

Reykjavík, 6 May 2008

# Confronting Challenge

Q1 2008 Results Presentation

Chief Executive Officer

**Sigurjón Þ. Árnason**

Chief Executive Officer

**Halldór J. Kristjánsson**

# Disclaimer



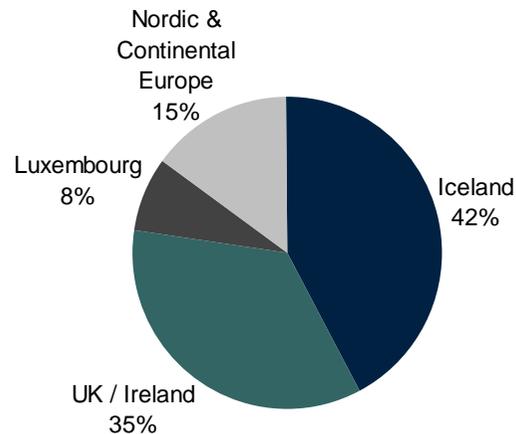
- The information presented herein (the Information) is based on sources which Landsbanki regards as dependable. Furthermore, the Information and views presented are based on publicly available information gathered at the time of writing and may change without notice. While Landsbanki Íslands hf. has given due care and attention to the preparation of this presentation, it nevertheless cannot guarantee the accuracy or completeness of the information, nor accept responsibility for the accuracy of its sources. Landsbanki Íslands hf. is not obliged to make amendments or changes to this publication should errors be discovered or opinions or information change. Note especially that projections may vary from actual results in both positive and negative directions and are subject to uncertainty and contingencies, many of which are beyond the control of Landsbanki Íslands hf.
- The Information should not be interpreted as advice to customers on the purchase or sale of specific financial instruments. Landsbanki bears no responsibility in any instance for loss which may result from reliance on the Information.
- Landsbanki holds copyright to the Information, unless expressly indicated otherwise or this is self-evident from its nature. Written permission from Landsbanki is required to republish the Information on Landsbanki or to distribute or copy such information. This shall apply regardless of the purpose for which it is to be republished, copied or distributed. Landsbanki's customers may, however, retain the Information for their private use.
- Transactions with financial instruments by their very nature involve high risk. Historical price changes are not necessarily an indication of future price trends. Investors are encouraged to acquire general information from Landsbanki or other expert advisors concerning securities trading, investment issues, taxation, etc. in connection with securities transactions.

- Solid Q12008 results and continued high core income profitability
- Diversified funding profile and strong liquidity position
- Iceland a flexible and resilient economy

## Strong results

- Pre-tax profit ISK 19.7bn (€193m)
- After-tax profit ISK 17.4bn (€171m)
- Pre-tax ROE 50%
- After-tax ROE 44%
- Cost-income ratio 42%

## Diversified revenue streams



**Net interest income and net fee and commission income**

## Strong balance sheet

- Total assets ISK 3,836bn (€32.1bn), down from €33.4bn at beginning of year
- Shareholder equity ISK 195bn (€1.6bn)
- Equity ratio 11.0%

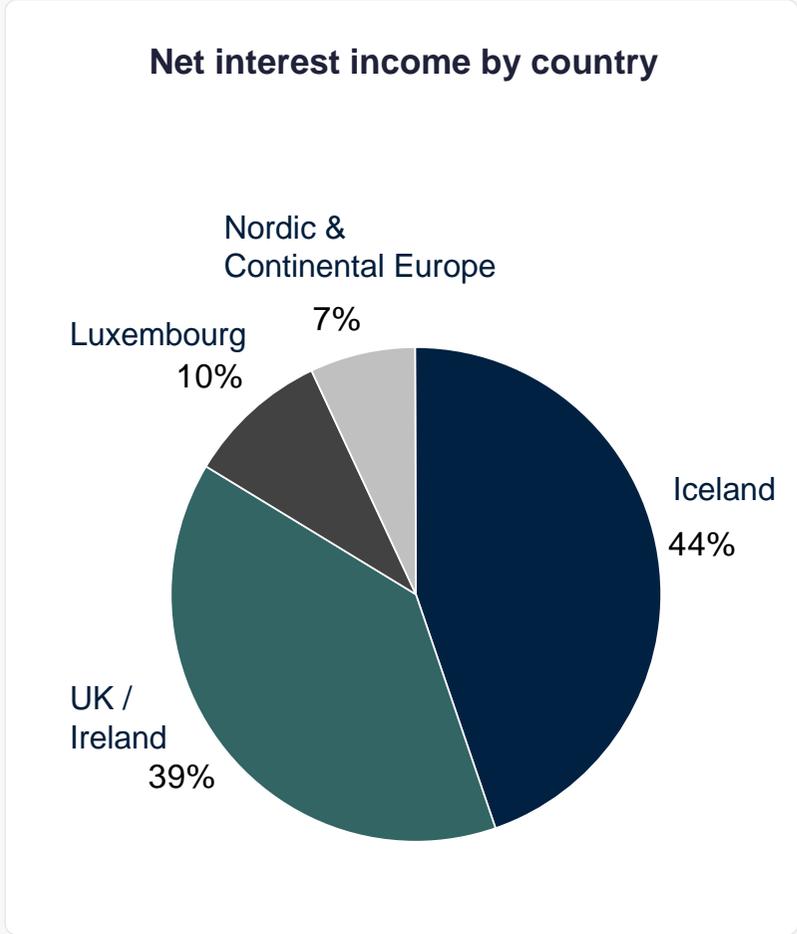
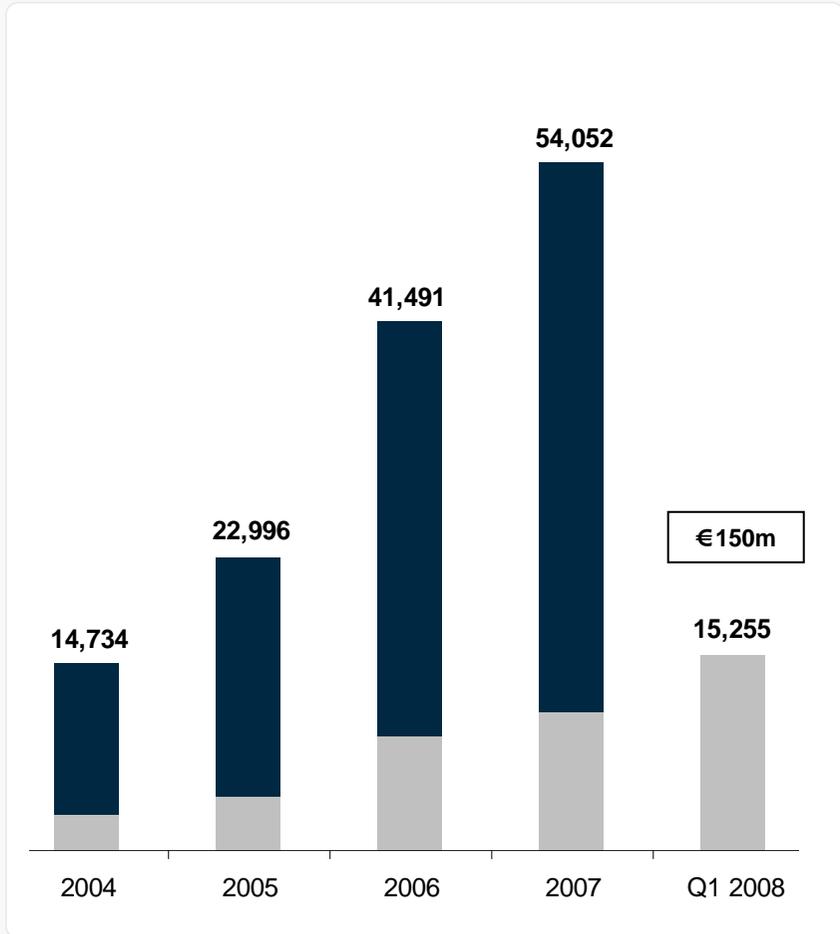
### ISK / EUR

1 Jan 2008	91.65
31 Mar 2008	119.57
Average Q1 2008	101.98
6 May 2008	119.46

# Income Statement

ISK million		Q1 2008	Q1 2007	Diff	%	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	€ 150m	15,255	10,879	4,376	40%	15,227	14,445	13,500	10,879
Net fee and commission income	€ 107m	10,904	9,762	1,142	12%	9,660	10,218	9,729	9,762
Other operating income	€ 144m	14,679	8,799	5,880	67%	-68	1,918	5,955	8,799
<b>Net operating income</b>	<b>€ 400m</b>	<b>40,837</b>	<b>29,441</b>	<b>11,397</b>	<b>39%</b>	<b>24,819</b>	<b>26,582</b>	<b>29,184</b>	<b>29,441</b>
Salaries and related expenses	€ 104m	10,633	7,972	2,661	33%	10,769	10,029	8,919	7,972
Administrative expenses	€ 65m	6,601	4,444	2,157	49%	5,846	4,806	4,731	4,444
<b>Operating expenses</b>	<b>€ 169m</b>	<b>17,233</b>	<b>12,415</b>	<b>4,818</b>	<b>39%</b>	<b>16,615</b>	<b>14,835</b>	<b>13,650</b>	<b>12,415</b>
Impairment on loans and advances	€ 38m	3,915	1,549	2,366	153%	2,286	1,620	1,501	1,549
<b>Pre-tax profit</b>	<b>€ 193m</b>	<b>19,690</b>	<b>15,476</b>	<b>4,213</b>	<b>27%</b>	<b>5,919</b>	<b>10,127</b>	<b>14,033</b>	<b>15,476</b>
Income tax	€ 22m	2,265	1,716	549	32%	997	1,402	1,490	1,716
<b>Net profit</b>	<b>€ 171m</b>	<b>17,425</b>	<b>13,760</b>	<b>3,664</b>	<b>27%</b>	<b>4,922</b>	<b>8,725</b>	<b>12,542</b>	<b>13,760</b>
<b>Attributable to:</b>									
Shareholders of Landsbanki	€ 170m	17,307	13,450	3,857	29%	4,584	8,518	12,248	13,450
Minority interests	€ 1m	118	311	-193	-62%	337	207	294	311

# Net Interest Income

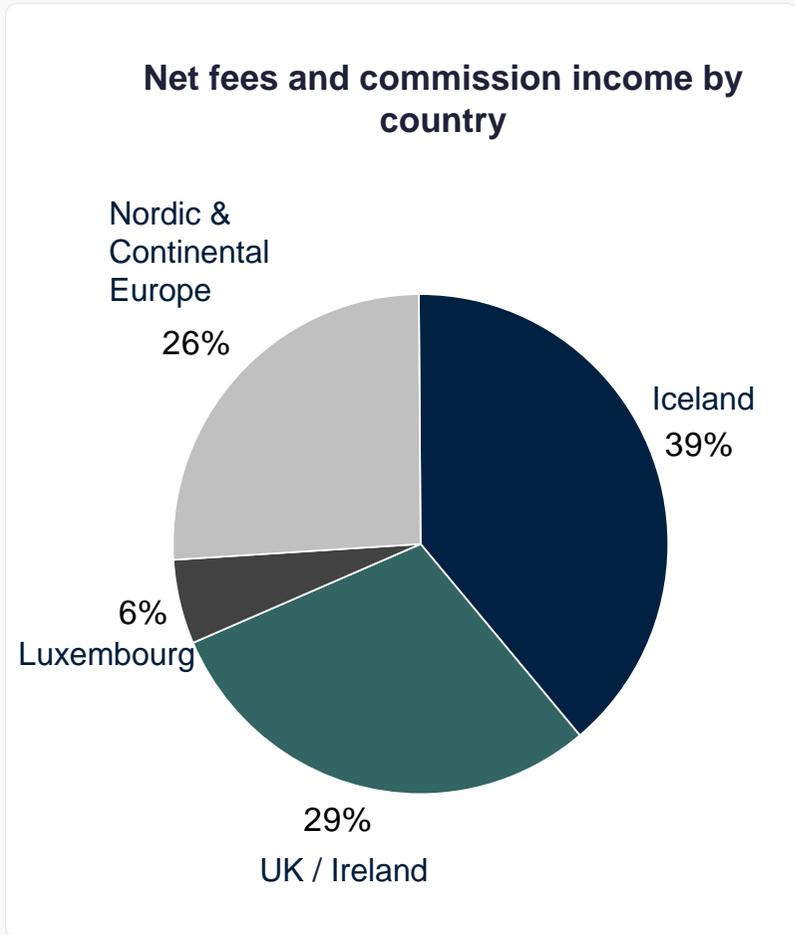
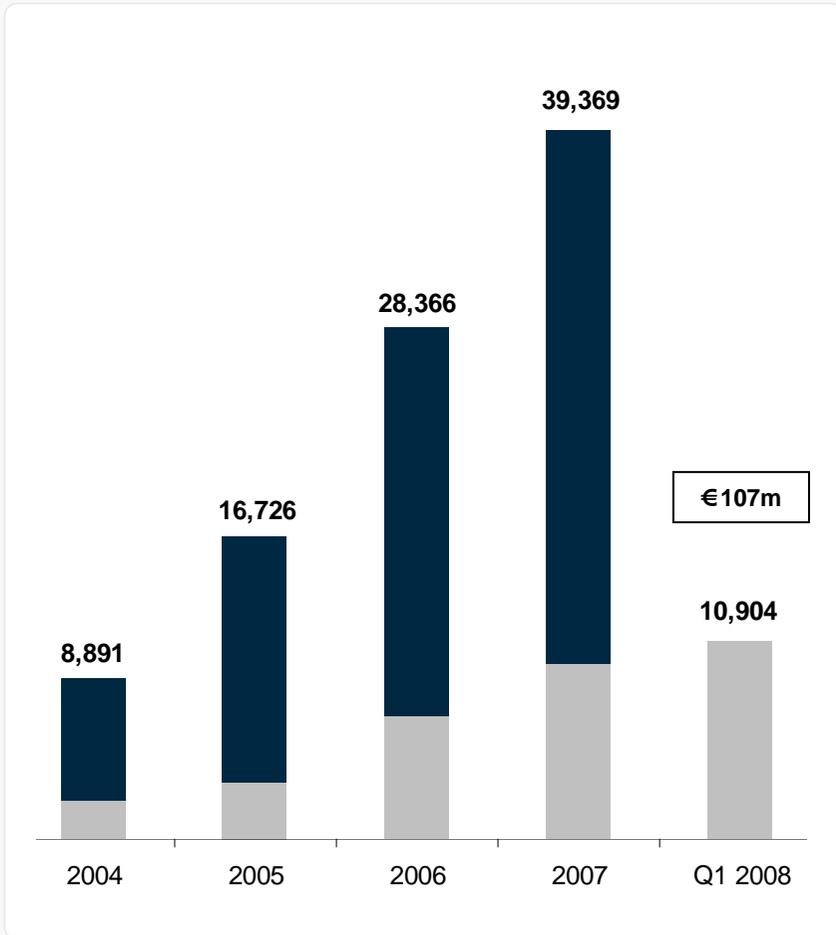


# Income Statement



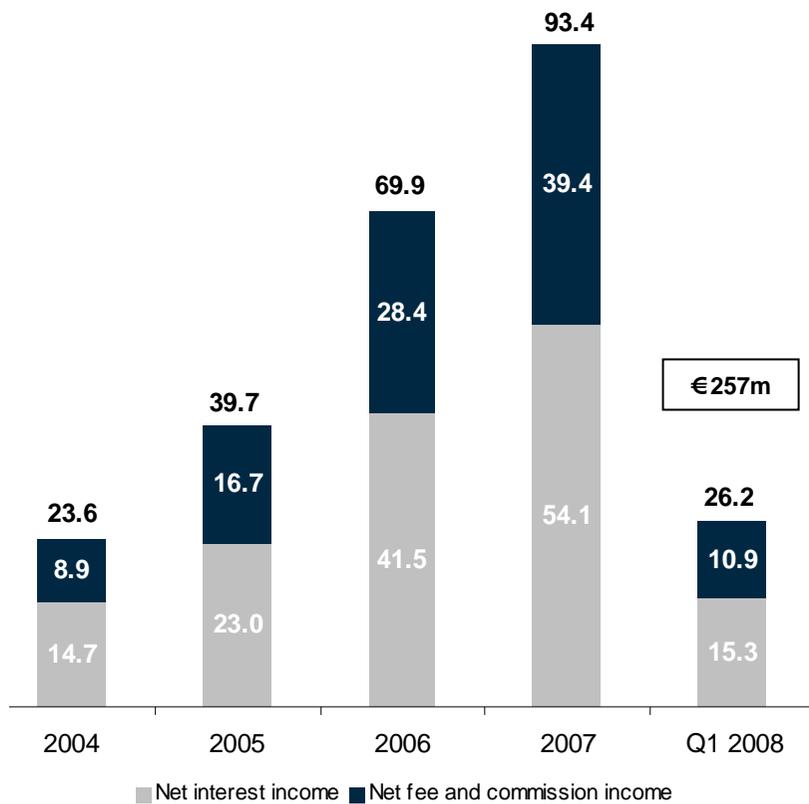
ISK million		Q1 2008	Q1 2007	Diff	%	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	€ 150m	15,255	10,879	4,376	40%	15,227	14,445	13,500	10,879
Net fee and commission income	€ 107m	10,904	9,762	1,142	12%	9,660	10,218	9,729	9,762
Other operating income	€ 144m	14,679	8,799	5,880	67%	-68	1,918	5,955	8,799
<b>Net operating income</b>	<b>€ 400m</b>	<b>40,837</b>	<b>29,441</b>	<b>11,397</b>	<b>39%</b>	<b>24,819</b>	<b>26,582</b>	<b>29,184</b>	<b>29,441</b>
Salaries and related expenses	€ 104m	10,633	7,972	2,661	33%	10,769	10,029	8,919	7,972
Administrative expenses	€ 65m	6,601	4,444	2,157	49%	5,846	4,806	4,731	4,444
<b>Operating expenses</b>	<b>€ 169m</b>	<b>17,233</b>	<b>12,415</b>	<b>4,818</b>	<b>39%</b>	<b>16,615</b>	<b>14,835</b>	<b>13,650</b>	<b>12,415</b>
Impairment on loans and advances	€ 38m	3,915	1,549	2,366	153%	2,286	1,620	1,501	1,549
<b>Pre-tax profit</b>	<b>€ 193m</b>	<b>19,690</b>	<b>15,476</b>	<b>4,213</b>	<b>27%</b>	<b>5,919</b>	<b>10,127</b>	<b>14,033</b>	<b>15,476</b>
Income tax	€ 22m	2,265	1,716	549	32%	997	1,402	1,490	1,716
<b>Net profit</b>	<b>€ 171m</b>	<b>17,425</b>	<b>13,760</b>	<b>3,664</b>	<b>27%</b>	<b>4,922</b>	<b>8,725</b>	<b>12,542</b>	<b>13,760</b>
<b>Attributable to:</b>									
Shareholders of Landsbanki	€ 170m	17,307	13,450	3,857	29%	4,584	8,518	12,248	13,450
Minority interests	€ 1m	118	311	-193	-62%	337	207	294	311

# Net Fees and Commission Income

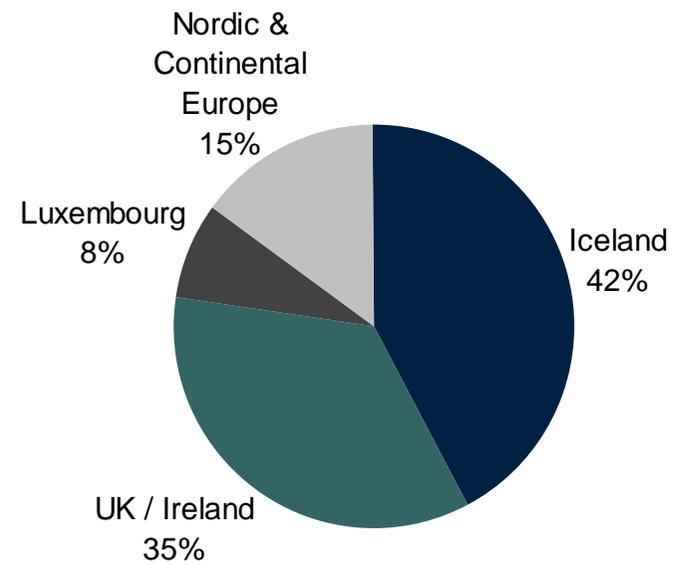


# Diversified Revenue Streams by Type and Country

Net interest income & Net fee and commission income



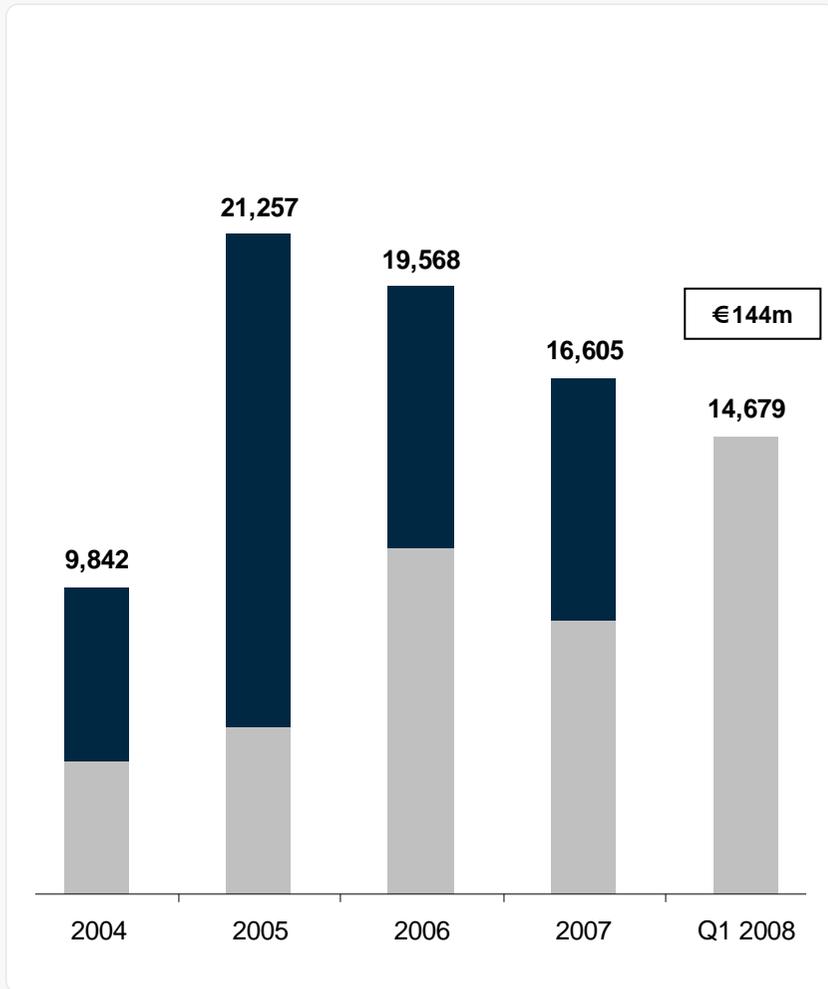
€257m



# Income Statement

		Q1 2008	Q1 2007	Diff	%	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	€ 150m	15,255	10,879	4,376	40%	15,227	14,445	13,500	10,879
Net fee and commission income	€ 107m	10,904	9,762	1,142	12%	9,660	10,218	9,729	9,762
Other operating income	€ 144m	14,679	8,799	5,880	67%	-68	1,918	5,955	8,799
<b>Net operating income</b>	<b>€ 400m</b>	<b>40,837</b>	<b>29,441</b>	<b>11,397</b>	<b>39%</b>	<b>24,819</b>	<b>26,582</b>	<b>29,184</b>	<b>29,441</b>
Salaries and related expenses	€ 104m	10,633	7,972	2,661	33%	10,769	10,029	8,919	7,972
Administrative expenses	€ 65m	6,601	4,444	2,157	49%	5,846	4,806	4,731	4,444
<b>Operating expenses</b>	<b>€ 169m</b>	<b>17,233</b>	<b>12,415</b>	<b>4,818</b>	<b>39%</b>	<b>16,615</b>	<b>14,835</b>	<b>13,650</b>	<b>12,415</b>
Impairment on loans and advances	€ 38m	3,915	1,549	2,366	153%	2,286	1,620	1,501	1,549
<b>Pre-tax profit</b>	<b>€ 193m</b>	<b>19,690</b>	<b>15,476</b>	<b>4,213</b>	<b>27%</b>	<b>5,919</b>	<b>10,127</b>	<b>14,033</b>	<b>15,476</b>
Income tax	€ 22m	2,265	1,716	549	32%	997	1,402	1,490	1,716
<b>Net profit</b>	<b>€ 171m</b>	<b>17,425</b>	<b>13,760</b>	<b>3,664</b>	<b>27%</b>	<b>4,922</b>	<b>8,725</b>	<b>12,542</b>	<b>13,760</b>
<b>Attributable to:</b>									
Shareholders of Landsbanki	€ 170m	17,307	13,450	3,857	29%	4,584	8,518	12,248	13,450
Minority interests	€ 1m	118	311	-193	-62%	337	207	294	311

# Other Operating Income



### Other operating income

	Q1 2008	2007	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Equities	-1.9	18.0	0.7	2.7	6.4	8.2
Fixed income & credit	-8.1	-8.1	-4.7	-3.2	-0.2	0.1
Foreign exchange	24.8	6.9	4.2	2.4	-0.3	0.6
Other	0.0	-0.2	-0.3	0.1	0.0	0.0
	<b>14.7</b>	<b>16.6</b>	<b>-0.1</b>	<b>1.9</b>	<b>6.0</b>	<b>8.8</b>

- ### FX Position
- Net FX exposure at the beginning of the year was ISK 114bn (€1.2bn)
  - Net FX exposure as of 31 Mar 2008 was ISK 126bn (€1.1bn)

# Fixed Income and Structured Credit Exposure



Listed bond portfolio



As part of its liquidity strategy/reserves, Landsbanki has invested about ISK 400bn in listed bonds (mainly Floating Rate Notes). The highly rated portfolio consists mainly of financial and government paper.

Financials	66%	AAA	29%
Government bonds	25%	AA	43%
Corporate bonds	9%	A	20%
		BBB	6%
		NR	2%

Corporate Synthetic CDO



No exposure

ABS



No exposure

SIVs, conduits & liquidity lines



No exposure

Monolines



No exposure

Total return swaps



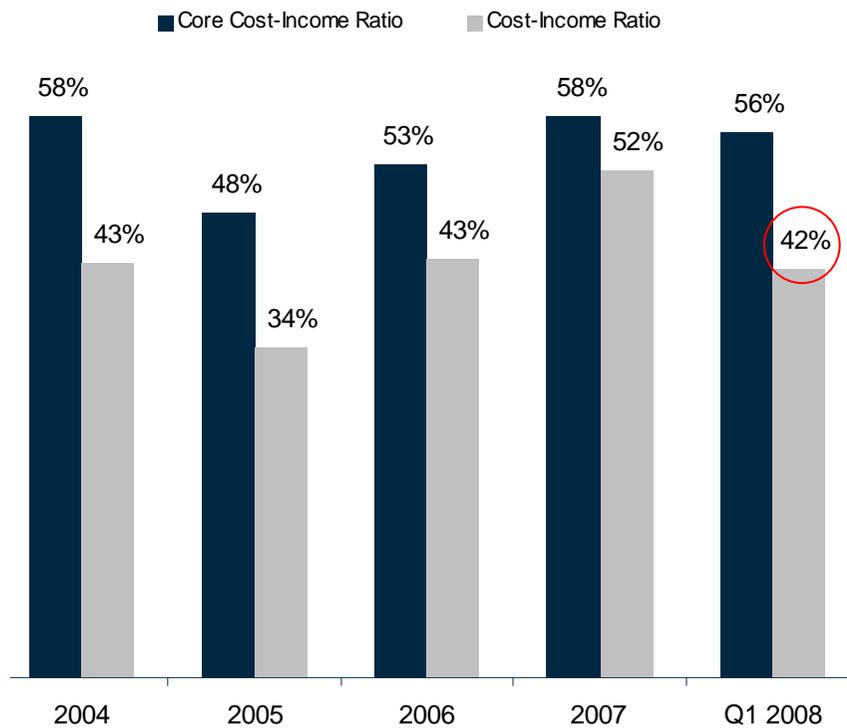
Landsbanki uses Total return swaps (TRS) which are marked to market to manage part of its portfolio of acquisition and leveraged finance participations

# Income Statement

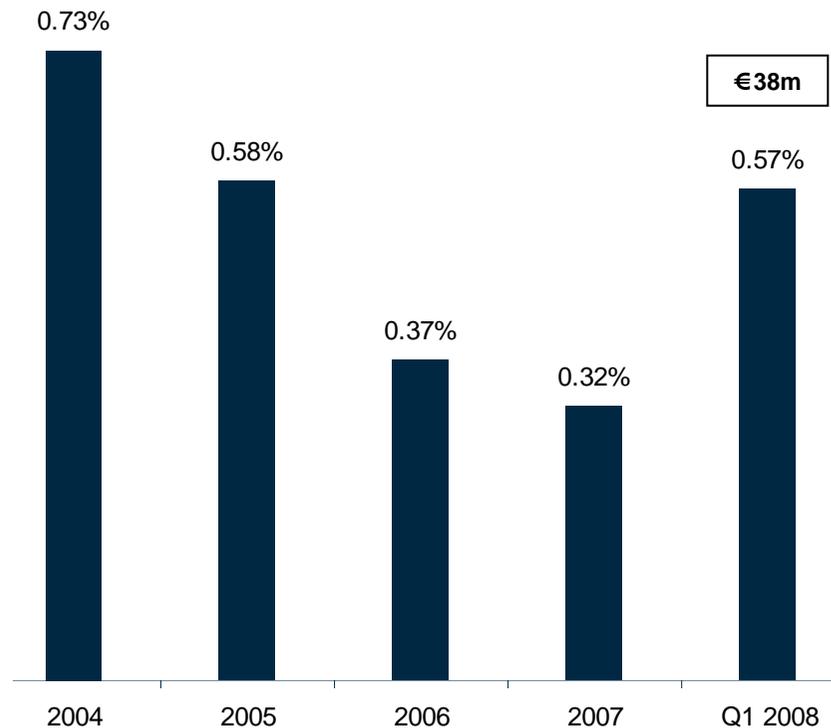
		Q1 2008	Q1 2007	Diff	%	Q4 2007	Q3 2007	Q2 2007	Q1 2007
Net interest income	€ 150m	15,255	10,879	4,376	40%	15,227	14,445	13,500	10,879
Net fee and commission income	€ 107m	10,904	9,762	1,142	12%	9,660	10,218	9,729	9,762
Other operating income	€ 144m	14,679	8,799	5,880	67%	-68	1,918	5,955	8,799
<b>Net operating income</b>	<b>€ 400m</b>	<b>40,837</b>	<b>29,441</b>	<b>11,397</b>	<b>39%</b>	<b>24,819</b>	<b>26,582</b>	<b>29,184</b>	<b>29,441</b>
Salaries and related expenses	€ 104m	10,633	7,972	2,661	33%	10,769	10,029	8,919	7,972
Administrative expenses	€ 65m	6,601	4,444	2,157	49%	5,846	4,806	4,731	4,444
<b>Operating expenses</b>	<b>€ 169m</b>	<b>17,233</b>	<b>12,415</b>	<b>4,818</b>	<b>39%</b>	<b>16,615</b>	<b>14,835</b>	<b>13,650</b>	<b>12,415</b>
Impairment on loans and advances	€ 38m	3,915	1,549	2,366	153%	2,286	1,620	1,501	1,549
<b>Pre-tax profit</b>	<b>€ 193m</b>	<b>19,690</b>	<b>15,476</b>	<b>4,213</b>	<b>27%</b>	<b>5,919</b>	<b>10,127</b>	<b>14,033</b>	<b>15,476</b>
Income tax	€ 22m	2,265	1,716	549	32%	997	1,402	1,490	1,716
<b>Net profit</b>	<b>€ 171m</b>	<b>17,425</b>	<b>13,760</b>	<b>3,664</b>	<b>27%</b>	<b>4,922</b>	<b>8,725</b>	<b>12,542</b>	<b>13,760</b>
<b>Attributable to:</b>									
Shareholders of Landsbanki	€ 170m	17,307	13,450	3,857	29%	4,584	8,518	12,248	13,450
Minority interests	€ 1m	118	311	-193	-62%	337	207	294	311

# Cost-income Ratio & Impairment on Loans and Advances

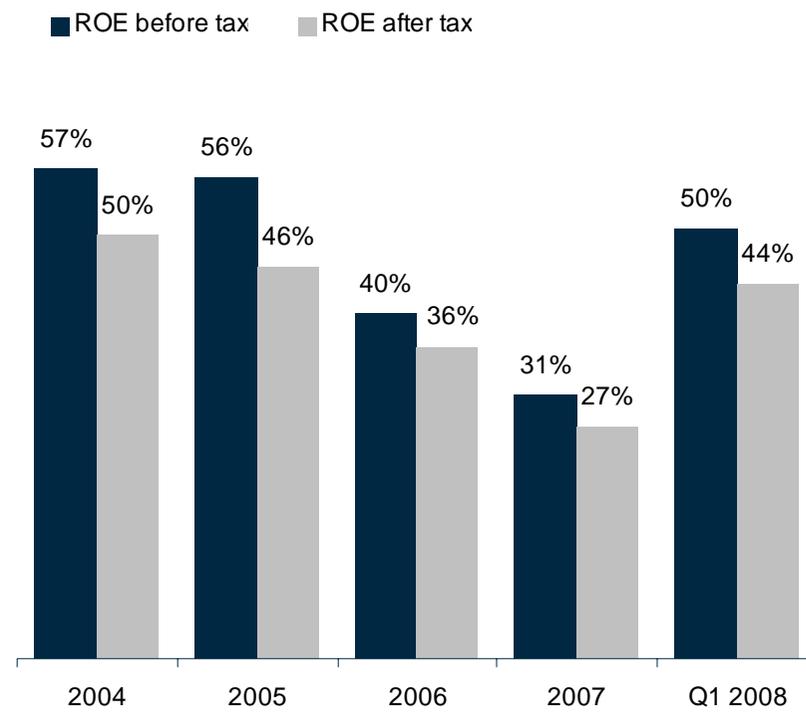
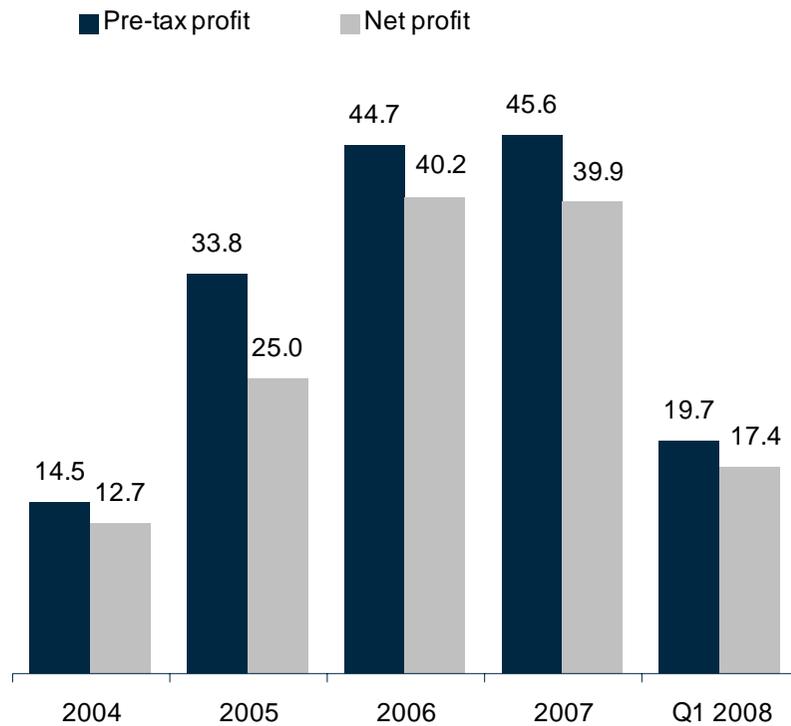
### Cost-income ratio



### Impairment on loans & advances



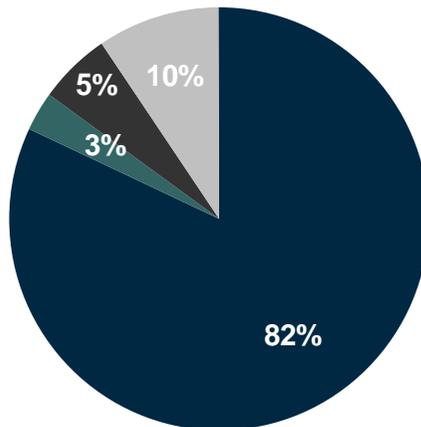
# Profit and Return on Equity



# Revenue Breakdown by Country

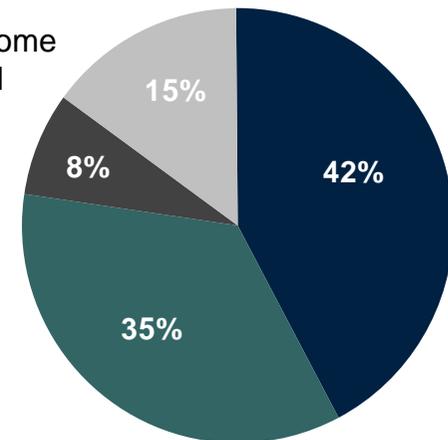
Q1 2008	Iceland	UK / Ireland	Luxembourg	Nordic and Continental Europe	Total
Net interest income	6,825	5,916	1,450	1,064	15,255
Net fee and commission income	4,242	3,208	621	2,833	10,904
Other operating income	22,396	-7,862	166	-21	14,679
<b>Net operating income</b>	<b>33,463</b>	<b>1,262</b>	<b>2,237</b>	<b>3,875</b>	<b>40,837</b>
	€ 328m	€ 12m	€ 22m	€ 38m	€ 400m
Share in net operating income	82%	3%	5%	9%	100%
Net interest revenues and net fees	42%	35%	8%	15%	100%

Net operating income



Net interest income and net fee and commission income

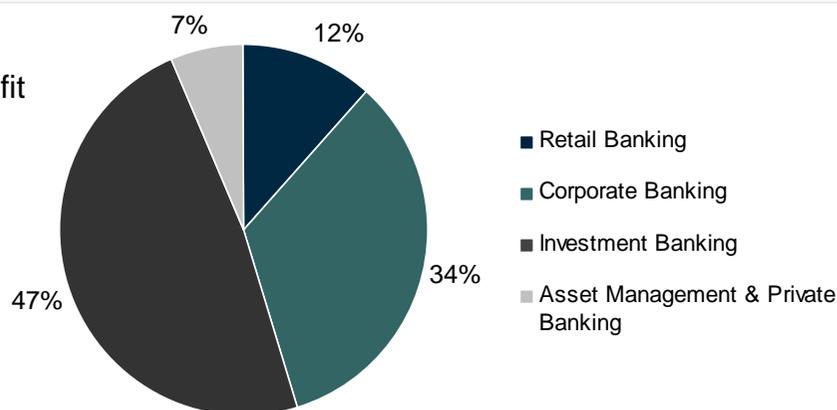
- Iceland
- UK/Ireland
- Luxembourg
- Nordic and Cont. Europe



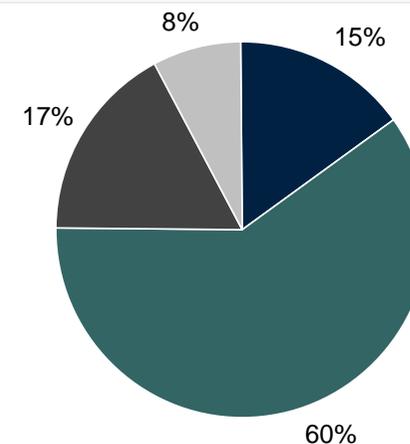
# Breakdown by Business Segment

Q1 2008	Retail Banking	Corporate Banking	Investment Banking	Asset Management & Private Banking	Other	Group
Net interest income	5,040	12,604	-3,831	1,441	0	15,255
Net fee and commission income	759	1,874	6,876	1,396	0	10,904
Other operating income	-35	-2,529	17,119	123	0	14,679
<b>Net operating income</b>	<b>5,764</b>	<b>11,949</b>	<b>20,164</b>	<b>2,960</b>	<b>0</b>	<b>40,837</b>
<b>Operating expenses</b>	<b>2,585</b>	<b>3,008</b>	<b>8,860</b>	<b>1,598</b>	<b>1,182</b>	<b>17,233</b>
Impairment on loans and advances	765	1,879	1,271	0	0	3,915
<b>Net segment result</b>	<b>2,414</b>	<b>7,062</b>	<b>10,034</b>	<b>1,362</b>	<b>-1,182</b>	<b>19,690</b>
	€24m	€69m	€98m	€13m	€-12m	€193m

Q1 2008 pre-tax profit



Q1 2008 core profit



# Core Earnings

**Pre-tax profit**  
€193m

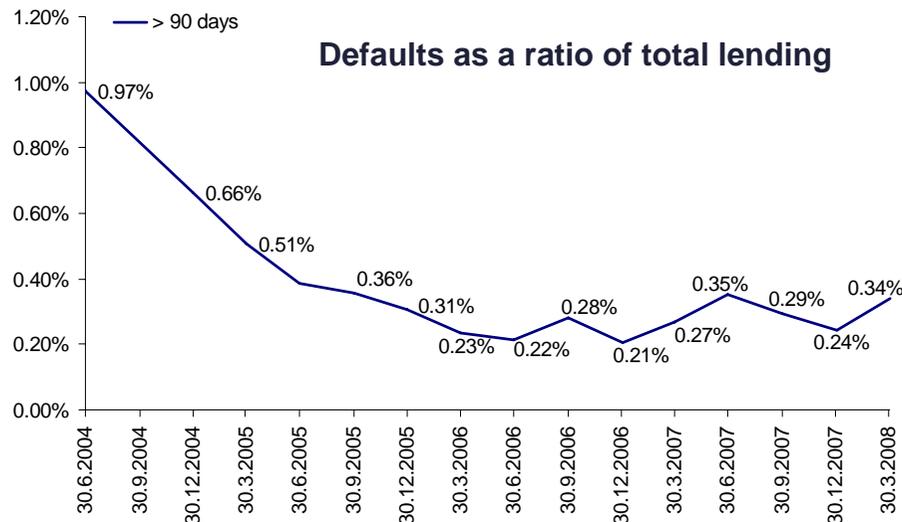
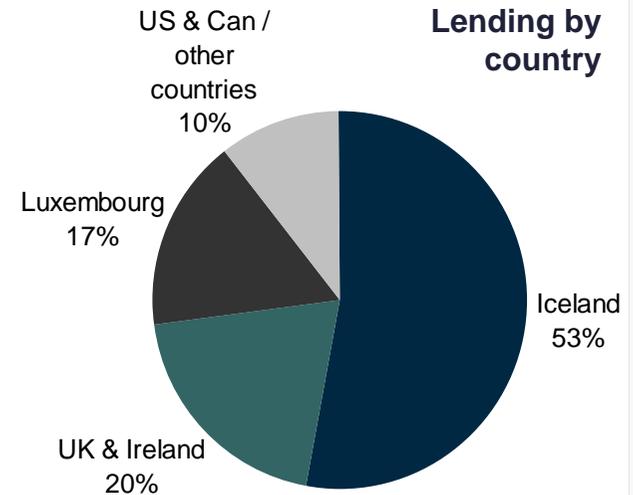
**Core pre-tax profit**  
€92m

**Core pre-tax ROE**  
22%

Actual results		Q1 2008	2007	2006	2005	2004
Net interest revenues	€ 150m	15,255	54,052	41,491	22,996	14,734
Net commissions and fees	€ 107m	10,904	39,369	28,366	16,726	8,891
Net gain on equity, securities and FX	€ 144m	14,679	16,605	19,568	21,257	9,842
<b>Net operating revenues</b>	<b>€ 400m</b>	<b>40,837</b>	<b>110,025</b>	<b>89,426</b>	<b>60,978</b>	<b>33,467</b>
Operating expenses	€ 169m	17,233	57,515	38,588	20,967	14,460
Impairment on loans and advances	€ 38m	3,915	6,956	6,144	6,197	4,485
Impairment on goodwill	€ 0m	0	0	0	3,033	0
<b>Pre-tax profit</b>	<b>€ 193m</b>	<b>19,690</b>	<b>45,555</b>	<b>44,694</b>	<b>30,781</b>	<b>14,521</b>
<b>Cost-income Ratio</b>	<b>42%</b>	<b>42%</b>	<b>52%</b>	<b>43%</b>	<b>34%</b>	<b>43%</b>
<b>Pre-tax ROE</b>	<b>50%</b>	<b>50%</b>	<b>31%</b>	<b>40%</b>	<b>56%</b>	<b>57%</b>
<b>Adjustments</b>						
Net interest revenues	€ 43m	4,401	5,753	3,640	3,652	1,200
Net gain on equity, securities and FX	€ -144m	-14,679	-16,605	-19,568	-21,257	-9,842
Impairment on goodwill	€ 0m	0	0	0	3,033	0
	<b>€ -101m</b>	<b>-10,278</b>	<b>-10,852</b>	<b>-15,929</b>	<b>-14,572</b>	<b>-8,642</b>
<b>Core Earnings</b>						
<b>Pre-tax profit for core operations</b>	<b>€ 92m</b>	<b>9,412</b>	<b>34,703</b>	<b>28,765</b>	<b>16,210</b>	<b>5,879</b>
<b>Cost-income ratio for core operations</b>	<b>56%</b>	<b>56%</b>	<b>58%</b>	<b>53%</b>	<b>48%</b>	<b>58%</b>
<b>Pre-tax ROE for core operations</b>	<b>22%</b>	<b>22%</b>	<b>24%</b>	<b>26%</b>	<b>30%</b>	<b>23%</b>

# Balance Sheet – assets as of 31 Mar 2008

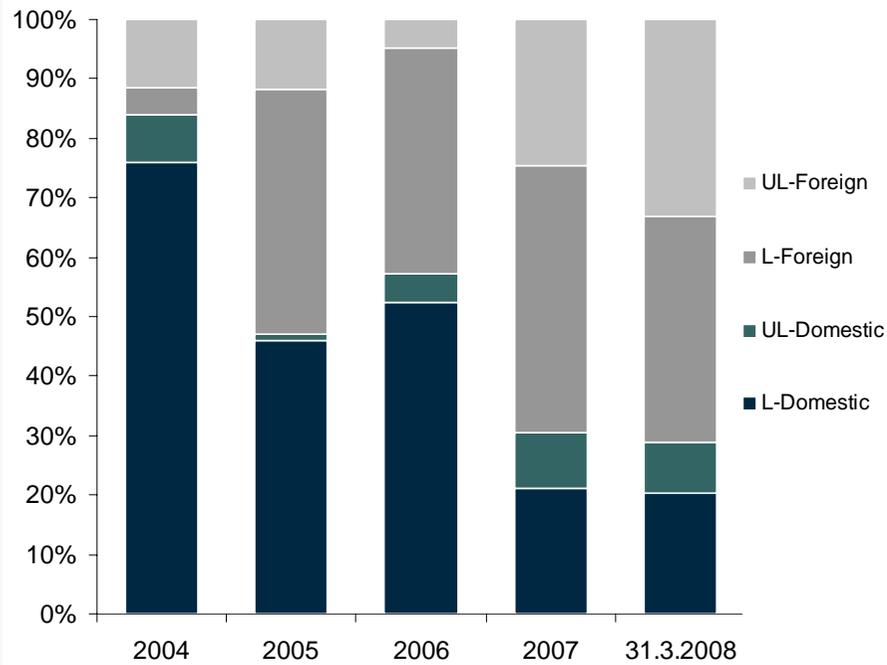
	31 Mar 2008	31 Dec 2007	Change	
Cash and cash balances with Central Bank	104	82	22	
Loans and advances to financial institutions	268	163	105	
Loans and advances to customers	2,488	2,023	465	
Bonds and debt instruments	351	363	-11	
Shares and equity instruments	91	64	27	
Hedged securities	160	176	-16	
Derivatives held for trading	166	50	115	
Derivatives held for hedging	16	9	7	
Intangible assets	38	28	11	
Other assets	154	101	53	
<b>Total assets</b>	<b>3,836</b>	<b>3,058</b>	<b>779</b>	<b>25%</b>
	<b>€32.1bn</b>	<b>€33.4bn</b>	<b>€-1.3bn</b>	<b>-4%</b>



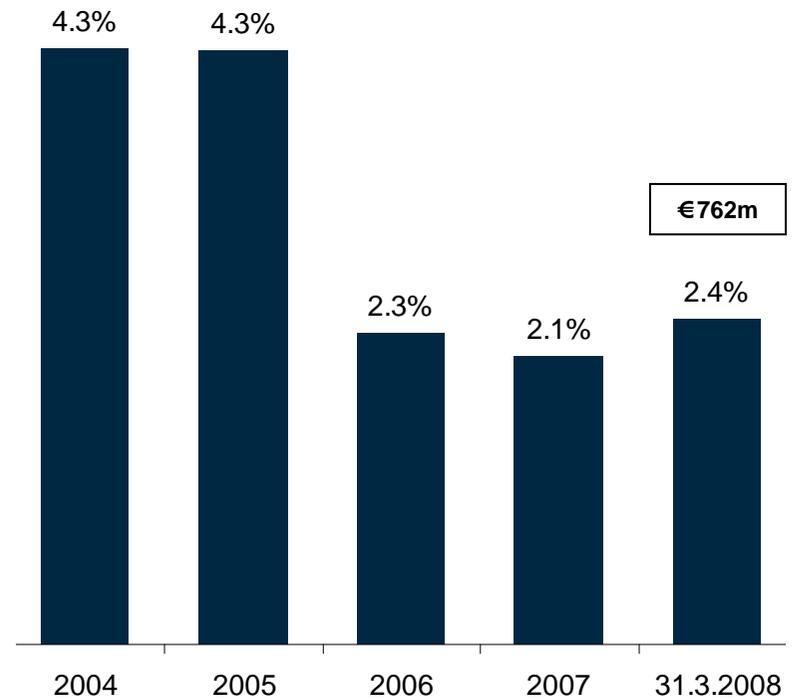
Provision account at 31 Mar 2008	27,510	€ 230m	1.04%
Total paym. overdue 0 days / Loans	26,437	€ 221m	1.06%
Total paym. overdue past 90 days / Loans	8,434	€ 71m	0.34%

# Net Equity Position

### Shares and equity instruments



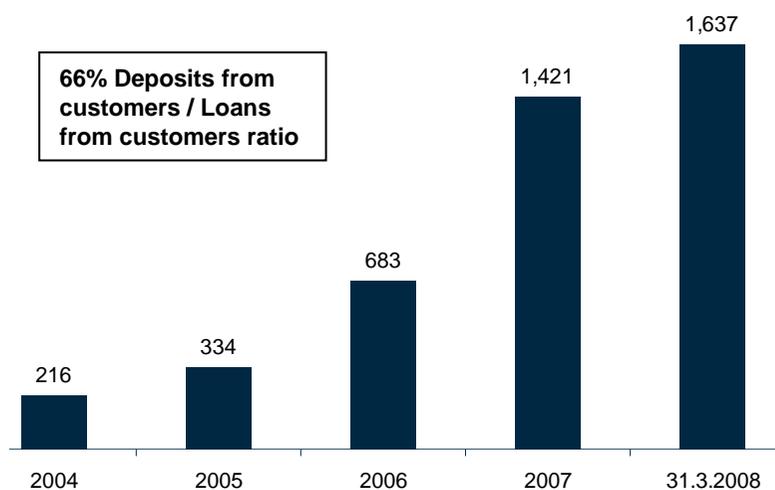
### Equity exposure as % balance sheet



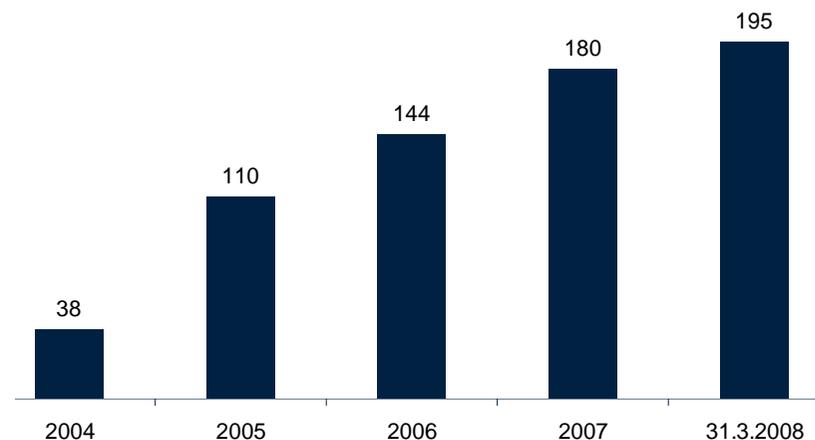
# Balance Sheet – liabilities & equity as of 31 Mar 2008

	31 Mar 2008	31 Dec 2007	Change	
Deposits from credit institutions	445	338	107	
Deposits from customers	1,637	1,421	215	
Borrowing	1,142	836	306	
Subordinated loans	146	112	34	
Other liabilities	268	166	102	
Minority interest	3	4	-1	
Shareholder equity	195	180	15	
<b>Total liabilities and equity</b>	<b>3,836</b>	<b>3,058</b>	<b>779</b>	<b>25%</b>
	<b>€32.1bn</b>	<b>€33.4bn</b>	<b>€-1.3bn</b>	<b>-4%</b>

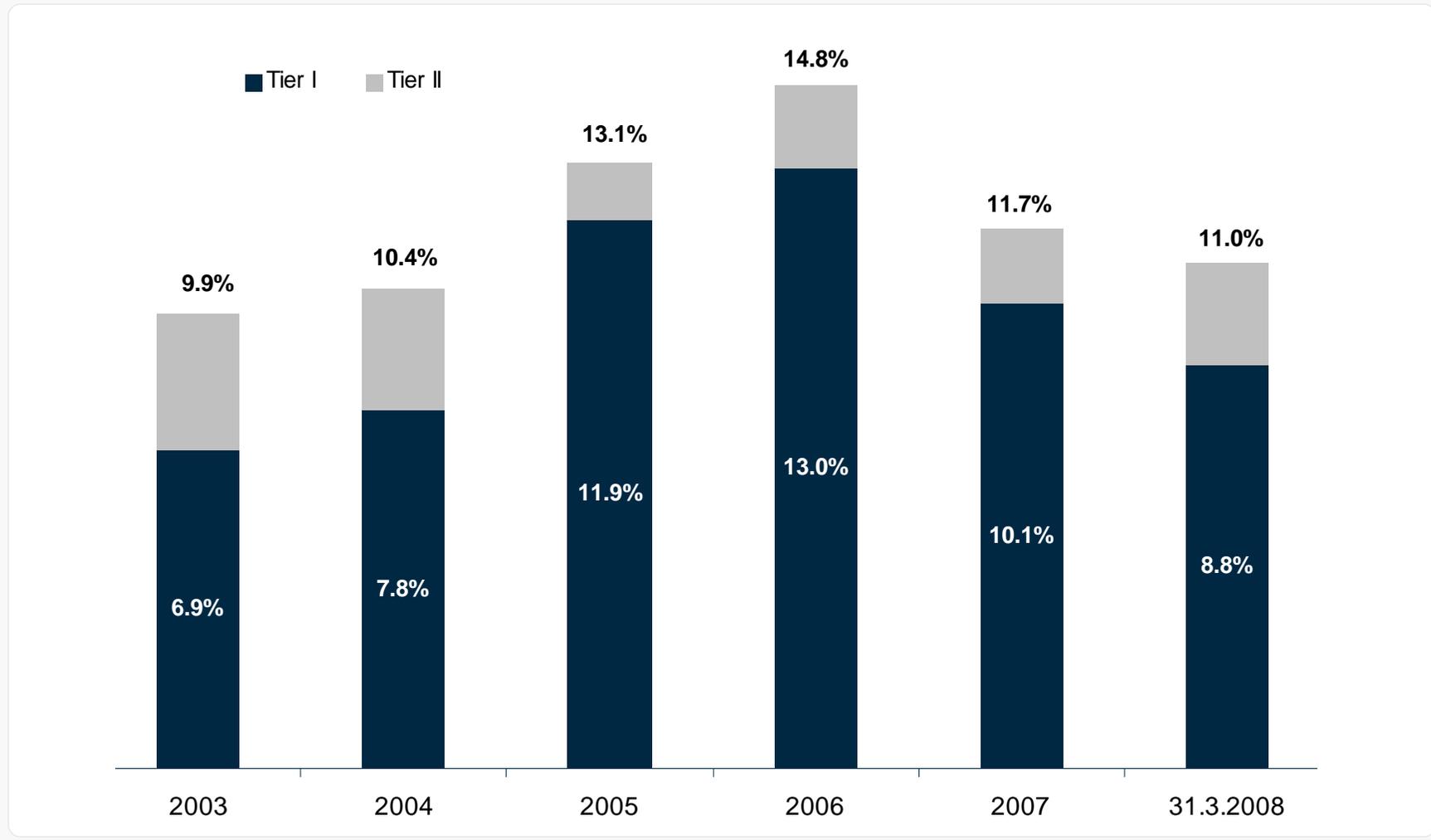
### Deposits from customers



### Shareholder equity



# Equity Ratio (CAD)



# Equity Overview



Share price ISK  
27.7 (6 May 2008)

Market cap ISK  
310bn (EUR 2.6bn)

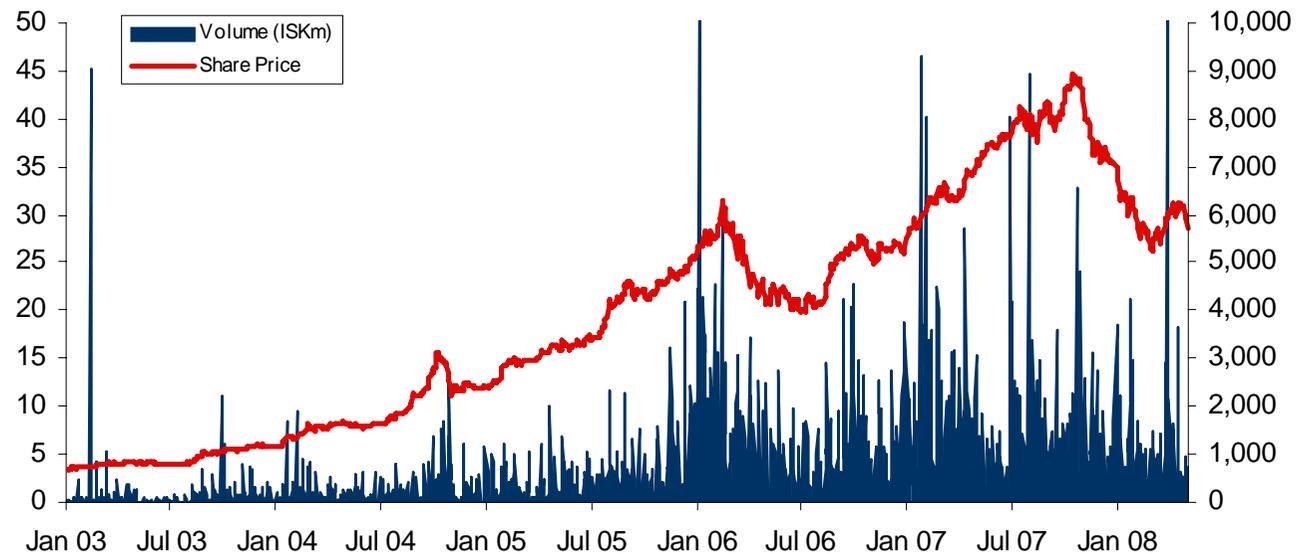
Equity ISK 195 bn  
(EUR 1.6bn)

Q1 2008 after-tax  
profit ISK 17.4bn  
(EUR 171m)

Last 12 month P/E:  
 $310/43.6 = 7.11$

P/B:  $310/195 = 1.59$

## Share price & trading volume



Trading volume 2007:  
ISK 361bn (€3.6bn)  
(17,070 transactions)

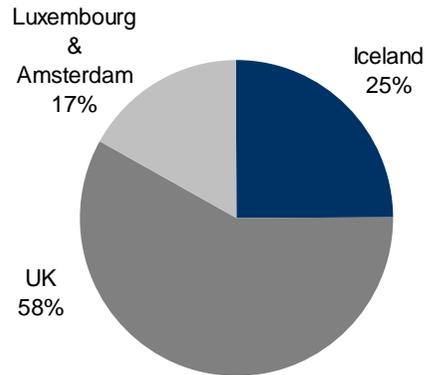
Shareholder structure	%
Samson eignarhaldsfélag	41.9%
Next 100 largest shareholders	48.9%
Approx. 27,200 shareholders	9.2%

Trading volume YtD 2008:  
ISK 98.2bn (€0.8bn)  
(5,301 transactions)

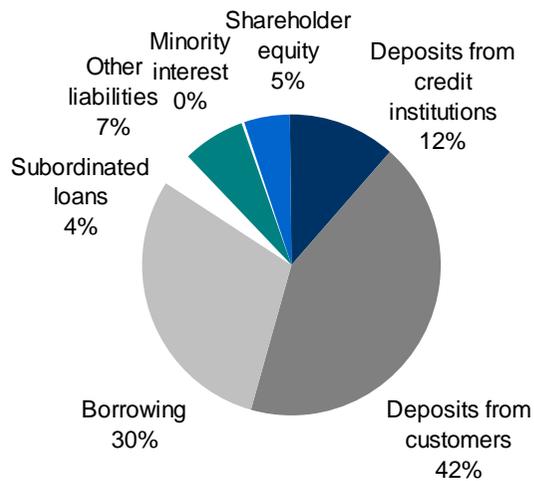
- Solid Q1 2008 results and continued good profitability of core income
- **Diversified funding profile and strong liquidity position**
- Iceland – a flexible and resilient economy

# Deposit Growth Transforming the Balance Sheet

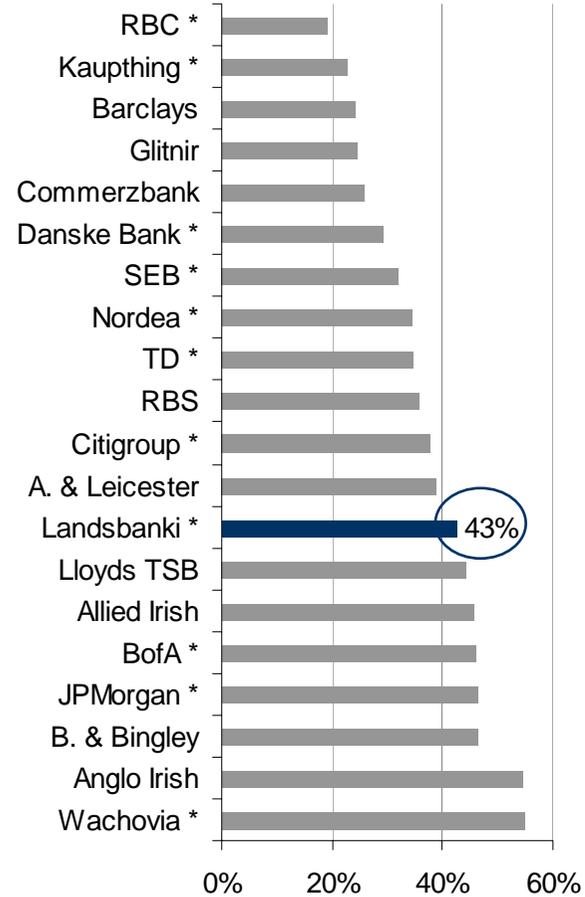
**Deposits by country 31 Mar 2008**



**Liabilities 31 Mar 2008**



**Deposits / Total Assets**



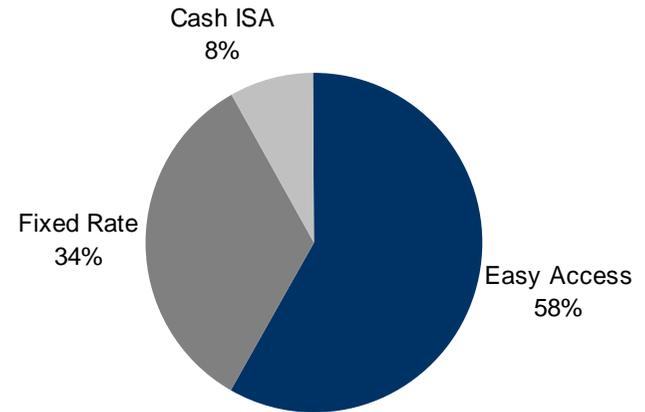
\* Data for 1Q08 (otherwise 4Q07) Source: company reports

# Ongoing Growth and Diversification of Icesave



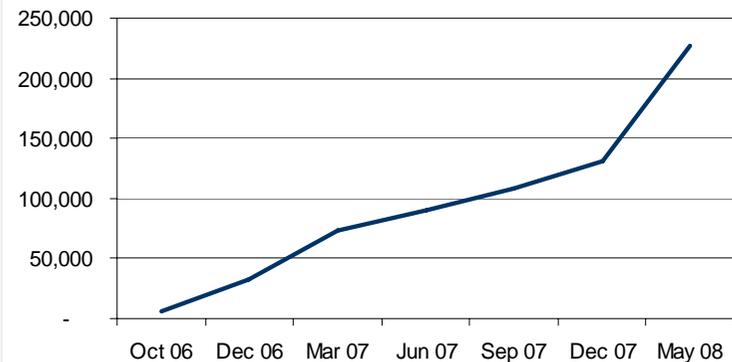
- Emphasis on term deposits with fixed terms of 6M – 3Y
  - Record number of account openings in 1Q2008 – over 220,000 accounts at end March, up from over 130,000 at year-end
  - 34% in term deposits and 8% in cash ISAs
  - New easy access guarantee issued to exceed BOE base rate by at least 0.35% until May 2011
- New behavioural trend in UK savings market with lower amounts spread over more accounts, i.e. reducing balances to within limits protected by FSCS
  - Avg. amount around GBP 20,000, down from around GBP 45,000 in Aug 2007

### Development of ICESAVE Deposits



06.05.2008

### Icesave account openings 31.03.2008



06.05.2008

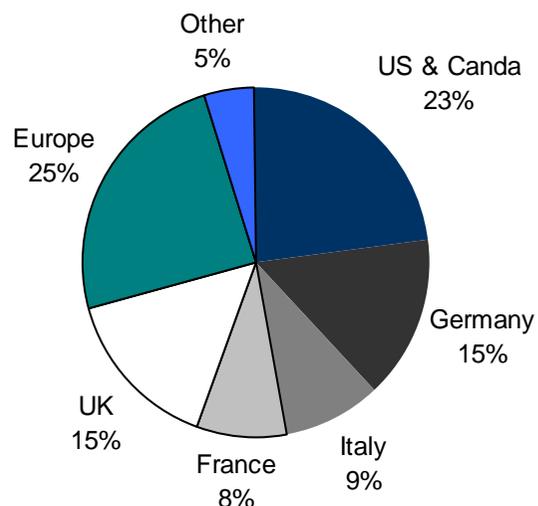
## Market Potential for Expanding Icesave Platform

- Further expansion of Icesave in Europe with launch on the continent planned in Q2 2008
- 2-3 more countries to follow in H2 2008

	Population	GDP (PPP, 2007)		Retail deposits	
	million	EURbn	EUR per capita	EURbn	EUR per capita
<b>UK</b>	60.6	1,465	24,081	810	13,366
<b>Germany</b>	82.2	1,926	23,428	1580	19,221
<b>France</b>	64.5	1,403	22,747	980	15,194
<b>Italy</b>	59.5	1,224	20,869	910	15,294
<b>Spain</b>	45.2	926	20,644	640	14,159
<b>Netherlands</b>	16.4	438	26,378	280	17,073
<b>Belgium</b>	10.6	258	24,176	220	20,755
<b>Switzerland</b>	7.6	206	28,189	280	36,842
<b>Austria</b>	8.3	218	26,319	180	21,687
<b>Sweden</b>	9.2	229	25,013	90	9,783
<b>Norway</b>	4.8	170	36,352	90	18,750
<b>Denmark</b>	5.5	140	25,628	120	21,818
<b>Finland</b>	5.3	127	24,181	60	11,321

# Strategic Measures to Navigate Current Credit Crunch

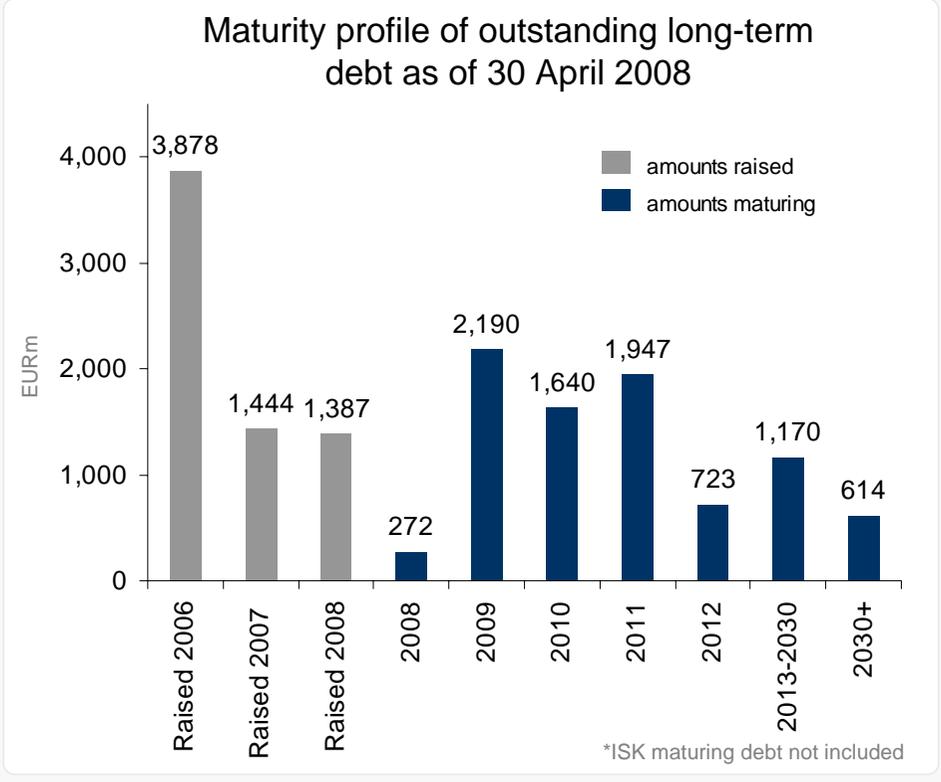
## Geographic Diversification 31.03.2008



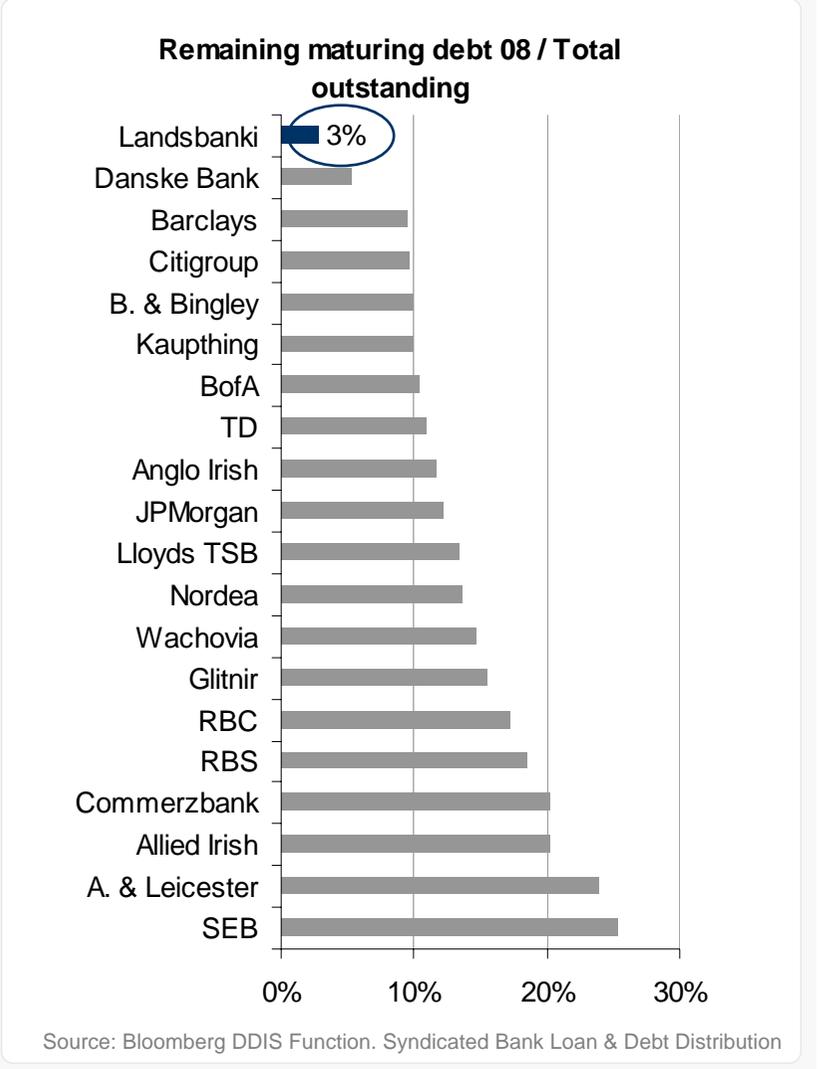
- Several bond private placements concluded year to date
- New issuance to date amounts to EUR 1.4bn
- Pricing at levels inside of 5Y CDS
- Currencies ISK, EUR and USD

- Funding focus in 2008
  - Further diversification of funding profile
  - Strengthening of liquidity position by developing new deposit initiatives
  - Covered bond issuance
  - Continued emphasis on a balanced maturity profile by lengthening the duration of outstanding issues
- Improve cost effectiveness and achieve synergies in operations, with moderate balance sheet activity

# Strong Liquidity Position and Light Repayment Profile



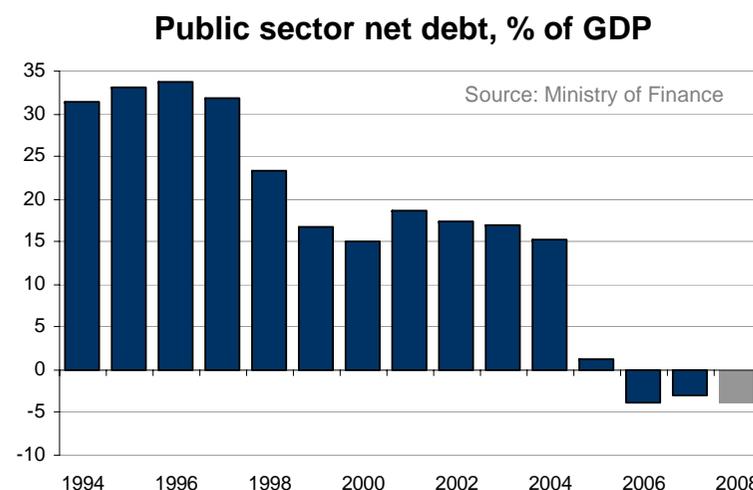
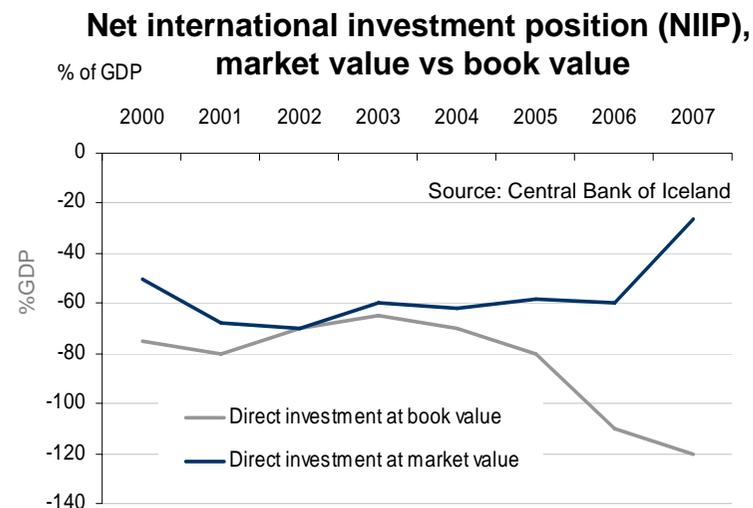
- Light repayment schedule with only EUR 749m maturing in 2008
- Only EUR 272m maturing during the remainder of 2008
- Liquid assets EUR 8,277m as of 31 March 2008



- Solid Q4 2007 results and continued profitability of core income
- Diversified funding profile and strong liquidity position
- **Iceland a flexible and resilient economy**

## Economic Imbalance Less than Previously Indicated

- The Icelandic economy is strongly anchored in food production, energy and high tech
- A reassessment of foreign assets and liabilities, published in CB's most recent *Monetary Bulletin*, supports Landsbanki's contention that Iceland's net foreign debt was overestimated
- The correction, based on the estimated market value of assets, lowers the net international investment position
  - from 120% of GDP
  - to 27% of GDP as of Q3 2007
- The strong treasury position, with no net debt, and the solid pension system act as a brake on the downturn
- It is urgent to increase the Central Bank's financial strength and foreign currency reserves, to ensure the size and scope of the country's institutional structure corresponds to that of its financial sector



# Economic Landing will be on the Soft Side



- The sharp ISK depreciation has already caused an inflationary spike which will be difficult to stifle
  - Inflation will subside quickly next year, helped by a moderate real-estate market adjustment
- Experience shows that the adjustment generally occurs rapidly. The ISK exchange rate plays a key role here
- Expanding exports prevent economic contraction, and GDP growth will strengthen once more the following year
- Strong economic fundamentals and resilience in business and industry provide the premises for a successful resolution of short-term difficulties
- It is important not to miss new opportunities for further development of export industries. New initiatives in this sector could mitigate the impact of the economic downturn next year and boost GDP growth in 2010



**Key Economic indicators 2007-2010**

	2007	2008	2009	2010
GDP Growth, 1)	3.8	0.5	-0.7	0.8
Inflation 1)	5.8	8.4	3.1	3.3
Exchange Rate (TWI) 1)	-2.5	14.6	-2.6	3.0
Residential Prices 1)	13.3	-5.4	0.9	2.0
Policy Rate, (year-end)	13.75	14.75	9.00	8.75

1) Per cent change, annual rate

Source: Ministry of Finance and Landsbanki Research

# Banks are Well Hedged Against Weaker ISK and Rising Inflation



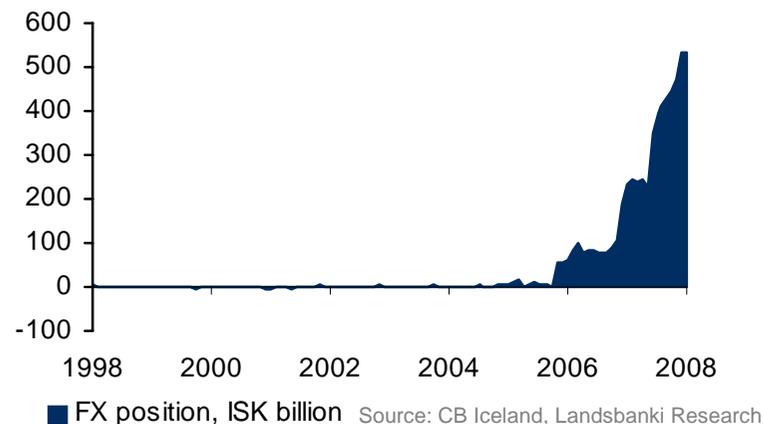
## Banking sector

- The Icelandic banks have all taken measures to limit the negative impact of currency depreciation on their CAD ratio
- As the Icelandic banking sector has a large positive indexation balance, the impact of rising inflation has a positive balance sheet effect
- The banks' equity exposures consist predominantly of foreign equities

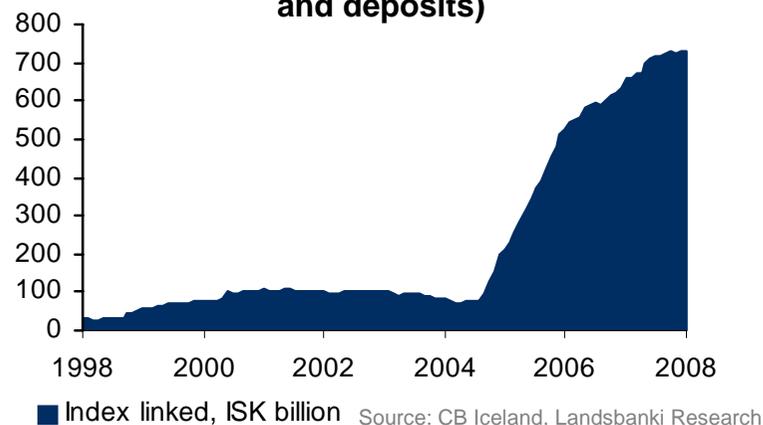
## Effect on customers

- The banks work actively with their corporate clients to hedge their FX exposures
- Households are partly sheltered against rising inflation as typical mortgages carry fixed real interest rates
- The lending growth of the largest Icelandic banks has mainly been abroad or to domestic corporates with international exposure, reducing the impact of currency depreciation

**Banks' net FX position (EUR 5.6bn)**



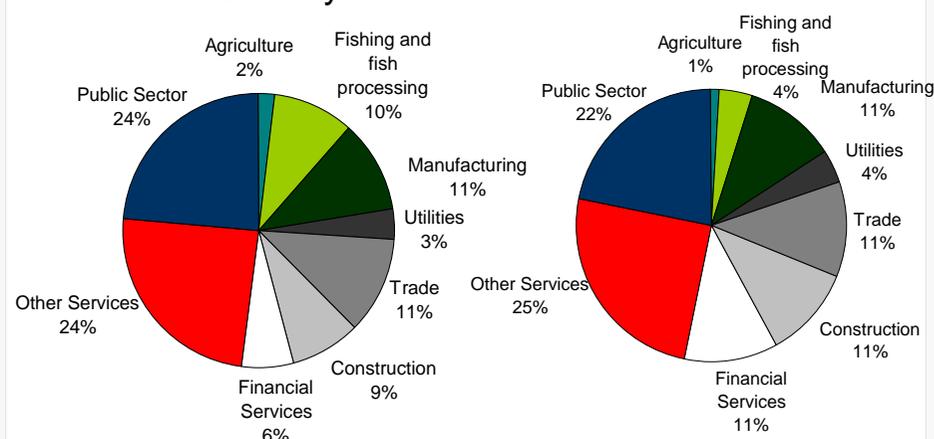
**Banks "inflation balance" (EUR 7bn) (loans and deposits)**



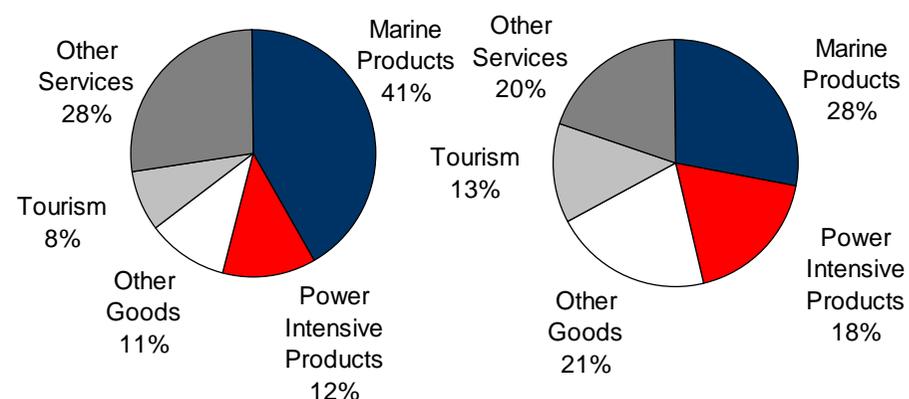
# Iceland – a Flexible and Resilient Economy

- Changing composition of GDP and exports reflects increased diversification of the economy, i.e. increase in financial services and energy intensive industry
  - Solid and defensive export base in food and energy sectors, along with expanding tourism
- Abundant unharnessed energy resources, particularly in geothermal energy
  - Strong interest from aluminium sector and other power intensive industries to invest in Iceland with 2 aluminium projects under active preparation (Century in Helguvík, Alcoa in Húsavík)
  - Other energy intensive industries exploring possibilities (silicon, IT server hub)
- Economic downturn and increasing energy prices may increase willingness to exploit available power intensive projects

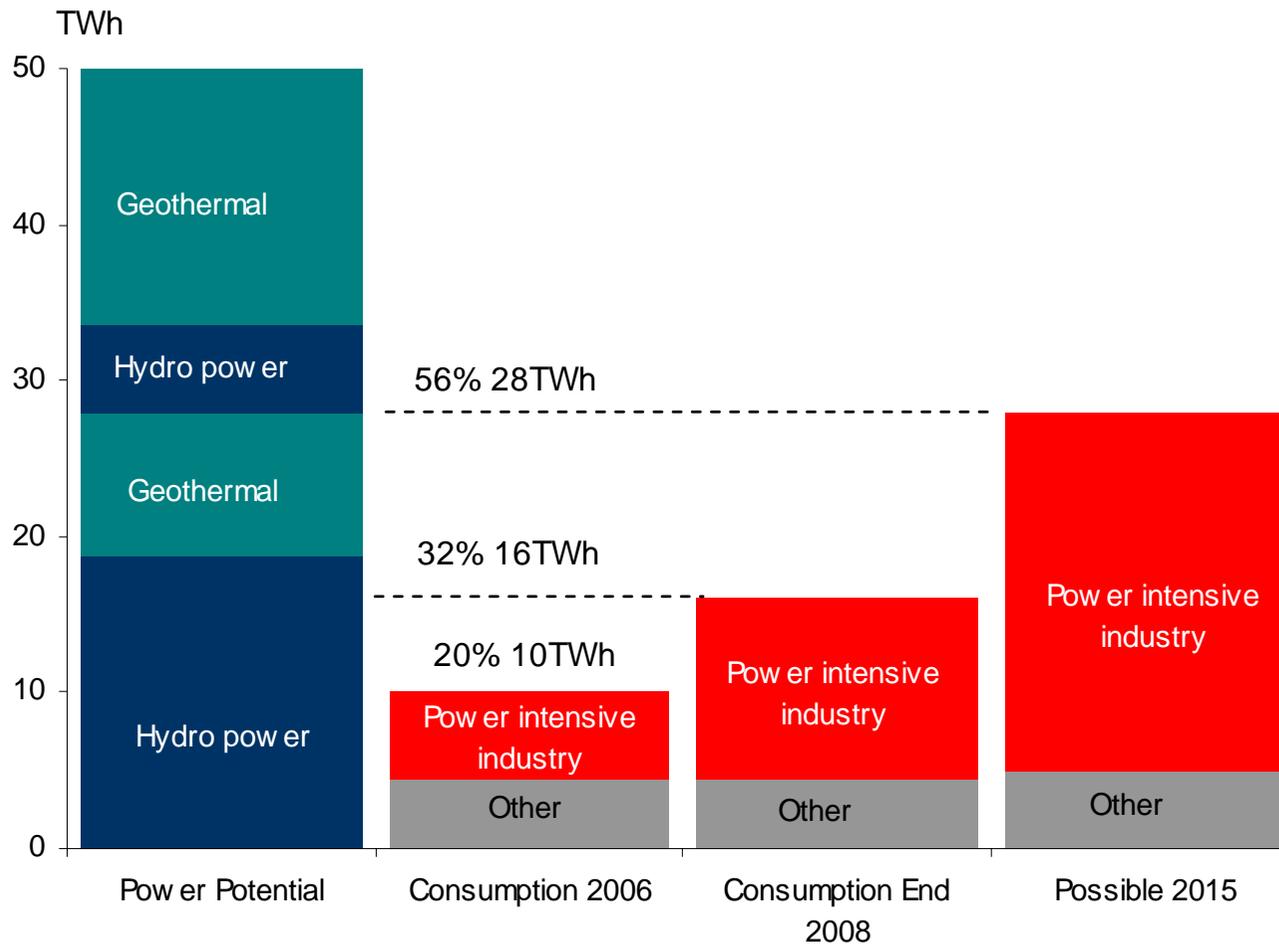
GDP by sector in 2000 and 2007



Export by sector in 2000 and 2007



# Renewable Energy Available for Export-Led Growth

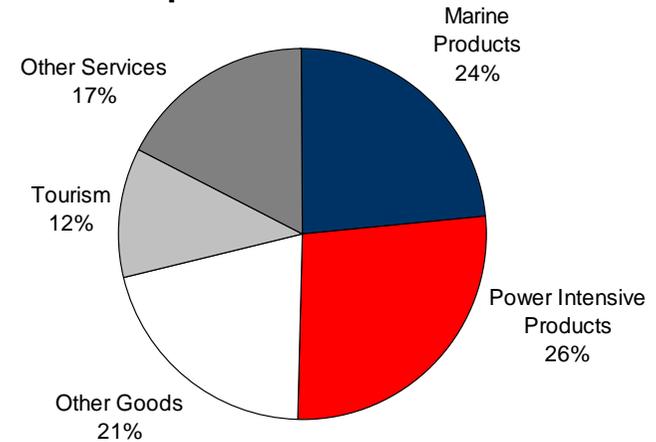


Source: Icelandic Energy Authority

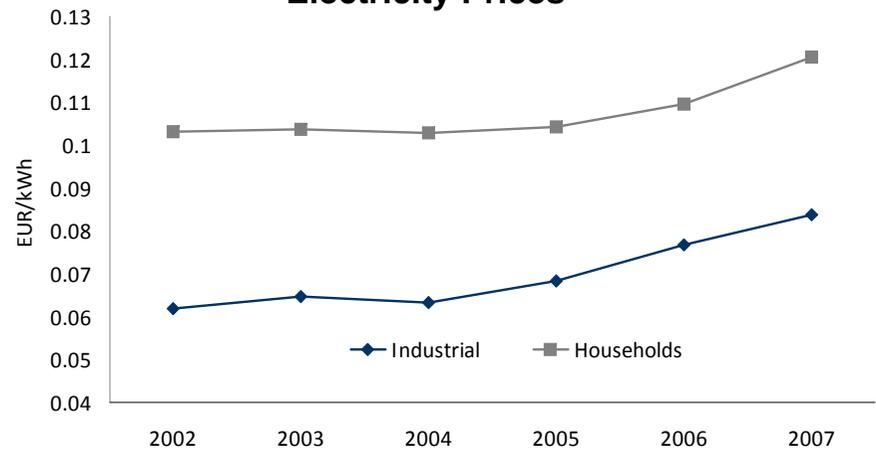
# Renewable Energy - Potential Export Growth

- Increased capacity in energy intensive sectors could increase the level of GDP by around 4%, equivalent to around 0.8% additional GDP growth annually for a period of 5 years
- Export growth could increase 42.5% in 7 year period or about 6% per annum
  - assuming doubling of power intensive exports
  - 3.5% annual growth in marine exports
  - 2.5% annual growth in other exports

### Exports 2008 Estimate

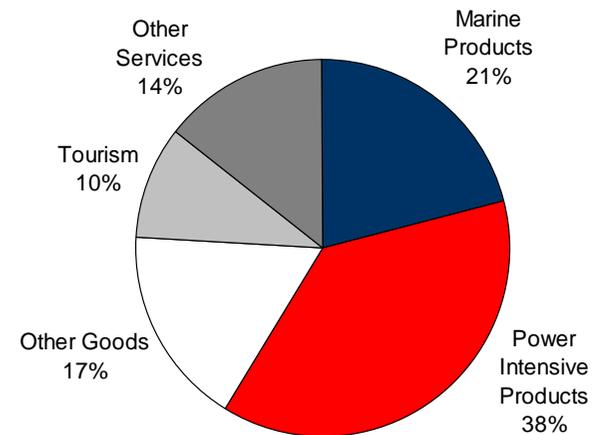


### Electricity Prices



Source: Eurostat

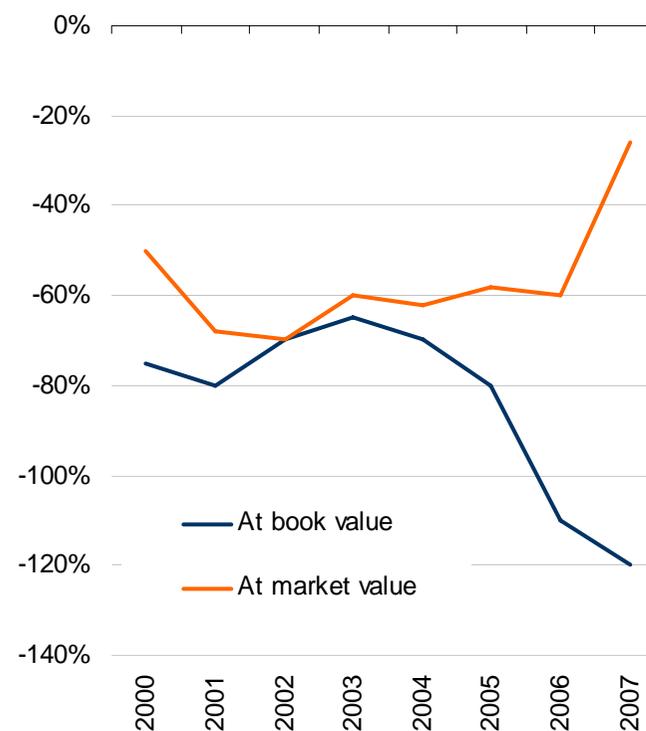
### Exports 2015 Projection



# Foreign Investment Position

- Rapid asset formation abroad
- Share of investment in assets is larger than in liabilities
- NIIP is accounted for in accordance with IMF and OECD standards at book value
  - These accounting conventions are up for revision
- NIIP investment calculated at market value cuts the net foreign investment position to -27% of GDP from -120% of GDP (end Q3 2007)
  - Central Bank's *Monetary Bulletin* April 2008
- In addition
  - the pension funds' foreign assets (portfolio investment) are recognised at purchase prices
  - large share of foreign ownership of domestic assets is held by holding companies, owned by Icelanders

## Net international investment position (NIIP)

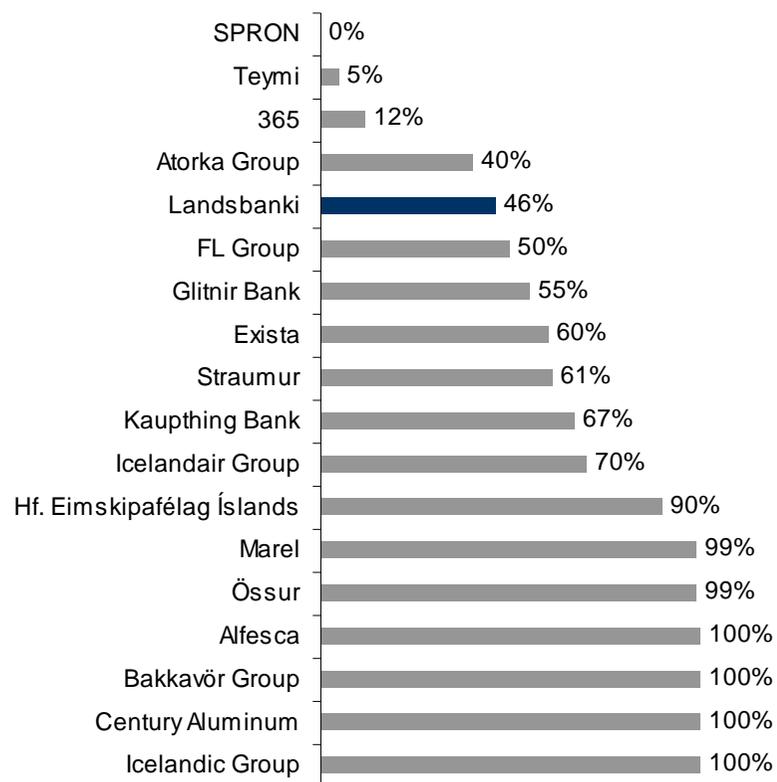


Source: Central Bank of Iceland

# Continued Internationalisation of Icelandic Economy



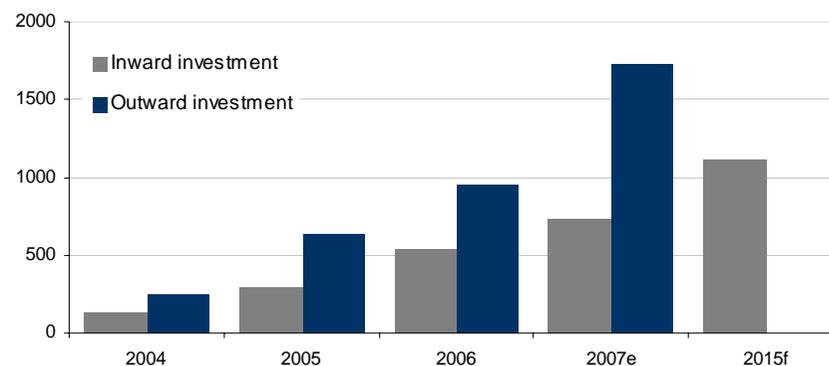
## Estimated overseas earnings in 2008 as a ratio of total income of largest OMXI15 corporates



Source: Landsbanki Research

- About 75% of revenues of Nasdaq OMXI15 listed companies is denominated in foreign currencies, 85% excluding the banks
- Continued growth underpinned by strong inward and outward FDI flows
- Strong growth of outward FDI and portfolio equity investment, totalling 370% of GDP at market value at year end 2007

## Foreign Direct Investment, ISK bn

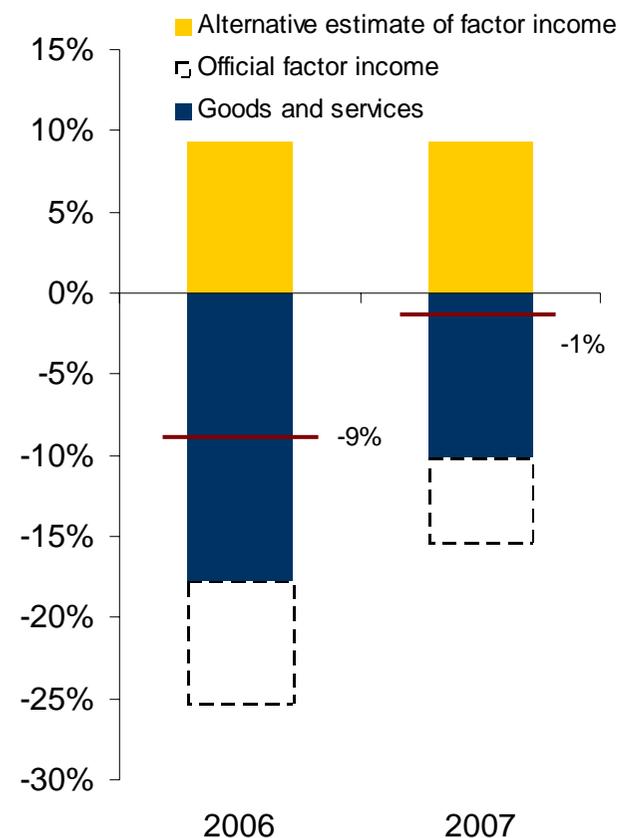


Source: CB Iceland, Landsbanki Research

# Balance of Income

- Income from outward FDI lags behind expenditure
  - Interest paid on debt is recognised as it accrues while there can be a considerable lag until the full impact of the resulting income stream is felt
- Factor income is underestimated
  - Income on foreign securities assets is only reported when capital gains are realised. Pension funds, with 5% of GDP invested in foreign equities, are a special problem
- Factor expenditure is overestimated
  - Outflow is recognised for profits of Icelandic companies owned by “foreign” parties, despite the fact that these are often holding companies of Icelanders which are registered abroad
- Overall the alternative estimate of factor income implies a CA deficit of around 9% in 2006 and 1% in 2007, compared with the official figure of 25% deficit in 2006 and 15% in 2007

**Balance of income 2006 and 2007**  
**Alternative estimate, % of GDP**



Source: Central Bank, Landsbanki Research

## Well positioned for challenging times

1. Solid 1Q 2008 results in turbulent times
2. Strong liquidity and equity position and light repayment profile maturing in 2008
3. Sound asset quality with no exposure to US subprime, structured credit exposure or Monolines
4. Anchored in a flexible and resilient economy

## Key goals in 2008 to demonstrate financial health and strengthen fundamentals

1. Producing solid results based on strong fundamentals, with diversified income streams and continued profitability of core revenue
  1. Long on inflation
  2. Long on foreign currency
2. Further diversification of funding profile
  1. Strengthening of liquidity position by developing new deposit initiatives
  2. Ongoing focus on Icesave retail deposits in selected European markets
  3. Covered bonds issuance
3. Seeking cost efficiency and taking advantage of potential synergies through continued consolidation and integration of operational platform
4. Pursuing moderate growth with reduced balance sheet activities



**Landsbanki**