

**Landsbanki Íslands hf. - 2007 Results**  
**Net After-tax Profit ISK 40 billion**  
**Return on Equity (ROE) 27%**

**Highlights of the Consolidated Annual Financial Statements of Landsbanki for 2007**

- Profit in 2007 amounted to ISK 39.9 billion (bn) (EUR 456m) The bank's pre-tax profit was ISK 45.6 bn (EUR 520m). After-tax ROE was 27%.
- The group's core income (net interest income plus fees and commissions) amounted to ISK 93.4 bn (EUR 1.1bn) 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 39.4bn (EUR 449m) compared to ISK 28.4bn in 2006.
- Trading and investment income amounted to ISK 16.6bn (EUR 189m) compared to ISK 19.6bn in 2006.
- The bank's liquidity position is very strong, with liquid assets of close to EUR 9bn at year-end 2007. Foreign debt maturing in 2008, however, amounts to only EUR 0.8bn.
- The bank's total assets amounted to ISK 3,058bn (EUR 33.4bn) at year-end 2007 compared with ISK 2,173bn at the beginning of the year.
- Loans to customers at year-end 2007 totalled ISK 2,023bn (EUR 22.1bn). Customer deposits, on the other hand, amounted to ISK 1,421bn (EUR 15.5bn) 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 4.9bn (EUR 56m).
- Net income from operations in Q4 was ISK 24.8bn (EUR 283m).
- The Bank's net interest income was ISK 15.2 bn (EUR 174m) in Q4, as compared with ISK 14.4bn in Q3 2007.
- Fees and commissions in Q4 were ISK 9.7bn (EUR 110m).
- The group's core earnings of ISK 24.9bn (EUR 284m) were the highest ever in a single quarter.

**CEO Sigurjón Þ. Arnason:**

"Landsbanki's operations were very successful in 2007, with a profit of ISK 40bn and ROE of 27%. The group's income generation is becoming steadily more diversified, in addition to which the ROE of its pre-tax core earnings has been steady at around 24-26%. The bank's liquidity position is strong, due in particular to the strong growth of its foreign deposit programmes. Foreign bond issues maturing in 2008 are relatively insignificant at EUR 800m, compared to the bank's liquid assets, which are close to EUR 9bn. Furthermore, Landsbanki's loan portfolio is high quality and the bank has no structured credit exposures such as CDOs, SIVs, etc. The unusual circumstances currently prevailing on international financial markets actually present opportunities for banks like Landsbanki."

**CEO Halldór J. Kristjánsson:**

"The positive results of a variety of actions taken in recent quarters are clearly evident in Landsbanki's 2007 performance. Market risk has been reduced, risk on the bank's loan portfolio is well diversified and the bank's funding situation is strong. Deposits currently amount to ¾ of customer lending, and close to 150,000 customers have accounts under Landsbanki's Icesave on-line deposit programme in the UK. New products were introduced in Icesave this year, with the result that 14% of deposits are now term deposits rather than easy access savings. This ensures further risk diversification of group deposits. In Q4 Landsbanki concluded a USD 400m subordinated loan, providing additional reinforcement for its equity position; the bank's capital ratio and liquidity are currently among the best anywhere in Northern Europe. The ongoing integration of operating units has proceeded well this year, with the bank placing emphasis on presenting a clear picture of its own activities and the general economic situation in Iceland in times of global financial market turbulence."

*The annual financial statements of Landsbanki Íslands hf. for 2007 are available on the bank's website, [www.landsbanki.com](http://www.landsbanki.com)*

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## Consolidated Key Figures

Operations	2007	2006	2005	2004	2003
Interest income	202.095	133.102	66.437	34.252	21.871
Interest expenses	148.044	91.611	43.441	19.517	12.540
<b>Net interest income</b>	<b>54.052</b>	<b>41.491</b>	<b>22.996</b>	<b>14.734</b>	<b>9.331</b>
Fee and commission income	45.247	32.459	18.479	10.234	6.959
Fee and commission expenses	5.878	4.092	1.754	1.344	843
<b>Net fee and commission income</b>	<b>39.369</b>	<b>28.366</b>	<b>16.726</b>	<b>8.891</b>	<b>6.116</b>
<b>Other operating income</b>	<b>16.605</b>	<b>19.568</b>	<b>21.257</b>	<b>9.842</b>	<b>3.535</b>
<b>Net operating income</b>	<b>110.025</b>	<b>89.426</b>	<b>60.978</b>	<b>33.467</b>	<b>18.982</b>
Salaries and related expenses	37.688	24.458	12.682	7.794	5.656
Administrative expenses	19.827	14.130	8.284	6.667	5.158
<b>Operating expenses</b>	<b>57.515</b>	<b>38.588</b>	<b>20.967</b>	<b>14.460</b>	<b>10.815</b>
Impairment on goodwill	0	0	3.033	0	0
Impairment provisions on loans and advances and assets held for sale	6.956	6.144	6.197	4.485	4.656
<b>Pre-tax profit</b>	<b>45.555</b>	<b>44.694</b>	<b>30.781</b>	<b>14.522</b>	<b>3.511</b>
Income tax	5.605	4.479	5.764	1.798	457
<b>Net profit</b>	<b>39.949</b>	<b>40.215</b>	<b>25.017</b>	<b>12.724</b>	<b>3.054</b>
<b>Attributable to:</b>					
Shareholders of Landsbanki Íslands hf.	38.800	38.906	24.740	12.574	2.956
Minority interests	1.150	1.309	277	149	99
<b>Balance Sheet</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Cash and cash balances with Central Bank	81.559	31.669	16.611	18.237	11.642
Loans and advances to financial institutions	162.929	215.618	86.919	72.060	37.130
Loans and advances to customers	2.022.738	1.438.395	984.593	542.215	326.400
Financial assets at fair value and associates	667.941	376.809	218.894	64.730	63.744
Other assets	122.379	110.432	98.443	39.900	9.323
<b>Total assets</b>	<b>3.057.546</b>	<b>2.172.924</b>	<b>1.405.460</b>	<b>737.141</b>	<b>448.239</b>
Deposits from financial institutions	337.915	141.105	144.596	63.476	43.840
Deposits from customers	1.421.410	682.846	334.163	215.730	152.320
Borrowing	835.985	1.014.976	689.989	375.084	209.357
Subordinated loans	111.890	89.754	49.074	22.570	13.090
Other liabilities	166.342	94.785	74.022	21.572	6.389
Equity	180.008	144.282	110.059	37.705	22.382
Minority interests	3.996	5.175	3.557	1.004	862
<b>Total liabilities and equity</b>	<b>3.057.546</b>	<b>2.172.924</b>	<b>1.405.460</b>	<b>737.141</b>	<b>448.239</b>
<b>Key ratios</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Return on equity before taxes	30,9%	40,3%	56,3%	57,2%	20,9%
Return on equity after taxes	27,1%	36,3%	45,8%	49,5%	17,6%
Tier 1 ratio	10,1%	13,0%	11,9%	7,8%	6,9%
Equity ratio (CAD)	11,7%	14,8%	13,1%	10,4%	9,9%
Cost-income ratio	52,3%	43,2%	34,4%	43,2%	57,0%
Operating expenses as a ratio of average capital position	2,2%	2,1%	2,0%	2,5%	3,0%
Interest spread as a ratio of average capital position	2,1%	2,3%	2,2%	2,6%	2,6%
Deposits / loans to customers	70,3%	47,5%	33,9%	39,6%	48,0%
Deposits / total assets	46,5%	31,4%	23,8%	29,3%	34,0%
Ratio of provision to lending position at year-end	0,32%	0,37%	0,58%	0,73%	1,47%
Loan loss ratio	0,07%	0,13%	0,19%	0,33%	0,55%
Share price at year-end	35,50	26,50	25,30	12,10	5,80
Change in share price adjusted for dividend payments	35,5%	5,9%	110,7%	110,3%	61,6%
Number of positions at year-end	2.640	2.117	1.725	1.121	1.025
<b>Exchange rates</b>					
Exchange rate ISK/ EUR for P/L average of year	87,64	87,57	76,59	86,97	87,39
Exchange rate ISK/ EUR for Balance sheet at year-end	91,65	93,72	74,7	83,51	89,76

**Consolidated Key Figures**

Operations	2007	2007	2007	2007	2006	2006	2006	2006
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	57.935	54.036	49.078	41.046	34.887	33.154	37.527	27.535
Interest expenses	42.708	39.591	35.578	30.167	25.306	23.840	23.865	18.601
<b>Net interest income</b>	<b>15.227</b>	<b>14.445</b>	<b>13.500</b>	<b>10.879</b>	<b>9.581</b>	<b>9.314</b>	<b>13.662</b>	<b>8.934</b>
Fee and commission income	11.534	11.813	11.013	10.886	9.323	7.547	7.791	7.797
Fee and commission expenses	1.874	1.595	1.285	1.124	1.325	979	849	940
<b>Net fee and commission income</b>	<b>9.660</b>	<b>10.218</b>	<b>9.729</b>	<b>9.762</b>	<b>7.998</b>	<b>6.568</b>	<b>6.943</b>	<b>6.857</b>
Dividend income	237	23	1.371	385	161	99	269	1.834
Net gain (loss) on financial assets and liabilities held for sale	(5.306)	(1.858)	3.062	3.098	492	1.943	(1.011)	750
Net gain (loss) on financial assets designated at FV/OCI	113	2.501	655	436	5.913	594	(489)	7.680
Fair value adjustments in hedge accounting	(14)	7	(37)	(7)	78	25	(25)	(96)
Foreign exchange differences	4.223	2.356	(296)	607	(58)	(145)	(12)	(49)
Profit (loss) from associates	671	(1.171)	1.191	(58)	1.133	(15)	(262)	843
Net gain (loss) of disposal groups held for sale, net of tax	9	60	9	4.339	(479)	155	51	188
<b>Other operating income</b>	<b>(68)</b>	<b>1.918</b>	<b>5.955</b>	<b>8.799</b>	<b>7.240</b>	<b>2.656</b>	<b>(1.478)</b>	<b>11.150</b>
<b>Net operating income</b>	<b>24.819</b>	<b>26.582</b>	<b>29.184</b>	<b>29.441</b>	<b>24.819</b>	<b>18.538</b>	<b>19.127</b>	<b>26.942</b>
Salaries and related expenses	10.769	10.029	8.919	7.972	6.989	5.963	6.256	5.249
Administrative expenses	5.846	4.806	4.731	4.444	4.042	3.754	3.496	2.839
<b>Operating expenses</b>	<b>16.615</b>	<b>14.835</b>	<b>13.650</b>	<b>12.415</b>	<b>11.031</b>	<b>9.717</b>	<b>9.752</b>	<b>8.088</b>
Impairment provisions on loans and advances and on financial assets	2.286	1.620	1.501	1.549	1.332	1.597	1.660	1.555
<b>Pre-tax profit</b>	<b>5.919</b>	<b>10.127</b>	<b>14.033</b>	<b>15.476</b>	<b>12.457</b>	<b>7.224</b>	<b>7.714</b>	<b>17.299</b>
Income tax	997	1.402	1.490	1.716	(1.596)	1.480	1.572	3.023
<b>Net profit</b>	<b>4.922</b>	<b>8.725</b>	<b>12.542</b>	<b>13.760</b>	<b>14.053</b>	<b>5.744</b>	<b>6.143</b>	<b>14.276</b>
<b>Attributable to:</b>								
Shareholders of Landsbanki Íslands hf.	4.584	8.518	12.248	13.450	13.664	5.281	5.966	13.995
Minority interests	337	207	294	311	389	463	177	280
<b>Balance Sheet</b>	<b>31.12.2007</b>	<b>30.9.2007</b>	<b>30.6.2007</b>	<b>31.3.2007</b>	<b>31.12.2006</b>	<b>30.09.2006</b>	<b>30.06.2006</b>	<b>31.3.2006</b>
Cash and cash balances with Central Bank	81.559	48.440	33.976	18.431	31.669	25.714	22.806	19.403
Loans and advances to financial institutions	162.929	134.379	278.072	251.881	215.618	168.993	68.793	75.597
Loans and advances to customers	2.022.738	1.840.584	1.567.895	1.483.887	1.438.395	1.303.676	1.294.462	1.208.510
Financial assets at fair value and associates	667.941	680.728	584.875	437.894	376.809	305.294	275.113	300.780
Other assets	122.379	142.552	132.329	125.097	110.432	158.395	150.295	165.613
<b>Total assets</b>	<b>3.057.546</b>	<b>2.846.682</b>	<b>2.597.147</b>	<b>2.317.190</b>	<b>2.172.924</b>	<b>1.962.072</b>	<b>1.811.468</b>	<b>1.769.902</b>
Deposits from financial institutions	337.915	210.332	161.826	117.378	141.105	97.097	135.722	138.092
Deposits from customers	1.421.410	1.390.022	1.187.254	913.183	682.846	513.054	475.045	469.333
Borrowing	835.985	749.629	781.541	903.780	1.014.976	979.748	853.367	806.627
Subordinated loans	111.890	82.517	77.766	83.524	89.754	85.892	91.141	83.514
Other liabilities	166.342	234.211	224.231	145.697	94.785	151.746	128.714	151.130
Equity	180.008	176.486	161.312	149.869	144.282	129.876	123.088	117.187
Minority interests	3.996	3.485	3.217	3.758	5.175	4.680	4.392	4.019
<b>Total liabilities and equity</b>	<b>3.057.546</b>	<b>2.846.682</b>	<b>2.597.147</b>	<b>2.317.190</b>	<b>2.172.924</b>	<b>1.962.072</b>	<b>1.811.468</b>	<b>1.769.902</b>

## Highlights of the Income Statement and Balance Sheet

### Comparison of 2007 Income Statement with that of 2006

After-tax profit of Landsbanki Íslands hf. (Landsbanki) in 2007 amounted to ISK 39.9 billion (bn), which is practically unchanged from the bank's after-tax profit in 2006. The bank's profit before tax was ISK 45.6 million (m), as compared with ISK 44.7 million in 2006.

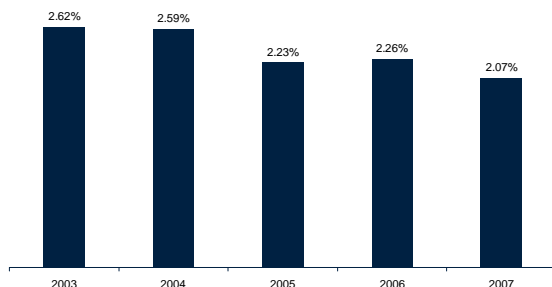
ISKbn	2007	2006	Change
Core income (net interest income plus fees and commissions)	93.4	69.9	23.5
Other operating income	16.6	19.6	(3.0)
Operating expense	57.5	38.6	18.9
Impairment	7.0	6.1	0.9
Tax	5.6	4.5	1.1
<b>Profit</b>	<b>39.9</b>	<b>40.2</b>	<b>0.3</b>

**After-tax return** on equity (ROE) was 27.1% as compared with a ROE of 36.3% for 2006.

**Net operating income** (NOI) in 2007 amounted to ISK 110.0bn compared to ISK 89.4bn the previous year. This is a YoY increase of 23%.

**Net interest income** (NII) rose by ISK 12.6bn, amounting to ISK 54.1bn, compared to ISK 41.5bn in 2006. Net interest spread as a ratio of average capital position was 2.1% compared to 2.3% for 2006 as a whole.

#### Interest spread

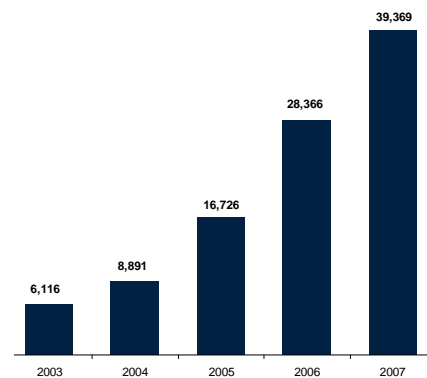


### Fees and Commissions Increase by 39%

Landsbanki's fees and commissions amounted to ISK 39.4bn compared to ISK 28.4bn in 2006, an increase of 39%. Fees and

commissions from operations outside of Iceland amounted to ISK 25.3bn in 2007 or 64% of the total, compared with ISK 17.0 or 60% of the total in 2006.

#### Fee and commission income



**The bank's trading and investment income** totalled ISK 16.6bn in 2007, compared with ISK 19.6bn in 2006.

**Net operating income originating outside of Iceland** amounted to ISK 50.6bn in 2007, as compared with ISK 46.6bn the previous year and comprised 46% of total group income.

The group's **operating expense** in 2007 totalled ISK 57.5bn, making its cost-income ratio for the period 52.3%.

**Impairment on loans** amounted to ISK 7.0bn, as compared to ISK 6.1bn in 2006. Impairment as a ratio of loans and receivables at year-end 2007 was 0.32% on an annualised basis.

### Impact of reporting currencies and acquisitions

The ISK exchange rate affects figures in both the balance sheet and the income statement. Foreign-denominated assets and liabilities are recognised at the closing exchange rate at year-end 2007, whereas amounts in the income statement are recognised at the average exchange rate for the year. The following table shows exchange rate developments of foreign reporting currencies used by the Landsbanki Group and the ISK trade-weighted index.

	31.12.2006	Average	%	31.12.2006	31.12.2007	%
EUR	93.72	87.64	-6%	93.72	91.65	-2%
GBP	139.08	127.77	-8%	139.08	124.635	-10%
GVT	127.9	118.21	-8%	127.90	120.85	-6%

Landsbanki acquired the securities house Bridgewell Group plc in Q3 2007 and merged it with the bank's subsidiary Teather & Greenwood Ltd. to form Landsbanki Securities UK. The operations of Bridgewell Plc are included in Landsbanki's consolidated accounts from the middle of Q3 2007.

## Comparison of Q4 2007 with Q3 2007

**After-tax profit** in Q4 2007 amounted to ISK 5.0bn, as compared to ISK 8.7bn in Q3 2007.

Lower Q4 profit can be attributed in particular to the turbulence and uncertainty which has developed on international financial markets and its impact on the bank's income. On the other hand, the group's core income (net interest income plus fees and commissions) in Q4 2007 has never been higher.

**Net interest income** was ISK 15.2bn, as compared with ISK 14.4bn in Q3 2007.

**Fees and commissions** in Q4 2007 amounted to ISK 9.7bn, as compared to ISK 10.2bn in Q3.

The bank's **trading and investment income** in Q4 2007 was negative by ISK 0.1bn compared to a profit of ISK 1.9bn in Q3.

**Impairment on loans** in Q4 2007 amounted to ISK 2.3bn, as compared to ISK 1.6bn in Q3.

## Balance sheet as of 31/12/2007

**Total assets** of the group amounted to ISK 3,057bn at year-end 2007, rising from ISK 2,173bn at the beginning of the year, an increase of ISK 884bn or 41% during the year.

**Amounts due from financial institutions** amounted to ISK 163bn, as compared to ISK 216bn at the beginning of this year.

**Loans to customers** totalled ISK 2,023bn at year-end 2007, up 41% from ISK 1,438bn at the beginning of the year.

Total provisions to the **credit loss allowance account** amounted to ISK 22.0bn or 1.02% of total loans and guarantees at year-end 2007. Provisions for credit losses do not reflect actual write-offs, but amounts set aside to cover calculated future credit losses. When and if loans are not recovered, the provisions for credit losses are reduced by the unrecoverable amount.

The group's **trading assets** were ISK 582bn at year-end compared to ISK 344bn at the beginning of this year. This includes market bonds and trading equities, as well as derivatives that are in the money. Market bonds held by the bank totalled ISK 361bn as compared with ISK 170bn at the beginning of 2007. The increase reflects Landsbanki's strong liquidity position. Trading equities totalled ISK 31.1bn at year-end 2007, of which ISK 24.4bn were listed equities and ISK 6.7bn unlisted equities. At year-end 2007 domestic trading equities amounted to ISK 10.0bn and foreign trading equities ISK 21.1bn.

**Other financial assets carried at fair value through profit and loss** amounted to ISK 71.1bn at year-end 2007. Equities totalled ISK 67.1bn, of which ISK 33.8bn were held against forward contracts.

**Non-current assets and disposal groups held for sale** amounted to ISK 3.6bn at year-end 2007, compared to 21.3bn at the beginning of the year. The decrease is primarily explained by the bank's sale of the real estate company Landsafl.

**Total assets under management** amounted to ISK 513bn at year-end 2007, rising from ISK 377bn at the beginning of the year, an increase of 36.0% during the year. Total assets in group custody were ISK 2,109bn, compared to ISK 1,751bn at the beginning of 2007.

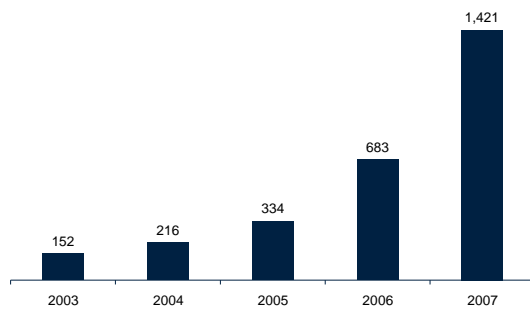
## Liabilities and equity

### Deposits increase by 108%

The group's **total deposits** amounted to ISK 1,759bn at year-end 2007. Of this amount, ISK 1,421bn were customers' deposits, as compared to ISK 683bn at the beginning of the year, an increase of 108% during 2007. Deposits from customers in the bank's markets abroad amounted to ISK 1,054bn at year-end 2007, compared to ISK 417bn at the beginning of the year, an increase of 152% during the year.

The ratio of customer deposits to customer lending at year-end was around  $\frac{3}{4}$  compared to almost  $\frac{1}{2}$  at the beginning of the year. The ratio of customer deposits to total assets was approximately  $\frac{1}{2}$  at the end of 2007.

## Deposits



**Total borrowing** at year-end 2007 amounted to ISK 775bn, compared with ISK 1,015bn at the beginning of this year. The decrease is the result of paybacks of loans during 2007 plus currency impact; Landsbanki's growth in 2007 has been financed by deposits.

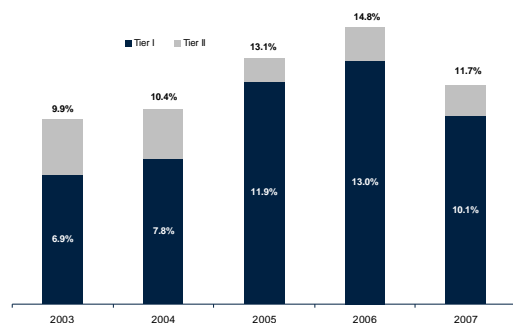
The group's **subordinated debt** was ISK 111.9bn at the end of March as compared to ISK 90bn at the beginning of the year. Early in Q4 2007, the bank concluded a subordinated loan of USD 400m, or the equivalent of ISK 24bn.

## Capital ratio (CAD) 11.7%

Group **shareholder equity** was ISK 180bn at year-end 2007, compared to ISK 144bn at the beginning of the year. In connection with its takeover of Bridgewell Group plc Landsbanki issued new share capital of ISK 172 million nominal value at a share price of 39.4. Apart from that, the change in equity is the result of profit during the period, transactions in own shares and dividends.

The **group's capital ratio**, in accordance with CAD rules, was 11.7% at the end of 2007, of which 10.1% was Tier 1 capital.

## Capital ratio (CAD)



## Performance by Business Segment

Landsbanki Group's performance is comprised of the results of four business segments:

- Retail Banking,
- Corporate Banking,
- Investment Banking, and
- Asset Management and Private Banking.

The following tables give a breakdown of performance and total assets by business segment (all figures mISK).

### Business Segment Breakdown

2007	Retail Banking	Corporate Banking	Investment Banking	Asset Management & Private Banking	Other	Group
Net interest income	18,380	37,446	-6,273	4,519	0	54,062
Net fee and commission income	2,964	3,294	28,335	4,776	0	39,369
Other operating income	-106	-2,315	18,276	117	0	15,972
<b>Net operating income</b>	<b>21,218</b>	<b>38,424</b>	<b>40,337</b>	<b>9,412</b>	<b>0</b>	<b>109,392</b>
<b>Operating expenses</b>	<b>10,650</b>	<b>10,086</b>	<b>27,662</b>	<b>6,032</b>	<b>3,086</b>	<b>57,515</b>
Impairment on loans and advances	2,417	3,766	762	11	0	6,956
<b>Net segment result</b>	<b>8,152</b>	<b>24,573</b>	<b>11,914</b>	<b>3,370</b>	<b>-3,086</b>	<b>44,922</b>
Profit (loss) from associates	-290		923			633
Total assets 31.12.2007	523,287	1,333,768	741,701	429,474	29,317	<b>3,057,546</b>

2006	Retail Banking	Corporate Banking	Investment Banking	Asset Management & Private Banking	Other	Group
Net interest revenue	15,145	22,714	1,280	2,351	0	41,491
Net commission and fees	2,860	2,547	19,294	3,665	0	28,366
Net financial income	-120	62	17,624	303	0	17,870
<b>Net operating revenue</b>	<b>17,886</b>	<b>25,323</b>	<b>38,198</b>	<b>6,320</b>	<b>0</b>	<b>87,727</b>
<b>Operating expenses</b>	<b>8,752</b>	<b>6,003</b>	<b>19,101</b>	<b>3,239</b>	<b>1,493</b>	<b>38,588</b>
Impairment on loans and advances	1,200	3,642	1,307	-5	0	6,144
<b>Net segment result</b>	<b>7,934</b>	<b>15,678</b>	<b>17,789</b>	<b>3,086</b>	<b>-1,493</b>	<b>42,995</b>
Profit (loss) from associates	88		1,611			1,699
Total assets 31.12.2006	369,908	937,353	565,340	289,422	10,901	<b>2,172,924</b>

**Retail Banking** includes the parent company's branch network, Heritable Bank's commercial banking operations, SP Fjármögnun and Landsbanki Guernsey Ltd. The business segment's pre-tax profit amounted to ISK 7.9bn in 2007, as compared to a profit of ISK 8.1bn the previous year. The segment's total assets amounted to ISK 523bn at year-end 2007.

**Corporate Banking** includes the parent company's Corporate Banking division, including its lending operations in London, Amsterdam, Canada and Norway, Heritable Bank's corporate business and the corporate banking activities of Landsbanki Luxembourg SA. Pre-tax profit for Corporate Banking in 2007 amounted to ISK 24.6bn, as compared to ISK 15.7bn in 2006. Total assets of the corporate banking amounted to ISK 1,334bn at year-end 2007.

**Investment Banking** is comprised of the parent company's Securities and Treasury division, both in Iceland and Continental Europe, plus the subsidiaries Landsbanki Securities UK, Landsbanki Kepler SA and



Merrion Capital. This segment includes securities brokerage, corporate advisory, FX and derivative trading, the bank's treasury and debt management and proprietary bond and equity trading. Pre-tax profit for Investment Banking in 2007 amounted to ISK 12.8bn, as compared to ISK 19.3bn in 2006. The business segment's total assets amounted to ISK 742bn at year-end 2007.

**Asset Management and Private Banking** includes the parent company's Asset Management division, Landsvaki hf. and the asset management and private banking operations of Landsbanki Luxembourg SA. The pre-tax profit of Asset Management and Private Banking in 2007 amounted to ISK 3.4bn, as compared to ISK 3.1bn in 2006. The business segment's total assets amounted to ISK 429bn at year-end 2007.

## Funding

In the fourth quarter of 2007 conditions in international capital market deteriorated significantly, due primarily to the subprime-related credit squeeze which led to market volatility and plunging equity prices. Nevertheless, Landsbanki successfully issued USD 400m Tier 1 capital notes under the bank's US MTN program in October where a favourable window of opportunity opened for a short period of time. Joint lead managers in the issuance were Citigroup, Credit Suisse and JP Morgan, and 32 investors participated. This was the latter of two public transactions during the year, the other being an EUR 500m issued in May.

In 2007 the strong inflow of international deposits resulted in substantially lower need for capital market issuance. Landsbanki's total bond issuance during the year was EUR 1,444m, compared to EUR 3,878m in 2006. Most issues were in EUR and USD, with an average maturity at issuance of 5.1 years. Landsbanki diversified its funding by setting up an Australian dollar funding program in early 2007.

As H2 2007 demonstrated, credit market turbulence can result in a lack of liquidity in international capital markets, showing the importance of diversifying funding sources across markets, products and geographies. Going forward, Landsbanki is well situated to withstand continued limited access to global capital markets. Landsbanki's liquidity is very strong, with liquid assets of EUR 8,973m and maturing long-term debt in 2008 of only EUR 749m. The bank can refrain from capital market issuance for over 12 months without a reduction in its operations.

Over the last few months Credit Default Swap (CDS) spreads have widened across the international banking sector. In 2007, Landsbanki concluded one 5Y senior public transaction at 26 bp over EURIBOR and several issues at favourable spreads or well below EURIBOR +50 bp. The increased credit spreads have not therefore had a material impact on Landsbanki's cost of funding. As credit spreads are not expected to return to pre-subprime crisis levels in the near future, however, higher funding cost will lead to repricing of loans.

## Core earnings Pre-tax ROE of 24%

Landsbanki's core earnings before tax amounted to ISK 34.7bn in 2007, compared to ISK 28.8bn in 2006. ROE on core earnings for the year was 24%. The accompanying table shows a comparison of performance and core earnings in 2007 and 2006 (mISK).

ISKbn	2007	2006
<b>Pre-tax profit</b>	<b>45,6</b>	<b>44,7</b>
Trading gains deducted	(16,6)	(19,6)
Adjusted net interest earnings	5,8	3,6
<b>Pre-tax core earnings</b>	<b>34,7</b>	<b>28,8</b>
Cost-income ratio on core earnings	58%	53%
Pre-tax ROE on core activities	24%	26%

In calculating the bank's core earnings, trading gains on equities of all types, as well as trading gains on bonds and FX, are deducted and net interest income is increased accordingly to reflect the group's cost of financing bond and equity positions. Nonetheless, maintaining a certain level of equity and bond exposures remains part of the bank's strategy and active risk management.

Calculations of the bank's core earnings do not take into consideration the negative impact of the group's positive indexation balance. Index-linked assets exceeded its index-linked liabilities by ISK 135bn on average during 2007. The bank finances the difference at non-indexed interest rates. As a result of 2007 interest and inflation levels, Landsbanki's losses on its indexation balance amount to an estimated ISK 2.2bn.

No regard is had either for the interest rate disadvantage resulting from the bank's positive foreign currency position (assets in excess of liabilities). Landsbanki's foreign-currency denominated assets exceeded its foreign-currency denominated liabilities by around ISK 42 billion on average in 2007. The excess assets are financed in ISK and the resulting disadvantage in interest rates is around ISK 3.5 billion.

## Outlook

Despite the difficult situation and uncertainty in the global markets, Landsbanki's position is very strong and the bank is well situated to continue to achieve its targets for profitability.

Landsbanki's liquidity is very solid, with liquid assets at year-end 2007 amounting to EUR 9bn. Long-term debt maturing in 2008 amounts to EUR 0.8bn and represents only 9% of liquid assets.

The bank's deposit programmes abroad have expanded energetically, adding to the solidity and resilience of the group's funding and liquid asset base. New projects are in preparation, intended to reinforce this yet further.

Landsbanki's credit risk is based on an asset portfolio which is well-diversified both in terms of industry sectors and market regions. Landsbanki has no direct or indirect exposure to the US subprime mortgage market, asset-backed securities (ABS), collateralised debt obligations (CDOs), collateralised loan obligations (CLOs) structured investment vehicles (SIVs) or any other similar structured credit vehicles. The bank's moderate equity exposures comprised 2.1% of total assets at year-end 2007.

The group's income streams are well diversified, both geographically and by operating segment.

Landsbanki's performance has been very creditable, with Pre-tax ROE on core earnings around 24-26% in recent quarters.

The bank's equity ratio is solid and it has withstood stress tests applied by the Financial Supervisory Authority in Iceland with flying colours. These stress tests measure in part the bank's ability to withstand major shocks in lending and to markets securities.

In the assessment of its management, Landsbanki is in a strong position in 2008 to meet the unusual situation which currently prevails on global financial markets, while continuing to following its strategy and work towards its target after-tax ROE.

It must be borne in mind, in assessing the outlook for financial enterprises, that their operations are highly dependent upon various external factors, such as economic developments in Iceland and abroad, price level and currency fluctuations, and developments on domestic and foreign financial markets.

## Presentation for Investors and Analysts in Reykjavík, on 28 January

Landsbanki's CEOs, Sigurjón Þ. Árnason and Halldór J. Kristjánsson, will present the highlights of the bank's results for investors and analysts and respond to questions. The presentation will be held at Nordica Hotel beginning at 5:00 pm.

## in London, on 29 January

Landsbanki's CEOs, Sigurjón Þ. Árnason and Halldór J. Kristjánsson, will present the highlights of the bank's results and respond to questions.

Time: 11:00 (11:00 UK og 12:00 CET)

Location: Merchant Taylors Hall, 30 Threadneedle Street, London, EC2R 8JB

A webcast of the presentation will be available on [www.landsbanki.com/ir](http://www.landsbanki.com/ir). Persons wishing to listen to the meeting via telephone should dial +44 (0) 1452 567,098 about 10 minutes prior to the start. Meeting documentation plus an audio and video recording of the presentation will be available on the Landsbanki website after its conclusion

## 2008 Financial Calendar

Scheduled publication of the bank's interim and annual financial statements for 2008 is as follows:

Q1	6 May
Q2	29 July
Q3	4 November
Q4 and annual financial statements for 2008	3 February 2009

A copy of Landsbanki's 2007 financial statements is available on the bank's website [www.landsbanki.is](http://www.landsbanki.is)

The financial state-ments are endorsed by the bank's auditors.

For further information contact Landsbanki's CEOs, Sigurjón Þ. Árnason +354 410 4009 / 898 0177 og Halldór J. Kristjánsson +354 410 4015 / 820 6399.