Landsbanki

Annual Report 2005

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Over a third of the Bank's profit and total assets are related to its international activities; the Board of Directors has set the objective of increasing the share of activities abroad to over 50% of Landsbanki's aggregate turnover in the coming years.

Success, Stability and Prudence

Landsbanki's operations in 2005 have produced the best results in the company's history. The past few years have witnessed steady improvement: the Bank's own operations have been rejuvenated while at the same time it has participated actively in numerous restructuring projects and the globalisation of business and industry in Iceland. This is reflected in the sizeable expansion of its balance sheet and high profit, for the second year in a row. During the past three years, Landsbanki's market value has doubled and redoubled, outpacing even the steep rise of the equity index of the Iceland Stock Exchange. In 2005, the Bank's share price rose 109%, more than that of any other listed company in Iceland. This achievement is all the more gratifying because it followed on the heels of a share price increase of 104% in 2004.

This outstanding achievement is well worth celebrating, and we extend our thanks to the Bank's management and employees. They have clearly moved mountains. At the same time, it is important to bear in mind that every right implies a responsibility; every opportunity, an obligation. Icelandic business and industry have been transformed in recent years, and with it Icelandic society, in particular as a result of changes to financial markets. It is important that the people at the helm of those companies leading the advance shoulder the responsibility placed on them by their new role. Changes in the business environment have to occur with the support of the societies in which they take place. Proceeding too far, too fast can jeopardise the social partnership, with the result that fewer people welcome the companies' well-deserved success and the general prosperity that it can bring.

Landsbanki grew rapidly this past year. Its expanding operations encouraged extensive organic growth, parallel to its mergers and acquisitions both in Iceland and abroad, significantly boosting its balance sheet. During the past year the Bank added significantly to its activities on markets abroad. At the same time as this strategy creates the premises for further growth in the future, it contributes to operating security, by diversifying risk with the addition of new market regions. Landsbanki and its subsidiaries now operate in a total of 12 countries. In fact, it could be said that this past year the Bank has taken a major step towards becoming a Northern European bank, anchored firmly, however, in its home market. For both employees and shareholders, it is important and significant that the Bank maintain its position as Iceland's leading bank, for both corporate and individual clients. Surveys, showing that Icelanders in general trust Landsbanki better than any other company, are both gratifying and encouraging.

Over a third of the Bank's profit and total assets are related to its international activities; the Board of Directors has set the objective of increasing the share of activities abroad to over 50% of Landsbanki's aggregate turnover in the coming years. This strategy is all the more important in view of the fact that the domestic securities market can scarcely be expected to continue to grow indefinitely at the pace of recent years.

Landsbanki demonstrates just how highly it values its Icelandic roots, not only by its exceptional service but in other ways as well. It is no exaggeration to say that in recent years the Bank has been a model for others to follow in supporting sports, education, culture and other pursuits. This past year was no exception, nor will there be a change of direction in the year that has now commenced.

The Bank's shareholders have supported its growth diligently when share capital was increased this past spring. They unanimously supported the merger with part of Burdarás at a shareholders' meeting in the autumn. Their support places Landsbanki in a stronger position now than ever before. The Bank's capital ratio is the highest ever, giving it the strength to continue expanding on its main markets. At the same time, this solid position, together with reinforced risk management throughout the entire Group, more than justifies its good credit ratings and the trust it is shown on international financial markets.

As previously mentioned, Landsbanki plays an important role in Icelandic society and on the Icelandic securities market. The Bank aims to be at the forefront in proper and sound corporate governance, to encourage transparency and society's trust in the Bank and the securities market. It is Landsbanki's policy to continue to comply in all respects with good corporate governance guidelines and the Bank closely follows developments in these matters, both in Iceland and abroad.

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 their 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 Directors on the Board are deemed independent of the company, as defined by the Guidelines, and three of its five Directors are independent of major shareholders, as defined in the Guidelines. The independent Directors were Gudbjörg Mattíasdóttir, Kjartan Gunnarsson and Thorgeir Baldursson, as well as Einar Benediktsson, who served as Director for part of the year.

Landsbanki's Board of Directors has adopted clear rules on working procedures, which are accessible on the Bank's website. These rules set out the duties of the Board of Directors and provide for regular information disclosure by management to the Board and resolution of any conflicts of interest which may arise. The Board of Directors has, in accordance with these rules, appointed two working committees, an Audit Committee and a Compensation Committee, to discuss specifically and prepare issues of this category for Board meetings. All of the Audit Committee members are independent of the Board, as defined by the Guidelines, and the majority is independent of major shareholders. The Compensation Committee is comprised of two representatives from the Board, both of them independent of the company and one independent of major shareholders, according to the Guidelines. Stock options concluded with management and employees have not, up until now, been submitted to a shareholders' meeting for confirmation, but are accounted for in the Bank's annual financial statements.

It was 120 years ago this past autumn, that the statute creating Landsbanki Íslands was passed by the Icelandic parliament. The Bank's first branch was opened in the spring of 1886. This anniversary will be celebrated with ceremony in the spring, to illustrate the important role that Landsbanki has played in the development of Icelandic industry and universal banking services.

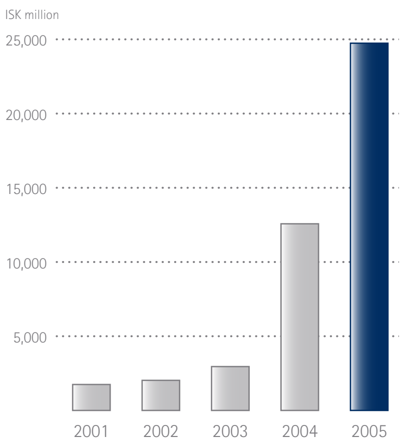
A company with a 120-year history behind it knows only too well that if you need a strong will to last through the lean years, you need an even stronger one to make it through the years of plenty. I am confident that Landsbanki will, in the future as in the past, temper success with responsibility. It will continue to lead the way in corporate responsibility and safeguard the interests of its clients, employees and shareholders.

Björgólfur Gudmundsson
Chairman of the Board

From The Chief Executive Officers

Landsbanki's international activities became even more firmly rooted in 2005. The acquisition of three European securities brokerages reinforces the foundation for continuing expansion of international investment banking activities. A steadily increasing portion of the Bank's income generation originates outside of its home market in Iceland and more than one-third of its lending is to clients abroad. Landsbanki and its subsidiaries now operate in 12 countries.

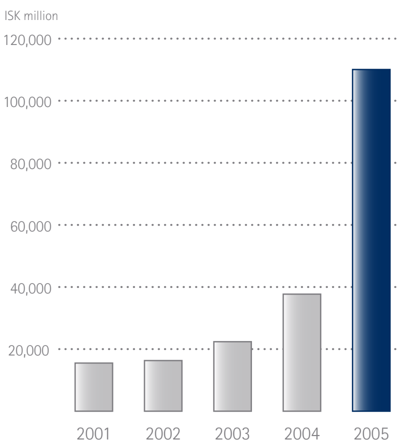
After-tax Profit



The Bank's principal objective in its international activities is to continue to put its corporate banking and securities expertise to good advantage in offering small- and medium-cap European companies a full range of banking services. The needs of this market match the expertise and experience of Landsbanki's employees and subsidiaries. At the same time, the Bank's international operations broaden its income base and diversify the risk inherent in individual industrial sectors and geographical regions, as well as adding stability to its operations and economies of scale. This substantially reduces the impact of economic fluctuations on the Bank's overall performance which may occur on individual markets.

Landsbanki's performance in 2005 was its best ever. Interest and commission income increased substantially and trading gains on the Bank's equity assets were considerable. The Bank's merger with part of Burdarás, plus its share capital increase in April 2005, reinforces its equity position, enabling it to provide even better service on the domestic market and continue to expand internationally.

Total Equity



Landsbanki's share price rose by 109% in 2005, in addition to which the Bank paid a dividend of 20% on the nominal value of shares. The actual share price rise in 2005 was therefore 112%, making this the second year in a row that the value of the Bank's shares has more than doubled. This development reflects investors' trust in the Bank's strategy and is a welcome reward for its 29,000 shareholders.

Landsbanki's financial strength has grown in tandem with this advance as was confirmed twice during the past year, when international agencies upgraded the Bank's credit rating. In March, Moody's upgraded Landsbanki's deposit and senior debt ratings from A3 to A2, and affirmed the Bank's C rating for financial strength. At the end of November, Fitch upgraded Landsbanki's individual rating from C to B/C and also raised the Bank's rating for issuing Tier 1 subordinated debt from BBB+ to A-.

Core income is an important indicator of a bank's fundamental operations. Landsbanki's pre-tax return on equity based on core income was 30%.

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

Operations

The Bank's after-tax profit in 2005 was ISK 25 billion. This is an increase of 97% over 2004, when its net profit was ISK 12.7 billion. Landsbanki's net income from operations amounted to ISK 61 billion, which is an increase of 82% over 2004, when net operating income was ISK 33.4 billion. Income from establishments abroad comprised 17% of Landsbanki's income as compared to 8% in 2004.

After tax return on equity (ROE) was 45.8%. The Bank's equity rose from ISK 38 billion at the beginning of the year to ISK 110 billion at year-end. Total assets at year-end amounted to ISK 1,405 billion.

One of the most important indicators of the Bank's operations is its core income. This is the outcome of operating income, excluding trading gains on securities and interest costs arising from securities holdings. Core income profit was ISK 16.2 billion before tax, an improvement of over ISK 10 billion from the previous year. Pre-tax ROE, taking only core income into consideration, was 30%, which is well above the Bank's objective of ROE of 15-17%.

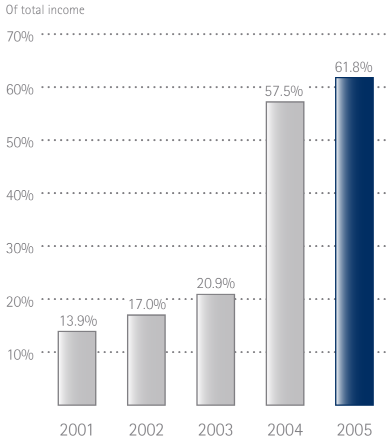
Before-tax Core Income

ISK million	2004	2005
Adjustments		
Net interest revenues	1,200	3,652
Other operating revenues	-9,842	-21,257
Impairment on goodwill	0	3,033
	-8,642	**-14,572**
Core income		
Net interest revenues	15,934	26,647
Net commission and fees	8,891	16,726
Net operating revenue	**24,825**	**43,373**
Operating expenses	14,460	20,967
Impairment on loans and advances	4,485	6,197
Profit before tax	**5,879**	**16,210**
Cost-income ratio	58%	48%
Return on equity before tax - core income	23%	30%

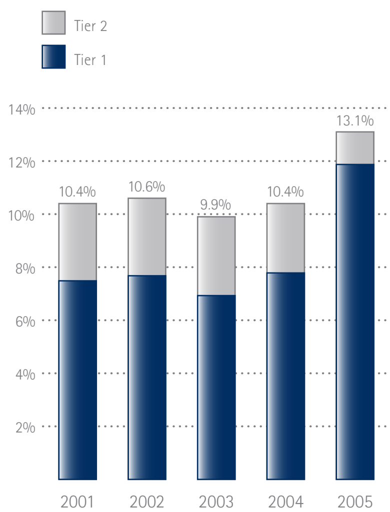
International Growth Strategy

Landsbanki's international expansion has two primary objectives. In the first place, to take optimal advantage of the Bank's strength and expertise in corporate and investment banking to build up an international bank, providing medium-size

Return on Equity Before Tax, Goodwill Impairment, and Minority Interest



Capital Adequacy Ratio



companies a full range of corporate finance and investment banking services. At the same time, the Bank will continue to increase its international lending activities, both through organic growth and acquisitions of banking assets, with the objective of ensuring increased stability in the Group's global income generation.

Landsbanki's acquisition of established securities brokerages, operating in Europe's financial centres, is a key step in its strategy of offering medium-size European companies a full slate of corporate finance and investment banking services. Today, Landsbanki and its subsidiaries have offices in London, Paris, Frankfurt, Amsterdam, Zurich, Milan, Madrid, Dublin, Luxembourg, Reykjavík and New York, plus a sales office in Halifax, Canada.

Landsbanki's London Branch was expanded substantially during the year, the number of employees increased, participation in corporate financing projects grew sizeably and at the end of the year the Branch began to accept deposits. The Branch focuses on structured/leveraged financing and advising on corporate restructuring and buy-outs. These projects are often connected with activities by Icelandic investors on the UK market. Operations have been boosted by the addition of a team of asset-based financing specialists. Several major corporate financing projects were undertaken in co-operation with corporate finance specialists at Landsbanki's subsidiary Teather & Greenwood.

General banking activities at locations abroad have also been increasing. In addition to the burgeoning lending activities of the London Branch, Heritable Bank's specialised mortgages, legal financing and asset-based lending have flourished and Landsbanki Luxembourg, which specialises in private banking and related services, has grown rapidly. The companies have grown both organically, by adding new products and services, and by acquiring niche enterprises.

The prime task facing the Group is to work towards further integrating the Bank's subsidiaries, to take advantage of the opportunities which it has opened up for itself on the European market. However, Landsbanki continues to be prepared to take advantage of further opportunities for external growth which fit in with its overall strategy.

Funding and Risk Management

Landsbanki was very successful in its funding efforts in 2005, increasing both the diversity of its funding sources and the relative share of long-term credit. The market situation was highly favourable for bond issuers in 2005. Landsbanki's total bond issuance during the year was equivalent to EUR 4.9 billion, the lion's share of it issued under the EMTN programme. A new, long-term revolving back-up facility was put in place and previous credit lines renewed.

In October, Landsbanki concluded a five-year Regional Bond issue of EUR 1 billion, its largest transaction ever. The issue was targeted at smaller, regional banks and added 160 new investors to Landsbanki's funding group. Landsbanki also completed its first US bond issue in December.

Major emphasis has been placed on reinforcing the Bank's risk management recently. Clients of the Landsbanki Group are classified in risk categories, reflecting the Bank's assessment of their financial strength. The improved circumstances of both Icelandic corporations and households, coupled with a favourable economic climate, have resulted in more clients being ranked in the best risk categories. Landsbanki has also improved the quality of its loan portfolio by increasing diversification of risk, for instance, by increasing credit extended to solid clients abroad and requiring better security for credit extended.

Landsbanki's rules on liquidity have been reviewed. These Guidelines cover both short-term and longer-term liquidity risk. The Guidelines limit possible imbalances in the net cash flow of long-term foreign assets, to ensure that the repayment flow to the Bank's foreign financing and cash flow from its foreign assets is as even as possible.

Domestic Market

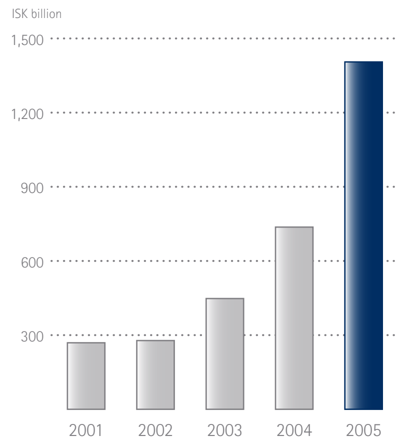
Landsbanki has a leading market share in most areas of financial services in Iceland, in both corporate and retail banking.

Landsbanki has always played a leading role in financing business and industry in Iceland and in recent years has been increasing its corporate lending outside of Iceland. In 2005, corporate lending grew substantially: loans extended to companies, financial institutions and local authorities comprised over three-quarters of the Group's total lending. Major emphasis has been placed on increasing lending abroad to diversify the corporate loan portfolio and reduce risk. At the end of 2005, 35% of the Bank's total lending was to borrowers outside of Iceland, up from 27% at the beginning of the year.

According to a survey by IMG Gallup in December 2005, Landsbanki has a leading share of the domestic individual market, as 30% of individuals surveyed bank with Landsbanki. In the corporate sector, the Bank's position is even stronger. At the end of 2005, Landsbanki provided close to 40% of corporate lending in Iceland and for around 60% of companies listed on the Iceland Stock Exchange, Landsbanki was their principal bank or one of two banks with whom they did business. Landsbanki's share of equity brokerage in 2005 was 32% and for bonds 24%.

Restructuring retail sales and services to increase the emphasis in Landsbanki branches on customer advisory, plus focusing on maintaining top service to corporate clients and investors, has clearly paid off. Landsbanki has a solid position as Iceland's leading commercial bank.

Total Assets

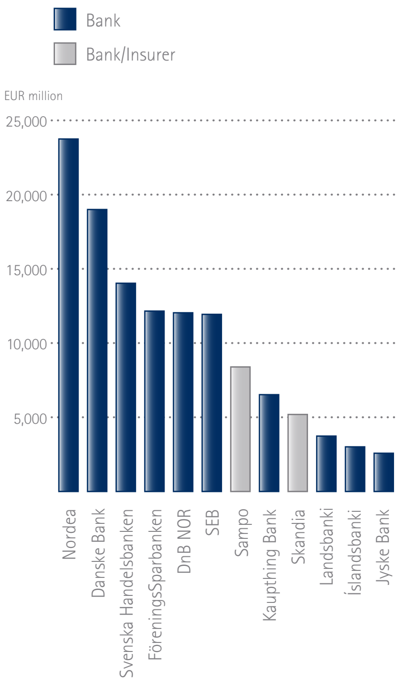


Landsbanki Share Price and ICEX-15 Index 2001-2005

The Bank has emphasised increasing the productivity of its branch network and adapting it to a continuously changing business environment. Enlarging and reinforcing retail branches makes them more capable of meeting customer demands for more specialised financial services in the coming years. This includes increasing sales efforts in the branches and adding new self-service options. In September, Landsbanki acquired the assets and liabilities of the former Agricultural Loan Fund. The takeover reinforces both the Bank's business ties with farmers as well as the position of numerous branches outside the capital area, as the Fund's clients number around 3,000.

Realistic options for co-operation and integration on the domestic financial market will continue to be considered. Landsbanki has declared its willingness to take the initiative in the further consolidation of the banking sector, thereby increasing the efficiency of the financial market in Iceland. In addition, the Bank emphasises further privatisation of residential housing mortgages in Iceland.

Top 12 Nordic Financial Institutions by Market Capitalisation at Year-end 2005



Source: Bloomberg

Outlook

The outlook for the Bank's operations in the coming year is very positive. Landsbanki has adopted a strategy of prudent and sound expansion in its investments domestically and abroad. The Bank will continue to emphasise organic growth.

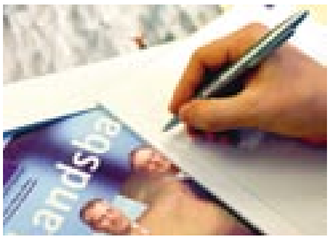
The scope of activities, in both Corporate Banking and Securities and Treasury, can be expected to expand still further, especially outside of Iceland. The current upswing on Icelandic markets has been utilised in order to expand and strengthen the Bank's foundation and reduce localised risk. This makes its operating basis substantially more stable than it was only a few years earlier.

Surveys showing that Icelanders in general trust Landsbanki better than any other company are both gratifying and encouraging, and remind us of the importance of living up to this reputation, in the future as in the past.

We would also like to express our gratitude for the trust which Landsbanki's shareholders have shown us during the period of restructuring which the Bank has undergone in recent years. Finally, we thank the Bank's employees, both in Iceland and abroad, for their fine effort on its behalf.

Landsbanki's CEOs

Halldór J. Kristjánsson, Sigurjón Th. Árnason



The Bank's principal objective in its international activities is to continue to put its corporate banking and securities expertise to good advantage in offering small- and medium-cap European companies a full range of banking services.

2005 Performance

Landsbanki Íslands hf. reported gross profit (before allowing for taxes and goodwill impairment) for 2005 of ISK 33.8 billion, as compared to ISK 14.5 billion in 2004. This is a year-over-year (YoY) increase of 133%. The Bank's net profit was ISK 25 billion compared to ISK 12.7 billion in 2004.

After-tax return on equity (ROE) for the year was 45.8%. In Q3 the Bank wrote down goodwill amounting to ISK 3.3 billion resulting from the merger with part of Burdarás. After allowing for this write-down, Landsbanki's pre-tax profit for 2005 was ISK 30.8 billion.

Profit before tax and goodwill impairment in Q4 of 2005 amounted to ISK 10.5 billion. This is the Bank's best performance even in a single quarter.

Changes to Accounting Practices

As of 1 January 2005, Landsbanki has adopted International Financial Reporting Standards (IFRS) for its financial reporting. A special news announcement explaining the impact of the transition to IFRS on Landsbanki was sent to the Iceland Stock Exchange (ICEX) together with the announcement of Q1 results on 12 May of this year. Note 40 of the annual financial statements for 2005 also explains this impact.

The operations of Teather & Greenwood are included in the consolidation as of 1 April 2005 and the operations of Kepler Equities from the end of November, with the result that figures from 2004 are not fully comparable. Merrion Capital is included in the Group's balance sheet from the end of 2005.
Highlights of the Income Statement and Balance Sheet

Highlights of the Income Statement and Balance Sheet

Income Statement Outcome

Net income from operations amounted to ISK 61 billion compared to ISK 33.5 billion in 2004 an increase of 82%.

Net interest income amounted to ISK 23 billion as compared to ISK 14.7 billion the previous year. This is a YoY increase of 56%. It reflects the Group's growing economies of scale. On the other hand, interest spread as a ratio of average capital position was 2.2% in 2005, a slight drop from the 2.6% ratio of 2004. This means that the Bank's customers have enjoyed better terms as the Bank's strength has grown.

Net fee and commission income amounted to ISK 16.7 billion as compared to ISK 8.9 billion the previous year. This is a YoY increase of 88%. Increased income from fees and commissions resulted from the Bank's steadily increasing securities trading, asset management and overseas activities of both the parent company and subsidiaries.

The increase in net interest and commission income reflects the growth of the Group's core income generation. These items have grown by ISK 16.1 billion, or 68% over the previous year, when they totalled ISK 39.7 billion. While the Group's core income generation has increased by ISK 16.1 billion, its operating expenses have grown by only ISK 6.5 billion.

The Bank's trading and investment income amounted to ISK 21.3 billion this past year, as compared to ISK 9.8 billion in 2004. The ICEX-15 index rose by 64.7% in 2005, which explains much of the Group's high trading and investment income. Trading and investment income was comparable to the heading of trading gains under previous accounting practices, with modifications which resulted from revaluation in settlement of derivatives and available-for-sale financial assets. Trading and investment income includes dividend income and net income (trading gains) on current assets; other financial assets at fair value; available-for-sale financial assets; and trading gains on market derivatives, hedging derivatives and foreign exchange.

Net operating income outside of Iceland amounted to ISK 10.4 billion in 2005, as compared with ISK 2.8 billion the previous year. The increased income generation from operations abroad reflects the fine performance of foreign subsidiaries as well as the expansion and profitability of the Bank's London Branch.

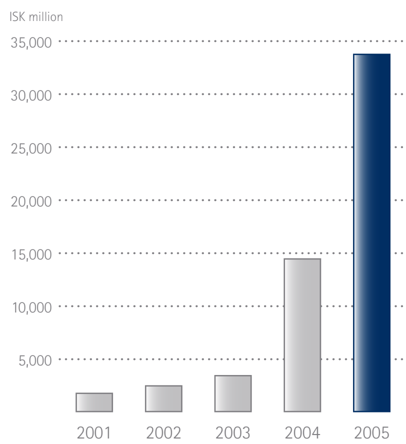
Landsbanki's operating expenses totalled ISK 21 billion in 2005, making its cost-income ratio for the year 34% compared to 43% in 2004.

Impairment on loans and financial assets held for sale in 2005 amounted to ISK 6.2 billion, as compared to ISK 4.5 billion in 2004. Impairment as a percentage of loans and receivables has, however, decreased from 0.73% in 2004 to 0.58% at year-end 2005.

Total provisions to the credit loss allowance account amounted to ISK 13.1 billion or 1.23% of total loans at the end of 2005. Provisions for credit losses do not reflect actual write-offs, but amounts set aside to cover possible credit losses. When and if loans are not recovered, the amount is credited from these provisions. During 2005, ISK 2 billion was credited from the credit loss provisions against final write-offs.

Goodwill impairment amounted to ISK 3 billion in 2005. This was principally the result of goodwill in the amount of ISK 3.3 billion arising from the takeover of Burdarás's assets by Landsbanki. The goodwill must be viewed against the context of the large number of new shareholders acquired by Landsbanki as a result of the merger, and the fact that payment for Burdarás was made in Landsbanki's shares at market price.

Profit Before Tax and Goodwill Impairment



Balance Sheet Outcome

The Group's total assets amounted to ISK 1,405 billion at year-end 2005. The Group's total assets have increased five-fold in the past two and one-half years, almost entirely by organic growth in Iceland and abroad. Full-time equivalent positions in the Landsbanki Group numbered 1,725 at year-end 2005. Of these, 1,139 were in Iceland and 586 in the Group's establishments abroad.

Loans and advances amounted to ISK 1,072 billion at the end of 2005. Thereof, ISK 87 billion were loans and amounts due from credit institutions, compared to ISK 67 billion at the beginning of the year. Loans and amounts due from credit institutions amounted to ISK 998 billion compared to ISK 556 billion at the beginning of the year. The increase was primarily in corporate lending to major clients through Landsbanki's Corporate Banking division and the Bank's London Branch, plus growth in housing mortgages in Iceland.

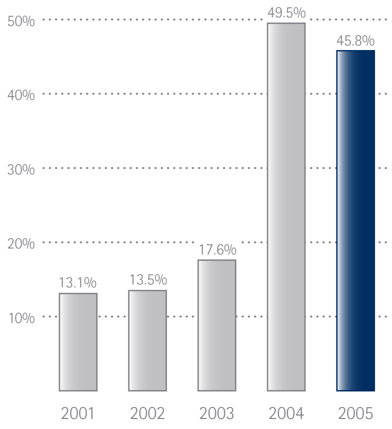
Loans to foreign clients and lending by foreign subsidiaries totalled ISK 354 billion at the end of 2005, as compared to ISK 150 billion at the beginning of the year, increasing by ISK 204 billion or 136%. These loans thus represent 35% of total loans to clients as compared to 27% at the beginning of this year.

The Group's trading assets were ISK 218.9 billion at year-end 2005 as compared to ISK 64.7 billion at the beginning of the year. This included market bonds and trading equities, as well as derivatives that were in the money. The Bank's financial assets carried at fair value through profit and loss amounted to ISK 34.5 billion at the end of the year. The Bank has entered into forward contracts with clients against these holdings, making its net exposures at the end of the year ISK 58 billion in equities, ISK 51 billion in market bonds and ISK 13.9 billion in derivative contracts with positive value.

Total assets under management were ISK 300 billion at year-end 2005 an increase 47% during the year. Total assets in the Group's custody came to ISK 1,321 billion, a YoY increase of 81%. The Group's deposits amounted to ISK 479 billion at the end of 2005. Of this amount, ISK 334 billion were customers' deposits, as compared to ISK 218 billion at the beginning of this year, an increase of 53% during the year. The Group's borrowing amounted to ISK 690 billion at year-end as compared to ISK 375 billion at the beginning of the year

Its subordinated debt was ISK 49 billion at the end of the year as compared to ISK 23 billion at the beginning of the year. The Bank issued subordinated bonds in the amount of ISK 28 billion in Q1 of 2005. The issue was comprised of Tier 1 capital amounting to EUR 150 million and EUR 200 million classified as Tier 2. The Group's capital ratio, in accordance with capital adequacy rules, was 13.1% at the end of 2005, of which 11.9% was Tier 1 capital. At the beginning of the year the Group's capital ratio was 10.4%, of which 7.8% was Tier 1 capital.

After-tax Return on Equity



The Group's equity amounted to ISK 110 billion at year-end 2005, as compared to ISK 38 billion at the beginning of the year, increasing by 192%. The Bank issued new capital in March 2005 amounting to ISK 800 million nominal value at a share price of 14.25. In Q3, Landsbanki issued additional shares of ISK 2.1 billion nominal value, at a share price of ISK 19, in connection with its acquisition of assets of Burdarás hf. The remaining increase in equity was the result of profits during the year, dividends and changes to treasury shares held.

Performance by Division

Landsbanki Group's performance is comprised of the results of the following four divisions: retail banking; corporate banking; securities and trading; and asset management and private banking services.

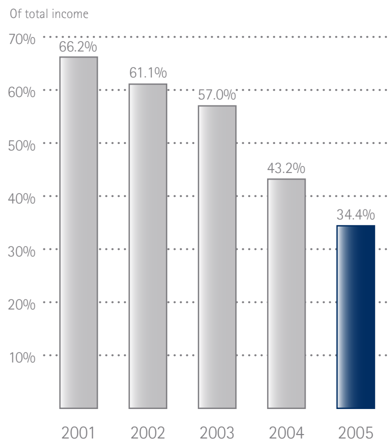
Retail Banking includes the parent company's branch network, Heritable Bank's mortgage operations and SP Fjármögnun. The division's pre-tax profit amounted to ISK 3.4 billion in 2005, as compared to a profit of ISK 0.2 billion the previous year. The division's total assets amounted to ISK 262 billion at year-end 2005.

Corporate Banking includes the parent company's Corporate Banking division, including its London Branch, and Heritable Bank's real estate financing. Pre-tax profit for Corporate Banking in 2005 amounted to ISK 7 billion, as compared to ISK 4.4 million in 2004. The division's total assets amounted to ISK 636 billion at year-end 2005.

Securities and Trading is comprised of the parent company's Securities division plus the subsidiaries Teather & Greenwood, Kepler Equities and Merrion Capital. This division includes securities brokerage, corporate advisory, FX and derivative trading, the Bank's treasury and debt management and proprietary trading. Pre-tax profit on securities trading in 2005 amounted to ISK 19.6 billion in 2005 as compared to ISK 11.3 billion the previous year. Goodwill impairment resulting from the merger of the assets of Burdarás hf. and the acquisition of the Agricultural Loan Fund, amounting to ISK 3 billion, is recognised under this division. The division's total assets amounted to ISK 286 billion at year-end 2005. All three subsidiaries in this division were acquired in 2005. Teather & Greenwood is included in the division from the beginning of Q2, Kepler Equities from the beginning of December and Merrion Capital from year-end 2005.

Asset Management and Private Banking includes the parent company's asset management division, Landsvaki hf. and Landsbanki Luxembourg. The pre-tax profit of Asset Management and Private Banking in 2005 amounted to ISK 1.3 billion, as compared to ISK 0.6 billion in 2004. The division's total assets amounted to ISK 215 billion at year-end 2005.

Cost-income Ratio

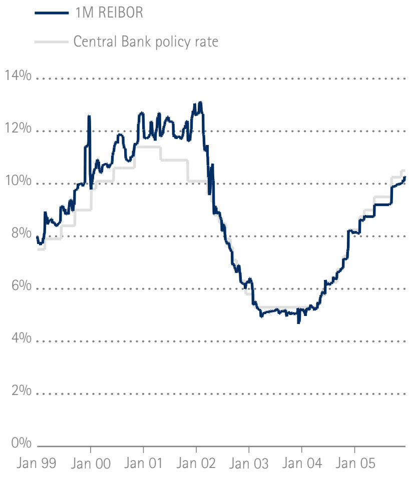


The Economy and Financial Markets

Consumer Price Index

Source: Statistics Iceland

1M REIBOR and
Central Bank Policy Rate



Source: Central Bank of Iceland

The Icelandic Economy and Financial Markets

In economic terms, 2005 was an unusually favourable year. GDP growth amounted to around 5%, primarily due to rapidly growing investment and high private consumption. While developments in the aluminium industry and related power projects still dominate the course of economic events, investment in other industrial sectors, construction in particular, also rose substantially during the year. Aggregate investment grew by more than 30% YoY, and private consumption by more than 11%, its most substantial rise since 1987. As expected, imports surged in 2005, with the result that the current account deficit climbed to more than 15% of GDP, the highest level seen for decades. Inflation was 4%, or practically the same as in 2004. The ISK exchange rate appreciated 8% based on the trade-weighted index.

As a result of the unusually energetic economic upswing currently in progress, there has been considerable pressure on the economic infrastructure. Households have enjoyed rising purchasing power and expanded their consumption, in part due to extensive changes in the housing market. The banks' incursion into the housing mortgage market from September 2004 onwards transformed household access to financing on better terms and through much more varied options. Very substantial increases in housing prices slowed somewhat as the year drew to a close, and the effects of greatly increased supply and persistent high turnover began to be felt. Nonetheless, housing prices in the capital area rose by 31% during the year.

Unemployment fell from 3% at the beginning of the year to 1.4% at year-end, after holding steady at close to 3% in recent years. The major restructuring of the housing mortgage market during the latter half of 2004 no doubt played a key role in altering the labour market situation, through rapidly increasing housing construction, soaring private consumption and the resulting higher demand for labour.

The impact of growing purchasing power and high demand is clearly evident in public finances, and all indications point to a better treasury balance than anticipated in the government budget. The additional bonus of over ISK 58 billion from the privatisation of Iceland Telecom strengthens the position of the National Treasury still further.

The Central Bank of Iceland (CB) raised its policy rate six times during 2005, from 8.25% to 10.5%, bringing to twelve the total number of CB policy rate hikes since interest rates began to rise in May 2004. The CB's foreign currency purchase arrangements were altered to reflect primarily the currency needs of the National

Treasury, e.g. for debt retirement, rather than to boost foreign currency reserves. Due to the strong treasury position, repayment of foreign debt was accelerated and the CB's total foreign currency purchases during the year amounted to ISK 24.6 billion.

The entire operating environment of financial enterprises has undergone extensive changes in the past few years. Both household and corporate lending has expanded substantially, with the share of foreign currency loans rising rapidly. Acquiring a larger share of the housing mortgage market has also opened up new possibilities for the banks and strengthened their position on the domestic market. Last but not least, the banks' operations abroad have played an increasingly significant role in income generation.

International rating agencies that monitor Icelandic economic affairs confirmed Iceland's sovereign ratings in 2005. The strong treasury position, stable government and general economic flexibility are dominant factors in the rating agencies' positive assessment of the Icelandic economy. On the other hand, they state clearly that the widening current account deficit and high foreign debt are the primary factors preventing a further rating improvement. Moody's has assigned Aaa/Aaa ratings, while Fitch confirmed its AA-/AAA ratings and Standard & Poor's its AA-/AA+ ratings.

Domestic Financial Market

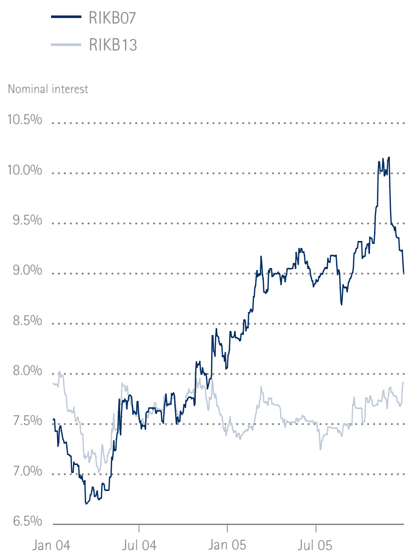
ISK appreciation continued in 2005 with the trade-weighted index bottoming out at 100.6 in November, its lowest point since November 1992. At year-end the trade-weighted index was 104.9 and the ISK had strengthened by 8% since the beginning of the year. Turnover on the FX market grew by 144% at fixed exchange rates, amounting to over ISK 2,000 billion, or double Iceland's GDP. The enormous turnover increase is primarily due to the impact of foreign issues of ISK-denominated bonds on the market. During the first eight months of the year, turnover on the FX market averaged close to ISK 140 billion monthly. After ISK-denominated Eurobonds began to appear, the monthly average turnover surged to almost ISK 250 billion.

As might be expected, the ISK interbank market primarily reflected policy rate developments. One-week REIBOR interest rates were 30-40 basis points below the policy rate for most of the year, rising in step with the CB's rate hikes. Turnover on the ISK interbank market grew substantially, totalling some ISK 1,570 billion during the year, almost tripling since 2003. The short-term domestic-foreign interest rate differential, based on 6-month interbank rates, increased by 70 basis points, and stood at 6.9% at year-end.

Yield on HFF and IBN Bonds

Source: Central Bank of Iceland

Yield on Treasury Notes



Source: Central Bank of Iceland

ISK Trade-weighted Index

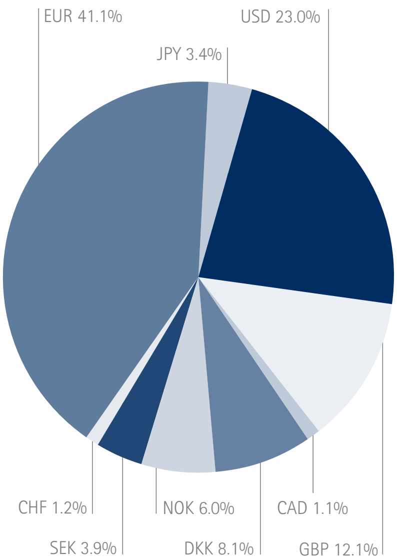
Source: Central Bank of Iceland

ISK Exchange Rate

Currency	31 Dec 2004	31 Dec 2005
EUR	83.51	74.70
USD	61.19	63.13
GBP	118.15	108.85
NOK	10.135	9.344
DKK	11.225	10.014
SEK	9.258	7.945
JPY	0.5969	0.5376

Source: Central Bank of Iceland

ISK Trade-weighted Currency Basket



Source: Central Bank of Iceland

On the bond market, yields on CPI-indexed long-term bonds remained relatively low at around 3.5% during the first half of the year, at which point the downward trend stopped. This can most likely be attributed to the fact that below this level, interest of Icelandic pension funds is practically non-existent, since in general pension funds are required to show a minimum real rate of return of 3.5%. Around mid-September, CPI-indexed bond yields began to rise and by the end of the year the yield on 40-year housing bonds (HFF44 series) had reached 4.1%. While the increase in CPI-indexed yields was doubtless partly the result of the CB's policy rate increases, the rise in long-term interest rates in Iceland has also been in line with rate increases on foreign markets.

The issuance of ISK-denominated bonds by foreign issuers began in the latter half of 2005, with a substantial impact on the ISK exchange rate and on yields of non-indexed bonds. Total issuance of these bonds amounted to ISK 152 billion in 2005, and the trend looks set to continue.

Yields on the longest non-indexed Treasury note series, maturing in 2010 and 2013 (RIKB10 and RIKB13), rose by 10 to 30 basis points, while the yield of the shortest series, maturing in 2007 (RIKB07), reflecting the policy rate increase, rose by 120 basis points during the year to 9.3% at year-end. Near the end of the year, however, the yield dropped considerably after the National Debt Management Agency announced buybacks of these notes beginning in 2006; the series mature in only a year's time in any case.

The securities market was very active in 2005, with total turnover on the Iceland Stock Exchange (ICEX) up 14% over 2004. Total turnover on ICEX was ISK 2,527 billion a new record. Listed companies raised a total of ISK 350 billion on ICEX, ISK 123 billion through share capital increases and ISK 227 billion in bond and bill issues. Total equity trading amounted to ISK 1,202 billion, a YoY increase of 67%. Turnover velocity increased substantially over the previous year, from 67% to 85%. Total bond trading amounted to ISK 1,322 billion, decreasing by 11.6% from the previous year. The drop can be attributed mainly to bond switches following restructuring of the state-owned Housing Financing Fund issuance in 2004, resulting in unusually high turnover that year.

Two new companies were listed on ICEX, and ten delisted. An additional two companies were in the process of delisting at year-end. As a result, the number of listed companies decreased by eight, leaving only 26 listed companies at year-end, as compared to 75 in 2000, when listed companies were most numerous. Of the 10 companies delisted, four were merged with other listed companies and are thus still indirectly traded on ICEX. In addition, Iceland Telecom was delisted following privatisation, but its acquirers accepted the obligation to list the company once again in 2007. At year-end 2005, only two fisheries companies were listed on ICEX, as compared to 16 in 2000. The relative share of financials has increased greatly; at year-end 2005 the market cap of companies in this sector comprised 67% of the total.

The ICEX-15 equity index rose by 64.7% during the year, Landsbanki leading the way with a share price increase of 109%, while the share prices of two other companies, Bakkavör and FL Group, also more than doubled during the year. Profits of listed companies have risen substantially, in line with the steep rise in equity prices, in part as the result of a large number of mergers and acquisitions of companies abroad. The P/E ratio of companies in the ICEX-15 index was 14.6, based on market capitalisation at year-end and cumulative profits for the last four quarters as of 30 September 2005. According to Landsbanki Research's 2006 earnings estimates for ICEX-15 companies (excluding Landsbanki), the P/E ratio was 15.0 at year-end 2005.

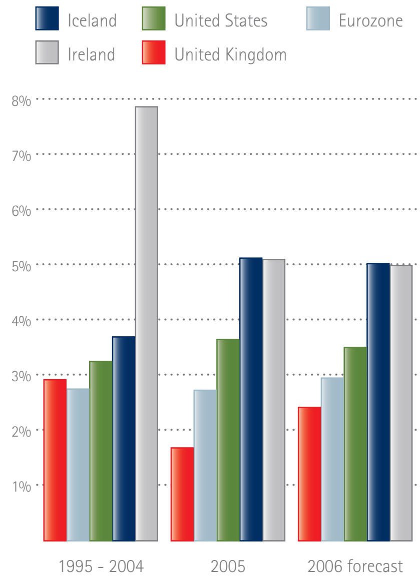
The Global Economy and Financial Markets

In recent months, the global economic outlook has definitely brightened. For several years now, economic growth has been strong in the US and much of Asia and has spread to continental Europe and Japan. Continuing low interest rates, EUR depreciation and expanding export markets have set European companies off and running once more. As domestic demand on the Continent has as yet shown only a limited response, it will be some time before the European economy can be said to be operating at full steam once more. In the British Isles, both GDP growth and domestic demand have slowed, not least due to a cooling of the real estate market.

Rising world-market prices for oil and other commodities have put pressure on most developed economies, especially where the impact of the global economic upswing has been the least. The negative effects of high oil prices in the US have to some extent been overshadowed by the enormous property damage caused by natural catastrophes. As yet, the unfavourable oil price trend has not become entrenched or created inflationary pressure exceeding the direct increase in fuel costs.

A persistent imbalance in the global economy creates uncertainty as to how solid the foundation under this current upward trend may be. The record-high US current account deficit, and corresponding surpluses in Asian countries, in China and Japan especially, are particular causes of concern. In addition to the large and growing US current account deficit, estimated at 6-7% of GDP in 2005, the Federal Treasury has also been running up a sizeable deficit. As the situation now stands, the US, the world's largest and most powerful economy, is soaking up the lion's share of global savings. Demand in the US has remained high, not least due to an unusually loose monetary policy and public finances. Climbing asset prices, manifest primarily on the property market, have further fuelled private consumption and general demand.

GDP Growth

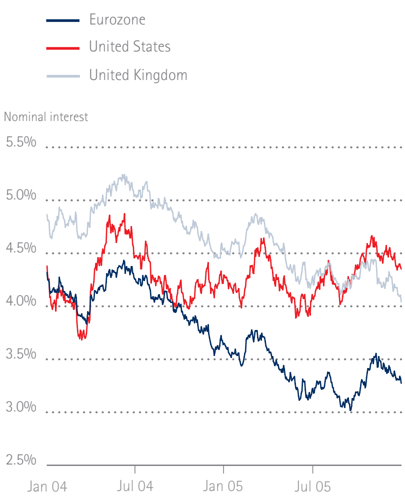


Source: OECD and Icelandic Ministry of Finance

World Market Oil Price

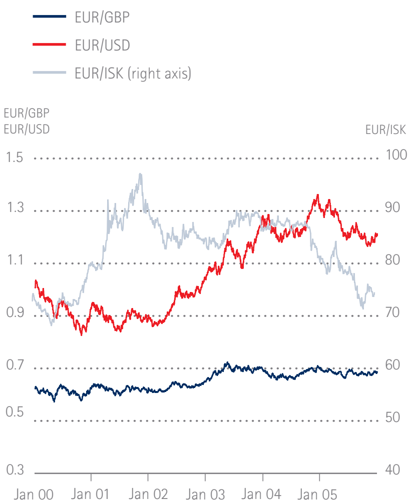
Source: EcoWin

Yield on 10Y Goverment Bonds



Source: EcoWin

Euro Exchange Rate



Source: EcoWin

Contrary to the predictions of most market analysts at the beginning of the year, the USD appreciated. Rising short-term interest rates in the US, together with continuing high demand for US Treasury paper, are the prime factors behind this development, as the Federal Reserve raised its discount rate nine times during the year, from 2.25% to 4.25%. The EUR/USD exchange rate declined 13% over the year, from a 10-year high of 1.362 at the beginning of 2005, to 1.18 at year-end. The GBP followed step with the EUR for most of the year, also weakening against the USD.

For the first few months of 2005, US long-term interest rates appeared scarcely affected by the increased monetary restraint. This was generally attributed to continuing high Asian demand for US Treasury bonds. During the latter half of the year, however, the tide turned and long-term rates began to inch upwards. At year-end the yield on 10-year Treasury bonds had risen by 20 basis points to 4.4%. Once it became clear that the European economy was picking up speed once more, interest rate expectations responded and yields on long-term bonds began to rise near the end of Q3. Over the year as a whole, however, yields on 10-year government bonds dropped slightly, falling from 3.7% at the beginning of the year to 3.3% at year-end. The European Central Bank finally raised its policy rate from 2% to 2.25%, after it had been unchanged since mid-2003.

With the exception of the US, equity markets generally picked up during the year. In the US, the S&P 500 index rose by 3%, while equity indices in continental Europe rose between 20% and 35%, on substantially increased turnover. In London, the FTSE 100 index rose by over 16%, Irish equities on the Dublin Exchange appreciated by close to 20% and in France and Germany the CAC 40 and DAX indices rose by 23% and 27% respectively. The surprise performer in industrialised countries proved to be the Nikkei index, as shares in Tokyo began a strong upward march after mid-2005, following years of doldrums on the Japanese equity market.

In economic terms, 2005 was an unusually favourable year. GDP growth in Iceland amounted to around 5%, primarily due to rapidly growing investment and high private consumption.

In recent years, growing emphasis has been placed on increasing lending to foreign clients, with the aim of broadening and diversifying the loan portfolio. Substantial progress was made in 2005. At year-end, 35% of the Bank's total lending was to foreign clients, compared to 27% in 2004.

Corporate Banking

Ever since it was founded, Landsbanki has been a major provider of credit to business and industry in Iceland. The Bank has always endeavoured to lead the way in offering credit and comprehensive services to Icelandic enterprises. Corporate lending comprised 69% of Landsbanki's total lending at year-end 2005. In recent years, growing emphasis has been placed on increasing lending to foreign clients, with the aim of broadening and diversifying the loan portfolio. Substantial progress was made in this direction in 2005. At year-end, 35% of the Bank's total lending was to foreign clients, compared to 27% in 2004. Loans to clients abroad comprised 44% of the increase in outstanding loans in 2005, while the increase in loans to domestic clients was 56%.

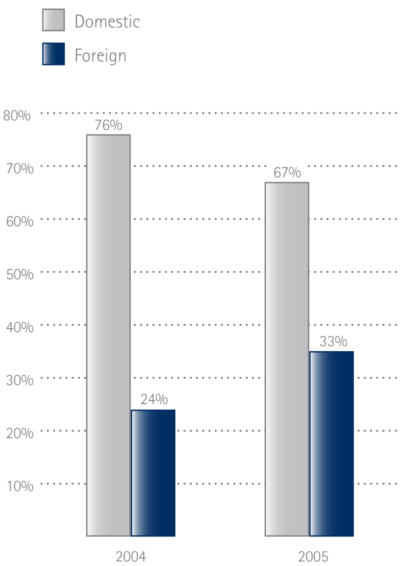
Landsbanki's lending procedures in corporate banking are co-ordinated on a Group basis through the Credit Committee, ensuring a good overview of activities as a whole. Emphasis is placed on providing personalised guidance and expert advice to clients, not least in consideration of the uncertainty shrouding important issues of concern to them in 2005, such as exchange rate developments.

Loans to foreign clients are arranged by Corporate Banking in Iceland, by Landsbanki's London Branch, Heritable Bank in London and Landsbanki Luxembourg. Landsbanki also has a representative office in Canada licensed by the Canadian Office of the Superintendent of Financial Institutions late in 2005. Corporate lending by the Group grew by ISK 300 billion, or by 69% during 2005. All of these developments demonstrate that Landsbanki is achieving its objective of expanding its activities while spreading its risk over selected markets outside of Iceland.

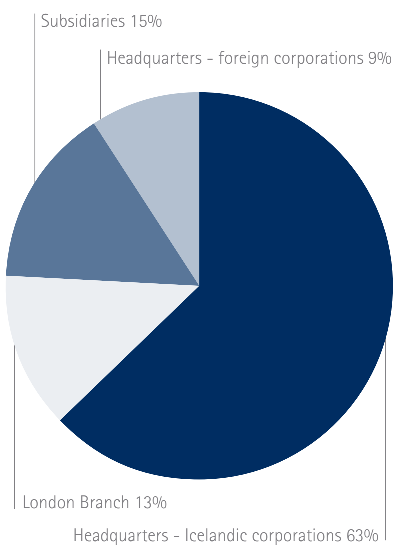
Comprehensive Corporate Banking Services

Landsbanki's corporate banking combines a thorough knowledge of corporate credit needs with specialised expertise in individual industrial sectors. The financing activities of Corporate Banking in Iceland are divided into a number of specialised units. All the division's corporate clients have personal customer relations managers, ensuring them an entire range of banking services tailored to their needs. Corporate account managers are also located in all Landsbanki's larger branches. As lending to foreign clients has grown, additional employees with specialised expertise in each area have joined the Bank. For instance, a department specialising in services for fisheries/seafoods companies in foreign countries has been set up, with a focus on

Lending to Domestic and Foreign Clients



Corporate Lending Breakdown
– By Parent Company



countries such as Canada, where Landsbanki has a local office. A corporate banking team specialised in syndicated lending, co-operates with other domestic and foreign banks in arranging financing for domestic and international companies.

The activities of Landsbanki's London Branch consist in particular of two types of credit provision, accepting deposits and corporate finance. Firstly, the Branch provides structured/leveraged finance, emphasising co-operation with respected banks in the location where credit is extended. These are syndicated loans, often with foreign banks acting as lead arrangers. These activities have been expanded through the Branch's acquisition of leveraged financing on secondary markets. During the past year, the London Branch has increased its role as lead arranger in syndicated facilities with the participation of other foreign and domestic banks. These are primarily international projects connected with Icelandic investors. These activities have built up a loan portfolio of over ISK 90 billion, including 78 individual projects in 16 industrial sectors, located in 14 European countries. Secondly, Landsbanki's London Branch has an asset-based lending portfolio currently amounting to ISK 4.4 billion. The Branch also undertakes corporate finance projects, for instance, in co-operation with Landsbanki's subsidiary Teather & Greenwood. At year-end 2005, the Branch began accepting GBP deposits.

Heritable Bank specialises in financing services for property development ventures and housing contractors, as well as providing housing mortgages to individuals. With the acquisition of Key Business Finance Corporation in March, Heritable has begun to specialise in short-term financing for the legal profession. Today the Bank is almost completely financed by its deposits.

Landsbanki Luxembourg offers private banking services, asset management and other financial services for high net-worth individuals and their companies. It has also developed solid business connections with small and medium-size financial enterprises in Northern Europe and participates in financing commercial real estate purchases.

Domestic Lending

Service industries, manufacturing and construction account for the greatest share of corporate lending to individual industrial sectors in Iceland. During the past year, lending to the commerce sector grew the most, increasing by ISK 89 billion, followed by credit extended to manufacturing and construction, which rose by ISK 58 billion. The increase in lending to agriculture was also relatively high, in part due to Landsbanki's acquisition of the former Agricultural Loan Fund.

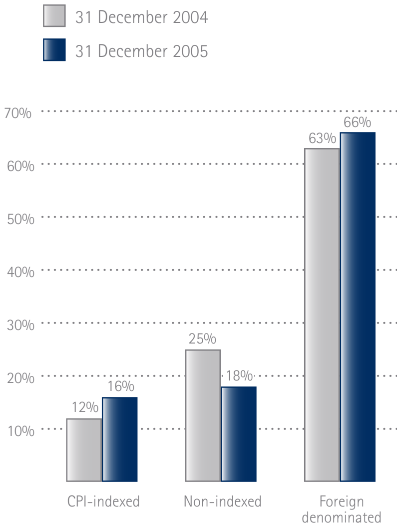
Landsbanki carefully monitors the operating outlook for individual industrial sectors. Notwithstanding the significant growth in corporate lending, careful consideration is always given to the current situation and outlook, as part of the Bank's overarching policy of encouraging responsible financial attitudes and practices. By following developments in specific sectors, the Bank can detect possible risks and proceed more cautiously in granting credit. Requirements made of borrowers are increased, for instance, if there is considered to be a risk of overexpansion in the sector, or a possible slowdown in product sales. An example of this is housing construction in the capital area this past year, which was closely monitored.

Solid Domestic Market Share

Landsbanki has always held the largest market share on the Icelandic corporate lending market. Near the end of 2005, the Bank's share of corporate lending in Iceland was around 37%. In individual sectors, the Bank's share of lending is highest in commerce. It also has a very strong showing in the transport, fisheries and general service sectors.

Around 60% of the companies listed on the Iceland Stock Exchange (ICEX) at year-end 2005 had Landsbanki as either their principal bank of business or as one of two banks with which they did business. The same is true of Iceland's 50 largest companies, ranked in terms of turnover by the periodical Frjáls verslun: for 60% 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, 63% do business with Landsbanki.

Corporate Lending Breakdown
– By Parent Company



Flexible Credit Options

While a substantial portion of Landsbanki's lending to domestic companies is denominated in foreign currencies, many of these companies also have by far the largest share of their income in foreign currency, making them less sensitive to exchange rate fluctuations than they might seem at first glance.

The types of credit and interest terms offered by the Bank are very flexible and reflect the circumstances of individual clients. Foreign currency loans are generally offered at variable interest rates. ISK loans generally have variable, non-indexed rates or variable CPI-indexed rates. At year-end, foreign-denominated loans comprised two-thirds of loans to corporate clients. While this includes loans granted by the London Branch, demand for foreign-currency borrowing has also been high in Iceland in the past year or two, due to favourable exchange rates and the high domestic-foreign interest rate differential in Iceland.

Online Corporate Banking

The advent of information technology and its rapid advance have created opportunities for banks and financial enterprises to offer new solutions and services. Landsbanki's Corporate Internet Banking has always been at the leading edge in meeting the needs and demands of modern business for electronic transactions and data communications. The product line has expanded steadily in recent years, with many companies participating in its development together with Landsbanki's employees. In developing new options, ensuring security in access control and handling of data is a priority. The options offered in Corporate Internet Banking include, for instance, domestic payments, foreign payments, payroll services with electronic pay slips, asset and debt management, risk management and currency overlay, cash pooling and netting services. Through many of the service options, connections are offered to foreign banks, enabling direct, regular international transactions. Landsbanki has played a leading role in offering interconnection of accounting systems with Corporate Internet Banking, cutting transaction time for corporate users dramatically.

Turnover in Corporate Internet Banking doubled over that of the previous year, and its use by customers also grew substantially. User service is continuously increasing, e.g. through additional customer visits and the development of joint solutions. This year a new, improved version of the Bank's collection service was introduced. A new cash management service, comprised of cash pooling for a user group with automatic transfers between accounts, was completed and launched. The processing speed of Corporate Internet Banking was substantially increased during the year, and various online solutions were further refined and well received by users. The Bank has placed increased emphasis on providing in-house training in the companies' offices, an innovation users have clearly appreciated.

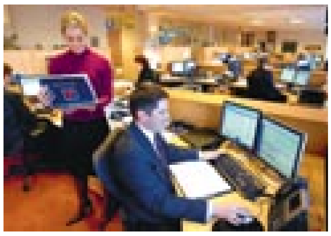
Corporate Lending by Sector

	31 Dec 2004	31 Dec 2005
Fisheries/Seafoods	15%	13%
Commerce	12%	19%
Agriculture	1%	2%
Manufacturing and construction	15%	16%
Services	55%	40%
Other	2%	10%
Total	**100%**	**100%**

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

Corporate	**37%**
Commerce, etc.	45%
Transportation & communications	41%
Fisheries	40%
Services	39%
Construction	37%

Source: Central Bank of Iceland and Landsbanki



Landsbanki has always held the largest market share on the Icelandic corporate lending market. Near the end of 2005, the Bank's share of corporate lending in Iceland was around 37%.

Since Landsbanki has extensive experience serving large Icelandic corporations, it is a logical step for the Bank to seek new corporate clients of a similar size and scope abroad.

Securities and Investment Banking

Landsbanki has placed increasing emphasis on investment banking activities in recent years, with the aim of meeting the needs of its clients and broadening the Bank's income base. It has also acquired three foreign securities brokers during the past year to increase its commission income still further, offer additional services to domestic clients and build up new groups of foreign clients. Since Landsbanki has extensive experience serving large Icelandic corporations, it is a logical step for the Bank to seek new corporate clients of a similar size and scope abroad. The three foreign enterprises that Landsbanki has acquired currently focus, in particular, on securities brokering, which the Bank aims to supplement with general investment banking activities and expanded corporate financing.

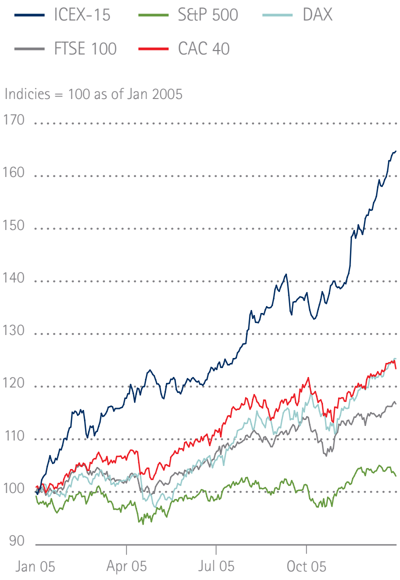
The Icelandic economy has undergone a major transformation in recent years. A wave of acquisitions has enabled many Icelandic companies to expand their activities greatly through international acquisitions or by establishing branch offices in other countries. Landsbanki is in a good position to assist these Icelandic companies, as it counts most of the country's largest corporations among its clients. The flourishing Icelandic securities market, a favourable climate on foreign credit markets, and the Bank's own growing financial strength have enabled it to increase its share of securities brokering and corporate finance in recent years. This development has been paralleled by rapid growth of FX and derivative trading, instruments that until recently were used to a much more limited extent by Icelanders than was customary abroad.

In addition to the increased income from these growing financial services, the Bank's own domestic and foreign equity assets have performed well. Increased international trade, not least in the wake of investment by Icelandic companies abroad, has also greatly boosted FX trading; here Landsbanki has managed to maintain its leading market share. This past autumn, foreign parties began for the first time to issue ISK-denominated Eurobonds, resulting in a further increase in FX and derivative trading.

Investments in Securities

Equity investments returned a substantial profit for the Bank in 2005. Landsbanki's securities assets received a sizeable increment as a result of its merger with Burdarás in July 2005, through which the Bank took over part of that company's securities portfolio. Despite the addition, however, the share of equity assets as a proportion of the Bank's total assets has changed little, primarily as a result of vigorous growth in its other operations. At year-end 2005, equities comprised around 4.3% of the Bank's total balance sheet.

Development of Equity Indices



Source: EcoWin

In 2005, Landsbanki set itself the objective of increasing the proportion of foreign equities in its portfolio and by the end of the year more than half of the portfolio was foreign. Landsbanki's holding in the Swedish Carnegie Investment Bank AB, which Landsbanki acquired as a result of its merger with Burdarás, is by far the Bank´s largest foreign asset. Increased emphasis has been placed on smaller private equity investments abroad, in most cases involving minor holdings where the Bank acts in concert with other key investors.

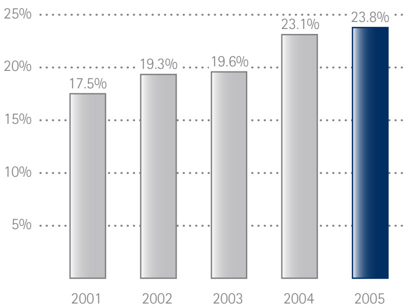
The Bank classifies its equity holdings as either pure trading book assets or assets held for restructuring. Of the latter, many were sold during the year after the companies concerned had reached the stage targeted when the shares were acquired. These include, for example, Landsbanki's holding in Icelandic Group Plc. and its holding in Burdarás, which was dissolved following the merger with the company.

The company's total market bond assets increased by ISK 26 billion during the year, amounting to ISK 52 billion at year-end. A substantial share of this increase is in highly liquid foreign securities, which are part of the Bank's liquidity management.

Securities Trading

In Iceland, 2005 proved to be another year of increasing activity on ICEX and very substantial increases in share prices. The same was true of other European exchanges, although to a more moderate extent. The ICEX-15 equity index rose by 64.7%, the greatest annual increase ever. Total equity trading amounted to ISK 1,202 billion or 85% of the market value of listed equities, another record. The percentage increase in equity trading was 67% YoY, while bond trading contracted slightly.

Landsbanki's Market Share of Bond Trading on ICEX



Source: Iceland Stock Exchange

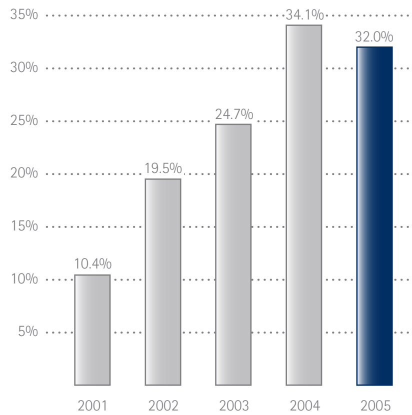
Landsbanki remains among the leading securities traders on ICEX, with market share in equity trading of 32% as compared to 34% the previous year. The Bank's share of bond trading was 24%, as compared to 23% in 2004.

Foreign equity brokering is growing rapidly, both through direct Internet trading by clients and through the services of the Bank's securities brokering. Independent Internet transactions increased by 170% from the previous year, while Landsbanki's total brokerage of foreign securities out of Iceland tripled. 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.

The advent of the bank's new foreign brokerage operations has boosted the Landsbanki Group's securities brokering considerably. Total securities trading by Landsbanki's new subsidiaries for 2005 as a whole amounted to ISK 6,500 billion.

Corporate and municipal bond issuance was high in 2005, which is not surprising in view of the fact that yields on CPI-indexed bonds were at an historical low for much of the year. The Bank co-ordinated bond issues for 10 parties, totalling ISK 52 billion during the year. This is a YoY increase of 58%, as bond issuance co-ordinated by Landsbanki in 2004 amounted to ISK 33 billion. In the wake of the Central Bank's increasing monetary restraint, yields on CPI-indexed bonds began to rise during the closing months of the year. This appears to have dampened issuer's interest somewhat. Landsbanki's market share in arranging these bond issues is estimated at around 48%.

Landsbanki's Market Share of Equity Trading on ICEX



Source: Iceland Stock Exchange

Equity Research

Equity research on companies and markets is a key supporting factor in securities brokerage on behalf of clients. This has prompted Landsbanki to increase its emphasis on domestic equity research. The acquisition of foreign securities brokers will also reinforce these efforts significantly, since research is a core activity of these new subsidiaries. Most extensive are the operations of Kepler Equities, covering most continental European markets, while Teather & Greenwood and Merrion Capital monitor a majority of listed UK and Irish companies. At year-end, the research sections of Landsbanki Group analysed the operations of 758 listed companies in nine countries, covering 53-98% of the total market capitalisation of listed companies in these countries.

Landsbanki Group's Equity Research

	France	Italy	Switzer-land	Spain	Germany	Nether-lands	UK	Ireland**	Iceland*
Number of companies covered	167	67	72	56	60	49	221	50	16
% of market cap covered	91%	70%	86%	93%	76%	96%	53%	98%	83%
Median market cap (EUR bn)	1.9	2.6	1.5	3.7	4.9	1.8	0.6	1.7	0.5
Number of research analysts	19	6	8	4	9	6	21	6	5

* As is only to be expected, Landsbanki Research does not evaluate the Landsbanki Group. Icelandic analyses cover 98% of total market cap of listed Icelandic companies, excluding the Landsbanki Group.
** Average

Foreign Exchange and Derivatives

Turnover on the foreign exchange market grew significantly in 2005 and Landsbanki has maintained its strong position on this market. Turnover growth reflects both increased financial market activity by domestic parties and growing interest from abroad in ISK currency investments. Issuance of ISK-denominated Eurobonds has boosted both spot and derivative trading. Landsbanki has continued developing derivative products, primarily intended for corporate and institutional investors. These include both independent efforts and co-operative projects with foreign banks. Trading in interest rate derivatives has grown substantially, with corporate clients using them to fix interest rates on domestic and foreign currency financing.

Landsbanki's total foreign exchange trading increased by 99% in 2005 after a 98% increase the previous year. The increase was substantially greater in the Bank's ISK trading on the interbank market, where Landsbanki is one of three market makers in ISK. Turnover in currency derivatives rose by 65%, compared to 89% the previous year. A steadily growing number of corporate clients avail themselves of currency overlay services, which increase in importance with each passing year.

Corporate Advisory at Parent Company – Total Number of Projects

	Total Projects	Outside of Iceland	Total Value ISK billion
2005	22	6	280
2004	19	6	90
2003	15	0	45

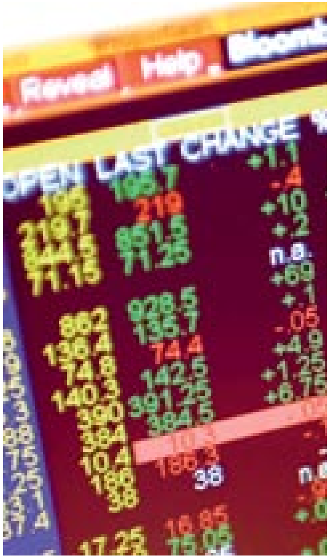
Corporate Finance

The total transaction value handled by corporate finance during 2005 was ISK 280 billion, whereas in 2004 the comparable figure was around ISK 90 billion.

A total of 22 deals were concluded during the year. Among the leading projects were; a share offering by Avion Group, listed on ICEX in January 2006; a share offering by Landsbanki itself; the merger of Icelandic Group Plc. and Sjóvík hf.; and the sales of Eimskipafélagid and Húsasmidjan. Corporate finance was also a joint co-ordinator of FL Group's share offer, and handled various projects connected with the merger of Burdarás and Landsbanki.

Priority has been placed on boosting corporate finance services abroad, resulting in an increase in the number of employees working at Landsbanki's London Branch. A number of projects were jointly managed together with T&G's corporate advisory team. Corporate finance at T&G concluded 40 projects during the year, many of which involved companies listed on the AIM market in London

Merrion Capital's corporate finance team concluded nine projects in 2005. Its most important mandates in 2005 involved advising eircom ESOP on its acquisition of the mobile operator Meteor, and advising the state-owned airline, Aer Lingus, on privatisation. The total value of projects handled by Merrion during the year was equivalent to ISK 66 billion, excluding Aer Lingus, where the final decision on privatisation is pending.



At year-end, the research sections of Landsbanki Group analysed the operations of 758 listed companies in nine countries, covering 53-98% of the total market capitalisation of listed companies in these countries.

In 2005, total assets under active management grew by over 50%, amounting to ISK 300 billion at year-end. Firstly, the number of portfolios and funds has increased substantially. Secondly, mutual and investment funds have grown substantially.

Asset Management

The total value of mutual funds (UCITS) and investment funds under active management by Landsbanki and its subsidiaries amounted to ISK 300 billion at year-end 2005. The size and scope of these funds has increased considerably in recent years, both as a result of good returns and a growing number of clients. Private banking services provided by Landsbanki in Iceland and Luxembourg have also expanded.

Icelandic pension funds are among the largest clients of Landsbanki's Asset Management division. Their total assets are expected to double in the next 5-6 years. The number of high net worth individuals seeking active asset management through Landsbanki's private banking services in Reykjavík and Luxembourg is also expected to continue to increase in the near future. Landsbanki intends to broaden the scope of these activities, as they fit in well with the Bank's other objectives in its European market expansion.

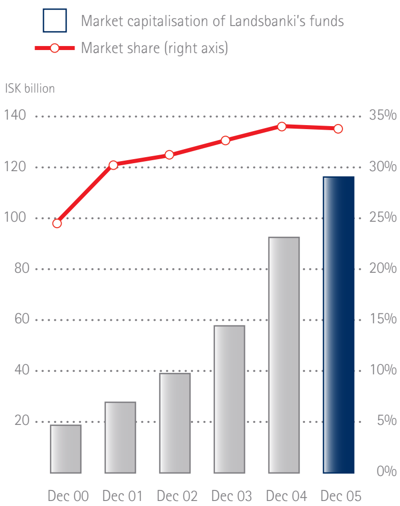
Fund Growth

Landsbanki's domestic funds grew by ISK 22 billion, or 25%, during the year. At year-end, the market value of these funds was ISK 110 billion, while the total market value of Landsbanki's funds which invest in domestic and foreign securities was ISK 121 billion. Total growth of domestic funds in 2005 was slightly below that of 2004, which was a record year. In 2005, Landsbanki remained the largest domestic fund manager, with a 34% market share.

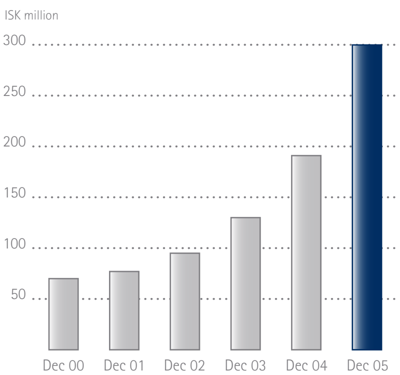
Returns on domestic mutual funds and investment funds were high in 2005, reflecting the generally favourable domestic financial market situation, despite some increase in yields on market bonds. Ten of the Bank's thirteen mutual funds and investment funds outperformed their benchmarks. Landsbanki also managed the best performing short-term and long-term bond funds, according to the credit service Lánstraust hf. This performance is an indication that a clear investment policy, disciplined procedures and effective management have produced good returns for investors.

The growth leaders among the Bank's funds were its Money Market Fund (Peningabréf), Corporate Bond Fund (Fyrirtækjabréf) and bond fund Fixed Income 3 (Markadsbréf 3). At year-end 2005, the Money Market and Corporate Bond Funds were the two largest in Iceland, each with total assets of ISK 35 billion. Four new funds were launched by Landsvaki during the year: the Global Opportunities Fund, investing in international equity funds, the Savings Portfolio – Equities/Bonds and the Savings Portfolio – Domestic/Foreign, and the Private Equity Fund

Landsbanki's Market Share of Domestic Funds



Funds Under Active Management



1. Landsbanki's subsidiary, Kepler Equities, commenced its asset management activities in 2005 with the launch of a new fund, the European Small/Mid-cap Fund, investing in small and medium-size companies. The fund is managed from Kepler's Frankfurt office but registered in Luxembourg. Efforts will continue to expand the Group's international asset management activities in the coming year.

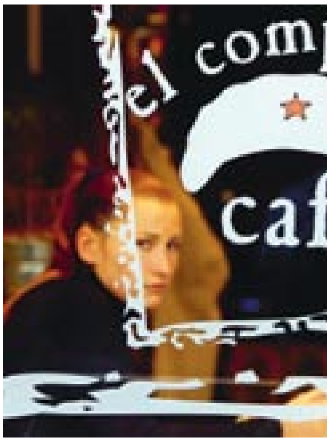
Asset Management

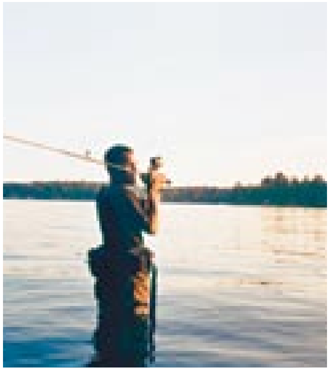
In 2005, total assets under active management grew by over 50%, amounting to ISK 300 billion at year-end. Firstly, the number of portfolios and funds, including third-party fund administration and portfolio management, has increased substantially. Secondly, mutual and investment funds have grown substantially. Pension fund operations have been very successful and currently the Bank has eight pension funds under its administration, and an additional four pension funds as asset management clients. As an indication of just how successful these operations have been, Landsbanki administers five of the ten pension funds reporting the highest average returns 2000-2004, according to the Financial Supervisory Authority.

Landsbanki's acquisition of foreign securities brokerage firms has enabled the Bank to broaden the range of services on offer to its clients to fulfil their individual requirements. The fact that Landsbanki's subsidiaries now provide pan-European research and brokering affords opportunities for innovation and growth in the asset management and private banking spheres.

Private Banking

Services intended for high-net-worth individuals fit in well with Landsbanki's strategy of expanding its corporate and investment banking activities in Continental Europe. These services are provided both by Landsbanki Luxembourg and at Landsbanki in Reykjavík. The activities in Iceland were expanded in 2005, with new investment options and products. In addition to specialised financial services, Landsbanki's employees serve as intermediaries in obtaining mortgages for the purchase of real estate abroad. The number of asset management contracts concluded with foreign clients more than tripled during the past year. In addition to providing traditional asset management and custody services, Landsbanki Luxembourg has increasingly assisted investors' associations in equity and real estate investments. The acquisition of Lex Life Pension SA in 2005 will further augment Landsbanki Luxembourg's product line.





Services intended for high-net-worth individuals are provided both by Landsbanki Luxembourg and at Landsbanki in Reykjavík. The number of asset management contracts concluded with foreign clients more than tripled during the past year.

Landsbanki aims to provide its customers with responsible financial advice, laying the groundwork for a solid, long-term business relationship. The systematic introduction of new sales and service activities into the Bank's branches has been successful in this regard.

Retail Banking

Landsbanki's activities on the retail market are limited to Iceland, with the exception of housing mortgages extended by Heritable Bank in London. Landsbanki continues to be the leading retail bank in Iceland, a position it has held for many years. Increasingly stiff competition characterised this market in 2005, with customers demanding improved quality and favorable terms. This offers opportunities for Landsbanki, which has the most extensive branch network of any commercial bank in Iceland. Furthermore, the branch network has been reinforced substantially to take on new challenges. New customer advisory programmes have been systematically introduced during the past year.

The Bank views its relationship with customers as a long-term business partnership. Providing responsible financial advice to individuals, households and smaller companies is a key aspect of this vision. Landsbanki emphasises individually tailored financial assistance, whether it concerns savings, lending or personal insurance.

Market Share and Key Indicators in 2005

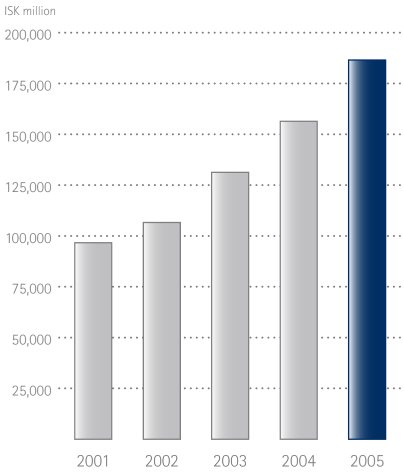
According to a survey by IMG Gallup in 2005, Landsbanki has a 30% share of the domestic retail market, which considerably exceeds that of its competitors. Similarly, its share of debit card issuance is 31%, according to figures from the Central Bank of Iceland.

The Bank's strong position and credibility are reflected in customer deposits. Total branch deposits grew by 19.3% during the year. Landsbanki has traditionally led the market in deposits and had a 35% share of the market at year-end.

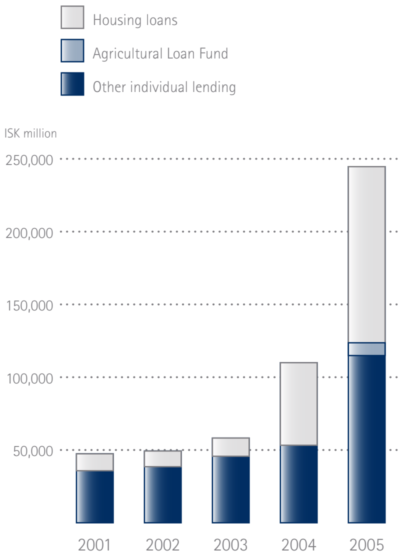
Lending by the branch network grew by 80% in 2005. The major contributing factor was an increase of 170% in housing mortgages, as 2005 was the first full operating year since the commercial banks began offering housing mortgages in competition with the state-owned Housing Financing Fund (HFF). Other household loans grew by 36% YoY, with part of this increase resulting from Landsbanki's acquisition of the assets and liabilities of the former Agricultural Loan Fund.

Branch lending to smaller companies and independent operators grew by 65%. The increase reflects the growing vitality of smaller companies as well as Landsbanki's increased emphasis on providing corporate advisory services in the Bank's

Deposit Development
– Domestic Branches



Individual Lending



branches. Small company loans extended by branches outside the capital region amounted to ISK 27.8 billion, an increase of 53% YoY. Small company loans by branches in the capital area totalled ISK 86.8 billion and increased by 70%.

The number of clients enrolled in Landsbanki's Pension Savings Plan increased greatly in 2005. Customers with supplementary pension contributions in Landsbanki's custody increased by 15%. These customers' assets grew by 35% and amounted to ISK 26 billion at year-end.

Distribution Channels

An extensive branch network, together with capable and highly qualified employees, is the cornerstone of Landsbanki's service to individuals, households and smaller companies. Landsbanki's policy aims at strengthening its branches to meet increased demands for more varied and flexible services. Emphasis is placed on fulfilling customers' needs as economically as possible. Expanding individual branches and providing additional personal and corporate specialist services are part of this strategy.

More and more transactions are conducted by telephone or e-mail. In addition customers are able to meet with customer service advisors outside of normal banking hours.

The Bank places major emphasis on being the Icelandic leader in online banking services. Through its Personal Internet Banking and Corporate Internet Banking services, customers can carry out all their most frequent banking transactions, with additional options being added steadily.

A Long-term Customer Relationship

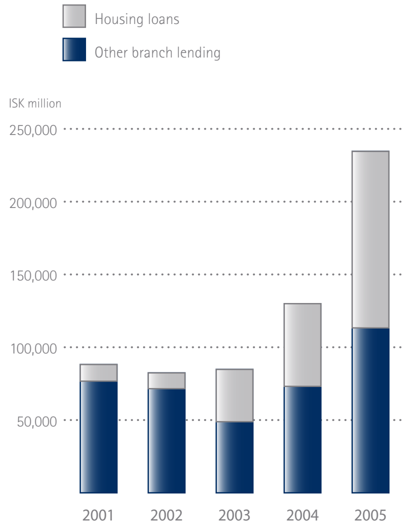
Landsbanki aims to provide its customers with responsible financial advice, laying the groundwork for a solid, long-term business relationship. The systematic introduction of new sales and service activities into the Bank's branches has been successful in this regard. Taking the initiative in offering advice and first-class service has visibly boosted the year's sales. Sales of the Bank's loyalty programme, Vardan, for instance, grew by 61% YoY and credit card issuance increased by 93%.

The sales and customer advisory programmes are centralised, to make optimal use of the Bank's employees in servicing its customers. Currently, this programme employs a third of the branch network staff, on par with the European banks that have achieved the greatest success in increasing branch productivity.

Customer service is a key success factor providing the Bank with a competitive edge on the retail market. During 2005, extensive improvements were made to improve the customer service experience. Targets were set for each branch, specific employees were assigned responsibility in each location and all branch employees received special training. The improved service initiative has been very successful in most respects and the latest customer survey confirms the improved customer service in the branch network.

By continuously reviewing and improving its selection of products and services, Landsbanki endeavours to meet the varying needs of clients at different life stages. Product development responds to customer needs resulting from a changing business environment that includes technological advances, amendments to legislation or social change. In 2005, Landsbanki launched a personalised photo card for both debit and credit card customers, which proved enormously popular and was a contributing factor to the success of credit card issuance.

Lending Development
– Domestic Branches



Responsible Financial Advice

Landsbanki's customers are offered competitive housing mortgages, at preferential interest rates if the borrowers subscribe to additional banking services. In accordance with the Bank's policy of providing responsible financial advice, a decision was taken to lower the loan-to-value ratio of housing mortgages in 2005. This decision was intended, in part, to prevent the Bank's customers from facing a negative equity situation.

In recent years, Landsbanki has emphasised to its customers the importance of regular savings through its annual "Spend it on Savings" campaign. Near the end of 2005, Landsbanki launched a marketing campaign encouraging customers to take advantage of the possibilities of supplementary pension savings schemes.

The Bank's keynote of responsible financial advice and on increasing financial knowledge among the public is clearly reflected in its co-operation with compulsory school educators to prepare curricular material on financial matters. The project, which is an interactive simulation game played on the Internet, is called "Real Play" (Raunveruleikur) and has been awarded recognition by the Nordic Council of Ministers. Its objective is to prepare youngsters for adult life and its accompanying important financial decisions. In a similar campaign directed at the Bank's youngest audience, Landsbanki introduced the Sprouts (Sprotanir), a spirited group of cartoon characters in a fairy tale adventure. The key aim of the Sprouts is to instil constructive attitudes and foster financial common sense from a young age.

Image

Landsbanki's very positive image among Icelanders is an extremely valuable asset that the Bank makes every effort to foster. According to a survey published in the business weekly Vidskiptabladid on 8 June 2005, no company in Iceland enjoyed greater consumer trust than Landsbanki. In the survey 14% of respondents said that Landsbanki was the company they found most trustworthy.

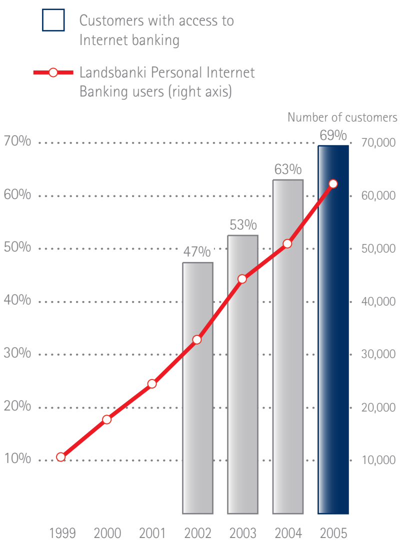
IMG Gallup's surveys of attitudes towards Landsbanki show similar results. In December, 98% of respondents were of the opinion that Landsbanki was a reliable or very reliable bank. According to the survey, none of Landsbanki's domestic competitors is regarded with such trust by Icelanders.

Sponsorship of Sports and Culture

Landsbanki's diverse sponsorship of social, cultural and artistic events offers a variety of opportunities for marketing activities. The Bank's customers are offered preferential access or discount ticket prices to events sponsored by Landsbanki. In addition, co-operation with artists and cultural institutions is one of the key features of the image the Bank intends to safeguard.

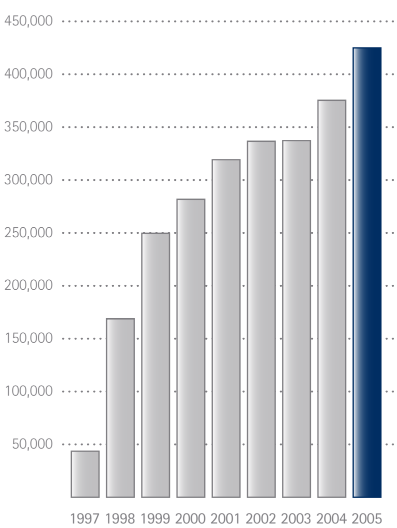
Landsbanki's support for Icelandic football is an important aspect of the Bank's marketing and image policy. In September, an agreement was concluded with the Football Association of Iceland, under which the Icelandic premier league for both men and women will be called the Landsbanki Premier League for the next four seasons. The financial backing for football is, however, primarily directed towards supporting sports for children and youth divisions.

Customers with Access to Internet Banking

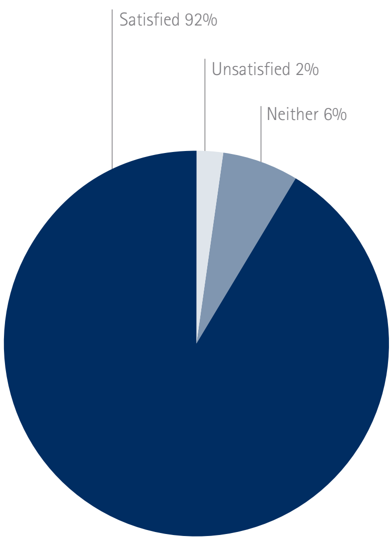


Source: IMG Gallup, May 2005 and Landsbanki

Call Centre Transactions



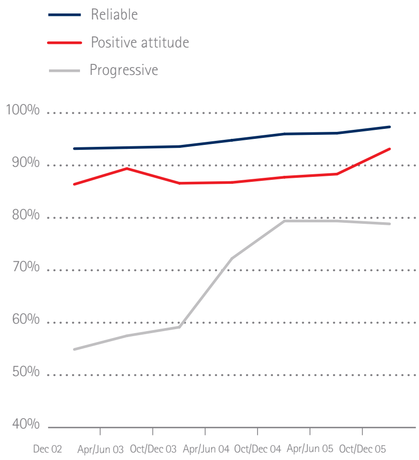
Landsbanki's Customer Satisfaction



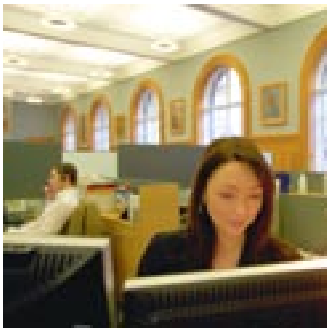
Source: IMG Gallup, December 2005

Overall, how satisfied or unsatisfied are you with Landsbanki's customer service?

Landsbanki's Image



Source: IMG Gallup, December 2005




Landsbanki's diverse sponsorship of social, cultural and artistic events offers a variety of opportunities for marketing activities. The Bank's customers are offered preferential access or discount ticket prices to events sponsored by Landsbanki.

Given Landsbanki's activities in the international capital markets, credit ratings are an important consideration. In 2005, Landsbanki's credit ratings were upgraded, both by Moody's and Fitch.

International Funding

Diversifying international funding and lengthening the maturity profile were two key elements of Landsbanki's funding strategy in 2005. The expansion of the Bank's credit portfolio during the year resulted from two main drivers: foreign loans or foreign-denominated loans increased rapidly and the volume of new ISK housing mortgages expanded at a quick pace, due to recent restructuring in the mortgage market. Landsbanki's funding focused on financing these activities. The year proved to be very successful on the domestic funding side, as well as in international capital markets. Funding costs and general market conditions were particularly favourable for bond issuers.

Domestic deposits and deposits received by Landsbanki's foreign subsidiaries and branches increased significantly in 2005, providing support for the Bank's efforts to boost alternate funding sources. Total deposits grew by ISK 116 billion. Total international bond issuance was EUR 4.9 billion, the major portion of it under the European Medium Term Note (EMTN) programme. A new, long-term backstop facility was set up and existing credit lines renewed.

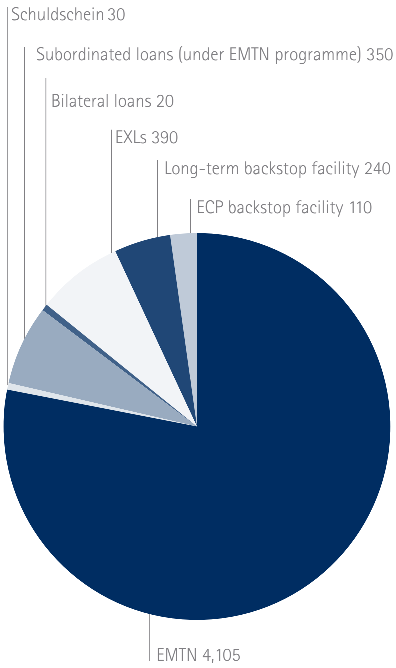
Country and investor diversification was reflected in the Bank's largest bond issue to date, a EUR 1 billion issue in October, targeted at small investors across Europe. This transaction added 160 new investors to Landsbanki's investor base. Issuance in the US had been under consideration from the start of the year, and in December the Bank successfully completed its first issue targeted at US investors.

Landsbanki's international funding activity was supported by numerous investor road shows in London, Paris, New York, Helsinki, Madrid, Frankfurt and Tokyo, to name only a few. A record number of investor meetings was held in 2005, and is expected to grow still further in the future.

Funding Profile

By far the greatest share of Landsbanki's international financing is obtained through the Bank's EMTN programme. The European Commercial Paper (ECP) programme, syndicated loans, money market lines and other bilateral facilities are also major funding channels. Furthermore, domestic foreign currency deposits and UK-based deposits are also important. Landsbanki funds its ISK lending, including corporate and mortgage lending, primarily with domestic deposits, but also issues debt securities on the Iceland Stock Exchange (ICEX). Issued ISK debt securities, bonds and bills, amounted to ISK 66.7 billion at year-end and increased by ISK 43.6 billion. In 2005, following a sharp increase in mortgage lending, the Bank sold more than half of its new mortgage loans to a domestic investor, eliminating the concordant credit and interest rate risk.

International Long-term Funding 2005 by Loan Type (mEUR)



Lending in currencies other than ISK is funded internationally in the respective currencies. Most lending in foreign currencies is EUR-denominated as is true of the majority of the Bank's international financing, in keeping with the Bank's strategy of matching foreign currency lending and borrowings.

Deposits held by Landsbanki's subsidiaries abroad and its London Branch are an important aspect of widening its funding base. Access to subsidiaries' deposits grew in November, when the Bank's London Branch began accepting deposits. Deposits have increased rapidly and are expected to continue to increase substantially.

Funding Statistics

Total international debt issuance in 2005 amounted to EUR 4.9 billion, consisting of 57 issues with 33 different banks as lead arrangers. By comparison, in 2004 total debt issuance amounted to over EUR 3 billion in 56 issues, with 26 banks as lead arrangers. Considerable emphasis has been placed on building new relationships with banks in order to broaden the Bank's investor base and to diversify the pool of banks that arrange both public and private placements for Landsbanki.

In 2005, Landsbanki issued a total of EUR 4.5 million under its EMTN programme, of which refinancing of maturing EMTN issues amounted to EUR 1 billion. Private placements amounted to 1.4 billion. The Bank raised EUR 2.7 billion through a few large public bond issues and EUR 350 million of subordinated loans. The total outstanding issues under the EMTN programme at year-end was slightly above EUR 7 billion. In December the size of the EMTN programme was increased from EUR 7.5 billion to EUR 9.5 billion.

Lengthening of the maturity profile is, and will continue to be, a cornerstone of Landsbanki's funding strategy. Good progress has been made in this direction and in June, Landsbanki completed the first seven-year public bond issue ever by an Icelandic issuer, and has also made a number of smaller private placements with maturities of over ten years. As part of its new internal guidelines on international liquidity, adopted in Q3 of 2005, the Bank has imposed limits on maturity gaps between assets and liabilities in the medium to long-term.

At the end of 2005, most of Landsbanki's outstanding bond issues had been placed in Germany (20%), France (15%), Italy (15%) and the Benelux countries (9%). Of Landsbanki's total international funding, 3.9 billion, or 80%, was in EUR. Issuance in currencies such as USD, JPY, GBP, SEK, CHF and PLN comprised the remaining 20%. The composition of currencies changed very little during the year, and the majority of lending remains in EUR.

Transaction Highlights

An important milestone in international funding in 2005 was the Bank's five-year regional bond issue (HERBS), led by HSBC. Landsbanki's largest transaction to date turned out to be a great success, as the deal was upsized to EUR 1 billion from its original benchmark size of EUR 750 million, on the back of a EUR 1.25 billion order book. In total, 243 investors from 23 European countries subscribed. The issue was aimed at diversifying Landsbanki's investor base by targeting small, regional banks across Europe. Of these 243 investors, 160 were new to Landsbanki. HSBC was the sole bookrunner on the transaction, DZ Bank, Fortis Bank, ING Bank, Sampo Bank and UniCredit Banca Mobiliare were joint lead managers and Banca Akros, BBVA, HVB, La Caixa, OKO Bank and RZB were co-lead managers.

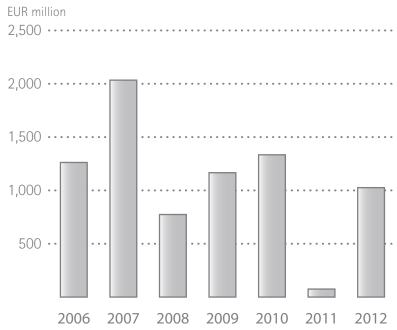
In March, Landsbanki completed its first capital issue targeted at institutional investors, a EUR 350 million dual-tranche capital offering. The issue was split into a EUR 150 million Perpetual NC10 Innovative Tier 1 capital and a EUR 200 million 10-year NC5 Tier 2 capital offering. Total orders exceeded EUR 800 million, with subscriptions more than double the amount of both tranches. Banc of America Securities Limited, Credit Suisse First Boston (Europe) Limited and Société Générale acted as Joint Lead Managers on this transaction.

In April, Landsbanki completed a EUR 350 million issue jointly led by Citigroup and Nomura International. This issue was increased to EUR 550 million in July.

In June, the Bank completed another successful transaction, a seven-year EUR 300 million public bond issue, its first seven-year public transaction to date. Royal Bank of Scotland and Société Générale acted as joint lead managers, Landesbank Baden-Württemberg was senior co-manager and Banca IMI, Banco Bilbao Vizcaya Argentaria, and Banco Español de Crédito were managers of the transaction.

Two backup facilities were completed in 2005. In July, Landsbanki negotiated a short-term backup facility for EUR 110 million in support of the ECP programme. Lloyds TSB Capital Markets acted as agent and mandated lead arranger, with a total of nine banks participating in the facility. In September, another five-year revolving credit facility, for EUR 240 million was jointly led by Bayerische Landesbank, DZ Bank and ING Bank. A total of 12 banks participated in this facility, including the mandated lead arrangers. Both facilities are set up and intended to be undrawn, with a drawing option if the need arises. The long-term facility could also be used to prefund long-term maturities coming due.

Maturity Profile



In July, Landsbanki successfully closed its second-largest transaction ever, a two-year EUR 600 million, public bond issue led by Bank of America and Credit Suisse. Due to investor demand the transaction was expanded to EUR 600 million from its initial EUR 500 million benchmark size. A total of 48 pan-European investors participated in the transaction.

In December, Landsbanki completed a stand-alone Extendable Notes Transaction (EXLs) in the US, with Merrill Lynch and Morgan Stanley as lead managers. This was Landsbanki's debut transaction in the US market; the transaction size was USD 500 million, although the deal was subsequently increased in January 2006. These notes had an initial maturity of 13 months, and final maturity of five years. The successful transaction ended a good international funding year on an high note.

International Funding Strategy

Both the cost of funding and overall market conditions were particularly favourable for bond issuers in 2005. Towards the end of the year, Icelandic bonds were subject to some volatility on secondary international markets. To respond to such market movements, the Bank's Treasury department has liquidity management policies in place, designed to respond to various scenarios that could arise, and the volatility did not affect Landsbanki's operations during this period.

Landsbanki's international funding strategy will continue to be focused on cultivating relationships with existing investors and reaching new ones, while at the same time exploring new avenues for international funding. Furthermore, the Bank's international asset portfolios have reached a size which makes securitisation a viable option.

In 2005, Landsbanki looked at opportunities to broaden its funding spectrum into the US and Asia. The Bank intends to continue to investigate funding possibilities on these and other markets.

Credit Ratings

Given Landsbanki's activities in the international capital markets, credit ratings are an important consideration. All its major policy decisions take into consideration possible effects on the Bank's credit ratings. The Bank continues to aim at improving its ratings. In 2005, Landsbanki's credit ratings were upgraded, both by Moody's and Fitch.

In March 2005, Moody's Investors Service upgraded the Bank's deposit and senior debt ratings from A3 to A2. At the same time Moody's confirmed the Bank's C rating for financial strength, and altered its outlook from positive to stable. Lastly, the agency confirmed Landsbanki's short-term credit rating of Prime-1. Landsbanki's credit ratings were confirmed unchanged by Moody's later in the year, following several acquisitions and the merger of a part of Burdarás with Landsbanki.

In November, Fitch confirmed its ratings of Landsbanki from June of 2002: a long-term rating of A, short-term rating of F1, individual rating of C and stable outlook. Fitch upgraded Landsbanki's Individual rating to B/C from C. Furthermore, Fitch upgraded Landsbanki's issue of non-cumulative undated capital Tier 1 notes to A- from BBB+, leaving the notes one notch below the long-term rating as compared to two notches before. Other ratings were affirmed unchanged.

Heritable Bank, one of Landsbanki's subsidiaries in London, was assigned ratings of Long-term A, Short-term F1 and Support 1 by Fitch in February 2004, with Stable outlook. These ratings were re-affirmed in September 2005.

Landbanki's Credit Ratings

Moody's	Rating
Long term	A2
Short term	P-1
Outlook	Stable
Financial strength	C
Subordinated debt	A3
Junior subordinated	Baa1
Fitch	**Rating**
Long term	A
Short term	F1
Individual	B/C
Support	2
Outlook	Stable

The International Division

Top row, from left:
Steinthór Baldursson, Audur Bjarnadóttir, Sigurdur Erlingsson, Tinna Molphy, Thórir Örn Ingólfsson, Brynjólfur Helgason, Matthías P. Einarsson.

Bottom row, from left:
Dröfn Hardardóttir, Tryggvi Tryggvason, Olga Sverrisdóttir , Björn Sigurdsson.

Management of risk is intended primarily to safeguard Landsbanki Group's financial strength. The Bank's risk policy and procedures ensure that risks are known, measured and monitored.

Risk Management

The business of financial enterprises involves taking risks and Landsbanki is no exception to this rule. Management of risk is intended primarily to safeguard Landsbanki Group's financial strength by following several main principles: defined risk governance, independent risk monitoring, and methods of risk assessment and measurement that are continuously refined and adapted.

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 adopted by the Bank for its operations and complies with regulatory requirements. Landsbanki follows a policy regarding the risk structure of its portfolio to ensure that fluctuations resulting from unexpected events, affecting both the Bank's equity and its performance, will be 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, 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 its risk through committees. Furthermore, managing directors are responsible to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the Bank's policy.

Landsbanki has four standing committees: the Asset and Liability Committee (ALCO), the Asset Management Committee, the Credit Committee and the Operations Committee. 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 Compensation Committee, preparing examination by the Board of specific areas of operation and investigating in more detail matters related to them.

The compliance officer ensures that the Bank's rules on securities trading and insider trading are followed, and that Group operations comply with the Act on Securities Transactions, Act on Actions to Combat Money Laundering and other relevant statutes and regulations. Each of Landsbanki's subsidiaries has a compliance officer, and the parent company compliance officer supervises their work and reports to the Board of Directors. Since Landsbanki's internal auditing is carried out on a Group basis, the Director of Internal Audit oversees all Group companies. Internal auditing is an essential aspect of the Bank's risk management control; each operating unit is audited at least once a year.

Risk Management and Control

Risk factor	Management	Supervision
Counterparty risk	Credit Committee	Credit Control
Market risk	ALCO	Risk Management
Operational risk	Operations Committee, Managing Directors' Meetings	Legal Division, Credit Control and Branch Support, Risk Management and Internal Audit
Mismatch of assets and liabilities	ALCO	Risk Management

Economic Capital

Equity and subordinated loans are the base upon which the Bank can draw to meet unexpected losses without becoming insolvent. Landsbanki's strategy is to maintain a capital adequacy ratio of above 11%, which is considerably higher than the minimum statutory requirement of 8%. The Bank has also adopted minimum levels for Tier 1 capital, which must be over 9% calculated using a risk-weighted asset base. In Landsbanki's estimation, these criteria take into consideration the relative weight of commercial and investment banking activities in Group operations, as well as the risk the Bank is prepared to take in market securities.

Derivatives Held for Trading and Trading Liabilities

ISK million	Contract/ notional amount	31 Dec 2005 Fair value Assets	Liabilities
Foreign exchange derivatives	690,081	7,753	7,889
Interest rate derivatives	273,815	4,662	3,877
Equity derivatives	94,723	1,471	14,738
Total derivatives held for trading	**1,058,619**	**13,886**	**26,504**

Counterparty Risk in Derivative Transactions

Landsbanki uses derivatives to hedge its own currency and interest rate risk, as well as offering derivative products to its clients. All these derivatives are OTC, and recognised on the Bank's balance sheet at fair value as part of its trading portfolio. Derivatives are classified as either market derivatives or hedging derivatives. The counterparty risk on a derivative is assessed by evaluating its credit equivalent, based on the fair value of the derivative plus the future risk, based on the nature and characteristics of the derivative contract. The fair value of a derivative is the amount for which a trade could be concluded that is reasonable to all parties involved in a voluntary transaction. The fair value of derivatives is determined by models developed by Landsbanki. In addition, the Bank has an independent party calculate the value of its most complex derivative contracts. In order to limit counterparty risk arising from derivative contracts, Landsbanki has netting arrangements with counterparties and often requires collateral in the form of cash or other liquid securities assets. The positions of clients with derivative contracts are checked daily and the Bank can make a margin call if the negative value of a derivative (positive value for the bank) exceeds the reference in the contract.

Derivatives Held for Hedging

ISK million	Contract/ notional amount	31 Dec 2005 Fair value Assets	Liabilities
Interest rate derivatives	201,014	4,689	4,086
Total derivatives held for hedging	**201,014**	**4,689**	**4,086**

Counterparty Credit Risk

Counterparty risk is the Bank's greatest single risk factor. Counterparty risk is the risk that a borrower or counterparty in a transaction will be unable to meet its financial obligations. Landsbanki manages credit risk by setting limits for acceptable risk for individual borrowers or groups of borrowers, specific regions or industrial sectors. Such risk factors are under constant surveillance and are reviewed regularly. Credit risk is also managed through regular assessments of clients' credit ratings, modifications of lending authorisations or acquiring better collateral to secure clients' commitments.

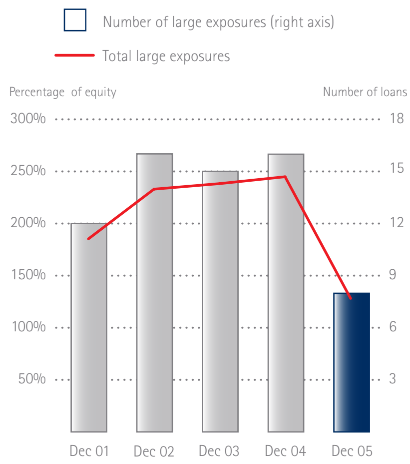
Lending Rules and the Credit Committee

The Board of Directors sets the Bank's general lending rules, including maximum obligations for individual clients and connected parties. The purpose of these rules is to limit the maximum risk of Landsbanki Group. They cover clients' total exposures, so that the indirect risk to the Bank through its clients is added to the direct claims of the Bank and its subsidiaries. Financial instruments issued by a client, which are used to guarantee other obligations of third parties not financially connected, are also added to the direct claims. According to Landsbanki's internal rules, the maximum total exposures through an individual customer or financially connected parties may not exceed 20% of the Bank's own funds. Clients classified in the best risk classes according to the Bank's rating system may comprise an aggregate exposure of as much as 25% of the Bank's own funds, but only in the form of short-term obligations. Parties classified in poorer risk categories may not comprise overall exposures for the Bank exceeding 10% of its own 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. Landsbanki's Credit Committee sets detailed lending rules based on the basic policy laid down by the Board of Directors. Employees' lending authorisations are well defined and incremental. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules. Comprised of the CEOs and managing directors, 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, and in addition monitors 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 specific industrial sectors.

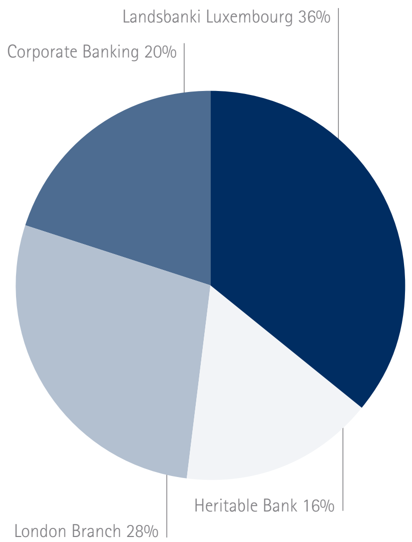
Large Exposures

At the end of December, eight clients were classified as large exposures of Landsbanki Group. Clients are defined as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of Landsbanki's equity, in accordance with the Financial Supervisory Authority's (FME's) Rules No. 531/2003 on large exposures incurred by financial undertakings. Total exposures of these eight clients amounted to ISK 179 billion at year-end. According to the Rules, total exposures of parties with obligations exceeding 10% of the Bank's equity may never exceed 800% of equity. As of 31 December 2005, this

Large Exposures



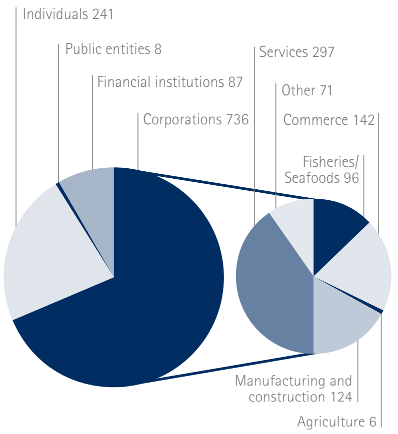
Foreign Lending



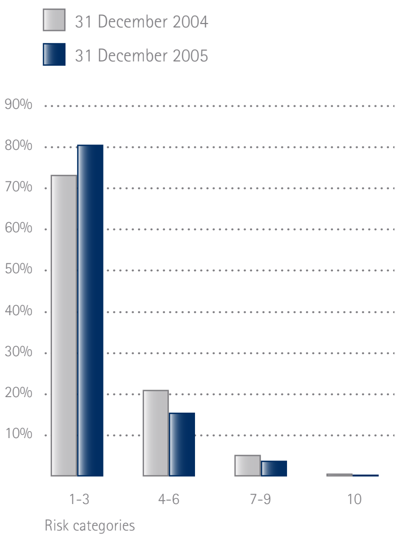
Lending by Sector

ISK million	31 Dec 2004	30 Jun 2005	31 Dec 2005
Financial institutions	73,435	69,947	86,919
Public entities	3,130	3,534	7,670
Corporations	435,927	592,551	736,379
Individuals	109,960	161,582	240,546
Total	**622,452**	**827,615**	**1,071,513**
Change		33.0%	29.5%

Corporate Loan Type (bISK)



Risk Classification – Corporate



ratio was 128% at Landsbanki. According to FME's rules, the maximum individual exposure is 25% of the Bank's equity. All of the Group's large exposures were within these limits at year-end 2005.

Landsbanki's loan portfolio has grown substantially in recent years. Most of the increase is in lending to large corporate clients with a strong financial position. They include most of Iceland's major companies, as well as large and trustworthy foreign clients. The Board of Directors regularly reviews the commitments of the Bank's largest customers.

Risk Classification

All clients of Landsbanki Group are classified in risk categories, reflecting the Bank's assessment of their financial strength. The objective of risk classification is to assess the probability of a client's default. As provided for by Basel II Rules, Landsbanki specifies a probability of default on payment existing for 90 days or longer, taking into account other aspects of a client's business history which may increase the probability of future default. There are ten risk classifications, with Category 1 including clients with the lowest probability of default and Category 10 those with the greatest probability of default. At year-end 2005, 73% of Landsbanki's clients fell into Categories 1-3, with less than 1% probability of default. Since this is an increase of 80% over the previous year, risk assessment of client default has improved markedly during 2005.

The improved circumstances of both Icelandic corporations and households, coupled with a favourable economic climate, have resulted in more clients being ranked in the best risk categories. Landsbanki has also improved the quality of its loan portfolio by increasing diversification of risk, for instance, by increasing credit extended to trustworthy clients abroad and by requiring better security for credit extended.

Credit Control

Credit Control evaluates the Bank's credit risk on an on-going basis, for instance, by evaluating clients' capacity to meet their obligations towards the Bank. Credit Control is responsible for the systematic and regular control of the Bank's lending and procedures for granting credit, in addition to maintaining an overview of the quality of all Group lending. This is done by regular reporting to the Board of Directors, the Credit Committee, the Bank's senior management and regulatory authorities on the development of the Bank's credit risk and the quality of its loan portfolio. In recent years, credit supervision has been substantially augmented, the number of employees in Credit Control has been increased, the surveillance system reinforced and specialised groups monitor individual credit classes. Definitive action is taken at a considerably earlier stage, if an increased probability of client default is perceived.

Collection

Landsbanki has given priority to improve its collection procedures, with the aim of increasing efficiency and monitoring of collections. Improved collection procedures have greatly reduced loans in arrears, for instance, both as a ratio of total lending and in absolute terms. Long-term defaults have fallen substantially as a result. In major default cases, or if there are signs of increasing credit risk for individual clients, an effort is made to obtain additional collateral. Efforts are also made to assist clients with debt restructuring and in so doing improve their possibility of meeting their commitments.

Lending Developments

All the measures used for credit control indicate that the quality of Landsbanki's loan portfolio in general has improved in recent years. Total lending increase in 2005 amounted to 72%. A key aspect of this year's lending growth is increased diversification, plus the improved collateral with which it is secured. Both in Iceland and at Heritable Bank in London, individual property mortgages, which formerly represented a negligible share of the loan portfolio, have substantially increased. This type of credit is generally subject to lower lending losses than other types of lending to households.

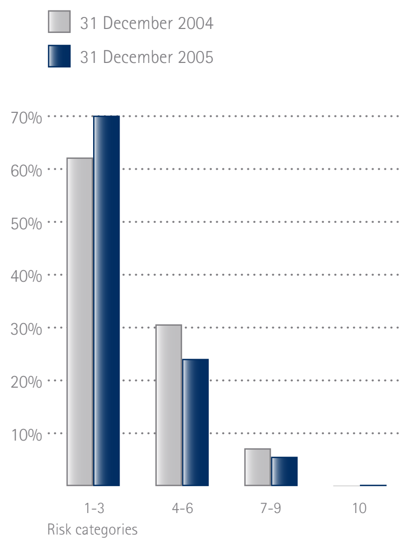
Corporate lending has grown substantially, both in Iceland and abroad. Growth of lending to corporate clients abroad falls into several main categories: loans extended in connection with expansion of Icelandic companies abroad, taking advantage of Landsbanki's strong ties to Iceland's leading corporations and close co-operation with them on projects abroad; cash flow loans to financially strong international corporations, through the intermediation of Landsbanki's London Branch; and lending to clients of Landsbanki Luxembourg's private banking services. Improved risk diversification and better loan securitisation should reduce loan impairment in the future.

Lending Breakdown

Total lending by the Landsbanki Group at the end of December 2005 amounted to ISK 1,071 billion. Corporate lending was ISK 736 billion, an increase of 69% over the previous year, while loans to households amounted to ISK 241 billion, or an increase of 119%. At the end of 2005, 35% of the Bank's total lending was to borrowers outside of Iceland, up 27% from the beginning of the year.

The share of Landsbanki's loan portfolio subject to ISK currency risk is steadily decreasing. The proportion of clients with loans denominated in foreign currencies who have ISK income and are vulnerable to currency fluctuations has been decreasing. As of 31 December 2005, foreign currency loans amounted to 58% of the Group's lending. Of these commitments, 87% were to clients with cash flow in foreign currencies.

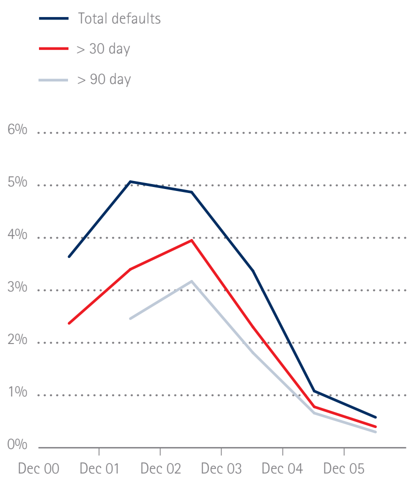
Risk Classification – Individual



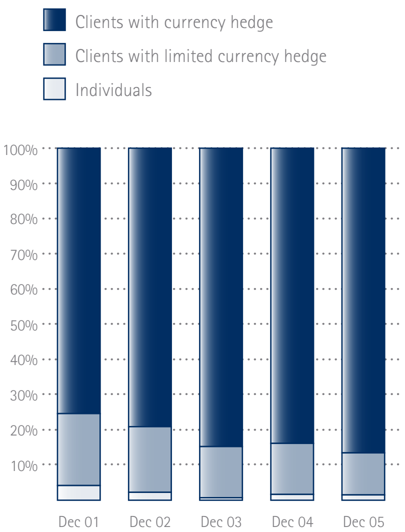
Lending Classification

ISK million	31 Dec 2004	31 Dec 2005
Corporate Banking	30,218	69,932
London Branch	16,026	96,719
Parent Company	**46,244**	**166,651**
Heritable Bank	40,083	55,867
Landsbanki Luxembourg	62,777	126,856
Subsidiaries	**102,860**	**182,723**
Total loans to foreign customers	**149,104** (27%)	**349,374** (35%)
Loans to Icelandic customers	399,914 (73%)	652,192 (65%)
Total loans	**549,018** (100%)	**1,001,566** (100%)

Defaults



Borrowers with Foreign Currency Hedges



Housing mortgages extended by the Group totalled ISK 133 billion, and the weighted loan-to-value ratio of this portfolio was 71%. Loans against securities collateral totalled ISK 231 billion for the Group, with 98.1% of the loans having collateral coverage in excess of 100% and 44% with coverage of over 200%.

Default Developments

At year-end 2005, the total amount of loans in arrears was ISK 5,744 million or 0.58% of total loans outstanding. The Group's defaults have been decreasing in the past two years, both in absolute terms and as a percentage of total loans outstanding. Defaults vary depending on the type of loan and the nature and location of the branch extending credit. Defaults are highest, for example, for Landsbanki branches in the capital region on loans to households and small businesses, and proportionally lowest for Corporate Banking on foreign-denominated loans to large corporations. Defaults on lending by the Bank's foreign establishments are practically nil.

Loans 90 Days in Arrears

Until 2005, loans which were more than 90 days in arrears were classified as non-performing loans on the Bank's books. As a result of the introduction of IFRS in 2005, calculation of interest on loans does not stop even if they are in arrears past a certain date. Under current practice, interest is calculated on all loans, while impairment tests are carried out for all loans classified as at risk. According to IFRS, interest should not be calculated on this portion of the loan portfolio, while calculation of interest continues for the portion that is expected to be collected.

Calculation of Loan Impairment

Provisions are made for impairment (credit loss provisions) to cover possible credit losses, as provided for in 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 requirements 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. Assessment involves, firstly, a detailed examination and assessment of the risk parameters of all loans by the Bank exceeding a specified amount. Secondly, all the Bank's other lending is divided into buckets with the same or similar risk parameters. In this manner, the quality of all the Bank's loans is regularly evaluated and provisions to cover impairment determined. For 2005, provisions for impairment amounted to ISK 6.3 billion, or 0.62% of total loans outstanding at year-end. Final write-offs in 2005 totalled ISK 2.0 billion. Impairment provisions were equivalent to 1.17% of loans and guarantees granted at the end of December 2005, and 1.29% of this same figure at year-end 2004. Provisions were 2.25% and 2.96% of loans and guarantees granted at the end of 2003 and 2002 respectively.

Basel II

Landsbanki has made a concerted effort to prepare for the introduction of the revised framework for capital measurement and calculation of lending reserve requirements known as the Basel II accord. Upon the introduction of these rules, which will come into force at the beginning of 2007, Landsbanki will follow the standardised approach prescribed in calculating its reserve requirements on a Group basis. As the method is very similar to the current method of calculating reserve requirements, the regulatory change will have only a limited impact on reserve requirements linked to Landsbanki's lending activities. The Bank will, however, avail itself of Basel II methodology for calculating probability of default for its loan portfolio. The Bank is planning to introduce the Advanced Internal Rating Approach at a later stage. This method involves the use of statistical models in assessing credit risk using historical data. Extensive efforts have gone into building up the Bank's databases to comply with the requirements of the Basel II accord, and will continue in the coming year.

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 its trading portfolio, as well as currency risk on its portfolios. Market risk is, however, mainly limited to the Bank's trading book transactions. Landsbanki achieved high trading gains on its trading book positions in 2005.

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. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 2% 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 Securities and Treasury division of the parent company, where total market risk for the Group is also managed. In addition to the Securities and Treasury division of the parent company, trading desks of its subsidiaries Kepler, Teather & Greenwood and Merrion Capital have limited authorisations to take market exposures on their 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

Value at Risk
(including assets at fair value)

ISK million	1 Jan 2005 - 31 Dec 2005			31 Dec 2005
	Average	High	Low	Balance
Interest rate risk	228	597	27	436
Currency risk	10	72	1	8
Equity risk	1,127	2,456	510	2,102
Total	**1,365**	**3,125**	**538**	**2,546**

Value at Risk
(excluding assets at fair value)

ISK million	1 Jan 2005 - 31 Dec 2005			31 Dec 2005
	Average	High	Low	Balance
Interest rate risk	228	597	27	436
Currency risk	10	72	1	8
Equity risk	869	1,343	469	1,304
Total	**1,106**	**2,012**	**497**	**1,748**

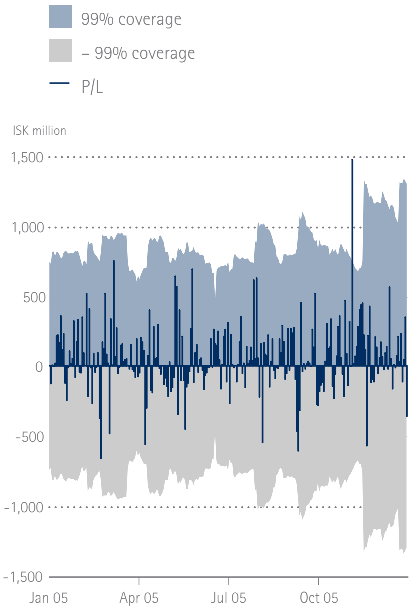
Bond Holdings

Bonds - total	100 ISK billion
Bonds held as hedge against forward contracts	49 ISK billion
Net bond position	51 ISK billion

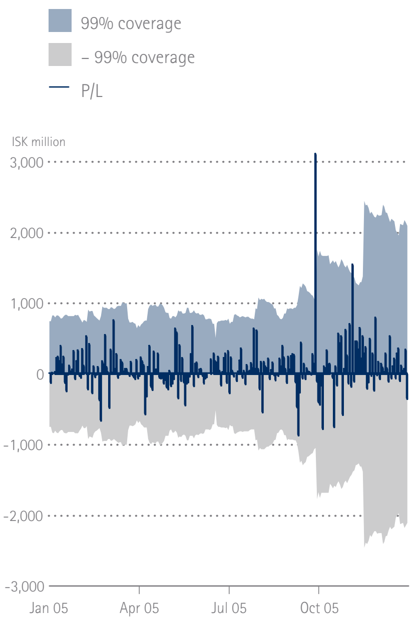
Equity Holdings

Equities - total	139 ISK billion
Equities held as hedge against forward contracts	81 ISK billion
Net equity position	58 ISK billion

Value at Risk for Equities
(excluding assets at fair value)



Value at Risk for Equities
(including assets at fair value)



instrument can cover all the aspects of market risk, the Bank applies several methods in its daily risk measurement, including Value-at-Risk (VaR), stress testing, and uses indicators such as net position and value per bp (Vpb). VaR is used to measure trading book market risk. VaR is a statistical instrument that measures the Bank's maximum expected loss for the next working day under normal market conditions for a 99% confidence interval. The Bank's loss should only exceed the resulting value on one working day out of a hundred. 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 2005.

Equity Risk

Equity risk is the largest component of the Bank's market risk and most of it originates at headquarters. The equity risk ceiling is limited to 12% of the Bank's risk-weighted asset base. At year-end 2005, it was 8.2%.

The Bank's equity positions were almost equally divided between domestic (55%) and foreign equities (45%). Of the Bank's total equity holdings, 85% are listed on stock exchanges. Landsbanki has concluded forward contracts and swaps against its equity holdings, hedging these contracts with equities in the amount of ISK 81 billion, which are included in its equities.

The item "Financial assets designated at fair value through profit and loss" on the Bank's balance sheet includes equities valued at ISK 34.5 billion, which are in fact restructuring projects undertaken by the Bank. These are limited-term holdings in companies undergoing restructuring and subject to special rules set by FME, for instance, on the time length of ownership and the Bank's disclosure obligations. Other equities are entered as trading securities.

Currency Risk

Currency risk originates in the Bank's trading portfolio and other portfolios. The Group's currency risk is managed by the Securities and Treasury division, with the objective of limiting this total risk factor to within 2% of the risk-weighted asset base. Landsbanki aims at keeping its net currency position as close to equilibrium as possible at all times. The total currency risk is very low in comparison to the Bank's equity and interest rate risk; at the end of 2005 VaR was around ISK 8 million.

Interest Rate Risk

The interest rate risk on the trading portfolio is primarily the result of Landsbanki's holdings in domestic market bonds. They comprise part of the Bank's liquidity management, in addition to which Landsbanki is the principal trader and market maker in government-backed bonds. The Bank also takes domestic bond positions when it anticipates changes in their returns. Part of the Bank's bond assets is also intended to hedge derivative contracts it has concluded. Most of the portfolio consists of domestic bonds, in particular inflation-indexed bonds issued by the state-owned Housing Financing Fund.

Operational Risk

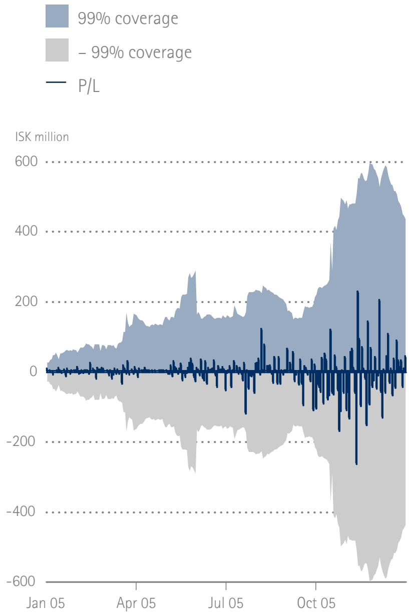
Operational risk is the risk of loss that can result from unsatisfactory work procedures, system problems, employee errors or external events. While the managing directors of each division are responsible for the division's operating risk, daily management of operational risk is in the hands of department heads. The analysis, measurement and monitoring of the operational risk of products, procedures and systems are co-ordinated, with senior management regularly reviewing reports on the operational risk situation and development. In this manner, the Bank endeavours to manage operational risk as effectively as possible.

Landsbanki's objective is to provide exceptional service in all areas of operation - securely, efficiently and economically. To achieve this, working procedures and practices are carefully scrutinised to find ways of further increasing security and efficacy. In assessing the operational risk involved in the Bank's operations, an attempt is made to define what could go wrong, how serious the consequences could be and what can be done to minimise this risk. By so doing, all divisions work specifically on minimising the Bank's operating risk.

Extensive rules and detailed guidelines, explaining work procedures and how employees are to carry out their tasks, are posted on the Bank's intranet, to enable employees to fulfil their duties satisfactorily and to prevent errors. The Bank's rules and guidelines are continuously reviewed and modified to reflect new emphases and procedural changes. The Bank also offers its employees a wide selection of training and continuous education programmes to increase their knowledge and capability of handling ever more complex tasks.

Development of Landsbanki's IT systems is an on-going process, as their importance for the Bank's operations grows steadily. Efforts are underway to increase the automation of working procedures to improve cost-efficiency and to reduce the risk of error. At the same time, self-service options are steadily introduced, improving the services offered to the Bank's clients. Landsbanki's information systems comprise a major operational risk, both with regard to their functioning and accessibility. Continuing effort is devoted to ensuring the operational security of IT systems; hardware is checked regularly and equipment upgraded. The Bank's internet system is checked at frequent intervals and its capacity augmented to handle steadily increasing traffic. Every effort is made to ensure the security of central equipment, its location and distribution between risk areas. Data backup arrangements have been reviewed and the Bank's backup centre transferred to

Value at Risk for Bonds



Foreign-denominated Assets and Liabilities

Foreign-denominated assets	833,703 ISK million
Foreign-denominated liabilites	923,349 ISK million
Net balance sheet amount	-89,646 ISK million
Net off balance sheet amount	89,834 ISK million
Net foreign-denominated assets	**188** ISK million

other premises. A large number of software programs have been rewritten or adapted, with a view to increasing operational security.

Landsbanki has a special Information Security Officer, whose role is to ensure that all work processes in the IT Division comply with the Icelandic and international standard ISO/IEC 17799:2000.

Various external events, such as natural catastrophes, war or vandalism, can have a major impact on the Bank's operations and performance. The Bank has a crisis management plan, intended to ensure its capacity to maintain its services and the confidence of its clients, partners and other parties should a serious situation arise.

Criminal activities, e.g. bank robbery, fraud and, money laundering are operational risks which the Bank can expect to be confronted with at any time. Great 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. These security rules and working procedures have been codified in a special security manual, accessible to employees on the Bank's intranet.

Like other credit institutions, Landsbanki is subject to a complex regulatory framework. Financial markets develop rapidly, with the result that statutes 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. Landsbanki's activities abroad have been growing rapidly and the Bank now has operations in a number of countries. It is crucial that the Bank's employees understand the regulatory framework in those countries where operations are located. The Bank's operating license is subject to compliance with the statutes and regulations governing its operations, and any breach of those laws or regulations is subject to serious penalties, liability for damages, or the revocation of license.

Landsbanki operates in a highly competitive market. The Bank makes every effort to maintain its position by keeping its product range, service and prices competitive, and must constantly monitor competitors in all of its operating markets.

Asset and Liability Risk

Portfolio Interest Rate Risk

Changes in the interest rates on the Bank's asset and liabilities, other than those in its trading book, have an impact on the interest margin and/or market value of equity. The resulting risk is primarily caused by duration mismatch of assets and liabilities. Portfolio interest rate risk is among the Bank's more important risk factors. Interest rate repricing is carried out at intervals of several months, to

Term Interest Rate Mismatch of Assets and Liabilities

ISK million	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest-bearing	Total
Assets							
Cash and cash balances with Central Bank	16,611	0	0	0	0	0	16,611
Loans and advances	425,218	242,666	236,960	66,483	99,292	893	1,071,513
Trading assets	20,338	4,236	1,935	14,666	47,777	129,942	218,894
Financial assets designated at fair value through profit and loss	0	0	0	0	0	34,483	34,483
Derivatives held for hedging	4,689	0	0	0	0	0	4,689
Investment in Associates	0	0	0	0	0	4,456	4,456
Property and equipment	0	0	0	0	0	4,260	4,260
Intangible assets	0	0	0	0	0	10,461	10,461
Non-current assets and disposal groups classified as held for sale	0	0	0	0	0	16,459	16,459
Other assets	0	0	0	0	0	23,636	23,636
Total assets	**466,856**	**246,902**	**238,895**	**81,149**	**147,069**	**224,589**	**1,405,460**
Liabilities							
Deposits from credit institutions	31,410	71,836	5,406	19,620	16,325	0	144,596
Deposits from customers	288,883	19,098	18,468	7,168	546	0	334,163
Borrowing	305,528	190,426	108,473	42,652	42,909	0	689,989
Subordinated loans	0	26,022	672	3,744	18,636	0	49,074
Trading liabilities	0	0	0	0	0	26,504	26,504
Derivatives held for hedging	2,724	0	0	0	0	1,362	4,086
Tax liabilities	0	0	0	0	0	7,289	7,289
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	4,475	4,475
Other liabilities	0	0	0	0	0	31,668	31,668
Equity	0	0	0	0	0	113,617	113,617
Total liabilities	**628,545**	**307,382**	**133,019**	**73,185**	**78,416**	**184,914**	**1,405,460**
Net on balance sheet position	-161,689	-60,480	105,876	7,964	68,653	39,674	
Net off balance sheet position	-61,295	25,428	15,002	17,560	3,305	0	
Total interest sensitivity	**-222,984**	**-35,052**	**120,879**	**25,525**	**71,958**	**39,674**	

take into account the Bank's interest rate risk on assets and liabilities. There are two exceptions to this rule. Heritable Bank offers long-term loans at fixed rates of interest. The interest rate risk on this portfolio is hedged using interest rate swaps. In addition, the parent company provides fixed-rate loans in ISK, most of which are residential CPI-indexed housing mortgages. The Bank has hedged most this interest rate risk with interest rate swaps. The Treasury department at Landsbanki's headquarters manages Group interest rate risk.

Liquidity Risk

Liquidity risk is the risk of losses the bank could incur should it be unable to meet its obligations when due. The Bank's liquidity risk is divided into three types: intraday liquidity risk, short-term liquidity risk extending over several months, and risk due to mismatch of longer-term assets and liabilities. A distinction is also made, in measuring and managing liquidity risk, between domestic and foreign liquidity risk.

ALCO formulates liquidity management policy, monitors the Bank's liquidity position and provides advice on the composition of its assets and liabilities. The objective is to minimise fluctuations in liquidity and ensure that the Bank 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.

Landsbanki follows rules on liquidity set by the Central Bank of Iceland, i.e. governing the ratio of liquid claims and liquid liabilities. The rules require a ratio higher than 1 for up to three months. The Central Bank rules involve a type of stress test, according to which assets and liabilities are weighted using specific co-efficients 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.

At the end of 2005, the Bank's liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's Rules No. 386, and taking into consideration potential risk due to changes in fair value, was 1.6.

Landsbanki has also adopted internal criteria for foreign currency liquidity after FME issued Guidelines on Foreign Currency Liquidity Management. These guidelines cover both short-term and longer-term liquidity risk. The rules provide for regular stress testing of its foreign liquidity position based on conceivable future scenarios resulting from limited access to foreign financial markets. The criteria call for the Bank to possess sufficient reserves to meet its obligations for at least one month. The guidelines also set limits on the imbalance of net cash flow of long-term foreign assets, to ensure that the repayment flow to the Bank's foreign financing and cash flow from its foreign assets is as equal as possible.

At year-end, Landsbanki's one-month foreign liquidity ratio was 1.34 and its three-month foreign liquidity ratio was 1.36.

Indexation Balance

At year-end, Landsbanki's CPI-indexed assets exceeded indexed liabilities by ISK 139 billion.

All the measures used for credit control indicate that the quality of Landsbanki's loan portfolio in general has improved in recent years. Total lending increase in 2005 amounted to 72%. A key aspect of this year's lending growth is increased diversification, plus the improved collateral with which it is secured.

Landsbanki is an international enterprise, with establishments in leading financial centres. At year-end 2005, it had 1,904 employees in 1,725 full-time equivalent positions.

Human Resources and Information Technology

A key factor in Landsbanki's success is its employees and their ability to meet the needs of customers. Each employee is an important investment, which makes it imperative to hire the most capable and best qualified person in each instance.

To attract, support and maintain first-class employees, emphasis is placed on job satisfaction, a good working environment and effective job development. Providing an enjoyable and interesting workplace, where the facilities, equipment and environment are second to none, is also an important part of this strategy. By offering competitive salaries and a first-class working environment, Landsbanki aims to link employee interests to those of the Bank itself through performance-linked remuneration.

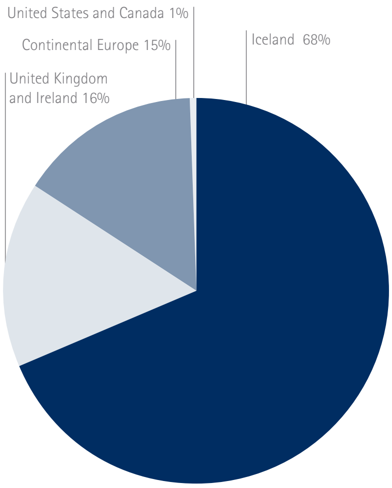
In parallel to the major changes taking place in the Icelandic economy and financial markets, the composition of Landsbanki's employee group has undergone substantial changes in recent years. The Bank's rapid expansion and increased activities abroad have added to the diversity of employees, their education, expertise and experience. The Bank's activities thus incorporate a variety of trends and directions, both in its everyday operations and in formulating future strategies.

Landsbanki is an international enterprise, with establishments in leading financial centres. At year-end 2005, it had 1,904 employees in 1,725 full-time equivalent positions, 1,139 of these positions in Iceland and 586 abroad. The number of employees grew by 615 during the year; 496 joined Landsbanki through the acquisition of new subsidiaries.

The number of employees at Landsbanki's headquarters and subsidiaries has increased primarily as a result of expanded corporate finance and securities trading and greater co-ordination of services provided on a Group basis. Due to technological advances and an increase in self-service options for customers, there are relatively fewer employees in the branch network today than before. At the same time, the proportion of specialised employees has increased. The share of university graduates working for Landsbanki in Iceland has increased in recent years to around 28%. This trend was clearly evident in 2005, when 46% of the 240 new employees hired in Iceland had a university degree. The share of graduates working for the Bank's subsidiaries abroad is even higher, around 80%, reflecting the nature of their activities. Landsbanki's employees in Iceland have traditionally obtained their university education in various parts of the world, enhancing the diversity of educational backgrounds in the Landsbanki Group.

Landsbanki emphasises a policy of non-discrimination and treats each employee with regard to his or her own abilities, for instance, in respect to work facilities, as-

Employees by Country



signments, job development, education and remuneration. The Bank makes every effort to create a working environment characterised by flexibility, endeavouring to help employees find a balance between work and private life.

At Landsbanki it is a priority to give employees opportunities to learn and develop in their career, for instance, through an extensive educational programme, encouragement, and feedback to employees. Employee interviews are held annually, on the assumption that employees and management bear joint responsibility for positive morale and well-being in the workplace.

In recent years, workplace surveys have been carried out annually, assessing employee views towards their work, management and the Bank as a whole. The survey is intended as a tool for improvement, shedding light on aspects in need of attention as well as revealing the strong points of the Bank's internal environment. IMG Gallup performed the survey and the report from its experts on the 2005 survey results is highly positive. Mention was made of the fact, for instance, that employees experience the growing emphasis on performance through praise, feedback and encouragement, improved information flow, improved training and education, as well as increased opportunities to learn and develop. It was also reported that confidence in management was higher than ever before.

Landsbanki's management is of the opinion that its human resources policy has been a major contributing factor in maintaining the Bank's strong position on the domestic market and to its advance as a powerful financial undertaking, despite the wide-reaching and rapid changes in its operating environment in the past few years.

Information Technology

Efficient and reliable information systems are a prerequisite for Landsbanki's success. The Bank closely follows cutting-edge technology that could offer new opportunities and support its continued growth. Its strategy is to be a leader in the use of technology that delivers high-quality service, maximum efficiency and operating security.

In 2005, the information technology (IT) focus was on four specific areas. Firstly, an emphasis was placed on upgrading all systems used for sales, services and customer relations in the branch network. To accomplish this, all the core systems in the branches were renewed and a new customer relationship management system was implemented.

Secondly, internet banking solutions were upgraded with new features that enable private and corporate customers to do practically all their banking online. Thirdly, various measures were taken to tighten the Bank's operating security, especially by increasing straight-through processing of transactions. Work continued on improving system redundancy to ensure uninterrupted operations, despite the possible failure of individual parts of the system. Finally, connecting Landsbanki's subsidiaries to the Group's information systems is underway. The immediate focus will be on linking together accounting systems, information websites and databases used for corporate finance and research.

The development of Landsbanki's software systems through the years has been closely intertwined with the history of the Icelandic Banks' Data Centre. This changed as of 1 March 2005, when the core systems of the branch network were renewed and the Bank assumed responsibility for and control of their operation. Prior to that, they were operated within the Data Centre. This change required extensive preparations, including for instance redesigning the systems to support the huge change in services offered today compared to the services offered at the time the older systems were developed. Among the systems that were redesigned are systems providing payment services for individuals, foreign and domestic transfers, asset-backed credit and collection services. The level of automation of several processes was increased to make them more effective, e.g. the automation of the secondary collection processes.

To implement all these in-house developed systems under extremely tight time constraints was a challenging task, involving training of hundreds of branch employees and supporting them while they adapted to completely reengineered working processes and new systems. The successful implementation of this project has added considerably to the knowledge base within the Bank.

Around mid-year, a new customer relations management system was introduced in Landsbanki branches. This system lays the foundation for more comprehensive customer service and increases the efficiency of internal procedures, for instance in extending credit.

Improvements in private and corporate online banking continued throughout the year. New and improved features for the Bank's collection services were implemented, in addition to a new cash management service, combining cash pooling with automatic transfers between accounts. New language selections were added and processing speed was improved. A number of web services were launched for corporate customers with great success.

In 2005 major steps were taken to upgrade systems for securities, asset management and pension services. The largest single project was the introduction of a new system to manage the Bank's pension and insurance schemes. The system was designed and built within the Bank and it provides excellent support for the rapidly developing products and services offered in this market.

The number of financial transactions completed in Landsbanki's core systems in 2005 increased by 75% over the previous year, and transactions in Corporate Internet Banking have doubled annually for the past three years. This reflects the growing significance of self-service solutions. The complexity of services now offered through online banking is continually increasing, with the result that transactions today often include more components than before. In consequence, the volumes handled by infrastructure systems, e.g. the network and databases, have more than doubled annually for the past three years. To meet this complexity and the increase in transactions, the entire operational environment was reviewed and widespread use of virtualisation technology was introduced, which both simplifies the operating environment and increases performance. Landsbanki leads the way in utilising virtualisation technology in Iceland and the Bank's set-up has been used by the vendors in demonstrations at industry conferences and conventions.

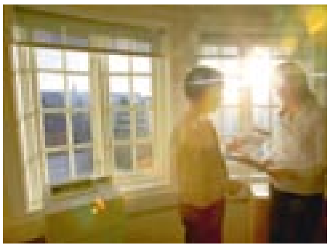
Extensive effort has been devoted in the past year to restructure work processes and procedures in the IT division, to comply both with demands set by external parties and with ISO-17799 standards. It proved a challenging task to ensure operational security by providing redundancy for systems in accordance with the Bank's contingency plans while keeping pace with the Bank's rapid growth.

Establishments located in other countries have increased substantially in number and the Bank will take advantage of the opportunities they open up. Firstly, ways will be sought to lower the cost of purchasing software licenses and hardware. Secondly, all development within the Landsbanki Group will be co-ordinated, with emphasis placed from the start on a joint network hub located in London. Thirdly, efforts will be made to take advantage of the Group's size to obtain more favourable procurement contracts with suppliers. Last but not least, ways will be sought to utilise the full potential of human resources to benefit the entire Group. Major opportunities are available to transfer specialised expertise in technical matters and in execution of transactions in various establishments. The best systems and best practices anywhere within the Group are likely to be introduced at other establishments.

Progress has already been made in all these areas but the task of integrating different operations at various sites in a sensible manner is clearly a challenge requiring considerable time and effort. The reward will be better efficiency, greater flexibility and added value for the group as a whole.





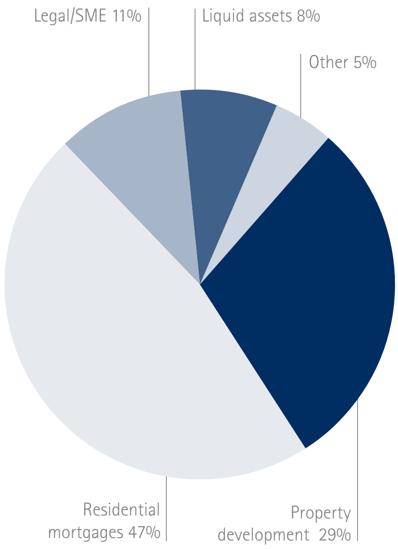



Establishments located in other countries have increased substantially in number and the Bank will take advantage of the opportunities they open up.

Heritable Bank

Heritable Bank is a rapidly growing specialist lender, operating in the property development, residential mortgage and SME finance sectors. The business is built around highly experienced and competent teams who can forge business relationships with customers and business professionals backed by a commitment to delivering high quality service. All its departments are characterised by in-depth expertise, innovation, flexibility and integrity.

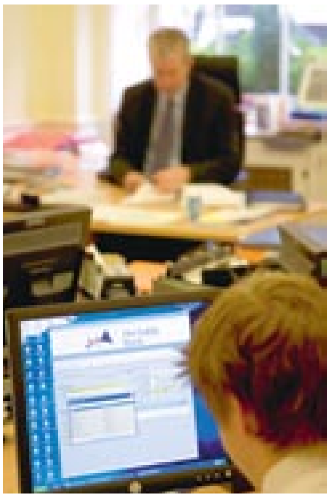
Asset Type



Originally founded in Glasgow in 1877, the business moved to Mayfair in London in the 1950s. Landsbanki acquired a 70% share in the Bank in 2000 and it became a fully-owned subsidiary in 2003. Since then, Heritable has expanded considerably, through the organic growth in its core property finance activities, by introducing new products and services and by acquiring other companies. In 2003 the Bank acquired a team of experts to successfully launch a broker-based specialist residential mortgage business. That same year, the Bank began accepting wholesale deposits from UK corporations and local authorities, adding a highly competitive range of retail savings accounts for individuals in 2004. At the beginning of 2004, Fitch Ratings awarded Heritable a long-term credit rating of A and a short-term rating of F1, which were affirmed unchanged in September 2005. The Bank is now mostly funded by capital and deposits. In 2005, Heritable acquired Key Business Finance, a specialist short-term lender to the legal profession in the UK, together with a team of experts in the broker-based, small-ticket asset finance market. All business lines have progressed successfully in 2005.

Landsbanki's partnership with Heritable Bank has enabled the latter to direct its attention to larger projects, occasionally with the direct participation of the parent company.

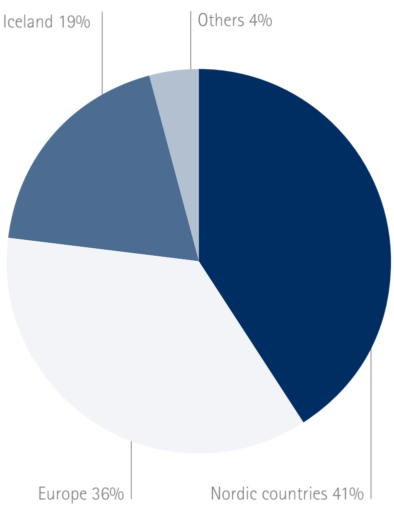
Following a successful year of operation in 2005, Heritable's total assets were GBP 623 million. Deposits totalled GBP 490 million, an increase of 60%. At the end of 2005, the Bank had 56 employees and around 8,000 customer accounts.



Landsbanki Luxembourg

Landsbanki Luxembourg offers a variety of private banking services, asset management and other financial services for high-net-worth individuals and their companies. The Bank has also developed solid business connections with small and medium-sized financial enterprises in Northern Europe providing financing and asset management services. Advice on taxation questions and the operation and administration of investors' holding companies are also important aspects of the Bank's activities.

Revenue by Region



The company began its operations in 2001 as Bunadarbanki International, and became part of the Landsbanki group during the first half of 2003. Today it is an independent subsidiary, operating under Luxembourg law.

In 2005, Landsbanki Luxembourg acquired Lex Life & Pension, a company providing specialised savings insurance which is part of Landsbanki's private banking services. The company has performed well since its acquisition, and the total value of policies written exceeds EUR 100 million.

Landsbanki Luxembourg's clients have steadily increased in number, especially clients residing outside of Iceland. Today over half of its customers reside outside of Iceland.

The Bank has two income areas. On the one hand, it provides specialised private banking services for high-net-worth individuals. On the other hand, it has developed products offered to targeted investor groups, taking into consideration the regulatory environment of their home state. Originally its lending activities were aimed, in particular, at smaller Nordic credit institutions. However, as the Bank has developed a broader client base and more extensive business contacts this lending has decreased. The Bank's lending currently consists of three types: investment loans to private banking clients; mortgages for real estate purchase in the Nordic countries, so-called K/S loans; and refinancing loans for real estate purchases in France and Spain, secured with a mortgage in the property or in funds under management. All the Bank's loans are extremely well secured and its defaults and credit losses are minimal.

At year-end 2005, total assets under management amounted to EUR 3,800 million and the Bank's total assets amounted to EUR 2,670 million. Employees of Landsbanki Luxembourg and Lex Life & Pension currently number 65.


Landsbank
Luxembourg S.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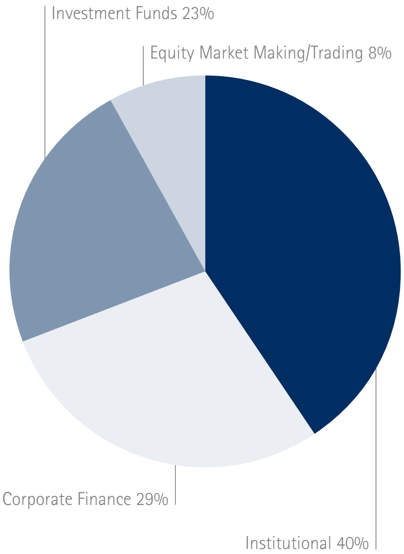
Teather & Greenwood

A rapidly growing UK institutional and corporate stockbroker, Teather & Greenwood (T&G) has offices in London and Edinburgh providing research and investment advisory services for corporate and institutional clients.

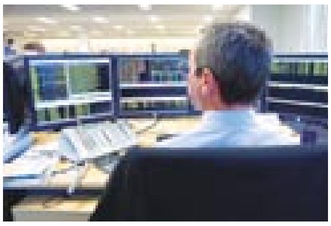
Revenue by Department



Originally founded in 1885 as the stockbroking firm A H Jackson & Co., in 1917 the name was changed by its partner owners to Teather & Greenwood. It became part of the Landsbanki Group in April 2005. T&G's team of analysts covers over 220 UK companies, including more than 50% of the FTSE100. It operates in three main areas of the equity market.

In small- and mid-cap corporate brokering the company has over 120 corporate clients, to whom it provides services ranging from IPOs and secondary fundraising to M&A activities. In addition, T&G makes a market in approximately 550 quoted shares on the LSE Main Market, AIM and Ofex markets. The firm's highly respected large-cap research is used by both London and Edinburgh locations to provide independent secondary equity recommendations to over 200 clients, including all major UK investment management institutions. T&G's share in equity trading is approximately 2.5%. Finally, for investment funds, T&G offers corporate advisory and brokering, research, and secondary dealing. It has one of the most extensive lists of investment fund clients both from the UK and overseas. Its secondary market share in this asset class places it among the top-five players.

T&G had 133 employees at year-end.

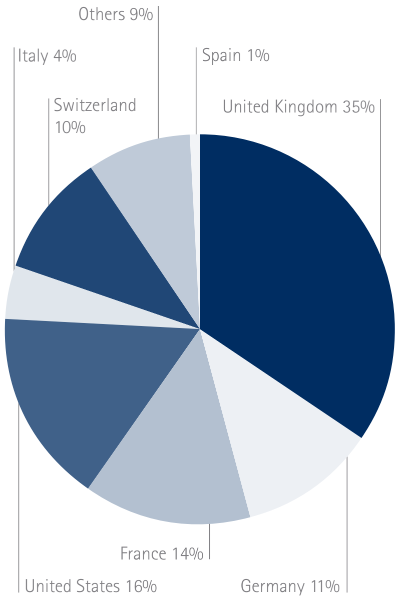



UNDERGROUND

Kepler Equities

Kepler Equities is a leading Continental European equity broker with local presence, providing high quality fundamental research and agency brokerage services to over 800 institutional investors worldwide. The company has its head office in Paris and operations in Amsterdam, Frankfurt, Madrid, Milan and Zurich, as well as a sales office in New York.

Revenue by Country



Originally founded in 1997 as Julius Bär Brokerage, the company was acquired in 2003 by Lightyear Capital, a US private equity investor. In January 2004 it was re-branded as Kepler Equities. Kepler became a part of the Landsbanki Group on 14 November 2005.

Kepler is distinguished by its local corporate contacts and European scale, which allows it to service a wide variety of domestic and international investors. Research is written by local analysts and supplemented by investor conferences and corporate roadshows. Kepler launched an asset management service in August 2005, and has announced its intention to expand into corporate brokering.

Kepler's independent equity research is widely respected. It currently analyses over 470 European companies, representing 85% of the total equity market capitalisation of stock exchanges in France, Italy, Spain, the Netherlands, Germany and Switzerland. Kepler's share in equity trading on these exchanges amounts to nearly 1%. In 2005, the company organised 276 corporate roadshows and 188 client visits to corporates.

Kepler's institutional client base is comprised primarily of pension funds, mutual funds and hedge funds. At year-end 2005, Kepler had 231 employees, 56 of whom were involved in research and 111 in sales and trading.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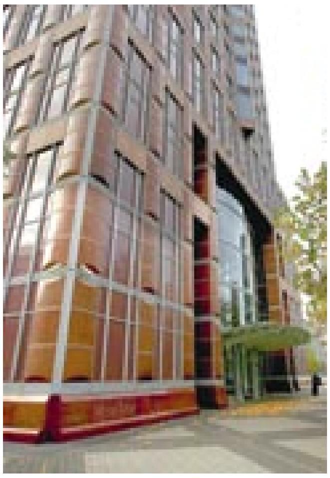
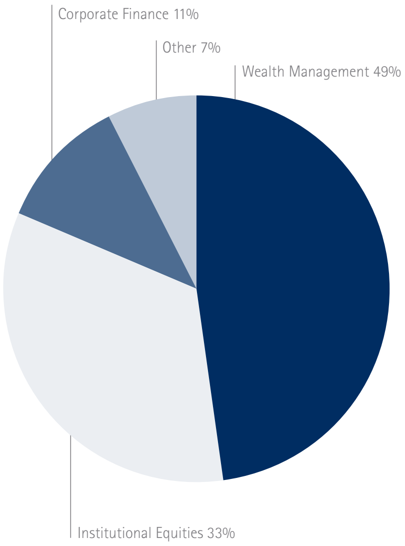


Merrion Capital Group

A leading independent Irish securities house, Merrion Capital Group specialises in stockbroking and corporate finance as well as asset management for high-net-worth individuals.

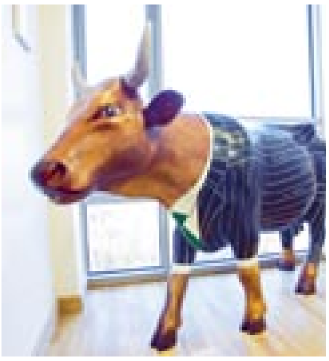
Revenue by Department



Established in 1999, Merrion Capital became part of the Landsbanki Group on 21 December 2005. The company was previously jointly owned by employees (70%) and the US investment bank Allen & Co Inc (30%). Landsbanki has acquired an initial stake of 50% in the company and will attain the remaining 50% over the next three years.

Merrion's institutional equity division provides independent, local research and dealing services in Irish equities for domestic and international investors. Its dynamic research division follows 50 Irish companies, representing 98% of the total equity market capitalisation on the Irish Stock Exchange. Merrion's research is widely recognised for its independence and objectivity and the company has had top-ranked analysts in the last two Finance Magazine surveys, as well as the top-ranked salespersons. Its Corporate Finance team has concluded over 50 transactions valued at close to EUR 12 billion, advising organisations in the public and private sector. In the past four years, it has twice won the award for "Deal of the Year" by Finance Magazine (Ireland). Corporate Finance's most important mandates in 2005 involved advising the eircom ESOP on the acquisition of mobile phone operator Meteor, and advising the state-owned airline, Aer Lingus, on privatisation.

Merrion has a 4-10% market share on the markets where the company operates. Total assets under management were EUR 180 million at year-end 2005. One of the key priorities of the company is to grow its asset management services, which include discretionary portfolios and pension accounts. At year-end 2005, Merrion employed 75 people.



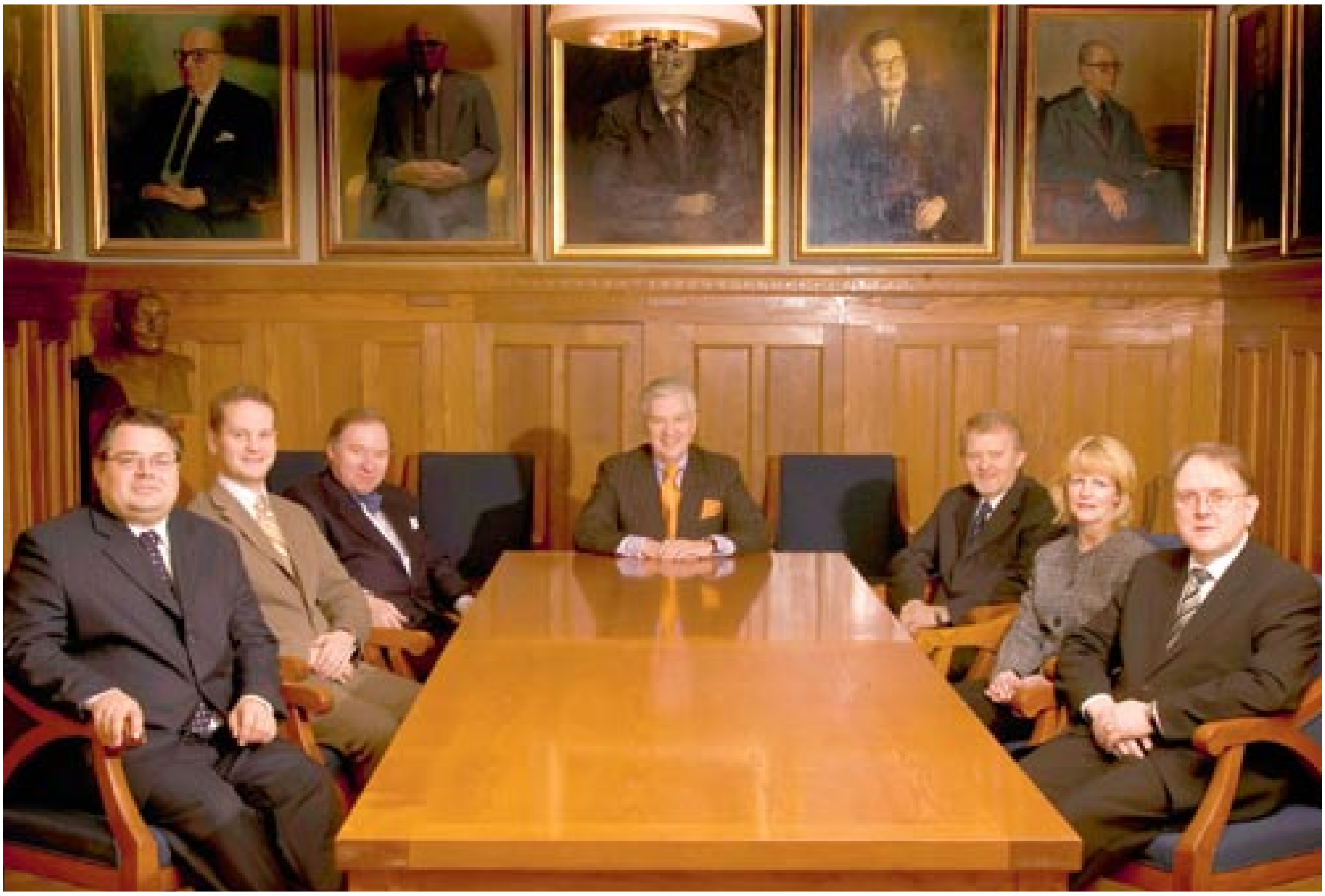
The Board of Directors

Björgólfur Gudmundsson, Chairman of the Board, was born on 2 January 1941 and graduated from the Commercial College of Iceland. He served for many years as CEO of the Icelandic shipping line Hafskip, and subsequently worked with other related companies abroad. Mr Gudmundsson owns just under one-half of shares in Samson eignarhaldsfélagid ehf. and is also the principal owner of Edda Publishing, Iceland's largest book publisher. He was first elected Chairman of the Board of Landsbanki in February 2003 following the purchase by Samson Ltd. of nearly 45% of the Bank's shares from the Icelandic government. Mr Gudmundsson has been a Board member of many commercial enterprises, associations and institutions, both in Iceland and abroad. A strong supporter of culture, sport and youth activities, Mr Gudmundsson was awarded the Order of the Falcon by the President of Iceland for his contribution to business and culture in January 2005.

Kjartan Gunnarsson, Vice Chairman of the Board, born 4 October 1951, graduated from the Faculty of Law of the University of Iceland in 1978 and from the Norwegian Defence College in 1980. He has been Secretary General of the Independence Party since 1980. Mr Gunnarsson was first elected by the Icelandic parliament, Althingi, to sit on Landsbanki's Board of Directors in 1992 when the Bank was state-owned, and he served as Vice-Chairman and later Chairman of the Board until 1997. When Landsbanki became a limited company in September 1997, Mr Gunnarsson was elected Vice-Chairman of the Board. He was Chairman of the Board of the insurance companies Líftryggingafélag Íslands 1997-2003 and Vátryggingarfélag Íslands 1997-2002, and a member of the Board of Landsbanki's subsidiary, Heritable Bank Ltd., in London since March 2003. Mr Gunnarsson currently chairs Landsbanki's Audit Committee.

Andri Sveinsson, born on 21 September 1971, graduated in economics from the University of Iceland in 1996. He has worked in investments and banking since then, first for Skandia in Iceland and then Búnadarbanki Íslands hf. Mr Sveinsson is currently Managing Director of Amber International Ltd., a holding company owned by Björgólfur Thor Björgólfsson. He is also a member of the Board of the pharmaceutical company Actavis. Mr Sveinsson was first elected to the Board of Landsbanki in 2003.

Gudbjörg M. Matthíasdóttir, born 14 March 1952, graduated from the Commercial College of Iceland in 1973 and the Iceland University of Education in 1976. Since 1976, Ms Matthíasdóttir has worked in education in the Westman Islands, where she has also been an active investor in Icelandic business and industry. From 2001, she has been a Director of Ísfelag Vestmannaeyja and Director of TM Insurance since 2003. She was elected to Landsbanki's Board of Directors in 2005.



From left:
Sigurjón Th. Árnason, CEO,
Andri Sveinsson, Kjartan Gunnarsson,
Vice Chairman of the Board,
Björgólfur Gudmundsson, Chairman of the Board, Thorgeir Baldursson,
Gudbjörg Matthíasdóttir,
Halldór J. Kristjánsson, CEO.

Thorgeir Baldursson, born 25 September 1942, graduated from the Commercial College of Iceland in 1960, and subsequently studied at Denmark's Graphic College graduating with an MGK degree in 1965. After serving as director of operations at the printing company Oddi from 1965, he took over as CEO in 1982. He has been a member of the Executive Board of the Confederation of Icelandic Employers since its consolidation in 1999, and on the boards of several Icelandic companies since 1982. Mr Baldursson has served as Chairman of the Board of SP-Fjármögnun since 1995. He was appointed Icelandic honorary consul for Spain in 2000. He was first elected to the Board of Landsbanki in 2003.

Chief Executive Officers

Halldór J. Kristjánsson, CEO, born 13 January 1955, graduated with a law degree from the University of Iceland in 1979 and received an LLM in International Law from New York University in 1981. He studied contractual law at Harvard Law School in 1986. From 1981-1991 he served in the Ministry of Industry, thereof as Director of Legal and International Affairs 1989-1991. Mr Kristjánsson served as Alternate Executive Director at the European Bank for Reconstruction and Development (EBRD) in London from 1991 to 1994. He was Director and later Secretary-General at the Ministry of Trade and Commerce 1994-1998. In 1998 he became CEO of Landsbanki.

Mr Kristjánsson served on numerous committees on behalf of the Ministry of Commerce and Industry 1981-1998, including official committees negotiating the development of aluminium smelters in Iceland and the privatisation of state-owned corporations. He served as Alternate Director on the Board of EBRD 1995-1998 and Alternate Governor of the International Monetary Fund (IMF) 1996-1998. Mr Kristjánsson was Chairman of the Board of Fjárfestingarstofa 1995-1998; a Director of the Confederation of Icelandic Industry 1999-2003; Chairman of the Board of the Association of Commercial Banks in Iceland, 1998-2000 and 2002-2004; a Director of the European Banking Federation 1998-2000 and 2002-2004; a Director of Vátryggingarfélag Íslands hf. and Líftryggingarfélagid 1998-2002; a Director of VISA Iceland 1998-2002 and Chairman of the Board since 2004.

Mr Kristjánsson has been Chairman of the Board of Directors of Heritable Bank in London since 2000 and of Landsbanki Luxembourg since 2003, and a Director of Lex Life & Pension from 2005. In addition, he has been a Director of Landsbanki's subsidiaries Teather & Greenwood, Kepler Equities and Merrion Capital since 2005.

Sigurjón Th. Árnason, CEO, was born on 24 July 1966. He holds a BSc degree in mechanical engineering from the University of Iceland, as well as an MBA in Finance from the University of Minnesota. He studied economic engineering at Technische Universität Berlin 1994-1995. Sigurjón Th. Árnason joined Landsbanki Íslands in April 2003 as its second Group Managing Director and CEO. Prior to joining Landsbanki, he had been Managing Director of Administration and Operations at Búnadarbanki Íslands hf. since 1998. From 1995-1998, he was Senior Manager of Economics and Budgeting at Búnadarbanki, and a part time lecturer at the University of Iceland 1995-1997.

Mr Árnason is Chairman of the Board of Landsbanki's subsidiary Kepler Equities and head of the banks' negotiation committee. He has been a Director of Landsbanki's subsidiaries Heritable Bank (since 2003), Landsbanki Luxembourg (since 2001), Teather & Greenwood (since 2005), Merrion Capital Group (since 2005), and Lex Life and Pension (since 2005). Mr Árnason is a member of the Board of CreditInfo Group hf. (from 2002), SP-Fjármögnun hf. (from 2004), Hömlur hf. (from 2003), Landsafl hf. (from 2003), Intrum Justitia AB (from 2005) and the Icelandic Banks' Data Centre (from 1999).

Managing Directors

Atli Atlason, Managing Director of Human Resources, born 8 October 1966, is a Business Administration graduate of the University of Iceland. Atli Atlason took over as Managing Director of Human Resources in May 2003. Prior to that he was personnel director at Búnadarbanki Íslands from 1999. From 1992 to 1999 he was financial and personnel director of the Directorate of Fisheries.

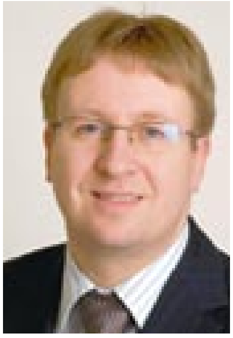
Ársæll Hafsteinsson, born 14 January 1958, is managing director of Landsbanki's Legal Division, Credit Control and Branch Support. A law graduate of the University of Iceland, he was admitted to the bar as a District Court barrister in 1992 and became a certified securities broker in 1999. He began work for Búnadarbanki Íslands in 1988, where he was Director of the Legal Department from 1991 and its chief legal counsel from 2000. Mr Hafsteinsson has served on and is currently a member of the Boards of Directors of various companies, including Creditinfo Group hf., Intrum Iceland, Nomination Committee Intrum Justitia SA, Landsafl, Hömlur hf. and Fjárfestingarfélagid Grettir hf.

Brynjólfur Helgason, Managing Director of International Banking and deputy CEO, was born on 19 August 1951. He holds an MBA from INSEAD in France, and a cand. oecon. degree from the University of Iceland. Mr Helgason has worked for Landsbanki since 1979. He is managing director of International Banking and steers the Bank's international relations, as well as serving as deputy CEO. Mr Helgason has filled a number of positions at Landsbanki: as managing director of Corporate Banking from 1998, managing director of International Relations and Finance from 2002. From 1988 he was managing director responsible for various divisions, and before that managing director of marketing from 1984. He is a Director of Heritable Bank in London and on the Board of the International Chamber of Commerce in Iceland and the British-Icelandic Chamber of Commerce.

S. Elín Sigfúsdóttir, managing director of Corporate Banking, was born on 24 August 1955. A Business Administration graduate from the University of Iceland, she took over as managing director of Corporate Banking in May 2003. Prior to that she worked for Búnadarbanki Íslands hf. for 24 years, ending as managing director of Corporate Banking after having been a director and assistant managing director of the same division and director of Research. She has been a Director of SP Fjármögnun and of the property leasing and the management company Landsafl since 2003. She was a Director of Búnadarbanki Íslands 1998-2003 and of the leasing company Lýsing 2000-2003.

Gudmundur Gudmundsson, managing director of IT, was born on 14 May 1966. He completed an engineering degree at the University of Iceland in 1990, followed by an MSc in industrial engineering from NCSU in the US in 1991. After completing his studies, he worked in the US, then returned to Iceland in 1992 to work as director of purchasing and budgeting for Sláturfélag Sudurlands. In 1996, he commenced work in the Securities Division of Búnadarbanki Íslands, and in 2001 took over as head of Corporate Finance. In 2003, he became managing director of Landsbanki's IT division. Gudmundur Gudmundsson is a member of the co-operation board of the Icelandic Banks' Data Centre, where he is also a Director, and is a Director of the Internet security provider Audkenni hf.

Haukur Thór Haraldsson, CFO and Managing Director of Finance and Operations, was born on 11 August 1960. He holds a cand. oecon. degree in Business Administration from the University of Iceland, supplemented by an MBA from the University of Minnesota. Haukur Thór Haraldsson began working for Landsbanki in 1985. From 1986 onwards, he was head of securities trading and other departments, before being appointed as managing director and CFO in 1997. He is currently on the Boards of Directors of the Bank Employees' Pension Fund and the Depositors' and Investors' Guarantee Fund, a member of the Consultant Committee of the Financial Supervisory Authority, and a Director of the Psychiatric Nursing Home Fellsendi.



Hermann Jónasson, born 31 August 1969, is managing director of Marketing. A law graduate of the University of Iceland, he was called to the bar in 1999 as a District Court barrister and certified as a securities broker in 2002. Mr. Jónasson took over as managing director of Marketing in 2004 after having headed the Bank's Securities and Pension services since 2000. From 1995 to 2000 he worked as legal counsel for the Ministry of Finance, on pensions and other issues especially. He has been managing director of Landsbanki's personal pension savings Íslenski lífeyrissjódurinn since 2003 and is an alternate on the board of VISA Iceland.

Ingólfur Gudmundsson, managing director of Private Banking, was born on 2 March 1957. He graduated with a cand. merc./MBAdegree from Ålborgs Universitet in 1989, and began working for Landsbanki that same year. Mr Gudmundsson took over as managing director of Private Banking in October 2004, after previously serving as managing director of Landsbanki's Personal Banking and Marketing division since October 2003. From 1999 to 2003 he was Regional Manager at Landsbanki's head office.

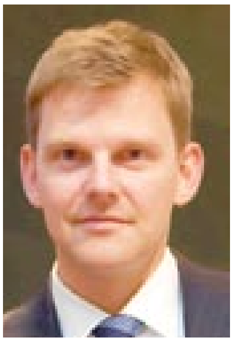
Ingólfur Gudmundsson has been a Director of VISA Iceland since 2000 and of the pension fund Íslenski lífeyrissjódurinn since 1995, where he has been Chairman of the Board since 2000. Since 1998 he has been a Director of the Nordic Marketing Associations and is Chairman of the ÍMARK council, where he served as Director 1998-2003. Since 1999 he has been the representative of the Bankers' and Securities Dealers' Association of Iceland in the Reykjavík Downtown Development Society.

Stefán H. Stefánsson, managing director of Asset Management, was born on 26 December 1971. He holds a degree in Business Administration (cand. oecon.) from the University of Iceland and graduated with an MSc in International Securities, Investment and Banking from the University of Reading in 1996. He began work for Landsbanki that same year. Stefán Stefánsson took over as Managing Director of Asset Management in April 2003. Prior to that he had been managing director of Landsbanki's Development division since 2001, after directing the Bank's financial advisory section in 1998-2001. Mr Stefánsson has been a Director of Landsvaki hf. since 2003 and of the pension fund Íslenski Lífeyrissjódurinn since 2001. He was Chairman of the Board of the Icelandic Software Fund 2000-2003 and of the telecom company Íslandssími 2002-2003, where he was a Director since 2001. He has served as Landsbanki's representative on numerous other Boards.

Yngvi Örn Kristinsson, born 16 October 1956, managing director of Securities and Treasury, studied economics and mathematics in Gothenburg, Sweden, graduated with a BA Econ degree from the University of Essex in 1979 and then completed an MSc Econ degree at the London School of Economics in 1980. On completing his studies, he commenced work in the Department of Economics of the Central Bank of Iceland, where he was appointed director in 1987 and subsequently managing director of the Central Bank's monetary policy division in 1994. In 2000, he became CEO of Bunadarbanki International in Luxembourg and in 2001 managing director of the Securities division of Búnadarbanki Íslands. Yngvi Örn Kristinsson joined Landsbanki as managing director of Securities and Treasury in 2003. Yngvi Örn Kristinsson has sat on various committees in economic, housing and monetary affairs, served on the boards of various companies and associations, including the Board of the Icelandic Banks' Data Centre, and was Chairman of the Board of the Union of Icelandic Bank Employees and the State Housing Fund. He is currently a member of the Board of the Iceland Stock Exchange (ICEX) and the Icelandic Securities Depository. For many years he was an IMF special advisor, working in Jordan, Malawi, Trinidad and Turkmenistan, for instance.

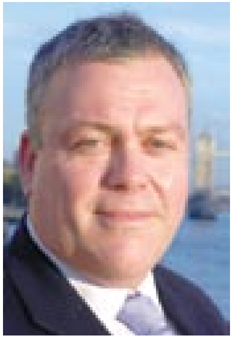
Managing directors of Landsbanki's subsidiaries

Lárus Welding, general manager of Landsbanki's London Branch, was born on 11 December 1976. He holds a degree in Business Administration from the University of Iceland. He is a certified securities broker and a graduate in Corporate Finance from the UK Securities Institute. Mr. Welding began work for Landsbanki in 2003 as the director of a syndicated loan team and was appointed manager of Landsbanki London Branch in 2005. He previously worked for the accounting firm Endurskodunarstofa JHR 1997-1999, for the Central Bank of Iceland in 1998 and for the Icelandic investment bank FBA, which later merged with Íslandsbanki, since 1999.



Gunnar Thoroddsen, managing director of Landsbanki Luxembourg, was born on 30 October 1969. He holds a law degree from the University of Iceland (1994) and an MBA from Reykjavík University (2002). He is a District Court barrister in Iceland and graduate of Duke University School of Law with an LLM degree (1998). Prior to becoming Managing Director of Landsbanki Luxembourg in 2004, Mr Thoroddsen had been director of Debt Recovery and Managing Director of Hömlur hf., a Landsbanki subsidiary 2003-2004.

Mark Sismey-Durrant, CEO of Heritable Bank holds a BSc (Hons) in Banking and Finance and an M Phil in International Banking from Loughborough University of Science and Technology. He has headed Heritable Bank in London since 2002, prior to which he was CEO of Sun Bank Plc after holding senior management positions with Sun Life Financial of Canada and HSBC in the UK. Besides serving as Chairman of the Board of Key Business Finance, a Heritable subsidiary acquired in 2005, he is a BBA Council Member, Chairman of the British Bankers' Association Small Bank Advisory Panel and a fellow of the Chartered Institute of Bankers.



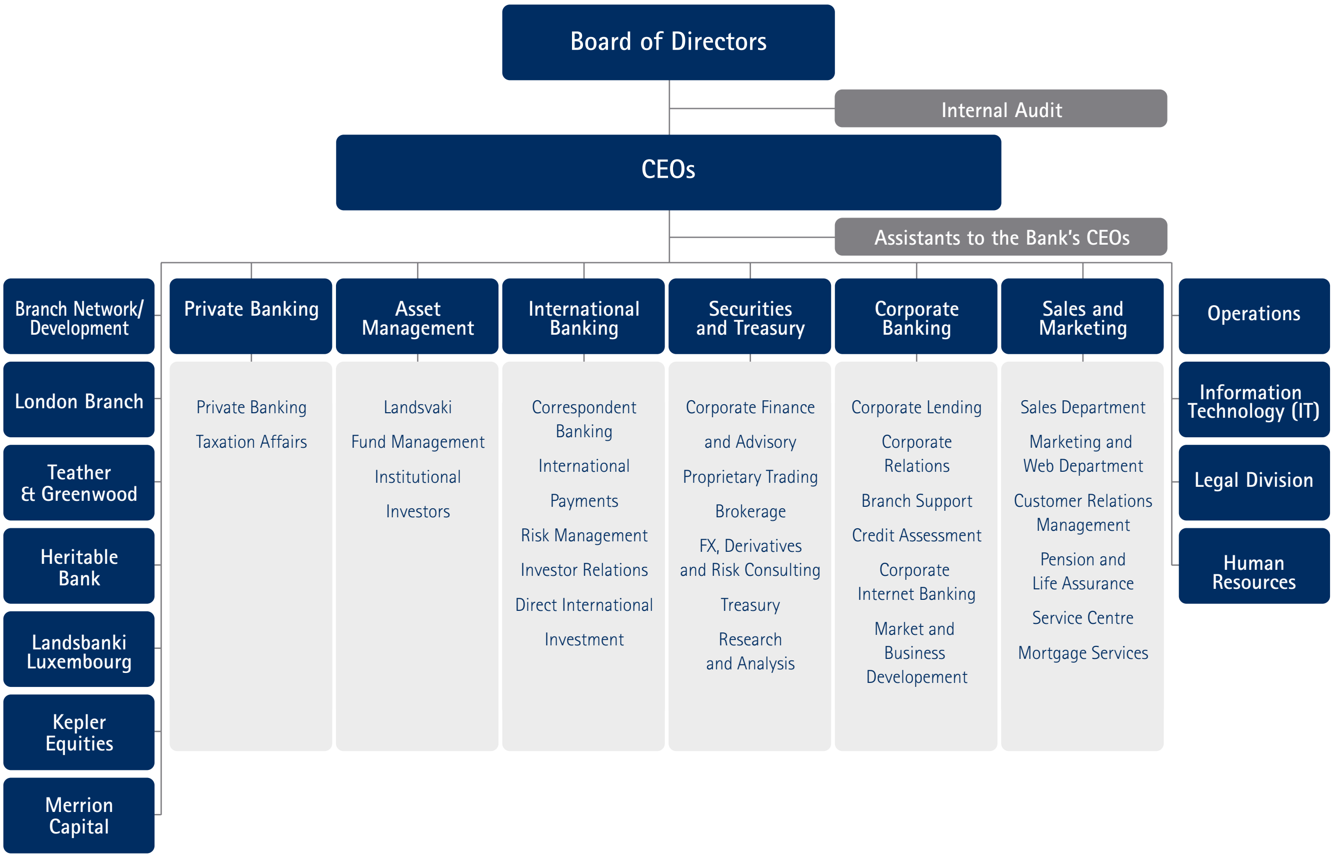
Nick Stagg, CEO of Teather & Greenwood, graduated with a BA degree in physics from University College London in 1981 and qualified as a chartered accountant in 1984 with KPMG, Nick Stagg worked in financial management for various firms including Lambert Smith Hampton Plc, a UK property management company, and WS Atkins Plc, which took over the former company in 1999. Prior to that he worked for B&C Properties Ltd. and London Shop Plc. 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.

Laurent Quirin, CEO of Kepler Equities, graduated with a degree in economics from the European Business School in 1986. He was one of the founders of Julius Bäer France in 1997 and served as a managing director. Prior to joining Julius Baer Brokerage, he was a Director of Dynabourse International, the French brokerage arm of Crédit Agricole Group. Here he began his career 14 years ago as equity salesman before assuming the role of Head of Equities. Laurent Quirin is on the Boards of various subsidiaries of Kepler Securities.

John Conroy, CEO of Merrion Capital Group, graduated in civil engineering from University College Dublin in 1981 and later took an MBA at Trinity College Dublin in 1986. A founding shareholder and CEO of Merrion Capital Group, John Conroy 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, and of the software group IONA Technologies.

Kjartan Gunnarsson, Managing Director of SP Fjármögnun, was born in 1957. He graduated in Business Administration from the University of Iceland in 1983 and took over as Managing Director of SP Fjármögnun in 1995. Prior to that he was employed by the investment company Fjárfestingarfélag Íslands 1985-1987 and served as Managing Director of Féfang from 1987 until moving to SP Fjármögnun.

Organisational Chart



Consolidated Financial Statements 2005

Consolidated Key Figures

Operations	2005	2004	2003	2002	2001
Interest revenues	66,437	34,252	21,871	21,813	27,909
Interest expenses	43,441	19,517	12,540	14,082	19,136
Net interest revenues	22,996	14,734	9,331	7,732	8,772
Fee and commission income	18,479	10,234	6,959	4,745	4,197
Fee and commission expenses	1,754	1,344	843	669	575
Net fee and commission income	16,726	8,891	6,116	4,076	3,622
Other operating revenues	21,257	9,842	3,535	2,109	(143)
Operating revenues	60,978	33,467	18,982	13,916	12,251
Salaries and related expenses	12,682	7,794	5,656	4,387	4,184
Administrative expenses	8,284	6,667	5,158	4,117	3,924
Operating expenses	20,967	14,460	10,815	8,505	8,108
Impairment on loans and advances and assets held for sale	6,197	4,485	4,656	2,863	2,298
Profit before impairment on goodwill and income tax	33,815	14,521	3,512	2,549	1,846
Impairment on goodwill	3,033	0	0	0	0
Income tax	5,764	1,798	457	475	(9)
Net profit	25,017	12,723	3,055	2,074	1,855
Attributable to:					
Shareholders of Landsbanki Íslands hf.	24,740	12,574	2,956	2,028	1,749
Minority interests	277	149	99	45	107

Balance Sheet					
Cash and cash balances with Central Bank	16,611	18,237	48,772	18,893	22,023
Loans and advances	1,071,513	614,274	326,400	214,787	199,083
Trading assets	218,894	64,730	63,744	36,337	39,939
Other assets	98,443	39,900	9,323	7,808	7,881
Total assets	1,405,460	737,141	448,239	277,824	268,926
Deposits	478,759	279,206	196,160	138,971	129,157
Funding	689,989	375,084	209,357	108,479	111,639
Subordinated loans	49,074	22,570	13,090	8,216	8,527
Other items	74,022	21,572	6,389	5,057	3,131
Equity	110,059	37,705	22,382	16,309	15,505
Minority interests	3,557	1,004	862	792	967
Total liabilities and equity	1,405,460	737,141	448,239	277,824	268,926

Key ratios	2005	2004	2003	2002	2001
Return on equity before impairment on goodwill and taxes	61.8%	57.2%	20.9%	17.0%	13.9%
Return on equity after taxes	45.8%	49.5%	17.6%	13.5%	13.1%
Tier 1 ratio	11.9%	7.8%	6.9%	7.7%	7.5%
Equity ratio	13.1%	10.4%	9.9%	10.6%	10.4%
Cost-income ratio	34.4%	43.2%	57.0%	61.1%	66.2%
Operating expenses as a ratio of average capital position	2.0%	2.5%	3.0%	3.1%	3.2%
Interest spread as a ratio of average capital position	2.2%	2.6%	2.6%	2.8%	3.5%
Ratio of provision to lending position at year-end	0.58%	0.73%	1.47%	1.33%	1.17%
Share price at year-end	25.30	12.10	5.80	3.65	3.39
Share price increase adjusted for dividend payments	110.7%	110.3%	61.6%	10.6%	0.1%
Number of positions at year-end	1,725	1,121	1,025	986	997

Consolidated Key Figures

Operations	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1
Interest revenues	21,073	18,594	14,309	12,461	10,879	8,172	8,534	6,668
Interest expenses	13,818	12,272	9,180	8,172	6,268	4,273	5,264	3,712
Net interest revenues	7,255	6,322	5,129	4,289	4,611	3,898	3,269	2,956
Fee and commission income	5,359	4,775	4,864	3,481	3,191	2,509	2,080	2,455
Fee and commission expenses	598	392	403	361	382	365	301	296
Net fee and commission income	4,761	4,383	4,461	3,120	2,809	2,144	1,779	2,159
Dividend income	191	161	616	105	11	1	98	343
Net gain on financial assets and liabilities held for trading	5,503	3,550	(163)	1,978	(41)	1,794	806	1,557
Net gain on financial assets designated at FV through P/L	1,205	1,167	1,003	2,490	(2,220)	4,693	200	2,245
Fair value adjustments in hedge accounting	(361)	232	(81)	216	0	0	0	0
Foreign exchange gain	92	359	(161)	97	122	111	59	72
Share of profit of associates	643	505	275	484	(79)	41	17	13
Net gain of disposal groups held for sale	63	270	817	0	0	0	0	0
Other operating revenues	7,337	6,243	2,307	5,370	(2,207)	6,639	1,179	4,231
Operating revenues	19,352	16,949	11,898	12,779	5,213	12,682	6,227	9,346
Salaries and related expenses	4,136	3,077	3,114	2,355	2,112	2,304	1,735	1,643
Administrative expenses	2,933	1,905	1,764	1,683	1,749	1,963	1,342	1,612
Operating expenses	7,069	4,982	4,879	4,037	3,862	4,267	3,076	3,255
Impairment on loans and advances and assets held for sale	1,805	1,687	1,359	1,345	1,223	1,293	978	991
Profit before impairment on goodwill and income tax	10,479	10,280	5,660	7,396	128	7,121	2,172	5,100
Impairment on goodwill	(259)	3,293	0	0	0	0	0	0
Income tax	1,929	1,882	602	1,351	(829)	1,333	361	934
Net profit	8,809	5,105	5,058	6,045	957	5,788	1,812	4,167
Attributable to:								
Shareholders of Landsbanki Íslands hf.	8,734	4,995	5,000	6,011	905	5,746	1,785	4,139
Minority interests	75	110	58	34	53	42	27	27

Balance Sheet	31.12.2005	30.9.2005	30.6.2005	31.3.2005	31.12.2004	30.9.2004	30.6.2004	31.3.2004
Cash and cash balances with Central Bank	16,611	8,134	8,211	14,136	18,237	84,977	53,260	57,461
Loans and advances	1,071,513	891,668	828,342	687,883	614,274	487,076	431,822	384,596
Trading assets	218,894	156,243	119,208	82,630	64,730	57,358	63,490	59,312
Other assets	98,443	86,212	66,311	65,993	39,900	9,002	9,920	9,639
Total assets	1,405,460	1,142,258	1,022,072	850,642	737,141	638,413	558,493	511,008
Deposits	478,759	413,988	355,410	298,063	279,206	277,172	240,095	211,689
Funding	689,989	531,417	521,870	417,947	375,084	287,944	262,663	245,105
Subordinated loans	49,074	47,224	49,394	49,327	22,570	23,416	14,897	15,333
Other items	74,022	48,804	34,378	30,241	21,572	11,027	7,685	7,697
Equity	110,059	98,749	58,954	53,988	37,705	37,916	32,256	30,314
Minority interests	3,557	2,076	2,066	1,076	1,004	939	897	870
Total liabilities and equity	1,405,460	1,142,258	1,022,072	850,642	737,141	638,413	558,493	511,008

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

The Consolidated Financial Statements for the year 2005 comprise the Consolidated Financial Statements of the Landsbanki Íslands hf. and its subsidiaries. The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The effect on shareholder's equity as a result from adoption of IFRS is a decrease of ISK 311 million. Further disclosures of the effect of IFRS transition are in the notes.

In February Landsbanki made an offer for Teather & Greenwood Holdings plc and had bought a 100% share in the company in May. In August, a merger schedule was approved, merging part of Burðarás hf. with Landsbanki, and concluding in September. An agreement reached in September provides for the Bank's acquisition of holding companies owning 84% of Kepler Equities SA, and concluding in November. Landsbanki reached an agreement to acquire a 50% share of Merrion Capital Group Ltd. in Ireland. The transaction was completed in December.

In March 2005 the nominal share capital was increased by ISK 800 million The share price in the Issue was 14.25. In September this year, the Bank issued additional shares of ISK 2,121 million nominal value, used to pay shareholders in Burðarás hf. for their holdings at a conversion rate of 19.00. Total issued nominal share capital is ISK 11,021 million at year-end 2005.

At year-end the Bank's shareholders numbered 29,675 as compared to 14,675 at the beginning of the year. Samson eignarhaldsfélag ehf. is the only shareholder with a stake over 10%, namely a 40.17% stake.

The Bank's after-tax profit in 2005 was ISK 25,017 million. The equity of the Landsbanki Group was ISK 110,059 million at year-end and the Group's capital ratio, calculated in accordance with the relevant Icelandic legislation, was 13.1%. As of 31 December 2005, the Bank's total assets were ISK 1,405,460 million.

At the Bank's AGM, the Board of Directors will move that shareholders be paid a dividend of 30%, equivalent to ISK 3,306 million and that the remaining profit be disposed of as indicated in the summary of changes in equity in the annual financial statement.

The Board of Directors and Chief Executive Officers hereby endorse the Consolidated Financial Statements of Landsbanki Íslands hf. for 2005.

Reykjavík, 27 January 2006

Board of Directors

Björgólfur Guðmundsson

Kjartan Gunnarsson

Andri Sveinsson

Guðbjörg Matthíasdóttir

Þorgeir Baldursson

Group Managing Directors and Chief Executive Officers

Halldór J. Kristjánsson

Sigurjón Þ. Árnason

Auditor´s Review Report

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

We have audited the accompanying consolidated balance sheet of Landsbanki Íslands hf. (the bank) and its subsidiaries (the Group) as of 31 December 2005 and the related consolidated statements of income, cash flows and changes in sharholder's equity for the year then ended. These financial statements are the responsibility of the Banks´s management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes, based on our assessment of materiality and risk, an analytical review and an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 2005 and of the results of its operations and its cash flows for the year then ended, in accordance with law and International Financial Reporting Standards as adopted by the EU.

Reykjavík, 27. janúar 2006

PricewaterhouseCoopers hf.

Hjalti Schiöth

Vignir Rafn Gíslason

Consolidated Income Statement for the year 2005

Notes		2005	2004
	Interest revenues	66,437	34,252
	Interest expenses	43,441	19,517
8	Net interest revenues	22,996	14,734
	Fee and commission income	18,479	10,234
	Fee and commission expense	1,754	1,344
9	Net fee and commission income	16,726	8,891
10,11	Dividend income	1,073	453
11	Net gain on financial assets and financial liabilities held for trading	10,868	4,116
11,12	Net gain on financial assets designated at fair value through profit and loss	5,866	4,918
11	Fair value adjustments in hedge accounting	6	0
11	Foreign exchange difference	387	364
11,22	Share of profit of associates	1,907	(8)
11	Net gain of disposal groups held for sale	1,150	0
	Other operating revenues	21,257	9,842
	Net operating revenues	60,978	33,467
13	Salaries and related expenses	12,682	7,794
	Administrative expenses	8,284	6,667
	Operating expenses	20,967	14,460
14	Impairment on loans and advances and assets held for sale	6,197	4,485
	Profit before impairment on goodwill and income tax	33,815	14,521
24	Impairment on goodwill	3,033	0
15	Income tax	5,764	1,798
	Net profit	25,017	12,723
	Attributable to:		
	Shareholders of Landsbanki Íslands hf.	24,740	12,574
	Minority interest	277	149
16	Earnings Per Share:		
	Earnings Per Share	2.74	1.61
	Diluted earnings per share	2.61	1.55

Consolidated Balance Sheet as at 31 December 2005

Notes		2005	1.1.2005
	Assets		
	Cash and cash balances with Central Bank	16,611	18,237
17	Loans and advances	1,071,513	614,274
18,19	Trading assets	218,894	64,730
20	Financial assets designated at fair value through profit and loss	34,483	12,817
21	Derivatives held for hedging	4,689	4,930
22	Investments in Associates	4,456	3,792
23	Property and equipment	4,260	4,146
24	Intangible assets	10,461	1,585
25	Non-current assets and disposal groups classified as held for sale	16,459	9,962
26	Other assets	23,636	2,668
	Total assets	1,405,460	737,141
	Liabilities		
27	Deposits from credit institutions	144,596	61,236
28	Deposits from customers	334,163	217,970
29	Borrowing	689,989	375,084
30	Subordinated loans	49,074	22,570
19	Trading liabilities	26,504	8,077
21	Derivatives held for hedging	4,086	1,582
31	Tax liabilities	7,289	1,674
	Liabilities included in disposal groups classified as held for sale	4,475	4,204
	Unsettled payments	20,428	0
	Other liabilities	11,240	6,035
	Total liabilities	1,291,844	698,432
	Equity		
	Share Capital	10,614	7,954
	Share Premium	52,277	7,557
	Reserves	1,790	(20)
	Retained earnings	45,377	22,214
		110,059	37,705
	Minority interest	3,557	1,004
32	Total equity	113,617	38,709
	Total liabilities and Equity	1,405,460	737,141

33-40 Other information

Consolidated Equity Statement

	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 2004	7,500	4,355	268			10,259		22,382
Changes due to conversion to IFRS							862	862
Equity 1 January 2004 - adjusted	7,500	4,355	268	0	0	10,259	862	23,244
Capital increase	475	3,171						3,646
Dividends paid						(721)	0	(721)
Translation diffrences				(20)				(20)
Changes in minority intrest							(7)	(7)
Net profit 2004						12,574	149	12,723
Equity 31 December 2004	7,975	7,526	268	(20)	0	22,112	1,004	38,865
Changes due to conversion to IFRS	(21)	(237)				103	0	(156)
Equity 1 January 2005	7,954	7,288	268	(20)	0	22,214	1,004	38,709
Capital increase	800	10,600						11,400
Merger with Burðarás	2,121	38,172						40,293
Purchases and sales of treasury shares	(260)	(4,052)						(4,312)
Dividends paid						(1,577)		(1,577)
Translation differences				(53)				(53)
Fair value adjustment of investment properties, included in disposal groups					1,864		870	2,734
Changes in minority intrest							1,406	1,406
Net profit 2005						24,740	277	25,017
Equity 31 December 2005	10,614	52,009	268	(73)	1,864	45,377	3,557	113,617

Additional disclosures:

According to the Bank´s Articles of Association, total share capital amounts to ISK 11.021 millions. At year- end 2005 own shares amounted to ISK 407 millions and share capital in the Balance sheet thus amounted to ISK 10.614 millions. One vote is attached to each share. The Board of Directors have proposed to the 2006 Annual General Meeting that a dividend of 30% of the share capital amounted.

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Cash flow statement for the year 2005

	2005	2004
Net profit	24,740	12,574
Reconciliation of operating profit to net cash flow from operating activities:		
Provisions for credit losses	6,197	4,485
Changes in Tax liabilities	3,486	97
Depreciation og property and equipment	713	1,706
Translation differences in susidiaries	(53)	0
Change in other none cash items	(64,299)	(7,998)
Cash flows from operating profits before changes in operating assets and liabilities	(29,217)	10,864
– net decrease/(increase) in loans and advances	(4,678)	(39,203)
– net increase in loans and advances to customers	(415,215)	(255,249)
– net change in trading assets:		
– net change in trading bonds	(78,794)	20,668
– net increase in trading securities	(64,070)	(21,867)
– net increase in bought and sold derivatives	(3,985)	12,335
– net change in derivatives held for hedging - assetes/Liabilities	1,297	482
– net change in non current assets and disposal groups classified as held for sale	1,260	0
– net (increase)/decrease in other assets	(19,558)	195
– net increase in deposits from other banks	83,458	21,351
– net increase in amounts due to customers	113,478	67,568
– net increase in trading liabilities and other liabilities	42,450	3,255
Cash flow from operating activities	(373,575)	(179,601)
Purchase of property and equipment	(2,376)	(1,702)
Proceeds from sale of property and equipment	1,642	116
Financial assets designated at fair value through porfit and loss	(21,589)	(12,700)
Change in Intangible assets	(8,058)	150
Change in subsidiaries	(5,909)	(2,539)
Cash flow used by investing activities	(36,290)	(16,675)
Repayments and proceeds from borrowed funds and debt securitieshange in funding	339,613	185,901
Repayments and proceeds from subordinated loans	30,235	10,711
Dividends paid	(1,577)	(722)
Change in own stock	44,721	(914)
Increased share capital	2,661	4,560
Cash flow provided by financing activities	415,652	199,536
Increase in cash	5,787	3,261
Cash at beginning of year	25,630	22,369
Cash at year-end	31,417	25,630

1 General information

Landsbanki Íslands hf. (the Group) is a universal bank, providing retail, corporate and investment banking services. The Group operates subsidiaries in five countries and has 1,725 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 Bank was established in 1885 and remained state-owned until 1998 when the State decided to privatise the Bank through a public offering. Today, the Bank's shares are listed on the Main List of the Iceland Stock Exchange (ICEX).

These consolidated financial statements were approved for issue by the Board of Directors on 27 January 2006.

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

The consolidated financial statements of Landsbanki Group 2005 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. They are covered by IFRS 1, International Financial Reporting Standards, First-time Adoption of IFRS, because they are the Group's first IFRS financial statements.

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

Standards:

- IFRS 7: Financial Instruments: Disclosures

Amendments:

- Amendments to IAS 39 and IFRS 4: Financial guarantee Contracts
- Amendments to IAS 21: The effects of Changes in Foreign Exchange Rates

IFRS 7, Financial Instruments: Disclosures, and a complementary Amendment to IAS 1, Presentation of Financial Statements - Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1.

The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant to the Group's operations, as the Group does not have any intragroup transactions that would qualify as a hedged item in the consolidate financial statements as of 31 December 2005 and 2004.

IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning 1 January 2006.

IAS 21 (amendment) The Effects of Changes in Foreign Exchange Rates—Net Investment in a Foreign Operation. This amendment requires to define translation difference as defined to in IAS 21 to be reclassified to seperate component of the equity. The group apply this amendment from annual period beginning 1 January 2006.

The accounting policies prescribed by IFRS and followed in preparing the consolidated financial statements have been consistently applied retroactively to the comparison period of 2004, except where the Group has made use of special exemptions available under IFRS 1. The most important exemption which has been used is in connection with classification and measurement of financial instruments as provided for in standards 32 and 39 (IAS 32 and IAS 39). The Group adopt these standards from 1 January 2005 and will not apply them retroactively.

Until 31 December 2004, the Group's consolidated financial statements were prepared in accordance with Generally Accepted Accounting Principles for financial institutions in Iceland (GAAP). The former accounting policies differ in some aspects from IFRS. The comparative figures for 2004 were restated to accord with the latter, except where otherwise expressly stated.

Reconciliations and descriptions of the effect of the transition to IFRS on the Group's equity and its net income and cash flows are provided in Note 40.

These consolidated financial statements have been prepared under the historical cost convention, having regard to 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. Accounting assumptions and estimates of major significance are disclosed in particular in Note 3.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power generally accompanying a shareholding of more than one-half of the voting rights to govern financial and operating policies. 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 Bank's subsidiaries were comprised of the following:

Landsbanki Holdings (UK) plc.	100%
- Heritable Bank Ltd. (UK)	100%
- Teather & Greenwood Holdings plc. (UK)	100%
Landsbanki Holdings (Europe) plc. (Luxembourg)	100%
- Landsbanki Luxembourg S.A. (Luxembourg)	100%
- Kepler Equities S.A. (France)	84%
Landsvaki hf.	100%
Merrion Capital Group Ltd. (Ireland)	50%
Landsbankinn eignarhaldsfélag ehf.	100%
LI Asset Management (UK)	100%
Landsbankinn - Fjárfesting hf.	100%
Landsbankinn fasteignafélag ehf.	100%
LI Investments Ltd. (UK)	100%
Hömlur hf.	100%
Stofnlánadeild Samvinnufélaga	100%
Verðbréfun hf.	100%
SP – Fjármögnun hf.	51%

The purchase method is used to account for the investment in subsidiaries by the Group. The acquisition price is measured as the fair value of its stated assets, 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 values 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) Associates

Associates are all entities over 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 of reserves is recognised in reserves under 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.

Investments in associates held for the purpose of investment banking and restructuring are accounted as Financial asset designated at fair value through profit and loss.

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 specific economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates of the date of the transaction. 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 in the income statement, are reported as part of these income statement movements.

(c) Group companies

The results and financial position of Group companies 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;
(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 company is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

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 current 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 on the income statement. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

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 hedge). 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.

(a) Fair value hedge

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.

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. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

(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 on net investments 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 on the balance sheet 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 are recognised in the income statement using the effective interest method for all instruments measured at amortised cost.

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 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 generally 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 at the rate of interest used to discount the impairment loss. Interest income on financial assets which have been written down as a result of impairment is calculated based on the net amount of the financial asset taking the write-down into consideration.

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. Commission and fees arising from negotiating, or 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 Financial assets

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

(a) Trading assets

A financial asset is classified in this category if it is primarily held for the purpose of selling in the short term. Derivatives are also classified as trading assets unless designated as hedges.

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

According to IAS 39, management may classify financial assets in this category when initially recognised. Such financial assets are reported on the balance sheet at current fair value and changes recognised in the income statement. The classification of financial assets placed in this category cannot be changed after their original classification.

(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 the receivable.

Purchases and sales of trading assets and 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. All financial assets are initially recorded at fair value plus transaction costs. Transaction costs are, however, not included in the initial cost of trading assets and financial assets designated at fair value through profit or loss. Financial assets are derecognised when they have been transferred to another party, for instance when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership

Financial assets designated at fair value through profit or loss and trading assets are subsequently carried at fair value. Loans and receivables are carried at cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value on the income statement and traiding assets are included 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 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.

2.9 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.

2.10 Sale and repurchase agreements

Repurchase agreements (repos) are financial instruments providing for the sale of securities under agreement to repurchase the same securities at a predetermined price. 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.

2.11 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 if, and 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 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;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) 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 national or local 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 receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount 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 a loan at variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For impairment calculation of the present value of the estimated future cash flows of a collateralised financial asset, regard is had for estimated sale or redemption value of the collateral less costs for obtaining and selling the collateral. Such calculation is made on the basis of objective assessment of loss, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans and advances 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). Such classification, based on credit risk, gives a good indication of the impairment of a group of assets.

Future cash flows in a group of loans 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 losses.

When a loan is uncollectible, it is fully 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 provided for in the Group's rules, and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If 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.

2.12 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 on the date of acquisition. Goodwill related to a merger and 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. Impairment of goodwill, based on impairment test procedures of IAS 36, is expensed in the income statement.

(b) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and take into service the specific software. These costs are amortised on the basis of their expected useful lives (five years).

The Group assess at each reporting date whether there is any indication that an software asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Costs associated with developing or maintaining computer software programs are recognised when the expense is incurred.

2.13 Property, plant and equipment (PPE)

Land and buildings consist of mainly the Bank's branches and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost of PPE 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 the cost of the item 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 other assets 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 equipment	3-5 years,
Other chattels	3-10 years.

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

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may be lower than the estimated recoverable value. The recoverable amount is the higher of the asset's fair value less costs to sell or its value in use. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

2.14 Non-current assets and disposal group classified as held for sale

Non-current assets held for sale are the Group's appropriated assets which are in the process of being sold. This item includes also a disposal group which is held for sale. Liabilities connected with the disposal group are recognised as a special liability on the balance sheet. The presentation and measurement of these assets and liabilities are based on IFRS 5, Non-current assets held for sale and discontinued operations. Items included under non-current assets held for sale are recognised at the lower of carrying amount or fair value less cost to sell, taken into account the measurement requirement exception in IFRS 5.

2.15 Leases

(a) A Group company is the lessee

The leases entered into by the Group are primarily operating leases, including house rental agreements. The total 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, the total amount of the entire leasing contract until the end of the period is expensed.

(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. The difference between the gross receivable and the present value of the receivable is recognised as income due. Lease income is recognised over the term of the lease using a method which reflects a constant periodic rate of return.

2.16 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents are defined as cash and non-restricted balances with the Central Bank, amounts due from other banks and treasury bills.

2.17 Provisions

Provisions for restructuring cost and disputes are recognised in the consolidated financial statements when it is more likely than not that an outflow of Group resources will be required to settle the obligation and the amount can be reliably estimate.

2.18 Share-based compensation

The Group has entered in to 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. The stock options were granted after 7 November 2002 and cost related to the agreements is expensed during the vesting period based on the related terms. The agreements are both equity and cash settled and the expenses recognised in the income statement.

2.19 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 original recognition of an asset or liability in a transaction other than a merger of companies, which 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 and depreciation of property, plant and equipment. 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.

Income tax payable on profits, based on the applicable tax law in each jurisdiction, is recognised as an expense in the period in which profits arise. The tax effects of income 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.

2.20 Borrowings

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

2.21 Subordinated loans

The Group has borrowed funds by issuing bonds on subordinated terms. The bonds have the characteristics of equity in being subordinated to other liabilities of the Group. In the calculation of the capital ratio, the bonds are included with equity, as shown in note 32. The loans are entered as liabilities with accrued interest and indexation.

2.22 Trading liabilities

Trading liabilities primarily consist of derivatives with negative fair values and delivery obligations for short sales of securities. Trading liabilities are measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value of trading liabilities are reported as Net gain on financial assets and liabilities held for trading. Interest and dividend expense on trading liabilities are included in Net interest income.

2.23 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 Bank's shareholders meeting.

(c) Treasury shares

Where the Bank, or other member of the consolidated Group, purchases the Bank'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.

2.24 Fiduciary activities

The Group acts as 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 do not belong to the Group.

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 estimated 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.

(c) Securitisations and special purpose entities (SPEs)

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation, and for buying or selling credit protection. The Group does not consolidate SPEs that it does not control. Where it is difficult to determine whether the Group does control an SPE, it makes an objective assessment about its exposure to risk and reward, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear conclusion. In such cases, the SPE is consolidated.

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. Risk is managed to ensure that it remains within the limits adopted by the Group for its operations and complies with regulatory requirements. Landsbanki follows a policy dealing with different types of risks in combination, to ensure that fluctuations resulting from unexpected events, affecting both the Group's equity and its performance, will be both limited and manageable.

The Board of Directors is responsible for the Group's basic 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 normal operations and manage its risk through committees. Furthermore, managing directors are responsible to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the Bank's policy.

The Bank has four standing committees: the Asset and Liability Committee (ALCO), the Asset Management Committee, the Credit Committee and the Operations Committee. 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 Compensation Committee, preparing examination by the Board of specific areas of operation and investigating in more detail matters related to them.

The compliance officer ensures that the Bank's rules on securities trading and insider trading are followed, and that Group operations comply with the Act on Securities Transactions, 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 compliance officer supervises their work and reports to the Board of Directors. Since Landsbanki's internal auditing is carried out on a Group basis, the director of Internal Audit for the parent company audits all Group companies. Internal auditing is an essential aspect of the Bank'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 can bear fixed or variable rates of interest, for a longer or shorter term. It is essential for the Group to control its investments closely, in order to maintain a balance in interest rates and maturities of assets and liabilities. The Landsbanki 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 endeavours to achieve an acceptable interest rate margin. This risk is not limited to interest bearing assets on the Bank's balance sheet but also includes guarantees and other financial instruments.

By taking positions and trading in listed and unlisted financial instruments, Landsbanki 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 risk is also partly hedged 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 through interest rate swaps and currency interest rate swaps.

4.1.1 Hedge accounting

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 interest rate assets and liabilities in both ISK and foreign currencies. The net fair value of these swaps as of 31 December 2005 was 1.965 ISK.

(b) Net investment hedge

The Group balances currency risk deriving from net investment in activities abroad against foreign currency borrowing. Loans amounting to ISK 11,648 (2004: ISK 6,535) were recognised as hedges, resulting in exchange rate profit in 2005 of ISK 359 (2004: ISK 411 recognised in equity against exchange rate loss from investments in subsidiaries. No amounts were entered against equity during the year (2004: 0) as no foreign operations were disposed of.

4.1.2 Counterparty Risk

Counterparty risk is the Group's greatest single risk factor. Counterparty risk is the risk that a borrower or counterparty in a transaction will be unable to meet its financial obligations. The Group manages this risk by setting limits for acceptable risk for individual borrowers or groups of borrowers, specific regions or industrial sectors. Such risk factors are under constant surveillance and are reviewed regularly. Counterparty risk is also managed through regular assessments of clients' credit ratings, modifications of lending authorisations or acquiring better collateral to secure clients' commitments.

The Board of Directors sets detailed lending rules, including maximum obligations for individual clients and related parties. The purpose of these rules is to limit the maximum risk of the Group. They cover clients' total exposures, so that the indirect risk to the Group through its clients is added to the direct claims of the Bank and its subsidiaries. Financial instruments issued by a client, which are used to guarantee other obligations of third parties not financially connected, are also added to the direct claims. According to the Bank's internal rules, the maximum total exposures through an individual customer or financially connected parties may not exceed 20% of the Group's equity.

Clients classified in the best risk classes according to the Bank's rating system, may comprise an aggregate exposure of as much as 25% of the Group's equity, but only in the form of short-term obligations. Parties in classified in poorer risk categories may not comprise overall exposures for the Group exceeding 10% of its 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.

The Bank's Credit Committee sets detailed lending rules based on the basic policy laid down by the Board of Directors. Employees' lending authorisations are well defined and incremental. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules. Comprised of the CEOs and managing directors, 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, as well as monitoring defaults and default trends. Detailed reports on the 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, specific industrial sectors, etc.

(a) Derivatives
Counterparty risk from derivative contracts is managed by the Bank's Securities and Treasury division. Risk from derivative contracts is assessed as a credit equivalent, comprised of the fair value of the contract and its assessed future risk.

(b) 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.

(c) Netting arrangements
In order to further limit counterparty risk arising from financial instruments, the Group concludes 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 the client.

4.2 Geographical location of assets and liabilities

The following note incorporates IAS 32 credit risk disclosures, IAS 30 geographical concentrations of assets, liabilities and off balance sheet items disclosures and a public enterprise's IAS 14 (revised) secondary segment disclousures.

At 31 December 2005	Total assets	Total liabilities	Credit commitments	Revenues
Iceland (Home country)	1,145,842	1,185,377	27,747	50,569
UK	78,692	55,415	29,851	6,887
Continental Europe	178,652	54,318	13,200	3,522
Other	2,275	291	0	0
Total	1,405,460	1,295,401	70,799	60,978

At 31 December 2004	Total assets	Total liabilities	Credit commitments	Revenues
Iceland (Home country)	627,156	654,108	24,676	14,734
UK	41,069	33,966	7,841	8,651
Continental Europe	68,917	11,363	2,077	10,081
Other	0	0	0	0
Total	737,141	699,436	34,594	33,467

Geographic sector risk concentrations within the customer loan portfolio were as follows:

	2005	2005 %	2004	2004 %
Iceland (Home country)	722,139	67	465,170	76
UK	154,337	14	65,166	11
Continental Europe	127,758	12	33,304	5
Other	67,279	6	50,634	8
	1,071,513	100	614,274	100

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 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. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 2% 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 direction of Risk Management. Authorisations to take positions subject to market risk are mainly limited to the Securities and Treasury division of the parent company, where total market risk for the Group is also managed. In addition to the Securities and Treasury division of the parent company, trading desks of its subsidiaries Kepler, Teather & Greenwood 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). VaR is used to measure trading book market 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. VaR models are tested for reliability in accordance with the guidelines of the Basel Committee on Banking Supervision.

The following tables show the VaR estimate for market risk for the bank's total equity exposure with and without equity held in financial assets designated at fair value through profit and loss:

	12 months to 31 December 2004			12 months to 31 December 2005			
Market Risk	Average	High	Low	Average	High	Low	31.12.05
Interest rate risk	37	84	3	228	597	27	436
Foreign exchange risk	4	27	0	10	72	1	8
Equities risk	667	1,662	339	1,127	2,456	510	2,102
Total VaR	708	1,773	342	1,365	3,125	538	2,546

	12 months to 31 December 2005			
Market Risk without financial assets designated at FV through P/L	Average	High	Low	31.12.05
Interest rate risk	228	597	27	436
Foreign exchange risk	10	72	1	8
Equities risk	869	1,343	469	1,304
Total VaR	1,106	2,012	497	1,748

4.3.1 Currency Risk

The Group is exposed to risk from changes in the exchange rates of major foreign currencies, which affect the Bank's financial position and cash flow. ALCO sets risk limits for each currency and for total currency exposures both overnight and intraday, which are monitored daily. 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 2005	ISK	EUR	USD	GBP	JPY	Other	Total
Assets							
Cash and cash balances with Central Bank	8,479	4,793	0	3,247	0	93	16,611
Loans and advances	343,055	243,812	163,485	159,740	40,252	121,169	1,071,513
Trading assets	167,608	18,548	2,682	18,020	0	12,035	218,894
Financial assets designated at fair value through profit and loss	19,176	758	0	0	0	14,549	34,483
Derivatives held for hedging	4,634	0	0	55	0	(0)	4,689
Investment in Associates	2,771	437	0	1,248	0	(0)	4,456
Property and equipment	3,985	194	0	80	0	0	4,260
Intangible assets	878	2,451	0	7,132	0	0	10,461
Non-current assets and disposal groups classified as held for sale	16,005	0	0	454	0	0	16,459
Other assets	3,402	17,416	141	2,643	15	18	23,636
Total assets	569,993	288,408	166,309	192,619	40,267	147,864	1,405,460
Liabilities							
Deposits from credit institutions	63,560	64,682	11,643	4,291	177	242	144,596
Deposits from customers	183,041	68,720	17,957	61,615	(41)	2,872	334,163
Borrowing	72,645	433,183	57,349	58,984	24,353	43,474	689,989
Subordinated loans	4,715	39,778	1,894	0	2,688	(0)	49,074
Trading liabilities	26,207	0	13	283	0	(0)	26,504
Derivatives held for hedging	4,085	0	0	1	0	(0)	4,086
Tax liabilities	7,123	0	0	166	0	0	7,289
Liabilities included in disposal groups classified as held for sale	4,475	0	0	0	0	0	4,475
Other liabilities	2,644	20,719	201	7,989	5	109	31,668
Equity	113,617	0	0	0	0	0	113,617
Total liabilities	482,112	627,082	89,058	133,329	27,183	46,696	1,405,460
Net on-balance sheet position	87,882	(338,674)	77,251	59,290	13,085	101,167	(0)
Net off-balance sheet position	(89,834)	338,320	(77,071)	(57,518)	(13,084)	(100,813)	
Net position	(1,952)	(354)	180	1,771	0	354	

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 of interest rate changes on assets and liabilities outside of the Bank's trading book. This risk is primarily the result of duration mismatch of assets and liabilities. Portfolio interest rate risk is among the Group's more important risk factors.

(b) Liquidity Risk

Liquidity risk is the risk of losses the Group could incur should it be unable to meet its obligations when due. The Group's liquidity risk is divided into three types: intraday liquidity risk, short-term liquidity risk extending over several months, and risk due to mismatch of longer-term assets and liabilities. A distinction is also made, in measuring and managing liquidity risk, between domestic and foreign liquidity risk.

ALCO formulates liquidity management policy, monitors the Group's liquidity position and provides advice on the composition of its assets and liabilities. The 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.

At the end of 2005, the Bank's liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's Rules No. 386/2002 was 1.6.

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 2005	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets							
Cash and cash balances with Central Bank	16,611	0	0	0	0	0	16,611
Loans and advances	425,218	242,666	236,960	66,483	99,292	893	1,071,513
Trading assets	20,338	4,236	1,935	14,666	47,777	129,942	218,894
Financial assets designated at fair value through profit and loss	0	0	0	0	0	34,483	34,483
Derivatives held for hedging	4,689	0	0	0	0	0	4,689
Investment in Associates	0	0	0	0	0	4,456	4,456
Property and equipment	0	0	0	0	0	4,260	4,260
Intangible assets	0	0	0	0	0	10,461	10,461
Non-current assets and disposal groups classified as held for sale	0	0	0	0	0	16,459	16,459
Other assets	0	0	0	0	0	23,636	23,636
Total assets	**466,856**	**246,902**	**238,895**	**81,149**	**147,069**	**224,589**	**1,405,460**
Liabilities							
Deposits from credit institutions	31,410	71,836	5,406	19,620	16,325	0	144,596
Deposits from customers	288,883	19,098	18,468	7,168	546	0	334,163
Borrowing	305,528	190,426	108,473	42,652	42,909	0	689,989
Subordinated loans	0	26,022	672	3,744	18,636	0	49,074
Trading liabilities	0	0	0	0	0	26,504	26,504
Derivatives held for hedging	2,724	0	0	0	0	1,362	4,086
Tax liabilities	0	0	0	0	0	7,289	7,289
Liabilities included in disposal groups classified as held for sale	0	0	0	0	0	4,475	4,475
Other liabilities	0	0	0	0	0	31,668	31,668
Equity	0	0	0	0	0	113,617	113,617
Total liabilities	**628,545**	**307,382**	**133,019**	**73,185**	**78,416**	**184,914**	**1,405,460**
Net on balance sheet position	(161,689)	(60,480)	105,876	7,964	68,653	39,674	
Net off balance sheet position	(61,295)	25,428	15,002	17,560	3,305	0	
Total interest sensitivity gap	**(222,984)**	**(35,052)**	**120,879**	**25,525**	**71,958**	**39,674**	

4.5 Fair value of financial assets and financial liabilities

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.

	Carrying value 31.12.2005	Fair value 31.12.2005	Difference 31.12.2005
Financial assets			
Loans and advances	1,071,513	1,070,533	(980)
Financial liabilities			
Borrowing	689,989	689,657	332
Net difference			(648)

4.6 Inflation-indexed assets and liabilities

The Bank's balance sheet has a positive balance between indexed and non-indexed assets. At year-end, indexed assets exceeded indexed liabilities by ISK 139 billion. These amounts only apply to assets and liabilities in ISK.

	2005	2004
Assets	275,615	101,489
Liabilities	(136,559)	(73,985)
	139,056	27,504

4.7 Core Income

The Group´s Income with reversal of it´s net gain from equity holdings, securities and FX trading, reflects it´s Core Income. The approach is to reverse net gain/loss from equity holdings of any kind, as well as gain from securities and FX trading. Instead the net interest revenues is increased by the cost of funds of the Group´s positions in these items. To calculate the net interest revenues, a risk free rate of treasury shares for each underlying currency is used. Notwithstanding the Bank's definition of its core income, its performance also depends, for instance, 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 2002-2005:

Actual Income	2005	2004	2003	2002
Net interest revenues	22,996	14,734	9,331	7,732
Net commissions and fees	16,726	8,891	6,116	4,076
Net gain on equity, securities and FX	21,257	9,842	3,535	2,109
Net operating revenues	60,978	33,467	18,982	13,916
Operating expenses	20,967	14,460	10,815	8,505
Impairment on loans and advances and assets held for sale	6,197	4,485	4,656	2,863
Impairment on goodwill	3,033	0	0	0
Profit before income tax	30,781	14,157	3,511	2,548
Cost Income Ratio	34%	43%	57%	61%
ROE before tax	56%	56%	21%	17%
Adjustments				
Net interest revenues	3,652	1,200	992	950
Net gain on equity, securities and FX	(21,257)	(9,842)	(3,534)	(2,109)
Impairment on goodwill	3,033	0	0	0
	(14,572)	(8,642)	(2,542)	(1,159)
Core Income				
Net interest revenues	26,647	15,934	10,323	8,682
Net commissions and fees	16,726	8,891	6,116	4,076
Net operating revenues	43,373	24,825	16,439	12,757
Operating expenses	20,967	14,460	10,815	8,505
Impairment on loans and advances and assets held for sale	6,197	4,485	4,656	2,863
Profit before income tax	16,210	5,879	968	1,389
Core Cost Income Ratio	48%	58%	66%	67%
Core ROE before tax	30%	23%	6%	9%

4.8 Fiduciary activities

The Landsbanki 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 this service involves the Group approving objectives and criteria for the investment of assets in its custody. As of 31 December 2005, financial assets managed by the Group amounted to ISK 281 billion (2004:191 bn). Amounts in custody accounts amounted to ISK 1.321 billion (2004: 730 bn).

5 Income Statement by quarters

Operations	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Interest revenues	21,073	18,594	14,309	12,461	10,879
Interest expenses	13,818	12,272	9,180	8,172	6,268
Net interest revenues	7,255	6,322	5,129	4,289	4,611
Fee and commission income	5,359	4,775	4,864	3,481	3,191
Fee and commission expense	598	392	403	361	382
Net fee and commission income	4,761	4,383	4,461	3,120	2,809
Dividend income	191	161	616	105	11
Net gain on financial assets and financial liabilities held for trading	5,503	3,550	(163)	1,978	(41)
Net gain on financial assets designated at fair value through profit and loss	1,205	1,167	1,003	2,490	(2,220)
Fair value adjustments in hedge accounting	(361)	232	(81)	216	0
Foreign exchange difference	92	359	(161)	97	122
Share of profit of associates	643	505	275	484	(79)
Net gain of disposal groups held for sale	63	270	817	0	0
Other operating revenues	7,337	6,243	2,307	5,370	(2,207)
Net operating revenues	19,352	16,949	11,898	12,779	5,213
Salaries and related expenses	4,136	3,077	3,114	2,355	2,112
Administrative expenses	2,933	1,905	1,764	1,683	1,749
Operating expenses	7,069	4,982	4,879	4,037	3,862
Impairment on loans and advances during the period	1,805	1,687	1,359	1,345	1,223
Profit before impairment on goodwill and income tax	10,479	10,280	5,660	7,396	128
Impairment on goodwill	(259)	3,293	0	0	0
Income tax	1,929	1,882	602	1,351	(829)
Net profit	8,809	5,105	5,058	6,045	957
Attributable to:					
Shareholders of Landsbanki Islands hf.	8,734	4,995	5,000	6,011	905
Minority interest	75	110	58	34	53

6 Business segments

The Group operates in four Business Segments:

- Retail Banking
- Corporate Banking
- Securities and Treasury
- Asset Management and Private Banking

Retail Banking includes the Bank's branch network, SP Fjármögnun and the Residential Morgages division of Heritable Bank.

Corporate Banking includes the Bank´s Corporate division and Heritable´s Bank Corporate Banking division.

Securities and Treasury is comprised of the parent company's securities operations and Teather & Greenwood Holding plc., Kepler Equities S.A. and Merrion Capital Group. This division includes securities brokerage, corporate advisory, FX and derivative trading, the Bank's treasury and debt management and proprietary trading.

Asset Management and Private Banking includes the parent company's Asset Management division, Landsvaki hf. and Landsbanki Luxembourg S.A.

Year 2005	Retail Banking	Corporate Banking	Securities & Treasury	Management Private Banking	Other operations	Group
Net interest revenues	10,466	11,866	(1,063)	1,727	0	22,996
Net fee and commission income	3,131	2,343	8,785	2,466	0	16,726
Other revenues	66	247	20,789	154	0	21,257
Net operating revenues	13,664	14,456	28,511	4,348	0	60,978
Operating expenses	8,272	4,155	5,906	2,208	425	20,967
Impairment on loans and advances and assets held for sale	2,026	3,268	0	902	0	6,197
Impairment on goodwill	0	0	3,033	0	0	3,033
Profit before income tax	3,366	7,032	19,572	1,237	(425)	30,781
Total assets 31 December	261,638	636,014	285,652	215,144	7,012	1,405,460

6 Business segments (continued)

Year 2004	Retail Banking	Corporate Banking	Securities & Treasury	Management Private Banking	Other operations	Group
Net interest revenues	6,838	6,943	(187)	1,141	0	14,734
Net fee and commission income	2,781	979	3,663	1,228	0	8,651
Other revenues	0	(46)	10,043	85	0	10,081
Net operating revenues	9,619	7,876	13,519	2,454	0	33,467
Operating expenses	6,594	2,078	2,246	1,653	1,890	14,460
Impairment on loans and advances and assets held for sale	2,870	1,385	(4)	235	0	4,485
Profit before income tax	156	4,413	11,277	566	(1,890)	14,521
Total assets 31 December	148,538	364,233	117,035	100,709	6,626	737,141

7 Geographical segments - breakdown of revenues

Year 2005	Iceland	UK	Continental Europe	Total
Net interest revenues	17,362	3,921	1,712	22,996
Net fee and commission income	12,820	2,314	1,592	16,726
Other revenues	20,388	652	218	21,257
Net operating revenues	50,570	6,887	3,522	60,978

Year 2004	Iceland	UK	Continental Europe	Total
Net interest revenues	12,868	725	1,142	14,734
Net fee and commission income	8,096	554	240	8,891
Other revenues	9,737	21	85	9,842
Net operating revenues	30,701	1,300	1,467	33,467

8 Net interest revenues

Interest revenues	2005	2004
Interest on deposits and loans to financial institutions	4,343	1,672
Interest on loans and advances	54,571	29,954
Interest on other financial assets	4,118	1,261
Other interest revenues	3,405	1,364
	66,437	34,252

Interest expenses	2005	2004
Interest on deposits from credit institutions	5,106	1,110
Interest on deposits from customers	15,608	8,961
Interest on borrowing	18,087	7,229
Interest on subordinated loans	1,789	866
Other interest expenses	2,851	1,351
	43,441	19,517
Net interest revenues	22,996	14,734

9 Net fee and commission income

Fee and commission income	2005	2004
Securities	9,261	4,006
Asset management	1,860	1,216
Lending	3,515	1,653
Cards	1,139	859
Interbank revenues	989	1,084
Collection and payment services	526	503
Foreign trade	386	344
Other commissions and fees	804	570
	18,479	10,234
Fee and commission expense	1,754	1,344
Net fee and commission income	16,726	8,891

10 Dividend income

	2005	2004
Trading	846	292
Financial assets designated at fair value through profit and loss	227	161
	1,073	453

11 Net gains on trading in equity, bonds, currency and associated companies

	Stock trading	Bond trading	FX	Share of profit of associates	Other	Total 2005	Total 2004
Dividend income	1,073	0	0	0	0	1,073	453
Net gain on financial assets and financial liabilities held for trading	10,923	(219)	0	0	164	10,868	4,116
Net gain on financial assets designated at fair value through profit and loss	5,866	0		0	0	5,866	4,918
Fair value adjustments in hedge accounting					6	6	0
Foreign exchange difference	0	0	387	0	0	387	364
Share of profit of associates	0	0	0	1,907	0	1,907	(8)
Net gain on sale of disposal groups held for sale	0	0	0		1,150	1,150	0
	17,862	(219)	387	1,907	1,320	21,257	9,842

12 Net gains on financial assets designated at fair value through profit and loss

Equity securities:	2005	2004
Listed	4,409	4,918
Unlisted	1,457	0
Total	5,866	4,918

13 Salaries and related expenses

	2005	2004
Salaries	10,512	6,726
Pension-fund contributions	1,042	693
Other personnel expenses	1,128	374
	12,682	7,794
Number of positions at year end	1,725	1,121

14 Impairment on loans and advances and assets held for sale

	2005	2004
Loans and advances	6,347	4,556
Assets held for sale	(14)	0
	6,333	4,556
Collected previously written-off loans	137	71
	6,197	4,485

15 Income tax

	2005	2004
Current tax	2,181	1,895
Deferred tax note 31	3,583	(97)
	5,764	1,798

Further information about deferred income tax is presented in Note 31. 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:

	2005	2004
Profit before tax	33,815	14,521
Tax calculated at a tax rate of (local 18)% (2004: 18%)	6,087	2,614
Effect of different tax rates in other countries	387	125
Income not subject to tax	(646)	(766)
Other	(64)	(175)
	5,764	1,798

16 Earnings per share

Basic

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

	2005	2004
Profit attributable to equity holders of the Company	24,740	12,574
Weighted average number of ordinary shares in issue	9,020	7,831
Basic earnings per share (ISK per share)	2.74	1.61

Diluted

Diluted earnings per share is 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 Company'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.

	2005	2004
Profit attributable to equity holders in the company	24,740	12,574
Weighted average number of ordinary shares in issue	9,020	7,831
Adjustments for:		
– share options	476	267
Weighted average number of ordinary shares for diluted earnings per share	9,495	8,098
Diluted earnings per share (ISK per share)	2.61	1.55

17 Loans and advances

	2005	1.1.2005
Financial institutions	86,919	67,107
Public entities	7,670	3,131
Corporates	745,435	439,952
Consumers	244,634	112,444
Allowance for losses on loans and advances	(13,144)	(8,359)
Total loans and advances	1,071,513	614,274

A large part of the consumer loan growth (residential mortgage loans) has been funded via private placements of credit linked notes.

Provisions for credit losses

Changes during the year:	2005	1.1.2005
Balance at beginning of year	8,359	7,700
Acquisitions	436	0
Impairment on loans and advances	6,347	4,270
Loans written off	(1,998)	(3,611)
Balance at year-end	13,144	8,359
Provision ratio	1.17%	1.29%

18 Trading assets

	2005	1.1.2005
Bonds and other fixed-income securities	100,498	18,529
Equity and other variable-income securities	104,509	37,499
Derivatives held for trading	13,886	8,702
	218,894	64,730
Forward contracts against trading assets		
Bonds and other fixed-income securities	48,963	1,785
Equity and other variable-income securities	80,701	23,596
Net trading assets	89,231	39,349

19 Derivatives held for trading and trading liabilities

	2005			1.1.2005		
	Contract/notional	Fair value		Contract/notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	477,283	4,422	3,791	164,302	3,501	3,193
OTC currency options bought and sold	212,798	3,331	4,098	182,024	2,694	3,147
	690,081	7,753	7,889	346,326	6,195	6,340
Interest rate derivatives						
Interest rate swaps	214,910	3,091	2,264	56,936	535	621
Cross-currency interest rate swaps	58,905	1,572	1,613	13,735	147	197
	273,815	4,662	3,877	70,671	682	819
Equity derivatives						
Equity forwards	81,269	213	14,503	26,399	1,607	918
OTC stock options - bought and sold	13,454	1,257	235	2,110	219	1
	94,723	1,471	14,738	28,509	1,826	918
Total derivatives held for trading	1,058,619	13,886	26,504	445,506	8,702	8,077

20 Financial assets designated at fair value through profit and loss

Equity securities:	2005	1.1.2005
Listed	33,299	12,817
Unlisted	1,183	0
Total	34,483	12,817

21 Derivatives held for hedging

	2005			1.1.2005		
	Contract/notional	Fair value		Contract/notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
Derivatives designated as fair value hedges						
Interest rate swaps	96,003	3,205	3,201	52,138	2,084	1,235
Cross-currency interest rate swaps	105,011	1,484	885	57,612	2,846	347
	201,014	4,689	4,086	109,750	4,930	1,582

22 Investment in Associates

As at 31 December 2005	Ownership %	Profit share	Book value 2005	Book value 1.1.2005
Fjárfestingafélagid Grettir hf.	17.4	1,578	2,556	2,375
Greiðslumiðlun hf.	38.0	187	694	531
Reiknistofa bankanna	35.9	0	515	427
Kreditkort hf.	20.0	46	224	218
Creditinfo Group hf.	26.4	33	184	151
Intrum hf.	25.0	6	83	84
Líftryggingamiðstöðin	34.0	(1)	135	0
Other partially owned companies		59	64	5
		1,907	4,456	3,792

All these investments are unlisted.

23 Property and equipment

Fixed assets:	Premises	Other	Total
Book value at beginning of year	2,908	1,238	4,146
Additions	455	1,921	2,376
Sold	(1,282)	(294)	(1,576)
Disposals	(47)	(349)	(395)
Depreciation charge	(240)	(51)	(291)
Net book value at year-end	1,794	2,465	4,260
Depreciation (straight-line)	1-4%	10-33%	

Assessment value of land and Bank Premises:

	2005	2004
Official assessment value of land and Bank premises	1,756	2,787
Replacement value of buildings	2,470	5,034

24 Intangible assets

Goodwill	2005	1.1.2005
Opening net book amount	1,160	1,159
Exchange differences	(12)	1
Acquisition of Teather & Greenwood	4,088	0
Acquisition of Key Bussines Financial Corporation	603	0
Acquisition of Kepler Equities	2,144	0
Acquisition of Merrion	1,397	0
Merger with Burðarás hf.	3,293	0
Impairment	(3,293)	0
Net book value at year-end	9,380	1,160
Software and other intangible assets		
Opening net book amount	425	491
Additions	819	472
Disposals	0	0
Amortisation	(163)	(408)
Impairment	0	(130)
Net book value at year-end	1,081	425
Total Intangible assets	10,461	1,585

An impairment charge of goodwill in the amount of ISK 3.033 million is included in the income statement. This amount is explained by a charge of ISK 3.293 million due to an impairment of goodwill relating to the merge with Burðarás and an income of ISK 259 million due to a negative goodwill arising from the acquisistion of the Agricultural Loan Fund.

All goodwill has been tested for impairment. The conclusion of the test was that no charges were needed except for the goodwill arising from the Burðarás hf. merger. 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 it´s use value.

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

	2005	1.1.2005
Appropriated assets	920	1,031
Allowance for appropriated assets	(208)	(241)
	712	790
Disposal group held for sale		
– Investments properties included in disposal groups	15,613	8,265
– Other assets included disposal groups	135	908
	15,748	9,173
Total non-current assets and disposal groups classified as held for sale	16,459	9,962

26 Other assets

	2005	1.1.2005
Unsettled payments	11,264	0
Other assets	12,372	2,668
	23,636	2,668

27 Deposits from credit institutions

	2005	1.1.2005
Loans from Central Bank and repurchase agreements	44,730	4
Loans from other credit institutions	99,866	61,233
	144,596	61,236

28 Deposits from customers

	2005	1.1.2005
Demand deposits	113,834	84,225
Time deposits	220,328	133,745
	334,163	217,970

29 Borrowing

	2005	1.1.2005
Securities issues	620,793	328,417
Borrowing	69,196	46,667
	689,989	375,084

Securities issues:	2005	1.1.2005
EMTN	469,919	248,468
ECP	23,318	18,136
Other	127,556	61,813
	620,793	328,417

30 Subordinated loans

	2005	1.1.2005
Tier I – Non-innovative hybrid capital	7,472	8,358
Tier I – Innovative hybrid capital	14,928	3,197
Tier II	26,675	11,015
	49,074	22,570

Subordinated loans	Classification	Currency	Interest	Maturity	2005	1.1.2005
Iceland Stock Exchange	Tier I	ISK	5,8%+vtr	callable	1,106	1,064
Iceland Stock Exchange	Tier I	ISK	6,5%+vtr	callable	1,132	1,089
Iceland Stock Exchange	Tier I	ISK	8,65%+vtr	callable	1,075	1,047
Luxembourg Stock Exchange	Tier I	EUR	Euribor+0,78%	callable	11,615	0
Unlisted	Tier I	EUR	Euribor+1,23%	callable	7,472	8,364
Unlisted	Tier II	ISK	5,6%+vtr	callable	1,680	1,615
Unlisted	Tier II	ISK	6,09%+vtr	callable	844	812
Unlisted	Tier II	ISK	6,09%+vtr	2010	0	250
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,8%	2013	301	337
Luxembourg Stock Exchange	Tier II	EUR	Euribor+1,2%	2018	760	921
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,4%	2015	14,949	0
Luxembourg Stock Exchange	Tier II	EUR	Euribor+1,35%	2026	823	851
Unlisted	Tier II	EUR	Euribor+1,35%	2011	375	420
Luxembourg Stock Exchange	Tier II	JPY	Euribor+0,8%	2033	2,691	2,990
Unlisted	Tier II	USD	Libor+0,15%	2011	1,897	1,839
Unlisted	Tier II	EUR	9%	2008	1,494	
Unlisted	Tier II	USD	Libor+0,66%	2006	859	971
					49,074	22,570

Subordinated loans are a part of equity according to regulation on the calculation of equity ratio (see note 32). Subordinated loans are fully applicable to the calculation of CAD ratio.

31 Tax liabilities

Tax liabilities specifice as follows	31.12.2005	1.1.2005
Tax to be payid	3,082	1,547
Taxliabilities	4,207	127
	7,289	1,674

The movement on the deferred income tax account is as follows:	2005	1.1.2005
At 1 January	127	224
Income statement charge	3,583	(97)
Exchange differences	497	0
	4,207	127

Deferred income tax liabilities	2005	1.1.2005
Premises and equipment	284	243
Financial assets designated at tair value through profit and loss	3,773	0
Non-current assets and disposal groups classified as held for sale	380	0
Miscellaneous assets	2	1
	4,439	244

31 Tax liabilities (continued)

Deferred income tax assets	2005	1.1.2005
Obligations	(64)	(68)
Shareholdings	0	(27)
Agricultural Loan Fund	(72)	0
Loan commitment fee	(96)	(22)
	(233)	(117)

The deferred tax charge in the income statement comprises the following temporary differences:

	2005	1.1.2005
Premises and equipment	75	(72)
Miscellaneous assets	167	27
Obligations	3	4
Non-current assets and disposal groups classified as held for sale	380	0
Financial assets designated at fair value through profit and loss	3,103	(34)
Agricultural Loan Fund	(72)	0
Loan commitment fee	(74)	(22)
	3,583	(97)

32 Capital ratio

	2005	2004
Risk-adjusted assets	1,065,074	576,498
Capital:		
Tier I capital:		
Equity	110,059	38,016
Subordinated loans	22,399	6,722
Goodwill	(9,381)	(918)
Minority interests	3,557	991
	126,635	44,811
Tier II capital:		
Subordinated loans	26,675	15,831
– deduction in accord with Articles 28 and 85 of Act No 161/2002	(13,601)	(749)
Total capital	139,710	59,893
Tier I ratio	11.9%	7.8%
Capital ratio	13.1%	10.4%

33 Off-balance sheet items

	2005	1.1.2005
Guarantees issued	40,737	23,994
Available overdrafts	28,291	24,676
Unused credit commitments	42,507	9,918
	111,536	58,588

34 Related-parties

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 78 million as of 31 December 2005.

Loans to members of the Board of Directors and their fully owned companies amounted to ISK 11,656 million. In addition, Landsbanki has granted credit to companies with which members of the Board are related through membership of the companies' Boards or ownership ties, including companies which number among the Bank's major clients.

The holding company, Samson eignarhaldsfélag ehf., which has a 40.17% holding in the Bank, is owned by four legal entities. The Bank has not provided 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 Bank amounted to ISK 19,912 million as of 31 December 2005.

All of the loans referred to here have been granted in accordance with the Bank's credit rules and on normal commercial terms. No impairment charges has been made by the Bank to cover these loans.

35 Management Payroll and Compensation

Payroll and stock options, in respect of the Bank's Board of directors, Group Managing Directors & CEO's, Managing Directors of the Parent is as follows:

	Payroll and benefits	Exercised Options 2005	Stock Options Unused	Stock Options Contracts 2006-2008	Stock Options Total	Holdings at year end
Björgólfur Guðmundsson, Chairman of the Board of Directors	3		0	0	0	4,427
Kjartan Gunnarsson, Vice-chairman of the Board of Directors	2		0	0	0	92
Other Members of the Board of Directors	6		0	0	0	1
Halldór J. Kristjánsson, Group Managing Director & CEO	149 [1]	8	10	39	49	11
Sigurjón Þ. Árnason, Group Managing Director & CEO	83		58	52	110	0
Sixteen Managing Directors of the Landsbanki Group	598	8	135	101	236	11
	840	16	203	192	395	4,542

The stock option rights of the Managing directors & CEO and Managing Directors have a strike price of 3,58 - 14,25.
Stock option rights are transferable between years and can be accumulated and excercised at year-end.
Arrangements have been made to abide by contracts made and the related cost is included in the income statement.
A holding refers to holdings in the name of the parties in question themselves, their spouses, children who are not financially competent or legal entities in which they are involved.

1) Including a settlement of stock options

36 Stock option plan

Management and employees of the Group have a stock option with a strike price of 3,58 - 14,25. Stock options are offered at a market price on the day when they are granted. Arrangements have been made to abide by contracts made and the related cost is included in the Groups's income statement. Options are accumulated in the years 2003-2010. Stock options can be vested in four years and can be exercised by the end of the fourth year and during the two following years. Options are not transferable between individuals, and unused options are annulled at concurrent with employment termination. The nominal value of the management and emloyee stock option plan at year-end amounted to ISK 946,4 million. Accumulated unused options at 31 December 2005 had a nominal value of ISK 484,0 million.

The nominal value of stock options in the beginning of the year amounted to 467 million, granted option stock had a nominal value of 507,4 million, the nominal value of exercised purchase right during the year amounted to 28 million and the purchase right at the year-end had nominal value of 946,4 million.

Stock options with a nominal value of 176,7 million which were granted in 2003 with a strike price of 3,58 - 5,7 can be vested during the years 2003-2006 and can be exercised in the years 2006-2008. Stock options with a nominal value of 337,5 million which were granted during 2004 with a strike price of 7,0-9,0 can be vested during the years 2004-2007 and can be exercised in 2007-2009. Stock options with a nominal value of ISK 432,2 million and a strike price of 12-14,25 which were granted in 2005 can be vested during 2005-2010 and can be exercised during the years 2008-2010.

37 Auditors fee

	2005	2004
Audit and audit related services	95	59
Other professional services	23	24
	118	83

38 Acquisitions

An offer was made by Landsbanki Holding (UK) plc. for Teather & Greenwood Holding plc. on 1 February 2005. On 30 June 2005, the share of Landsbanki Holding (UK) plc. in Teather & Greenwood Holding plc. was 100%. Its Income Statement and Balance Sheet has been consolidated into Landsbanki Group.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Total Cost of acquisition (discharged by cash)	5,486
Fari value of assets and liabilities acquired	1,398
Goodwill (see note 24)	4,088

The goodwill was tested for impairment at the end of the year and the conclusion is that the carrying amount exceed the recoverable amount and therefore no impairment charges are needed.

On 15 April, Heritable Bank Ltd. announced that it had reached an agreement to acquire a 100% share of Key Business Finance Corporation plc. This acquisition was achieved through Landsbanki's direct acquisition of shares in Key Business Finance Corporation plc. The transaction was completed in April.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Total Cost of acquisition (discharged by cash)	1,530
Fari value of assets and liabilities acquired	926
Goodwill (see note 24)	603

The goodwill was tested for impairment at the end of the year and the conclusion is that the carrying amount exceed the recoverable amount and therefore no impairment charges are needed.

38 Acquisitions (continued)

On 4th of June, Landsbanki Luxembourg S.A. announced that it had reached an agreement to acquire a 97% share of Lex Life and Pension S.A. in Luxembourg. This acquisition was achieved through Landsbanki's direct acquisition of shares in Lex Life and Pension S.A. from an insurance company. The transaction was completed in June.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Total Cost of acquisition (discharged by cash)	468
Fari value of assets and liabilities acquired	468
Goodwill	0

On 1 August, part of the investment company Burðarás hf. merged with the Group. The shareholders of Burðarás hf. recieved share capital in Landsbanki in exchange for their shareholdings in Burðarás. The total amount of share capital issued in connection with the merger was ISK 2,121 million, and the amount based on a share price of 19.00 per share, which represents the cost of the acquisition. On the acquisition date, the fair value of individual acquired assets and liabilities was assessed. The cost of acquisition in excess of the fair value of the acquired indiviual assets and liabilities was recognised as goodwill.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Equity and other variable-income securities	20,110
Other assets	17,832
Tax liabilities	(942)
Goodwill (see note 24)	3,293
Cost of acquisition, value of issued share capital	40,293

At the end of the period the acquired goodwill arising in connection with the merger was tested for impairment, in accordance with the requirements of IAS 36. The conclusion of the impairment test was that the total amount of the goodwill should be expensed in the income statement. The impairment expensed in the income statement is not tax deductible. The impairment of goodwill needs to be reviewed in connection with the number of the Bank's new shareholders and the fact that shares were issued at market price without the volume discount traditionally used in such a large transaction. After the merger, the number of shareholders increased by about 17,000.

On 5 September, Landsbanki Islands hf. announced that it had reached an agreement to acquire Kepler Equities S.A. (Kepler), a European securities company, previously known as Julius Bär Brokerage. Initially Landsbanki will acquire 84% of the total shares. This acquisition will be achieved through Landsbanki Holding Europe S.A. by direct acquisition of shares in Kepler from holding companies and from Kepler's employees.The transaction was completed in November.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Total Cost of acquisition (discharged by cash)	5,906
Fari value of assets and liabilities acquired	3,762
Goodwill (see note 24)	2,144

The goodwill was tested for impairment at the end of the year and the conclusion is that the carrying amount exceed the recoverable amount and therefore no impairment charges are needed.

On 4 October, the Icelandic state signed a purchase agreement with Landsbanki Íslands hf. providing for the acquisition by the Bank of specific assets and liabilities of the Agricultural Loan Fund. The transaction was concluded in October.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Total Cost of acquisition (discharged by cash)	2,653
Fari value of assets and liabilities acquired	2,912
Negative Goodwill (see note 24)	(259)

On 15 November, Landsbanki Islands hf. announced that it had reached an agreement to acquire a 50% share of Merrion Capital Group Ltd. in Ireland. This acquisition will be achieved through Landsbanki's direct acquisition of shares in Merrion from an investment bank and from Merrion's employees. The transaction was completed in December.

The details of the fair value of the assets and liabilities acquired and goodwill arising are as follows (ISK millions):

Total Cost of acquisition (discharged by cash)	2,100
Fari value of assets and liabilities acquired	703
Goodwill (see note 24)	1,397

39 Litigation

The Bank Employees' Pension Fund has brought a suit in the Reykjavík District Court against Landsbanki Íslands hf. and the Icelandic State, demanding that a court verdict establish that the bank guarantee which Landsbanki Íslands, as a state-owned bank, provided for the Fund's obligations until 31 December 1997 has never been cancelled and is still fully valid. Furthermore, the plaintiff requests principally that the Court find that in the future Landsbanki Íslands should be responsible for this guarantee or, failing that, the National Treasury. Should this claim be rejected, the Fund requests, for instance, that the Bank's obligations be re-calculated due to changed assumptions, or that damages be paid.

The reason for the suit is that the Pension Fund's assets are not fully sufficient for its calculated obligations, in part due to increases in wages and purchasing power.

In 1997, Landsbanki Íslands, as a state-owned bank, together with other contributing companies of the Bank Employees' Pension Fund, reached an agreement with the fund on a final settlement, which the Pension Fund approved for its part at a meeting of fund members. The guarantee of the contributing companies was then cancelled and the Pension Fund therefore no longer has any legal entitlement to make claims on the contributing companies.

Should the Courts recognise any responsibility in this case, the claim would have to be directed at the National Treasury, as the agreement covered by the summons was concluded on the responsibility of Landsbanki as a state-owned bank and in connection with the establishment of a limited-liability company for the Bank's operation and original sale of share capital.

Claims advanced towards Landsbanki in the above-mentioned case must therefore be considered as not liable to have a significant impact on the Bank's operating performance.

40 Transition to International Financial Reporting Standards (IFRS)

40.1 Basis of the transition

40.1 Application of IFRS 1
The consolidated annual financial statements for 2005 is the first financial statements compiled by Landsbanki Íslands hf. that comply with International Financial Reporting Standards (IFRS). These consolidated financial statements have been prepared as described in Note 2.1. The Group has applied IFRS 1 First Time Adoption of International Financial Reporting Standards in compiling these consolidated statements.

As the transition date for Landsbanki Íslands hf. is 1 January 2004, the Group's IFRS opening balance sheet has been prepared as of that date. The reporting date of these consolidated financial statements is 31 December 2005. The Group's IFRS adoption date is 1 January 2005.

The Group must restate all its assets and liabilities retroactively in accordance with IFRS 1. The Group has decided to avail itself of the exemptions provided for in IFRS 1, cf. Sections 40.2 and 40.3

40.2 Optional exemptions
The Group has decided to apply the following IFRS exemptions from full retroactive restatement and presentation of assets and liabilities.

(a) Business combinations exemption
The Group has applied the business combinations exemption in IFRS 1. It has not restated business combinations that took place prior to the 1 January 2004 transition date.

(b) Fair value as deemed cost exemption
The Group has elected to measure certain items of property, plant and equipment at fair value as of 1 January 2004.

(c) Exemption from restatement of comparatives for IAS 32 and IAS 39
The Group applies previous GAAP rules to derivatives, financial assets and hedges for the 2004 comparative amounts. Adjustments required for differences between GAAP and IAS 32/39 are recognised in equity as of 1 January 2005.

(d) Designation of financial assets and financial liabilities exemption
In accordance with IAS 32/39, various securities are reclassified as trading assets and financial assets designated at fair value through profit and loss as of 1 January 2005. The resulting changes in the presentation are shown especially in the summary in 40.7 of this section.

40.3 Mandatory exceptions
The Group has applied the following exceptions:

(a) Derecognition of financial assets and liabilities exception
Financial assets and liabilities derecognised before 1 January 2004 are not re-recognised under IFRS. The application of the exemption from restating comparatives for IAS 32 and IAS 39 means that the Group recognised from 1 January 2005 any financial assets and financial liabilities derecognised since 1 January 2004 that do not meet the IAS 39 derecognition criteria. Management did not choose to apply the IAS 39 derecognition criteria prior to this date.

(b) Hedge accounting exception
Hedge accounting is applied from 1 January 2005 if the hedge relationship meets all the hedge accounting criteria set in IAS 39.

(c) Estimates exception
Estimates under IFRS as of 1 January 2004 must be consistent with estimates made for the same date under previous GAAP, unless there is evidence that those estimates were in error.

(d) Assets held for sale and discontinued operations exception
IFRS 5 is applied prospectively from 1 January 2005, i.e. assets held for sale and discontinued operations are recognised in accordance with IFRS 5 only from 1 January 2005.

The following tables show the effects of the change in measurement and presentation from previous GAAP to IFRS has had on the Group's equity, income statement and balance sheet. Changes to cash flows were negligible.

40.4 Reconciliations transition changes in equity

Summary of changes in equity to IFRS from previous GAAP:		
Equity under previous GAAP 31.12.2004		38,016
Changes in presentation of minority interest	IAS 1	1,004
Total equity, including minority interest		39,020
Total equity under IFRS 1.1.2005		38,709
Total changes in equity from previous GAAP		(311)
Changes in equity 1.1.2004:		
Equity under previous GAAP 1.1.2004		22,382
Changes in presentation of minority interest	IAS 1	862
Total equity, including minority interest		23,244
Total equity under IFRS 1.1.2004		23,244
Total changes in equity 1.1.2004		0
Changes in equity during the year 2004:		
Valuation changes:		
Changes related to loan commitment fee	IAS 18	(124)
Reversal of goodwill amortised	IAS 36, IFRS 3	184
Impairment of software	IAS 36, IAS 38	(130)
Impairment of equipment	IAS 36, IAS 16	(45)
Expense due to share-based compensation	IFRS 2	(94)
Exchange rate impact of foreign subsidiaries	IAS 21	20
Recalculations of Tax liability	IAS 12	54
Total valuation changes restated in income statement		(135)
Exchange rate impact of foreign subsidiaries	IAS 21	(20)
Total IFRS transition changes in equity 2004		(155)
Changes in equity 1.1.2005:		
Changes in presentation of treasury shares	IAS 32	(259)
Valuation changes:		
Impairment of loans and advances	IAS 39	150
Change in fair value of unlisted securities	IAS 39	(206)
Value changes - Hedge accounting	IAS 39	289
Changes in fair value due to trading derivatives	IAS 39	(62)
Recalculation of Tax liability	IAS 12	(68)
Total value changes in equity 1.1.2005		103
Total changes in equity from previous GAAP		(311)

The total change in equity as a result of transition to IFRS is a decrease of ISK 311 million. The Group's equity in the opening IFRS balance sheet is ISK 38,709 million as compared to ISK 39,020 million after the altered presentation of minority interest. The principal changes to the Group's income statement and balance sheet are explained below.

Changes in presentation of minority interest
The transition to IFRS will mean that minority interest in equity is presented as part of equity in accordance with IAS 1 Presentation of Financial Statements Previously minority interest was presented as a separate item outside shareholders' equity. The total amount of minority interest is ISK 1,004 million at year-end 2004. The change only affects the presentation, but not the valuation or measurement of equity.

Changes in presentation of treasury shares
Treasury shares, which were previously recognised as an asset in the trading book, are entered against equity in accordance with IAS 32. This equity decrease amounts to ISK 259 million on 1 January 2005.

Loan commitment fees on loans and advances and borrowings
In accordance with IAS 18, Revenue, loan commitment fees are amortised through the effective interest rate over the life of the loan, while under GAAP they were recognised at the time the loan was disbursed. This change results in a temporary decrease in income and for 2004 this income is ISK 124 million lower than according to previous accounting treatment. This decrease has a corresponding impact on equity.

Reversal of goodwill amortised

According to IFRS 3, Business Combinations, and IAS 36, Impairment of Assets, goodwill is not amortised systematically. Instead, goodwill is assessed especially by means of an annual impairment test. As a result of this change, goodwill previously amortised and expensed in 2004 has been reversed, since the result of an impairment test on goodwill did not result in a decrease for impairment. The total impact of this is to increase Group equity by ISK 184 million.

Impairment of intangible assets and equipment

According to the provisions of IAS 36, an impairment test shall be carried out on intangible assets with a defined useful life and on property, plant and equipment when there is indication that an impairment loss has been incurred. At year-end 2004, an impairment test was performed on software and equipment which resulted in an impairment loss of ISK 175 million. This amount is recognised in the 2004 restated income statement and reduces Group equity at year-end 2004 by this amount.

Expense due to share-based compensation

The cost of the share-based compensation contracts has been calculated according to IFRS and the 2004 cost, based on the underlying contracts, has been recognised as an expense and liability in accordance with IFRS 2, Share-based compensation. The total cost for 2004 was ISK 94 million, which decrease equity.

Exchange rate impact of foreign subsidiaries

In accordance with IAS 21, The Effects of Changes in Foreign Exchanges Rates, all translation differences from investment in foreign subsidiaries shall be recognised directly in shareholders' equity as a separate reserve. Exchange rate adjustment of liabilities used to hedge these investments are also recognised directly against shareholders' equity. According to previous GAAP, both were recognised in the income statement. Adjustments resulting from the difference in these methods reduces the 2004 outcome by ISK 20 million, with a corresponding amount entered as a separate item against equity, translation reserve. The net impact on equity as a result is nil.

Impairment of loans and advances

The transition to IAS 39 changes the method of impairment calculation on loans, with the application of new methods based on the present value of future cash flows from loans, based on objective evidence and other historical data. This lowers provisions for credit losses by ISK 150 million, with a corresponding increase in equity.

Change in fair value of unlisted securities

In accordance with IAS 39, the Group will measure the fair value of unlisted securities. As a result, equity on 1 January 2005 will decrease by ISK 206 million.

Hedge accounting

The group has applied hedge accounting, in accordance with IAS 39, as of 1 January 2005. All derivatives held for hedging are recognised at fair value and the carrying value of hedged items is adjusted to take into account the designated risk being hedged in accordance with the defined hedge relationship. Changes in valuation resulting from the application of hedge accounting have resulted in a increase in equity of ISK 289 million.

Changes in fair value due to trading derivatives

In accordance with IAS 39, all derivative financial instruments are recognised at fair value. The total change in assessment as a result is to decrease Group equity by ISK 62 million on 1 January 2005. Of this amount, the increase to trading assets is ISK 603 million and the increase in trading liabilities is ISK 665 million.

40.5 Change in Income Statement 2004 from previous GAAP to IFRS

	Previous GAAP	Change in valuation	Change in presentation	IFRS	
Net interest revenues	14,902	(124)	(43)	14,734	Net interest revenues
Net profit from shareholdings	22	0	(22)		
Commissions and fees	9,995	0	239	10,234	Commissions and fees
Commission expenses	(1,344)	0	0	(1,344)	Commission expenses
Trading gains	9,830	0	(9,830)		
		0	453	453	Dividend income
		0	4,116	4,116	Net gain on financial assets and financial liabilities held for trading
		0	4,918	4,918	Net gain on financial assets designated at fair value through profit and loss
		0	0	0	Fair value adjustments in hedge accounting
		20	344	364	Foreign exchange difference
		0	(8)	(8)	Share of profit of associates
Other revenues	194	0	(194)		
Salaries and related expenses	(7,700)	(94)	0	(7,794)	Salaries and related expenses
Administrative expenses	(4,713)	0	(248)	(4,961)	Administrative expenses
Depreciation of fixed assets	(1,715)	9	0	(1,706)	Depreciation and amortisation
Other expenses	(246)	0	246		
Net provisions for credit losses	(4,485)	0	0	(4,485)	Impairment on loans and advances and assets held for sale
Taxes	(1,882)	54	30	(1,798)	Income tax
Net profit	12,858	(135)	0	12,723	Net profit
Minority interests	(149)			(149)	Minority interests
Net profit according to previous GAAP	12,709			12,574	Net profit attributable to shareholders of Landsbanki Íslands

40.6 Change in Income Statement 2004 from previous GAAP to IFRS by quarters

		Q4 2004	Q3 2004	Q2 2004	Q1 2004
Net profit	12,574	905	5,746	1,785	4,139
Income Statement from previous GAAP	12,709	1,014	5,660	1,941	4,094
Reversal of goodwill amortised	184	73	37	37	37
Impairment of software and equipment	(175)	(175)	0	0	0
Expense due to share-based compensation	(94)	0	(38)	(34)	(23)
Changes related to loan commitment fee	(124)	(66)	97	(197)	41
Exchange rate impact of foreign subsidiaries	20	16	6	1	(3)
Recalculation of Tax liability	54	43	(17)	35	(7)
Restated Income Statement	12,574	905	5,746	1,785	4,139

40.7 Changes in Balance Sheet from previous GAAP to IFRS

Previous GAAP 31 December 2004	31.12.2004	Change in presentation	Change in valuation 2004	Change in valuation 1.1.2005	IFRS 1 January 2005	
Cash and current account at Central Bank	13,432	4,805	0	0	18,237	Cash and cash balances with Central Bank
Treasury bills	4,805	(4,805)	0	0		
Financial institutions	73,435	(73,435)	0	0		
Loans to customers	537,378	77,396	(554)	54	614,274	Loan and advances
Capital leases	11,641	(11,641)	0	0		
Appropriated assets	782	(782)	0	0		
Bonds and other fixed income securities	18,529	(18,529)	0	0		
Equity and other variable income securities	52,970	(52,970)	0	0		
	0	64,594	(23)	159	64,730	Trading assets
	0	12,817	0	0	12,817	Financial assets designated at fair value through profit and loss
	0	4,930	0	0	4,930	Derivatives held for hedging
Shares in Associates	3,756	0	36	0	3,792	Investment in Associates
	0	4,191	(45)	0	4,146	Property and equipment
Premises	2,710	(2,710)	0	0		
Liquid assets	2,035	(2,035)	0	0		
Goodwill	1,012	555	18	0	1,585	Intangible assets
	0	9,866	0	96	9,962	Non-current assets and disposal groups classified as held for sale
Other assets	7,893	(5,226)	0	0	2,668	Other assets
Total assets	730,379	7,020	(567)	309	737,141	
Financial institutions	63,476	(2,239)	0	0	61,236	Deposits from credit institutions
Deposits from customers	217,970	0	0	0	217,970	Deposits from customers
Borrowing	372,424	2,880	(358)	138	375,084	Borrowing
Subordinated loans	22,552	18	0	0	22,570	Subordinated loans
	0	8,077	0	0	8,077	Trading liabilities
	0	1,582	0	0	1,582	Derivatives held for hedging
Computed commitments	563	(563)	0	0		
	0	1,660	(54)	68	1,674	Tax liabilities
	0	4,204	0	0	4,204	Liabilities included in disposal groups classified as held for sale
Other liabilities	14,387	(8,353)	0	0	6,035	Other liabilities
Minority interests	991	13	0	0	1,004	Minority interests
Equity	38,016	(259)	(155)	103	37,705	Equity
Total liabilities	730,379	7,020	(567)	309	737,141	

Memo

Branch Network in Iceland

Rekjavík Area

Branch

- Adalbanki Austurstræti
- Austurbær
- Árbær
- Breidholt
- Bæjarhraun Hafnarfirdi
- Grafarvogur
- Hamraborg
- Höfdabakki
- Háaleiti
- Langholtsútibú / Holtagördum
- Smáralind
- Fjardargata Hafnarfirdi
- Vesturbær

Country

Branch

- Akranes
- Akureyri
- Egilsstadir
- Eskifjördur
- Fáskrúdsfjördur
- Grindavík
- Hornafjördur
- Húsavík
- Ísafjördur
- Keflavík
- Neskaupstadur
- Saudárkrókur
- Selfoss
- Thorlákshöfn
- Breiddalsvík
- Borgarfjördur eystri
- Djúpivogur
- Gamla flugstöd
- Grundarfjördur
- Hellissandur
- Hvolsvöllur
- Kópasker
- Leifsstöd
- Ólafsvík
- Raufarhöfn
- Reydarfjördur
- Reykholt
- Sandgerdi
- Seydisfjördur
- Skagaströnd
- Stillholt
- Stödvarfjördur
- Vopnafjördur

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