



Landsbanki

Securities Note

This Prospectus comprises of a Registration Document published on 22 December 2007 and made public on 24 December and this Securities Note.

The Registration Document and Securities Note have been scrutinised and approved by the OMX Nordic Exchange Iceland hf. (OMX ICE) on behalf of the Financial Service Authority in Iceland.

Landsbanki Íslands hf. is listed on OMX ICE with the ticker symbol LAIS, and complies with OMX ICE rules regarding on-going information disclosure. Investors are advised to follow the news announcements and notifications concerning Landsbanki Íslands hf, which will be published on Landsbanki Íslands hf's website www.landsbanki.is once the Prospectus has been published.

This Prospectus is published in Acrobat Adobe format on Landsbanki Íslands hf.'s website, www.landsbanki.is Additionally a hard copy can be obtained from Landsbanki Íslands hf. headquarters at Austurstræti 11, Reykjavik, Iceland. This Prospectus can be obtained during the life of the Bonds in question.

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1 Risk factors

Landsbanki Íslands hf. (hereinafter referred to as Landsbanki, the bank, the group or the Issuer) considers the following factors liable to affect its ability to fulfil its obligations as provided for in these Bonds and to be material for the purpose of assessing the market risks associated with the Bonds. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In the estimation of the Issuer, the factors described below represent the principal risks inherent in any investment in the Bonds in question, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Bonds may occur or arise for reasons other than currently anticipated.

Issuer's accountability for payment

The Issuer is obliged to make payments on the Bonds when due. Such obligations of the Issuer under the Bonds are direct, unsecured, unconditional and unsubordinated obligations, equally ranked without any preference amongst themselves and equal to its other direct, unsecured, unconditional and unsubordinated obligations.

The Issuer has not entered into any restrictive covenants in connection with the issuance of the Bonds regarding its ability to incur additional indebtedness ranking equally to the obligations under or in connection with the Bonds.

Market risk

Market risk refers to the risk related to all commercial papers of the same type. The most important market risk related to Bonds is changes in the level of interest rates in the relevant market. If general interest rates rise, the market price of the Bonds will fall and vice versa. Interest rate risk is higher for Bonds with longer maturities/duration. Investors shall study the market risk related to Bonds and evaluate the impact caused by changes in the interest rate level on the Bonds' market price.

Amendments to legislation

The terms and conditions of the Bonds are based on Icelandic legislation in effect on the date of this Securities Note. No assurance can be given as to the impact of any possible judicial decision or amendment to legislation or administrative practice after the date of this Securities Note. Such risks are minimal in Iceland, since there is consensus on key values and the structure of the market economy.

Liquidity risk

The Bonds may not have established a trading market when admitted to trading, and there is a good possibility that one may never develop. If a market does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to that of similar investments that have a developed secondary market.

The Bonds may not be a suitable investment for all investors

Each investor of the Bonds must determine the suitability of that investment in light of his own circumstances. In particular, each potential investor should:

1. have sufficient knowledge and experience to make a meaningful evaluation of the Bonds;
2. understand the merits and risks of investing in the Bonds and the information contained or incorporated by reference in the prospectus, comprising of Registration Document dated 22 December 2007 and made

public on 24 December 2007 and this Securities Note. The potential investors should familiarize themselves thoroughly with this Prospectus;

3. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
4. have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds;
5. understand thoroughly the terms of the Bonds and be familiar with the behaviour of any relevant indices and financial markets; and be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

2 Persons responsible

The CEOs named below, on behalf of the Issuer, hereby declare that, having taken all reasonable care to ensure that such is the case, the information contained in the Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 21 May 2008,

On behalf of Landsbanki Íslands hf., Austurstræti 11, 155 Reykjavík, Iceland

Halldór J. Kristjánsson
CEO

Sigurjón P. Árnason
CEO

3 Manager

The Treasury department of Landsbanki is in charge of the issue and sale of the Bonds. This Securities Note has been compiled by the Corporate Finance department of Landsbanki in co-operation with the Treasury department of the bank.

Attention is drawn to the fact that the both departments are part of the Issuer and are both under Landsbanki's Securities and Treasury division.

4 Information concerning the securities to be admitted to trading

Description of the securities

Type:	Interest bearing bond with quarterly payments of interest and single payment of principal upon maturity.
Ticker:	LAIS 09 0504
Date of issue:	7 May 2008
Date of maturity:	4 May 2009
Size limit:	ISK 50,000,000,000
Issued:	ISK 1,000,000,000
Denomination:	ISK 10,000,000
Currency:	ISK
Interest:	The interest rate is determined at the beginning of each interest rate period and will be the sum of 3-month REIBOR and 50 basis points two business days before each interest payment date. REIBOR refers to the interest rate in the interbank market in ISK. The interest rate for the first interest period is 16.31% (the sum of 3-month REIBOR on 5 May 2008 and 50 basis points). The bonds were sold at par.
Indication of yield:	16.31% for the first interest rate period
Interest payment dates	Interests are calculated from 7 May 2008 and will be paid quarterly; 1 August 2008, 3 November 2008, 2 February 2009 and 4 May 2009.
ISIN:	IS0000017937
Type of bond calculation:	Act/360
Authorisation:	The Bonds issue was approved on 7 May 2008 by duly authorised persons. The approve is in accordance with Landsbanki's rules.

The Bonds are issued electronically at the Icelandic Securities Depository (ISD), Laugavegi 182, 105 Reykjavík and are registered there under the name of the relevant holder or his/her nominee.

The Bonds are identified in the systems of the ISD and OMX Nordic Exchange Iceland hf. (OMX ICE) by the ticker LAIS 09 0504.

The depository agent is the ISD.

The calculation agent is Landsbanki.

Rights connected to the Bonds

The Bonds are all in the same class and equally ranked and confer no special rights, benefits or pre-emptive rights. Landsbanki guarantees repayment, on time and without loss, of the Bonds with its income and assets. The Bonds are ranked after claims secured by charges against the bank's assets. The Bonds are not subject to any provision on subordination

There are no restrictions on transferring Bonds to other parties, but Bonds must be transferred to parties mentioned by name.

Maturity and repayment

The Bonds will be repaid with a single payment upon maturity. Interests will be paid on the interest payments dates indicated above. It is not permitted to bring forward the repayment of the Bonds and they are not redeemable prior to maturity.

The ISD shall handle the registration of bonds holders and information as to where payment is to be made. For the holder's purposes, a statement from ISD on the ownership of the Bonds is considered adequate verification of ownership. Amounts payable on the Bonds will be paid to the financial institution where the registered owner has his/her custody account. Payments and notifications are sent to the party registered as the owner of the Bonds in question. The paying agent is Landsbanki, Austurstræti 11, 155 Reykjavík.

Event of default and enforcement

In the event of default on payment of the principal or interest on any bonds, the bonds shall become immediately due and its outstanding principal payable together with accrued interest. If default occurs the Issuer shall furthermore pay default interest at the rate determined by the Central Bank of Iceland, according to Art. 6 of Act No. 38/2001.

If the Bonds is declared due and payable as referred to above, collection of the debt may be enforced by execution without a prior court judgement or conciliation, in accordance with point 7 of the first paragraph of Article 1 of Act No. 90/1989 on Execution. In addition to the debt principal, this authorisation for execution shall include interest, indexation, penalty interest as well as all costs of collection and further enforcement measures.

Creditors who fail to claim their payment at the proper time will neither be paid interest, penalty interest nor indexation from the date of maturity until the date they claim their payment

Admission to trading and market making

Landsbanki is the manager and the market maker of the Bonds. As a market maker Landsbanki is committed to post bid and sell offers on the OMX ICE before markets open. Offers shall be no lower than ISK 100,000,000 at nominal value and the maximum spread between bid and sell offers shall be 3%. An offer shall be renewed no later than 10 minutes from when it is accepted. If the Issuer's market making trades for more than ISK 300,000,000 in one day at nominal value, the Issuer is permitted to stop posting bids for that day. If the bank does not own Bonds or owns 1/3 of the Bonds or more, it reserves the right not to post a bid or sell offers.

The Bonds are expected to be admitted to trading on the OMX ICE, which is an EU regulated market within the meaning of Directive 2004/39/EC.

The Bonds are expected to be admitted to trading on OMX ICE on 21 May 2008.

Cost of admission to trading

The total cost of the admission to trading is estimated at ISK 10,450,000.

Legislation

The governing law is Icelandic law. Any dispute shall be subject to the exclusive jurisdiction of the District Court of Reykjavik. Legal action regarding the Bonds may be proceeded with in accordance with Chapter 17 of the Act on Civil Procedure No. 91/1991.

According to Act No.150/2007 the Bonds will become void unless presented for payment within ten years (in the case of principal) and four years (in the case of interest or any other amount) after the relevant date. Repayment of principal will therefore become void within ten years and repayment of interests in four years.

The Bonds are issued electronically and therefore subject to provisions of Act No. 131/1997 on Electronic Registration of Title to Securities.

Taxation

Taxation of the bonds is subject to current tax legislation. The issuer is responsible for ensuring that withholding tax on interest payments on the bonds is delivered to the National Treasury, according to Article 3 of Act No. 94/1996 on withholding tax on financial income, unless the Bond holder has delegated the responsibility for collecting the taxes to another bank, savings bank or securities company.

The Bonds are exempt from stamp duty according to Act No. 161/2002 on Financial Undertaking

5 Recent developments

5.1 2007 results¹

Highlights of the consolidated annual financial statements of Landsbanki for 2007

- Profit in 2007 amounted to ISK 39.9 billion (bn) (EUR 456 m). The bank's pre-tax profit was ISK 45.6 bn (EUR 520 m). After-tax ROE was 27%.
- The group's core income (net interest income plus fees and commissions) amounted to ISK 93.4 bn (EUR 1.1 bn) in 2007, an increase of 34% over the previous year.
- Core earnings generation is steadily becoming more diversified; the share of core earnings originating abroad in 2007 was 52%, compared to 49% in 2006.
- Fees and commissions amounted to ISK 39.4 bn (EUR 449 m) compared to ISK 28.4 bn in 2006.
- Trading and investment income amounted to ISK 16.6 bn (EUR 189 m) compared to ISK 19.6 bn in 2006.
- The bank's liquidity position is very strong, with liquid assets of close to EUR 9 bn at year-end 2007. Foreign debt maturing in 2008, however, amounts to only EUR 0.8 bn.
- The bank's total assets amounted to ISK 3,058 bn (EUR 33.4 bn) at year-end 2007 compared with ISK 2,173 bn at the beginning of the year.
- Loans to customers at year-end 2007 totalled ISK 2,023 bn (EUR 22.1 bn). Customer deposits, on the other hand, amounted to ISK 1,421 bn (EUR 15.5 bn) or close to ¾ of total lending. Customer deposits have increased by 108% during the year.
- Landsbanki has no direct or indirect exposure to structured credit obligations (such as CDOs, SIVs and CLOs) in its loan portfolio.
- The bank's capital ratio (CAD rules) was 11.7% at year-end 2007. Tier 1 capital was 10.1%.

Highlights of Q4 2007:

- The bank's after-tax profit in Q4 was ISK 4.9 bn (EUR 56 m).
- Net income from operations in Q4 was ISK 24.8 bn (EUR 283 m).
- The bank's net interest income was ISK 15.2 bn (EUR 174 m) in Q4, as compared with ISK 14.4bn in Q3 2007.
- Fees and commissions in Q4 were ISK 9.7 bn (EUR 110 m).
- The group's core earnings of ISK 24.9 bn (EUR 284 m) were the highest ever in a single quarter.

Landsbanki's auditors, PricewaterhouseCoopers hf. and on their behalf Vignir Rafn Gíslason and Þórir Ólafsson have audited Landsbanki's financial statements for the year 2007. In their opinion, the financial statements give a true and fair view of the financial position of Landsbanki as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

¹ Amounts taken from the relevant income statements are translated to EUR on the average ISK/EUR rate during each period. Amounts taken from the relevant balance sheet are translated to EUR on the average ISK/EUR rate at the end of each period.

5.2 Highlights of the interim financial statements for Q1 2008²

- Net pre-tax profit in Q1 2008 was ISK 19.7bn (EUR 193m). The bank's after tax profit was ISK 17.4 bn (EUR 171m).
- After-tax ROE was 44%. The bank's equity ratio (CAD rules) was 11.0% at the end of March 2008. Tier 1 capital was 8.8%.
- The group's core income (net interest income plus fees and commissions) was ISK 26.2bn (EUR 257m), an increase of 27% over Q1 2007.
- Core income from operations outside of Iceland totalled ISK 15.1bn (EUR 148m) in Q1 2008, equivalent to 58% of the group's total core income.
- Trading gains and investment income amounted to ISK 14.7bn (EUR 144m) compared to ISK 8.8bn in Q1 2007.
- The bank's total assets amounted to ISK 3,836bn (EUR 32.1bn) at the end of March 2008 compared with ISK 3,058bn (EUR 33.4bn) at the beginning of 2008. In EUR terms, total assets decreased by 4% during the period.
- The bank's liquidity is strong, totalling EUR 8.2 billion as of 31 March 2008.

Landsbanki's auditors, PricewaterhouseCoopers hf. have reviewed Landsbanki's financial statements for the period 1 January – 31 March 2008 and 2007. In their opinion, the financial statements give a true and fair view of the financial position of Landsbanki as of 31 March 2008, and of its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

5.3 Landsbanki's Annual General Meeting 2008

Landsbanki's Annual General Meeting (AGM) was held on 23 March 2008.

On the AGM Landsbanki's financial statements for the past operating year, together with a report from the auditors, were endorsed. The AGM approved that Landsbanki's 2007 profit, after taxes and minority interest, amounting to ISK 39,949 million shall be used to increase the bank's equity. The AGM re-elected PricewaterhouseCoopers hf. as the bank's Statutory Auditors.

The AGM also re-approved Landsbanki's Remuneration Policy and approved to have remuneration to members of the Board of Directors unchanged from the previous year. A motion of the contribution to Landsbanki's Cultural Fund and changes to the Cultural Fund's charter were also approved.

The AGM approved a reduction in Landsbanki's share capital amounting to ISK 300,000,000 nominal value by cancelling treasury shares. Furthermore, the AGM approved an increase in share capital through a bonus issue amounting to ISK 300,000,000 nominal value.

The AGM authorized the Board of Directors to make a decision to purchase own shares, or to accept such shares as collateral, amounting to up to 10% of its share capital. The authorisation must be exercised within 18 months of its approval by the AGM. Pursuant to this authorisation, the bank may acquire own shares of up to ISK1,119 million nominal value; if the Board of Directors avails itself of its authorisation to increase share capital, the nominal value provided for shall be increased in direct proportion. The purchase price of the shares shall not be higher than 10% above nor lower than 10% below the listed share price on OMX ICE at the time of purchase. This authorisation shall replace an authorisation to acquire up to 10% of the bank's own share capital which was approved by its AGM on 9 February 2007. The CEOs were also authorised to take all further decisions on the implementation of such transactions.

² Amounts taken from the relevant income statements are translated to EUR on the average ISK/EUR rate during each period. Amounts taken from the relevant balance sheet are translated to EUR on the average ISK/EUR rate at the end of each period.

The AGM approved the following amendments to the bank's Articles of Association:

- An amendment to the wording of the second sentence of the fourth paragraph of Article 7 of the Articles of Association, to read that dividends shall be paid to parties listed in the shareholders' register after settlement of transactions at closing on the date of the AGM.
- An amendment to the second paragraph of Article 4 of the bank's Articles of Association to read as follows: The bank's Board of Directors is authorised to increase its share capital in stages, by up to ISK 1,200,000,000 nominal value with subscriptions for new shares. Shareholders waive their pre-emptive rights, as provided for in Art. 34 of Act No. 2/1995, on Public Limited Companies, to new shares issued in accordance with this paragraph. The Board of Directors is authorised to determine the details of the price and terms of payment for such an increase. This authorisation shall be valid until 23 April 2013. The Board of Directors may decide to have subscribers pay for the new shares in part or in full by other means than cash payment.
- An addition of a new paragraph to Art. 4 of the Articles of Association: The Board of Directors may to issue convertible bonds in the maximum amount of ISK 60,000,000,000 – sixty billion – with terms authorising their conversion to shares in Landsbanki. The bank's Board of Directors is also authorised to increase its share capital by as much as ISK 1,500,000,000 – one billion five hundred million – nominal value to meet the bank's obligations arising from the convertible bonds. Shareholders waive their pre-emptive rights to the new shares, as provided for in Art. 34 of Act No. 2/1995, on Public Limited Companies. The new shares shall be of the same class and bear the same rights as other shares in the bank. The new shares shall confer rights in the bank from the date of registration of the share capital increase; no restrictions shall apply to transactions in the new shares. The Board of Directors shall in other respects determine the conditions of convertible bonds issued and the increase to share capital and, furthermore, in which stages the authorisation shall be utilised. The Board of Directors may also amend the bank's Articles of Association as may be necessary due to the utilisation of the bond conversion rights. This authorisation shall be valid until 23 April 2013.
- An addition of a new paragraph to Art. 11 of the Articles of Association, authorising electronic communication with shareholders.

On the AGM the following persons were elected as Board Members and alternates, to sit on the Board of Directors of Landsbanki Íslands hf. until its next AGM. If a Board Member is unable to attend a meeting, he/she shall be replaced by the respective alternate in the order indicated.

Board Members:

Björgólfur Guðmundsson, Chairman of the Board
Andri Sveinsson, managing director
Kjartan Gunnarsson, attorney at law
Svafa Grönfeldt, Rector
Þorgeir Baldursson, CEO

Alternates:

For Björgólfur Guðmundsson and Andri Sveinsson

1st alternate
Sigþór Sigmarsson, engineer
2nd alternate
Helga Theodórsdóttir, business economist

For Kjartan Gunnarsson, Svafa Grönfeldt and Þorgeir Baldursson

1st alternate
Gunnar Felixson, managing director
2nd alternate
Helga Jónsdóttir, bank officer
3rd alternate
Þorsteinn Sveinsson, forester

Sigþór Sigmarsson is a new member of Landsbanki's alternate Board of Directors. The principal activities performed by Sigþór outside the issuer that are significant with respect to Landsbanki is being an executive director of Novator ehf.

There are no conflicts of interest between the duties of Landsbanki's Board of Directors and their private interest and/or other duties.

5.4 Other developments

Cenkos Securities plc has announced it has no intention to make an offer for Close Brothers Group Plc ("Close Brothers"). Landsbanki will therefore not be acquiring the banking business of Close Brothers in an arrangement with Cenkos Securities plc as outlined in Landsbanki's announcement dated 14 January 2008. For the purposes of Rule 2.8 of the City Code on Takeovers and Mergers in Britain (the "City Code") Landsbanki therefore confirms that it has no present intention of making an offer for Close Brothers Group plc. Pursuant to Rule 2.8 of the City Code, Landsbanki reserves the right to announce an offer or possible offer or make and participate in an offer or possible offer for Close Brothers and/or take any other action which would otherwise be restricted under Rule 2.8 of the City Code within the next six months from the date of the announcement (14 January 2008) if there is a material change in circumstances or in the event that:

- the agreement or recommendation of the board of Close Brothers is given to an offer from Landsbanki or from a person with whom Landsbanki is acting in concert or to a joint offer from Landsbanki and a concert party;
- a third party makes a firm offer for Close Brothers; or
- Close Brothers announces a whitewash proposal or a reverse takeover.

On 1 April 2008 Fitch Ratings put the Long-term and Short-term Issuer Default Ratings and individual ratings of the Icelandic banks, including Landsbanki, on Rating Watch Negative.

On 8 May 2008 Fitch Ratings completed their review of Landsbanki's ratings, affirming the long-term Issuer Default Ratings (IDR) at 'A', short-term IDR at 'F1', and individual rating at B/C. A negative outlook was assigned to long-term IDR.

The long-term IDR for the bank's UK subsidiary, Landsbanki Heritable Bank was also affirmed at 'A' with assigned negative outlook, short-term IDR at 'F1', and individual rating at 'C'. A negative outlook was assigned to long-term IDR.

5.5 Significant changes from the latest financial statement

Apart from the above no significant changes in the financial or trading position of Landsbanki have occurred since the end of the last financial period on 31 March 2008.

5.6 Material adverse changes

In Landsbanki's opinion there have been no material adverse changes in the prospects of Landsbanki since the end of the last reviewed financial statement for the period ended 31 March 2008.

5.7 Legal and arbitration proceedings

Landsbanki and its subsidiaries neither are nor have been for the past 12 months party to any governmental, legal or arbitration proceedings (and Landsbanki is not aware of any such proceedings pending or threatened) that may have, or have had in the recent past significant effects on Landsbanki's financial position or profitability.

6 Other information

6.1 Landsbanki's credit ratings

Landsbanki is rated by both Moody's and Fitch.

Landsbanki is rated A2 / P-1 / C- with a stable outlook at Moody's.

Fitch rates Landsbanki with a long-term rating of A, short term credit rating of F1 and individual rating of B/C. All the ratings have a negative outlook. The bank's support rating is 2.

6.2 Documents incorporated by reference

The following document shall be deemed to be incorporated by reference, and to form part of this Prospectus:

- Annual financial statement for Landsbanki covering the year 2007. The independent Auditor's Report is part of the financial statement.
- Interim financial statement for Landsbanki covering the period 1 January 2008 – 31 March 2008 and 2007. The independent Auditor's Review is part of the financial statement.

6.3 Documents on display

The following documents are on display:

- Landsbanki's Articles of Association.
- Landsbanki's annual financial statement covering the year 2007.
- Landsbanki's interim financial statement covering the period 1 January 2008 – 31 March 2008 and 2007.

The Prospectus and the above mentioned documents can be obtained at Landsbanki's headquarters at Austurstræti 11, 155 Reykjavík, and on the bank's website www.landsbanki.is. The prospectus will be available during the maturity of the Bonds.

6.4 Abbreviations

AGM – Annual General Meeting

bn – billion

CAD – capital adequacy

CEO – Chief Executive Officer

EUR – euro the currency of many European companies

IDR – Issuer Default Ratings

ISD – Icelandic Securities Depository

ISK – Icelandic króna, the currency of Iceland

Landsbanki, the bank, the group or the issuer – Landsbanki Íslands hf.

m – million

OMX ICE – OMX Nordic Exchange Iceland hf.

Q – quarter

REIBOR – the interest rate in the interbank market in ISK

ROE – return on equity

UK – the United Kingdom

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