

Annual Report 2003



Landsbanki Íslands
The National Bank of Iceland Ltd.

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



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Board of Directors:

Björgólfur Gudmundsson, Chairman
Kjartan Gunnarsson, Vice-Chairman
Andri Sveinsson
Einar Benediktsson
Thorgeir Baldursson

Group Managing Directors & CEOs:

Halldór J. Kristjánsson
Sigurjón Th. Árnason

Auditors:

PricewaterhouseCoopers hf.

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Björgólfur Gudmundsson,
Chairman

LANDSBANKI IN THE LEAD

The year 2003 marked a milestone in the history of Landsbanki Íslands hf. For 117 years the Bank was owned by the Icelandic State but in the beginning of the year a 45.8% stake was sold to Samson Holding ehf., completing the privatisation. The representatives of the State withdrew from the Board of Directors at the annual meeting 2003 and the shareholders elected a new Board, where the new strategic owners were represented. The new Board then announced that the Bank would operate more assertively and with new emphases.

Shortly thereafter, changes were made in the Bank's management when a group of experienced bankers joined the team of Landsbanki employees. The employees are united in the effort to strengthen the Bank's leadership in the Icelandic financial community. In 2003, the Bank took further important steps in that direction.

The branch network was strengthened and reorganized. Landsbanki operates the broadest branch network among Icelandic commercial banks and provides excellent service to individuals and companies throughout the country.

The foundation for further international activities was established in accordance with the Bank's policy to make use of its domestic strength to expand its operations in Britain and on the continent. One of the Bank's objectives is to provide consultation and services to Icelandic investors and companies concerning their investments abroad.

Landsbanki was actively involved in transformational investments in solid Icelandic companies, as the Bank considers it one of its roles to assist reforms in the Icelandic corporate sector. The Bank's short-term investments in companies are aimed at strengthening their operations and increasing their net worth, to the benefit of the shareholders. It is important for the economy that each generation of corporate leaders and investors seize the opportunities for progress and change. In this manner it is possible to utilise the power of the free market and create strong companies, eager to take on international competition and the challenges that borderless economies offer.

The Bank has always been an active supporter of the arts, sports, charities and other social activities throughout Iceland. In April, Landsbanki became the main sponsor of the Icelandic Premier Division of both men's and women's football. In addition, the Bank has continued its collaboration with the educational system in the form of grants and extensive collaborative agreements. This support is a part of the Bank's policy to demonstrate social responsibility with extensive participation in the society as a whole.

In December, Landsbanki launched a competition with the objective of revitalising the centre of Reykjavík. The Bank encouraged everyone to participate, offering a substantial prize for the winner. Since its foundation in 1886, Landsbanki's main offices have been in the centre of Reykjavík. The Bank has declared its interest in constructing new headquarters in the city centre with the intent that its offices will be an important contribution to a dynamic downtown area.

The Bank has been a leader in offering comprehensive services for individuals and companies, including the extensive offering of pension savings and life assurance plans, which are products of growing importance in the retail market. The Bank

strengthened its position in corporate services and continues to lead in offering foreign exchange products, including a range of derivatives. Most of the larger companies in Iceland now make use of the Bank's debt management service to reduce risk levels, especially importers and those investing abroad. Landsbanki's investment banking operations have been further strengthened, along with the brokerage of both domestic and foreign securities, as well as trading foreign shares on the Internet. Landsbanki's comprehensive services and forward-looking strategy made the Bank a major transformational force in the Icelandic economy in 2003. Landsbanki's activities were well received by investors, leading to a rise in the share price from 3.65 at the beginning of the year to 5.8 at year end.

The Bank's operations in 2003 are an indication of what is to come. The growing interest of investors in Landsbanki's shares and the rise in their value during the year are an incentive to the Bank's executives to continue in the same direction.

On behalf of Landsbanki's Board of Directors and shareholders I wish to thank all the Bank's employees for excellent work during the year. Ahead are continuing changes in the Icelandic economy. Together we will make use of emerging opportunities and continue to strengthen Landsbanki as a leader in the Icelandic financial market.

With gratitude,



Chairman of the Board, Landsbanki Íslands hf.



Board of Directors of Landsbanki and Group Managing Directors & CEOs, from left: Sigurjón Th. Arnason, Andri Sveinsson, Kjartan Gunnarsson, Björgólfur Gudmundsson, Thorgeir Baldursson, Einar Benediktsson and Halldór J. Kristjánsson.



Sigurjón Th. Árnason, Halldór J. Kristjánsson
Group Managing Directors & CEOs

RESTRUCTURING AND ADVANCING

The year 2003 marked the beginning of a new era in the history of Landsbanki. The year can best be described as one of fundamental changes in the Bank's operations and the beginning of a new growth period. Major changes took place in ownership, as well as in senior and middle management. The Bank's strategy was carefully crafted by the Board, making the year a very successful one, resulting in a 60% increase in total assets through internal growth, increased business activity and an acquisition.

The strategy in 2003 was to strengthen the presence of Landsbanki in Iceland, particularly in investment banking and the corporate sector, while also improving the Bank's leading position in retail banking. A stronger foothold in the domestic market will help aid the Bank's selective international expansion, whereby Landsbanki will play a key role in supporting overseas Icelandic corporates. In 2003, Landsbanki made one overseas acquisition and otherwise concentrated on the domestic market.

A Year of Growth and Seizing Market Share

The Bank's total assets grew by 61% over the year, having increased by ISK 170 billion. This figure equals the total assets of the Bank accumulated over the first 113 years in its history. Landsbanki is now the second largest bank in Iceland in terms of total assets.

Landsbanki's market share in investment banking grew substantially. Landsbanki initiated and led the majority of the largest restructuring projects of listed corporates and in the process helped shape the history of the Icelandic business environment. As a result, the Bank's investment banking fees and revenues increased by 73%.

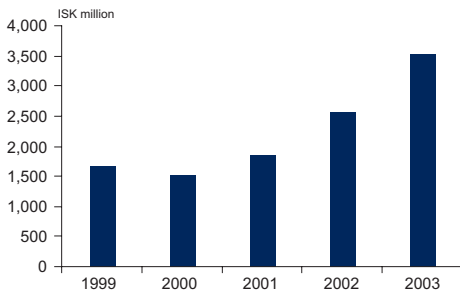
Equity at year end amounted to ISK 22.4 billion, an increase of ISK 6.1 billion, making the CAD ratio 9.9%. The nominal equity increase of ISK 654.3 million and the issuance of subordinated loans led to a healthy CAD ratio. Core deposits grew by 40.6%, in particular Pension Savings accounts.

All lending procedures have been strengthened, and total lending amounted to 326.4 billion, an increase of 52% over the preceding year, both through a sizable increase in corporate lending and an acquisition. Corporate business increased substantially as witnessed by the fact that 68% of corporates listed on the Iceland Stock Exchange are now banking with Landsbanki.

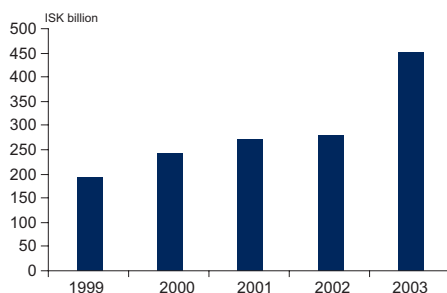
Unprecedented Profitability

The Bank's profits have never been better in its 118 year history despite a substantial increase in provisions. The earnings of Landsbanki Group in 2003 amounted to ISK 3,512 million before taxes, as compared to 2,549 million in 2002. The Bank's net profits increased by 46% over the preceding year. Return on equity was 20.9% before taxes, as compared to 17% in 2002, exceeding all profitability targets set by the Bank. Fee revenues amounted to ISK 6,271 million, an increase of 32%. The increase in fee income is relatively equally distributed between all investment banking departments: brokerage, foreign exchange, derivatives and corporate advisory.

Landsbanki Profit before Taxes and Minority Interests



Total Assets





Landsbanki's share price rose from 3.65 at the beginning of the year to 5.8 at year end, reflecting the growing interest of domestic investors in Landsbanki following the privatisation and substantial organizational changes.

Major Organizational Changes

In late April, a new joint chief executive, Sigurjón Th. Árnason, was recruited to work alongside Halldór J. Kristjánsson, and several new managing directors joined the Bank. At the same time the Bank was restructured into five business divisions and four support functions.

The main organizational changes were made in the area of investment banking. This led to the formation of Securities and Treasury, which was formed out of Financial Markets with the addition of Treasury, Corporate Advisory and Brokerage, and was strengthened with the recruitment of new personnel. Credit procedures in the Bank were restructured, leading to significant streamlining and improved quality of lending. The previous two-step credit committee process was simplified into a single loan credit committee. Credit control was also reorganized and strengthened with the addition of new personnel.

In October, Landsbanki announced a reorganization of its branch network and the Retail Banking division. The main emphasis was on streamlining Retail Banking, and the division of branches into regional areas was abolished. Instead, the branches now operate directly under headquarters in Reykjavík. The objective of these changes was to make the branch network more flexible and to shorten the response time for handling customer requests.

Internationalisation

In June, Landsbanki acquired Búnadarbanki International S.A. in Luxembourg after KB Bank had expressed an interest in selling the unit. The renamed Landsbanki Luxembourg S.A. is primarily a private banking operation for Icelandic as well as Scandinavian customers but is also active in providing credit to institutional borrowers in Scandinavia. This acquisition has increased the diversification of the Bank's lending portfolio and opens up new growth possibilities. This is yet another step, towards increasing the Group's international activities, which also include Heritable Bank in London which was acquired in 2000.

Heritable Bank and Landsbanki Luxembourg performed well over the year, returning ISK 405 million in profits, which is 14% of the Group's total profits. At year end, 14% of the Group's assets were held by the two overseas subsidiaries.

Achieving Important Milestones

Landsbanki's funding needs continued to be well received abroad as the Bank's foreign borrowing nearly doubled. The EMTN programme was increased to USD 1.5 billion and three large public transactions were completed. Landsbanki lengthened outstanding maturities and broadened the investor base. In early April, Moody's revised its short-term credit rating of Landsbanki from P-2 to P-1, which proved instrumental in Landsbanki's short-term funding. The EUR 500 million ECP programme which was launched in September was very well received by investors. This success can also be attributed to good premarketing, well executed strategies and investor relation meetings in major European cities.



Yngvi Ö. Kristinnsson
Securities and Treasury



Brynjólfur Helgason
International Banking
Alternate Group CEO



Ingólfur Guðmundsson
Retail Banking and Marketing



S. Elin Sigfúsdóttir
Corporate Banking



Haukur Thór Haraldsson
Finance and Operations



Guðmundur Guðmundsson
IT



Ársael Hafsteinsson
Legal / Credit Control



Stefán H. Stefánsson
Capital Management



Tryggvi Tryggvason
Landsbanki Luxembourg



Mark Sismey-Durrant
Heritable Bank



Atli Atlason
Human Resources



An agreement was made with TM Insurance on the sale of non-life insurance and also with Swiss Life UK on the sale of its life assurance products.

Strategy for the Year Ahead

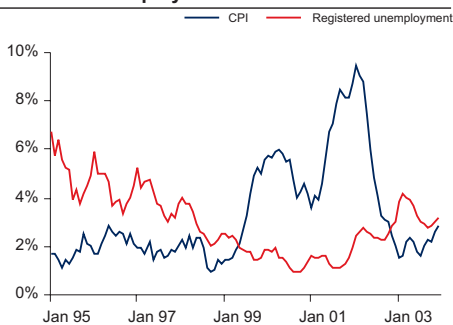
The strategy set at the end of the privatisation process has guided the Bank during its first year in private ownership. The Bank will maintain a careful yet healthy growth in all areas, both organic and via acquisitions, domestically, in the UK and western Europe. The performance targets of the Bank have been revised to 15-17% ROE after taxes, measured as 8-10% above risk-free returns, which currently stand at 7%. The Bank will focus on bringing its cost-income ratio well below 55% while maintaining profitability and a relatively conservative risk profile. Investment banking and capital management, particularly restructuring and change of ownership, listing and delisting of corporates will continue to play a visible role in the Bank's operations. Comprehensive retail banking services will continue to be at the core of the Bank's activities and a key to maintaining a dominant position in the domestic market. Further domestic consolidation involving the savings banks is less likely with the passage of new legislation in February 2004. International operations, in terms of assets and revenues, will continue to increase as a percentage of the Group's operations. Multiple funding sources, including equity increases, EMTN and ECP programmes, coupled with active investor relations, will help form the basis of future growth.

ISK Trade Weighted Currency Basket

USD	24.73%
GBP	12.35%
CAD	1.09%
DKK	8.24%
NOK	6.41%
SEK	3.42%
CHF	1.21%
EUR	39.07
JPY	3.48%

Source: Central Bank, 19/2003

CPI and Unemployment in Iceland





OPERATING ENVIRONMENT

The Icelandic economy resumed momentum in 2003 as growth reached 2 – 3%, compared to a 0.6% decrease in 2002. National expenditures increased rapidly, especially private consumption and investment, along with rising imports. Exports dropped somewhat due to a downturn in the fishing industry. This resulted in an unfavourable balance of goods and services, equivalent to a deficit of ISK 35 billion, or approximately 4% of gross domestic production. In part the growing deficit may be traced to worsening terms of trade, as prices of seafood fell in foreign markets and also to the rising cost of oil.

Large-scale investment projects in aluminium smelting and power generation were set in motion in eastern Iceland. Construction will continue until 2007, when the total investment will equal 22% of GDP. According to the forecast of the Ministry of Finance, economic growth is estimated to reach 3 – 3.5% over the next two years.

Unemployment decreased during 2003. Nevertheless, the labour market was characterised by reduced demand and unemployment reached 3.5%, the highest since 1997. However, as the impact of the upcoming investment projects increases, the labour market conditions are expected to improve.

Inflation increased with the consumer price index rising by 2.4%, mainly due to buoyant housing prices. The króna strengthened considerably during the first six months, but this trend was mostly reversed in the second half of the year.

The last decade has been characterised by major structural changes and reforms in the Icelandic economy. The privatisation of both Landsbanki and Búnadarbanki last year was an important part of these changes. Increasing competition in the financial markets has already led to considerable rationalisation, a trend which may be expected to continue in the near future.

The state treasury surplus has resulted in a considerable reduction in general government net debt which now amounts to about 25% of GDP compared to 35% a decade ago. The state of public finances weakened during the year, despite considerable revenue from the banks' privatisation. Increased domestic demand resulted in higher tax revenues. However, containing the increase in public expenditures, particularly in the field of public health, has proven difficult. The deficit in government operations is estimated to have amounted to approximately 2% of GDP. Now, with economic growth picking up, fiscal policy will have to be tightened in order to ensure economic stability.

Yields on 40-year Housing Bonds and 15-year Treasury Bonds



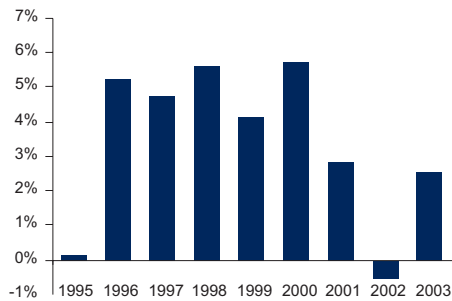
ISK Currency Index



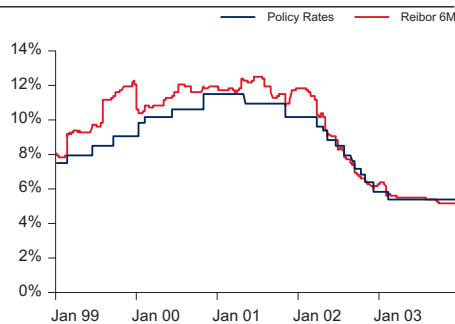


Growth of Iceland's GDP

Source: Central Bank of Iceland



Short-term Interest Rates



Equity Indices



Strong fundamentals and the flexibility of the economy are reflected in the republic's favourable sovereign ratings. In March, Fitch confirmed a credit rating of AA- for foreign currency loans and AAA for loans in Icelandic krónas. The outlook for long-term obligations was changed from negative to stable. In June, Moody's confirmed an Aaa credit rating for foreign currency obligations. In December, Standard & Poor's confirmed a credit rating for Iceland of AA+/A-1+ for loans in Icelandic krónas and A+/A-1+ for foreign currency loans. The foreign currency outlook was revised from stable to positive. According to Standard & Poor's report, the revision of the foreign currency outlook reflects the company's positive reappraisal of developments in the financial sector. Furthermore, it also reflects the beneficial impact of large-scale investments on the structure of the economy and its growth prospects.

Financial Markets

The Icelandic Central Bank's two-year trend of declining interest rates ended in February when the policy rate was reduced by 0.5% to 5.3%. The policy rate remained unchanged throughout the year, but other measures taken by the bank continued to further loosen the stance of monetary policy. The minimum reserve requirements of credit institutions were lowered in line with European regulations. The Central Bank regularly bought foreign currency in the domestic interbank market through a pre-announced schedule. The stated aim of the purchases was not to have an effect on the exchange rate of the króna, but to strengthen the Central Bank's foreign exchange reserves. Altogether, the bank bought foreign currencies in the amount of ISK 43 billion and its market share in the total market turnover was 3.6%. With these measures, liquidity increased in the interbank money market, leading to a decline in the short-term interest rate. In November, the Central Bank announced that there would be an increase in the interest rate. In December the bank launched its first auction of fourteen-day certificates of deposits for credit institutions. These measures were the Central Bank's first steps towards a tighter monetary policy stance.

Interest rates on the interbank market decreased considerably. Thus the six-month interest rate was 6.14% at the beginning of the year but 5.17% at year end. The interest rate differential with other countries was between 3% and 3.5%.



The yield on non-indexed bonds declined as the year progressed, but rose again in response to the expectations of increased inflation and a rising policy rate. The yield on the longest non-indexed Treasury notes maturing in 2013 (RIKB13) was 7.92% at the end of the year. The yield on the longest indexed Treasury bonds maturing in 2015 (RS15) was 4.95% at the beginning of the year, but 4.32% at year end. The yield on forty-year indexed housing bonds (IBH41) also declined, from 5.12% at the beginning of the year to 4.55% at year end. The falling yields can partially be attributed to growing interest by foreign investors in Icelandic bonds. The issuing of bonds by companies other than financial institutions increased considerably and amounted to ISK 23 billion as compared to ISK 11 billion for the preceding year.

At year end 2003, the Ministry of Social Affairs announced changes in the bond issuance of the Housing Financing Fund. The issuing of housing bonds is to be discontinued and replaced by a new class of indexed bonds, Housing Financing Fund Bonds (HFFBs). The objective is to simplify the Fund's issues and to make them more attractive for foreign investors. The holders of benchmark housing bonds will be offered the chance to exchange them for the new HFFBs.

Trading turnover records were set on the Iceland Stock Exchange for both bonds and equities. Trading on the bond market totalled ISK 1,024 billion, a 26% increase. Equity trading amounted to ISK 554 billion, an increase of 72%. The off-exchange proportion of trading rose from 79.7% to 83.6%.

The equity market was characterised by rising stock prices and a number of delistings from the stock exchange. The ICEX-15 stock index rose 56%, the second greatest increase for a single year in the history of the Icelandic stock market. The market leader was the pharmaceutical firm Pharmaco, rising by 183%, making it the most valuable company now listed on the stock exchange. Financial institutions' stock prices increased significantly, which can partly be explained by the privatisation of Landsbanki and Búnadarbanki.

The Icelandic króna strengthened in the first five months of the year but subsequently the development reversed. At the beginning of the year the reverse exchange rate index stood at 124.9 and dropped to the lowest point of 117.98 at the end of May. The index ended the year at 123.4 and the króna had therefore strengthened by about 1.2% in 2003. Total turnover on the foreign exchange market increased by almost 50% and came to a total of ISK 1,190 billion.

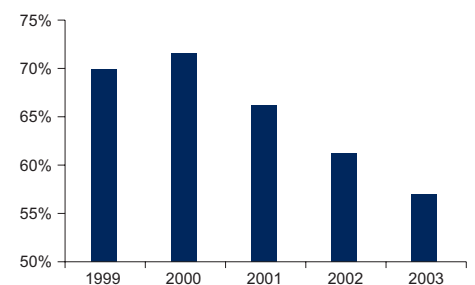


LANDSBANKI

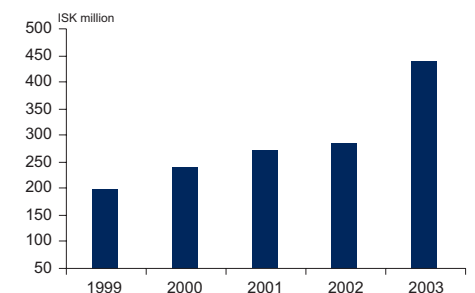
Reorganization of Investment Banking

A separate department, Proprietary Trading, was established, which manages the Bank's holdings in domestic and foreign shares, as well as the marketmaking and underwriting of equities. The Bank's proprietary securities portfolio was reorganised, resulting in a favourable return. Supervision of the Bank's holdings in listed bonds was assigned to Treasury. Thereby, cash management was tied to the domestic bond market, resulting in a considerable economic advantage. At the same time, extensive changes were carried out on the internal pricing of capital, with the aim of improving performance measures and the pricing of risk.

Cost-Income Ratio



Total Assets per Employee





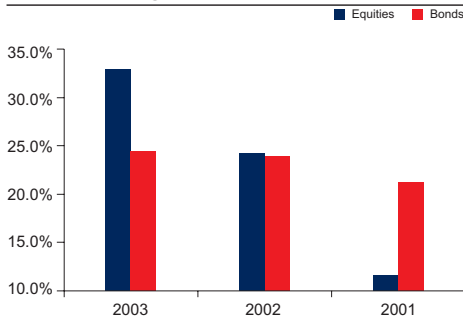
The objective was also to increase independence in each of the Bank's departments regarding financing and return on investments.

Securities brokerage experienced a considerable increase due to augmented trading on the Iceland Stock Exchange and the improved market share of Landsbanki. Consequently, the turnover of stock trading increased by 125% to over ISK 140 billion, and thereby the Bank's market share rose from 19.5% to 25%. Landsbanki achieved good results as the arranger of corporate, municipal and bank bond issues. The market value of these issues amounted to ISK 11.5 billion as compared to ISK 800 million in the preceding year.

Foreign Exchange, Debt Management and Derivatives, were merged into one department, FX, Derivatives and Risk Consulting. The Bank continues to be the leader in the area of corporate foreign debt management. Pension funds are increasingly using currency management and therefore the trading of currency and interest-rate derivatives has increased considerably. The Bank continues to enjoy a leading position in this field.

Corporate Advisory advised on mergers, acquisitions, takeovers, listing and delisting on several of the largest domestic projects in 2003. To name a few, Olís, Og Vodafone, ÍAV, Íshug and Straumur, all listed on the Iceland Stock Exchange and major companies in their respective sectors.

Landsbanki Market Share on Iceland Stock Exchange



Strong Advances in Corporate Services

Landsbanki benefited from the privatisation and the advent of new investors. The number of companies doing business with the Bank greatly increased, as witnessed by the rise in lending and fee income. As an example, 68% of listed corporations other than commercial banks do business with Landsbanki, either as their house bank or one of two key banks. The major part of the increase in lending was in the form of foreign currency denominated loans and the largest borrowers are among Iceland's strongest corporates.

Considerable changes were made in processing corporate lending with the aim of improving credit quality and the decision-making process. The regional organization of branches was abolished and the emphasis of the Corporate Banking was adjusted to strengthen lending services in the branches and other services to larger and medium-sized companies. Among other things, the Bank's Lending Supervision was transferred to the Legal Division and a new department, Branch Network Supervision was established and expanded with added personnel.

Yields on Treasury Notes





This department supervises corporate loans in co-operation with the branches and regularly conducts branch loan reviews.

The Bank continued to increase automation and introduced considerable changes in the operation of Fyrirtækjabanki, the Corporate Internet Bank. Among the additions were foreign currency transfers (SWIFT) and debt management, which makes it possible for companies to monitor the currency risk of their foreign loans. An increasing number of corporates is integrating their accounting systems with Fyrirtækjabanki. The additions have been welcomed by customers and the volume of transactions has swelled. At year end, a sales and service department responsible for promoting Fyrirtækjabanki was established.

The Bank began to participate in syndications of structured loans to north European corporates arranged by large foreign banks. The intent is to proceed carefully to further develop this lending operation with the aim of increasing the Bank's profits but at the same time diversifying risk.

Retail Banking and Marketing

Landsbanki is the largest retail bank in Iceland. According to a Gallup poll, the Bank's market share is now about 30%. Landsbanki continues to operate the most extensive branch network in Iceland, with 52 branches and service outlets.

Results from quality polls conducted among Landsbanki customers led to re-designing of current service standards. In the second half of the year, monthly surveys were conducted in the branches. The results show good progress towards increasing customer satisfaction and service levels.

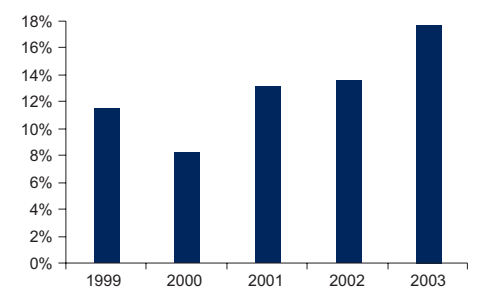
There was a substantial increase in the number of household customers as well as of small enterprises. The Bank's loyalty programmes enjoyed continued popularity and the number of customers increased by 11%. At the same time, the number of debit and creditcard holders grew by approximately 7%, bringing revenues up by 10% while past due creditcard balances have dropped from 7.3% to 4.6%. Excellent results were obtained in the marketing of Einkabanki, Landsbanki's Internet Bank for private transactions, and the number of users rose by 35%. Over 75% of Landsbanki's regular customers use Einkabanki.

Landsbanki acquired a major holding in SP-Finance in the second half of 2002, and several savings banks are minority shareholders. The acquisition was in step with the Bank's policy to increase its market share in leasing services. Landsbanki offered SP-Finance products through the Bank's branches.

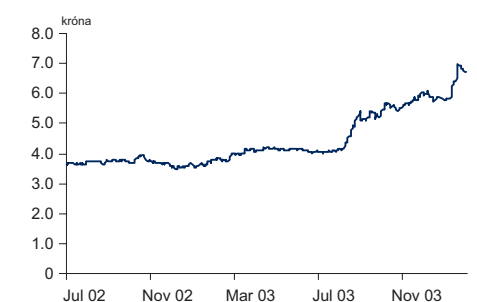
In 2003, Landsbanki acquired a 25% stake of Intrum, a collection services company, which is the market leader in Iceland in its field. Following this acquisition, the Bank began to co-operate with Intrum on pre-legal collections of bank loans and outsourced debt collection for the Bank's customers.



Return on Equity after Taxes



Landsbanki Share Price





International Activities

Funding and Credit Ratings

The EMTN programme size was increased from USD 1,000 to USD 1,500 million and an ECP programme was established. Landsbanki was very active in raising funds in the international financial markets, reaching a total amount of EUR 1,200 million. Half of this amount was achieved through public bond transactions.

In March, Landsbanki raised EUR 225 million in a three-year EMTN bond issuance. Bank of America and CDC IXIS acted as joint lead managers of the issue, while Banca IMI, DZ Bank and Svenska Handelsbanken were co-leads. In June, the Bank raised EUR 200 million in a two-year EMTN public issuance. This transaction was arranged by Banca IMI and CDC IXIS.

In October, the Bank successfully completed a four-year EUR 250 million EMTN bond issue which was jointly led by Banca IMI and CSFB. This transaction was the largest bond issue that Landsbanki had ever executed. It was also the first time an Icelandic financial institution issued a public bond with maturity beyond three years. Co-lead managers in this transaction were Daiwa Securities SMBC, DZ Bank, Deutsche Bank, Société Générale, CDC IXIS Capital Markets, Caixa Geral de Depositos and Fortis Bank. In addition to these three large public issues, Landsbanki completed several private placements, the most noteworthy being several bonds with a ten-year term.

In September, Landsbanki launched its EUR 500 million ECP programme. The programme was arranged by Citibank and ING Brussels and was assigned a rating of P-1 by Moody's. Dealers in the programme are Citibank, ING, SEB and Landsbanki. Reactions from investors were very positive and Landsbanki raised the required amount in various maturities through the dealer group. This is the second time Landsbanki has launched an ECP programme. The first was launched in 1987 when Landsbanki was the first Icelandic commercial bank to utilise such a facility.



Landsbanki issued subordinated loans through the EMTN programme to finance the Bank's rapid growth. In addition, Landsbanki also issued such loans in the domestic bond market.

This success in Landsbanki's funding is the result of good market conditions, well executed premarketing strategies of public deals, and regular investor relation presentations. Landsbanki's regular events targeted at foreign bankers and investors have become a foundation for communicating with stakeholders. These events include the Landsbanki annual Investment Colloquium, the IR meeting in London, and a host of smaller-scale events. The extensive investor participation in Landsbanki's loans, including the emergence of new investor groups, shows a high level of confidence in the Bank's strategy following the privatisation.

In April, shortly after the completion of the privatisation of Landsbanki, Moody's changed its P-2 short-term rating of Landsbanki to P-1. Moody's ratings are therefore A3 / P-1 / C with a positive outlook. The Fitch A / F1 ratings remained unchanged.

Towards the end of August, Landsbanki increased its share capital from ISK 6.8 to 7.5 billion, which was used to finance the Bank's growth.

International Investments

The Bank examined several possible UK acquisition targets. A few projects were discontinued at an advanced stage, as price expectations of sellers had exceeded the required rate of return criteria for foreign acquisition set by the Bank. A successful acquisition has to be made in such a way that it brings increased shareholder value to Landsbanki, as well as making a strategic fit for both parties. Landsbanki is still actively looking for foreign investment opportunities in the UK, and several investment targets are currently under consideration.

Heritable in London

Heritable continued to perform strongly in its core business of financing residential property developments in the UK. Pre-tax profits rose 16% to GBP 2.47 million. A number of new initiatives were launched to strengthen the business as a platform for future growth. During the second quarter, Heritable commenced raising wholesale deposits from UK companies and local authorities. At year end, money market and retail deposits had increased by 398%. In the third quarter, a specialist



residential mortgage lending business was launched through broker distribution and a strong pipeline of new business had been established by year end. Heritable looked at several acquisition targets for possible merger. Overall, assets under management increased by 41% during the year.

Landsbanki Luxembourg

The acquisition of a bank in Luxembourg was an important milestone in the ongoing strategy of expanding the international presence of Landsbanki Group. The acquisition was finalised in May and in September the Bank was formally opened under the name Landsbanki Luxembourg.

Landsbanki Luxembourg had a very successful year, providing a 25% return on equity and operating income increased by 82%, as Private Banking and Credit performed well. Lending activities outside Iceland were thereby increased, thus realising the goal of diversifying the Group's lending portfolio. Lending in Luxembourg now represents 12% of total lending of the Landsbanki Group. The Bank expanded private banking activities substantially and increased the number of holding companies. Assets under management and custody experienced a 120% growth during the year. The number of employees was 25 at year end.

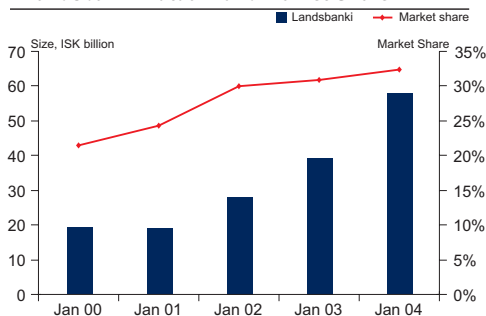
Capital Management

Landsbanki enjoyed a record growth in asset management in 2003. The overall growth in Landsbanki's funds and fund management in 2003 was significant, not only in terms of the size of funds but also in respect of the new fee revenue base which has been established.

Total assets under management and custody grew by 100% to ISK 340 billion, of which assets under active management grew to ISK 130 billion, or 37%.

Landsbanki's mutual funds had a record year of growth, reaching an all-time high of 48%, or ISK 62 billion, mainly attributed to 11 billion in Sparibréf, and 10 billion in Peningabréf. The number of clients with regular monthly savings in mutual funds grew by 33%. At year end, Landsbanki had reached about a 32% market share in Icelandic mutual funds. The strength of the Bank's Icelandic asset management business was increased by merging all asset management into one unit and relocating Landsbanki's Global Equity Fund from Guernsey to Iceland.

Landsbanki Mutual Fund Market Share



Increased focus has been put on pension services within the Bank, particularly management, sales and services. Participation in the supplementary pension scheme continued to increase with double-digit growth, and total pension fund assets under management increased by 50%. The Icelandic private banking team has been strengthened and services increased with the result that assets under management grew by 32%. The acquisition of the private banking unit in Luxembourg has also substantially strengthened the Icelandic part of the business.

To supplement the pension business Landsbanki started co-operating with Swiss Life UK Ltd., selling their insurance products which also considerably enhance the Bank's market position.

Risk Management

The management of risk is fundamental to the operation of Landsbanki and touches all areas of the Bank. Maximum overall risk exposure limits are approved by the Board of Directors. The Bank has a comprehensive committee structure to direct, approve and review actions taken in order to manage risk. Each income division has its own review committee which regularly reviews risk issues.

The Bank's risk management, branch supervision and internal audit departments support the measuring and managing of operational risk, based on the Bank's quality control system. An independent department, Risk Management, ensures that market risk exposures are at all times contained within defined and approved limits. Risk Management also makes certain that Landsbanki remains capable of calculating and limiting its market risk exposure, both in its entirety and in respect of individual operating exposures. Furthermore, Risk Management raises red flags if protocols and limits are exceeded and notifies the relevant management for immediate action.

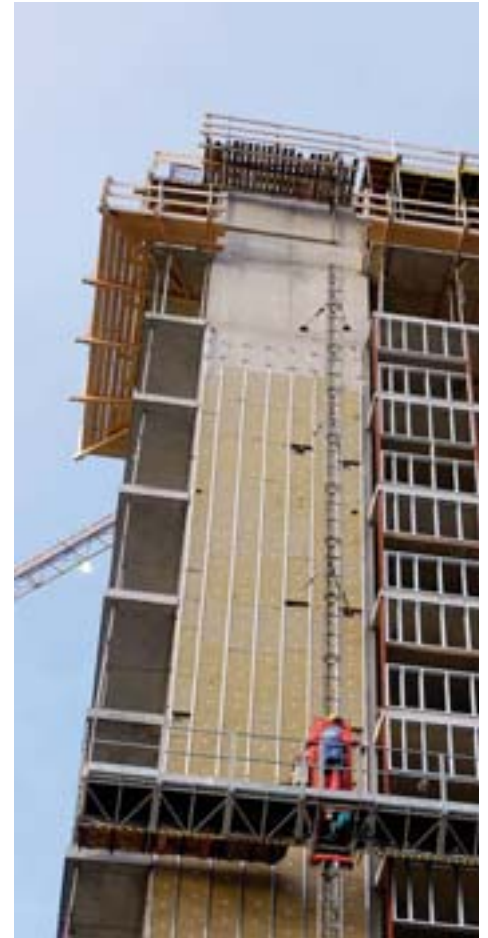
Human Resources

Many changes were initiated by the Bank with the aim of supporting and strengthening operations. New departments and a changing operating environment have increased the need for more highly skilled employees. The Bank has worked systematically to strengthen all divisions. The level of employee turnover has been similar to that of the preceding year, but the overall education level has increased considerably.

Using the Balanced Scorecard, employee interviews were held in which performance was assessed in terms of the Bank's goals and bonuses paid according to results. Workplace analysis is conducted annually, during which employees are invited to express their opinion of the Bank and its management. In December, employees were given the opportunity to exercise their stock option rights granted by the Bank's Board of Directors in 2000. A total of 926 employees took advantage of the opportunity.

Information Technology

The Bank's information technology infrastructure has been renewed as needed. A shift in strategy was implemented, placing greater emphasis on insourcing, both with regard to software development and hardware infrastructure. As a result of this shift, the IT department was reorganised and considerably strengthened. The main projects undertaken focused on increasing automation as well as extending systems and capabilities in securities and asset management.







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 hf. were merged into Landsvaki hf. Landsvaki hf. is a management company of mutual funds which previously was a part of Landssjóður hf. and Landssjóður 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

Group Managing Directors and Chief Executive Officers



Auditor's Report

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

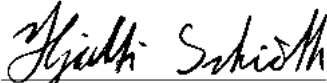
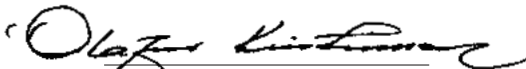
We have audited the 2003 consolidated annual accounts of the Landsbanki Group and the annual accounts of the Bank's subsidiaries. The Annual Accounts consist of the Report of the Board of Directors and Group Managing Directors & CEOs, the profit and loss account, balance sheet, statement of cash flow 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.


State Authorised Accountant
State Authorised Accountant



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
		Net interest revenues	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
		Net operating revenues	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
		Profit before taxes	3,511.9
			2,548.5
Taxes.....	(28)	(456.7)	(475.4)
		Profit before minority interests	3,055.2
			2,073.1
Minority interests.....	(3)	(99.4)	(45.1)
		Net profit.....	2,955.8
			2,028.0



Balance sheet

Assets	Note	2003	2002
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>
		48,772.0	18,892.5
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>
		326,399.7	214,787.2
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>
		63,744.3	36,336.9
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>
		9,322.7	7,807.7
Total assets.....		<u>448,238.7</u>	<u>277,824.3</u>

ISK million



31 December 2003

Liabilities and equity	Note	2003	2002
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.....		19,539.5	12,235.9
		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)	569.6	565.9
		6,388.7	5,056.7
		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.....		10,258.8	7,967.2
		22,381.9	16,309.4
Total liabilities and equity		448,238.7	277,824.3
Off-balance sheet items	(32-35)		



Cash flow statement for the year 2003

	Note	2003	2002
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.....		(1,220.5)	3,556.0
		3,009.6	7,421.8
Cash flow from operating activities			
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.....		333.7	(1,090.5)
		(152,259.9)	(23,269.7)
Cash flow used by investing activities			
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)	547.5	(547.5)
		167,700.6	10,966.4
Cash flow provided by financing activities			
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)	22,369.3	3,919.1
Other information			
Income tax paid.....		12.7	89.0
Dividends from subsidiaries and partially-owned companies.....		211.8	457.5

ISK million



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-Fjármögnun 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 Fasteignafélagid 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

	<u>2003</u>	<u>2002</u>
Cash.....	915.7	817.1
Demand deposits with Central Bank.....	<u>457.5</u>	<u>179.2</u>
	<u>1,373.3</u>	<u>996.3</u>

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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	<u>38,193.9</u>	<u>16,850.4</u>
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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.....	<u>490.7</u>	<u>514.5</u>
	<u>37,130.3</u>	<u>10,747.6</u>

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

	<u>2003</u>	<u>2002</u>
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.....	<u>2,878.4</u>	<u>2,235.4</u>
	<u>317,579.8</u>	<u>208,309.0</u>

ISK million



9 Capital leases

	2003	2002
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
	7,132.4	4,788.8

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
	100.0	324,712.2	100.0	213,097.8

11 Maturity of loans to customers and of capital leases

	2003	2002
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
	324,712.2	213,097.8

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.

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



13 Non-performing loans other than appropriated assets

	2003	2002
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:	2003			2002
	Special	General	Total	Total
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>
			2003	2002
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".

ISK million



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
		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 share	Nominal value	Book 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.....	4,927.7	3,350.2	2,172.9	10,450.7
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.....	2,039.3	2,414.5	1,290.3	5,744.1
Net book value at year-end.....	2,888.4	935.6	882.6	4,706.6
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.....	1,168.6	950.8

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

ISK million



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

	2003	2002
26 Funding		
Foreign banks.....	26,476.1	46,136.0
Securities issues.....	175,784.6	59,183.3
Other funding.....	7,096.2	3,159.5
	209,356.9	108,478.8
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
	26,476.1	46,136.0
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
	569.6	565.9

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.

	2003	2002
Changes in deferred income tax liability:		
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)
	172.8	137.2
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
	172.8	137.2
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
	456.7	475.4

ISK million



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.

	2003	2002
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.....	13,250.2	6,279.3
Other off-balance sheet items.....	33,240.4	26,307.6

35 Breakdown of derivatives

	Principal	Book value	
		Assets	Liabilities
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

ISK million



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 Gudmundsson, 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>

ISK million



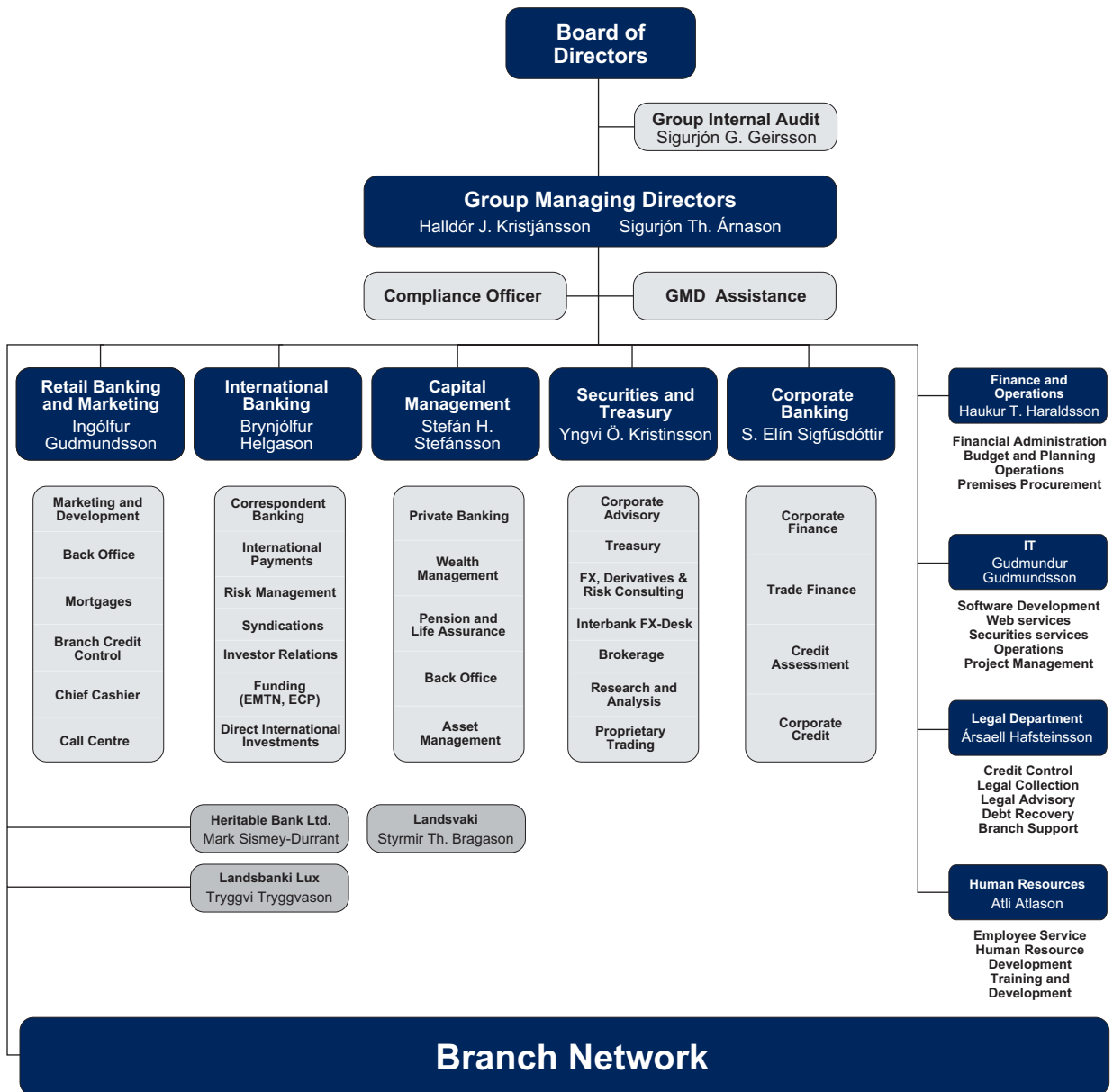
45 Profit and loss account by quarter

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.....	<u>9,651.0</u>	<u>2,442.8</u>	<u>2,788.6</u>	<u>2,442.9</u>	<u>1,976.7</u>
Net operating revenues.....	<u>18,982.4</u>	<u>5,174.6</u>	<u>5,210.8</u>	<u>4,543.7</u>	<u>4,053.3</u>
Payroll expenses.....	5,656.4	1,741.1	1,484.6	1,255.2	1,175.5
Operating costs.....	<u>5,158.1</u>	<u>1,470.6</u>	<u>1,389.8</u>	<u>1,128.4</u>	<u>1,169.3</u>
Operating expenses.....	<u>10,814.5</u>	<u>3,211.7</u>	<u>2,874.4</u>	<u>2,383.6</u>	<u>2,344.8</u>
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.....	<u>99.4</u>	<u>27.9</u>	<u>19.0</u>	<u>29.3</u>	<u>23.3</u>
Net profit.....	<u>2,955.8</u>	<u>442.0</u>	<u>1,292.7</u>	<u>407.7</u>	<u>813.4</u>

46 Income / Revenue breakdown by countries

	Iceland	Britain	Luxembourg	Total
	<u>2003</u>	<u>2003</u>	<u>July-Dec. 2003</u>	<u>2003</u>
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.....	<u>674.7</u>	<u>30.5</u>	<u>12.7</u>	<u>717.9</u>
	<u>16,978.7</u>	<u>1,271.5</u>	<u>732.2</u>	<u>18,982.4</u>

Organisation and Contacts





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