13, by 156bp. A new series, RIKB 09 amounting to ISK 15 billion, replaced a similar size series, RIKB 07, which matured earlier in the year.

Yields on inflation indexed benchmark bonds, HFF bonds, also increased significantly during the year. The largest increase was on the shortest series, HFF14, which rose by 122bp to reach 7.32% at year-end. Yields on the longest series, HFF44, rose by 76bp to 4.89% at year-end. The Housing Financing Fund issued new bonds in its two longest series during the year: ISK 46.7 billion in HFF44 and ISK 1.1 billion in HFF34.

Yield on HFF 14 and HFF 44

Source: Mentis hf.

The equity market in 2007 was characterised by high volatility. The OMXI15 index rose by 40% in the first half of the year only to fall steadily in the latter half and close down 1.4% for the year. The downturn was led by falling share prices of financial and investment companies, with Landsbanki's share price well outperforming other financials for the year. Elevated volatility helped total equity trading reach a new record of ISK 3,078 billion, a year-over-year increase of 40%. This was in large part due to high trading activity in July related to the takeover bid of Actavis Group. Bond turnover was up by 7%, totalling ISK 2,430 billion.

At year-end 2007, 27 companies were listed on the OMX Nordic Exchange Iceland (previously ICEX) with a total market capitalisation of ISK 2,500 billion. Eleven of these are banks and diversified financials, whose share of total market cap reached 81%, up from 67% in 2006. Four new companies were listed on the exchange in 2007 and two delisted; two more are in the process of delisting. Three of the new listings are from the Faroe Islands and one from the US (with its primary listing on NASDAQ). The share price of 13 companies listed on OMX Iceland rose during 2007, while that of 15 dropped. At year-end, the P/E ratio of the Icelandic market was 11.1 based on earnings estimates for 2008.

Companies raised a total of ISK 546 billion on OMX Iceland in 2007, ISK 85 billion of which were increases in share capital. Bond issues totalled ISK 460 billion, the vast majority of which were issued by banks and diversified financials. Domestic bond issuance by Icelandic companies shifted increasingly from medium-term, inflation-indexed bonds to short-term non-indexed issues. This trend started in March 2006, prompted by rising policy rates which shifted savings to short-term fixed-income instruments, with demand for long-term indexed bonds all but evaporating.

The global economy and financial markets

US housing market adjustment has played a key role in the current global economic and financial turmoil. Already housing prices are falling in the US, UK and Ireland and the housing markets in central Europe and Scandinavia showing signs of saturation. Uncertainties regarding subprime exposures and other credit market risks, coupled with rising oil prices, have increased the likelihood of a recession in the US.

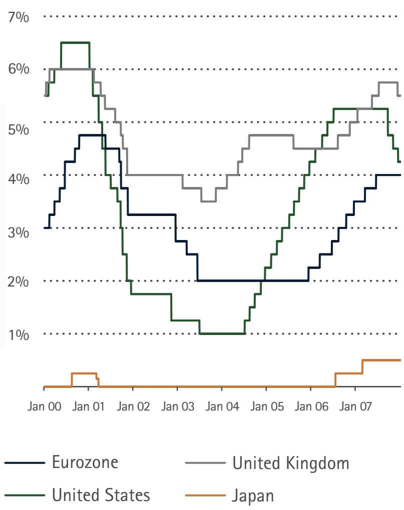
The situation at year-end 2007 differs radically from that of the early months of the year, when expectations ran high, particularly in Europe. Admittedly there were some concerns regarding the US economic outlook, as consumer spending showed signs of slowing and defaults in subprime mortgage markets began to appear. As the subprime crisis evolved and large financial institutions on both sides of the Atlantic reported significant losses related to subprime lending, a growing credit crisis developed in the summer months.

The credit market recovered temporarily in late summer only to stumble again near the end of November. The initial recovery was undoubtedly related to massive liquidity injections by central banks into the interbank market and the lowering of US policy rates. Spreads in the interbank market reached 81bp in the US and 67bp in Europe at the end of July, dropped to 45 and 29bp respectively around mid October, only to rise again to highs of 88 and 62bp on 22 November. At year-end credit spreads were once again lower at 78 and 50bp following continued liquidity injections and further easing of monetary policy in the US and UK.

Private consumption in the US remained robust despite the correction in the housing market. Nevertheless GDP growth in 2007 fell to 2.2%, the lowest figure since 2002, as construction activity declined rapidly. Inflation has been rising due to increasing energy and food prices. Core inflation, however, remains low at close to 2% and inflation expectations seem to be going forward.

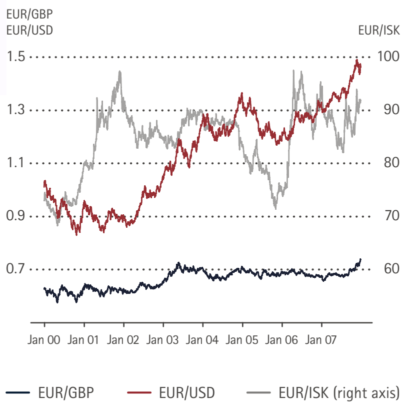
In the Eurozone expansion has continued, albeit at a slower rate than in 2006. Tightening credit and an appreciating euro reduce further growth potential. In Europe as in the US, inflationary pressures are fuelled first and foremost by rising oil and food prices.

Key Policy Rates



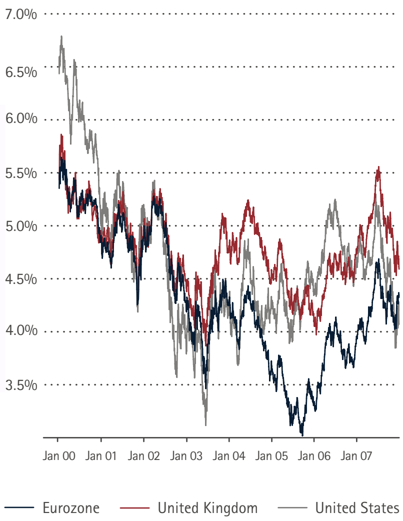
Source: Reuters EcoWin

Euro Exchange Rate



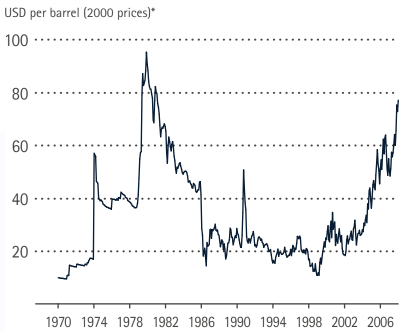
Source: Reuters EcoWin

Yield on 10Y Government Bonds



Source: Reuters EcoWin

World Market Real Oil Price



*Oil price deflated by US CPI

Source: Reuters EcoWin

In the UK, 9M GDP growth was close to 3% but weakened towards the end of the year, as consumer demand and investments slowed under tighter credit conditions. With monetary policy already loosening, the impact of weaker economic activity, particularly in the housing market, is likely to be somewhat mitigated and the risk of higher inflation quite small.

The economic expansion in Japan, the longest in the post-war era, continues albeit at a slow phase. With labour markets showing some signs of tightening, wages are expected to continue to rise, exerting welcome upward pressure on prices.

Currency markets have not escaped the turmoil in credit markets, and in fact repricing of currencies can only be expected in such circumstances. With waning risk appetite and rising volatility, investors have closed some of their carry trade positions. Low yielding currencies such as the Japanese yen and the Swiss franc have strengthened against the traditional "high yielders" such as the New Zealand and Australian dollars. High yielding emerging market currencies, such as the Turkish lira, have fared better, reflecting the perceived "decoupling" of emerging market countries from the credit crisis. The largest currency adjustment, however, was the USD plunge, as the dollar fell on a trade-weighted basis by 7.5% during the course of 2007, reaching all-time lows against the euro and multi-year lows against the Japanese yen and a range of other currencies.

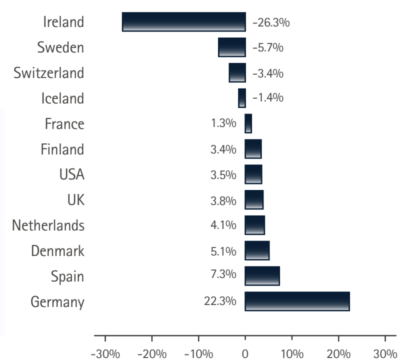
Equity markets have also taken a beating, although overall stock market performance, particularly if the financial sector is excluded, was far from catastrophic. The S&P 500 index reached a record peak on 9 October following a dip in mid to late summer, in the early days of the credit crunch. Similarly the DJ Euro STOXX main index plunged during the summer months, only to recover temporarily again. In the closing months of the year, main stock markets plunged again, after credit market worries increased in mid-October, and continued to weaken for the remainder of the year. Overall gains varied in major markets: the S&P 500 rose by 3.5%, compared with an average annual gain of 9.3% during the last two decades. The DJ Euro STOXX 50 rose by 6.8% and the FTSE 100 index rose by 3.8%, compared with a 6.9% annual rise since 1987.

The widespread nature of the credit crisis and the high level of globalisation among leading financial companies aggravated the effects of the subprime shake-up. Related multibillion-dollar write-downs by financial powerhouses have had a profound impact on the sector as a whole. In some cases management shakeouts were unavoidable, and with expected and reported earnings falling equity prices began to slide. The S&P 500 financial index fell by 15% from early summer to mid-August, and then fell again from early October to year-end. Overall, the index dropped by 20.8% in 2007. In Europe the story was similar: the Euro STOXX financial services index closed 12.7% lower at year-end, with German and UK banks particularly hard hit.

Long-term bond yields in major economies fell during the year, generally reflecting credit market developments and evolving risk sentiment. As investors became more and more aware of the emerging credit crisis during the summer, yields fell sharply, then recovered temporarily in September and October when conditions in the financial markets seemed to improve. However, as market sentiment worsened again, long-term yields dropped once again, as investors sought security. At year-end, the yield on 10Y US treasuries was 63bp lower than at the end of 2006 and 123bp lower than in mid-June when yields reached their peak.

One of the most striking aspects of the current credit turmoil is the widespread perception that the downside risks now apparent in major industrial countries will have a less negative impact on emerging market economies. This is strongly borne out by emerging market equity performance and the apparent lack of correlation between major industrial markets and emerging markets. In this respect sustained economic growth in emerging market countries and increased activity of sovereign wealth funds, aided by loosening of monetary policy in major economies, could help to revitalise industrial world economies sooner than expected.

Change in Equity Market Indices in 2007 for Selected Countries



*The indices are Irish Overall, OMX Stockholm 30, Swiss Market, OMX Iceland 15, CAC 40, OMX Helsinki 25, S&P 500, FTSE 100, Amsterdam Exchanges, OMX Copenhagen 20, IBEX 35 and DAX

Source: Bloomberg

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Funding and Liquidity in 2007

Landsbanki's approach to funding and liquidity has been to secure funding through a variety of channels, to prudently manage its liquidity profile and decrease reliance on market funding, and continue to broaden its geographical diversification of investors.

The bank has successfully pursued this strategy in 2007. Its international deposit funding initiatives have fundamentally restructured the bank's balance sheet and reduced capital market reliance. The benefits have become evident with the turbulence on credit markets in the latter half of the year, when the bank was well positioned to face illiquid primary markets.

Funding and liquidity strategy
Landsbanki's funding strategy is an integral part of the bank's liquidity management. International funding is a natural response to the geographical diversification of its asset base. Maintaining stable funding sources helps to control liquidity risk. Landsbanki actively steers its funding to achieve this diversity and reliability, carefully monitoring market conditions to optimise how funding efforts are directed.

During 2007 Landsbanki continued to broaden its funding profile and improve its overall access to funding. Emphasising international retail deposits is aimed at achieving a favourable balance between deposits and debt capital markets funding. The ratio of customer deposits to customer lending at year-end 2007 was 70% compared to 46% at the beginning of the year.

Group liquidity management
As it has expanded in recent years, Landsbanki has strengthened its liquidity management and improved the bank's liquidity on a consolidated basis. The turbulence surrounding the Icelandic banks in 2006, Landsbanki's expanding international operations, and the increased exposure of the entire Icelandic economy to international market funding prompted the bank to bolster liquidity. The bank adopted a revised liquidity management framework, which determines the liquidity risk appetite used by the bank's ALCO. Various stress tests are applied to short time buckets, such as 0-8 days, and 8-30 days, where the bank sets itself internal guidelines more stringent than required by the Central Bank.

This framework also requires the bank to have sufficient liquidity to withstand at least 12 months non-access to capital markets while maintaining a stable business volume. Non-access to capital markets means that all due liabilities will be repaid at maturity and other confidence-sensitive deposits will be withdrawn.

In 2007 the bank remained comfortably above these limits throughout the year and at year-end had ample liquidity for the next 12 months, applying the criteria described above. The bank's liquid assets amounted to EUR 8,973 billion at the end of the year compared to EUR 7,213 billion at the end of 2006. As long-term debt maturing in 2008 amounts to only EUR 749 million, with its current strong position the bank can easily meet these maturities without accessing capital markets.

In part based on its strong international deposit increase, Landsbanki has invested substantially in highly liquid bonds. The bank's bond portfolio consists mainly of floating rate bonds issued by strongly rated financial institutions or governments; 76% are rated AA or higher. Landsbanki intends to hold these bonds to maturity, but as they are marked-to-market some unrealised losses have impacted the bank's income statement. Adopting a conservative approach, the bank recognised these losses through profit and loss rather than through equity. At year-end 2007 Landsbanki's bond portfolio liquidity amounted to EUR 4.5 billion compared to EUR 2.3 billion at year-end 2006.

Debt programmes and initiatives

Landsbanki relies primarily on its EMTN funding programme, as well as on its US MTN programme and has initiated work on other schemes. Under the MTN programme, Landsbanki has issued a total of USD 402 million in three transactions, and EUR 1,035 million in 42 EMTN transactions.

In Q1 2007, Landsbanki established an AUS 2 billion Medium Term Note (AMTN) “Kangaroo” programme arranged by ABN Amro Bank NV, giving the bank direct access to Australian and New Zealand markets. No transactions have been completed under the programme.

Landsbanki has mandated Daiwa Bank and Nomura to arrange a so-called “Samurai”, Japanese domestic debt programme, expected to be ready for issuing in 2008.

Landsbanki continues to develop its global funding infrastructure. The funding team in Reykjavik has been extended with employees situated in the major financial centres of London, Hong Kong and New York, increasing proximity to major markets and adding operations in different time zones.

Financing in 2007

Reduced capital market access in 2006 served as good preparation for Icelandic banks to face the capital market difficulties in 2007. Landsbanki made several adjustments to its funding and liquidity policy, as well as in improving transparency and communication with investors. As Q2 2007 demonstrated, credit market turbulence can lead to a dearth of capital market liquidity, proving the importance of diversifying funding sources by market, product and geography. Landsbanki's strong funding position prior to these events and resilience during the gradual worsening market conditions has shown the efficacy of its funding strategy.

Deposits

Landsbanki's efforts to increase retail deposits have been an indisputable success. Deposits, particularly retail deposits, have historically provided the bank with more stable funding than capital markets. Landsbanki has launched further initiatives to expand and diversify its deposit base, and new schemes will be introduced in 2008. Deposits in Iceland comprised 25% of total customer deposits at end-June 2007), UK and offshore deposits were 61%, and Luxembourg and Amsterdam deposit platforms 14%. In total, Landsbanki's customer deposits funded 70% of total customer lending in 2007, compared with 34% at end-2005, a material shift in the bank's funding profile.

Icesave

Icesave, Landsbanki's UK online savings account programme launched in October 2006, has played a key role in transforming the bank's funding profile. At year-end 2007 Icesave accounts numbered some 128,000. Icesave's success is due not least to its guaranteed high interest rate and best-practice approach to serving customers' interests, coupled with simplicity and ease of use. The advertising and promotional activity has been successful in building the brand and sustaining growth, even in the intensely competitive conditions towards the end of the year. During the final quarter, the product range was broadened and growing numbers of existing easy access accounts have been converted to term deposits. By year-end 12% of deposits were at fixed rates with terms ranging from six months to three years. The share of term deposits in the Icesave programme is expected to rise further and new products and other initiatives are planned for 2008, including an on-line ISA designed for the UK market.

Liquid Assets Held by Landsbanki

Breakdown by Issuer

Financials	66%
Government bonds	25%
Corporate bonds	9%

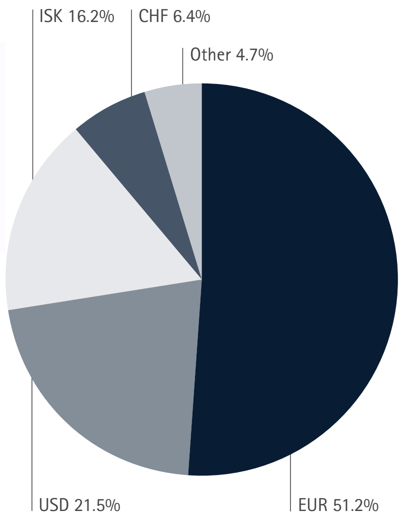
Breakdown by Rating

AAA	32%
AA	44%
A	16%
BBB	4%
NR	4%

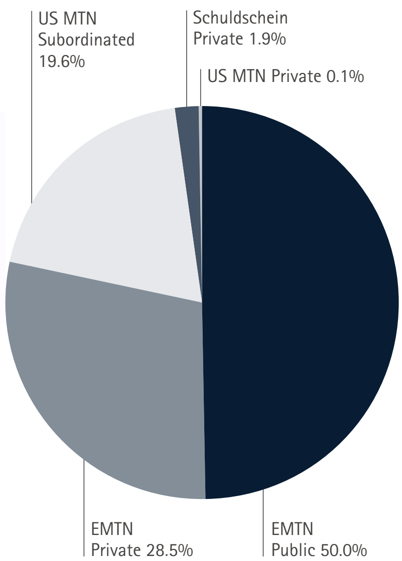
Landsbanki Guernsey

Acquired in August 2006, Landsbanki Guernsey provides retail savings products for the UK offshore savings market. In 2007 its product line was refreshed with the addition of a range of fixed rate bonds. Balances rose steadily during the year.

Capital Market Issuance 2007 by Currency



Capital Market Issuance 2007 by Type



Funding statistics

During 2007 the growing inflow of deposits resulted in substantially less capital market funding. Landsbanki issued EUR 1,444 million on capital markets during the year, compared to EUR 3,878 million the previous year. There were two public transactions: USD 400 million in subordinated debt, mainly sold into the US market, and a EUR 500 million senior loan. A total of 17 banks acted as arrangers and although 84% of the issuance was in USD and EUR, the transactions were in eight currencies. The average maturity of issuance in 2007 was 5.2 years compared to 8.4 in 2006.

Redemptions in the near term are very modest compared to those of previous years, at only EUR 749 million in 2008 and EUR 2,190 million in 2009. After 2009, annual redemptions range from EUR 750 million to just over EUR 1,900 million. Landsbanki's total outstanding senior debt issued outside Iceland amounts to EUR 9,405 million.

Capital market transactions

For the first time since November 2005, Landsbanki successfully returned to the Euro floating rate note (FRN) market in May with a EUR 500 million five-year issue priced at EURIBOR plus 26 basis points. RBS, Credit Suisse and Société Générale acted as lead managers. The transaction was placed with large investors and had good distribution across Europe (39% in Germany, 25% in UK, and 12% in Austria).

On 12 October, Landsbanki completed a USD 400 million perpetual 144A step-up Tier 1 transaction, non-callable for ten years in the US. The transaction was priced at treasury +275 basis points or the equivalent to LIBOR plus 213 basis points. This transaction was issued off the bank's US MTN programme. Joint lead managers in the issuance were Citigroup, Credit Suisse and JP Morgan. The deal attracted interest from institutional investors in the US and Europe, with 32 investors taking part in the offering. The transaction was successfully executed during a period of financial market turbulence, where Landsbanki, together with the joint lead managers, managed to successfully exploit a window of opportunity following the US Federal Reserve Bank's interest rate cut.

Landsbanki has also been actively issuing and evaluating alternative funding structures to reach new investor bases. In this context it is worth noting that the Icelandic *Althingi* approved new Icelandic covered bond legislation in March 2008.

CREDIT RATINGS

Changes lead to a positive outcome

Despite its difficult environment in 2006, Landsbanki's ratings remained overall stable. This was also the case in 2007, although changes in Moody's methodology raised the long-term ratings.

Maintaining strong credit ratings is an integral part of Landsbanki's funding strategy. The ability to build and maintain a strong balance sheet requires the support of good ratings.

Moody's

Moody's review of its rating methodology culminated in 2007, with the so-called Joint Default Analysis (JDA) and updated Bank Financial Strength Ratings (BFSR). On February 26, Moody's announced new long-term and financial strength ratings for Landsbanki. The long-term ratings were changed from A2 to Aaa, and the outlook for financial strength was changed from negative to stable with a rating of C. For Landsbanki, the increase in long-term ratings was one notch more than for its Icelandic peers. This new methodology was widely criticised, with detractors citing in particular the large improvement in the long-term ratings of Icelandic banks.

On 11 April, Moody's announced a revision of its new JDA methodology and some changes in the BFSR, and the resulting changes to ratings. Landsbanki's long-term ratings were changed from Aaa to Aa3, with a stable outlook. On 22 May, Moody's affirmed Landsbanki's ratings following its acquisition of Bridgewell plc in the UK. At year-end, Landsbanki's ratings were Aa3 / P-1 / C with a stable outlook.

Fitch Ratings

On 15 March, Fitch affirmed Landsbanki's ratings at A / F1 / B/C with a stable outlook, following a change in sovereign ratings. Again on 23 November, Fitch affirmed Landsbanki's ratings following an annual review at A / F1 / B/C with a stable outlook. According to Fitch, Landsbanki's ratings reflect its leading position in the domestic market, the growing diversification of its earnings, prudent provisioning policies, comfortable capitalisation and marked improvement in its funding profile. They also take into account its large equity portfolio, and the potential volatility in its domestic market and capital-market-related activities.

Landsbanki's Credit Ratings

Moody's	Rating
Long term	Aa3
Short term	P-1
Outlook	Stable
Financial strength*	C
Subordinated debt	A1
Junior subordinated	A2

* Moody's changed from Negative to Stable in February 2007

Fitch	Rating
Long term	A
Short term	F1
Individual	B/C
Support	2
Outlook	Stable

Landsbanki Heritable Bank

On 25 September, Fitch affirmed Landsbanki Heritable's ratings at A / F1 / C and support 1. According to Fitch, these ratings are based on a guarantee of all its obligations by its parent. The individual rating reflects Landsbanki Heritable's reasonable profitability, good asset quality and adequate capitalisation, but also takes into account its rapid business growth, small size and limited balance sheet liquidity.

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Risk Management

Inherent in the business of financial enterprises is taking on and managing risks. In order to safeguard Landsbanki's financial solidity, the bank's risk management is based on principles of defined risk governance and independent risk monitoring, as well as methods of risk assessment and measurement, which are continuously reviewed and refined.

The bank's risk policy and procedures ensure that risks are known, measured and monitored. Risk is managed to ensure that it remains within the limits set by the bank for its operations and complies with regulatory requirements. Landsbanki structures its portfolio to ensure that fluctuations resulting from unexpected events, affecting both the bank's equity and its performance, are both limited and manageable.

Risk factors

Landsbanki classifies exposures according to the type of risk involved, which may be credit risk, market risk, operating risk, compliance risk or risk arising from mismatch of assets and liabilities.

Risk governance

The Board of Directors is responsible for the bank's general policy on risk, ensuring that it conforms to the bank's strategy, the experience of its management, its capital adequacy and readiness to accept risk. The bank's CEOs are responsible to the Board for its daily operations and manage risk through committees. Furthermore, managing directors are responsible to the CEOs for the activities of their respective divisions and for ensuring that general policies are implemented and risk limits set and complied with. Landsbanki has five standing group committes: the Asset and Liability Committee (ALCO), the Credit Committee, the Asset Management Committee, the Operations Committee and the Group Risk Committee. Each committee includes the key managers and risk officers from relevant business areas as well as the CEOs.

ALCO: The Asset and Liability Committee (ALCO) is entrusted with monitoring risk factors in the bank's activities and for setting limits on exposures. Policy decisions concerning market risk are taken by ALCO. ALCO has set detailed rules on the Group's maximum market risk. Before undertaking new types of transactions or new contracts with clients or on the bank's own account, a written summary of the proposed undertaking must be submitted to ALCO for its opinion and decision. ALCO formulates liquidity management policy, monitors the bank's liquidity position and provides advice on the composition of its assets and liabilities.

Credit Committee: Landsbanki's Credit Committee sets detailed lending rules, applying the basic policy laid down by the Board of Directors. Employees' lending authorisations are well defined and incremental. The Credit Committee assigns and reviews employees' authorisations and is responsible for reviewing lending rules. Comprised of the CEOs and key managers, it meets regularly to discuss all credit decisions exceeding the authorisations of branches, subsidiaries or the Corporate Banking division. The Committee checks the composition of the loan portfolio with regard to industrial sectors, geographical regions, collateral and other aspects, in addition to monitoring defaults and default trends. Detailed reports on the position of the bank's largest debtors are reviewed by the Credit Committee, together with special reports, e.g. on the situation of the economy in general and that of specific industrial sectors.

Asset Management Committee: The Asset Management Committee is involved in all major decisions concerning asset management and private banking. In addition to the CEOs, the Committee is comprised of the MD of Finance and Operations together with the MDs and directors of the bank's Asset Management and Private Banking divisions. Monthly meetings review total assets under management, the overall development of the business and the market share of the bank's funds. The Committee approves all new products in Asset Management and Private Banking.

Operations Committee: The Operations Committee co-ordinates the bank's operations, directs efficiency measures, technical development, retail banking development and property matters. It also makes decisions on exposure limits and quality procedures in retail banking, interest rate changes and pricing, as well as decisions on new products and services offered by Landsbanki branches.

Group Risk Committee: The Group Risk Committee (RC) is to assist the CEOs in ensuring effective group-wide risk management, including compliance with Landsbanki Group's risk management obligations as defined by law, regulations, guidelines and internal rules. Each business unit of the Landsbanki Group has been assigned specific risk management functions. The Committee's role is to review their implementation, ensuring that adequate tools, policies, rules, procedures and personnel are in place to indentify, monitor, measure, and manage the risk inherent in products, operations, internal processes and systems.

In addition to these committees, meetings of managing directors serve as a forum for consultation between the CEOs and managing directors. Two committees operate within the Board of Directors, an Audit Committee and Remuneration Committee.

Landsbanki Group Risk Management Governance Structure

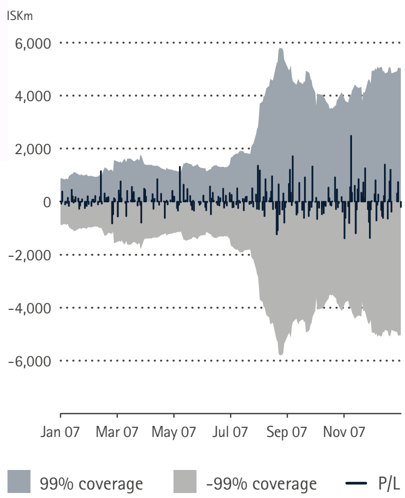
Market risk

Market risk is the risk arising from the impact of changes in market prices on the value of the bank's assets and liabilities, both on and off its balance sheet. This includes both interest rate and equity risk on the bank's trading portfolio, and currency risk on all of its portfolios. Market risk is, however, mainly limited to the bank's trading book transactions.

The Board of Directors has set a ceiling on the bank's market risk, which may not exceed 15% of its total risk-weighted asset base. Risk-weighted assets are determined by applying specific risk weights to the Group's assets, following methodology developed by the Basel Committee on Banking Supervision. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 7.6% for long positions or 3.3% for short positions or interest rate risk on market bonds and other financial instruments may not exceed 6%. The limits for currency risk positions were 2% for short and long positions at year-end 2006 The new and asymmetric limits are the result of ALCO's strategic decision to hedge the bank's equity ratio against currency fluctuations. As an ever larger part of the bank's balance sheet is foreign currency denominated and the bank's core equity is in ISK, fluctuations in the ISK can have a significant impact on the bank's equity ratio. By building up a large foreign exchange position, the bank stabilises its equity ratio.

Risk control is enforced on a group basis under the direction of Risk Management. Authorisations to take positions subject to market risk are mainly limited to the Investment Banking division of the parent company, where total market risk for the group is also managed. In addition to the Investment Banking division at Reykjavík headquarters, the trading desks of subsidiaries Landsbanki Kepler, Landsbanki Securities UK Ltd., and Merrion Landsbanki have limited authorisations for market risk on their own account.

Total Value at Risk



Total market risk for the group is calculated at the end of each banking day and controlled by means of an authorisation system adopted by ALCO. Since no single instrument can cover all the aspects of market risk, the bank applies a number of methods in its daily risk measurements, including Value at Risk (VaR) and stress testing, and uses other indicators such as net position and value per basis point (Vpb).

Value at Risk

ISKm	1 Jan 2007 to 31 Dec 2007 Average	High	Low	31 Dec 2007 Balance
Interest rate risk	401	886	169	886
Foreign exchange risk	791	2,067	2	2,064
Equity risk	1,482	3,288	501	2,081
Total VaR (99% 1 day holding period)	2,673	5,808	844	5,031
Total VaR (99% 10 day holding period)	8,453	18,367	2,669	15,909

Value at Risk
(excluding financial assets designated at FV through P/L)

ISKm	1 Jan 2007 to 31 Dec 2007 Average	High	Low	31 Dec 2007 Balance
Interest rate risk	401	886	169	886
Foreign exchange risk	791	2,067	2	2,064
Equity risk	1,088	2,910	330	1,110
Total VaR (99% 1 day holding period)	2,280	5,433	604	4,060
Total VaR (99% 10 day holding period)	7,210	17,181	1,910	12,839

Value at Risk
(excluding financial assets designated at FV through P/L and unlisted equities)

ISKm	1 Jan 2007 to 31 Dec 2007 Average	High	Low	31 Dec 2007 Balance
Interest rate risk	401	886	169	886
Foreign exchange risk	791	2,067	2	2,064
Equity risk	675	1,531	278	607
Total VaR (99% 1 day holding period)	1,866	4,025	551	3,557
Total VaR (99% 10 day holding period)	5,901	12,728	1,742	11,248

Value at Risk (VaR)

Value at Risk (VaR) is a statistical measurement indicating the likelihood of loss due to unfavourable changes in market conditions within a specific time period and with a specified probability.

Landsbanki uses VaR to monitor trading book market risk. The accompanying tables show the bank's maximum expected loss for the next working day under normal market conditions given a 99% confidence interval. The bank's loss should only exceed the resulting value on one banking day out of a hundred. VaR is shown separately for interest rates, FX and equities.

To asses VaR, the bank uses historical data and data weighted to give more significance to recent figures. As VaR gives an assessment of the risk based on previous market conditions, very substantial changes in market conditions can result in some inaccuracy in assessment. VaR models are tested for reliability in accordance with the guidelines of the Basel Committee on Banking Supervision and were statistically significant for the entire year 2007.

Landsbanki regularly assesses the effectiveness of its VaR models. The models are back-tested, i.e. the number of days when trading losses actually exceeded the estimated VaR figure are counted. The regulatory standard for back-testing is to measure VaR assuming a ten-day holding period with a 99% level of confidence. For Landsbanki's regulatory trading book, there were two instances in the last 12 months exceeding the corresponding VaR in the back testing.

At year-end 2007, the bank's VaR limits were ISK 1,100 million for interest rate risk, ISK 2,500 million for currency risk and ISK 3,000 million for equities. For the sake of comparison, these limits were ISK 300 million for interest rate risk, ISK 200 million for FX risk and ISK 3,000 million for equities at year-end 2006.

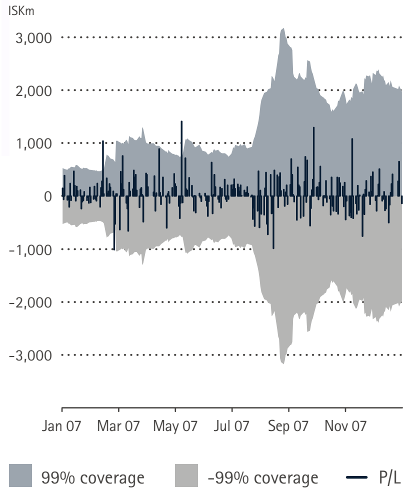
At year-end 2007, VaR for market risk was ISK 5,031 million, with the average daily VaR increasing to 2,673 million in 2007 from 1,524 million in 2006. The increase in VaR is primarily caused by the bank's strategic decision to hedge its captial ratio against fluctuations of the ISK exchange rate. The increase in the bank's equity exposure and increased equity market volatility in the latter half of the year boosted VaR. As a percentage of total assets, however, equity exposure decreased during the year.

Equity risk

Equity risk is the risk connected with changes in Landsbanki's equity portfolio as a result of changes in the market value of equities and volatility in equity prices. Equity risk is, together with FX risk, the largest component of the bank's market risk and most of it originates at the bank's headquarters. The equity risk ceiling is set at 12% of the bank's risk-weighted asset base. At year-end 2007, this ratio was 4.07%, down from 4.75% at year-end 2006. Since 2006 the bank has operated under tighter limits on equity exposure adopted by ALCO, which limit this to 3% of total assets or about 6.5% of RWA. Total equity exposure was 2.1% of total assets at year-end 2007 compared to 2.3% in 2006.

Landsbanki's equity exposure was at year-end 2007 ISK 64.4 billion. Of the bank's total equity holdings, 66% are listed equities. At year-end, the bank's equity positions were 70% foreign and 30% domestic. In addition, Landsbanki holds equities against forward contracts and swaps that the bank has concluded with its customers amounting to ISK 89.1 billion at year-end. These are included under "Hedged securities" in the balance sheet.

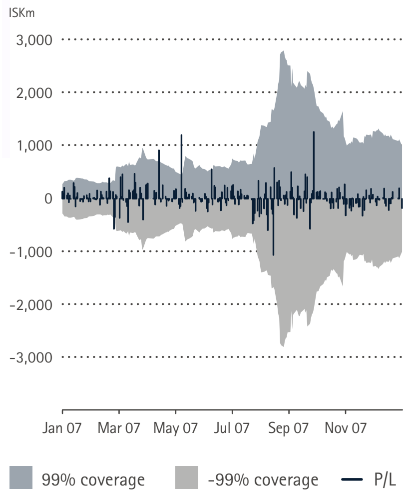
Value at Risk for Equities



Equity Exposure

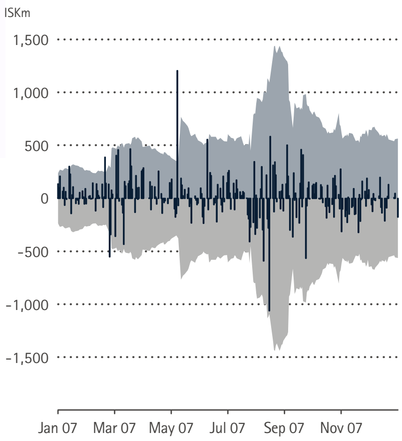
(ISKbn)		Exposure	VaR (99%/10d)	VaR (99%/10d) % risk capital	Exposure % of risk capital	Exposure % of Tier 1 capital	Exposure % of balance sheet
Total		64.4	6.6	2.4%	23.8%	27.6%	2.1%
	Listed	42.4	3.3	1.2%	15.7%	18.2%	1.4%
	Unlisted	22.0	4.5	1.7%	8.1%	9.4%	0.7%
Domestic		19.6	2.1	0.8%	7.3%	8.4%	0.6%
	Listed	13.5	0.6	0.2%	5.0%	5.8%	0.4%
	Unlisted	6.1	1.7	0.6%	2.3%	2.6%	0.2%
Foreign		44.8	4.8	1.8%	16.5%	19.2%	1.5%
	Listed	28.9	2.9	1.1%	10.7%	12.4%	0.9%
	Unlisted	15.9	3.1	1.1%	5.9%	6.8%	0.5%

Value at Risk for Equities (excluding financial assets designated at FV through P/L)



At the end of 2007, VaR for equities was ISK 2,081 million. Landsbanki asses equity VaR by three different methods. Firstly, the total equity VaR; secondly, VaR excluding equities held as financial assets designated at fair value through profit and loss; and lastly, VaR excluding equities held as financial assets designated at fair value through profit and loss and also excluding unlisted equities. The VaR figure excluding financial assets designated at fair value through profit and loss gives a measure of the risk of the trading assets, i.e. assets that are primarily held for short-term trading purposes. Of the financial assets designated at fair value through profit and loss, 46% are unlisted equities.

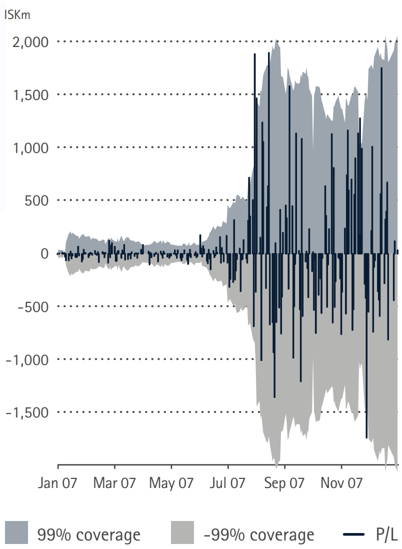
Value at Risk for Equities
(excluding financial assets designated at FV through P/L and unlisted equities)



Foreign-denominated Assets and Liabilities

Foreign-denominated assets	2,122.4	ISKbn
Foreign-denominated liabilities	2,414.7	ISKbn
Net on balance sheet foreign position	(292.3)	ISKbn
Net off balance sheet foreign position	406.5	ISKbn
Net position in foreign currencies	**114.2**	**ISKbn**

Value at Risk for Foreign Exchange



As unlisted equities are generally more illiquid and the market value of such positions uncertain, they are treated in a conservative manner in the VaR estimate. The unlisted equity is linked with a relevant equity index and its performance scaled using an appropriate beta-factor. Due to this conservative method, unlisted equities have a proportionally high impact on the VaR figures. The third VaR calculation, excluding unlisted equities, reflects the risk involved in trading positions that are marked to market, for which the level of risk is more transparent.

The effects of the US subprime crisis are clearly reflected in the VaR figures for 2007. After a period of relative calm for the first half of the year, financial market volatilty increased markedly as the crisis unfolded and has remained high. Major volatility indices have doubled and even tripled from the onset of the crisis. Despite this increased volatility, the backtesting figures show that losses have been no greater than predicted for the duration of the crisis and number of breaches for the year well within the required limits.

Currency risk

Currency risk is the risk of an adverse variation in return or cost resulting from changes in market exchange rates for currency pairs. The Landsbanki Group's currency risk is managed with the objective of keeping this risk factor within defined net position limits set by ALCO. Changes in currency rates against the ISK will affect the group's equity ratio, as foreign denominated assets are 69% of the group's asset base while the group's equity is ISK denominated. The group maintains a considerable open currency position and issues subordinated debt in foreign currency to hedge this risk. The currency risk ceiling is set at 7.6% of the bank's RWA for long position or 3.3% for short position. At year-end 2007, the bank's FX position was long 4.97% of RWA.

At the end of 2007, VaR for currency risk was ISK 2,064 million. Our average daily VaR increased to 791 million in 2007 from 67 million in 2006. This increase is due to the bank's decision in 2007 to built up a considerable positive open currency balance to hedge its equity ratio against ISK volatility.

Interest rate risk

Interest rate risk is the risk of financial loss arising from the impact of changes in the absolute level of interest rates, in the spread between two rates, in the shape of the yield curve or in any other interest rate relationship. The value of interest rate related instruments depends on the risk-free interest rate, the credit rating of these instruments and the spread for that credit rating. Changes in the absolute level of interest rates are treated in the market risk framework. Changes in credit rating and actual default are treated in the credit risk framework. At the end of 2007, VaR for interest rate risk was ISK 886 million.

Interest rate risk on trading portfolio

The interest rate risk on the trading portfolio is primarily the result of Landsbanki's holdings in domestic government bonds. Bond holdings are a key factor in the bank's liquidity management. In addition, Landsbanki is the principal trader and market maker in domestic government-backed bonds. The bank also takes domestic as well as highly liquid and highly rated foreign bond positions when it anticipates changes in their returns. As part of its liquidity management, Landsbanki has built up a sizeable international portfolio of bonds during the year. However, due to the short duration of this portfolio, the VaR of these positions is low.

Bond Exposure

(ISKbn)		Exposure	VaR (99%/10d)	VaR (99%/10d) % risk capital	Exposure % of risk capital	Exposure % of Tier 1 capital	Exposure % of balance sheet
Total		362.6	2.8	1.0%	134.0%	155.2%	11.9%
	Listed	360.5	2.8	1.0%	133.2%	154.3%	11.8%
	Unlisted	2.1	0.0	0.0%	0.8%	0.9%	0.1%
Domestic		43.2	1.5	0.5%	15.9%	18.5%	1.4%
	Listed	43.2	1.5	0.5%	15.9%	18.5%	1.4%
	Unlisted	0.0	0.0	0.0%	0.0%	0.0%	0.0%
Foreign		319.5	1.3	0.5%	118.0%	136.8%	10.4%
	Listed	317.4	1.3	0.5%	117.3%	135.9%	10.4%
	Unlisted	2.1	0.0	0.0%	0.8%	0.9%	0.1%

Interest rate risk on other portfolios

Changes in interest rates on the bank's assets and liabilities, other than those in its trading book, have an impact on its interest rate margin and/or the value of shareholders' equity. This risk is primarily the result of duration mismatch of assets and liabilities. As portfolio interest rate risk is among the bank's more important risk factors, interest rate repricing is carried out at regular intervals with two exceptions. Firstly, Landsbanki Heritable Bank offers long-term loans at fixed rates of interest. The interest rate risk on this portfolio is hedged using interest rate swaps. Secondly, the parent company provides fixed-rate loans in ISK, most of which are housing mortgages to households. Landsbanki has hedged a major portion of its interest rate risk on mortgages. The Treasury department at Landsbanki headquarters manages the group's interest rate risk.

Domestic indexation balance

Landsbanki's indexation risk derives from imbalances in its indexed assets and liabilities, including on and off balance sheet items. The majority of Landsbanki's mortage loans and consumer loans are indexed to the Icelandic consumer price index (CPI). CPI indexation is mainly used on long-term loans in domestic currency. Treasury is responsible for managing the bank's indexation risk. According to Landsbanki's balance sheet, indexed assets exceeded indexed liabilities by ISK 148.9 billion at year-end 2007.

Hedge accounting

Hedge accounting is a technique that modifies the normal basis for recognising gains and losses associated with a hedged item or hedging instruments. Hedge accounting enables gains and losses on the hedging instruments to be recognised in P&L in the same period as the corresponding losses and gains on the hedged items are recognised. Hedge accounting is an exception to the usual accounting practices for financial instruments. Therefore, there are strict criteria that must be met before it can be used. Management must identify, document and test the effectiveness of those transactions for which it wishes to use hedge accounting.

Landsbanki applies hedge accounting under IFRS in order to decrease volatility in profit and loss due to changes in market rates. The bank aims to hedge future cash flow of fixed income payments by entering into interest rate swaps and cross-currency swaps. This effectively replaces fixed rate cash flow with a floating rate, normally the quarterly LIBOR rate in the relevant currency or the quarterly EURIBOR rate. The net fair value of these swaps at year-end 2007 was positive in the amount of ISK 1,765 million.

The bank also balances currency risk arising from net investment in foreign operations against foreign currency borrowing. At year-end 2007, loans amounting to ISK 86,469 million were recognized as hedges, resulting in exchange rate profit in 2007 of ISK 2,504 million recognised in equity against subsidiaries' exchange rate difference.

Derivatives Held for Trading and Trading Liabilities

ISKm	Contract/ notional amount	31 Dec 2007 Fair value Assets	Liabilities
Commodity derivatives	695	110	0
Credit derivatives	89,099	0	2,435
Foreign exchange derivatives	1,789,315	22,362	34,463
Interest rate derivatives	1,490,765	11,622	13,437
Equity derivatives	92,891	16,103	6,229
Other trading liabilities	5,598	0	5,598
Total derivatives held for trading	3,468,364	50,198	62,161

Derivatives Held for Hedging

ISKm	Contract/ notional amount	31 Dec 2007 Fair value Assets	Liabilities
Interest rate derivatives	393,705	8,719	6,953
Total derivatives held for hedging	393,705	8,719	6,953

Liquidity risk

Liquidity risk is the risk of being unable to obtain the funds to meet financial obligations as they come due, either by increasing liabilities or by converting assets without incurring significant losses. This in turn requires reliable access to sufficient cash resources, at unpredictable times and due to unforseeable events, to meet uncertain cash flow obligations. Such access, and indeed the cash flow obligations themselves, depend on market conditions, other external events and other agents' behaviour.

ALCO formulates the bank's liqudity management policy, monitors the group's liquidity position and provides advice on the composition of its assets and liabilities. The overriding objective is to minimise fluctuations in liquidity and ensure that the group always has sufficient access to funding to cover outflows arising from its obligation in coming months. Treasury is responsible for implementing this policy and estimates future cash flow in co-operation with Risk Management.

The bank follows rules on liquidity set by the Central Bank of Iceland, i.e. governing the ratio of weighted liquid assets to liabilities. The rules require a ratio higher than 1 for the next three months. The Central Bank rules involve a type of stress test, according to which assets and liabilities are weighted using specific co-efficients. The stress test reflects how accessible the asset in question would be in a liquidity crisis and how great the need is to repay the liability in question when due.

At year-end 2007, Landsbanki's liquidity ratio, calculated by balancing assets and liabilities in accordance with Central Bank Rules No. 317/2006, on the Liquidity Ratio for Credit Institutions, was 2.23.

Landsbanki has also adopted in-house rules for foreign currency liquidity. These rules cover both short and long term liquidity risk. The key criterion is to ensure that the bank has liquidity to cover a situation where access to capital market funding is closed for up to 12 months during which time the bank repays all due liabilities at maturity as well as other confindence-sensitive customer deposits and maintains a stable business volume. This is further discussed in the chapter on Funding and liquidity.

Capital strategy and FME stress tests

Landsbanki manages its capital resources to meet the regulatory capital requirement prescribed by the Icelandic Financial Supervisory Authority (FME). FME requires that the bank hold sufficient capital resources to meet the minimum regulatory capital requirements laid down in the Rules on the Capital Requirement and Risk-weighted Assets of Financial Undertakings, No. 215/2007. These rules are based on the standards of the Basel Committee on Banking Supervision in the Basel II accord. Minimum requirements are expressed as the ratio of capital resources to risk-weighted assets.

Landsbanki's objective is to maintain its equity ratio (Tier 2) above 10%, which is considerably higher than the minimum regulatory requirement of 8% as set by the FME. In Landsbanki's estimation, this takes into consideration the relative weight of commercial and investment banking activities in Landsbanki's operations, as well as the risk the bank is prepared to take in market securities. At year-end 2007, Landsbanki's equity ratio, according to CAD rules, was 11.7% of which 10.1% was Tier 1 capital.

Icelandic banks are regularly stress tested by the FME to assess their capacity to withstand economic shocks. The stress test applied entails the following simultaneous severe shocks: i) a 35% fall in domestic stock prices and 25% in foreign stock prices; ii) 20% fall in the value of non-performing loans and appropriated assets; iii) 7% fall in bond prices; and iv) 20% depreciation of the ISK. The banks are expected to be able to withstand these simultaneous shocks, while at the same time maintaining an 8% Tier 2 equity ratio. Most recent assesment by the FME, based on year-end figures 2007, showed an impact of 1.2% on Landsbanki's equity ratio, resulting in a 10.5% equity ratio. The bank's strategy of hedging its equity ratio against currency fluctuations has resulted in a significantly lower impact of the stress test than previously.

The Icelandic Financial Supervisory Authority (FME) official stress test

		CAD		Tier 1
Pre FME Stress Test		11.7%		10.1%
A 35% fall inn domestic stock prices and 25% fall in foreign stock prices	-0.63%	**11.07%**	-0.65%	**9.45%**
A 20% loan default losses	-0.25%	**10.70%**	-0.25%	**9.20%**
A 7% fall in bond prices	-0.29%	**10.41%**	-0.30%	**8.90%**
A 20% depreciation of the ISK	-0.02%	**10.39%**	-0.10%	**8.80%**
Change		1.2%		1.3%
Post FME Stress Test 31.12.2007		10.5%		8.8%

Counterparty credit risk

As the bank's loan portfolio is its largest asset class, counterparty credit risk is the single largest risk factor for the group. Credit risk is the risk of financial loss if a customer or counterparty in a transaction fails to meet an obligation, as provided for in its contract, and pledged collateral does not cover Landsbanki's claims.

Credit risk arises principally from group lending activities to corporates and individuals, as well as issued guarantees and letters of credit. Credit risk also includes risk arising from financial instruments, such as derivatives. Landsbanki requires adequate compensation for the risks it assumes and pricing reflects the perceived risk. An effective credit granting process and precise credit risk classification system are essential to analyse and price credit risk accurately. Landsbanki's credit risk is continuously monitored and controlled, and the regulatory regimes controlling the bank's lending activities are reviewed regularly.

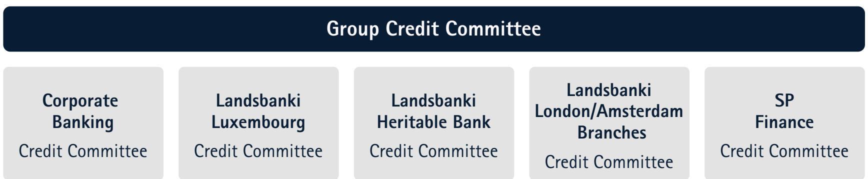
Responsibility and lending rules

Landsbanki's credit risk is centrally managed by the Group Credit Committee which sets detailed lending rules, implementing the basic risk policy laid down by the Board of Directors. The committee sets credit risk limits for individual borrowers or groups of borrowers, as well as for specific regions and industrial sectors. Account managers' lending authorizations are incremental, defined in detail and documented. The second tier Credit Committees (see figure) delegate and monitor account managers' authorisations and are responsible for reviewing lending rules.

Landsbanki's credit risk decision-making structure

Credit risk is assessed and managed on a Group level through regular credit assessment of clients, amending of lending authorisations and rules, and setting requirements for collateral and clients' obligations.

Landsbanki's Credit Decision-making Structure



Landsbanki's credit granting process

The Board of Directors sets the bank's consolidated lending limits for individual clients and connected parties. These are complemented by internal rules on the aggregate exposure of the Landsbanki Group. The rules cover the total exposures of group clients, so that the indirect and direct risk is aggregated for the bank and its subsidiaries. Financial instruments issued by a client, which are used to guarantee other obligations of unrelated third parties, are also added to the direct claims.

Landsbanki's internal rules set the maximum total exposure toward an individual customer or financially connected parties at 20% of the bank's own equity. Loans to clients classified in the best risk classes, according to the bank's rating system, may comprise as much as 25% of the bank's own funds in aggregate exposures, but anything exceeding 5% may only be in the form of short-term obligations. Parties classified in higher risk categories may not have aggregate exposures exceeding 10% of the bank's equity. In similar fashion, however, this exposure may be increased to as much as 15%, provided the portion exceeding 10% is in the form of short-term commitments.

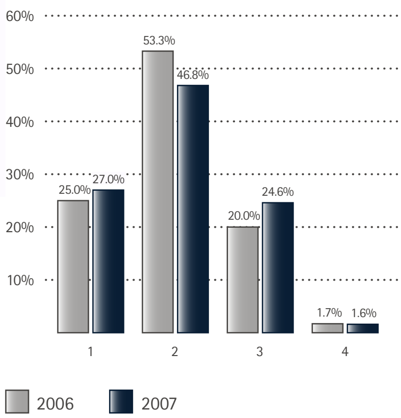
Control process

As Landsbanki's loan portfolio has grown, it has become more important to analyze and manage credit risk. Active management and control of credit risk is a fundamental component of reliable and prudent banking management. Sound credit risk management involves accurately aligning risk with reward and exercising adequate control. Surveillance systems have been improved and specialised credit control groups monitor individual credit classes. Lending databases and IT systems have been intergrated throughout the group, to enable detailed analyses of the loan portfolio and individual loans.

The bank has specific credit risk control functions for its branch network and subsidiaries. Group credit risk is evaluated and monitored on an ongoing basis at headquarters by evaluating clients' capacity to meet their obligations towards the bank. This is done by regular reporting on the development of the bank's credit risk and the quality of its loan portfolio to the Board of Directors, the Credit Committee, the bank's senior management and regulatory authorities.

The Group Credit Risk unit evaluates the status and development of the credit portfolio groupwide, builds harmonised credit risk classification systems and models, and maintains the bank's centralised credit risk database. Corporate Credit Control systematically monitors group lending procedures for the largest corporate customers at group level.

Group's Internal Risk Classification



Rating	Probability of default From	To
1	0%	0.55%
2	0.55%	2.29%
3	2.29% +	
4	Problem loans	

Credit risk classification

One of the basic elements in quantifying credit risk is measuring the probability of default with an effective and accurate credit risk classification system. Although different internal and external systems are used for rating customers and exposures, the common denominator is their ability to rank credit according to risk and to predict probability of default. Landsbanki's rating scale consists of of 4 groups of rating classes. Every rating grade has a range of probability of default (PD) mapped to it. Risk ratings are reviewed regularly and amendments, where necessary, are implemented promptly.

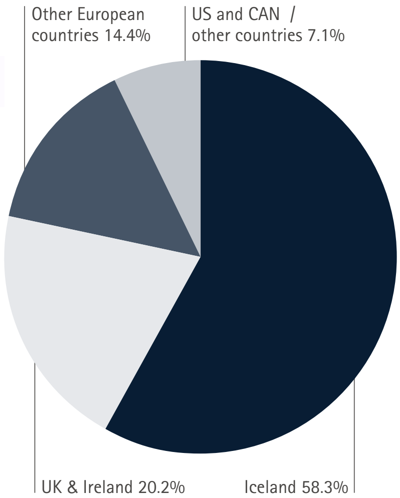
Credit risk development

The bank's loan portfolio grew by 41% in 2007. Financially strong borrowers, especially international corporates, account for a major portion of this growth. This is in line with the key objective which the bank set for 2007 of further diversification of its lending portfolio by sector and geography. Lending growth to corporate clients abroad can be classified into several categories: credit extended in connection with expansion of Icelandic companies abroad; provision of structured finance for financially strong international corporations, asset backed finance and trade credit through the intermediation of Landsbanki's London Branch; lending to private banking clients of Landsbanki Luxembourg and Landsbanki Heritable Bank in London.

Improved risk diversification should reduce concentration risk and loan impairment still further in the future. All measures used for credit risk monitoring indicate that the general quality of Landsbanki's loan portfolio has improved significantly in recent years.

Total lending to customers at year-end amounted to ISK 2,023 billion, of which ISK 1,665 billion is corporate lending, an increase of 44% year-on-year, while lending to households was ISK 379 billion, an increase of 27%.

Geographical Locations of Loans



Credit Risk Exposures

Credit risk exposures relating to on balance sheet items are as follows:	2007 (ISKbn)	2006 (ISKbn)	Change
Loans and advances to customers:			
Loans to individuals:			
– Mortgages	262	194	35%
– Other loans	118	105	12%
Loans to corporates and public entities	1,665	1,156	44%
Provisions for credit losses on loans and advances	(22)	(17)	32%
Total loans and advances to customers	**2,023**	**1,438**	**41%**

Landsbanki continued to broaden the geographical distribution of its loan portfolio in 2007. At year-end, lending by the bank's international operations comprised 42% of total group lending, while at year-end 2006 it was 37%. Approximately a third of lending to Icelandic corporates is lending to their foreign entities and international projects.

Corporate lending has grown substantially, both in Iceland and internationally. The largest growth in lending is to the sectors Services and Construction and manufacturing. At year-end, 26% of lending to corporate customers was in the first rating class.

The single largest portfolio is the Services sector. This portfolio includes loans to Icelandic and European corporates in various service sectors, e.g. communications and transport. It is important to note that holding companies are classified within the service sector.

The Construction and manufacturing sector grew substantially in 2007. A major portion of this growth is derived from Landsbanki Heritable Bank's structured property finance as well as lending to various manufacturing companies through Landsbanki's London and Amsterdam branches.

Retail sector exposure grew marginally in 2007; loans to customers at year-end were 12% of the total portfolio, compared to 15% at year-end 2006. The portfolio includes lending to retail companies in UK, Iceland and Northern Europe. Fisheries, the industry sector with the highest overall rating in the bank's corporate loan portfolio, represented 9% of lending to customers at year-end 2007.

Lending to Individuals

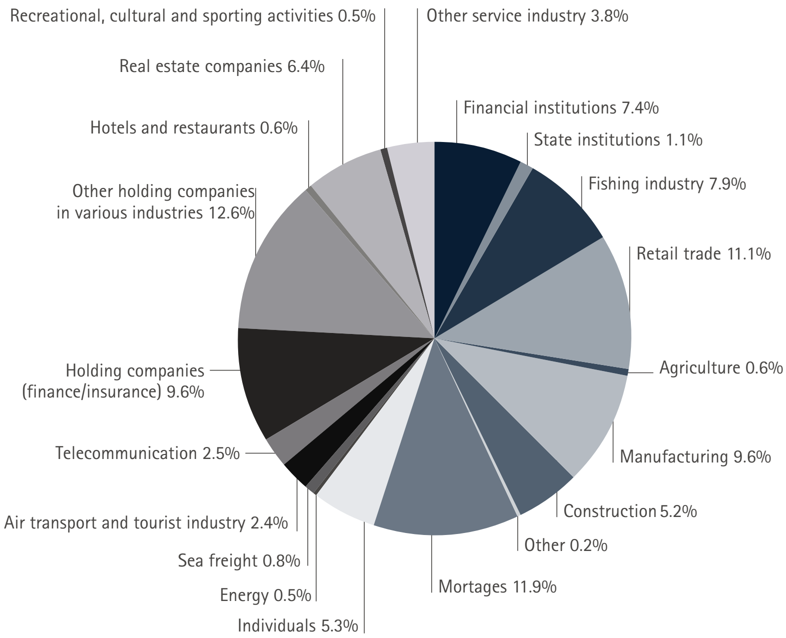
ISKbn	Mortgages	Other loans
Iceland	146.4	103.3
UK & Ireland	80.6	7.9
Other European countries	34.4	5.5
US and CAN/other countries	0.4	0.8
Total	**261.8**	**117.6**

Lending to individuals

In 2007, 66% of lending to individuals was domestic, 23% to UK and Ireland, and 11% in Western Europe through Landsbanki Luxembourg.

The group's mortgage portfolio amounted to ISK 262 billion at year-end 2007, or 69% of total loans to individuals. The mortgage book is highly rated, with 93% of the loans rated as investment grade or standard monitoring. Collateral coverage is high in real estate mortgages and asset finance, whereas other consumer loans to individuals have in general a lower degree of collateral coverage. Landsbanki has credit derivatives to mitigate credit risk for part of its mortgage portfolio.

Sectoral Loan Distribution as of 31 December 2007*



*Loans to financial institutions included

Collateral

Securing loans by collateral is the traditional method of mitigating credit risk. The bank obtains collateral in respect of customer liabilities where considered appropriate. When it requires a lien on customer assets, Landsbanki receives a claim on these assets for both existing and future client liabilities.

Credit extended by Landsbanki is secured by residential or commercial real estate, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft etc. Landsbanki also secures its loans with receivables and operating assets, such as machinery and equipment, raw materials and inventories. Residential housing mortgages are generally fully secured by the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowing.

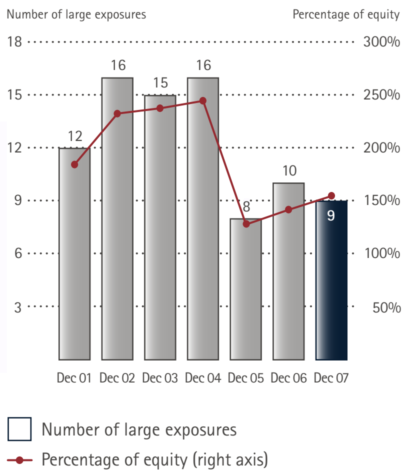
Lending to Customers

ISKbn	31 Dec 07	31 Dec 06	31 Dec 05
Public entities	24	9	8
Corporations	1,642	1,147	745
Individuals	379	299	245
Impairment account	(22)	(17)	(13)
Total	**2,023**	**1,438**	**985**
Change %	40.6%	46.1%	

Large exposures

At year-end 2007, nine clients were rated as having large exposures. Clients are classed as large exposures if their total obligations, or those of financially or connected parties, exceed 10% of Landsbanki's equity. This is in accordance with rules of the Icelandic Financial Supervisory Authority (FME) on large exposures incurred by financial undertakings, whereby total exposures of parties with obligations exceeding 10% of the bank's equity may never exceed 800% of equity. Maximum individual exposure may not exceed 25% of the bank's equity. All of Landsbanki's large exposures were within these limits at the end of 2007. The Board of Directors regularly reviews detailed reports on the commitments of the bank's largest clients. Reports on the situation of the largest exposures are reviewed by the Group Credit Committee, together with other reports of significance for the bank's loan portfolio, e.g. analyses of the economic situation and of individual sectors.

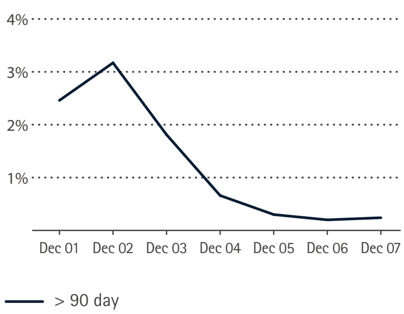
Large Exposures



Default developments

At year-end 2007, the total amount of arrears was ISK 9.5 billion, or 0.47% of total loans outstanding, with a stable low level in recent years. Defaults vary depending on the type of loan and the nature and location of the customer. Defaults are highest, for example, for the domestic branch network on other loans to individuals and small businesses in the capital region, and proportionally lowest for Corporate Banking loans to large corporations. Defaults on credit granted by the bank's establishments overseas are low. Individual loans to customers in arrears, or other signs of imminent default, are monitored closely and efforts made to take suitable measures in response as quickly as possible. Such measures include, for example, refinancing, sale of assets or demanding additional collateral.

Delinquency Rate



Collection

Improved monitoring and collection procedures have greatly reduced loans in arrears, both as a ratio of total lending and in absolute terms. When an increased probability of client default is perceived, definitive action is now taken at an earlier stage. As a result, long-term defaults have fallen substantially. In major default cases, or when signs of increasing probability of default by individual clients are detected, an effort is made to obtain additional collateral. Clients may be also assisted with debt restructuring, thereby improving their ability to meet their commitments.

Calculation of loan impairment

Provisions are made for impairment (credit loss provisions) to cover possible credit losses, as set out by IFRS. Loans and other obligations are assessed in terms of the risk of future loss. Based on this assessment, provisions are made for impairment losses and expensed against the relevant balance sheet item. Provisions to the impairment account are determined by applying an impairment test to loans which fulfil specific criteria indicating an increased risk. This involves assessing the discounted cash flow of individual loans or loan portfolios. If the assessment proves to be less than the payback value of the loan on the date of settlement, the difference is expensed as a provision to the impairment account. The assessment involves, firstly, a detailed examination and assessment of the risk parameters of all loans exceeding a specified amount. Then all other lending is divided into buckets with the same or similar risk parameters. In this manner, the quality of all loans is regularly evaluated and the size of the impairment reserve determined. For 2007, provisions for impairment amounted to ISK 7,645 million or 0.37% of total loans and advances to customers outstanding at year-end. Final write-offs in 2007 amounted to ISK 1.5 billion. At year-end, impairment provisions were equivalent to 1.02% of loans and advances provided, compared to 1.07% at year-end 2006 and 1.17% at year-end 2005. Provisions were 1.29% and 2.25% of loans and advances granted at the end of 2004 and 2003 respectively.

Basel II – Credit risk

Landsbanki has followed the Standardized Approach (SA) of the new Basel II rules since Q1 2007. The changes in the Group's risk-weighted assets due to this were minimal. To comply with these regulations, information systems and databases have been upgraded.

Landsbanki applies the methodology of Basel II rules in its client risk rating, calculating the probability of default (PD) based on historical data and subjective valuation by experts. Efforts have also been directed at assessing the quality of collateral and calculating the loss given default (LGD) for part of the loan portfolio. Landsbanki intends subsequently to implement the Advanced Internal Rating-Based (IRB) approach in calculating its risk-weighted asset base. This method is based in part on the use of statistical models to assess credit risk. An upgrade of information systems and databases currently underway is aimed at preparing Landsbanki's adoption of IRB. To ensure that suitable data on the credit history of clients is available, efforts have focused on collecting and processing the requisite data.

Operational risk

Operational risk is the risk of financial losses resulting from the failure or inadequacy of internal processes or systems, employee error or external events. Operational risk includes legal risk, but excludes reputational risk. It is therefore inherent in all areas of Landsbanki's activities.

While the managing directors of each division are responsible for their division's operational risk, daily management of operational risk is in the hands of department heads. Landsbanki establishes, maintains and co-ordinates its operational risk management framework on a group level. The framework complies with the Basel Committe's 2003 publication "Sound Practice for the Management and Supervision of Operational Risk" and meets the new regulatory requirements concerning the solvency ratio implemented on 1 January 2008. The group has opted for the Basic Indicator approach for calculating its regulatory capital.

Landsbanki ensures that management of operational risk is consistent throughout the group through a system of prevention and control that entails detailed procedures, permanent supervision and insurance policies, alongside active monitoring by the Internal Audit Department. Managing operational risk in this manner is intended to ensure that all of the bank's business units are well aware of operational risk, that a robust monitoring system is in place and that controls are implemented efficiently and effectively.

In assessing operational risk, the bank applies a range of methods developed in recent years. This includes self-assessment by the management of each business unit, focusing on the possible frequency of events and their potential financial impact in order to identify and estimate each unit's key risks. All Landsbanki's business units are to carry out regular self-assessment exercises. Tracking financial loss resulting from operational risk is a good basis for assessing and analysing this type of risk. Various risk indicators can be used in risk assessment to identify changed levels of operational risk.

Detailed rules and procedures specify how employees are to conduct their work within the bank. The bank's internal regulatory framework is continuously reviewed and procedures modified to reflect new emphases and procedural changes. The bank also offers its employees a wide range of training and education programmes to augment their expertise and abilities.

IT systems represent a considerable risk for financial undertakings. Continuous effort is directed at developing and improving Landsbanki's IT systems, their risks are evaluated regularly and risk mitigating measures implemented wherever possible. All major system components, such as central data storages, have back-ups that are synchronised and hosted in separate risk locations, in accordance with the bank's operational risk management policy.

Major emphasis is placed on the bank's security and access control systems, in addition to which front-line employees receive special training in responding to situations that may arise. Various external events, such as natural catastrophes, fire or terrorist attacks, can have a major impact on the bank's operations and performance.

The bank has business continuity plans in place designed to prevent disruption of banking activities and minimise financial losses arising from serious interruptions.

Like other financial institutions, Landsbanki is subject to a complex regulatory framework. Development is rapid in financial markets, with the result that legislation and regulations are reviewed regularly. Amendments to legislation can have a major impact on the bank's activities and operating environment. Impending changes to legislation and rules are followed closely, and an assessment made of the most suitable response in each case.

Compliance risk

Compliance risk can be defined as the risk of legal or regulatory sanctions, financial loss or damage to the bank's reputation as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice.

Landsbanki Group Compliance, appointed by the Board of Directors, is directly responsible for compliance in the parent bank, the branch network and representative offices. As the bank's subsidiaries and representation offices in Iceland and abroad are regarded as an integral part of Landsbanki, the compliance function in those units falls directly under the supervision of the Compliance Officer in Iceland who is also Group Compliance Officer. Each of Landsbanki's foreign subsidiaries, however, has a local Compliance Officer. Group Compliance in Iceland co-ordinates and supervises their work and reports to the Board of Directors. Group Compliance reports on the activities of subsidiaries' compliance officers to Landsbanki's senior management.

Legal and compliance risk is a subcategory of operational risk, emphasising issues such as market abuse, fraud, internal misconduct, anti-money laundering, codes of ethics, conflicts of interest and best practice.

Group Compliance ensures that the bank's rules on securities trading, insider trading, client classification and conflicts of interest are followed, and that Group operations comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and other relevant legislation and regulations.

Landsbanki's compliance function has a mandate to work on a pro-active basis to identify, document and assess the compliance risks associated with the bank's business activities, including the development of new products and business practices, proposed establishment of new types of business or customer relationships, or material changes in the nature of such relationships.

The compliance function has a monitoring plan to manage compliance risk. The plan addresses any shortfalls (policy, procedures, implementation or execution) detected in existing management of compliance risks, and includes additional policies or procedures which can be adopted to deal with new compliance risks identified through the annual compliance risk assessment.

The compliance function compiles and regularly updates policies, rules and procedures. Process mapping, part of the compliance function, is a graphic description of procedures followed in the bank's headquarters and subsidiaries intended to ensure that working procedures always comply with current rules and regulations. Possible conflicts of interest in bank operations are taken into consideration and investor protection is always the overriding priority.

The largest challenge faced by the compliance function during 2007 was the implementation of MiFID. MiFID is a European Directive which came into force on 1 November 2007, changing in a number of significant ways how securities are traded throughout Europe. The Directive gives more protection to retail clients and demands that the bank have more information on and classify its customers to ensure that the services offered to them are appropriate. MiFID implementation was an extensive project that involved every compliance and legal professional within the group for many months in the lead up to 1 November 2007.

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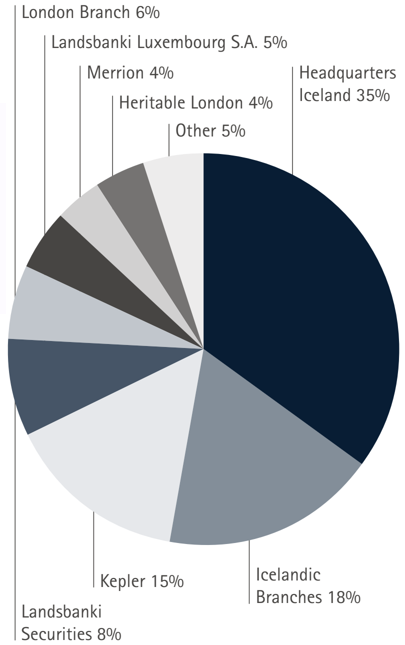
Human Resources

At Landsbanki, every employee is a valuable resource. Accordingly, the bank aims for the highest standard in personnel. In order to attract, support and retain the best professionals in each field, the bank is committed to ensuring high job satisfaction, an excellent working environment and effective staff development. A central facet of this policy is to provide an enjoyable and interesting workplace where facilities, equipment and overall work surroundings are second to none. Landsbanki also aims to align employee interests with those of the bank through competitive salaries and performance-linked remuneration.

Full-time Equivalent Positions by Location



The bank's team is growing

Landsbanki has been growing steadily in the last few years and is now operating in 16 countries, with 55% of the workforce located in Iceland, 22% in the UK and Ireland, 20% in Continental Europe and 1% in the US, Canada and Asia. The growth has been highest in the corporate and investment banking and securities trading divisions, which also means additional demands for centralised support. The number of employees at Landsbanki's headquarters supporting these functions has therefore also increased dramatically. Recruitment efforts in 2007 focused on supporting the business growth resulting from group-wide integration and co-ordination of services. The number of group employees rose to 2,771 at year-end, up 20% on the previous year, with 112 new employees in Iceland and 346 overseas.

Greater workforce diversity

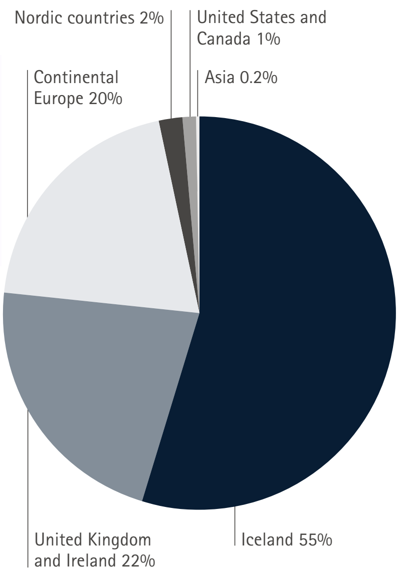
In parallel with Landsbanki's rapid expansion and growing overseas activities, its employee mix has changed substantially. This change has contributed appreciably to the diversity of the group's workforce in terms of education, expertise and experience, enabling the bank to draw on an expanding range of backgrounds and expertise, both in day-to-day operations and in high-level strategic planning.

A focused HR policy

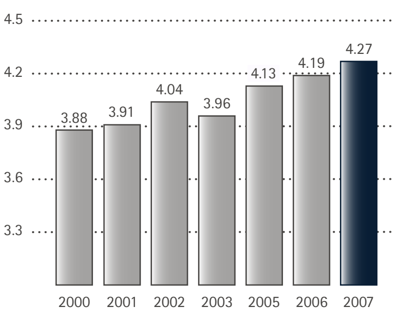
Landsbanki's human resources policy continues to play a key role in maintaining the bank's leading position in the domestic market and underpinning its further development. The motivation and ambition of Landsbanki's employees have been central factors in the bank's success in recent years.

Landsbanki pursues a policy of employee non-discrimination and makes all decisions concerning staff members purely on the basis of merit, whether this concerns career development, assignments, training or remuneration.

Full-time Equivalent Positions by Country



Increasingly Positive Response to Core Questions



Career development and training

Landsbanki places a high priority on professional development and wants all its employees to be pro-active and willing to learn and develop their careers. They are provided with training opportunities through a range of programmes designed to suit their very varied objectives and needs. The courses offered cover a wide spectrum of subjects, such as sales and client relations, technologies and systems training, as well as extensive group programmes and detailed tailor-made courses for individuals and groups of experts.

Performance-related rewards and remuneration policy

To attract, motivate and retain the talent it needs, Landsbanki offers competitive opportunities for rewards. The key objectives of the bank's remuneration policy are to ensure that employee interests coincide with those of the bank and to maintain a balance between the performance of the business and individual employee rewards.

Executive remuneration is closely linked to shareholder return so as to maintain a business ethos that creates sustainable value for all shareholders. Landsbanki's remuneration policy is thus designed to foster an entrepreneurial, results-driven culture and support the bank's integrated business strategy.

Focus on employee health issues

The bank is concerned with the health of its staff, and has for many years refunded costs associated with attending health clubs and fitness centres. In addition, the bank has made an effort to supply employees with fresh fruits free of charge. In 2007, Landsbanki held a special health campaign within the bank in Iceland. The campaign offered participants a basic health assessment and short courses in health issues. Over 1,000 employees had their health assessed, with follow-up checks scheduled for 2008, and over 500 employees attended lectures. The bank considers this effort an important aspect of its overall service to employees.

The average age of employees is relatively low, with a high proportion of staff in their child-rearing years. Landsbanki has a very employee-friendly parental policy and makes every effort to meet the needs of staff with young children, for example through tele-working arrangements. In Iceland, Landsbanki encourages men to use their three-month legal rights to a paternity leave. Furthermore, in order to support and balance family life, the bank makes additional payments to parents taking parental leave, by topping up their state parental benefits so employees earn their full salary while on leave.

Measuring success – Landsbanki scores high in employee surveys

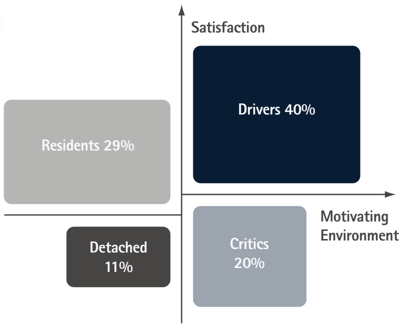
Landsbanki has participated in employee surveys since 2000, all of them conducted by Capacent Gallup. These surveys have shown high and growing employee satisfaction among the bank's employees. The bank's scores are considerably higher than both the Icelandic general average and the average of the financial and insurance sector. For the last several years, these surveys have been conducted for all employees in Iceland, Landsbanki Luxembourg and the London Branch. The participation rate has been over 90% and the goal is to conduct the survey throughout Landsbanki Group in the coming years.

The survey consists of about 80 statements, most of which are ranked on a five point Likert scale with responses ranging from "strongly agree" to "strongly disagree". The questions address elements like job satisfaction, the working environment, tools and equipment, management, job development, training and education. Of the 80 questions, 13 are core questions, developed through extensive research by Gallup US. These core questions have been found to predict customer satisfaction, productivity, profits and employee turnover.

When Landsbanki's results in the core questions are compared to Capacent's Gallup database in Iceland it places the bank in the top 5% in the country. The database mean is 3.94 and Landsbanki's score is 4.27 out of a possible 5.0. If the results are compared with those of other European companies, Landsbanki also makes a strong showing. In the category of "employee-commitment", the score is among the top 5% in Europe.

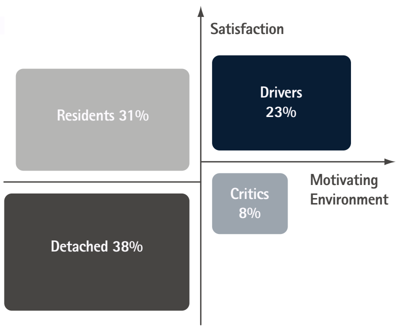
Another interesting comparison is Capacent's Gallup TRI*M methodology for employee commitment. The TRI*M includes both a TRI*M index on a scale from 0-100 and a TRI*M typology of employee situation where employees are classified in four groups (Detached, Residents, Critics and Drivers) and measured by satisfaction and motivating environment. Landsbanki's mean of 85 puts the bank in the top 5% worldwide for the TRI*M index. The typology of employee situation for Landsbanki is positive compared to both European results and European financial companies. The results show that the most motivated group of employees, Drivers, is fairly large in Landsbanki and the most dissatisfied and frustrated group, Detached, is fairly small.

Landsbanki 2007



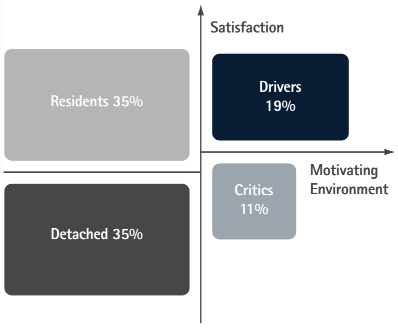
Source: Capacent Workplace Audit for Landsbanki

Europe – Financial Companies' Benchmark



Source: Capacent Workplace Audit for Landsbanki

Europe – Benchmark



Source: Capacent Workplace Audit for Landsbanki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2007 Financial Results

Landsbanki's after-tax profit in 2007 amounted to ISK 39.9 billion, which is practically unchanged from the previous year. Pre-tax profit was ISK 45.6 billion, increasing slightly from ISK 44.7 billion in 2006. After-tax return on equity (ROE) was 27.1% as compared with a ROE of 36.3% for 2006.

Landsbanki acquired the securities house Bridgewell Group plc in Q3 2007 and merged it with the bank's subsidiary Teather & Greenwood Ltd. to form Landsbanki Securities UK. Bridgewell's operations are included in Landsbanki's consolidated accounts from the middle of Q3 2007.

The ISK exchange rate affects figures in both the balance sheet and the income statement. Foreign-denominated assets and liabilities are recognised at the closing exchange rate at year-end 2007, whereas amounts in the income statement are recognised at the average exchange rate for the year.

Income statement

Net operating income in 2007 amounted to ISK 110.0 billion compared to ISK 89.4 billion the previous year. This is a YoY increase of 23%.

Net interest income rose by ISK 12.6 billion, amounting to ISK 54.1 billion, compared to ISK 41.5 billion in 2006. Increased interest income reflects the 41% growth of the Bank´s loan portfolio. Net interest spread as a ratio of average capital position decreased to 2.1% compared to 2.3% for 2006.

Fees and commissions increase by 39%

Landsbanki's fees and commissions amounted to ISK 39.4 billion compared to ISK 28.4 billion in 2006, an increase of 39%. Fees and commissions from operations outside of Iceland amounted to ISK 25.3 billion in 2007 or 64% of the total, compared with ISK 17.0 billion or 60% of the total in 2006. The increase in fees and commissions can be attributed primarily to the growth in group capital market transactions (Investment Banking). In addition, corporate banking and asset management income increased while fees and commissions from commercial banking remained unchanged. **The bank's trading and investment income** totalled ISK 16.6 billion in 2007, compared with ISK 19.6 billion in 2006. **Net operating income originating outside of Iceland** amounted to ISK 50.6 billion in 2007, as compared with ISK 46.6 billion the previous year and comprised 46% of total group income.

The group's **operating expenses** in 2007 totalled ISK 57.5 billion, making its cost-income ratio for the period 52.3%. At year-end 2007, Landsbanki had 2,640 full-time equivalent positions as compared with 2,117 in the beginning of the year.

Impairment on loans amounted to ISK 7.0 billion, as compared to ISK 6.1 billion in 2006. Impairment as a ratio of loans and receivables at year-end 2007 was 0.32% on an annualised basis.

ISK Exchange Rate

	Average 2006	Average 2007	%
EUR/ISK	87.57	87.64	0.1%
GBP/ISK	128.39	127.77	-0.5%
TWI*	121.00	118.21	-2.3%

	31 Dec 2006	31 Dec 2007	%
EUR/ISK	93.72	91.65	-2.2%
GBP/ISK	139.08	124.64	-10.4%
TWI*	127.90	120.85	-5.5%

*TWI = Trade-weighted index

CORE EARNINGS

Core pre-tax ROE of 24%

Landsbanki's core earnings before tax amounted to ISK 34.7 billion in 2007, compared to ISK 28.8 billion in 2006. ROE on core earnings for the year was 24%. In calculating the bank's core earnings, trading gains on equities of all types, as well as trading gains on bonds and FX, are deducted and net interest income is increased accordingly to reflect the group's cost of funding bond and equity positions. Nonetheless, maintaining a certain level of equity and bond exposures remains part of the bank's strategy and active risk management.

Calculations of the bank's core earnings do not take into consideration the negative impact of the group's positive indexation balance. Index-linked assets exceeded its index-linked liabilities by ISK 135 billion on average during 2007. The bank funds the difference at non-indexed interest rates. As a result of 2007 interest and inflation levels, Landsbanki's losses on its indexation balance amount to an estimated ISK 2.2 billion. The interest rate disadvantage resulting from the bank's positive foreign currency position (assets in excess of liabilities) is not taken into consideration. Landsbanki's foreign-currency denominated assets exceeded its foreign-currency denominated liabilities by around ISK 42 billion on average in 2007. The excess assets are funded in ISK and the resulting disadvantage in interest rates is around ISK 3.5 billion.

Performance by business segment

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

- Retail Banking
- Corporate Banking
- Investment Banking
- Asset Management and Private Banking

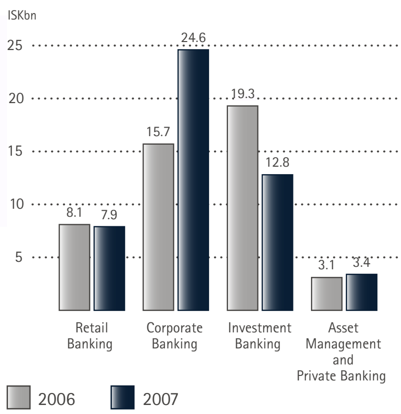
Retail Banking includes the parent company's branch network, Heritable Bank's commercial banking operations, SP Fjármögnun and Landsbanki Guernsey Ltd. The business segment's pre-tax profit amounted to ISK 7.9 billion in 2007, as compared to a profit of ISK 8.1 billion the previous year. The segment's total assets amounted to ISK 523 billion at year-end 2007.

Corporate Banking includes the parent company's Corporate Banking division, including its lending operations in London, Amsterdam, Canada and Norway, Heritable Bank's corporate business and the corporate banking activities of Landsbanki Luxembourg SA. Pre-tax profit for Corporate Banking in 2007 amounted to ISK 24.6 billion, as compared to ISK 15.7 billion in 2006. Total assets of the Corporate Banking division amounted to ISK 1,334 billion at year-end 2007.

Investment Banking is comprised of the parent company's Securities and Treasury division, both in Iceland and Continental Europe, plus the subsidiaries Landsbanki Securities UK, Landsbanki Kepler SA and Merrion Landsbanki. This segment includes securities brokerage, corporate advisory, FX and derivative trading, the bank's treasury and debt management and proprietary bond and equity trading. Pre-tax profit for Investment Banking in 2007 amounted to ISK 12.8 billion, as compared to ISK 19.3 billion in 2006. The business segment's total assets amounted to ISK 742 billion at year-end 2007.

Asset Management and Private Banking includes the parent company's Asset Management division, Landsvaki hf. and the asset management and private banking operations of Landsbanki Luxembourg SA. The pre-tax profit of Asset Management and Private Banking in 2007 amounted to ISK 3.4 billion, as compared to ISK 3.1 billion in 2006. The business segment's total assets amounted to ISK 429 billion at year-end 2007.

Pre-tax Profit by Business Segment



Balance sheet as of 31 December 2007

Total assets of the group amounted to ISK 3,058 billion at year-end 2007, rising from ISK 2,173 billion at the beginning of the year, an increase of ISK 885 billion or 41% during the year.

Amounts due from financial institutions amounted to ISK 163 billion, as compared to ISK 216 billion at the beginning of the year.

Loans to customers totalled ISK 2,023 billion at year-end 2007, up 41% from ISK 1,438 billion at the beginning of the year.

Total provisions to the **credit loss allowance account** amounted to ISK 22.0 billion or 1.02% of total loans and guarantees at year-end 2007. Provisions for credit losses do not reflect actual write-offs, but amounts set aside to cover estimated future credit losses. When and if loans are not recovered, the provisions for credit losses are reduced by the unrecoverable amount.

The group's **trading assets** were ISK 582 billion at year-end compared to ISK 344 billion at the beginning of the year. This includes trading bonds and trading equities, as well as derivatives that are in the money. Trading bonds held by the bank totalled ISK 361 billion as compared with ISK 170 billion at the beginning of 2007. The increase reflects Landsbanki's strong liquidity position. Trading equities totalled ISK 31.1 billion at year-end 2007, of which ISK 24.4 billion were listed equities and ISK 6.7 billion unlisted equities. At year-end 2007 domestic trading equities amounted to ISK 10.0 billion and foreign trading equities ISK 21.1 billion.

Other financial assets designated at fair value through profit and loss amounted to ISK 71.1 billion at year-end 2007. Equities totalled ISK 67.1 billion, of which ISK 33.8 billion were held against forward contracts.

Non-current assets and disposal groups classified as held for sale amounted to ISK 3.6 billion at year-end 2007, compared to 21.3 billion at the beginning of the year. The decrease is primarily explained by the bank's sale of the real estate company Landsafl.

Total assets under management amounted to ISK 513 billion at year-end 2007, rising from ISK 377 billion at the beginning of the year, an increase of 36% during the year. Total assets in group custody were ISK 2,109 billion, compared to ISK 1,751 billion at the beginning of 2007.

LIABILITIES AND EQUITY

Deposits from customers increase by 108%

The group's **total deposits** amounted to ISK 1,759 billion at year-end 2007. Of this amount, ISK 1,421 billion were customers' deposits, as compared to ISK 683 billion at the beginning of the year, an increase of 108% during 2007. Deposits from customers in the bank's markets abroad amounted to ISK 1,054 billion at year-end 2007, compared to ISK 417 billion at the beginning of the year, an increase of 152% during the year.

The ratio of customer deposits to customer lending at year-end was around ¾ compared to close to ½ at the beginning of the year. The ratio of customer deposits to total assets was approximately ½ at the end of 2007.

Borrowing at year-end 2007 totalled ISK 775 billion, compared with ISK 1,015 billion at the beginning of the year. The decrease is the result of paybacks of loans during 2007 plus currency impact; Landsbanki's growth in 2007 has been funded by deposits.

The group's **subordinated debt** was ISK 111.9 billion at year-end 2007 as compared to ISK 90 billion at the beginning of the year. Early in Q4 2007, the bank concluded a subordinated loan of USD 400m, or the equivalent of ISK 24 billion.

Capital ratio (CAD) 11.7%

Group **shareholder equity** was ISK 180 billion at year-end 2007, compared to ISK 144 billion at the beginning of the the year. In connection with its takeover of Bridgewell Group plc Landsbanki issued new share capital of ISK 172 million nominal value at a share price of 39.4. Apart from that, the change in equity is the result of profit during the period, transactions in own shares and dividends.

The group's **capital ratio**, in accordance with CAD rules, was 11.7% at the end of 2007, of which 10.1% was Tier 1 capital.

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Corporate Banking

In 2007 Landsbanki maintained its position as the leading provider of credit to business and industry in Iceland with a domestic market share in corporate banking of around 40%. At the same time expansion into international corporate banking markets has been vigorous, and focused on providing comprehensive services to small- and mid-cap corporates. New branches were scaled up from previous offices in Oslo, Norway, and Halifax, Canada, and new operations established in Helsinki and Hong Kong which will partly focus on corporate banking

Emphasis on both asset-based lending and trade finance grew in 2007. Trade finance will be a key business line of new branches in Canada and Norway. The Hong Kong office will also emphasise this activity. Landsbanki has been an active participant in corporate and cash flow lending through its teams in London and Amsterdam and has increasingly acted as an originator in its international activities.

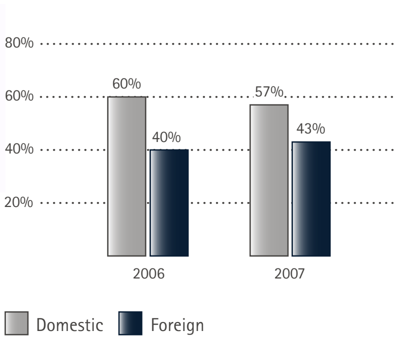
Strong and diversified loan portfolio

A high quality loan portfolio is a prerequisite for Landsbanki's growth and solid position as an international corporate bank. Risk diversification has been an important factor in the bank's growing activities abroad in recent years. Corporate lending totalled ISK 1,665 billion (EUR 18.2 million) at year-end 2007, or 82% of the bank's total loan portfolio, up from 79% in 2006. YoY growth for the group was 44%. Specific risk aspects of Landsbanki's corporate portfolio are covered thoroughly in the Risk Management section.

The bank's corporate lending portfolio includes loans to domestic businesses with operations in Iceland and abroad as well as participation by foreign branches in financing international companies. In addition, Landsbanki Heritable Bank provides multiform finance for small and medium-sized enterprises (SMEs). Corporate lending is thus spread across most business sectors and many countries.

Following up on its successful establishment of branches in the UK and in Continental Europe, and new activities in Nordic countries, Canada and Hong Kong, Landsbanki's strategy is to further diversify its loan portfolio across countries and sectors. Entering the US and the Asian-Pacific region is a logical next step in the bank's expansion. The new offices will focus on trade finance as their core activity.

Group Corporate Lending to Domestic and Foreign Clients



In tandem with the overseas expansion of Landsbanki and other Icelandic businesses, lending to foreign corporates has accounted for an ever-larger share of the bank's operations. Building on substantial progress in this direction in recent years, the bank continued to step up its overseas corporate lending in 2007. As a result foreign clients accounted for 43% of corporate loans at the end of the year, up from 40% in 2006. As part of the credit granted to Icelandic companies is used for activities outside of Iceland, much less than the remaining 57% of the loan portfolio is in fact related to the domestic market.

Services, construction and manufacturing account for the greatest share of Landsbanki's corporate lending, followed by retail trade and fisheries. Lending to the services sector grew the most in 2007, followed by lending to construction and manufacturing. These developments demonstrate how Landsbanki is expanding its corporate banking activities while at the same time diversifying risk over selected markets.

Currency hedging arrangements

The largest portion of Landsbanki's loans to Icelandic corporates is denominated in foreign currencies. The vast majority of these creditors are covered by natural or other hedges. A large share of the income of many of Iceland's largest companies is denominated in foreign currencies, and a very high proportion of Icelandic companies are engaged in foreign trade. These businesses are naturally hedged against fluctuations in the ISK, as their foreign currency funding is generally structured to match their cash flows in the respective currencies. For companies with substantial liabilities, but a relatively minor part of their income, denominated in foreign currencies, Landsbanki provides a comprehensive range of hedging techniques against fluctuations, tailored to each client's specific needs. Domestic corporate clients are, as a result, generally well protected against currency risk.

Variable interest rates

The credit and interest terms offered by the bank are flexible and adapted to client circumstances. Foreign currency loans are generally granted at variable interest rates. ISK loans generally have variable, non-indexed rates or variable CPI-indexed rates. At year-end, foreign-denominated loans comprised 80% of Landsbanki's corporate loans. While this includes loans granted abroad, Icelandic demand for foreign-currency borrowing has also been high in recent years due to favourable exchange rates and the high domestic-foreign interest rate differential.

Comprehensive corporate banking services

For more than 120 years, Landsbanki has been the main provider of credit to business and industry in Iceland. Landsbanki strives to lead the way in offering comprehensive services to Icelandic enterprises. In the domestic market, Corporate Banking activities and branch lending have laid the foundation for the bank's strength by building a solid and well secured asset portfolio. The Corporate Lending business segment generated a pre-tax profit of ISK 24.6 billion in 2007, compared to ISK 16.6 billion the previous year.

Landsbanki has a long tradition of serving all sectors of the domestic economy. Corporate Banking in Iceland combines a thorough knowledge of corporate credit needs with expertise in individual industrial sectors. The number of SME lending advisors in the bank's domestic branches has increased greatly over the past few years. The division's financing activities in Iceland are arranged into a number of specialised units. All corporate clients have personal customer relations managers, who can choose from a full slate of services to provide corporate clients with customised, one-stop solutions based on expert advice.

Prudent lending practices

All major corporate lending decisions at Landsbanki, both in Iceland and abroad, are co-ordinated on a group basis through a centralised Credit Committee in Rekjavik, ensuring consistency and a good overview of lending activities. Increased foreign lending activities have also boosted demand for service and assistance from the Corporate Banking division in Iceland, resulting in additional recruitment of specialists to support foreign lending operations.

Landsbanki carefully monitors both the current situation and operating outlook of individual business sectors, as part of the bank's policy of encouraging prudent financial attitudes and practices. By following developments in specific sectors, the bank can detect possible risks and proceed more cautiously in extending credit. To optimise such monitoring, analytical work has been increased, as has regular reporting on the development of risk and quality of loan portfolio to the Credit Committee. Furthermore, various lending and monitoring systems for corporate loans have been revamped considerably to reinforce risk assessment and obtain a more in-depth perspective. Extensive efforts have also gone into developing and reinforcing systems for implementation of Basel II requirements. The individual products offered have been reviewed to ensure each has a solid operational foundation that will further support the bank's organic growth and operations in new locations.

Solid domestic market share

The traditional leader in the Icelandic corporate lending market, Landsbanki's market share was over 40% at the end of 2007. Of individual business sectors, the bank's market share of lending is highest in retail and it also has a very strong showing in the fishing industry and fish processing.

Around 70% of the non-financials listed on the OMX Nordic Exchange in Iceland at year-end had Landsbanki as either their principal bank of business or as one of two. A similar story could be said of Iceland's 50 largest companies, ranked in terms of turnover by the business magazine Frjáls verslun. For 76% of them, Landsbanki was the principal bank of business or one of their two business banks. Of the country's 100 largest companies in this same ranking, 74% do business with Landsbanki.

As a result of its large corporate clientele, Landsbanki's corporate banking income is not only based on lending but also on fee-generating activities such as foreign exchange trading and cash management.

Customer satisfaction

Landsbanki received recognition of various types for its Corporate Banking services in 2007. According to the results of the 2007 European Performance Satisfaction Index (EPSI), conducted for the first time for corporate banking, Landsbanki ranked highest of the Icelandic banks included in the survey. Corporate operations of Landsbanki London Branch were honoured by Islamic Finance News for the "Best Qatar Deal". London Branch's Commercial Finance team was awarded "Best Deal Under £20m" by Entheweb.co.uk, as well as "Best Alternative Debt Provider of the Year" by ACQ Finance Magazine.

International lending activity

In 2007 Landsbanki opened new foreign branches with corporate lending functions and further expansion is on the agenda. The Oslo Branch will provide a full suite of services, with the initial focus on corporate advisory, asset-based lending and trade finance. It will continue to provide fisheries-related clients with credit and additional financial services, such as factoring and inventory financing. In 2007 Landsbanki obtained a license to open a branch in Halifax, Canada, the first Icelandic bank to establish operations in Canada. The focus in Halifax will be on corporate lending, with Landsbanki's expertise in the seafood and fisheries industry giving it a competitive advantage in the Canadian market. The decision to locate Landsbanki's first Asian office in Hong Kong was prompted by the bank's existing business connections with local seafood companies.

Landsbanki will continue to diversify its loan portfolio and operations over additional geographical regions and sectors. Besides opening up additional possibilities for income generation, this reinforces the bank's risk diversification. The Hong Kong office will serve as the bank's hub in the Asian-Pacific region. It will promote Landsbanki's services, with the initial focus on trade and commodity finance, and corporate advisory.

Commercial Banking services to international corporate clients

To take full advantage of its specialised corporate expertise in providing full banking services in Iceland, Landsbanki focuses on small- and mid-cap international companies. The Bank believes that the key to success is flexibility, responsiveness and the capability to deliver complete solutions.

Landsbanki's international branches emphasise four main business lines: Asset Based Lending, Cash-flow Finance, Trade Finance and Capital Markets (more information on Capital Markets is provided in the Investment Banking section). The Bank is concentrating on this business model in international lending. All four segments are augmented by corporate advisory and M&A services, a capital markets section, and other commercial banking products to provide a financial "toolkit" for engineering elegant and customised solutions, all delivered under one roof.

Asset Based Lending

The growth of the Bank's two-year-old, international asset-based lending (ABL) product (providing finance against a company's receivables, inventory, plant and commercial property) in all areas of Landsbanki's operations has been outstanding, with year-on-year asset growth exceeding 150%, in 2007. The product is becoming an important element in debt structures across the investment banking world, with the total US ABL market over USD 500 billion (Commercial Finance Association and Asset Based Finance Association respectively.) and the UK market over USD 30 billion. Landsbanki's asset based lending division is a recognised leading player in the UK and Germany, and well positioned to take advantage of the continued growth in asset based lending both in the UK and Europe. The division has teams located in major financial centres in the UK (London, Birmingham and Manchester) and Germany (Frankfurt), with the next steps being to enter the US and Spanish markets by establishing offices on the ground.

Landsbanki completed asset based lending transactions with over 20 different private equity groups, showing the growing acceptance of this financial product, but more importantly confirming Landsbanki's dominant position in this competitive arena. In 2007 the bank was selected Alternative Debt Provider of the Year by readers of ACQ magazine in the UK and Asset Based Lender of the Year, by North

West Insider. One of the transactions completed by Landsbanki won Entrepreneur magazine's Medium-sized Deal of the Year. The recognition attests to both the bank's ability to structure debt that is well adapted to clients' needs and the importance of this product in investment banking transactions. Landsbanki strongly outperformed the market, with growth of 20% more than total market growth (as measured by Asset Based Finance Association figures to December 2007) in its chosen sector of operation in 2007.

Another major accomplishment in 2007 was the strategic partnership established between Landsbanki and Wachovia Capital in the US, whereby deals are cross-referred between the two organisations. This relationship opens up new markets for the bank's clients, based on their existing banking relationships and business introducers; both banks have benefited greatly from this relationship.

Cash Flow Finance

The teams in London and Amsterdam have been active players in the European structured loan market and have forged strong relationships with private equity groups and major arranging banks. As a result, they are regularly involved and invited to take part in deals throughout the market.

As these finance products are mainly used in acquisitions or takeovers, they play a central role in building Landsbanki's strength as a leading financier in the small- to mid-market arena. The cash flow finance teams have a strong track record of arranging deals, often in co-operation with Corporate Finance and Asset Based Lending. Cross-selling of lending products between the bank's Corporate Banking, Corporate Finance and Capital Market groups has produced many successful examples of comprehensive services delivered to the mid-market.

The origination teams, located in the London and Amsterdam branches, have demonstrated that they can deliver extremely competitive and advantageous lending structures for the small- to mid-market segment in the UK and Europe.

By participating in large syndications, Landsbanki has built a substantial portfolio and established solid contacts with syndication desks at all major investment banks in this field. Participation in all major lending sub-sectors places the Bank in a position to take advantage of the best opportunities at any given time. The cash flow finance loan portfolio is diversified across a number of countries/sectors and reflects the general supply of syndicated loans in Europe. By building on and enhancing its structuring experience and knowledge, Landsbanki opens up channels to syndicate its own arranged loans and to generate a strong fee income stream while diversifying the loan portfolio.

Trade Finance

Landsbanki has always endeavoured to provide a full range of financial services to the fisheries and seafood industry, both in Iceland and internationally. Delivering industry-specific services has won Landsbanki high acclaim in the international seafood sector and further strengthened its position as a leading seafood bank.

One of the main products offered to the international seafood companies is "Trade Finance", which covers the entire value chain, from production to final delivery. Here Landsbanki has created a unique product, enabling companies to build up their business faster and more efficiently. The bank's business in seafood trade finance has been very successful, with teams located in Reykjavik, London, Amsterdam, Oslo, Halifax and Hong Kong. Clients include many major fisheries companies in most seafood centres around the world and continued growth is expected in this exciting industry. Building on expertise gained through providing trade finance for seafoods, Landsbanki has adapted this product to other commodity industries worldwide, including agricultural products such as sugar, coffee, corn and soybeans and, increasingly, metals such as aluminium and steel. Although the prime focus will continue to be on seafood, other commodities are likely to be included in the near future.

In 2007 Landsbanki expanded its trade finance capabilities by recruiting a team of experienced individuals in London. The London team is responsible for trade and commodity financing in Europe, South Africa and the CEE countries. Its full range of trade finance services includes structured trade finance and documentary credits. Although it only began work in late 2007, the team has already forged relationships with major trade corporations and banks, establishing Landsbanki's name in this market. Further expansion of the team is scheduled for Hong Kong in early 2008.

Landsbanki's Market Share in Domestic Corporate Lending, Leading Sectors

	2007	2006
Corporate	**43%**	**40%**
Retail trade	60%	54%
Fishing industry	50%	47%
Construction	45%	39%
Services	42%	40%
Fish processing	33%	40%

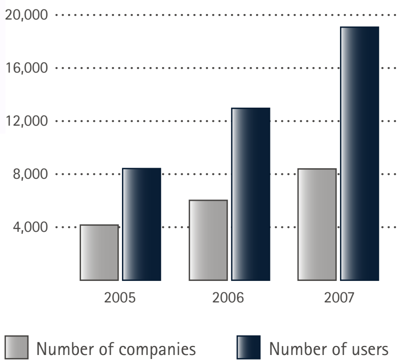
Landsbanki Heritable Bank

Founded in 1877, Landsbanki Heritable Bank operates as a specialist lender in the retail and corporate banking markets from its London head office. Acquired by Landsbanki in 2000, it is separately regulated by the Financial Services Authority (FSA) in the UK and maintains its own regulatory capital. Landsbanki Heritable is fully funded through a combination of retail and wholesale deposits which have grown steadily in line with its expanding balance sheet. The bank is also responsible for Landsbanki Group's wholesale and retail deposit taking in the UK and offshore markets. Landsbanki Heritable Bank's five-year compound annual growth in assets was 60% and in pre-tax operating profit was 47%.

Landsbanki Heritable's corporate lending is focused on structured property finance for small- and medium-sized property developers, mainly in UK residential and commercial markets, and includes senior debt, mezzanine and principal finance structures (through its subsidiary, Heritable Capital Partners). This business has achieved particularly strong growth and profitability due to links with some larger transactions in 2007, the success of some principal transactions and the expansion of the front office team. Its specialist residential mortgage arm also lends on a prime only basis to professional property investors and others from the UK and elsewhere, secured on UK residential properties. Supported by an expanded management team, the business has grown steadily during 2007 in a highly competitive market. Margins strengthened towards the end of 2007 and are expected to be sustained in 2008. Heritable Asset Finance, established in 2005, undertakes leasing and hire purchase transactions for SMEs in the UK, secured on vehicles and other business assets. Another subsidiary, Key Business Finance, acquired in 2005, provides short-term working capital financing for the legal profession.

In 2007 Landsbanki Heritable's pre-tax operating profits rose by 54%, with assets increasing by 43% to GBP 1.25 billion and deposits increasing 26% to GBP 897 million.

Number of Users of Landsbanki's Corporate Internet Banking in Iceland



Corporate internet banking

In 2007 Landsbanki's Corporate Internet Bank continued its strategic initiatives to strengthen Corporate Banking activities and branch lending by supporting them with various Internet banking services facilitating their businesses. Launch of the new platform boosted both take-up and usage of the Corporate Internet Bank. The result was a 39% increase in corporate customers and a 49% increase in corporate usage, continuing a strong growth trend from the previous year. The number of Corporate Internet Banking clients abroad has also been growing in recent years.

Corporate Internet Banking strives to meet a growing demand for real-time information and web-based business solutions. Landsbanki joined forces with a company specialising in electronic bill presenting and handling, introduced automated factoring solutions, improved overview and information strategy and opened a new help desk for Corporate Internet Banking customers. The bank became the first provider of electronic gift cards to the Icelandic market, which has welcomed the new solutions; sales exceeded expectations substantially. After only a year of operation, every major mall and shopping street in Iceland has an electronic gift card agreement with Landsbanki.

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Investment Banking

Landsbanki's investment banking business is comprised of the securities business line of the parent company, the three subsidiaries acquired in 2005: Landsbanki Teather & Greenwood, Landsbanki Kepler and Merrion Landsbanki, plus Bridgewell Group plc, acquired in 2007. Landsbanki Teather & Greenwood and Bridgewell Group plc were merged to form Landsbanki Securities UK.

Investment Banking provides large corporations, local government and institutional investors with a broad range of financial services, including securities brokerage, corporate finance, foreign exchange and derivatives trading. Investment Banking also handles the bank's treasury and debt management and proprietary trading. Business expanded at a brisk pace for the group during the year. Net commissions earned by Landsbanki's investment banking arm amounted to ISK 31.4 billion in 2007, increasing 53% over the previous year.

Integration and expanding business lines

Investment banking within the Group flourished in 2007 despite the downturn in financial markets in the latter half of the year. Growth of investment banking was predominatly organic, as the previously aquired platforms of Landsbanki Kepler and Merrion Landsbanki, together with Landsbanki Securities UK in London expanded their services and developed new business lines. New products were also developed within Landsbanki's London branch.

The only aquisition of the Landsbanki Group in 2007 was Bridgewell plc, a London based securities house. Bridgewell was merged with Teather and Greenwood during the year to form the new Landsbanki Securities UK unit in London. In addition, a Capital Market unit and fixed income desk were set up in London, with the former focusing on services to clients and the latter on investment of the bank's growing portfolio of liquid assets. A new Landsbanki branch opened in Helsinki focusing on securities brokerage. Towards the end of the year, Landsbanki recruited a team of securities brokers and equity analysts in Oslo that will augment the business of the existing Landsbanki branch in Oslo.

Since its acquisition, Landsbanki Kepler has been transformed from a pure equity brokerage into an investment bank with five business lines: Equity Brokerage, Structured Products & Derivatives, Corporate Finance, Asset Management and Fixed Income. The last mentioned, most recent business line was augmented with the recruitment of a Eurobond team from Anthium Finance in Paris with an average of 15 years of experience. This marks the first step for Landsbanki Kepler's ten-year old brokerage business into fixed income. The unit has identified strong cross-selling opportunities between the French institutional client base of the new Eurobonds team and the clientele of the existing equity brokerage business. Additional synergies are anticipated between the new Eurobonds team and the existing Landsbanki Kepler convertible bonds section. The team's recruitment is an expansion of the fixed income business line founded in Geneva in June 2006, which now numbers 40 people. The team in Geneva is one of the leading inter-dealer brokers for Emerging Markets fixed income and currencies. It was recently complemented by the establishment of a structured products desk dealing in debt instruments.

Investment in Securities

The turbulence experienced in international markets in the latter half of 2007 had a significant impact on returns on Landsbanki's bond and equity portfolios, in particular in Q4. Investment income was flat in the 4th quarter compared to the ISK 16.5 billion return in the previous three quarters.

In the light of Q4 equity market developments, Landsbank's equity portfolio was both favourably placed and scaled. The total portfolio represented 2.1% of total assets at year-end, well within the 3% limit that the bank has set itself, and down from 2.6% at the beginning of the year.

Landsbanki's portfolio of listed Icelandic equities was reduced during the year. The only significant domestic stake in the portfolio was the bank's holding in Marel, a food machinery producer. Marel has been successfully expanding its international operation by organic growth and aquisitions, most recently completing the purchase of its Dutch competitor Stork Food Systems. Marel, like many manufacturing companies, has been relatively insulated from the turmoil in equity markets. Landsbanki's leading international listed holding is Intrum Justitia, the Swedish collection company. This, too, is a business that is relatively insensitive to the present turbulence in markets. Landsbanki's holding returned a yield of 26% for the year as whole, which is a satisfactory result compared to benchmarks.

Landsbanki's bond portfolio continued to expand during the year and totalled ISK 363 billion at year-end compared to ISK 169 billion at the begining of the year. Most of the increase was in international bonds, reflecting the bank's strategic build-up of liquidity. The international bond portfolio amounted to ISK 294 billion at year-end compared to ISK 133 billion at the beginning of the year and consists exclusively of government and financial institutions' bonds. The bank has no exposure to SIVs, ABSs, CDOs, monolines or US subprime debt.

Tighter monetary policy in Iceland, as well the sharp rise in lending rates to financial institutions resulted in a negative return of ISK 8.1 billion on the the bond portfolio in 2007.

Securities Brokerage

Landsbanki operates securities brokerage on a pan-european basis, serving as an intermediary for institutional investors dealing in equities and bonds and handling the issue and sale of corporate, municipal and national government bonds.

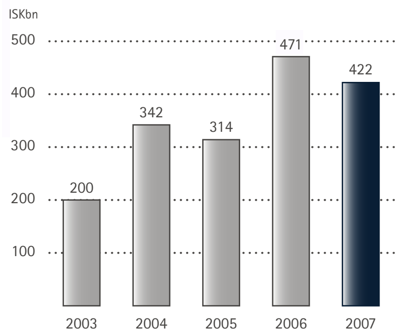
In Iceland, Landsbanki's equity and bond trading volume has increased steadily since 2004, with equity trading on the OMX Exchange in Iceland increasing from ISK 245 billion in 2004 to ISK 735 billion in 2007 and bond trading rising from ISK 342 billion to ISK 422 billion during the same period. International equity brokering has also grown rapidly in recent years, both in the form of direct Internet trading by clients and trading by the bank's securities brokers. During the latter part of 2005, Landsbanki became a member of the OMX exchanges in Stockholm, Copenhagen and Helsinki, enabling it to trade directly on these exchanges.

In 2007 Landsbanki opened a branch in Helsinki focusing on research-driven equity brokerage service to Finnish and international investors. Finnish investors will be offered access to European equity markets through the intermediation of Landsbanki's brokerage network and similarly the Landsbanki network will be enhanced by offering Finnish equities to European and North American clients.

Landsbanki Kepler increased its turnover on the six European exchanges where it trades by 26% in 2007. Total volume transacted amounted to EUR 143 billion and market share varied from 0.5–2.4%.

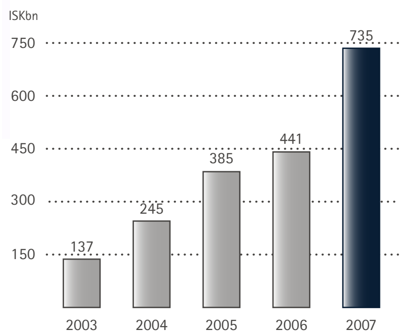
Total on-exchange transaction volume by Landsbanki Securities in London was GBP 10.1 billion in 2007, an increase of 96% over 2006. Market share in FTSE250 Mid Caps, i.e. medium-sized listed companies, in London was 3.2% and 2.8% in FTSE Small Caps.

Landsbanki's Bond Trading Volume on OMX Nordic Exchange in Iceland



Source: OMX Nordic Exchange in Iceland

Landsbanki's Equity Trading Volume on OMX Nordic Exchange in Iceland



Source: OMX Nordic Exchange in Iceland

Equity research

Analysing companies and markets is an important aspect of securities brokerage on behalf of clients.

Major advances were made in 2006 in co-ordinating the research work of Landsbanki and its subsidiaries, Landsbanki Kepler, Landsbanki Securities UK and Merrion Landsbanki. Most significant among them is a new joint database for equity research, providing harmonised data presentation and facilitating intermarket comparisons. It improves accessibility to group research by securities brokers and other Landsbanki experts. Both the content and format of publications was standardised. Departments have begun jointly producing individual sector reports extending over the bank's market regions, organising seminars and customer road shows. The high quality of Landsbanki's research has been confirmed by Bloomberg's ranking of Landsbanki Kepler as top broker in Europe for accuracy of recommendations relative to the number of stocks covered.

Landsbanki Group Equity Research by Market

	France	Germany	Iceland	Ireland	Italy	Netherlands	Spain	Switzerland	United Kingdom	Finland	Other Markets[1]	Group's Total
Number of companies covered	154	57	18	30	64	44	49	63	245	20	25	769
% of market cap covered	97%	65%	80.3%[2]	95%	74%	64%	95%	84%	25%	34%	–	25-97%
Median market cap (EURbn)	3.1	3.6	0.5	2.9	2.9	2.5	3.6	2.6	0.3	2.4	13.4	–
Number of research analysts	20	10	6	6	6	5	7	9	21	5	–	95

1) Includes markets such as Scandinavia and Eastern Europe.
2) As is only to be expected, Landsbanki Research does not evaluate Landsbanki Group which accounts for about 15% of the markets capitalisation of the OMX Nordic Exchange in Iceland.

Foreign exchange and derivatives brokerage

FX, Derivatives and Risk Consulting provides clients with currency overlay and derivatives. Landsbanki's long history as a major corporate financer, not least in fisheries and commerce, gives it a strong position in FX trading in Iceland. FX and derivative trading includes both spot and forward currency transactions. Debt management and currency overlay services provide companies, local governments and pension funds with comprehensive advice on managing currency and interest rate risk. Risk assessment is based on recognised methodology, followed up with advice on actions that can be taken to minimise both risk and financial expense. Volume in FX trading and derivatives brokerage by Landsbanki in Iceland rose by 16% in 2007 after a record growth of 141% increase in 2006.

Opportunities for synergies have been identified in capital markets products and derivatives. Landsbanki is intent on increasing revenues from capital market products/derivatives sales and trading across the Landsbanki Group by providing affiliates and clients with a full range of products and services, many of which they are currently not offered. To exploit this potential, the bank set up a Capital Markets unit in London in early 2007 providing an outstanding slate of capital markets products and services, including sales, trading and structuring capabilities. The CMPU unit offers equity derivatives, securities finance, structured products and corporate solutions on a broad range of underlying assets to existing and new clients.

Corporate Finance
Corporate Finance provides independent consulting services to companies and institutions on the acquisition, sale or merger of companies and operating units. It also advises on and co-ordinates public offers and listings.

Priority has been placed on boosting corporate finance services internationally, resulting in an increase in the number of employees working in Landsbanki Corporate Finance. All of Landsbanki's recently acquired international subsidiaries have increased their corporate finance activities in the last two years. The addition of a new team at Landsbanki Kepler's Paris office in 2006 was an important step to further this development. In 2006 and 2007 Corporate Finance teams were also reinforced in London, Dublin, Zurich, Amsterdam and Frankfurt.

Expansion of Landsbanki's Corporate Finance activities has resulted both in a greater number of transactions completed and higher transaction value. Total transaction value handled by the bank's Corporate Finance teams in 2007 exceeded EUR 14.8 billion and included 53 transactions. This compares to 71 transactions in 2006 with a total value of EUR 15.9 billion. In 2007 Landsbanki ranked 16th on Bloomberg M&A league tables on Nordic announced deals compared to its 41st place in 2006. Its market share rose from 0.5% in 2006 to 4% in 2007.

Corporate Finance Deals

	Landsbanki Group
Number of deals 2005	86
Transaction value 2005 (EURm)	6,181
Number of deals 2006	71
Transaction value 2006 (EURm)	15,860*
Number of deals 2007	53
Transaction value 2007 (EURm)	14,775

*Including the participation in placing the EUR 5.3 bn Natixis deal, Aer Lingus IPO and eircom delisting.

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Retail Banking

Building on a long tradition, Landsbanki continues to lead the domestic commercial banking market. The bank's emphasis on providing top quality service together with responsible financial advice has resulted in increasing customer satisfaction. Rapid and widespread changes in the financial environment have called for ongoing review of products and services to meet customer needs. A wide variety of branch services have been developed in response to these demands. The bank's Customer Service Centre has been expanded to serve the growing number of clients who conduct their banking services by telephone, while at the same time further development of Landsbanki's Personal Internet Banking and website have been prioritised to ensure simple and efficient Internet banking.

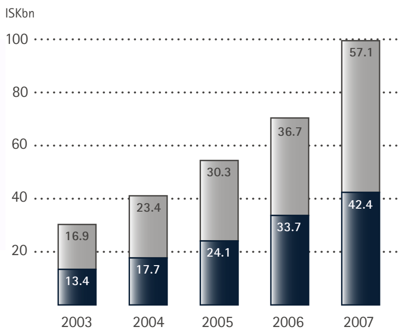
Retail banking operations have grown in tandem with the bank's own expansion abroad. Landsbanki's highly successful venture into the UK market has more than doubled the number of individuals and small enterprises doing business with the bank during the year. Furthermore, the bank's total deposits have grown by 108% YoY, with the lion's share of deposits by individuals. In 2007, for the first time in its history, Landsbanki had substantial retail banking activities outside of Iceland. Around 150,000 UK residents held Icesave online savings accounts with Landsbanki at year-end. Despite the fact that this is only a very limited aspect of its commercial banking activities, the bank has gained valuable experience from which it can benefit if increased emphasis is placed on retail operations outside of Iceland.

Market share and key indicators 2007

The outcome of market research carried out by Capacent Gallup reveals that Landsbanki held a 28% share of the domestic banking market at year-end 2007. A look at debit and credit card turnover reveals a similar picture: Landsbanki's market share of debit card turnover in 2007 was 28% and 27% of credit card turnover. The bank's objective is to maintain its leading market position in retail banking in Iceland, which it has held for decades.

Branch customer lending in 2007 totalled ISK 392bn, an increase of 33% during year. Of this, ISK 206bn was lending to households while ISK 186bn was credit extended

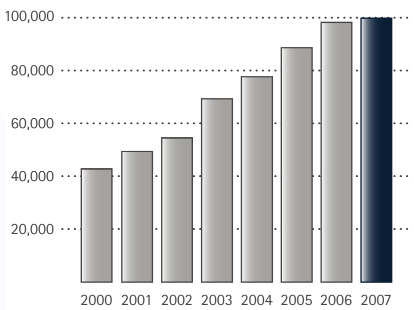
Assets of Individuals in Mutual Funds and Voluntary Pension Savings



Voluntary pension savings

Assets of individuals in mutual funds excl. Private Banking clients

Number of Individuals in Landsbanki's Loyalty Programmes



to SMEs and other legal entities, which increased 46% in 2007. The increase in housing mortgages slowed markedly in 2007, with total loans outstanding at year-end amounting to ISK 114bn as compared to ISK 99bn the previous year.

Deposits held by branches in Iceland increased by 39% during the year, amounting to ISK 367bn at year-end. Deposits held by Landsbanki Heritable Bank in the UK were equivalent to ISK 42bn, while Icesave deposits grew to the equivalent of ISK 610 billion at year-end 2007. Total deposits held by the Landsbanki Group were equivalent to ISK 1064 billion at year-end. In addition, Landsbanki also attracts wholesale deposits in the UK and Continental Europe, from various funds, local authorities and semi-public corporations. These were equivalent to ISK 358 billion at year-end.

Distribution channels

Landsbanki's distribution channels are continuously being developed to offer clients varied routes to conduct their banking transactions.

Here branches are in the forefront, providing contact between the bank and its customers and determining how they experience its services. Landsbanki has the most extensive customer service network in Iceland, comprised of 40 branches and outlets. Branch operations have been transformed in recent years. To meet clients' changing needs, efforts have been directed at transferring as many tasks as possible to centralised processing. Branch employees increasingly offer clients more complex financial services and advice. To achieve this, branch operations and premises, together with the bank's information systems, have been extensively modified.

An ever-growing proportion of Landsbanki's clients elect to conduct their general banking transactions via Personal Internet Banking, which has been refined and expanded recently. A number of innovations and additions were introduced this year, including the new option of directly linking customers' records to their income tax returns, which has proved extremely popular. Using such links, customers were able, for the first time, to send data on their financial situation electronically to the Director of Internal Revenue, saving time and effort in filing tax returns. The bank's clients have also availed themselves to an increasing extent of the option of opening savings accounts through Personal Internet Banking.

To meet the increasing usage of telephone banking services in recent years Landsbanki's Customer Service Centre was substantially expanded in 2007. The Centre, which is open longer than normal branch hours, has been successful in achieving its target response rate of 90%.

Products and loyalty programmes

Landsbanki offers customers several loyalty programmes aimed at meeting their varying banking needs at different stages in life. Two new programmes were added in 2007. **Varðan – as life begins** is a new service for young people concluding their studies and beginning their working careers. In addition to favourably priced banking services, these customers are offered various benefits to help them on their way. The response has been very good, boosting Landsbanki's market share of customers in this age group sizeably YoY.

Another new loyalty programme offered to Landsbanki's credit card holders is the rebate scheme **Aukakrónur**. While other bonus programmes reward credit card clients with Icelandair air miles or a MasterCard travel bonus cheque. **Aukakrónur** participants receive rebates on all card turnover with a large number of participating companies. This credit can be redeemed at any time through a variety of options, and no substantial sums need be accumulated.

For many years, Landsbanki has been a leading provider of casualty and personal insurance on favourable terms. In 2007, co-operation began with the insurance company Vörður, after Landsbanki acquired a qualifying holding in the company at year-end 2006. At the end of 2007, the Financial Supervisory Authority (FME) granted a license to new life insurance company Vörður Life Insurance, owned by Landsbanki and Vörður Insurance. The bank's holding in these companies strengthens its capacity to provide integrated banking and insurance services, thereby offering a full slate of financial advice to its clients.

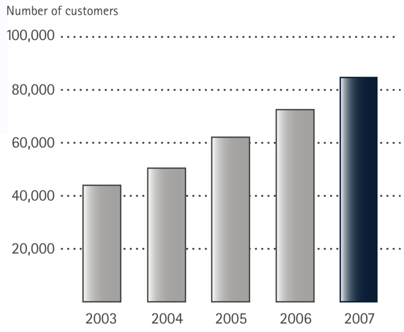
Increased emphasis on savings

In recent years Landsbanki has placed special emphasis on broadening the variety of savings options it offers. **Spend it on Savings** is an annual campaign to this effect, which proved especially successful in 2007. Pension savings growth has also been high in recent years and customer assets in personal pension savings and funds now exceed ISK 100bn.

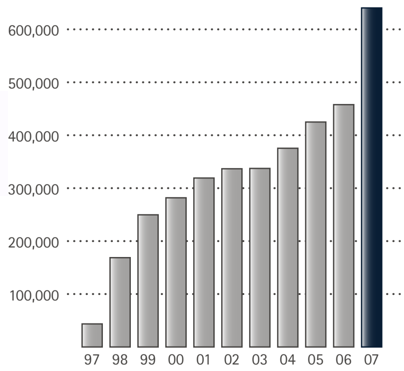
Marketing company of the year

In November, Landsbanki was voted Marketing Company of the Year by the Icelandic Marketing Association ÍMARK. This is somewhat of a milestone, since it is the first time a financial enterprise has been awarded this title. Five aspects are generally considered in making the award: marketing success, market share and its development over the past five years, customer satisfaction as compared to competitors, marketing campaigns and their success, and internal marketing efforts. Other factors, such as employee satisfaction and strategy formulation are also assessed.

Customers with Access to Internet Banking



Call Centre Transactions



The award clearly reflects the transformation of the Icelandic banking market in the past four years, during which banks have changed from institutions to service providers. Here Landsbanki has led the way, and received due recognition. The bank's clear strategy of providing customers with leading-edge advice, service and product selection has resulted in increasing customer satisfaction.

Major effort is placed on co-ordinating all marketing materials and ensuring that the message communicated is clear, responsible and accessible to clients. Landsbanki has long held a central role in Icelandic society and in recent years has emphasised this through its support of Icelandic soccer and other sports. The bank has also been among the most diligent sponsors of cultural and artistic pursuits in Iceland for quite some time. Supporting worthwhile causes and social endeavours is a key aspect of the bank's operation.

Recognition of this sort encourages Landsbanki's employees to continue their successful efforts to ensure the bank continues to be "where all Icelanders bank".

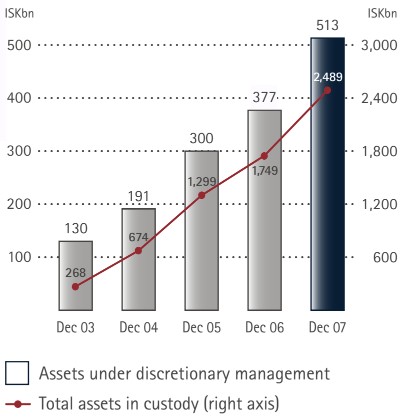
A PART OF YOUR WORLD – Jökulfell. Iceland.

Asset Management and Private Banking

High growth continued to be the defining characteristic of this year's Asset Management and Private Banking activities within the Landsbanki Group. Growth was wholly organic, facilitated by new mandates in asset management and private banking, as well as the establishment of several new investment funds.

This year's operations were focused on strengthening the fundamentals of Landsbanki's fast growing business. Since 2003, assets under management have increased by 397%. Risk and compliance issues received special attention in conjuction with MiFID implementation, as well as improved service to clients. New platforms and products have been developed with domiciliation and product listings in Luxembourg and Dublin, as well as in Iceland. Third-party portfolio management was expanded considerably. Asset Management continues to emphasise alternative investments and has at the same time increased global and European equities management, supported by the extensive coverage of the Landsbanki Group.

Assets Under Management



Total assets under management by Landsbanki Group amounted to ISK 513 billion at year-end 2007, up 36% from the preceding year. Assets under management in the group's mutual and investment funds grew by 41% to ISK 230 billion at year-end. Private banking assets increased by 73%.

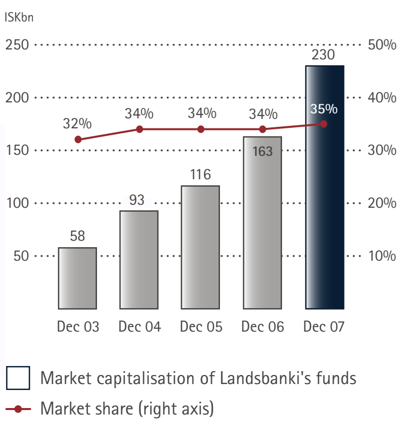
Increased cooperation between the various Landsbanki business units and subsidiaries has yielded more comprehensive service offerings to clients, further strenghening the Landsbanki value proposition. Landsbanki continued to be the Icelandic market leader in management of mutual and investment funds, with a 35% domestic market share.

Product development

Service excellence, based on professional know-how and a product portfolio catering to a wide variety of client groups, guides Landsbanki Asset Management's product development. While extending its reach and service level to international clients by signing distribution agreements and focusing more on institutional clients Landsbanki AM further extended its product portfolio by launching four new Luxembourg-based equity funds to meet the needs of international clients. These funds focus respectively on the German, Nordic, European and global markets. To follow up on the success of Landsbanki's money market funds, Asset Mangement launched two new funds in Danish kroner and Canadian dollars. On the alternative asset side, Landsbanki Asset Management launched its second Private Equity Fund and a Currency Hedge Fund.

Asset Mangement has also increased its retail focus by offering three new balanced funds tailor-made for retail savings. The funds have been a huge success as they offer retail clients a cost effective way to diversify their savings through funds of funds.

Landsbanki's Market Share of Domestic Funds



Merrion Fund Management

Merrion Fund Management was formally established as a separate unit in Merrion Landsbanki during 2007, although the company has been successfully managing equity funds since 2003 and has built up a strong track record in investment management and equity product development. As of 31 December 2007, Merrion Fund Management offered the High Yield Fund, the Active Fund, the Discovery Fund, the Irish Value Fund, the European Value Fund and the Fintra Leveraged Fund. The Merrion Fintra Leveraged Fund was launched in November 2007, raising EUR 65 million in equity during the initial offer period, and further underpinning Merrion's funds management offerings. These funds are non-UCITS and are authorised by the Irish Financial Regulator.

Landsbanki Luxembourg

The operations of Landsbanki Luxembourg continued to grow during 2007, providing a wide range of services to its target customer segments in even more locations. Landsbanki Luxembourg focused on contributing to the diversification of income sources and the improved credit risk profile of the Landsbanki Group. Profitability levels were maintained and the bank has once again experienced a rapid growth in the number of employees whilst keeping costs in line with ROE targets. Continuing recruitment will further support the growing business and manage the increasing regulatory and compliance requirements.

Credit and finance activities increased, mainly in support of the wealth management business. Landsbanki Luxembourg has entered a new market, France, where mortgage financing and equity release operations enjoyed particularly strong growth. Activities in property financing, specialised asset-backed lending and project financing in Northern Europe continued to play a key role in our service offerings.

Landsbanki's Funds

Domestic Fixed Income Funds
- Fixed Income Short Term
- Fixed Income Medium Term
- Fixed Income Long Term
- Money Market Fund ISK
- Goverment Saving Fund
- Government Bond Fund
- Corporate Bond Fund

International Fixed Income Funds
- Money Market Fund GBP
- Money Market Fund USD
- Money Market Fund EUR
- Money Market Fund DKK
- Money Market Fund CAD
- Landsbanki Diversified Yield Fund

Balanced Funds
- Savings Fund Defensive
- Savings Fund Balanced
- Savings Fund Active
- LLIF Defensive (LUX)
- LLIF Balanced (LUX)
- LLIF Active (LUX)

Domestic Equity Funds
- Selected Equities Fund
- ICEX Index Fund

International Equity Funds
- Landsbanki Global Equity
- Kepler European Opportunity (LUX)
- Kepler European Small/Midcap (LUX)
- Kepler German Equities (LUX)
- Merrion High Yield fund (IE)
- Merrion Active Fund (IE)
- Merrion Discovery Fund (IE)
- Landsbanki LN 40
- Landsbanki Global Opportunity Fund (LUX)
- Landsbanki Active Nordic Fund (LUX)
- Landsbanki European Opportunity Fund (LUX)
- KE German Opportunity Fund RR (LUX)
- Merrion Irish Value (IE)
- Merrion European Value (IE)

Alternative Funds
- Landsbanki Mezzanine Fund 1
- Landsbanki Mezzanine Fund 2
- Landsbanki Aquila Real Estate Fund
- Landsbanki Private Equity Fund I
- Landsbanki Private Equity Fund II
- Landsbanki Absolute Return Fund
- Merrion Fintra Leveraged Fund (IE)
- Landsbanki Currency Fund
- Boreas Capital Fund

Funds incepted before 2006 | Funds launched in 2006 | Funds launched in 2007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Shareholder Information

Landsbanki is committed to providing stakeholders with informative, accurate and timely news and information about the bank, its subsidiaries and partners, and the banking industry. The second-largest company on NASDAQ OMX Iceland, with a market capitalisation of ISK 397.3 billion at year-end 2007, Landsbanki is one of the most widely held public companies in Iceland. The high turnover velocity of the bank's shares indicates its good liquidity and effective price formation.

Figures for Landsbanki shares in 2007

Market capitalsiation at year-end, ISKm	397,343
Share price at year-end 2007	35.50
High/low, ISK	44.6 / 27.5
Dividend per share, ISK	0.40
Earnings per share, ISK	3.56
P/E ratio	9.94
P/B ratio	2.21
Issued shares	11,192,754,087

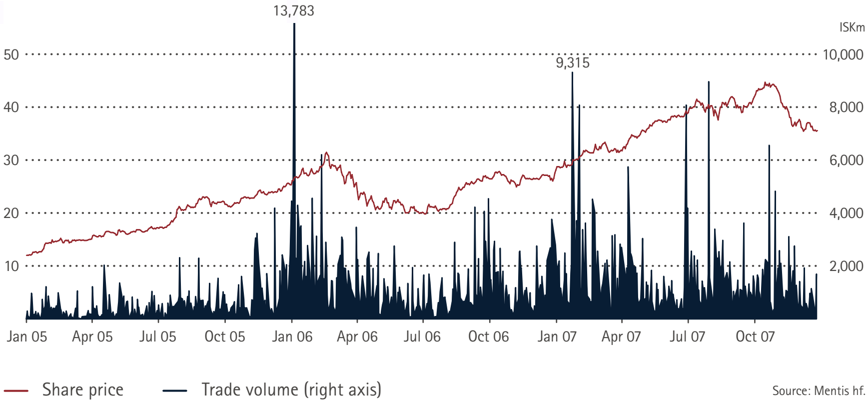
Market capitalisation

At year-end 2007 Landsbanki was the second-largest company listed on the NASDAQ OMX Nordic Exchange in Iceland (OMXI), with a market capitalisation of ISK 397.3 billion. Market capitalisation was up 36.1% year-on-year, due to an increase in share capital of 1.6% plus a 34% rise in the stock price. Landsbanki's shares yielded a total annual return of 35.5% adjusted for dividend.

Share performance and liquidity

It has been a turbulent year for equity markets around the world, with uncertainty and market sentiment causing high volatility. Landsbanki's shares climbed determinedly during the first half of the year. Following a period of price fluctuations whereby the stock peaked in October, the share price retreated as the US subprime crisis set in with the consequent world wide credit crunch affecting financial institutions around the globe. While the bank´s year-end share price dropped from its October peak it nevertheless outperformed the NASDAQ OMXI15 index.

Landsbanki's Share Price and Trade Volume



Source: Mentis hf.

With average daily trading of 42 million shares, Landsbanki is one of the most liquid and actively traded stocks on NASDAQ OMXI. In 2007, total trading volume in Landsbanki stock was 10,420 million shares, equivalent to ISK 361.2 billion, through 17,070 transactions. This trading activity is particularly strong, given that over 40% of Landsbanki's shares are held by one core investor.

Dividend policy

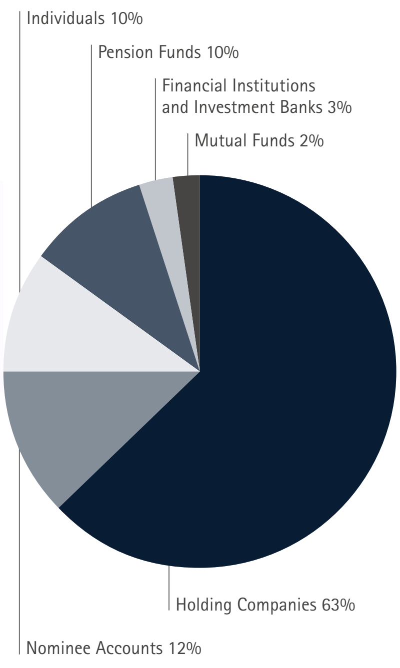
Landsbanki has maintained a prudent dividend policy, retaining a high proportion of profits to support its capital ratio and growth strategy. Based on recommendations by the Board of Directors, this policy takes into account the bank´s financial results, capital position and its growth prospects.

The Annual General Meeting held in February 2007 approved a dividend equivalent to 40% of nominal value, or 11% of profits, totalling ISK 4,408 million. The following table shows Landsbanki's dividends 2002-2006. Over this period, the average dividend payout ratio was 19.2% of profit.

Dividend History

	2006	2005	2004	2003	2002
Dividend per share, ISK	0.4	0.3	0.2	0.1	0.1
Dividend yield, %	1.5	1.2	1.7	1.7	2.7
Payout ratio, %	11	13	13	25	34
Ex. dividend date	12 Feb 07	6 Feb 06	7 Feb 05	16 Feb 04	15 Feb 03
Record date	12 Feb 07	6 Feb 06	7 Feb 05	16 Feb 04	15 Feb 03
Payment date	3 Mar 07	7 Mar 06	9 Mar 05	9 Mar 04	7 Mar 03

Shareholder Composition as of 31 December 2007



Supportive shareholder structure

One of the most widely held public companies in Iceland, Landsbanki had 27,753 shareholders at year-end 2007. The 30 largest shareholders are predominantly institutional investors, including investment companies, insurance companies, pension funds and mutual funds. Only one core shareholder has a stake over 10%, which it acquired a leading stake in 2003 following the bank's privatisation process.

Major shareholders

Samson Eignarhaldsfélag ehf., a financial holding company regulated by the Icelandic Financial Supervisory Authority, held 40.7% of Landsbanki's share capital at year-end 2007. Since acquiring a majority stake in 2003, Samson has participated fully in all of Landsbanki's capital increases. No direct business relationships, such as provision of credit, exist between Landsbanki and Samson.

In its capacity as a nominee for other investors, Landsbanki Luxembourg SA was registered as the holder of 6.60% of all issued Landsbanki shares on 31 December 2007. With a total of 4.5% of share capital at year-end 2007, LI-Hedge represents shares held on behalf of clients as a hedge against forward equity contracts. Landsbanki's treasury shares, registered in the name of Landsbanki Islands hf. Aðalstöðvar, accounted for 1.57% of its total share capital.

Cross-shareholdings

Landsbanki has no cross-shareholdings with any other company exceeding 1% of reciprocal capital or voting rights. Such holdings are insignificant and part of actively managing the bank's trading portfolio positions.

Board of Directors

At the Annual General Meeting on 9 February 2007, the following were elected to the Board of Directors: Björgólfur Guðmundsson (Chairman), Kjartan Gunnarsson (Vice-Chairman), Svafa Grönfeldt, Þorgeir Baldursson and Þór Kristjánsson. Svafa Grönfeldt replaced Guðbjörg M. Matthíasdóttir.

All the five current directors are deemed independent of the company. Three of the directors, Þorgeir Baldursson, Svafa Grönfeldt and Kjartan Gunnarsson are considered independent of both the company and its largest shareholders, as provided for in the *Icelandic Guidelines on Corporate Governance*.

Share capital

Landsbanki's total share capital as of 31 December 2007 amounted to ISK 11,192,754,087 nominal value and is listed on the NASDAQ OMXI. All shares are of the same class and hold equal rights, whereby each share has a nominal value of ISK 1 and entitles its holder to one vote.

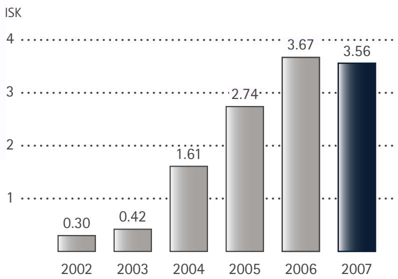
Distribution of Landsbanki's Shares

Shareholder	Shares registered Number	%
1	4,559,048,058	40.7%
2-30	4,766,698,989	42.6%
31-27,753	1,867,007,040	16.7%
Total	**11,192,754,087**	**100.0%**

Increase in share capital

In connection with the bank's acquisition of UK broker Bridgewell plc, the Board of Directors of Landsbanki hf. exercised its authorisation to increase the bank's share capital in accordance with a resolution approved by its 2007 Annual General Meeting. Thus Landsbanki´s share capital was increased by ISK 172,076,284 nominal value, i.e. from ISK 11,020,677,803 to ISK 11,192,754,087, an increase of 1.6%. The shares issued were used as partial payment to Bridgewell's shareholders.

Landsbanki's Earnings per Share



Financial Calendar for 2008

Interim Statements Q1 2008	6 May 2008
Interim Statements Q2 2008	29 July 2008
Interim Statements Q3 2008	4 November 2008
Interim Statements Q4 2008	3 February 2009
Annual Report 2008	TBA in 2009
Annual General Meeting 2008	TBA in 2009

Earnings per share

Landsbanki reported net shareholder earnings of ISK 38,800 million in 2007, corresponding to ISK 3.56 basic earnings per share. The group's total equity at year-end was ISK 184,004 million.

Sources of investor information

Landsbanki aims to meet the highest standards in its investor relations by continuously improving the quality, transparency and consistency of its information disclosure. Investors can follow annual and quarterly results presentations broadcast live over the Internet, in addition to having access to archived financial reporting, webcasts, podcasts and RSS feeds available at www.landsbanki.com/ir.

Annual Report

The annual report gives a comprehensive overview of Landsbanki's operations, plus a detailed description of the bank's performance in each year. The report is available in both Icelandic and English and easily accessible as a PDF or HTML file on the bank's website.

Financial reports

Detailed quarterly and annual financial reporting and analysis, including comments on the progress of Landsbanki's operations, are available as PDF or HTML files on the bank´s website.

Results presentations

Upon the close of each financial quarter, senior management presents Landsbanki's results to analysts and investors in English. Presentations are broadcast live over the Internet.

Webcasts, podcasts and dial-in facilities

Key presentations, including interim results, full-year results and AGMs, are broadcast live over the Internet and can also be accessed via conference call. Our Investor Relations website carries the most recent webcasts and podcasts, which are downloadable, as well as an archive of previous events.

RSS

RSS updates in English are available on the Investor Relations website. Users can select topics of interest in the subscription section.

Website

The Investor Relations website at www.landsbanki.com/IR provides extensive news and background information on Landsbanki for both analysts and investors. The site contains archived financial information available in Icelandic and English, including regulatory announcements, corporate events and equity information, share price data, shareholder lists, dividend policy and the financial calendar.

NASDAQ OMX Iceland

A listed company on the Iceland Stock Exchange since 1998, all Landsbanki's regulatory announcements can be found at www.omxnordicexchange.com

Tickers

Information on Landsbanki can be found on Bloomberg and Reuters under the tickers LAIS IR and LAIS.IC respectively.

How to order reports

All financial reports, including annual reports, full-year financial results and quarterly interim accounts, are available online as PDF and Excel files in the Financial Reports section. Printed copies can be ordered from the same website.

Contact us

For further information, please contact Landsbanki's Investor Relations by emailing ir@landsbanki.is or by telephone +354 410 7200.

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Corporate Governance

Landsbanki is committed to the highest standards of corporate governance and endeavours to remain at the forefront of best practices in this field among Icelandic businesses. Corporate Governance within Landsbanki refers to oversight mechanisms, including the processes, structures and information used for directing and overseeing the management of Landsbanki.

At the initiative of its Board of Directors, Landsbanki was one of the first Icelandic companies to adopt the **Guidelines on Corporate Governance** issued in 2004 by the OMX Nordic Stock Exchange in Iceland, the Confederation of Icelandic Employers and the Icelandic Chamber of Commerce. Landsbanki has also adopted its own governance rules and issued a compliance manual containing a comprehensive overview of Landsbanki's internal rules. All internal rules and regulations issued within Landsbanki have been created to meet international best practice standards and to ensure transparency and disclosure.

Landsbanki regularly reviews its internal rules and organisational structure to ensure compliance with the legislation and regulations in force at any given time. In 2007 extensive work related to the revision and establishment of new rules and procedures was performed throughout the Landsbanki Group.

Good corporate governance within Landsbanki is reflected, for instance, in solid development of operations on a group-wide basis, good access to information, sound decision making and effective control of all risk factors. The aim is to ensure healthy and strong business operations, as well as proper disclosure to shareholders, market participants and regulators in the jurisdictions in which Landsbanki operates. In addition, a rigorous framework is in place to prevent conflicts of interest in decision making, to ensure that Landsbanki's activities meet the varying legal requirements within its legal jurisdictions, and to meet international best practice standards

The corporate governance principles that have been adopted by Landsbanki's board are in general also applied by the boards of the bank's subsidiaries.

Shareholders' meetings

Shareholders' meetings are the supreme authority in Landsbanki's affairs, within the limits set by the bank's Articles of Association and statutory laws. Shareholders' meetings may be attended by shareholders, their proxies and advisors. In addition, the meetings are open to members of the media and the OMX Nordic

Exchange in Iceland. All shareholders have equal rights to speak, make motions and vote at shareholders' meetings. Resolutions at shareholders' meetings are adopted by majority vote unless otherwise stipulated by the bank's Articles of Association or statutory law, with each ISK 1 share in the bank carrying one vote. However, the unanimous approval of all shareholders is required in certain cases. Extraordinary shareholders' meetings may be held at the discretion of the board further to a resolution passed at a board meeting or at the demand ofLandsbanki's elected auditor or shareholders controlling at least one-tenth of the share capital.

Annual General Meetings (AGMs) are held before the end of April each year. Shareholders' meetings are advertised on the radio and in newspapers or by other verifiable means with at least one week's notice and at most four weeks' notice. The notice specifies the agenda of the meeting, and the final motions must be available to shareholders at least one week prior to the meeting. Items not specified on the agenda may not be decided upon at an AGM or regular shareholders' meeting except with the consent of all shareholders in attendance.

Articles of Association

Landsbanki's Articles of Association regulate the bank's internal affairs and management. The Articles contain provisions on the name of the company, its share capital, shareholders' meetings, elections of directors, the Board of Directors' activities and the responsibilities of the board and the CEOs and Landsbanki's accounts and auditing.

Landsbanki's Board of Directors

Landsbanki's Board of Directors has supreme authority in the bank's affairs between shareholders' meetings and is ultimately responsible for the bank's activities. The board is composed of five directors and five alternate directors, elected at each AGM for a term of one year at a time. Directors are elected in accordance with the provisions on directors' independence in the **Guidelines on Corporate Governance**. These provisions state that the majority of the directors should preferably be independent of the company and at least two of the directors should be independent of major shareholders. The board assesses the independence of its directors, and presents the results of this assessment in the bank's Annual Report. All persons elected to the board must possess the necessary qualifications and have a good grasp of current laws and regulations applying to financial enterprises to be able to make well-informed and considered decisions with due regard for shareholders' interests. Icelandic law and Landsbanki's Articles stipulate that the board must have written operating procedures. Accordingly, the board functions under clear guidelines set out in the Rules and Procedures of the Board of Directors, which have been submitted to the Financial Supervisory Authority, in keeping with the Act on Financial Undertakings No. 161/2002. The Rules and Procedures contain provisions to the effect that the board shall annually evaluate its work in order to determine if the board is able to fulfil its responsibility to supervise the operations of Landsbanki and assess where improvements could be made. The board also reviews its working procedures and other aspects of its administrative tasks annually.

Board meetings

In accordance with the board's Rules and Procedures, regular board meetings are scheduled in advance each year. At its first meeting following the election of directors at the AGM, the board elects a chairman and vice-chairman from among its members. The chairman of the board then directs the board meetings and in his absence the vice-chairman. Meetings of the board are held monthly, on average. However, extraordinary meetings may be convened with three days' notice.

Rules and Procedures of the Board of Directors

The Rules and Procedures contain detailed provisions on the role of both the Board of Directors and the bank's CEOs. While the CEOs of the bank are responsible for all normal operations, the Board of Directors shall decide on extraordinary actions. The Board of Directors' primary tasks are deciding on the main aspects of the operations of the bank and ensuring that the bank's operations are in accordance with laws and regulations. To this end, the Rules and Procedures stipulate in detail the disclosure of information to be submitted to the board to enable it to fulfil its supervisory role. The Rules and Procedures also contain a list of affairs of the bank which are considered extraordinary or of major importance and to be handled explicitly by the board of directors. The Rules and Procedures also contain provisions regarding conflicts of interest which may arise in relation to a director's own business or companies in which he or she has a qualifying holding, is a board member, holds a position of responsibility or has substantial interests at stake in other respects. In such instances, the director is disqualified from discussions and decision making on the issue. The same applies in matters involving parties personally or financially connected to directors, and involving directors' competitors or related parties.

The above provisions are designed to prevent directors' interests from unduly influencing their decisions and to ensure their full impartiality at all times. A director who is disqualified for the aforesaid reasons must excuse himself from discussion of the matter in question and is barred from access to information relating to it.

The CEOs are responsible for disclosure of information to the board. Information submitted to the board includes regular internal financial statements as well as audited or reviewed quarterly consolidated financial statements of the group. The board also receives information on the bank's 100 largest clients and on defaults and default analysis. Furthermore, details on all decisions regarding directors' business transactions and their terms are submitted to the board, in addition to a breakdown of credit granted to connected parties. The Director of Internal Audit is also entrusted with audit functions regarding credit granted to connected parties, including comparing this to similar transactions of other clients. Connected parties include directors, CEOs, managing directors, the Director of Internal Audit and the Compliance Officer, together with close family members. Comparable parties in the bank's subsidiaries and related companies also fall under the classification of connected parties, as do shareholders with a holding of 5% or more in the bank, or who are listed among the bank's ten largest shareholders, as further specified in the Rules and Procedures.

Board's working committees

The board has appointed two working committees, the Audit Committee and the Remuneration Committee, to discuss and prepare specific issues. Appointments of Directors to these committees are made in full conformity with the definition of Directors' independence in the **Guidelines on Corporate Governance**.

Audit Committee

The Audit Committee consists of three directors, all of whom are independent of Landsbanki as recommended by the Guidelines. The managing director of the Legal Division, the managing director of Finance and Operations and the Director of Internal Audit work with the Audit Committee. The committee prepares the board's discussion of the bank's quarterly and annual financial statements. The following directors serve on the Audit Committee: Kjartan Gunnarsson (Committee Chairman), Þór Kristjánsson and Þorgeir Baldursson.

Remuneration Committee

Three directors sit on the Remuneration Committee, all of whom are independent of Landsbanki in accordance with the Guidelines. The Remuneration Committee negotiates with the CEOs on their salaries and other terms of employment. Each year it proposes a remuneration policy for the bank, which is then submitted to the AGM for approval. The following directors serve on the Remuneration Committee: Björgólfur Guðmundsson (Committee Chairman), Þór Kristjánsson and Andri Sveinsson.

CEOs

Landsbanki has two Chief Executive Officers, who are responsible for the bank's day-to-day activities and serve as its spokesmen on business and administrative issues. They are empowered to make decisions in all of the bank's affairs not entrusted to others by legislation, the bank's Articles or decisions of the board. The CEOs must meet all qualifications currently provided for by the Act on Financial Undertakings and the Act on Public Limited Companies.

Managing directors

Landsbanki has ten managing directors who are directly responsible to the CEOs for the day-to-day activities of their respective divisions. Regular meetings are held between the managing directors and the CEOs.

Internal committees

The bank's CEOs are responsible to the board for Landsbanki's daily operations and manage risk through five internal committees: the Credit Committee, the Asset and Liability Committee (ALCO), the Asset Management Committee, the Operations Committee and the Group Risk Committee (GRC), each of which operates within a separate division. These committees serve as a forum for important decision making and group-wide control and monitoring, e.g. concerning credit control, market risk and operating efficiency.

The Credit Committee controls and harmonises lending procedures throughout the Landsbanki Group by setting detailed lending rules based on a framework instituted by the board. This structure ensures a good overview across the bank's entire spectrum of activities. The Credit Committee also decides the total amount of credit to be extended by the bank and approves new credit products to be launched.

The functions of the Asset and Liability Committee (ALCO) include monitoring Landsbanki's investment banking activities and risks in its operations, in addition to setting restrictions for the purpose of risk management. ALCO also discusses the bank's funding and approves new products to be launched for securities clients.

The role of the Asset Management Committee is to monitor the activities of Landsbanki's Asset Management division and oversee important aspects of that area of business. The committee examines Asset Management's monthly report on assets under management, revenue performance and the positions of Landsbanki's mutual funds. Key innovations in Asset Managements activities are submitted to the Asset Management Committee for approval.

The Operations Committee co-ordinates the bank's operations and directs efficiency measures, technical development, retail banking development and property issues. It also makes decisions on exposure limits and quality procedures in retail banking, interest rate changes and pricing, new products and services offered by Landsbanki branches.

In order to ensure that group risk is captured on a consolidated level, Landsbanki's Group Risk Committee (GRC) was established. The role of the GRC is to develop an appropriate risk management environment and to co-ordinate and review the work of various risk management departments and functions within the Landsbanki Group to ensure that adequate tools and people are in place to identify, measure, monitor and control products, activities, processes and systems throughout the group. The Group Risk Management Committee reports to the CEOs, who are responsible for the daily operations and risk management of the bank. Further information on Risk Management is provided in the Risk Management section.

External and internal audit

Each AGM elects an independent chartered accountant or auditing firm to audit the bank's annual financial statements and review the interim financial statements in accordance with laws and International Standards on Auditing.

Landsbanki's Group Internal Audit is an independent, objective assurance and consulting unit designed to add value and improve the bank's operations. It helps Landsbanki accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Director of Internal Audit is appointed by the Board of Directors and is responsible to the board under a Statement of Duties, in accordance with the Act on Financial Undertakings and Landsbanki's Articles. The Director of Internal Audit administers internal audit activities within Landsbanki in accordance with accepted internal audit guidelines and principles. Responsibilities include providing the board with consulting services on issues relating to audits, internal controls, risk management and risk exposures, and making recommendations to the board and the bank's CEOs on measures to be taken or rules to be set in that context. Internal Audit performs special audits and investigations by request or in co-operation with the board and the CEOs, and is responsible for internal auditing of sections of the bank's headquarters and branches as well as its foreign and domestic subsidiaries.

Internal Audit evaluates the adequacy and effectiveness of controls covering the organisation's governance, operations and information systems. This evaluation includes the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, regulations and agreements.

Internal Audit's activity plans are submitted to the Board Audit Committee for approval.

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Corporate Social Responsibility

In recent years, Landsbanki has expanded from its deep Icelandic roots to become increasingly international, availing itself of and adapting to opportunities arising from the globalisation of business and industry. This major transformation means that the bank is accountable to an ever-wider group of stakeholders. As a result, Landsbanki's corporate social responsibility is directed towards a community which is different and larger than it has been in past decades.

The main pillars of this strategy are:

- a forward-looking environmental and resource policy and active participation in international corporate social responsibility (CSR) co-operation;
- an ethical investment policy;
- an effective internal CSR framework;
- social support through very substantial tax contributions;
- liberal community sponsorship;
- clear corporate governance procedures.

Landsbanki's commitment to corporate social responsibility (CSR) has always been embodied in its strategic objectives as well as its corporate culture and values. Together with providing shareholders with a good return on their investment and customers with excellent financial services, meeting the highest standards of corporate governance and citizenship is a key objective of the bank's business strategy. Landsbanki's CSR Policy is therefore designed to ensure that the bank's value creation also benefits the communities where it operates.

In keeping with these aims, Landsbanki has led the way in actively contributing to the quality of life in Iceland. Its funding and sponsorship activities have grown in parallel to its own expansion. The bank promotes sustainable development by ensuring that its own operations are environmentally, socially and ethically responsible. Landsbanki does not offer products or services, nor participate in projects, that involve a risk of environmental damage, unethical conduct, violation of basic human and social rights or corruption.

Putting Words into Action

Active member of the United Nations Global Compact

Active member of Global Compact's Nordic Network

Initial signatory of the UNEP-FI

Declared support for the OECD Guidelines for Multinational Enterprises

One of 153 companies worldwide that signed "Caring for Climate" in 2007

Globalisation and environmental policy

International companies have a duty to respond effectively to important social, ethical and ecological concerns. This includes challenges such as global climate change, poverty, people trafficking, organised crime and human rights violations.

Landsbanki is an active member of the United Nations Global Compact, the world's largest voluntary corporate responsibility initiative. Through the Global Compact businesses work with UN agencies, organised labour, civil society and governments to advance universal principles in the areas of human rights, labour standards, the environment and anti-corruption. Landsbanki has also declared its support for the OECD Guidelines for Multinational Enterprises and was one of the initial signatories to the International Declaration of Financial Institutions (UNEP-FI) on Environment and Sustainable Development in 1996.

In the coming years, environmental protection will become an increasingly important focus in the bank's operations. Landsbanki has drafted its own Environmental Policy, aimed at improving the bank's environmental performance.

In 2007, Landsbanki and Iceland's national power company, Landsvirkjun, jointly established the company HydroKraft Invest to invest in energy projects outside of Iceland. These are mainly hydropower projects, but also include projects in other fields of renewable energy. Iceland and Icelandic companies have decades of experience of renewable power production, as evidenced by the fact that 72% of total primary energy consumption in Iceland is from renewables, as compared to the global average of 13%. Landsvirkjun is by far the largest player in power generation. For its part, the Landsbanki Group has participated extensively in financing projects in the renewable energy sector and the HydroKraft Invest initiative is a sign of its increased emphasis in this important field. Landsbanki predicts that demand for renewable energy will increase significantly in the coming years. It sees major opportunities for HydroKraft in combining the financial expertise of Landsbanki and its employees with the project know-how of Landsvirkjun in running and building power plants and energy systems.

HydroKraft Invest will initially focus on investing in existing hydropower plants in Europe with a potential to increase efficiency and productivity, either through technical advancement of existing facilities or more efficient management.

Through its investment strategy, Landsbanki hopes to support new ideas, new technology and new solutions to meet the increasing demand for economic development in harmony with good environmental stewardship.

Action for Climate Change

Landsbanki is one of 153 companies worldwide whose chief executives have committed to speeding up action on climate change and called on governments to agree as soon as possible on measures to secure workable and inclusive climate market mechanisms after 2012, when the Kyoto Protocol expires.

This request was made in a business leaders' statement issued at the UN Global Compact Leaders Summit convened by UN Secretary-General Ban Ki Moon on 5-6 July 2007 in Geneva. The statement, called "Caring for Climate: The Business Leadership Platform", provides a global call from business leaders, many of them attending the Leaders Summit. The UN Global Compact, the United Nations Environment Programme (UNEP) and the World Business Council for Sustainable Development (WBCSD) facilitated its development.

Signatories to the statement, including 30 from the Fortune Global 500, have committed their companies to "taking practical actions to increase the efficiency of energy usage and to reduce the carbon burden of products, services and processes, to set voluntary targets for doing so, and to report publicly on the achievement of those targets annually." They have also committed to dealing with climate issues strategically and to work collaboratively with other enterprises on a sector basis all along their global supply chains, promoting recognised standards and taking joint initiatives to reduce climate risks.

Conferences

Landsbanki Kepler, Landsbanki's continental European investment banking subsidiary, hosted an alternative energies conference in Paris in February 2007. The conference offered a unique opportunity to more than 200 investors, both institutional and corporate, to listen to and meet with 22 companies operating in the sector of renewable and carbon free energy production. The solar industry was strongly represented at the conference with eight European companies presenting their business activities. Landsbanki Kepler is planning to host its second annual energy conference in February 2008.

Al Gore, 45th Vice President of the United States and a Nobel Peace Prize winner, addressed Merrion Landsbanki's „Energy and the Environment" conference in Dublin, Ireland on Saturday 1 December 2007. Over 400 people heard the Vice President's keynote address entitled, „Thinking Green: Economic Strategy for the 21st Century."

Ethical investment policy

Landsbanki's growing exposure to international markets makes it increasingly crucial to have strong ethical investment guidelines in place. Traditionally, the bank has invested primarily in its home economy in Iceland, where the need for ethically based investment restrictions has been somewhat mitigated by the limited domestic industrial base, a high degree of social consensus and legal constraints, as well as in-depth knowledge of a circumscribed market. Having expanded into the global marketplace, Landsbanki now continuously reviews the set of principles, procedures and standards underpinning its Ethical Investment Policy.

Before concluding any investment or loan to a customer, the bank applies a rigorous screening process, which includes a set of ethical standards. It pays close attention to any activities that may have an impact on the environment and sustainable development, such as maritime resource depletion and fishing of stocks that may be controversial from an environmental or ethical perspective. In 2006, the bank added stricter provisions to its loan agreements, designed to prevent its funding from being used for purposes contravening the above aims.

Internal CSR framework

Within Landsbanki, a Corporate Social Responsibility Committee operates under the leadership of senior management. The Committee oversees the bank's extensive financial donations in Iceland and monitors how well it is meeting the expectations of various interest groups in this area. CSR issues are thoroughly considered across all of Landsbanki's operations and regularly discussed by the bank's major committees, such as the Credit Committee and ALCO.

A key objective of Landsbanki's CSR policy is to attract personnel with a mindset of social responsibility that is compatible with the bank's corporate culture. In addition to formal procedures and guidelines, Landsbanki encourages employees to take an active part in social welfare activities.

Tax contributions and sponsorship

Taxes paid each year by Landsbanki have grown substantially, as have taxes paid by its employees, reflecting the increased scale and profitability of operations both domestically and internationally. Increased tax revenue generated by the bank's growth helps to boost public coffers, thereby directly benefiting society at large.

Sponsorship is a key aspect of Landsbanki's community programme. In Iceland, the bank has been a forerunner in financial donations to humanitarian, cultural and educational initiatives, as well as sports and youth activities. During the bank's 120-year anniversary period in 2006-2007, Landsbanki provided more support of this kind than any company ever in Icelandic corporate history.

Support to the Makeba Centre for Girls in Johannesburg

At the opening of Iceland's new Embassy in Pretoria in February 2007, Landsbanki, the Ministry of Foreign Affairs and few other Icelandic companies, decided to support a good cause in South Africa. The organisations decided to give substantial support to the Makeba Centre for Girls in Midrand near Johannesburg. The centre has been operating since 2003 and has saved the lives of many girls from emotional and physical abuse.

Supporting culture

Landsbanki's art collection is among the largest owned by a private company in Iceland. The bank has made it a clear priority to maintain this fine collection in prime condition and make it accessible to the general public through the branch network, exhibitions and an Internet web gallery.

Organisations benefiting from Landsbanki's extensive sponsorship of the arts include the Reykjavík Festival of the Arts, the Icelandic Dance Company, the National Theatre, the Iceland Symphony Orchestra and Reykjavík Cultural Night. The bank has also provided strong support for various grassroots activities, such as the innovative publisher Nýhil and the progressive visual arts workshop Klink & Bank.

In 2006 the bank launched an easy-to-use online donation facility called Give Online. This service enables both individuals and corporate clients to support charitable causes through their Internet banking accounts. Customers can either set up monthly contributions or make a one-off donation to over 70 listed charities.

In addition the parent company's funding and support in Iceland, Landsbanki's foreign subsidiaries and branches engage in a range of community initiatives in their various locations.

Corporate governance

Landsbanki is committed to high standards of corporate governance and has maintained its position at the forefront of best practice in this field among Icelandic businesses. Good corporate governance is reflected in, among other practices, solid group-wide business development, good information access, sound decision-making and effective control of all risk factors, as further discussed in the Corporate Governance section.

Iceland's Competitiveness in Selected Social and Environmental Areas

The following results from the IMD World Competitiveness Yearbook 2007 show Iceland's ranking among 55 industrialised and developing countries. The rating scale is from zero to ten.

Categories	Rating (0-10)	Ranking (1-55)
Pollution problems do not affect the economy seriously	8.97	1
Harassment does not disturb the work environment	8.50	2
Bribing and corruption do not exist in the economy	8.80	3
Discrimination does not pose a handicap in society	8.72	1
Need for social reforms generally understood in society	7.66	2
Environmental laws do not hinder the competitiveness of business	8.17	2
Sustainable development is a priority in companies	7.89	2
Bureaucracy does not hinder business activity	7.00	2
Tax evasion does not hamper business activity	7.09	5

Source: IMD International - World Competitiveness Yearbook 2007

Information Technology and Securities Operations

The bank's success during the year posed challenges and opportunities for Information Technology and Securities Operations. The department has focused on implementing and supporting new business lines while integrating and streamlining current systems and processes.

A fundamental change took place in the structure of Information Technology and Securities Operations during the year. The department moved from from the traditional functional and system-centred organisation to a set-up that is completely aligned with the business processes of the bank, with substantial involvement from the business owners of processes. As all business-related projects are grouped by processes into programs, an end-to-end view of processes becomes possible as IT personnel specialise in given business processes. This allows the bank to continue improving its processes and make them more efficient and stable, so as to reduce operational risk and enhance responsiveness.

In the past few years, a great deal of work has been invested in strengthening the bank's internal processes. This is necessary in order to sustain the continued growth of Landsbanki. A milestone was achieved during the year when the bank in Iceland was certified according to ISO27001, an International Standard for Information Security. The certification applies not only to IT and Operations, but also to the information security processes used across the bank in Iceland, including both branches and headquarters.

Improved processes, new systems, and automation have played a fundamental role in allowing operations to sustain the growth of the bank while lowering operational risk. The steady increase in the number of transactions in listed products for Icelandic clients continues, with the number of transactions doubling from 200,000 to 400,000 between 2004 and 2007. The number of FX-related transactions has surged, from around 40,000 in 2005 to almost 200,000 in 2007. The capabilities and strengths of the internet platforms are reflected by the fact that the number of users continues to increase in Iceland's very mature market. Last year the number of users of the retail internet bank increased by 11%, while the number of corporate internet bank users rose by 34%. While the number of staff has only doubled in the last 4 years, the storage capacity of the bank has increased 100-fold and the size of staff mailboxes by more than 200-fold. Also, the greatly increased complexity of the bank's business can be seen in the number of servers running – from 176 at year-end 2006 to 1,024 at year-end 2007 – while the number of applications the bank is running increased nearly fourfold to 450. This increased volume has been handled without significant expansion of staff.

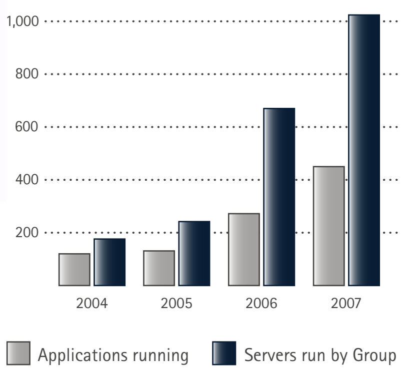
Internet banking remains a major focus for the bank and is now the preferred platform for service delivery in Iceland. Several new releases provide additional functionality and increased security, e.g. the one-time password tokens for all retail customers. Special emphasis has been placed on increased capital markets capabilities of internet solutions. The first specialised group-wide edition for institutional clients was released at the end of the year.

As can be expected, regulatory requirements defined a great deal of the work done in the IT department. Solutions were delivered both for Basel II and MiFID, in addition to a number of smaller projects relating to compliance and reporting. Foundations for a new enterprise data warehouse were put in place. A credit scoring system, new payment services, and innovative solutions for card loyalty schemes are examples of significant improvements from the software development teams in 2007. Though the bank's largest development team is in Iceland, there are sizeable teams in London and Luxembourg, as well as various smaller units focused on business support. In 2007 the team in Iceland processed close to 7,000 defined requests, which illustrates the agility that the bank has in its own development.

The bank's new branches – such as those in Halifax, Helsinki, Oslo and Hong Kong – are built directly on the group infrastructure. The bank continues to work toward consolidating its subsidiaries into the group infrastructure.

Transactions in Listed Instruments, excluding Subsidiaries

Servers and Applications Running



Chief Executive Officers

Halldór J. Kristjánsson holds a law degree from the University of Iceland (1979), an LLM in International Law from New York University (1981) and read contractual law at Harvard Law School in 1986. He was appointed Chief Executive Officer of Landsbanki in 1998. Prior to that he served as Director and later Secretary-General at the Icelandic Ministry of Industry and Commerce between 1994 and 1998, having been Alternate Executive Director at the European Bank for Reconstruction and Development (EBRD) in London from 1991 to 1994. He was formerly Director of Legal and International Affairs at the Ministry of Industry and Commerce from 1989 to 1991.

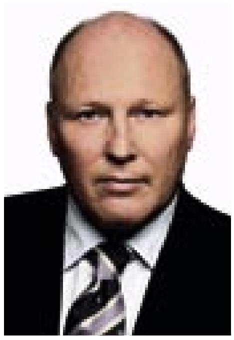
In his capacity at the Ministry, Halldór was involved in the development of power-intensive industries in Iceland as well as serving on numerous committees and boards, including representing Iceland at the IMF. Since joining Landsbanki, he has served on numerous corporate and industry boards, including the European Banking Federation, the Confederation of Icelandic Industries and the Association of Icelandic banks, for which he was Chairman. He has served as Chairman of the Landsbanki subsidiary Landsbanki Heritable Bank Ltd in London since 2000 and of Landsbanki Luxembourg SA since 2003, and sits on the Board of Directors of Lex Life & Pension SA as well as the boards of Landsbanki's subsidiaries Landsbanki Kepler, Merrion Landsbanki from 2005 and of Landsbanki Guernsey Ltd since 2006.

Sigurjón Þ. Árnason has a BSc degree in mechanical engineering from the University of Iceland (1992) and an MBA in Finance from the University of Minnesota (1994). He also studied economic engineering at Technische Universität Berlin from 1994-1995. Sigurjón joined Landsbanki in April 2003 as its second CEO, having previously been Managing Director of Administration and Operations at Búnaðarbanki Íslands hf. since 1998. From 1995 to 1998, he was Senior Manager of Economics and Budgeting at Búnaðarbanki and a part-time lecturer at the University of Iceland from 1995-1997.

Sigurjón is Chairman of the Icelandic Banks' Negotiation Committee and has been Chairman of Landsbanki's subsidiary Kepler Equities SA since 2005. He has been a Board Member of Landsbanki Heritable Bank Ltd since 2003, Landsbanki Luxembourg SA since 2001, Teather & Greenwood Ltd since 2005, Merrion Landsbanki since 2005, Lex Life & Pension SA since 2005, Landsbanki Guernsey Ltd since 2006, Hömlur hf. since 2003, Intrum Justitia AB 2005-2006 and Chairman of Landsbanki Securities Holding plc since 2007.

Managing Directors

Atli Atlason, Managing Director of Human Resources, is a business administration graduate of the University of Iceland (1992). He was appointed Managing Director of Human Resources in May 2003. Prior to that he was Personnel Director at Búnaðarbanki Íslands hf. from 1999. Between 1992 and 1999 he was Financial and Personnel Director at the Directorate of Fisheries. He represents the Minister of Education on the Board of Icelandic Student Services.



Ársæll Hafsteinsson is Managing Director of Landsbanki's Legal Division, Branch Support, Group Credit Control and Group Compliance. A law graduate of the University of Iceland, he was admitted to the bar as a district court solicitor in 1992 and became a licensed securities broker in 1999. He was appointed to his current position with Landsbanki in May 2003. Joining Búnaðarbanki Íslands hf. in 1988, he was Director of that bank's legal department from 1991 and its chief legal counsel from 2000. He has served on various company boards, including those of Creditinfo Group hf., Intrum Iceland hf., Intrum Justitia SA and Hömlur hf.

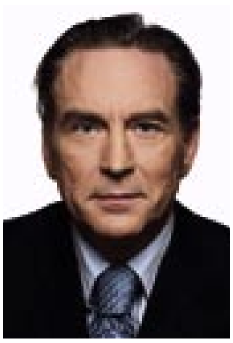
Brynjólfur Helgason, Managing Director of International Banking and Deputy Chief Executive Officer, holds an MBA from INSEAD in France (1979) and a cand. oecon. degree in business administration from the University of Iceland (1977). He joined Landsbanki in 1979. He was Managing Director of Corporate Banking from 1998 until 2002 and managing director of various divisions from 1988. Prior to that he served as Executive Director of Marketing from that division's establishment in 1984, having been Senior Director of Corporate Banking up to that time. He sits on the boards of Landsbanki Heritable Bank Ltd in London, the International Chamber of Commerce in Iceland and the British-Icelandic Chamber of Commerce. His previous board memberships include Lýsing hf., the Icelandic Banks' Data Centre, the Icelandic Insurance Company hf., Líftryggingafélag Íslands hf., Fjárvangur hf, SP-Fjármögnun hf., Landsbanki Luxembourg SA and the French-Icelandic Chamber of Commerce.

S. Elín Sigfúsdóttir, Managing Director of Corporate Banking, is a business administration graduate from the University of Iceland (1979). She took up the position of Managing Director of Corporate Banking in May 2003. Prior to that she worked for Búnaðarbanki Íslands hf. for 24 years, rising to Managing Director of Corporate Banking after having been a Senior Director and Assistant Managing Director of the same division. She has been a board member of Landsbanki Luxembourg SA and SP-Fjármögnun hf. since 2003. She previously served on the boards of Búnaðarbanki in 1998-2003 and Lýsing hf. from 2000-2003.

Guðmundur Guðmundsson, Managing Director of IT and Securities Operations holds an engineering degree from the University of Iceland (1990) and an MSc in industrial engineering from North Carolina State University (1991). He became a licensed securities broker in 2001. Before being appointed Managing Director of Landsbanki's IT division in 2003, he headed the corporate finance division of Búnaðarbanki Íslands hf. from 2001, having worked in that bank's securities division from 1996. He represents Landsbanki on the Co-operation Board of the Icelandic Banks' Data Centre, and is a Director of Auðkenni hf. and Span hf.

Haukur Þór Haraldsson, CFO and Managing Director of Finance and Operations, has a cand. oecon. degree in business administration from the University of Iceland (1986), as well as an MBA from the University of Minnesota (1991). He was appointed Managing Director and CFO in 1997, having previously headed securities trading and other departments since 1986. In addition to being a member of the Consultant Committee of the Icelandic Financial Supervisory Authority, his board memberships include the Bank Employees' Pension Fund, the Depositors' and Investors' Guarantee Fund, the Icelandic National Concert and Conference Centre and the psychiatric nursing home Fellsendi.

Anna Bjarney Sigurðardóttir, Managing Director of Retail and Branch Development, holds a cand. oecon. degree in business administration from the University of Iceland (1991). She was appointed Managing Director of Retail and Branch Development in January 2008. Anna was head of Branch Development at Landsbanki from January 2005 and Assistant to the CEO of Landsbanki since 2004. Prior to that she worked for Búnaðarbanki Íslands for 12 years, ending as Head of Budgeting and Operation Control after working as a specialist in accounting, planning and quality control. Anna is currently Chairman of the Board of Directors of Vörður Life Insurance hf. and a Director of Vörður hf.



Ingólfur Guðmundsson, Managing Director of Private Banking, earned a cand. merc./MBA degree from Ålborgs Universitet in Denmark in 1989 and joined Landsbanki the same year. He is also a licensed securities broker. Ingólfur became Managing Director of Private Banking in 2004, previously serving as Managing Director of the Personal Banking and Marketing division since 2003 and as Regional Manager at Landsbanki's head office from 1999 to 2003. He has been a Director of VISA Iceland hf. since 2000 and of the pension fund Íslenski lífeyrissjóðurinn since 1995, where he has served as Chairman since 2000.

Stefán H. Stefánsson, Managing Director of Asset Management, holds a cand. oecon. degree in business administration from the University of Iceland (1995) and an MSc in international securities, investment and banking (1996) from the University of Reading. Joining Landsbanki in 1996, he was appointed Managing Director of Asset Management in April 2003. Prior to that he was Managing Director of Business Development from 2001, having headed the Financial Advisory section from 1998 to 2001. He has been the Chairman of the Board of Directors of Landsvaki hf. since 2003 and was a Director of the pension fund Íslenski lífeyrissjóðurinn hf. from 2001 to 2006. In addition to various other board memberships for the bank, he was on the Board of Directors of Landsbanki Luxembourg from 2003 to 2005 and has been a Director of the Landsbanki Luxembourg Investment Fund since 2007. Other significant roles include Chairman of the Icelandic Software Fund hf. from 2000 to 2003 and of the telecoms company Íslandssími hf. from 2002 to 2003, where he was a Director from 2002.

Yngvi Örn Kristinsson, Managing Director of Securities and Treasury, read economics and mathematics in Gothenburg, Sweden, and holds a BA Econ. Degree from the University of Essex as well as an MSc Econ degree from the London School of Economics. He was appointed Managing Director of Securities and Treasury in May 2003, having formerly been Managing Director of the Securities division of Búnaðarbanki Íslands hf. from 2001 and Managing Director of Bunadarbanki International SA in Luxembourg from 2000. Prior to that he worked at the Central Bank of Iceland for 20 years, where he was appointed Senior Manager in 1987 and subsequently Managing Director of the Central Bank's monetary policy division in 1994. He has sat on various committees on economic, housing and monetary affairs, and on the boards of various companies and associations, including the Icelandic Banks' Data Centre. He has been Chairman of the Union of Icelandic Bank Employees and of the State Housing Fund. He is currently a member of a Consultation Committee on the Iceland Stock Exchange and the Icelandic Securities Depository. For many years, Yngvi Örn served as a special advisor to the International Monetary Fund (IMF), working in countries including Jordan, Malawi, Turkmenistan and Trinidad and Tobago.

The Board of Directors

Björgólfur Guðmundsson, Chairman of the Board, is a graduate of the Commercial College of Iceland. He was Chief Executive of the Icelandic shipping line Hafskip hf. for many years. He owns just under one-half of the shares in Samson Holding ehf. and is also the principal owner and Chairman of the Board of West Ham United Football Club in England. He was first elected Chairman of the Board of Landsbanki in February 2003 following the purchase by Samson of nearly 45% of the Bank's shares from the Icelandic government. Through the years he has served as a director of many commercial enterprises, associations and institutions, both in Iceland and abroad. A strong supporter of culture, sport and youth activities, he was awarded the Order of the Falcon by the President of Iceland for his contribution to business and culture in January 2005. He chairs Landsbanki's Remuneration Committee.

Svafa Grönfeldt holds a BSc in political science and mass communication from the University of Iceland (1990) and a Master's degree in technical and professional communication from the Florida Institute of Technology (1995). In 2000 she earned her doctorate in industrial relations from the London School of Economics. Currently the Rector of Reykjavik University, from 2005 to 2007 she served as Deputy CEO of Actavis Group. Prior to that she was the Chief Executive of Strategy and Organisational Development at Actavis Group (2004-2005), Assistant Professor at the Faculty of Economics and Business Administration at the University of Iceland (1997-2007) and Managing Director and Partner at IMG Gallup/Deloitte (1995-2004). Svafa was elected to the Board of Landsbanki in 2007.

Kjartan Gunnarsson, Vice-Chairman of the Board, holds a law degree from the University of Iceland (1978) and is a graduate of the Norwegian Defence College (1980). He was Secretary General of the Independence Party of Iceland from 1980 to 2006. Initially elected to Landsbanki's Board by the Icelandic Parliament in 1992, when the Bank was state-owned, he served as Vice-Chairman and later Chairman until 1997. When Landsbanki became a limited company in 1997, he was again elected Vice-Chairman. His other corporate board chairmanships include the insurance companies Líftryggingafélag Íslands hf. from 1997-2003 and Vátryggingarfélag Íslands hf. from 1997-2002. He has been a Director of Landsbanki's subsidiary Landsbanki Heritable Bank Ltd in London since March 2003, and currently chairs Landsbanki's Audit Committee.

Þorgeir Baldursson is a graduate of the Commercial College of Iceland (1960) and holds an MGK degree from Denmark's Graphic College (1965). After serving as Director of Operations at the printing company Oddi from 1965, he became Chief Executive Officer in 1982. He has been a member of the Executive Board of the Confederation of Icelandic Employers since its consolidation in 1999, and of the boards of several Icelandic companies since 1982, including serving as Chair-

man of Landsbanki's subsidiary SP-Fjármögnun since 1995. In addition, he was appointed Honorary Spanish Consul in Iceland in 2000. He was first elected to the Board of Landsbanki in 2003, and is currently on Landsbanki's Audit Committee.

Þór Kristjánsson CEO of Brimalda Capital ehf. A business administration graduate from University of Iceland in 1989, he has worked in various managerial positions, including financial restructuring projects, both in Iceland and abroad from 1989 until 2001 when he joined Actavis as consultant to the Board of Directors in 2001 and later served as the company's Deputy CEO until late 2004. Þór was until recently a senior advisor to Samson Holding hf. He was first elected to the board of Landsbanki Íslands hf. in 2006 and before that he was an alternate Director of the bank since 2003. He is currently on Landsbanki´s Audit and Remuneration Committee´s. Among previous directorships is HF Eimskipafélag Íslands hf., Straumur-Burdaras Investment Bank hf., Icelandic Group hf., Árvakur hf, Edda Publishing hf., West Ham United plc, Samson Properties hf.w and Fjarfestingarfelagið Grettir hf.

From left:
Sigurjón Þ. Árnason, CEO,
Þór Kristjánsson,
Kjartan Gunnarsson,
Vice-Chairman of the Board,
Björgólfur Guðmundsson,
Chairman of the Board,
Þorgeir Baldursson,
Svafa Grönfeldt ,
Halldór J. Kristjánsson, CEO.

Managing Directors of Landsbanki's Subsidiaries

Baldvin Valtýsson, General Manager of Landsbanki London Branch, graduated with a cand. oecon. degree from the University of Iceland in 1990, with emphasis on corporate operations management. Baldvin was appointed General Manager of Landsbanki London Branch on 30 April 2007. Prior to this appointment he had worked in Landsbanki's Corporate Banking division in Iceland since 2003. Before that Baldvin worked for the Icelandic bank Búnaðarbanki, where he was responsible for the bank's corporate lending portfolios. Baldvin was Director of the municipal offices in the town of Siglufjörður, from 1991 to 1996, and was employed by the travel agency Samvinnuferðir-Landsýn hf. from 1996 .

Gunnar Thoroddsen, Managing Director of Landsbanki Luxembourg SA, holds a law degree from the University of Iceland (1994), an LLM degree from Duke University School of Law in North Carolina (1998) and an MBA from Reykjavík University (2002). He has also been admitted to the bar as a district court solicitor in Iceland. Prior to becoming Managing Director of Landsbanki Luxembourg in 2004, he was Director of Debt Recovery and Managing Director of the Landsbanki subsidiary Hömlur hf.

John Conroy, Chief Executive of Merrion Landsbanki, graduated in civil engineering from University College Dublin (1981) and later took an MBA at Trinity College Dublin (1986). A founding shareholder and CEO of Merrion Capital Group, he has 20 years experience in stockbroking and investment banking, having worked as an analyst and then Head of Equities at NCB Stockbrokers prior to setting up Merrion with other senior colleagues. He is active in the Irish business community and is a Director of eircom, Ireland's largest telecom group.

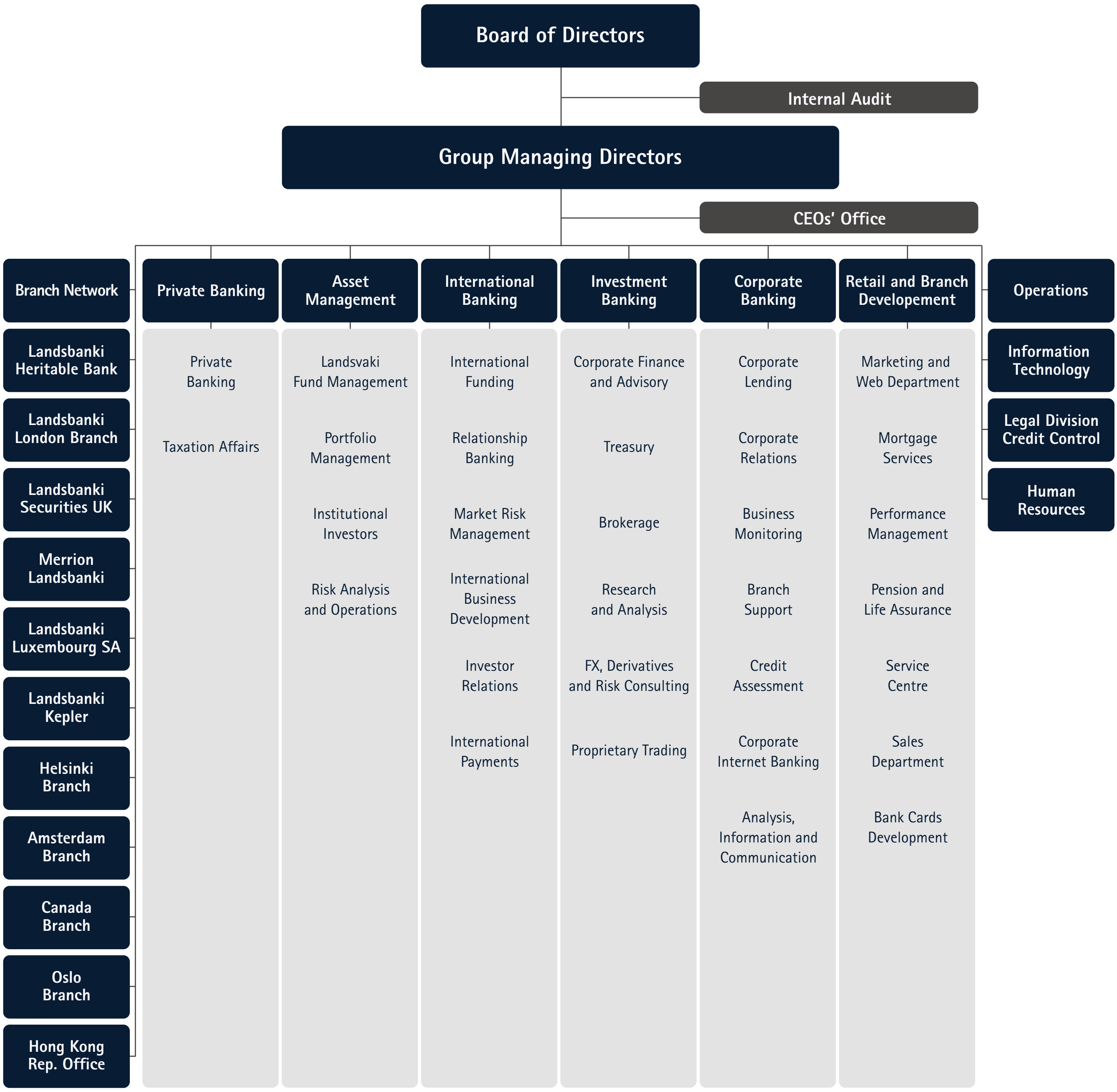
Kjartan Georg Gunnarsson, Managing Director of SP-Fjármögnun hf., is a graduate in business administration from the University of Iceland (1983). He took up his current post at SP-Fjármögnun in 1995. Prior to that he was employed by the investment company Fjárfestingarfélag Íslands from 1985-1987 and served as Managing Director of the leasing company Féfang hf. from 1987 until joining SP-Fjármögnun. He has been Chairman of Vörður insurance hf. since 2006.

Laurent Quirin, Chief Executive Officer of Landsbanki Kepler, holds a degree in economics from the European Business School (1986). He was one of the founders of Julius Baer France SA in 1997, serving as Managing Director and then CEO from 1999. Prior to joining Julius Baer, he was a Director of Dynabourse International, the French brokerage arm of Crédit Agricole Group SA, where he began his career as an equity salesman before assuming the role of Head of Equities in 1990. He is a Director of the Landsbanki Kepler subsidiaries Kepler Equities Suisse SA and Landsbanki Kepler Inc.

Mark Sismey-Durrant, Chief Executive of Landsbanki Heritable Bank and Managing Director of Icesave, holds a BSc (Hons) in banking and finance (1981) and an MPhil in international banking and economics (1983), both from Loughborough University of Science and Technology. He has headed Heritable Bank in London since 2002, prior to which he joined Sun Bank plc in 1990, becoming CEO and Deputy Chairman of Sun Bank plc and Sun Bank Offshore Ltd. He was also a Director of Sun Life Financial UK. Besides serving as Chairman of Key Business Finance, a Landsbanki Heritable subsidiary acquired in 2005, he was appointed a Director of Landsbanki Guernsey Ltd in 2006. He was appointed to the board of the British Bankers Association in 2007. He is also a BBA Council Member, Chairman of the BBA Small Bank Advisory Panel, a fellow of the Chartered Institute of Bankers and a Fellow of the Royal Society of Arts, Design and Manufactures.

Nick Stagg, Chief Executive of Landsbanki Securities UK Ltd., graduated with a BSc degree in physics from University College London in 1981 and qualified as a chartered accountant in 1984 with KPMG. He was Managing Director of Lambert Smith Hampton plc, a UK property consultancy business and also worked for WS Atkins plc, running their overseas operations in 24 countries. Prior to that he worked for London Shop plc as Finance Director. In 2001 he joined Teather & Greenwood Holdings plc as Chief Operating Officer and was appointed CEO in August 2004. He is also a Director of Inventive Leisure plc.

Organisational Chart



A PART OF YOUR WORLD – George's Quay Building. Ireland.

Consolidated Financial Statements 2007

Consolidated Key Figures

Operations	2007	2006	2005	2004	2003
Interest income	202,095	133,102	66,437	34,252	21,871
Interest expenses	148,044	91,611	43,441	19,517	12,540
Net interest income	**54,052**	**41,491**	**22,996**	**14,734**	**9,331**
Fee and commission income	45,247	32,459	18,479	10,234	6,959
Fee and commission expenses	5,878	4,092	1,754	1,344	843
Net fee and commission income	**39,369**	**28,366**	**16,726**	**8,891**	**6,116**
Other operating income	**16,605**	**19,568**	**21,257**	**9,842**	**3,535**
Net operating income	**110,025**	**89,426**	**60,978**	**33,467**	**18,982**
Salaries and related expenses	37,688	24,458	12,682	7,794	5,656
Administrative expenses	19,827	14,130	8,284	6,667	5,158
Operating expenses	**57,515**	**38,588**	**20,967**	**14,460**	**10,815**
Impairment on goodwill	0	0	3,033	0	0
Impairment provisions on loans and advances and assets held for sale	6,956	6,144	6,197	4,485	4,656
Pre-tax profit	**45,555**	**44,694**	**30,781**	**14,521**	**3,512**
Income tax	5,605	4,479	5,764	1,798	457
Net profit	**39,949**	**40,215**	**25,017**	**12,723**	**3,055**
Attributable to:					
Shareholders of Landsbanki Íslands hf.	38,800	38,906	24,740	12,574	2,956
Minority interests	1,150	1,309	277	149	99

Balance Sheet	2007	2006	2005	2004	2003
Cash and cash balances with Central Bank	81,559	31,669	16,611	18,237	11,642
Loans and advances to financial institutions	162,929	215,618	86,919	72,060	37,130
Loans and advances to customers	2,022,738	1,438,395	984,593	542,215	326,400
Financial assets at fair value and associates	667,941	376,809	218,894	64,730	63,744
Other assets	122,379	110,432	98,443	39,900	9,323
Total assets	**3,057,546**	**2,172,924**	**1,405,460**	**737,141**	**448,239**
Deposits from financial institutions	337,915	141,105	144,596	63,476	43,840
Deposits from customers	1,421,410	682,846	334,163	215,730	152,320
Borrowing	835,985	1,014,976	689,989	375,084	209,357
Subordinated loans	111,890	89,754	49,074	22,570	13,090
Other liabilities	166,342	94,785	74,022	21,572	6,389
Equity	180,008	144,282	110,059	37,705	22,382
Minority interests	3,996	5,175	3,557	1,004	862
Total liabilities and equity	**3,057,546**	**2,172,924**	**1,405,460**	**737,141**	**448,239**

Key ratios	2007	2006	2005	2004	2003
Return on equity before taxes	30.9%	40.3%	56.3%	57.2%	20.9%
Return on equity after taxes	27.1%	36.3%	45.8%	49.5%	17.6%
Tier 1 ratio	10.1%	13.0%	11.9%	7.8%	6.9%
Equity ratio (CAD)	11.7%	14.8%	13.1%	10.4%	9.9%
Cost-income ratio	52.3%	43.2%	34.4%	43.2%	57.0%
Operating expenses as a ratio of average capital position	2.2%	2.1%	2.0%	2.5%	3.0%
Interest spread as a ratio of average capital position	2.1%	2.3%	2.2%	2.6%	2.6%
Deposits / loans to customers	70.3%	47.5%	33.9%	39.6%	48.0%
Deposits / total assets	46.5%	31.4%	23.8%	29.3%	34.0%
Ratio of provision to lending position at year-end	0.32%	0.37%	0.58%	0.73%	1.47%
Loan loss ratio	0.07%	0.13%	0.19%	0.33%	0.55%
Share price at year-end	35.50	26.50	25.30	12.10	5.80
Change in share price adjusted for dividend payments	35.5%	5.9%	110.7%	110.3%	61.6%
Number of positions at year-end	2,640	2,117	1,725	1,121	1,025

Exchange rates					
Exchange rate ISK / EUR for P/L average of year	87.64	87.57	76.59	86.97	87.39
Exchange rate ISK / EUR for Balance sheet at year-end	91.65	93.72	74.7	83.51	89.76

ISK million

Consolidated Key Figures

Operations	**2007 Q4**	**2007 Q3**	**2007 Q2**	**2007 Q1**	**2006 Q4**	**2006 Q3**	**2006 Q2**	**2006 Q1**
Interest income	57,935	54,036	49,078	41,046	34,887	33,154	37,527	27,535
Interest expenses	42,708	39,591	35,578	30,167	25,306	23,840	23,865	18,601
Net interest income	**15,227**	**14,445**	**13,500**	**10,879**	**9,581**	**9,314**	**13,662**	**8,934**
Fee and commission income	11,534	11,813	11,013	10,886	9,323	7,547	7,791	7,797
Fee and commission expenses	1,874	1,595	1,285	1,124	1,325	979	849	940
Net fee and commission income	**9,660**	**10,218**	**9,729**	**9,762**	**7,998**	**6,568**	**6,943**	**6,857**
Dividend income	237	23	1,371	385	161	99	269	1,834
Net gains (losses) on financial assets and liabilities held for trading	(5,306)	(1,858)	3,062	3,098	492	1,943	(1,011)	750
Net gains (losses) on financial assets designated at FV through P/L	113	2,501	655	436	5,913	594	(489)	7,680
Fair value adjustments in hedge accounting	(14)	7	(37)	(7)	78	25	(25)	(96)
Foreign exchange differences	4,223	2,356	(296)	607	(58)	(145)	(12)	(49)
Profit (losses) from associates	671	(1,171)	1,191	(58)	1,133	(15)	(262)	843
Net gains (losses) of disposal groups held for sale, net of tax	9	60	9	4,339	(479)	155	51	188
Other operating income	**(68)**	**1,918**	**5,955**	**8,799**	**7,240**	**2,656**	**(1,478)**	**11,150**
Net operating income	**24,819**	**26,582**	**29,184**	**29,441**	**24,819**	**18,538**	**19,127**	**26,942**
Salaries and related expenses	10,769	10,029	8,919	7,972	6,989	5,963	6,256	5,249
Administrative expenses	5,846	4,806	4,731	4,444	4,042	3,754	3,496	2,839
Operating expenses	**16,615**	**14,835**	**13,650**	**12,415**	**11,031**	**9,717**	**9,752**	**8,088**
Impairment provisions on loans and advances and assets held for sale	2,286	1,620	1,501	1,549	1,332	1,597	1,660	1,555
Pre-tax profit	**5,919**	**10,127**	**14,033**	**15,476**	**12,457**	**7,224**	**7,714**	**17,299**
Income tax	997	1,402	1,490	1,716	(1,596)	1,480	1,572	3,023
Net profit	**4,922**	**8,725**	**12,542**	**13,760**	**14,053**	**5,744**	**6,143**	**14,276**
Attributable to:								
Shareholders of Landsbanki Íslands hf.	4,584	8,518	12,248	13,450	13,664	5,281	5,966	13,995
Minority interests	337	207	294	311	389	463	177	280

Balance Sheet	**31.12.2007**	**30.9.2007**	**30.6.2007**	**31.3.2007**	**31.12.2006**	**30.09.2006**	**30.06.2006**	**31.3.2006**
Cash and cash balances with Central Bank	81,559	48,440	33,976	18,431	31,669	25,714	22,806	19,403
Loans and advances to financial institutions	162,929	134,379	278,072	251,881	215,618	168,993	68,793	75,597
Loans and advances to customers	2,022,738	1,840,584	1,567,895	1,483,887	1,438,395	1,303,676	1,294,462	1,208,510
Financial assets at fair value and associates	667,941	680,728	584,875	437,894	376,809	305,294	275,113	300,780
Other assets	122,379	142,552	132,329	125,097	110,432	158,395	150,295	165,613
Total assets	**3,057,546**	**2,846,682**	**2,597,147**	**2,317,190**	**2,172,924**	**1,962,072**	**1,811,468**	**1,769,902**
Deposits from financial institutions	337,915	210,332	161,826	117,378	141,105	97,097	135,722	138,092
Deposits from customers	1,421,410	1,390,022	1,187,254	913,183	682,846	513,054	475,045	469,333
Borrowing	835,985	749,629	781,541	903,780	1,014,976	979,748	853,367	806,627
Subordinated loans	111,890	82,517	77,766	83,524	89,754	85,892	91,141	83,514
Other liabilities	166,342	234,211	224,231	145,697	94,785	151,746	128,714	151,130
Equity	180,008	176,486	161,312	149,869	144,282	129,876	123,088	117,187
Minority interests	3,996	3,485	3,217	3,758	5,175	4,660	4,392	4,019
Total liabilities and equity	**3,057,546**	**2,846,682**	**2,597,147**	**2,317,190**	**2,172,924**	**1,962,072**	**1,811,468**	**1,769,902**

ISK million

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

The Consolidated Financial Statements for the year 2007 consist of the Consolidated Financial Statements of Landsbanki Íslands hf. (the Bank) and its subsidiaries, (the Group). The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union (EU).

The Bank's total share capital amounts to ISK 11,192,754,087 nominal value. All shares are in a single class, bear equal rights, and are divided into units of one Icelandic krona (1 ISK), or multiples thereof. At year-end, shareholders in Landsbanki numbered 27,753 compared to 28,735 at the beginning of the year. Samson eignarhaldsfélag ehf., which holds 40.73% in the company, is the only shareholder with a stake over 10%.

According to the income statement, the Group's after tax profit for the year 2007 amounted to ISK 39,949 million. The Group's equity at year-end totalled ISK 184,004 million. The capital adequacy ratio of the Group was 11,7%, well exceeding the mandatory minimum of 8%. As of 31 December 2007, the Group's total assets were ISK 3,057,546 million.

Employees and managers within Landsbanki hold share options on Landsbanki's shares with a strike price of 3.58 to 39.4. The options will be earned from 2003 to 2011. Options are earned over a four-year period and can be exercised at the end of the fourth year and during the following two years. Options held by employees and managers at 31 December 2007 totalled ISK 1,488.7 million shares.

The Board is comprised of five directors and five alternates elected at each Annual General Meeting for a term of one year. Directors are elected in accordance with provisions on directors' independence in the Guidelines on Corporate Governance issued by the OMX Nordic Exchange Iceland, the Confederation of Icelandic Employers and the Icelandic Chamber of Commerce. Candidature for the Board of Directors must be announced at least five days prior to the Annual General Meeting. Any proposals for changes to Landsbanki's Articles of Association must be submitted to Landsbanki with sufficient notice to allow this to be placed on the agenda of the meeting, as provided for in Landsbanki's Articles of Association.

The Bank's Board of Directors is authorised to increase its share capital in stages, by up to ISK 1,027,923,716 nominal value, with subscriptions for new shares. Shareholders waive their pre-emptive rights to new shares issued, as provided for in Article 34 of Act No. 2/1995, on Public Limited Companies. The Board of Directors is authorised to determine the details of the price and terms of payment for such an increase. This authorisation is 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.

Landsbanki has entered as a borrower into loan agreements, which have change of control provisions. As a result of such provisions the outstanding loan amount under said agreements can be declared payable with immediate effect if a new party gains control of Landsbanki. Control is defined as the power to direct the management and policies of Landsbanki whether through the ownership of voting capital, by contract, or otherwise. The total amount of the loan agreements in question is ISK 131,380 million.

In August, the Group completed the acquisition of all the shares in UK stockbroker Bridgewell Group plc. The operation of Bridgewell Group plc. was merged with the operation of Teather & Greenwood Ltd under the new name Landsbanki Securities (UK) Ltd.

As a part of the acquisition, the Board of Directors of Landsbanki exercised its authorisation to raise the share capital of Landsbanki in accordance with a resolution approved by its Annual General Meeting held on 9 February 2007. Thus Landsbanki's share capital has been increased by ISK 172,076,284 nominal value, from ISK 11,020,677,803 to ISK 11,192,754,087.

According to the Directors' best knowledge, these consolidated financial statements comply with Act No. 3/2006, on Annual Accounts, and give a true and fair picture of the company's assets and liabilities, financial position and operating performance, as well as describing the principal risk and uncertainty factors faced by the company. The Report of the Board of Directors provides a clear overview of developments and achievements in the company's operations and its situation.

The Board of Directors of the Bank and the Group Managing Directors and Chief Executive Officers hereby endorse the Consolidated Financial Statements of Landsbanki Íslands hf. for the year 2007 by affixing their signatures.

Reykjavík, 28 January 2008

Board of Directors

Björgólfur Guðmundsson
Chairman

Kjartan Gunnarsson
Vice Chairman

Þorgeir Baldursson
Board Member

Þór Kristjánsson
Board Member

Svafa Grönfeldt
Board Member

Group Managing Directors and Chief Executive Officers

Sigurjón Þ. Árnason

Halldór J. Kristjánsson

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Landsbanki Íslands hf. and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavík, 28 January 2008

PricewaterhouseCoopers hf.

Vignir Rafn Gíslason

Þórir Ólafsson

Consolidated Income Statement for the year 2007

Notes		2007	2006
	Interest income	202,095	133,102
	Interest expenses	148,044	91,611
8	**Net interest income**	**54,052**	**41,491**
	Fee and commission income	45,247	32,459
	Fee and commission expenses	5,878	4,092
9	**Net fee and commission income**	**39,369**	**28,366**
10,11	Dividend income	2,015	2,362
11	Net gains (losses) on financial assets and financial liabilities held for trading	(1,004)	2,174
11,12	Net gains on financial assets designated at fair value through profit and loss	3,704	13,699
11	Fair value adjustments in hedge accounting	(51)	(18)
11	Foreign exchange differences	6,889	(263)
11,21	Profit from associates	633	1,699
11	Net gains (losses) of disposal groups held for sale, net of tax	4,417	(85)
	Other operating income	**16,605**	**19,568**
	Net operating income	**110,025**	**89,426**
13	Salaries and related expenses	37,688	24,458
	Administrative expenses	19,827	14,130
	Operating expenses	**57,515**	**38,588**
14	Impairment provisions on loans and advances and assets held for sale	6,956	6,144
	Pre-tax profit	**45,555**	**44,694**
15	Income tax	5,605	4,479
	Net profit	**39,949**	**40,215**
	Attributable to:		
	Shareholders of Landsbanki Íslands hf.	38,800	38,906
	Minority interest	1,150	1,309
16	**Earnings per share:**		
	Earnings per share	3.56	3.67
	Diluted earnings per share	3.29	3.48

ISK million

Consolidated Balance Sheet as at 31 December 2007

Notes		2007	2006
	Assets		
	Cash and cash balances with Central Bank	81,559	31,669
	Loans and advances to financial institutions	162,929	215,618
17	Loans and advances to customers	2,022,738	1,438,395
18	Bonds	362,617	169,598
18	Equities	64,407	49,328
18	Hedged securities	176,181	105,190
18,19	Derivatives held for trading	50,198	38,358
20	Derivatives held for hedging	8,719	10,498
21	Investments in associates	5,820	3,837
22	Property and equipment	11,862	5,823
23	Intangible assets	27,679	14,351
24	Non-current assets and disposal groups classified as held for sale	3,641	21,349
	Unsettled securities trading	58,845	36,965
	Other assets	20,352	31,944
	Total assets	**3,057,546**	**2,172,924**
	Liabilities		
25	Deposits from financial institutions	337,915	141,105
26	Deposits from customers	1,421,410	682,846
27	Borrowings	774,754	1,014,976
28	Financial liabilities designated at fair value	61,231	0
29	Subordinated loans	111,890	89,754
19	Trading liabilities	62,161	20,866
20	Derivatives held for hedging	6,953	6,473
30	Tax liabilities	8,149	6,593
	Liabilities included in disposal groups classified as held for sale	0	7,242
	Unsettled securities trading	48,399	29,987
31	Other liabilities	40,679	23,623
	Total liabilities	**2,873,542**	**2,023,466**
	Equity		
	Share capital	10,865	10,581
	Share premium	53,417	50,595
	Reserves	191	2,060
	Retained earnings	115,535	81,046
		180,008	**144,282**
	Minority interest	3,996	5,175
	Total equity	**184,004**	**149,457**
	Total liabilities and equity	**3,057,546**	**2,172,924**

32-39 Other information

ISK million

Changes in Consolidated Equity for 2007

	Attributable to Equity Holders of the Company							
		Share Premium		Reserves				
	Share capital	Additionally paid in capital	Statutory account	Translation	Fair value	Retained earnings	Minority interest	Total
Equity 1 January 2006	**10,614**	**52,009**	**268**	**(73)**	**1,864**	**45,377**	**3,557**	**113,617**
Exchange difference on translating foreign operations				269				269
Net income/(expense) recognised directly in equity				269				269
Net profit 2006						38,906	1,309	40,215
Total recognised income and expense 2006	**0**	**0**	**0**	**269**	**0**	**38,906**	**1,309**	**40,484**
Purchases and sales of treasury shares	(33)	(1,683)						(1,715)
Dividends paid						(3,237)		(3,237)
Changes in minority interest							308	308
	(33)	**(1,683)**	**0**	**0**	**0**	**(3,237)**	**308**	**(4,644)**
Equity 31 December 2006	**10,581**	**50,326**	**268**	**196**	**1,864**	**81,046**	**5,175**	**149,457**
Equity 1 January 2007	**10,581**	**50,326**	**268**	**196**	**1,864**	**81,046**	**5,175**	**149,457**
Exchange difference on translating foreign operations				(5)				(5)
Fair value adjustment of investment properties, included in disposal groups					(1,864)			(1,864)
Net income/(expense) recognised directly in equity				(5)	(1,864)			(1,868)
Net profit 2007						38,800	1,150	39,949
Total recognised income and expense 2007	**0**	**0**	**0**	**(5)**	**(1,864)**	**38,800**	**1,150**	**38,081**
Issued new shares	172	6,608					81	6,861
Purchases, sales and fair value changes of treasury shares	111	(6,564)						(6,453)
Accrued stock options		2,778					25	2,803
Dividends paid						(4,311)	(56)	(4,367)
Sales of minorities interests							(2,344)	(2,344)
Changes in minority interest							(35)	(35)
	283	**2,822**	**0**	**0**	**0**	**(4,311)**	**(2,329)**	**(3,534)**
Equity 31 December 2007	**10,865**	**53,148**	**268**	**191**	**0**	**115,535**	**3,996**	**184,004**

According to the Bank's Articles of Association, total share capital amounts to ISK 11.193 millions. At year-end 2007 own shares amounted to ISK 328 millions and share capital in the balance sheet thus amounted to ISK 10.865 millions. One vote is attached to each share.

ISK million

Consolidated Statement of Cash flow for the year 2007

	2007	2006
Interest received	193,215	112,432
Interest paid	(98,418)	(42,388)
Fees and commission received	43,796	31,259
Fees and commission paid	(6,176)	(3,012)
Dividends received	2,015	2,362
Net trading and other income	25,695	11,826
Cash payments to employees and suppliers	(52,999)	(18,618)
Income taxes paid	(5,068)	(3,915)
Cash flow from operating profits before changes in operating assets and liabilities	**102,060**	**89,945**
– net increase/(decrease) in loans and advances to financial institutions	16,651	(125,964)
– net (decrease) in loans and advances to customers	(601,729)	(387,282)
– net (decrease) in trading assets	(304,096)	(64,076)
– net (decrease) in other assets	(22,948)	(24,398)
– net increase in deposits from other banks	316,899	54,705
– net increase in amounts due to customers	784,848	305,433
– net increase/(decrease) in trading liabilities	4,296	(6,016)
– net increase/(decrease) in other liabilities	17,053	(6,194)
Cash flow from operating activities	**313,034**	**(163,848)**
Change in property and equipment	(6,589)	(1,670)
Change in financial assets designated at fair value through profit and loss	(4,150)	18,076
Change in subsidiaries and associates	758	(26,589)
Change in intangible assets	(4,596)	(942)
Cash flow used in investing activities	**(14,577)**	**(11,126)**
Repayments and proceeds from borrowed funds and debt securities	(164,424)	197,333
Interest paid on long term borrowed funds and debt securities	(39,310)	(39,087)
Repayments and proceeds from subordinated loans	25,464	30,220
Interest paid on subordinated loans	(5,520)	(4,508)
Dividends paid	(4,311)	(3,237)
Change in own stock	329	(1,715)
Cash flow used in financing activities	**(187,770)**	**179,006**
Increase in cash	110,687	4,032
Cash at beginning of year	41,147	31,417
Foreign exchange difference	(2,563)	5,698
Cash and cash equivalents at year-end	**149,271**	**41,147**

ISK million

Notes to the Consolidated Financial Statements

1. General information

Landsbanki (the Group) is a universal bank, providing retail, corporate, and investment banking services. The Group operates in 14 countries and has 2,640 employees at year-end.

The Group's parent company is Landsbanki Íslands hf. (the Bank), which is a limited-liability company incorporated and domiciled in Iceland. The registered office is Austurstræti 11, 155 Reykjavík. The Bank was established in 1886 and remained state-owned until 1998 when the Government of Iceland decided to privatise the Bank through a public offering. Today, the Bank's shares are listed on the OMX, the Nordic Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 28 January 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in preparing these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The consolidated financial statements reflect IFRS and interpretations issued and effective as of 31 December 2007.

IFRS, as adopted by the EU, depart from full IFRS in the following areas, relating to the Group's operations:

Standards not adopted by the EU:
IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. This amendment is not yet effective and has not been adopted by the EU. The Group will apply it as soon as has been adopted by the EU.

Interpretations to existing standards not adopted by the EU:
IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008)
IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).
IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008).

Standards, amendment, and interpretations adopted by the EU and effective in 2007:
Standards:
IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures to improve the information about financial instruments, including quantitative aspects of risk exposures and the method of risk managements. The new disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management. Qualitative and quantitative disclosures over exposure to credit risk, liquidity risk and market risk. IFRS 7 supersedes IAS 30 ,Disclosures in the financial statements of banks and similar financial institutions' and some of the disclosure requirements of IAS 32 ,Financial instruments, disclosure and presentation'. The amendment to IAS 1 introduced disclosures about the level of the entity's capital and how it manages capital.

These standards have significant impact on the classification of the group's financial instruments and disclosures. The Group has implemented both standards into its accounting policies and applied them in preparing these consolidated financial statements.

IFRS 4, 'Insurance contracts'; This standard does not have any impact on the Group's financial statements.

Interpretations:
IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'
IFRIC 8, 'Scope of IFRS 2'
IFRIC 9, 'Re-assessment of embedded derivatives'
IFRIC 10, 'Interim financial reporting and impairment'
IFRIC 11, 'IFRS 2 – Group and treasury share transactions'

The following standard has been published and is mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods. The standard has been adopted by the EU, but the Group has not early adopted it:

IFRS 8, 'Operating segments ' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying various accounting policies. Critical accounting estimates and judgements in applying accounting policies are disclosed in Note 3.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. On the date of reporting, the Group's significant subsidiaries were:

Company	Share owned	Activity
Heritable Bank Ltd (UK)	100%	Corporate banking
Landsbanki Securities (UK) Holdings plc	100%	Stockbrokers and financial services
Landsbanki Holdings Europe SA (Luxembourg)	100%	Holding company
- Landsbanki Luxembourg SA (Luxembourg)	100%	Private and corporate banking
- Landsbanki Kepler SA (France)	100%	Stockbrokers and financial services
Landsbanki Guernsey Ltd (UK)	100%	Retail banking
Merrion Capital Group Ltd (Ireland)	67%	Stockbrokers and financial services
LI Investments AB (Sweden)	100%	Holding company
Landsbanki Holdings (UK) plc	100%	Holding company
LI Investments Ltd (British Virgin Islands)	100%	Holding company
Landsvaki hf. (Iceland)	100%	Operation company for mutual funds
Landsbankinn eignarhaldsfélag ehf. (Iceland)	100%	Holding company
Landsbankinn - Fjárfesting hf. (Iceland)	100%	Holding company
Landsbankinn fasteignafélag ehf. (Iceland)	100%	Real estate company
Landsbanki Vatnsafl ehf. (Iceland)	100%	Holding company
SP – Fjármögnun hf. (Iceland)	51%	Leasing company
Verðbréfun hf. (Iceland)	100%	Securitization company
Stofnlánadeild Samvinnufélaga (Iceland)	100%	Holding company (dormant)
Hömlur hf. (Iceland)	100%	Holding company for appropriated assets
Span ehf. (Iceland)	100%	IT-services

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the transaction date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances, and unrealised gains on transactions between Group companies are eliminated in the consolidated accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities, which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the share capital conferring voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in reserves within equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

A business segment is a part of the Group's assets and operations, which is subject to risks and returns differing from those of other business segments. A geographical segment is a part of the assets and operations within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

ISK million

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's individual entities are measured using the currency of the economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in millions of Icelandic kronas (ISK), which is also the Bank's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying net investment hedges. Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss.

(c) Group companies

The results and financial position of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) the assets and liabilities of each balance sheet are translated at the closing rate at the year-end;
(ii) items of each income statement are translated at the average exchange rate for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges on such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are based on quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is based on comparison with comparable transactions in similar instruments. Fair value can also be based or founded on the basis of pricing models.

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(a) Fair value hedge

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of assets or liabilities (fair value hedges). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The relationship is documented and an assessment made, both at hedge inception and at each reporting period, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Any ineffectiveness is recorded in ‚Fair value adjustments in hedge accounting'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Net investment hedge

Any gain or loss on a hedging instrument relating to the effective portion of a hedge of net investments in foreign operations is recognised in equity as translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(c) Derivatives that do not qualify for hedge accounting

Derivative financial instruments, which do not qualify for hedge accounting are recognised as trading assets or trading liabilities. Changes in their fair value are recognised immediately in the income statement.

2.6 Interest income and expense

Interest income and expense for all instruments measured at amortised cost are recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset, or a financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts exactly estimated future cash flows or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, making it equivalent to the net carrying amount of the financial asset or financial liability in the balance sheet. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans are generally deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from participating in the negotiation of a transaction for a third party – such as arrangement of transactions with equities or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle for income reporting is applied for other custody services that are continuously provided over an extended period of time.

2.8 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2.9 Financial assets

The Group classifies its financial assets in the following categories: financial assets designated at fair value through profit or loss including financial assets held for trading and loans and advances. Management determines the classification of its investments at initial recognition.

(a) Assets held for trading

A financial asset at fair value through profit or loss is classified in this category if it is primarily held for the purpose of trading in the near term. Derivatives are classified as assets held for trading unless designated as a hedging instrument.

(b) Financial assets designated at fair value through profit or loss

Financial assets are designated at fair value through profit or loss when:

- Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy; and
- Financial instruments, such as debt securities held, contain one or more embedded derivatives significantly modify the cash flows; and
- Financial assets backing investment contracts have related liabilities that have cash flows that are contractually based on the performance of the assets.

Such financial assets are carried at fair value with changes in fair value recognised in the income statement. The classification of financial assets designated in this category cannot be subsequently changed.

(c) Loans and advances

Loans and advances are financial assets with defined payments that are not quoted in an active market. They arise when the Group provides funds directly to a debtor with no intention of trading them.

Regular way purchases and sales of financial assets designated at fair value through profit or loss are recorded on the date on which the Group commits to purchase or sell the asset. Loans are recognised when the funds related to the loan are disbursed to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and reward of ownership, but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restriction on the sale.

Financial assets designated at fair value through profit or loss and trading assets are subsequently carried at fair value. Loans and advances are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss and trading assets are recorded in the income statement in the period in which they arise.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using recognised valuation techniques. These include the use of information about recent arm's length transactions, references to other materially equivalent instruments, discounted cash flow analysis and option pricing models and other valuation techniques commonly used by market participants.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2.11 Sale and repurchase agreements

Sale and repurchase agreements (repos) provide for the sale of securities under agreement to repurchase the same securities at a predetermined price on a predetermined future date. Securities sold under sale and repurchase agreements are not derecognised as the Group does not transfer substantially all risks and rewards associated with them.

2.12 Securities lending and borrowings

Lending agreements are financial instruments where the securities are not sold, but are returned to the Group at the end of contract. Control of the securities remains in the hands of the Group during their entire transaction period and the securities remain on its balance sheet as trading assets or as financial assets designated at fair value through profit or loss, as appropriate.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in net trading income.

2.13 Impairment of loans and advances

At each balance sheet date, the Group assesses whether there is objective evidence that a loan or loan portfolio is impaired. A loan or loan portfolio is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (‚loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated. Objective evidence of impairment includes observable data about the following loss events:

(i) significant financial difficulty of the borrower;
(ii) a breach of contract, such as a default on instalments or on interest or principal payments;
(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;
(iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation; or
(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– general detoriation of economic conditions connected with a group of loans.

The Group defines loans that are individually significant and assesses first whether objective evidence of their impairment exists, and individually or collectively for loans and advances that have not been defined as individually significant. If the Group determines that no objective evidence of impairment exists for significant loans, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Individual significant assets for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable value. The recoverable value is the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of impairment through the use of an allowance account and the amount of the loss is recognised in the income statement. In the case of loans with variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to their contractual terms.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience was originally based and to remove the effects of previously existing loss factors, which do not exist currently.

Estimates of changes in future cash flows for groups of assets should be consistent with changes in observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the provision for loan impairment on the balance sheet. Loans are written off after all the necessary procedures have been completed, as set out in the Group's lending directives, and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the income statement.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

2.14 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software and other intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into service the specific software. Computer software recognised as intangible assets is amortised over its useful life (determined to be 5 years).

Cost associated with maintaining computer software are recorded as expenses, when incurred.

Other intangible assets are customers agreements indentified at business acquisition, amortised over its useful life (determined to be 15 years).

2.15 Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and these cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on property and equipment, other than land, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	25-100 years,
Computer hardware	3-5 years,
Other equipment and motor vehicles	3-10 years.

The assets' residual values and useful lives are reviewed annually and adjusted, if appropriate.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the income statement.

2.16 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Non-current assets held for sale

Non-current assets held for sale are comprised of repossessed collateral, which is in the process of being sold, as well as disposal groups. Liabilities connected with the disposal group are recognised as a separate liability on the balance sheet. Items included under non-current assets held for sale are recognised at the lower of carrying amount and fair value less cost to sell.

2.18 Leases

(a) A group company is the lessee

The leases entered into by the Group are primarily operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) A group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable as a part of loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using a method that reflects a constant periodic rate of return.

2.19 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents are defined as cash and non-restricted balances with the Central Bank and amounts due from other financial institutions.

ISK million

2.20 Provisions

Provisions for restructuring costs and legal claims are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; (iii) and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of customers to secure loans, overdrafts, and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

2.22 Employee benefits

(a) Pension obligation

Group companies operate various pension schemes. Most of the Group companies have defined contribution plans, where the companies are paying fixed contributions to publicly or privately administered pension insurance plans on a mandatory, contractual, or voluntary basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense when they become due.

A few of the Group's companies have defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service, and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Share-based compensation

The Group has entered into stock options contracts with its employees enabling them to acquire shares in the Bank. In all instances the exercise price corresponds to the market value of the shares at grant date. Cost related to the stock option agreements is expensed during the vesting period based on the related terms.

All stock options are equity settled share-based compensation, and the Group recognises the fair value of the services received as an expense in the period that these services are received.

The Group uses the Black-Scholes valuation model to determine the fair value of options granted. The significant inputs into the model were share prices at the grant date, exercise price, the volatility of standard deviation of expected share price, dividend yield and the a risk free interest rate.

2.23 Deferred income tax

Deferred income tax is recognised in full as a liability, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is, however, not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which, at the time of the transaction, affects neither its accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of certain financial assets and liabilities, including derivative contracts. Temporary differences also include tax losses carried forward and the difference between the fair values of assets acquired and their tax base.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax arising from temporary differences in connection with investments in subsidiaries and associates is recognised in the consolidated financial statements. This is not done, however, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.24 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

2.25 Subordinated loans

The Group has borrowed funds by issuing bonds on subordinated terms. These bonds are subordinated to the other liabilities of the Group. For the purpose of the calculation of the capital ratio, the bonds are included within Tier I and Tier II capital. Subordinated loans are carried at amortised cost.

2.26 Financial liabilities designated at fair value through profit or loss at inception

Financial liabilities are designated at fair value through profit or loss when:

- Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost such as loans and advances to customers or banks and debt securities in issue; and
- Financial instruments, such as debt securities held, contain one or more embedded derivatives that significantly modify the cash flows; and
- The Group is engaged in a unit-linked investment contracts where the liability reflects the value of assets held within unit linked investment pools.

Such financial liabilities are reported at current fair value and changes recognised in the income statement. The classification of financial liabilities placed in this category cannot be changed after their original classification.

2.27 Share capital

(a) Share issue costs

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Group's shareholders meeting.

(c) Treasury shares

Where the Group, or other members of the Group, purchases the Group's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.28 Fiduciary activities

The Group acts as a custodian, holding or placing assets on behalf of individuals, institutions and pension funds. These include various mutual funds managed by the Group. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.29 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimate based on these assumptions will by definition seldom be equivalent to the relevant real outcome. The discussion below examines estimates and assumptions, which involve a substantial risk of causing material correction to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives

The fair value of financial instruments not quoted in active markets are determined by various recognised valuation techniques. When valuation techniques (e.g. models) are used to determine fair value, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however areas such as credit risk require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. Management of financial risk

The Group's risk policy and procedures ensure that the risks involved in its operations are known, measured, and monitored. Exposure to risks is managed to ensure that it remains within the limits adopted by the Group for its operations and complies with regulatory requirements. The Group has adopted a policy on the risk structure of its portfolio to ensure that fluctuations resulting from unexpected events, affecting both the Group's equity and its performance, are both limited and manageable.

The Board of Directors is responsible for the Group's general policy on risk, ensuring that it conforms to the Groups's strategy, the experience of its management, its capital adequacy and risk appetite. The Group's CEOs are responsible to the Board for its daily operations and manage its risk through committees. Furthermore, managing directors report to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the Group's policy.

Standing meetings of managing directors is as a forum for consultation between the CEOs and managing directors.

The Group has five standing committees: the Asset and Liability Committee (ALCO), the Asset Management Committee, the Credit Committee, the Operations Committee and the Group Risk Management Committee. The Landsbanki Group Risk Committee (LGRC) is responsible for effective risk management and control in the Landsbanki Group.

The Board of Directors has two sub-committees, an Audit Committee and Remuneration Committee, which prepare examination by the Board of specific areas of operation and detailed investigation of issues falling within their sphere of responsibility.

The Compliance Officer ensures that the Group's rules on securities trading and insider trading are followed, and that Group operations comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and other relevant statutes and regulations. Each of Landsbanki's subsidiaries has a compliance officer, and the Group's Compliance Officer supervises their work and reports to the Board of Directors.

Landsbanki's internal auditing is carried out on a Group basis, the Director of Internal Audit for the Bank audits all Group companies. Internal auditing is an essential aspect of the Group's risk management control; each operating unit is audited at least once a year.

4.1 Financial instruments and risk management strategy

Clients' assets and liabilities bear fixed or variable rates of interest over longer or shorter terms, it is essential for the Group to control its investments closely to maintain a balance in the interest rates and maturities of assets and liabilities. The Group also endeavours to increase its interest rate margin by offering both short-term and long-term credit, while at the same time it must maintain sufficient liquidity to meet its commitments. By extending credit to both corporations and individuals, on varying terms reflecting the risk of loss in each instance, the Group aims to achieve an acceptable interest rate margin. Interest rate risk is not limited to interest bearing assets on the Group's balance sheet, but also includes guarantees and derivatives.

By taking positions and trading in listed and unlisted financial instruments, the Group can take advantage of short-term movements on the equity and bond markets, as well as currency and interest rate fluctuations. Currency risk is generally kept in balance. Part of the Group's currency risk is hedged with currency swaps. Interest rate swaps and currency interest rate swaps are used to partly hedge interest rate risk against any drop in the fair value of fixed interest rate assets and any increase in the fair value of customers' deposits on fixed terms.

4.1.1 Hedge accounting

In order to decrease volatility in profit and loss due to changes in market rates, the Group aims to hedge future cash flow of fixed income payment by entering into interest rate and cross-currency swaps, effectively exchanging the fixed rate for floating rate. The Group designates specific derivatives as hedges of the fair value of assets or liabilities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(a) Fair value hedge

The Group uses interest rate and currency swaps to hedge part of its interest rate risk against any possible impairment of the fair value of fixed and floating interest rate assets and liabilities in both ISK and foreign currencies. The net fair value of these swaps as of 31 December 2007 was positive in the amount of ISK 1,765 million.

(b) Net investment hedge

The Group balances currency risk arising from net investment in foreign operation against foreign currency borrowing. At 31 December 2007, loans amounting to ISK 86,469 million (31.12.2006: ISK 50,288 million) were recognised as hedges, resulting in exchange rate profit in 2007 of ISK 2,504 million (2006: ISK 6,857 million loss) recognised in equity against exchange rate profit from investments in subsidiaries.

4.2 Credit Risk

Credit risk is the greatest single risk faced by the Group. Credit risk is the risk that a borrower or counterparty in a transaction with the Group will be unable to meet its financial obligations. The Group manages this risk by setting limits for acceptable risk-weighted exposures to individual borrowers or groups of related borrowers, geographical regions, or industrial sectors. Such limits are monitored and reviewed regularly. Credit risk is also managed through regular assessments of clients' credit ratings, modifications of authorized credit limits, or acquiring better collateral for existing clients' obligations.

The credit risk management and control within the Group is centralized. The Board of Directors sets a lending policy, including maximum exposure to individual borrowers and groups of related borrowers. The purpose of these rules is to control the maximum exposure of the Group by monitoring the indirect risk exposure of the Group through its clients and direct claims of the Group and its subsidiaries on a combined basis. In particular, direct claims include financial instruments issued by a client, which are used to guarantee other obligations of third unrelated parties. According to the Group's internal rules, a maximum total exposure to an individual customer or to a group of related parties may not exceed 20% of the Group's equity.

Exposure to clients with the best credit standing according to the Group's rating system, may comprise as much as 25% of the Group's equity, but only when in the form of short-term obligations. Exposure to clients with a lower credit standing may not comprise more than 10% of Group's equity. This exposure may however be increased to as much as 15%, provided that at least 5% of that exposure would be short-term.

ISK million

At year-end 2007, 9 clients were rated as having large exposures by the Landsbanki Group. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's equity, in accordance with the Financial Supervisory Authority's Rules on large exposures incurred by financial undertakings. All of Landsbanki's large exposures were within these limits at the end of 2007. The Board of Directors regularly reviews detailed reports on the commitments of the Group's largest clients. Reports on the situation of the largest group exposures are reviewed by the Credit Committee, together with other reports concerning the Group's loan portfolio, e.g. analyses of the economic situation and of individual sectors.

The Group's Credit Committee sets detailed lending rules based on the policy approved by the Board of Directors. Credit officers' lending authorization levels are similarly well defined and incremental. The Credit Committee delegates and reviews employees' authorization levels and is responsible for review of the lending rules. Comprised of the Group's subsidiaries CEOs and managing directors, it meets regularly to discuss all credit decisions exceeding the authorization levels of branches, subsidiaries or the Corporate Banking Division. The Committee checks the composition of the loan portfolio with regard to industrial sectors, geographical regions, collateral, and other aspects, as well as the level defaults and default trends. Detailed reports on the financial position of the Group's largest debtors are reviewed by the Credit Committee, together with special reports, e.g. on the situation of the economy in general and specific industrial sectors, etc.

(a) Collateral

Securing loans with collateral is the traditional method of mitigating credit risk. The Group obtains collateral to secure client obligations where considered appropriate normally in the form of a lien on client assets giving the Group a claim on these assets for both existing and future client obligations. Credit extended by the Group may be secured on residential or commercial properties, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft etc. The Group also secures its loans with receivables and operating assets, such as machinery, equipment, raw materials, and inventories. Residential mortgages are generally fully secured with the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

(b) Derivatives

The Group maintains strict control limits on net open derivative positions, by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

(c) Credit-related commitments

Guarantees and letters of credit, which irrevocably commit the Group to make payment to a third-party in the event a customer cannot fulfil his obligations, involve the same credit risk as loans. Import guarantees and documentary credits are secured by the goods shipments they cover, thus representing a lower risk than direct loans. Unused credit lines represent a commitment to increase loans or guarantees. The Group could conceivably suffer losses equivalent to the total amount of open credit lines. The Group monitors the duration of credit lines, since longer-term obligations generally imply a greater credit risk.

(d) Netting arrangements

In order to further limit counterparty risk arising from financial instruments, the Group enters into netting agreements. These arrangements ensure that in the case of foreclosure, the Group can set off all contracts covered by the netting agreement against the debt. The arrangements generally include all market transactions between the Group and its clients.

4.2.1 Credit risk measurement

(a) Loans and advances

One of the basic elements for the quantification of credit risk is the measurement of probability of default with an effective and accurate credit risk classification system. Credit risk is measured within the Group by rating customers (or exposures) on a single rating scale. Different systems are used for rating and scoring customers and exposures, but the common denominator is that they all rank credit according to risk and to predict defaults. Every rating grade has a probability of default (PD) assigned to it.

The Group assesses the probability of default of individual counterparties using internal and external rating tools tailored to various categories of the counterparties. These have been developed internally and combine statistical analysis with credit officers' judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Group are segmented into thirteen credit quality classes that are mapped to the four rating classes below. The rating scale, which is shown below, reflects the range of default probabilities defined for each risk classification. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are regularly reviewed and upgraded as necessary. The Group regularly validates the performance of the ratings' bands and their predictive power with regard to default events.

Group's internal risk classification and mapping of external ratings

		Probability of default	
Group's rating	**Description of the grade**	**From**	**To**
1	Investment grade	0.0%	0.55%
2	Standard monitoring	0.55%	2.29%
3	Special monitoring	2,29 +	
4	Sub-standard	Problem loans	

The probability of default is the likelihood of a loan to falling into 90 days default within the next 12 months, as defined in the Basel II regulatory framework.

(b) Bonds

For Bonds external rating such as Moody's ratings or their equivalents are used by the Group for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

ISK million

4.2.2 Impairment and provisioning policies

The internal and external rating systems described in Note 4.2.1 focus on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on an objective evidence of impairment.

The impairment provision shown in the balance sheet at year-end is derived from each of the four internal risk classifications. However, the majority of the impairment provision comes from the bottom two grades. The table below shows the breakdown of the Group's loans and advances and the associated impairment provisions along with the Group's internal risk classification:

Group's internal risk classification

	2007		2006	
Group's rating	**Loans and advances (%)**	**Impairment provision (%)**	**Loans and advances (%)**	**Impairment provision (%)**
1. Investment grade	27.0	0.0	25.0	0.0
2. Standard monitoring	46.8	0.2	53.3	0.5
3. Special monitoring	24.6	2.8	20.0	2.9
4. Sub-standard	1.6	17.4	1.7	21.9
	100	**1.08**	**100**	**1.21**

The Group's policy requires that individual financial assets that are above materiality thresholds are reviewed at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous loans that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents a worst case scenario of credit risk exposure to the Group at 31 December 2007 and 2006, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

	Maximum exposures	
	2007	**2006**
Credit risk exposures relating to on balance sheet items are as follows:		
Loans and advances to financial institutions	162,929	215,618
Loans and advances to customers:		
Loans to individuals:		
– Mortgages	261,843	194,232
– Other loans	117,566	104,903
Loans to corporates and public entities	1,665,311	1,155,871
Provisions for credit losses on loans and advances	(21,981)	(16,611)
Bonds	362,617	169,598
Hedged securities	53,236	45,583
Derivatives held for trading	50,198	38,358
Derivatives held for hedging	8,719	10,498
Unsettled securities trading	58,845	36,965
Other assets	20,352	31,944
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	112,602	95,911
Loan commitments and other credit related liabilities	131,757	123,156
Total maximum exposure to credit risk	**2,983,993**	**2,206,026**

ISK million

4.2.4 Loans and advances

The following table shows the gross amount of loans and advances to customers.

Loans and advances	2007 Customers	2007 Financial institutions	2006 Customers	2006 Financial institutions
Neither past due nor impaired	1,972,961	162,929	1,387,665	215,618
Past due (one day or more), but not impaired	46,736	0	53,071	0
Impaired	25,022	0	14,271	0
Provisions for credit losses on loans and advances	(21,981)	0	(16,611)	0
Total loans and advances	**2,022,738**	**162,929**	**1,438,395**	**215,618**

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating classification adopted by the Group.

At 31 December 2007	Individual Mortgages	Individual Other loans	Corporates and public entities	Customer Total	Financial institutions
1. Investment grade	101,430	19,338	423,235	544,003	153,176
2. Standard monitoring	132,346	34,337	758,236	924,919	9,752
3. Special monitoring	15,647	29,583	428,922	474,152	0
4. Sub-standard	1,158	2,024	26,706	29,887	0
Total loans and advances neither past due nor impaired	**250,580**	**85,281**	**1,637,100**	**1,972,961**	**162,929**

At 31 December 2006	Individual Mortgages	Individual Other loans	Corporates and public entities	Customer Total	Financial institutions
1. Investment grade	82,488	19,575	251,743	353,806	210,207
2. Standard monitoring	102,653	25,098	623,880	751,630	5,411
3. Special monitoring	11,599	24,685	224,602	260,885	0
4. Sub-standard	782	2,663	17,898	21,343	0
Total loans and advances neither past due nor impaired	**197,521**	**72,021**	**1,118,123**	**1,387,665**	**215,618**

(b) Loans and advances past due, but not impaired

(i) Loans and advances past due, but not impaired

The following table shows loans and advances past due (one day or more) but not impaired, with a payment delay analysis. The table shows the total amount of the loan if an instalment is past due.

At 31 December 2007	Individual Mortgages	Individual Other loans	Corporates and public entities	Customer Total
Past due (one day or more) up to 30 days	5,168	9,950	13,645	28,762
Past due 30 - 60 days	2,208	1,262	2,858	6,328
Past due 60-90 days	704	795	2,934	4,434
Past due over 90 days	1,727	821	4,664	7,212
Total loans and advances past due, but not impaired	**9,807**	**12,828**	**24,101**	**46,736**

At 31 December 2006	Individual Mortgages	Individual Other loans	Corporates and public entities	Customer Total
Past due (one day or more) up to 30 days	4,773	10,459	18,539	33,770
Past due 30 - 60 days	1,927	1,353	5,232	8,511
Past due 60-90 days	793	432	2,250	3,475
Past due over 90 days	872	995	5,447	7,314
Total loans and advances past due, but not impaired	**8,365**	**13,239**	**31,467**	**53,071**

No loans to financial institution are impaired.

ISK million

(ii) Payments of loans and advances to customers past due, but not impaired

The following table shows past due payments of loans and advances to customers at year-end.

At 31 December 2007	Individual Mortgages	Individual Other loans	Corporates and public entities	Customer Total	As % of total loans to customers
Past due (one day or more) up to 30 days	40	960	1,415	2,415	0.12
Past due 30 - 60 days	15	436	961	1,411	0.07
Past due 60-90 days	7	175	562	744	0.04
Past due over 90 days	35	980	3,896	4,911	0.24
Total payments past due	**97**	**2,550**	**6,834**	**9,481**	**0.47**

At 31 December 2006	Individual Mortgages	Individual Other loans	Corporates and public entities	Customer Total	As % of total loans to customers
Past due (one day or more) up to 30 days	37	787	1,187	2,011	0.14
Past due 30 - 60 days	14	356	1,313	1,683	0.11
Past due 60-90 days	6	147	712	864	0.06
Past due over 90 days	14	877	2,079	2,970	0.20
Total payments past due	**71**	**2,167**	**5,291**	**7,529**	**0.51**

(c) Loans and advances to customers impaired

At 31 December 2007	Individual Mortgages	Individual Other loans	Corporates	Total
Individually impaired loans	345	2,350	22,328	25,022

At 31 December 2006	Individual Mortgages	Individual Other loans	Corporates	Total
Individually impaired loans	1,122	2,501	10,648	14,271

Securing loans by collateral is the traditional method of mitigating credit risk. The Group obtains collateral in respect of customer liabilities where considered appropriate. Collateral normally takes the form of a lien on customer assets, and gives the Group claim on these assets for both existing and future liabilities. Credit extended by the Group is secured by residential or corporate real estate, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft, other valuable assets etc. The Group also secures its loans with receivables and operating assets, such as machinery and equipment, raw materials and inventories. Residential housing mortgages are generally fully secured by a charge against residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowing.

In the case of loans that are individually impaired, the collateral in question has been judged not to be sufficient to cover the net present value of the loan and therefore the loan has been impaired.

(d) Loans and advances renegotiated

Restructuring activities include extended and modified repayment arrangements and approved external management plans. Following a loan restructuring, a previously overdue loan is reset to a normal status and managed together with other similar loans. Restructuring policies and practices are based on certain indicators or criteria, which in the judgment of local management indicate that payment are most likely to continue after being restructured. These policies are kept under continuous review. Renegotiated loans to individuals amounts ISK 2,972 million at 31 December 2007 (31.12.2006: ISK 1,156 million).

4.2.5 Bonds

The table below presents an analysis of Bonds by ratings assigned by external rating agencies at 31 December 2007, based on Moody's rating or their equivalent.

Moody's	Trading Bonds	Designated at fair value	Hedged Bonds	Total
Aaa	87,722	973	42,456	131,151
Aa1	61,287	0	2,546	63,834
Aa2	44,120	0	0	44,120
Aa3	70,432	0	5,892	76,323
A3 to A1	65,772	0	0	65,772
Lower than A3	15,128	274	0	15,402
Unrated	16,796	113	2,342	19,251
At 31 December 2007	**361,256**	**1,361**	**53,236**	**415,853**

ISK million

4.2.6 Repossessed collateral

During 2007, the Group obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	Carrying amount 2007
Residential property	658
Other	169
	827

Repossessed collateral are classified in the balance sheet as assets held for sale (see note 24).

4.2.7 Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Group's credit exposure, as categorized by geographical region as of 31 December 2007. For the purpose of this table, exposures are allocated to regions based on the clients' country of domicile.

(a) Geographical sectors

	Iceland	UK & Ireland	Other European countries	US and CAN/other countries	Total
Loans and advances to financial institutions	50,982	73,199	28,902	9,847	162,929
Loans and advances to customers:					
Loans to individuals:					
– Mortgages	146,448	80,644	34,360	392	261,843
– Other loans	103,342	7,904	5,549	771	117,566
Loans to corporates and public entities	941,910	324,945	253,514	144,940	1,665,311
Provisions for credit losses on loans and advances					(21,981)
Bonds	68,257	43,218	169,303	81,839	362,617
Hedged Bonds	50,690	5	2,459	83	53,236
Derivatives held for trading	29,151	11,718	7,538	1,791	50,198
Derivatives held for hedging	1,010	3,292	478	3,938	8,719
Unsettled securities trading	3,400	28,924	26,419	101	58,845
Other assets	4,427	6,507	9,418	0	20,352
At 31 December 2007	**1,399,618**	**580,355**	**537,940**	**243,703**	**2,739,634**
At 31 December 2006	**1,069,712**	**316,036**	**468,681**	**132,531**	**1,986,959**

(b) Industry sectors

The following tables breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

Loans and advances	2007	2006
Loans and advances to financial institutions	162,929	215,618
Public entities	23,759	8,892
Corporates		
Fisheries	173,489	134,061
Retail trade	245,200	229,312
Agriculture	12,467	6,170
Construction and manufacturing	327,423	177,854
Services	879,252	596,053
Other	3,721	3,529
Individuals		
Mortgages	261,843	194,232
Other loans	117,566	104,903
Provisions for credit losses on loans and advances	(21,981)	(16,611)
Total loans and advances	**2,185,667**	**1,654,013**

Other financial assets	Services	Financial institutions	Construction and manu-factoring	Retail trade	Fisheries/ Agriculture	Public entities/ Other	Individuals	Total
Bonds	13,780	292,284	11,435	2,846	1,276	40,995	0	362,617
Hedged bonds	1,647	8,438	695	0	0	42,456	0	53,236
Derivatives held for trading	7,908	28,309	1,976	2,152	3,219	2,682	3,954	50,198
Derivatives held for hedging	0	7,708	0	0	0	1,010	0	8,719
Unsettled securities trading	3,900	54,352	0	0	592	2	0	58,845
Other assets	3,978	8,925	3	28	0	2,287	5,131	20,352
At 31 December 2007	**31,212**	**400,016**	**14,109**	**5,026**	**5,086**	**89,432**	**9,085**	**553,967**
At 31 December 2006	**13,445**	**232,290**	**11,296**	**4,051**	**3,743**	**55,815**	**12,306**	**332,946**

ISK million

4.3 Market Risk

Market risk is the risk arising from the impact of changes in market prices on the value of the Group's assets and liabilities, both on and off its balance sheet. This includes both interest rate and equity risk on its trading portfolio, as well as currency risk on its portfolios. Market risk is, however, mainly limited to the Group's trading book transactions.

The Board of Directors has set a ceiling on the Group's market risk, which may not exceed 15% of its total risk-weighted asset base. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 7,6% for long position and 3,3% for short position and the maximum interest rate risk on market bonds and other financial instruments may not exceed 6%. ALCO sets detailed rules on the Group's maximum market risk. Risk control is effected on a Group basis, under the direction of Risk Management. Authorisations to take positions subject to market risk are mainly limited to the Investment Banking Division of the Group, where total market risk for the Group is also managed. In addition to the Investment Banking Division of the Group, company, trading desks of its subsidiaries, Landsbanki Kepler, Landsbanki Securities UK, and Merrion Capital have limited authorisations for exposures on own account.

Total market risk for the Group is calculated at the end of each banking day and controlled by means of an authorisation system adopted by ALCO. Since no single instrument can cover all the aspects of market risk, the Group applies several methods in its daily risk measurement, including VaR (Value-at-Risk) and stress testing, and uses indicators such as net position and value per bp (Vpb).

Value at Risk (VaR) is a statistical instrument which measures the Group's maximum expected loss for the next working day under normal market conditions for a 99% confidence interval. The Group's loss should only exceed the resulting value on one working day out of a hundred. The Group uses VaR to monitor trading book market risk. VaR models are tested for reliability in accordance with the guidelines of the Basel Committee on Banking Supervision.

The first of the following tables show the VaR estimate for market risk for the Group's total equity exposure with and without equity held in financial assets designated at fair value through profit and loss. The second table shows market risk excluding financial assets designated at fair value through profit and loss and unlisted equities:

	1 January to 31 December 2007				12 months to 31 December 2006		
Market risk	**Average**	**High**	**Low**	**31.12.2007**	**Average**	**High**	**Low**
Interest rate risk	401	886	169	886	176	749	58
Foreign exchange risk	791	2,067	2	2,064	67	360	2
Equities risk	1,482	3,288	501	2,081	1,281	2,908	541
Total VaR (99% 1 day holding period)	**2,673**	**5,808**	**844**	**5,031**	**1,524**	**4,017**	**601**
Total VaR (99% 10 day holding period)	**8,453**	**18,367**	**2,669**	**15,909**	**4,819**	**12,703**	**1,901**

Market risk without financial assets designated at fair value through profit and loss

	Average	**High**	**Low**	**31.12.2007**	**Average**	**High**	**Low**
Interest rate risk	401	886	169	886	176	749	58
Foreign exchange risk	791	2,067	2	2,064	67	360	2
Equities risk	1,088	2,910	330	1,110	1,183	1,926	323
Total VaR (99% 1 day holding period)	**2,280**	**5,433**	**604**	**4,060**	**1,426**	**3,035**	**383**
Total VaR (99% 10 day holding period)	**7,210**	**17,181**	**1,910**	**12,839**	**4,509**	**9,598**	**1,211**

Market risk without financial assets designated at fair value through profit and loss and unlisted equities

	Average	**High**	**Low**	**31.12.2007**	**Average**	**High**	**Low**
Interest rate risk	401	886	169	886	176	749	58
Foreign exchange risk	791	2,067	2	2,064	67	360	2
Equities risk	675	1,531	278	607	296	427	180
Total VaR (99% 1 day holding period)	**1,866**	**4,025**	**551**	**3,557**	**539**	**1,536**	**240**
Total VaR (99% 10 day holding period)	**5,901**	**12,728**	**1,742**	**11,248**	**1,704**	**4,857**	**759**

The Group recognises the importance of assessing the effectiveness of its VaR models. The models are back-tested, i.e. the number of days when trading losses actually exceeded the estimated VaR figure are counted. According to the regulatory standard for back-testing is to measure VaR assuming a ten-day holding period with a 99% level of confidence. For Landsbanki's regulatory trading book, there were 2 instances in the last 12 months exceeding the corresponding VaR in the back testing.

ISK million

4.3.1 Currency Risk

The Group's currency risk is managed with the objective of limiting this total risk factor within defined net position limits set by ALCO. Changes in prices of currency pairs against ISK will affect the Groups equity ratio as its foreign exchange assets are 69% of the Groups asset base and the Groups equity is in ISK. The Group maintains a considerable open currency position and issues subordinated debt in foreign currency to hedge this risk.

The following table shows the carrying amount of the Group's assets and liabilities by currency. Off-balance sheet amounts show the notional amounts of financial instruments in foreign currencies.

Concentrations of assets, liabilities, and off balance sheet items.

At 31 December 2007	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	69,285	8,510	0	1,145	0	2,619	81,559
Loans and advances to financial institutions	22,411	59,290	15,168	57,906	1,203	6,951	162,929
Loans and advances to customers	568,579	458,048	190,106	323,779	213,366	268,860	2,022,738
Bonds	116,166	170,072	59,917	11,730	823	3,909	362,617
Equities	19,656	17,802	1,199	6,421	7	19,322	64,407
Hedged securities	92,931	40,169	23,157	11,440	399	8,085	176,181
Derivatives held for trading	18,066	13,694	9,289	2,516	591	6,044	50,198
Derivatives held for hedging	783	485	7,142	213	5	92	8,719
Investments in associates	5,404	416	0	0	0	0	5,820
Property and equipment	10,355	657	62	789	0	0	11,862
Intangible assets	2,996	10,539	0	14,144	0	0	27,679
Non-current assets and disposal groups classified as held for sale	608	0	0	3,033	0	0	3,641
Unsettled securities trading	3,724	26,270	799	27,982	0	70	58,845
Other assets	4,201	10,189	26	5,478	426	32	20,352
Total assets	**935,164**	**816,140**	**306,864**	**466,575**	**216,820**	**315,983**	**3,057,546**
Liabilities and equity							
Deposits from financial institutions	19,167	90,845	20,373	25,084	5,999	176,447	337,915
Deposits from customers	300,444	191,999	20,472	897,372	1,365	9,758	1,421,410
Borrowing	99,302	460,718	160,976	6,171	17,453	30,134	774,754
Financial liabilities designated at fair value	0	37,706	895	0	0	22,630	61,231
Subordinated loans	6,569	74,310	28,326	0	0	2,685	111,890
Trading liabilities	7,373	20,882	12,371	18,463	582	2,490	62,161
Derivatives held for hedging	0	6,720	0	0	103	130	6,953
Tax liabilities	8,149	0	0	0	0	0	8,149
Unsettled securities trading	0	22,122	443	23,516	2,285	33	48,399
Other liabilities	17,872	10,978	131	11,018	643	37	40,679
Total equity	184,004	0	0	0	0	0	184,004
Total liabilities and equity	**642,880**	**916,280**	**243,987**	**981,624**	**28,430**	**244,344**	**3,057,546**
Net on-balance sheet position	292,284	(100,141)	62,877	(515,049)	188,390	71,639	
Net off-balance sheet position	406,483	(162,831)	26,569	(530,217)	187,887	72,110	
Net position	**(114,199)**	**62,690**	**36,309**	**15,168**	**503**	**(471)**	

ISK million

4.3.1 Currency Risk (continued)

At 31 December 2006	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	20,481	10,054	333	125	591	85	31,669
Loans and advances to financial institutions	24,531	65,641	13,950	109,140	922	1,434	215,618
Loans and advances to customers	542,618	309,612	141,165	204,757	118,553	121,690	1,438,395
Bonds	36,463	131,544	0	1,592	0	0	169,598
Equities	24,810	4,860	1,005	7,131	756	10,766	49,328
Hedged securities	80,528	2,321	3,418	11,231	0	7,692	105,190
Derivatives held for trading	15,737	10,250	8,852	1,598	783	1,137	38,358
Derivatives held for hedging	1,022	7,489	505	1,444	34	3	10,498
Investments in associates	3,531	306	0	0	0	0	3,837
Property and equipment	4,083	785	0	666	288	0	5,823
Intangible assets	1,691	5,500	95	6,998	68	0	14,351
Non-current assets and disposal groups classified as held for sale	18,524	0	0	2,825	0	0	21,349
Unsettled securities trading	5,130	21,068	225	8,996	1,520	26	36,965
Other assets	16,472	12,361	29	2,549	431	102	31,944
Total assets	**795,622**	**581,791**	**169,577**	**359,052**	**123,947**	**142,935**	**2,172,924**
Liabilities and equity							
Deposits from financial institutions	37,427	50,728	10,585	33,201	3,668	5,496	141,105
Deposits from customers	80,440	81,128	13,159	350,257	121	157,741	682,846
Borrowing	108,800	538,249	250,896	24,699	22,219	70,113	1,014,976
Subordinated loans	6,226	78,602	2,137	0	0	2,789	89,754
Trading liabilities	12,375	3,359	1,963	1,305	97	1,767	20,866
Derivatives held for hedging	1,591	2,358	981	1,095	48	400	6,473
Tax liabilities	5,985	492	0	116	0	0	6,593
Liabilities included in disposal groups classified as held for sale	7,242	0	0	0	0	0	7,242
Unsettled securities trading	0	20,142	581	5,886	2,003	1,375	29,987
Other liabilities	10,980	5,492	240	6,407	502	2	23,623
Total equity	149,457	0	0	0	0	0	149,457
Total liabilities and equity	**420,524**	**780,550**	**280,542**	**422,966**	**28,658**	**239,683**	**2,172,924**
Net on-balance sheet position	375,097	(198,759)	(110,965)	(63,914)	95,289	(96,748)	
Net off-balance sheet position	(375,993)	199,281	110,516	64,175	(95,192)	97,213	
Net position	**(896)**	**522**	**(449)**	**261**	**97**	**465**	

ISK million

4.4 Mismatch of assets and liabilities

(a) Interest rate risk on portfolios

Portfolio interest rate risk arises from the impact on the interest margin and/or the market value of equity caused by interest rate changes on assets and liabilities outside of the Group's trading book. This risk results primarily from duration mismatch of assets and liabilities. Portfolio interest rate risk is among the Group's more important risk factors.

The following table gives a summary of the Group's interest rate risk. It shows the carrying amounts of its assets and liabilities. The carrying amount classification is based on either the repricing date of the contract or its maturity, whichever comes first.

At 31 December 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash balances with Central Bank	81,559	0	0	0	0	81,559
Loans and advances to financial institutions	147,665	12,741	1,629	894	0	162,929
Loans and advances to customers	1,164,282	400,984	240,042	217,431	0	2,022,738
Bonds	253,712	6,734	60,652	41,518	0	362,617
Equities	0	0	0	0	64,407	64,407
Hedged securities	362	4,535	8,888	39,451	122,944	176,181
Derivatives held for trading	50,198	0	0	0	0	50,198
Derivatives held for hedging	8,719	0	0	0	0	8,719
Investments in associates	0	0	0	0	5,820	5,820
Property and equipment	0	0	0	0	11,862	11,862
Intangible assets	0	0	0	0	27,679	27,679
Non-current assets and disposal groups classified as held for sale	0	0	0	0	3,641	3,641
Unsettled securities trading	0	0	0	0	58,845	58,845
Other assets	0	0	0	0	20,352	20,352
Total assets	**1,706,497**	**424,994**	**311,212**	**299,294**	**315,550**	**3,057,546**
Liabilities and equity						
Deposits from financial institutions	311,385	23,799	2,471	260	0	337,915
Deposits from customers	1,211,370	134,809	63,947	11,284	0	1,421,410
Borrowing	425,589	22,421	234,096	92,648	0	774,754
Financial liabilities designated at fair value	12,148	2,854	12,523	0	33,706	61,231
Subordinated loans	28,788	2,858	1,180	79,064	0	111,890
Trading liabilities	62,161	0	0	0	0	62,161
Derivatives held for hedging	6,953	0	0	0	0	6,953
Tax liabilities	0	0	0	0	8,149	8,149
Unsettled securities trading	0	0	0	0	48,399	48,399
Other liabilities	0	0	0	0	40,679	40,679
Total equity	0	0	0	0	184,004	184,004
Total liabilities and equity	**2,058,394**	**186,741**	**314,217**	**183,256**	**314,937**	**3,057,546**
Net on balance sheet position	(351,897)	238,253	(3,006)	116,038	613	
Net off balance sheet position	98,632	11,236	(5,761)	(14,961)	(89,147)	
Total interest sensitivity gap	**(253,265)**	**249,489**	**(8,767)**	**101,077**	**(88,534)**	

ISK million

4.4 Mismatch of assets and liabilities (continued)

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash balances with Central Bank	31,669	0	0	0	0	31,669
Loans and advances to financial institutions	202,425	12,938	254	0	0	215,618
Loans and advances to customers	966,114	270,116	93,997	108,168	0	1,438,395
Bonds	52,924	74,982	17,981	23,711	0	169,598
Equities	0	0	0	0	49,328	49,328
Hedged securities	245	1,463	9,037	34,838	59,607	105,190
Derivatives held for trading	38,358	0	0	0	0	38,358
Derivatives held for hedging	10,498	0	0	0	0	10,498
Investments in associates	0	0	0	0	3,837	3,837
Property and equipment	0	0	0	0	5,823	5,823
Intangible assets	0	0	0	0	14,351	14,351
Non-current assets and disposal groups classified as held for sale	0	0	0	0	21,349	21,349
Unsettled securities trading	0	0	0	0	36,965	36,965
Other assets	0	0	0	0	31,944	31,944
Total assets	**1,302,234**	**359,500**	**121,269**	**166,717**	**223,204**	**2,172,924**
Liabilities and equity						
Deposits from financial institutions	131,501	7,808	1,789	8	0	141,105
Deposits from customers	602,074	64,857	10,292	5,623	0	682,846
Borrowing	669,750	54,756	221,659	68,810	0	1,014,976
Subordinated loans	30,621	0	3,839	55,293	0	89,754
Trading liabilities	20,866	0	0	0	0	20,866
Derivatives held for hedging	6,473	0	0	0	0	6,473
Tax liabilities	0	0	0	0	6,593	6,593
Liabilities included in disposal groups held for sale	0	0	0	0	7,242	7,242
Unsettled securities trading	0	0	0	0	29,987	29,987
Other liabilities	0	0	0	0	23,623	23,623
Total equity	0	0	0	0	149,457	149,457
Total liabilities and equity	**1,461,287**	**127,421**	**237,579**	**129,734**	**216,902**	**2,172,924**
Net on balance sheet position	(159,053)	232,079	(116,310)	36,983	6,302	
Net off balance sheet position	59,969	(90,454)	31,553	58,538	(59,607)	
Total interest sensitivity gap	**(99,084)**	**141,625**	**(84,757)**	**95,521**	**(53,305)**	

ISK million

(b) Liquidity Risk

Liquidity risk is the risk that Landsbanki will be unable to obtain the funds to meet its financial obligations as they come due, either by increasing liabilities or by converting assets without incurring significant losses. This in turn requires reliable access to enough cash resources, at unpredictable times and to unpredictable extents, to meet uncertain cash flow obligations. Such access – and indeed the cash flow obligations themselves – depends on market and other external events and on other agents' behaviour.

ALCO formulates liquidity management policy, monitors the Group's liquidity position and provides advice on the composition of its assets and liabilities. Its objective is to minimise fluctuations in liquidity and ensure that the Group always has sufficient access to funding to cover outflows arising from its obligations in the coming month. Treasury implements this policy and estimates future cash flow in co-operation with Risk Management.

The Group's objective is to minimize fluctuations in liquidity and ensure that the Group always has sufficient access to funding to cover outflows arising from its obligations in the coming months. The Group policy is to maintain a liquid position (net of haircuts) such that it can sustain at least 12 months non-access to capital markets with a modest reduction in business activity. The Group's approach to liquidity management closely aligns with the framework of Moody's Bank Financial Strength Rating (BFSR).

The Bank follows rules on liquidity set by the Central Bank of Iceland, governing the ratio of weighted liquid assets and liabilities. The rules require a ratio higher than 1 for the next three months. The Central Bank rules involve a type of stress test, according to which assets and liabilities are weighted using specific co-efficient reflecting how accessible the asset in question would be in a liquidity crisis and how great the need is to repay the liability in question when due.

The Group comfortably fulfils its requirements set in its liquidity policy and as well at the end of the reporting period, the Group liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's Rules No. 317/2006 was 2.23.

The following table shows the cash flow payable by the Group under non-derivative financial assets and liabilities classified by remaining contractual maturities at the balance sheet date. Except for Bonds, Hedged securities, and Equities. They are classified by expected maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Up to 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Cash and cash balances with Central Bank	81,559	0	0	0	81,559
Loans and advances to financial institutions	147,325	13,098	1,990	898	163,311
Loans and advances to customers	430,172	324,428	943,963	705,650	2,404,214
Bonds	362,617	0	0	0	362,617
Equities	64,407	0	0	0	64,407
Hedged securities	176,181	0	0	0	176,181
Unsettled securities trading	58,845	0	0	0	58,845
Total assets	**1,321,104**	**337,526**	**945,953**	**706,549**	**3,311,132**
Liabilities					
Deposits from financial institutions	308,412	30,118	3,065	395	341,990
Deposits from customers	1,247,884	130,404	40,972	11,283	1,430,543
Borrowings	26,691	88,243	632,225	167,746	914,905
Financial liabilities designated at fair value	411	2,507	26,304	33,706	62,928
Subordinated loans	0	7,721	27,847	212,322	247,890
Trading liabilities	7,105	0	0	0	7,105
Tax liabilities	5,255	2,894	0	0	8,149
Unsettled securities trading	48,399	0	0	0	48,399
Total liabilities	**1,644,157**	**261,887**	**730,413**	**425,452**	**3,061,909**

At 31 December 2006	Up to 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Cash and cash balances with Central Bank	31,669	0	0	0	31,669
Loans and advances to financial institutions	203,574	13,439	71	0	217,085
Loans and advances to customers	440,091	230,468	637,645	425,815	1,734,018
Bonds	169,598	0	0	0	169,598
Equities	49,328	0	0	0	49,328
Hedged securities	105,190	0	0	0	105,190
Unsettled securities trading	36,965	0	0	0	36,965
Total assets	**1,036,417**	**243,907**	**637,716**	**425,815**	**2,343,854**
Liabilities					
Deposits from financial institutions	130,476	8,239	4,064	8	142,787
Deposits from customers	576,071	69,505	38,826	13,299	697,701
Borrowings	83,324	213,066	714,672	160,473	1,171,535
Subordinated loans	1,532	3,266	29,183	151,177	185,158
Trading liabilities	1,245	0	0	0	1,245
Tax liabilities	0	6,593	0	0	6,593
Unsettled securities trading	29,987	0	0	0	29,987
Total liabilities	**822,635**	**300,669**	**786,745**	**324,957**	**2,235,006**

ISK million

4.5 Derivative cash flow

4.5.1 Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:
Commodity derivatives: Commodity option
Credit derivatives: Total return swap
Equity derivatives: Equity forwards
Foreign exchange derivatives: OTC currency options bought and sold
Interest rate derivatives: Interest rate swaps

The table below analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	110	0	110
Credit derivatives	0	0	0	0	0
Equity derivatives	11,987	34	0	0	12,022
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	30,887	24,746	41,614	13,133	110,380
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	1,457	(407)	7,277	1,086	9,414
Total assets	**44,332**	**24,374**	**49,001**	**14,219**	**131,926**
Liabilities					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	(101)	(934)	(3,418)	0	(4,453)
Equity derivatives	3,133	199	0	0	3,332
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	26,227	18,919	48,380	34,019	127,545
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	(206)	998	943	8,182	9,917
Total Liabilities	**29,053**	**19,182**	**45,905**	**42,201**	**136,341**

ISK million

4.5.1 Derivatives settled on a net basis (continued)

At 31 December 2006	Up to 3 months	3–12 months	1–5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	3,064	69	0	0	3,133
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	16,204	27,643	9,547	8,668	62,062
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	2,309	(2,107)	3,435	2,333	5,969
Total assets	**21,577**	**25,604**	**12,981**	**11,001**	**71,164**
Liabilities					
Derivatives held for trading					
Commodity derivatives	(33)	(352)	(1,280)	0	(1,664)
Credit derivatives	(33)	(352)	(1,280)	0	(1,664)
Equity derivatives	4,293	1,008	0	0	5,300
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	7,930	7,347	40,571	8,355	64,202
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	(361)	809	699	2,326	3,474
Total Liabilities	**11,795**	**8,460**	**38,711**	**10,681**	**69,648**

ISK million

4.5.2 Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:
Equity derivatives: Listed and OTC stock options bought and sold
Foreign exchange derivatives: Currency forwards, cross-currency interest rate swaps

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	2,081	2,443	774	0	5,298
Foreign exchange derivatives	1,059,549	138,407	251,670	5,837	1,455,464
Interest rate derivatives	0	0	0	0	0
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	0	0	0	0	0
Total assets	**1,061,630**	**140,851**	**252,444**	**5,837**	**1,460,762**
Liabilities					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	2,081	2,443	774	0	5,298
Foreign exchange derivatives	1,075,714	144,106	263,959	6,774	1,490,554
Interest rate derivatives	0	0	0	0	0
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	0	0	0	0	0
Total Liabilities	**1,077,795**	**146,550**	**264,733**	**6,774**	**1,495,853**

ISK million

4.5.2 Derivatives settled on a gross basis (continued)

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	2,428	2,000	428	0	4,856
Foreign exchange derivatives	765,534	232,608	128,761	1,345	1,128,248
Interest rate derivatives	0	0	0	0	0
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	2,030	70,530	35,858	0	108,418
Interest rate derivatives	0	0	0	0	0
Total assets	**769,993**	**305,137**	**165,046**	**1,345**	**1,241,521**
Liabilities					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	759,863	237,321	122,868	2,225	1,122,277
Interest rate derivatives	0	0	0	0	0
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	2,250	64,004	33,692	0	99,947
Interest rate derivatives	0	0	0	0	0
Total Liabilities	**762,114**	**301,325**	**156,560**	**2,225**	**1,222,224**

4.6 Capital Risk Management

The Group manages its capital resources to meet the regulatory capital requirements prescribed by the Icelandic Financial Supervisory Authority (FME). FME requires the Group to hold sufficient capital resources to meet minimum the regulatory capital requirements laid down in the Rules on the Capital Requirement and Risk-weighted Assets of Financial Undertakings, No. 215/2007. These rules are based on the standards of the Basel Committee on Banking Supervision in the Basel II accord. Minimum requirements are expressed as the ratio of capital resources to risk-weighted assets. Risk-weighted assets are determined by applying specific risk weight to the Group's assets following calculations developed by the Basel Committee. Landsbanki's strategy is to maintain its CAD ratio above 10,5%, which is considerably higher that the minimum statutory requirement of 8%. The Group has also adopted minimum levels for Tier 1 capital, which must be over 8,5% calculated using a risk-weighted assets base.

During the year, the Group continued to manage its capital resources. At 31 December 2007, the capital ratio was 11.7%.

ISK million

4.7 Fair value of financial assets and financial liabilities

(a) Financial instruments measured at fair value using valuation technique

The change in fair value estimated using a valuation technique and recognised in profit or loss in 2007 totalled ISK -337 million (2006: ISK -3.484 million).

(b) Financial instruments not measured at fair value

The following table gives a summary of the carrying amount and fair value of financial assets and financial liabilities not carried at fair value. The fair value has been estimated by discounting the cash flow of financial assets and financial liabilities based on market interest rates for assets and liabilities of the same or similar duration. This gives an estimate of the fair value involved with these instruments in relation to interest rates - not changes to credit spreads.

At 31 December 2007	Carrying value	Fair value	Difference
Financial assets			
Loans and advances to customers	2,022,738	2,004,196	(18,542)
Financial liabilities			
Borrowings	774,754	762,150	12,604
Subordinated loans	111,890	111,353	537
Net difference			**(5,401)**

At 31 December 2006	Carrying value	Fair value	Difference
Financial assets			
Loans and advances to customers	1,438,395	1,430,638	(7,757)
Financial liabilities			
Borrowings	1,014,976	1,009,555	5,421
Subordinated loans	89,754	89,633	121
Net difference			**(2,215)**

4.8 Inflation-indexed assets and liabilities

The Group's balance sheet has a positive balance between indexed and non-indexed assets. At year-end, indexed assets exceeded indexed liabilities by ISK 149 billion. These amounts only apply to assets and liabilities in ISK.

	2007	2006
Assets	375,174	336,303
Liabilities	(226,310)	(217,492)
	148,864	**118,811**

ISK million

4.9 Core Earnings

Calculation of core earnings is intended to illustrate the underlying profit of the Group. To obtain this figure, net gain/loss from equity holdings of any kind, as well as gain from securities and FX trading are deducted from net interest income and fee and commission income. Net interest Income is consequently accordingly increased by the cost of funding the Group's positions in these items. The LIBOR 3M flat rate is used for each underlying currency to calculate the adjustment increase in net interest income. Notwithstanding the Group's definition of its core earnings, its performance also depends on equity and bond positions taken on own account.

The following table gives a comparison between the Group's Income and Core Income for the years 2004-2007:

Actual Income	2007	2006	2005	2004
Net interest income	54,052	41,491	22,996	14,734
Net commissions and fees	39,369	28,366	16,726	8,891
Net gains on equity, securities, and FX	16,605	19,568	21,257	9,842
Net operating income	**110,025**	**89,426**	**60,978**	**33,467**
Operating expenses	57,515	38,588	20,967	14,460
Impairment on loans and advances and assets held for sale	6,956	6,144	6,197	4,485
Impairment on goodwill	0	0	3,033	0
Pre-tax profit	**45,555**	**44,694**	**30,781**	**14,521**
Cost Income Ratio	**52%**	**43%**	**34%**	**43%**
Pre-tax ROE	**31%**	**40%**	**56%**	**57%**

Adjustments				
Net interest income	5,753	3,640	3,652	1,200
Net gains on equity, securities, and FX	(16,605)	(19,568)	(21,257)	(9,842)
Impairment on goodwill	0	0	3,033	0
	(10,852)	(15,929)	(14,572)	(8,642)

Core Earnings				
Net interest income	59,804	45,131	26,647	15,934
Net commissions and fees	39,369	28,366	16,726	8,891
Net operating income	**99,173**	**73,497**	**43,373**	**24,825**
Operating expenses	57,515	38,588	20,967	14,460
Impairment on loans and advances and assets held for sale	6,956	6,144	6,197	4,485
Pre-tax profit	**34,703**	**28,765**	**16,210**	**5,879**
Cost-income ratio for core operations	58%	53%	48%	58%
Pre-tax ROE for core operations	24%	26%	30%	23%

ISK million

5.Income Statement by quarters

Operations	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Interest income	57,935	54,036	49,078	41,046	34,887
Interest expenses	42,708	39,591	35,578	30,167	25,306
Net interest income	**15,227**	**14,445**	**13,500**	**10,879**	**9,581**
Fee and commission income	11,534	11,813	11,013	10,886	9,323
Fee and commission expenses	1,874	1,595	1,285	1,124	1,325
Net fee and commission income	**9,660**	**10,218**	**9,729**	**9,762**	**7,998**
Dividend income	237	23	1,371	385	161
Net gains (losses) on financial assets and financial liabilities held for trading	(5,306)	(1,858)	3,062	3,098	492
Net gains on financial assets designated at fair value through profit and loss	113	2,501	655	436	5,913
Fair value adjustments in hedge accounting	(14)	7	(37)	(7)	78
Foreign exchange difference	4,223	2,356	(296)	607	(58)
Profit (losses) from associates	671	(1,171)	1,191	(58)	1,133
Net gains (losses) of disposal groups held for sale, net of tax	9	60	9	4,339	(479)
Other operating income	**(68)**	**1,918**	**5,955**	**8,799**	**7,240**
Net operating income	**24,819**	**26,582**	**29,184**	**29,441**	**24,819**
Salaries and related expenses	10,769	10,029	8,919	7,972	6,989
Administrative expenses	5,846	4,806	4,731	4,444	4,042
Operating expenses	**16,615**	**14,835**	**13,650**	**12,415**	**11,031**
Impairment on loans and advances during the period	2,286	1,620	1,501	1,549	1,332
Pre-tax profit	**5,919**	**10,127**	**14,033**	**15,476**	**12,457**
Income tax	997	1,402	1,490	1,716	(1,596)
Net profit	**4,922**	**8,725**	**12,542**	**13,760**	**14,053**
Attributable to:					
Shareholders of Landsbanki Islands hf.	4,584	8,518	12,248	13,450	13,664
Minority interest	337	207	294	311	389

ISK million

6. Business segments

The Group operates in four business segments:

- Retail banking
- Corporate banking
- Investment banking
- Asset management and private banking

Retail banking includes the services provided through the branch network in Iceland to individuals and small and medium-size businesses, leasing services provided by the subsidiary SP fjármögnun hf. (Iceland) and mortgage lending services provided by Heritable Bank Ltd (UK).

Corporate banking includes the services provided to large and medium-size corporate clients through the corporate division of Landsbanki in Reykjavik and the division's network of international branches. Services provided by Heritable Bank Ltd (UK) and Landsbanki Luxembourg SA (Lux) to medium-size businesses is also included under corporate banking.

Investment banking includes capital markets services, treasury, proprietary trading, and corporate advisory services that are provided through the investment banking division and international branches and Landsbanki Securities (UK) Ltd, Landsbanki Kepler SA (France) and Merrion Capital Group Ltd (Ireland).

Assets Management and Private Banking includes fund and wealth management services provided by divisions of Landsbanki in Reykjavik and Landsbanki Luxembourg SA (Lux), and by the subsidiary Landsvaki hf. (Iceland).

Year 2007	Retail banking	Corporate banking	Investment banking	Asset management private banking	Unallocated	Group
Net interest income	18,360	37,446	(6,273)	4,519	0	54,052
Net fee and commission income	2,964	3,294	28,335	4,776	0	39,369
Net financial gains excluding profit (losses) from associates	(106)	(2,315)	18,276	117	0	15,972
Net operating income	**21,218**	**38,424**	**40,337**	**9,412**	**0**	**109,392**
Operating expenses	10,650	10,086	27,662	6,032	3,086	57,515
Impairment on loans and advances	2,417	3,766	762	11	0	6,956
Net segment result	**8,152**	**24,573**	**11,914**	**3,370**	**(3,086)**	**44,922**
Profit (losses) from associates	(290)	0	923	0	0	633
Total assets 31 December 2007	**523,287**	**1,333,768**	**741,701**	**429,474**	**29,317**	**3,057,546**
Total liabilities 31 December 2007	**502,735**	**1,258,081**	**688,814**	**414,988**	**8,924**	**2,873,542**
Total equity 31 December 2007	**20,552**	**75,687**	**52,887**	**14,485**	**20,392**	**184,004**

Year 2006	Retail banking	Corporate banking	Investment banking	Asset management private banking	Unallocated	Group
Net interest income	15,145	22,714	1,280	2,351	0	41,491
Net fee and commission income	2,860	2,547	19,294	3,665	0	28,366
Net financial gains excluding profit (losses) from associates	(32)	62	17,536	303	0	17,870
Net operating income	**17,974**	**25,323**	**38,110**	**6,320**	**0**	**87,727**
Operating expenses	8,752	6,003	19,101	3,239	1,493	38,588
Impairment on loans and advances	1,200	3,642	1,307	(5)	0	6,144
Net segment result	**8,022**	**15,678**	**17,701**	**3,086**	**(1,493)**	**42,995**
Profit (losses) from associates	88	0	1,611	0	0	1,699
Total assets 31 December 2006	**369,908**	**937,353**	**565,340**	**289,422**	**10,901**	**2,172,924**
Total liabilities 31 December 2006	**353,608**	**872,745**	**515,660**	**275,662**	**5,792**	**2,023,466**
Total equity 31 December 2006	**16,300**	**64,608**	**49,680**	**13,760**	**5,109**	**149,457**

Equity is allocated to each business segment at the beginning of each year according to it's share of the Group's Risk-weighted Assets (RWA).

ISK million

7. Geographical segments - breakdown of income

Year 2007	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest income	30,375	13,773	5,404	4,499	54,052
Net fee and commission income	14,103	11,496	2,315	11,455	39,369
Net financial gains	14,960	(2,832)	(47)	4,524	16,605
Net operating income	**59,438**	**22,437**	**7,672**	**20,479**	**110,025**
	54%	20%	7%	19%	100%
Total assets 31 December 2007	**1,604,684**	**558,262**	**314,826**	**579,774**	**3,057,546**

Year 2006	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest income	24,622	9,407	3,403	4,059	41,491
Net fee and commission income	11,334	7,907	1,845	7,281	28,366
Net financial gains	6,866	1,796	267	10,640	19,568
Net operating income	**42,822**	**19,109**	**5,514**	**21,980**	**89,426**
	48%	21%	6%	25%	100%
Total assets 31 December 2006	**1,191,777**	**258,691**	**235,666**	**486,791**	**2,172,924**

*Other = Continental Europe, Scandinavia, Canada, USA, and other.

8. Net interest income

Interest income	2007	2006
Interest on deposits and loans to financial institutions	6,513	3,767
Interest on loans and advances to customers	161,148	111,247
Interest on other financial assets	19,495	10,368
Other interest income	14,940	7,720
	202,095	**133,102**

Interest expenses	2007	2006
Interest on deposits from financial institutions	9,501	7,686
Interest on deposits from customers	78,416	32,160
Interest on borrowings	43,377	39,628
Interest on subordinated loans	5,404	4,721
Other interest expenses	11,346	7,416
	148,044	**91,611**
Net interest income	**54,052**	**41,491**
Interest spread is calculated as the ratio of net interest income to average balance sheet position	2.1%	2.3%

Interest income accrued on impaired financial assets is ISK 625 million in 2007 (2006: ISK 134 million)

9. Net fee and commission income

Fee and commission income	2007	2006
Investment banking	31,418	20,491
Asset management	3,319	2,554
Lending	4,806	3,980
Cards	1,541	1,244
Interbank income	882	972
Collection and payment services	624	755
Foreign trade	499	446
Other commissions and fees	2,158	2,017
	45,247	**32,459**
Fee and commission expense	**5,878**	**4,092**
Net fee and commission income	**39,369**	**28,366**

ISK million

10. Dividend income

	2007	2006
Trading	1,684	449
Financial assets designated at fair value through profit and loss	332	1,914
	2,015	**2,362**

11. Net gains (losses) on trading in equity, bonds, currency, and associated companies

	Equity	Bonds	FX	Profit from associates	Other	Total 2007	Total 2006
Dividend income	2,015	0	0	0	0	2,015	2,362
Net gains (losses) on financial assets and financial liabilities held for trading	4,734	(5,707)	0	0	(31)	(1,004)	2,174
Net gains (losses) on financial assets designated at fair value through profit and loss	6,139	(2,435)	0	0	0	3,704	13,699
Fair value adjustments in hedge accounting	0	0	0	0	(51)	(51)	(18)
Foreign exchange difference	0	0	6,889	0	0	6,889	(263)
Profit from associates	0	0	0	633	0	633	1,699
Net gains of disposal groups held for sale, net of tax	0	0	0	0	4,417	4,417	(85)
	12,888	**(8,142)**	**6,889**	**633**	**4,335**	**16,605**	**19,568**

12. Net gains (losses) on financial assets designated at fair value through profit and loss

Equities:	2007	2006
Listed	4,186	9,368
Unlisted	1,943	4,331
Total	**6,129**	**13,699**
Bonds:		
Listed	10	0
Unlisted	(2,435)	0
Total	**(2,425)**	**0**
Net gain on financial assets designated at fair value through profit and loss	**3,704**	**13,699**

13. Salaries and related expenses

	2007	2006
Salaries	31,803	20,204
Pension fund contributions	2,932	2,076
Provision for pension settlement	0	655
Other personnel expenses	2,953	1,523
	37,688	**24,458**

Number of positions at year-end

Iceland	1,460	1,292
UK & Ireland	569	314
Luxembourg	135	97
Other	476	414
	2,640	**2,117**

ISK million

14. Impairment on loans and advances and assets held for sale

	2007	2006
Loans and advances	7,645	5,690
Financial assets	(617)	617
Non-current assets held for sale	36	2
	7,065	**6,309**
Collected previously written-off loans	(109)	(165)
	6,956	**6,144**

15. Income tax

	2007	2006
Current income tax	5,689	886
Deferred income tax	(83)	3,593
	5,605	**4,479**

Further information about deferred income tax is presented in Note 30. The tax on Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

Profit before tax	45,555	44,694
Tax calculated at a tax rate of local 18%	8,200	8,045
Effect of different tax rates in other countries	2,059	1,320
Income not subject to tax	(4,633)	(4,684)
Other	(20)	(201)
Income tax	**5,605**	**4,479**

16. Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	2007	2006
Profit attributable to equity holders of the Bank	38,800	38,906
Weighted average number of ordinary shares in issue	10,890	10,608
Basic earnings per share (ISK per share)	**3.56**	**3.67**

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Group's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2007	2006
Profit attributable to equity holders in the Bank	38,800	38,906
Weighted average number of ordinary shares in issue	10,890	10,608
Adjustments for:		
– share options	902	573
Weighted average number of ordinary shares in issue and diluted potential ordinary shares	**11,792**	**11,181**
Diluted earnings per share (ISK per share)	**3.29**	**3.48**

ISK million

17. Loans and advances to customers

	2007	2006
Public entities	23,759	8,892
Corporates		
Fisheries	173,489	134,061
Retail trade	245,200	229,312
Agriculture	12,467	6,170
Construction and manufacturing	327,423	177,854
Services	879,252	596,053
Other	3,721	3,529
Individuals		
Mortgages	261,843	194,232
Other loans	117,566	104,903
Provisions for credit losses on loans and advances	(21,981)	(16,611)
Total loans and advances to customers	**2,022,738**	**1,438,396**

Provisions for credit losses on loans and advances

	2007			2006		
Changes during the year	**Individuals**	**Corporates**	**Total**	**Individuals**	**Corporates**	**Total**
Balance at beginning of year	3,015	13,595	16,611	3,018	10,126	13,144
(Disposals)/acquisitions	0	0	0	(12)	0	(12)
Impairment on loans and advances	781	6,864	7,645	590	5,101	5,690
Loans written off	(561)	(963)	(1,525)	(581)	(1,639)	(2,221)
Translation difference	(9)	(741)	(750)	1	8	9
Balance at year-end	**3,226**	**18,755**	**21,981**	**3,015**	**13,595**	**16,611**

No provision for credit losses are for public entities.

	2007	2006
Provision ratio (Provisions for credit losses/total loans and advances to customers and guarantees issued)	1.02%	1.07%

ISK million

18. Bonds, Equities and hedged securities

	2007			2006		
Bonds	**Trading assets**	**Fin. assets designated at fair value**	**Total**	**Trading assets**	**Fin. assets designated at fair value**	**Total**
Domestic						
Listed	43,163	0	43,163	32,593	0	32,593
Unlisted	0	0	0	0	0	0
	43,163	**0**	**43,163**	**32,593**	**0**	**32,593**
Foreign						
Listed	316,400	973	317,373	136,716	0	136,716
Unlisted	1,694	387	2,081	290	0	290
	318,093	**1,361**	**319,454**	**137,006**	**0**	**137,006**
Total bonds	**361,256**	**1,361**	**362,617**	**169,598**	**0**	**169,598**
Equities			**Total**			**Total**
Domestic						
Listed	5,651	7,880	13,532	18,843	7,022	25,864
Unlisted	4,309	1,816	6,125	2,070	341	2,411
	9,960	**9,696**	**19,656**	**20,912**	**7,362**	**28,275**
Foreign						
Listed	18,702	10,198	28,900	8,849	9,804	18,654
Unlisted	2,400	13,450	15,850	1,176	1,224	2,400
	21,101	**23,649**	**44,750**	**10,025**	**11,028**	**21,053**
Total equities	**31,061**	**33,345**	**64,407**	**30,938**	**18,391**	**49,328**
Hedged securities			**Total**			**Total**
Bonds	50,690	2,546	53,236	45,583	0	45,583
Equities	89,147	33,797	122,944	59,607	0	59,607
Total hedged securities	**139,837**	**36,344**	**176,181**	**105,190**	**0**	**105,190**
Derivatives held for trading	**50,198**	**0**	**50,198**	**38,358**	**0**	**38,358**
Total	**582,353**	**71,049**	**653,402**	**344,084**	**18,391**	**362,475**

ISK million

19. Derivatives held for trading and trading liabilities

	2007			2006		
	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities
Foreign exchange derivatives						
Currency forwards	1,351,036	8,650	19,852	1,008,938	12,981	6,375
OTC currency options bought and sold	95,087	3,508	2,956	263,844	6,673	3,463
Cross-currency interest rate swaps	343,192	10,204	11,656	182,838	8,753	204
	1,789,315	**22,362**	**34,463**	**1,455,619**	**28,407**	**10,042**
Interest rate derivatives						
Interest rate swaps	1,490,765	11,622	13,437	523,844	5,263	4,057
	1,490,765	**11,622**	**13,437**	**523,844**	**5,263**	**4,057**
Equity derivatives						
Equity forwards	83,134	12,107	3,384	65,213	2,962	6,545
OTC stock options bought and sold	9,757	3,996	2,845	14,642	1,726	222
Equity futures	0	0	0	1,747	0	0
	92,891	**16,103**	**6,229**	**81,602**	**4,688**	**6,767**
Credit derivatives						
Total return swaps	89,099	0	2,435	0	0	0
	89,099	**0**	**2,435**	**0**	**0**	**0**
Commodity derivatives						
Listed and OTC commodity options bought and sold	695	110	0	0	0	0
	695	**110**	**0**	**0**	**0**	**0**
Other trading liabilities	**5,598**	**0**	**5,598**	**0**	**0**	**0**
Total derivatives held for trading and trading liabilities	**3,468,364**	**50,198**	**62,161**	**2,061,066**	**38,358**	**20,866**

20. Derivatives held for hedging

	2007			2006		
	Contract/ notional amount	Fair value Assets	Fair value Liabilities	Contract/ notional amount	Fair value Assets	Fair value Liabilities
Derivatives designated as fair value hedges						
Interest rate swaps	393,705	8,719	6,953	324,627	5,686	5,324
Cross-currency interest rate swaps	0	0	0	99,722	4,812	1,149
	393,705	**8,719**	**6,953**	**424,349**	**10,498**	**6,473**

21. Investment in Associates

Company	Total assets	Total liabilities	Ownership %	Profit (loss) from associates	Book value 2007	Book value 2006
Eignarhaldsfélagið ehf.	1,606	1	49.0	(284)	1,171	929
Eignarhaldsfélagið Portus hf.	5,765	3,741	50.0	0	1,045	325
Valitor hf.	35,070	33,156	38.0	18	728	823
Creditinfo Group hf.	2,002	1,546	38.9	(103)	535	471
Reiknistofa bankanna	1,518	222	33.9	0	515	515
Rockview Merrion Investments Ltd.	839	8	50.0	133	416	302
Kredikort hf.	3,296	2,374	0.0	12	184	0
Borgun hf.	11,228	10,660	20.0	57	114	239
Intrum hf.	600	427	33.0	8	173	87
Líftryggingamiðstöðin hf.	547	233	34.0	3	142	139
HydroKraft Invest hf.	202	13	50.0	0	100	0
LME eignarhaldsfélag ehf.	264	249	40.0	791	549	0
Other partially owned companies				(2)	147	5
				633	**5,820**	**3,837**

All these investments are in unlisted companies.

ISK million

22. Property and equipment

Fixed assets	2007 Premises	2007 Other	2007 Total	2006 Premises	2006 Other	2006 Total
Book value at beginning of year	2,075	3,748	5,823	1,794	2,465	4,260
Translation differences	(25)	(53)	(78)	40	87	127
Additions	2,568	5,584	8,152	493	2,585	3,078
Sold	(21)	(34)	(55)	(63)	(294)	(357)
Disposals	(67)	(1,432)	(1,499)	(38)	(776)	(814)
Depreciation charge	(267)	(214)	(481)	(152)	(319)	(471)
Net book value at year-end	**4,262**	**7,600**	**11,862**	**2,075**	**3,748**	**5,823**
Depreciation (straight-line)	1-4%	10-33%		1-4%	10-33%	

Assessment value of land and Group's premises	2007	2006
Official assessment value of land and Group's premises	3,876	1,877
Replacement value of buildings	5,377	2,799

23. Intangible assets

Goodwill	2007	2006
Opening net book amount	12,077	9,380
Translation differences	1,014	2,270
Acquisition of Bridgewell Group plc	6,804	0
Other addition during period	4,482	428
Disposals	(1,315)	(1)
Impairment	0	0
Net book carrying amount	**23,062**	**12,077**
Software and other intangible assets		
Opening net book amount	2,273	1,081
Additions indentified in the acquisition of Bridgewell Group plc	1,170	0
Other additions	2,208	2,950
Disposals	0	(1)
Amortisation	(1,034)	(1,532)
Impairment	0	(226)
Net book value at year-end	**4,617**	**2,273**
Total Intangible assets	**27,679**	**14,351**

All goodwill is annually tested for impairment at year-end. The goodwill has been divided between the smallest cash generating units based on the required rate of return from each unit. An assessment of a recoverable value of a goodwill is based on its use value.

24. Non-current assets and disposal groups classified as held for sale

	2007	2006
Repossessed collaterals	827	564
Allowance for repossessed collaterals	(252)	(210)
	576	**354**
Disposal group held for sale		
– Investment properties included in disposal groups	2,942	18,206
– Other assets included in disposal groups	123	2,789
	3,066	**20,996**
Total non-current assets and disposal groups classified as held for sale	**3,641**	**21,349**

ISK million

25. Deposits from financial institutions

	2007	2006
Loans from Central Bank and repurchase agreements	202,178	46,451
Loans from other credit institutions	135,737	94,654
	337,915	**141,105**

26. Deposits from customers

	2007	2006
Demand deposits	777,179	229,654
Time deposits	644,231	453,192
	1,421,410	**682,846**

27. Borrowings

	2007	2006
Securities issued	620,610	865,274
Syndicated loans and other borrowings	154,144	149,702
	774,754	**1,014,976**

Securities issued		
Europe - MTN	361,652	505,287
USA - MTN	143,371	161,541
European Commercial Paper (ECP)	11,542	21,518
Other	104,045	176,928
	620,610	**865,274**

Group has not had any defaults of principal, interest, or other breaches with respect to their liabilities during the period (2006: nil).

28. Financial liabilities designated at fair value

	2007	2006
Liabilities to customers under unit-linked investment contracts	33,706	0
Financial liabilities with matched interest rate swaps	22,219	0
Financial liabilities with embedded derivatives	5,306	0
	61,231	**0**

The Group is engaged in a unit-linked investment contracts. The value of those contracts reflect the fair value of the assets that are held within unitised investment pools.
These contracts are payable on demand and therefore have no maturity. The contractual amount that is required to pay on demand is the fair value of the liability.

Certain long-term debt securities issued have been matched with interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will be accounted for in the income statement.

Certain long-term debt securities issued by the Group are linked to equity price indexes. In such cases, the Group has opted to designate the entire contract at fair value through profit and loss rather than recognise them separately as derivatives held at fair value and loans at amortised cost.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is ISK 62,928 million.

There were no gains or losses attributable to changes in own credit risk for financial liabilities designated at fair value during the year.

ISK million

29. Subordinated loans

	2007	2006
Tier I – Non-innovative hybrid capital	38,741	41,801
Tier I – Innovative hybrid capital	44,225	18,288
Tier II	28,925	29,665
	111,890	**89,754**

Subordinated loans	**Classification**	**Currency**	**Rate**	**Maturity**		
London Stock exchange	Tier I	EUR	6.25%	callable	30,560	33,439
Unlisted	Tier I	USD	7.43%	callable	26,437	0
Luxembourg Stock Exchange	Tier I	EUR	4.65%	callable	14,077	14,763
London Stock exchange	Tier I	EUR	Euribor+1,23%	callable	8,181	8,361
Iceland Stock Exchange	Tier I	ISK	6,5%+CPI	callable	1,280	1,210
Iceland Stock Exchange	Tier I	ISK	5,8%+CPI	callable	1,251	1,183
Iceland Stock Exchange	Tier I	ISK	8,65%+CPI	callable	1,180	1,132
					82,965	**60,089**
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,35%	2015	18,348	18,752
Luxembourg Stock Exchange	Tier II	JPY	3.45%	2033	2,685	2,789
Luxembourg Stock Exchange	Tier II	EUR	7.20%	2026	1,009	1,032
Luxembourg Stock Exchange	Tier II	EUR	5.44%	2018	914	960
Luxembourg Stock Exchange	Tier II	EUR	4.40%	2035	850	915
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,8%	2013	372	379
Unlisted	Tier II	USD	Libor+1,85%	2011	1,889	2,137
Unlisted	Tier II	ISK	5,6%+CPI	callable	1,902	1,797
Unlisted	Tier II	ISK	6,09%+CPI	callable	956	903
					28,925	**29,665**
Total subordinated loans					**111,890**	**89,754**

Subordinated loans are considered as part of capital according to regulation on the calculation of capital adequacy ratio (see Note 32). Subordinated loans are fully applicable to the calculation of CAD ratio.

Innovative hybrid capital cannot comprise more than 15% of Tier I capital in calculating the capital adequacy ratio (CAD). For this reason, in calculating the capital ratio as of 31 December 2007, ISK 9,185 million were transferred from Tier I capital to Tier II capital.

ISK million

30. Tax liabilities

Tax liabilities specified as follows:	2007	2006
Tax to be paid	5,255	3,388
Tax liabilities	2,894	3,205
	8,149	**6,593**

The movement on the deferred income tax account is as follows:		
At 1 January	3,205	4,207
Income statement charge	(311)	(1,002)
Charge to goodwill and equity	(241)	0
Exchange differences	(27)	0
	2,627	**3,205**

Deferred income tax liabilities		
Premises and equipment	476	96
Financial assets designated at fair value through profit and loss	3,744	2,723
Non-current assets and disposal groups classified as held for sale	0	340
Miscellaneous assets	219	657
Loan commitment fee	0	30
	4,439	**3,845**

Deferred income tax assets		
Obligations	(60)	(62)
Miscellaneous assets	(290)	(579)
Carry-forward losses	(961)	0
Loan commitment fee	(502)	0
	(1,813)	**(640)**

The deferred tax charge is comprised of the following temporary differences		
Premises and equipment	380	(188)
Miscellaneous assets	(123)	76
Obligations	2	3
Non-current assets and disposal groups classified as held for sale	(340)	(41)
Financial assets designated at tair value through profit and loss	1,021	(1,050)
Charge to goodwill and equity	241	72
Loan commitment fee	(532)	126
Carry-forward losses	(961)	0
	(311)	**(1,002)**

31. Other liabilities

	2007	2006
Pension liabilities	985	691
Other liabilities	39,694	22,932
	40,679	**23,623**

Most of the Group companies have defined contribution pension plans, where the companies have no further payment obligation once the contributions have been paid. The pension liabilities in the balance sheet of the Group's is for defined benefit pension plans that a few of the entities have.

ISK million

32. Capital ratio

	2007	2006
Risk-weighted assets	2,317,362	1,523,143
Capital:		
Tier I capital:		
Equity	180,008	144,282
Subordinated loans	73,780	60,089
Goodwill	(24,190)	(12,078)
Minority interests	3,996	5,175
	233,594	**197,468**
Tier II capital:		
Subordinated loans	38,111	29,665
– deduction in accord with Articles 28 and 85 of Act No 161/2002	(1,025)	(1,062)
Total capital	**270,679**	**226,071**
Tier I ratio	**10.1%**	**13.0%**
Capital ratio	**11.7%**	**14.8%**

The Group's capital adequacy ratio as of 31 December 2007 is calculated in accordance with the EU Directive 2006/48/EC, cf. Article 78 (Basel II), which has been transposed into Icelandic legislation. The comparison figures for 31 December 2006 are calculated in accordance with previous rules.

33. Contingent liabilities and commitments

	2007			
Off-balance sheet contingent liabilities specifies as follows:	**No later than 1 year**	**Over 1 years**	**Total**	**2006**
Guarantees issued	12,181	100,421	112,602	95,911
Available overdrafts	28,562	33,159	61,721	59,946
Unused credit commitments	12,086	57,950	70,036	63,210

34. Fiduciary activities

The Group provides asset custody, asset management, investment management, and advisory services. All of them require the Group to make decisions on the treatment, acquisition, or disposal of financial instruments. Assets in Landsbanki's custody are not reported in its accounts. Part of these services involves the Group approving objectives and criteria for the investment of assets in its custody. As of 31 December 2007, financial assets managed by the Group amounted to ISK 513.2 billion (2006: 376.9 bn). Amounts in custody accounts amounted to ISK 2,109 billion (2006: 1,751 bn).

ISK million

35. Executive salaries and benefits

The following is a breakdown of compensation to directors, CEOs and managing directors of the Group.

	Salary and benefits	Exercised 2007 options	Stock options: Mature but unexercised	Stock options: Contracts 2008-2009	Stock options: Total	Nominal value of LÍ Shares
Björgólfur Guðmundsson, Chairman of the Board of Landsbanki	18.0		0	0	0	4,559
Kjartan Gunnarsson, Vice-chairman of the Board of Directors	13.7		0	0	0	92
Þór Kristjánsson	7.8		0	0	0	45
Þorgeir Baldursson	6.1		0	0	0	1
Svafa Grönfeldt	4.2		0	0	0	0
Andri Sveinsson	1.7		0	0	0	0
Guðbjörg Matthíasdóttir	0.4		0	0	0	0
Gunnar J. Felixson	0.3		0	0	0	0
Halldór J. Kristjánsson, CEO	86.9		34	15	49	11
Sigurjón Þ. Árnason, CEO	163.5		117	23	140	0
Managing director of a division which accounts for 25% or more of the company's equity or performance:						
Yngvi Örn Kristinsson, managing director	57.1	9	18	3	21	3
Sixteen managing directors of the bank's divisions and subsidiaries	1,432.0	24	258	64	322	14
	1,791.7	**33**	**427**	**105**	**532**	**4,726**

The grant price of call options held by CEOs and managing directors on shares of Landsbanki Íslands hf. ranges from ISK 3.58 to 39.4. Options can be transferred from one year to the next and can be accumulated and exercised at the end of the period. Measures have been taken to enable the Group to fulfil the contracts concluded and the cost of these measures has been expensed through profit and loss. Holding refers to shares in the Group owned by the parties in question, their spouses, children who are not financially competent or companies where they have holdings.

Salaries of CEOs and managing directors are comprised of basic salaries, benefits, and performance-linked compensation which reflect the Group's ROE and value increase. Basic salaries and benefits comprise ISK 39.3 million of compensation to Halldór J. Kristjánsson, CEO, ISK 40.7 million of compensation to Sigurjón Þ. Árnason, CEO, and ISK 20.9 million of compensation to Yngvi Ö. Kristinsson, managing director of Investment Banking. Other payments are performance-linked compensation.

36. Share-Based compensation

Employees and management within the Group were granted options on shares in the Group with grant prices from ISK 3.58 to ISK 39.4; the total options amount to shares of ISK 1,488.7 million nominal value. As of 31 December 2006 shares granted under options totalled ISK 946.4 nominal value; contracts for options totalling ISK 636.8 million nominal value were concluded during the year; options exercised during the year totalled ISK 94.5 million nominal value. In 2006 no options were granted or exercised. The options mature and can be exercised during the period 2003-2011. Options mature in four years and can be exercised at the end of the fourth year and during the following two years. Options which are mature but unexercised amount to ISK 1.141,7 million nominal value. Options with a grant price of 3.58-4.12 maturing during the period 2003-2006 can be exercised in 2006-2008; they total ISK 98.1 million nominal value.

Options with a grant price of 7.0-9.0 maturing during the period 2004-2007 can be exercised in 2007-2009; the total amount is ISK 332.0 million nominal value. Options with a grant price of 12.0-14.25 maturing during the period 2005-2008 can be exercised in 2008-2010; the total amount is ISK 432.2 million nominal value. Options with a grant price of 19.0-39.4 maturing during the period 2006-2009 can be exercised in 2009-2011; the total amount is ISK 626.4 million nominal value. Options can generally be exercised 90-120 days after an employee has acquired the right to exercise them, which as a rule occurs on 1 December each year.

ISK million

37. Related-party transactions

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 191 million as at 31 December 2007 (2006: ISK 153 million). Loans to members of the Board of Directors and their fully owned companies amounted to ISK 9,916 million (2006: ISK 26.267 million), including credit granted to companies with which members of the Board are connected through membership of the companies' Boards or ownership ties. The holding company, Samson eignarhaldsfélag ehf., has a 40.73% holding in the Group. The Group has not assisted the company with any provision of credit. One of the company's owners sits on Landsbanki's Board of Directors and loans granted to this person are included in the above amounts. Total credit extended to associated companies by the Group amounted to ISK 52,682 million as at 31 December 2007 (2006: ISK 14,152 million). Out of ISK 52,682 million the total amount a ISK 37,264 million was extended to associated companies in connection with acquisition of Stork Food Systems.

All of the loans referred to here have been granted in accordance with the Group's credit rules and on normal commercial terms. No impairment has been recognised by the Group against these loans. Fees and interest received for services provided to related-parties amounted to ISK 7,167 million in 2007.

38. Auditors fee

	2007	2006
Audit and audit related services	259	99
Other professional services	46	45
	305	**145**
Fee to others than the Parent Company's auditors, included in the above total	204	65

39. Acquisitions

On 3 August, the Group completed the acquisition of a 100% interest in the UK brokerage and investment bank Bridgewell Group plc. This acquisition was achieved by direct purchase of shares in Bridgewell Group plc.

Subsequent to the acquisition the operations of Bridgewell Group plc were merged with Landsbanki's other UK brokerage operations to form Landsbanki Securities UK.

The details of the fair value of the assets and liabilities acquired and resulting goodwill are as follows (ISK millions):

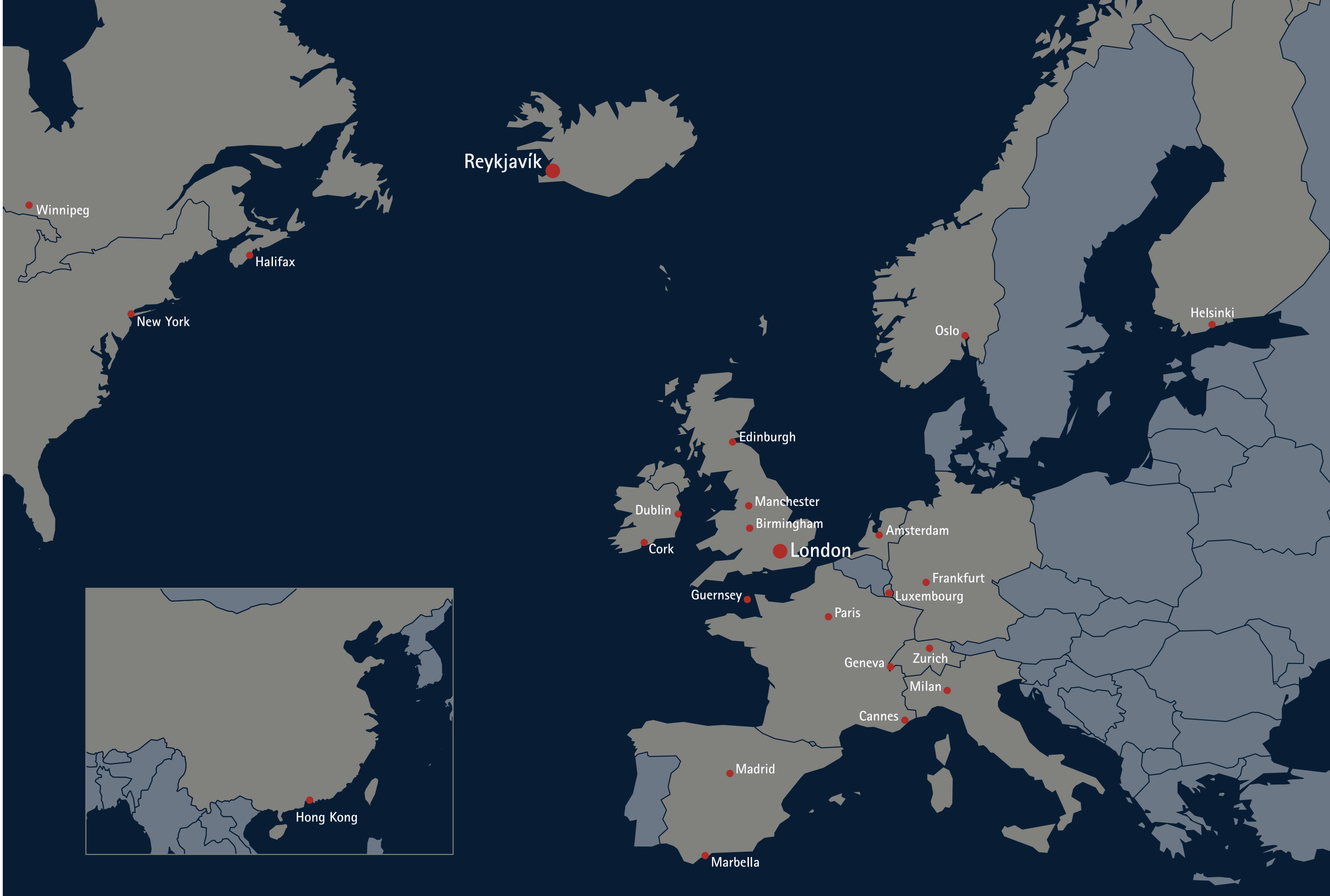
Cash and cash equivalents (Bridgewells previous carrying amount ISK 978 million)	978
Unsettled trading and other assets (Bridgewells previous carrying amount ISK 3,893 million)	3,282
Intangible assets (Bridgewells previous carrying amount ISK 0)	1,170
Unsettled trading and other liabilities (Bridgewells previous carrying amount ISK (2,854 million)	(4,540)
Goodwill	6,804
Total purchase consideration paid	**7,694**

Landsbanki shares issued (172 million shares), at market value	6,780
Cash payment	815
Cost directly attributable to the acquisition	99
	7,694

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise. Fair value of assets and liabilities acquired are based on discounted cash flow models.

In January to April 2007 the Group acquired 14% of minority interest in Landsbanki Kepler SA. The consideration paid was ISK 2,801 million. The amount in excess of the fair value of net assets is recognised as goodwill.

On February 2007 the Group acquired 16% of minority interest in Merrion Capital Group Ltd. The consideration paid was ISK 1,681 million. The amount in excess of the fair value of net assets is recognised as goodwill.



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