

Annual Accounts 2003

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Landsbanki Íslands
The National Bank of Iceland Ltd.

Consolidated Accounts 2003

Landsbanki Íslands hf.



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Key figures from the Landsbanki Group Accounts

ISK Million

	2003	2002	2001	2000	1999
Operations					
Interest revenues.....	21,871	21,813	27,909	20,356	15,517
Interest expenses.....	12,540	14,082	19,136	14,330	10,001
Net interest revenues.....	9,331	7,732	8,772	6,026	5,516
Net profit from shareholdings.....	144	523	873	743	469
Commissions and fees.....	6,271	4,745	4,197	2,901	2,288
Commission expenses.....	(843)	(669)	(575)	-	-
Trading gains (losses).....	3,361	208	(1,704)	(113)	615
Other revenues.....	718	1,378	687	403	342
Operating revenues.....	9,651	6,185	3,479	3,935	3,714
Net operating revenues.....	18,982	13,916	12,251	9,961	9,230
Payroll expenses.....	5,656	4,387	4,184	3,620	3,432
Administrative expenses.....	3,562	3,208	2,995	2,770	2,316
Depreciation of fixed assets.....	1,307	752	754	584	470
Other expenses.....	289	157	174	144	238
Operating expenses.....	10,815	8,505	8,108	7,118	6,456
Net provisions for credit losses.....	4,656	2,863	2,298	1,340	1,106
Profit before taxes and minority interests.....	3,512	2,549	1,846	1,504	1,668
Taxes.....	457	475	(9)	518	575
Minority interests.....	99	45	107	31	0
Net profit.....	2,956	2,028	1,749	955	1,093
Balance Sheet					
Cash and interbank operations.....	48,772	18,893	22,023	22,447	23,021
Loans.....	326,400	214,787	199,083	169,374	131,070
Securities and shareholdings.....	63,744	36,337	39,939	38,076	33,402
Other assets.....	9,323	7,808	7,881	9,398	5,602
Total assets.....	448,239	277,824	268,926	239,294	193,095
Financial institutions.....	43,840	30,665	29,410	36,981	26,808
Deposits.....	152,320	108,306	99,747	82,665	77,821
Funding.....	209,357	108,479	111,639	97,152	70,278
Other items.....	6,389	5,057	3,131	2,706	2,091
Subordinated loans.....	13,090	8,216	8,527	5,436	4,661
Minority interests.....	862	792	967	716	-
Equity.....	22,382	16,309	15,505	13,639	11,436
Total liabilities and equity.....	448,239	277,824	268,926	239,294	193,095
Key ratios					
Return on equity before taxes.....	20.9%	17.0%	13.9%	12.7%	17.5%
Return on equity after taxes.....	17.6%	13.5%	13.1%	8.1%	11.5%
Tier 1 ratio.....	6.9%	7.7%	7.5%	7.2%	8.2%
Equity ratio.....	9.9%	10.6%	10.4%	8.7%	9.6%
Cost-income ratio.....	57.0%	61.1%	66.2%	71.5%	69.9%
Operating expenses as a ratio of average capital position.....	3.0%	3.1%	3.2%	3.3%	3.7%
Interest spread as a ratio of average capital position.....	2.62%	2.83%	3.45%	2.86%	2.99%
Ratio of provision to lending position at year-end.....	1.47%	1.33%	1.17%	0.83%	0.87%
Total assets per position at year-end.....	415	282	270	240	198
Share price at period-end.....	5.80	3.65	3.39	3.45	4.56
Share price increase adjusted for dividend payments.....	61.6%	10.6%	0.1%	-22.1%	96.7%
Number of positions at year-end.....	1,025	986	997	996	977

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

The accounts for 2003 comprise the consolidated accounts of the parent company and its subsidiaries. The accounts of Landsbanki Íslands hf. have been prepared in accordance with enacted law on the preparation of annual accounts of commercial banks, savings banks and other financial institutions. The same accounting principles are used as in last year.

According to the profit and loss account, the Bank's profit in 2003 amounted to ISK 2,956 million. The Board of Directors recommends a dividend payment of 10% to shareholders in 2003, amounting to ISK 750 million. In other respects, the Board of Directors recommends that profit should be used in the manner set out in the section of the annual accounts on changes in capital. The Landsbanki Group's equity at year-end totalled ISK 22,382 million. The capital adequacy ratio (CAD) of the Group was 9.9%. Total assets of the Group were ISK 448,239 million at year-end.

The Bank acquired Landsbanki Luxembourg in 2003 and it was included in the consolidated accounts as of 1 July 2003. The Bank also acquired the remaining 1% stake in Heritable Bank in London which it is now fully held by Landsbanki. In 2003, Landssjóður hf. and Landssjóður 2 were merged into Landsvaki hf. Landsvaki hf. is a management company of mutual funds which previously was a part of Landssjóður hf and Landsjóður 2 hf.

Landsbanki was involved in the restructuring of Landsafl hf. in 2003. At year-end 2003, the Bank held all shares in the company, but the purpose of the holding is not to hold this stake in the long run. It is rather a short-term holding in the Landsbanki Group. Landsafl hf. is not consolidated in the accounts as permitted in Act No 161/2002. The stake in Landsafl hf. is booked at cost value with "Equity and Other Variable Income Securities".

At year-end 2003, shareholders in Landsbanki numbered 13,936. Samson Holding ehf. is the only shareholder with a stake over 10%, namely a 44.3% stake.

The nominal equity was increased by ISK 654.3 million, leaving total equity at ISK 7,500 million at year-end 2003.

Number of positions at year-end was 1,025. Salaries and wages totalled ISK 5,656 million.

The Board of Directors of the Bank and the Group Managing Directors & CEOs hereby confirm the Annual Accounts of Landsbanki Íslands hf. for 2003 with their signatures.

Reykjavík, 5 February 2004

Board of Directors

Björgólfur Guðmundsson

Kjartan Gunnarsson

Andri Sveinsson

Einar Benediktsson

Þorgeir Baldursson

Group Managing Directors and Chief Executive Officers

Halldór J. Kristjánsson

Sigurjón Þ. Árnason

Auditor's Report

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

We have audited the 2003 consolidated annual accounts of the Landsbanki Group and the annual accounts of the Bank's subsidiaries. The Annual Accounts consist of the Report of the Board of Directors and Group Managing Director & CEO, the profit and loss account, balance sheet, statement of cash flow and notes no. 1 – 46. These annual accounts are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. 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 annual accounts. The audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the annual accounts present fairly the 2003 results of the operations of Landsbanki Group, the financial position as at 31 December 2003 and cash flows for the year then ended, in accordance with law and generally accepted accounting standards in Iceland.

Reykjavík, 5 February 2004

PricewaterhouseCoopers hf.

Hjalti Schiöth

Ólafur Kristinsson

Profit and loss account for the year 2003

	Note	2003	2002
Interest revenues			
Interest on deposits and loans to financial institutions.....		1,167.2	1,796.0
Interest on loans to customers.....		18,786.2	18,076.6
Interest on fixed-income securities.....		1,899.0	1,891.1
Other interest revenues.....		18.8	49.6
		21,871.3	21,813.3
Interest expenses			
Interest on deposits and loans from financial institutions.....		380.0	1,520.6
Interest on deposits from customers.....		6,108.7	6,669.4
Interest on funding.....		4,822.2	4,572.2
Interest on subordinated loans.....		423.9	501.5
Other interest expenses.....		805.1	818.1
		12,539.8	14,081.6
		9,331.4	7,731.7
Operating revenues			
Net profit from shareholdings.....	(40)	144.1	523.0
Commissions and fees.....	(41)	6,270.9	4,744.6
Commission expenses.....		(842.5)	(669.1)
Trading gains.....	(42)	3,360.5	208.3
Other revenues.....		717.9	1,377.9
		9,651.0	6,184.8
		18,982.4	13,916.4
Operating expenses			
Payroll expenses.....	(37)	5,656.4	4,387.4
Administrative expenses.....		3,562.0	3,208.4
Depreciation of fixed assets.....	(43)	1,306.7	752.0
Other expenses.....		289.5	157.4
		10,814.5	8,505.2
Net provision for credit losses.....	(14)	4,656.0	2,862.7
		3,511.9	2,548.5
Taxes.....			
	(28)	(456.7)	(475.4)
		3,055.2	2,073.1
Minority interests.....			
	(3)	(99.4)	(45.1)
		2,955.8	2,028.0

Balance sheet

Assets	Note	<u>2003</u>	<u>2002</u>
Cash and interbank operations			
Cash and current account at Central Bank.....	(5)	1,373.3	996.3
Treasury bills.....		9,204.8	1,045.7
Financial institutions.....	(6-7)	<u>38,193.9</u>	<u>16,850.4</u>
		<u>48,772.0</u>	<u>18,892.5</u>
Loans			
	(8-14)		
Loans to customers.....		317,579.8	208,309.0
Capital leases.....		7,132.4	4,788.8
Appropriated assets.....		<u>1,687.5</u>	<u>1,689.4</u>
		<u>326,399.7</u>	<u>214,787.2</u>
Securities and shareholding			
Bonds and other fixed-income securities.....	(15)	38,696.0	23,309.9
Equity and other variable-income securities.....	(16)	23,708.5	9,012.1
Shares in partially-owned companies.....	(17)	1,339.9	3,999.9
Shares in subsidiaries.....		<u>0.0</u>	<u>15.0</u>
		<u>63,744.3</u>	<u>36,336.9</u>
Other assets			
Fixed assets.....	(18)	4,706.6	5,221.6
Goodwill.....	(19)	1,168.6	950.8
Other assets.....		506.9	1,083.1
Accruals.....		<u>2,940.6</u>	<u>552.1</u>
		<u>9,322.7</u>	<u>7,807.7</u>
Total assets.....		<u><u>448,238.7</u></u>	<u><u>277,824.3</u></u>

31 December 2003

Liabilities and equity	Note	<u>2003</u>	<u>2002</u>
Financial institutions	(23-24)	43,839.7	30,665.1
Customers accounts	(25)		
Demand deposits.....		58,273.0	40,598.9
Time deposits.....		74,507.5	55,471.4
Special-term deposits.....		<u>19,539.5</u>	<u>12,235.9</u>
		152,320.0	108,306.1
Funding	(26-27)	209,356.9	108,478.8
Other items			
Other liabilities.....		2,450.5	2,113.9
Accruals.....		3,368.5	2,376.9
Computed commitments.....	(28)	<u>569.6</u>	<u>565.9</u>
		6,388.7	5,056.7
Total liabilities		411,905.3	252,506.7
Subordinated loans	(29)	13,089.7	8,216.2
Minority interests	(3)	861.7	792.0
Equity	(30-31)		
Share capital.....		7,500.0	6,695.7
Share premium account.....		4,354.7	1,378.0
Statutory reserve funds.....		268.5	268.5
Retained earnings.....		<u>10,258.8</u>	<u>7,967.2</u>
		22,381.9	16,309.4
Total liabilities and equity		<u>448,238.7</u>	<u>277,824.3</u>
Off-balance sheet items	(32-35)		

Cash flow statement for the year 2003

	Note	<u>2003</u>	<u>2002</u>
Cash flow from operating activities			
Net profit.....		2,955.8	2,028.0
Reconciliation of operating profit to net cash flow from operating activities:			
Indexation and foreign exchange.....		(3,772.3)	(773.0)
Provisions for credit losses.....	(14)	4,787.0	2,893.1
Changes in income tax obligations.....	(28)	35.6	93.6
Other items.....		224.0	(375.9)
Changes in current assets and liabilities.....		<u>(1,220.5)</u>	<u>3,556.0</u>
Cash flow from operating activities		<u>3,009.6</u>	<u>7,421.8</u>
Cash flow from investing activities			
Change in reserve requirement account at Central Bank.....		5,039.2	(4,845.6)
Other time-deposits at financial institutions.....		(16,506.1)	2,354.5
Change in loans.....		(117,006.1)	(22,248.3)
Change in trading bonds.....		(23,768.6)	(1,969.0)
Change in trading securities.....		(12,152.8)	238.1
Change in investment bonds.....		9,004.8	1,728.1
Change in investment securities.....		(30.1)	968.5
Change in subsidiaries and partially owned companies.....		3,510.3	2,334.9
Investment in fixed assets.....	(18)	(859.9)	(770.3)
Fixed assets sold.....	(18)	175.7	29.9
Other items, change.....		<u>333.7</u>	<u>(1,090.5)</u>
Cash flow used by investing activities		<u>(152,259.9)</u>	<u>(23,269.7)</u>
Financing activities			
Loans from financial institutions.....		14,052.7	4,684.7
Change in deposits.....		42,485.5	9,488.5
Change in funding.....		102,876.0	(2,174.5)
Other loans.....		58.7	75.3
Subordinated loans.....		5,111.0	116.0
Increased share capital.....	(30)	3,233.6	0.0
Dividends paid.....	(30)	(664.3)	(676.0)
Own stock, change.....	(30)	<u>547.5</u>	<u>(547.5)</u>
Cash flow provided by financing activities		<u>167,700.6</u>	<u>10,966.4</u>
Increase (decrease) in cash.....		18,450.3	(4,881.5)
Cash at beginning of year		3,919.1	8,800.6
Cash at year-end.....	(4)	<u><u>22,369.3</u></u>	<u><u>3,919.1</u></u>
Other information			
Income tax paid.....		12.7	89.0
Dividends from subsidiaries and partially-owned companies.....		211.8	457.5

Notes to the 2003 annual accounts

Accounting principles

1 Accounting policies

The annual accounts of Landsbanki Íslands hf. for the year 2003 shows the consolidated accounts of the Landsbanki Group. The consolidated accounts are prepared in accordance with enacted law of annual accounts and rules on the preparation of annual accounts of commercial banks, savings banks, and other financial institutions, and are essentially unchanged from prior year.

2 International Accounting Standards

Landsbanki, as a listed company in Iceland Stock Exchange will change its accounting policies beginning 2005, in conformity with International Accounting Standards (IAS) on preparing consolidated accounts. Preparations are already in progress.

3 Consolidated accounts and shareholdings

The consolidated accounts incorporate the accounts of Landsbanki Íslands hf. and group undertakings, which include companies in which Landsbanki holds a share of, greater than 50%. At year-end these companies were:

	share in %
Heritable Bank Limited.....	100.0
Hömlur hf.....	100.0
Landsbanki Capital International Limited.....	100.0
Landsbanki Luxembourg S.A.....	100.0
Landsbanki Fjárfesting hf.....	100.0
Landsbanki Fasteignafélag ehf.....	100.0
Landsvaki hf.....	100.0
Co-operative credit union.....	100.0
SP-Finance hf.....	51.0

Minority interests in the profit and loss account, as well as the balance sheet, of subsidiaries are specifically shown in the consolidated accounts. On 30 June 2003, Landsbanki acquired all shares of Bunadarbanki International S.A. and subsequently the name was changed into Landsbanki Luxembourg S.A. Landsbanki Luxembourg S.A. is included in Landsbanki group accounts as of 1 July 2003. In July 2003 Landsbanki acquired 1% stake in Heritable Bank Limited, leaving Landsbanki's stake at 100% and in December 2003, the Bank formed the corporation Fasteignafélagið ehf, a real estate investment trust.

Landssjóður hf. and Landssjóður 2 hf. were merged into Landsvaki hf. in 2003. Landsvaki hf. is operated in accordance with The Financial Supervisory Authority's regulations and operates mutual funds which previously were in Landssjóður hf. og Landssjóður 2 hf.

Landsbanki was involved in the restructuring of Landsafl hf. in 2003. At year-end 2003 the Bank had a 100% stake in the entity. The purpose of the holding is not to hold this stake in the long run, but this is rather a short-term holding. Landsafl hf. is not consolidated in the accounts as permitted in Act No 161/2002. The stake in Landsafl hf. is booked at cost value with "Equity and Other Variable Income Securities".

The annual accounts of the Group have been prepared by adding together corresponding assets, liabilities, income and expenses from the annual accounts of individual Group companies and eliminating intragroup balances, transactions and investments. Intragroup balances, claims and liabilities, as well as income and expenses have been eliminated in the consolidated accounts of the Group. Assets and liabilities of foreign subsidiaries are translated into króna at the exchange rate on 31 December 2003. Income and expenses of foreign subsidiaries are translated into króna using the average exchange rate of the year.

Associated undertakings are companies in which Landsbanki Group has made a long-term investment, and exercises influence on their management, but holds less than 50% of the shares. Investments in associated undertakings, and share in their net profit, or loss, are accounted for by the equity method. Dividends are credited to the Group's asset value in the associated undertakings.

The Bank's share in pre-tax results of partially-owned companies is stated under the item "Net profit from Shareholdings". Income and net worth taxes are entered under "Taxes" in the annual accounts.

4 Cash flow

Cash and cash equivalents consists of domestic and foreign cash on-hand, demand deposits at the Central Bank, and claims due from financial institutions.

Cash and interbank operations

5 Cash and current account at Central Bank	2003	2002
Cash.....	915.7	817.1
Demand deposits with Central Bank.....	457.5	179.2
	1,373.3	996.3

6 Financial institutions

Deposits at Central Bank

Reserve requirement account.....	1,063.6	6,102.8
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Loans to other financial institutions

Other financial institutions.....	37,130.3	10,747.6
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	38,193.9	16,850.4
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7 Maturity of loans to other financial institutions

On demand.....	11,791.3	1,877.0
Up to 3 months.....	3,754.7	6,699.5
Over 3 months and up to 1 year.....	15,882.3	1,284.1
Over 1 year and up to 5 years.....	5,211.4	372.5
Over 5 years.....	490.7	514.5
	37,130.3	10,747.6

Loans

Loans are stated at nominal value and are adjusted for accrued interest. Indexed loans are stated with accrued indexation, based on the Consumer Price Index for January 2004. Foreign assets are translated at the rate of exchange published in the official Central Bank guidelines at year-end 2003. The same principles are applied to the entering and assessment of leasing contracts. Provisions are deducted from loans for specific, as well as latent unidentified risks. Interest revenues are recognised on an accrual basis as they are earned or incurred. However, for overdrafts, interest is accrued as at 20 December instead of 31 December.

8 Loans to customers	2003	2002
Loans denominated in foreign currency.....	185,762.0	96,783.0
Debentures.....	87,652.6	74,600.5
Overdrafts.....	39,995.9	32,667.6
Bills of exchange.....	1,291.0	2,022.4
Other loans.....	2,878.4	2,235.4
	317,579.8	208,309.0

9 Capital leases

	<u>2003</u>	<u>2002</u>
Vehicles.....	3,340.3	1,429.7
Plants and machinery.....	963.8	720.0
Equipment.....	861.6	985.6
Computers, electronics and office fixtures.....	818.0	529.2
Real estate.....	680.7	631.4
Other items.....	467.9	493.0
	<u>7,132.4</u>	<u>4,788.8</u>

10 Loans to customers and capital leases

	2003	2003	2002	2002
	%		%	
Government and state-owned companies.....	0.0	111.1	0.1	116.4
Municipalities.....	1.0	3,399.1	2.0	4,244.7
Financial institutions.....	5.5	17,992.0	3.2	6,874.0
Business loans by category:				
Agriculture.....	0.9	2,913.3	1.1	2,255.5
Fisheries and fish processing.....	17.1	55,617.2	22.6	48,190.7
Trade.....	13.0	42,290.1	16.6	35,442.6
Manufacturing.....	6.7	21,593.5	8.1	17,322.2
Transportation and communications.....	1.9	6,022.9	1.1	2,383.2
Services.....	33.7	109,346.8	18.6	39,605.7
Contractors.....	2.3	7,575.4	3.2	6,800.5
Other.....	0.3	836.6	0.3	564.1
Consumers.....	17.6	57,014.4	23.1	49,298.4
	<u>100.0</u>	<u>324,712.2</u>	<u>100.0</u>	<u>213,097.8</u>

11 Maturity of loans to customers and of capital leases

	<u>2003</u>	<u>2002</u>
On demand.....	12,921.3	7,494.6
Up to 3 months.....	75,967.5	38,237.7
Over 3 months and up to 1 year.....	81,356.9	55,894.2
Over 1 year and up to 5 years.....	100,181.6	89,243.6
Over 5 years.....	54,284.8	22,227.7
	<u>324,712.2</u>	<u>213,097.8</u>

12 Appropriated assets

Under certain circumstances, it may be necessary for the Landsbanki Group to appropriate assets that have been pledged as collateral security. Interest income from appropriated assets is not recorded unless it has been received. Holdings in undertakings and net current assets, which the Group has acquired as a part of a debt settlement, are valued at cost, with an allowance being made for reserves, and entered as "Appropriated Assets". Real estate, entered among appropriated assets is booked at estimated fair market value at year-end.

	<u>2003</u>	<u>2002</u>
Real estate.....	1,116.0	954.2
Equipment.....	28.1	12.4
Trading securities and other securities.....	543.5	722.7
	<u>1,687.5</u>	<u>1,689.4</u>

13 Non-performing loans other than appropriated assets	<u>2003</u>	<u>2002</u>
Loans with special provisions.....	6,940.1	7,554.5
Special allowance account for credit losses.....	<u>(5,175.3)</u>	<u>(4,254.1)</u>
	1,764.8	3,300.4
Other non-performing loans.....	<u>2,589.9</u>	<u>3,178.0</u>
Total non-interest bearing loans.....	<u>4,354.7</u>	<u>6,478.4</u>

14 Provisions for credit losses

Loans to customers, leasing contracts, appropriated assets, and other commitments of the Landsbanki Group are assessed on the basis of potential credit losses in accordance with rules issued by the Financial Supervisory Authority. An allowance account for credit losses is established on the basis of such an assessment and credited to the balance sheet item in question.

The allowance account for credit losses comprises specific and general provisions. Specific provisions are intended to offset losses on loans and advances to customers that are deemed to be at particular risk as a result of deteriorating financial strength, or prolonged arrears. General provisions are provisions that are not specifically allocated or restricted to any individual loan, or group of loans, but raised to absorb general lending risk inherent in the portfolio. General and specific provisions made during 2003, less recovered bad debts, were charged against the profit and loss account.

Any loan that has been written off, pursuant to a decision of the Board of Directors, is removed from the Bank's books. Such loan amounts are then deducted from the allowance account.

Changes during the year:	<u>Special</u>	<u>General</u>	<u>2003 Total</u>	<u>2002 Total</u>
Balance at beginning of year.....	4,757.2	1,864.4	6,621.6	4,829.1
Provisions for the year.....	4,450.4	336.5	4,787.0	3,363.7
Loans written off.....	<u>(3,709.0)</u>		<u>(3,709.0)</u>	<u>(1,571.3)</u>
Balance at year-end.....	<u>5,498.6</u>	<u>2,200.9</u>	<u>7,699.5</u>	<u>6,621.6</u>

	<u>2003</u>	<u>2002</u>
Provisions for the year.....	4,787.0	2,893.1
Collected previously written-off loans.....	<u>131.0</u>	<u>30.4</u>
	<u>4,656.0</u>	<u>2,862.7</u>
Provisioning ratio.....	2.3%	3.0%

Securities and shareholding

Securities held by the Group consist of trading securities and investment securities. Trading securities include all market securities, excluding investment securities and T-bills. Trading securities, bonds, and shares listed on official stock exchanges are entered at market prices at year-end 2003. Unlisted trading securities are entered at the lower of cost price, including accrued interest, or their assessed value.

Investment securities are those market securities, bonds and equities, which the Bank/Group has decided to hold for a period exceeding one year. The Bank has no holding in investment bonds at 31 December 2003. Unlisted investment shares are stated at cost.

Changes in prices of listed shares, and changes in yields of listed bonds, can materially affect the Bank's operating results, irrespective of the sale of such securities. Gains resulting from appreciation in value of unlisted trading securities are, however, only recognised when realised by sale.

Treasury bills, and related sales or buy-back contracts are entered as assets and liabilities under the items "Cash and Interbank Operations" and "Financial Institutions".

15 Bonds and other fixed income securities

	2003	
	Market value	Book value
Trading bonds		
Iceland Stock Exchange.....	38,341.5	38,341.5
Other foreign listed bonds.....	354.4	354.4
	38,696.0	38,696.0
Market securities by issuer:		
Issued by Government.....	34,701.7	34,701.7
Issued by others.....	3,994.3	3,994.3
	38,696.0	38,696.0

The Bank has entered into forward and option contracts of ISK 15,674 million against its underlying bond holdings. These contracts are entered at market value. Securities maturing within 12 months amounted to ISK 3,588 million at year-end.

16 Equity and other variable income securities

	2003	
	Market value	Book value
Trading securities		
Iceland Stock Exchange.....	18,259.6	18,259.6
Other quoted securities.....	671.9	671.9
Unlisted securities.....		4,608.9
		23,540.4
Investment securities		
Unlisted securities.....		168.1
Total securities.....		23,708.5

The Bank has entered into derivative positions for the amount of ISK 5,499 million, which offset underlying shareholdings. These contracts are entered at market value.

17 Shares in partially owned companies

	Ownership	Profit	Nominal	Book
	%	share	value	value
VISA - Iceland Ltd.....	38.0	71.1	152.0	507.0
The Banks's Data Center*.....	35.1	28.0	408.8	442.4
Eurocard - Iceland Ltd.....	20.0	38.7	100.0	217.4
Intrum Justitia hf.....	25.0	8.3	0.2	82.9
Lánstraust hf.....	22.9	0.6	2.2	80.7
Other partially owned companies.....				9.3
		146.7		1,339.9

*Share in the net income of the Bank's Data Center is netted against "Other Expenses".

Other items

18 Fixed assets

Fixed assets are depreciated on a straight-line basis. Liquid assets consist of office fixtures and security systems and vehicles.

	<u>Premises</u>	<u>IT</u>	<u>Liquid assets</u>	<u>Total</u>
Fixed assets:				
Revalued cost at beginning of year.....	5,206.1	2,948.1	1,676.8	9,831.0
Addition from Landsbanki Luxembourg S.A.....	0.0	0.0	238.0	238.0
Additions.....	32.0	422.5	296.4	751.0
Disposals.....	(310.4)	(20.5)	(38.4)	(369.3)
Revalued cost at year-end.....	<u>4,927.7</u>	<u>3,350.2</u>	<u>2,172.9</u>	<u>10,450.7</u>
Accumulated depreciation at beginning of year.....	2,090.5	1,575.3	943.6	4,609.4
Addition from Landsbanki Luxembourg S.A.....	0.0	0.0	129.1	129.1
Depreciation charge.....	96.8	471.4	221.5	789.7
Write-off.....	0.0	382.0	0.0	382.0
Disposals.....	(148.1)	(14.1)	(3.9)	(166.1)
Accumulated at year-end.....	<u>2,039.3</u>	<u>2,414.5</u>	<u>1,290.3</u>	<u>5,744.1</u>
Net book value at year-end.....	<u>2,888.4</u>	<u>935.6</u>	<u>882.6</u>	<u>4,706.6</u>
Depreciation (straight-line).....	0,5-4%	20-33%	10-20%	

The depreciation percentage of fixed assets has been changed from that of previous year, and the net effect is an expense of ISK 120 million.

Assessment value of land, equipment and Bank Premises:	<u>2003</u>	<u>2002</u>
Official assessment value of land and Bank premises.....	2,535.1	2,523.4
Replacement value of buildings.....	4,909.7	4,899.7
Insurance value of liquid assets.....	1,067.3	1,025.5

19 Goodwill

Book value at beginning of year.....	950.8	647.7
Investments.....	352.8	379.0
Amortisation charge.....	(135.0)	(75.9)
Book value at year-end.....	<u>1,168.6</u>	<u>950.8</u>

Goodwill is amortised over ten years

Specification of balance with subsidiaries and partially owned companies

20 Claims and liabilities with partially owned companies

Assets		
Loans.....	2,063.9	564.6
Liabilities		
Deposits.....	157.1	4,053.9

Assets and liabilities denominated in foreign currency or index-linked

21 Denominated in foreign currency	<u>2003</u>	<u>2002</u>
Assets.....	393,199.5	172,865.7
Liabilities.....	392,675.5	172,703.3
	<u>524.0</u>	<u>162.4</u>

22 Index-linked

Assets.....	92,280.2	76,010.2
Liabilities.....	83,943.3	61,544.4
	<u>8,336.9</u>	<u>14,465.8</u>

Financial institutions

23 Financial institutions

Loans from Central Bank in repurchase agreements.....	0.0	4,321.7
Loans from other financial institutions.....	43,839.7	26,343.4
	<u>43,839.7</u>	<u>30,665.1</u>

24 Maturity of debt to financial institutions

On demand.....	1,219.0	1,534.5
Up to 3 months.....	37,416.2	27,809.8
Over 3 months and up to 1 year.....	5,204.5	1,165.9
Over 1 year and up to 5 years.....	0.0	68.0
Over 5 years.....	0.0	86.8
	<u>43,839.7</u>	<u>30,665.1</u>

Customers accounts

Deposits are stated at nominal value and adjusted for accrued interest. Indexed deposits are stated with accrued indexation, based on the Consumer Price Index for January 2004. Foreign liabilities are translated at the rate of exchange published in the official Central Bank guidelines at year-end. Interest expenses are recognised on an accrual basis as they are earned or incurred. However, for certain deposit categories, interest is accrued as at 20 December instead of 31 December.

25 Maturity of customer accounts

	<u>2003</u>	<u>2002</u>
Demand deposits.....	58,273.0	40,598.9
Up to 3 months.....	65,508.6	49,224.0
Over 3 months and up to 1 year.....	5,262.2	4,225.3
Over 1 year and up to 5 years.....	17,838.7	11,257.0
Over 5 years.....	5,437.5	3,000.9
	<u>152,320.0</u>	<u>108,306.1</u>

Funding

26 Funding

	2003	2002
Foreign banks.....	26,476.1	46,136.0
Securities issues.....	175,784.6	59,183.3
Other funding.....	7,096.2	3,159.5
	<u>209,356.9</u>	<u>108,478.8</u>

27 Maturity of funding

Up to 3 months.....	1.3	963.8
Over 3 months and up to 1 year.....	11,597.9	20,804.2
Over 1 year and up to 5 years.....	11,731.8	23,576.8
Over 5 years.....	3,145.1	791.3
	<u>26,476.1</u>	<u>46,136.0</u>
Securities maturing within 12 months.....	80,240.1	6,194.0

Other items

28 Computed commitments

Pension obligations.....	396.8	428.7
Deferred income tax liability.....	172.8	137.2
	<u>569.6</u>	<u>565.9</u>

The difference of income tax according to the profit and loss account and income tax calculated on the base of taxable profit of the year payable next year, is recorded under the liabilities section in the balance sheet, as deferred income tax liabilities. This difference arises because taxable profit according to the company's tax return is based on other assumption than profit before taxation according to the profit and loss account. The main reason for this is time difference of realised income and charges.

Deferred income tax liability generally reflects the income tax which would be payable, according to current tax law, if the company's assets were to be sold or redeemed at book value.

Changes in deferred income tax liability:	2003	2002
Deferred income tax liability at beginning of the year.....	137.2	43.6
Computed taxes for the year.....	416.3	376.6
Transferred within group.....	65.5	98.1
Income tax payable.....	(446.3)	(381.1)
	<u>172.8</u>	<u>137.2</u>
Deferred income tax liability breakdown:		
Carry-forward losses.....	(28.0)	(95.1)
Shareholdings.....	4.4	43.4
Premises and equipment.....	208.9	179.4
Obligations.....	(98.4)	(76.1)
Miscellaneous assets.....	86.0	85.6
	<u>172.8</u>	<u>137.2</u>
Breakdown of computed taxes for the year:		
Computed taxes for the year.....	416.3	376.6
Computed taxes for subsidiaries.....	0.0	0.3
Computed taxes for partially-owned companies.....	32.0	82.2
Property tax.....	5.5	4.3
Adjustment for taxes.....	2.8	9.6
Minority interest in computed subsidiary taxes.....	0.0	2.3
	<u>456.7</u>	<u>475.4</u>

29 Subordinated loans

Subordinated loans of the Group at year-end

	Classification	Currency	Interest	Maturity	2003
Quoted on Iceland Stock Exchange.....	Tier I	ISK	8.65%+CPI	callable	912.3
Unlisted.....	Tier I	ISK	6.5%+CPI	callable	1,047.7
Quoted on Luxembourg Stock Exchange.....	Tier II	JPY	Libor+0.8%	2033	3,328.1
Quoted on Luxembourg Stock Exchange.....	Tier II	USD	Libor+0.15%	2011	2,136.1
Quoted on Luxembourg Stock Exchange.....	Tier II	EUR	Euribor+1.2%	2018	988.3
Quoted on Luxembourg Stock Exchange.....	Tier II	EUR	Libor+1.35%	2026	913.6
Quoted on Luxembourg Stock Exchange.....	Tier II	EUR	Libor+1.36%	2011	450.5
Quoted on Luxembourg Stock Exchange.....	Tier II	EUR	Libor+0.80%	2013	361.7
Unlisted.....	Tier II	ISK	5.60%+CPI	2008	1,553.4
Unlisted.....	Tier II	ISK	6.00%+CPI	2008	780.6
Unlisted.....	Tier II	ISK	5.50%+CPI	2009	379.0
Unlisted.....	Tier II	ISK	6.00%+CPI	2010	238.5
Total subordinated loans.....					13,089.7

Subordinated loans are a part of equity according to regulation on the calculation of equity ratio (see note 31). Subordinated loans are fully applicable to the calculation of CAD ratio.

Equity

30 Changes in equity

	Capital	Share premium account	Statutory reserve	Retained earnings	Total
Capital at beginning of year.....	6,695.7	1,378.0	268.5	7,967.2	16,309.4
Capital increase.....	654.3	2,579.3			3,233.6
Dividends paid.....				(664.3)	(664.3)
Purchase of own shares.....	150.0	397.5			547.5
Net profit.....				2,955.8	2,955.8
Capital at year-end.....	7,500.0	4,354.7	268.5	10,258.8	22,381.9

31 Capital ratio

	2003	2002
Capital and capital ratio according to laws:		
Tier I		
Recorded equity.....	22,381.9	16,309.4
Subordinated loans.....	1,960.0	888.9
Goodwill.....	(1,049.2)	(824.6)
Minority interests.....	861.7	792.0
Total Tier I.....	24,154.5	17,165.6
Tier II.....	11,129.8	6,757.8
Tier III.....	0.0	405.5
- deduction in accord with Articles 28 and 85 of Act No 161/2002.....	(724.4)	(710.2)
Total capital.....	34,559.8	23,618.7
Risk-adjusted assets.....	350,307.8	223,629.7
Tier I ratio.....	6.9%	7.7%
Capital ratio.....	9.9%	10.6%

As stipulated by law, the sum of subordinated loans and equity, after the defined deduction of the book value of shares in partially owned financial companies, may not, at any time, fall below 8% of the Bank's risk-adjusted asset base. This base is made up of total assets and issued guarantees, less such balance sheet items specified in regulations issued by the Financial Supervisory Authority.

Consequently, the Bank fulfilled all capital adequacy ratios as stipulated by law.

Off-balance sheet items

32 Derivatives

The Bank has entered into forward foreign exchange contracts, options, and interest and currency swap contracts. Forward foreign exchange contracts are commitments to buy or sell currencies, market bonds or market securities at a future date at a contracted price. Currency options represent the right to buy or sell a specified amount of foreign currency at a fixed price at a specified time in the future. Interest and currency swap contracts are transactions between two parties involving exchanging interest payments or currencies based on differentials between specified indices. The Bank has reduced its risk exposure related to these commitments through counterparty agreements. The accrued interest and exchange-rate differentials have been accounted for in the accounts. The credit equivalent of Landsbanki's derivatives, quantified on the basis of risk-base rules, is ISK 2,473 million at year-end.

	<u>2003</u>	<u>2002</u>
33 Guarantees		
Guarantees issued.....	15,310.4	8,783.0
 34 Other off-balance sheet items		
Available overdrafts.....	19,990.2	20,028.3
Unused credit commitments.....	<u>13,250.2</u>	<u>6,279.3</u>
Other off-balance sheet items.....	<u>33,240.4</u>	<u>26,307.6</u>

35 Breakdown of derivatives

	Principal	Book value	
		<u>Assets</u>	<u>Liabilities</u>
Currency derivatives			
Forward exchange rate contracts.....	130,367.3	2,859.6	1,452.6
Options, purchased.....	46,016.8	1,820.9	0.0
Options, sold.....	40,410.8	0.0	1,846.6
 Interest rate derivatives			
Interest rate swaps.....	21,546.5	102.5	30.4
 Currency and interest rate swaps			
Bond and other interest rate and exchange rate derivatives....	33,058.6	293.7	589.3
Currency interest rate swaps.....	23,208.7	933.8	0.0
 Equity derivatives			
Swaps.....	5,269.6	24.9	313.8
Options, purchased.....	0.0	0.0	0.0
Options, sold.....	8.8	0.0	2.6

Personnel

36 Number of employees	2003	2002
Average number recalculated to full-time positions.....	1,092	1,064
Number of full-time positions at year-end.....	1,025	986
Thereof engaged in banking activities.....	995	953

37 Payroll expenses

Salaries.....	4,729.6	3,634.4
Pension-fund contributions.....	586.0	454.8
Other personnel expenses.....	340.7	298.2
	5,656.4	4,387.4

38 Payroll Expenses and Management Compensation

Compensation, in respect of the Bank's Board of Directors, Group Managing Directors & CEOs, Managing Directors of the Parent is as follows:

	Payroll and benefits	Stock Options		Total
		unused	Contracts 2004-2006	
Björgólfur Guðmundsson, Chairman of the Board of Directors.....	2	0	0	0
Other Members of the Board of Directors.....	5	0	0	0
Halldór J. Kristjánsson, Group Managing Director & CEO.....	20	9	12 ²	21
Sigurjón Th. Árnason, Group Managing Director & CEO.....	34 ¹	6	9	15
Managing Directors.....	198 ¹	22	37	59
	259	37	58	95

The stock options of Managing Directors & CEOs and Managing Directors have an exercise price of 3.58 – 4.12.

Stock option rights are transferable between years and can be accumulated and exercised at year-end.

Landsbanki has made arrangements according to those agreements entered into and related cost have already been expensed in the income statement.

Loans to the GMDs & CEOs, Members of the Board of Directors as well as loans to undertakings fully owned by these individuals, amount to ISK 210 million. The interest rate terms of these loans are in accordance with loans to other customers. The lending amount does not include loans to corporates managed by board members.

1. Group Managing Director & CEO and Managing Directors have received payments related to new employment contracts and closure of older stock option agreements.

2. The agreement is variable by nature, ranging from the minimum of ISK 6 million to a ceiling of ISK 12 million.

39 Employee stock option plan

The Bank offers a stock option plan to all employees with a strike price of ISK 3.58 - ISK 5.7. Arrangements have been made to fulfill the stock option plan and the resulting costs have been expensed in the income statement. The purchase right will be accumulated in the years 2001 - 2006. The purchase right is transferable between years. The purchase right is not transferable between individuals, and unused purchase rights are annulled at concurrent with employment termination. The nominal value of the employee stock option plan at period-end amounted to ISK 218 million. Accumulated unused purchase rights at 31 December 2003 had a nominal value of ISK 66 million.

Other notes

40 Income from shareholdings	<u>2003</u>	<u>2002</u>
Trading and investment equities.....	0.0	53.1
Partially-owned financial institutions before taxes.....	137.5	326.1
Partially-owned companies before taxes.....	6.6	141.6
Associated companies before taxes.....	0.0	2.3
	<u>144.1</u>	<u>523.0</u>
41 Commissions and fees		
Securities.....	1,678.2	918.7
Asset management.....	791.1	501.4
Lending.....	1,242.6	1,092.2
Cards.....	800.2	735.4
Interbank revenues.....	760.1	581.4
Collection and payment services.....	485.5	487.2
Foreign trade.....	297.2	280.4
Other commissions and fees.....	216.0	148.1
	<u>6,270.9</u>	<u>4,744.6</u>
42 Net trading gains		
Foreign exchange.....	840.7	499.3
Bond trading.....	34.1	187.9
Stock trading.....	2,485.8	(478.9)
	<u>3,360.5</u>	<u>208.3</u>
43 Depreciation in profit and loss account		
Fixed assets.....	789.7	676.1
Write-down of fixed assets.....	382.0	0.0
Goodwill amortisation.....	135.0	75.9
	<u>1,306.7</u>	<u>752.0</u>
44 Auditors fee in parent company		
For audit services.....	13.6	18.1
Other professional services.....	8.7	3.7
	<u>22.3</u>	<u>21.8</u>

45 Profit and loss account by quarter

Operations	2003	Q4 - 2003	Q3 - 2003	Q2 - 2003	Q1 - 2003
Net interest revenues.....	9,331.4	2,731.9	2,422.2	2,100.8	2,076.6
Operating revenues.....	9,651.0	2,442.8	2,788.6	2,442.9	1,976.7
Net operating revenues.....	18,982.4	5,174.6	5,210.8	4,543.7	4,053.3
Payroll expenses.....	5,656.4	1,741.1	1,484.6	1,255.2	1,175.5
Operating costs.....	5,158.1	1,470.6	1,389.8	1,128.4	1,169.3
Operating expenses.....	10,814.5	3,211.7	2,874.4	2,383.6	2,344.8
Net provision for credit losses.....	4,656.0	1,417.6	808.5	1,642.0	787.9
Profit before taxes and minority interests.....	3,511.9	545.4	1,527.9	518.0	920.6
Taxes.....	456.7	75.4	216.3	81.0	83.9
Minority interests.....	99.4	27.9	19.0	29.3	23.3
Net profit.....	2,955.8	442.0	1,292.7	407.7	813.4

46 Income / Revenue breakdown by countries

	Iceland	Britain	Luxembourg	Total
	2003	2003	July-Dec. 2003	2003
Net interest revenues.....	7,996.0	823.0	512.5	9,331.4
Net profit from shareholdings.....	144.1	0.0	0.0	144.1
Net commissions.....	4,840.3	418.0	170.1	5,428.4
Trading gains.....	3,323.6	0.0	36.9	3,360.5
Other revenues.....	674.7	30.5	12.7	717.9
	16,978.7	1,271.5	732.2	18,982.4