Landsbanki

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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
Net interest income	54,052	41,491	22,996	14,734	9,331
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
Net fee and commission income	39,369	28,366	16,726	8,891	6,116
Other operating income	16,605	19,568	21,257	9,842	3,535
Net operating income	110,025	89,426	60,978	33,467	18,982
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
Operating expenses	57,515	38,588	20,967	14,460	10,815
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
Pre-tax profit	45,555	44,694	30,781	14,522	3,511
Income tax	5,605	4,479	5,764	1,798	457
Net profit	39,949	40,215	25,017	12,724	3,054
Attributable to:					
Shareholders of Landsbanki Íslands hf.	38,800	38,906	24,740	12,574	2,956
Minority interests	1,150	1,309	277	149	99

Balance Sheet	2007	2006	2005	2004	2003
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
Total assets	3,057,546	2,172,924	1,405,460	737,141	448,239
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
Total liabilities and equity	3,057,546	2,172,924	1,405,460	737,141	448,239

Key ratios	2007	2006	2005	2004	2003
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
Exchange rates					
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

ISK million

Consolidated Key Figures

Operations	2007 Q4	2007 Q3	2007 Q2	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 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
Net interest income	15,227	14,445	13,500	10,879	9,581	9,314	13,662	8,934
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
Net fee and commission income	9,660	10,218	9,729	9,762	7,998	6,568	6,943	6,857
Dividend income	237	23	1,371	385	161	99	269	1,834
Net gain (loss) on financial assets and liabilities held for trading	(5,306)	(1,858)	3,062	3,098	492	1,943	(1,011)	750
Net gain (loss) on financial assets designated at FV through P/L	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
Other operating income	(68)	1,918	5,955	8,799	7,240	2,656	(1,478)	11,150
Net operating income	24,819	26,582	29,184	29,441	24,819	18,538	19,127	26,942
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
Operating expenses	16,615	14,835	13,650	12,415	11,031	9,717	9,752	8,088
Impairment provisions on loans and advances and assets held for sale	2,286	1,620	1,501	1,549	1,332	1,597	1,660	1,555
Pre-tax profit	5,919	10,127	14,033	15,476	12,457	7,224	7,714	17,299
Income tax	997	1,402	1,490	1,716	(1,596)	1,480	1,572	3,023
Net profit	4,922	8,725	12,542	13,760	14,053	5,744	6,143	14,276
Attributable to:								
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

Balance Sheet	31.12.2007	30.9.2007	30.6.2007	31.3.2007	31.12.2006	30.09.2006	30.06.2006	31.3.2006
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
Total assets	3,057,546	2,846,682	2,597,147	2,317,190	2,172,924	1,962,072	1,811,468	1,769,902
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	4,660	4,392	4,019
Total liabilities and equity	3,057,546	2,846,682	2,597,147	2,317,190	2,172,924	1,962,072	1,811,468	1,769,902

ISK million

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

The Consolidated Financial Statements for the year 2007 consist of the Consolidated Financial Statements of Landsbanki Íslands hf. (the Bank) and its subsidiaries, (the Group). The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

The Bank's total share capital amounts to ISK 11,192,754,087 nominal value. All shares are in a single class, bear equal rights, and are divided into units of one Icelandic krona (1 ISK), or multiples thereof. At year-end, shareholders in Landsbanki numbered 27,753 compared to 28,735 at the beginning of the year. Samson eignarhaldsfélag ehf., which holds 40.73% in the company, is the only shareholder with a stake over 10%.

According to the income statement, the Group's after tax profit for the year 2007 amounted to ISK 39,949 million. The Group's equity at year-end totalled ISK 184,004 million. The capital adequacy ratio of the Group was 11,7%, well exceeding the mandatory minimum of 8%. As of 31 December 2007, the Group's total assets were ISK 3,057,546 million.

Employees and managers within Landsbanki hold share options on Landsbanki's shares with a strike price of 3.58 to 39.4. The options will be earned from 2003 to 2011. Options are earned over a four-year period and can be exercised at the end of the fourth year and during the following two years. Options held by employees and managers at 31 December 2007 totalled ISK 1,488.7 million shares.

The Board is comprised of five directors and five alternates elected at each Annual General Meeting for a term of one year. Directors are elected in accordance with provisions on directors' independence in the Guidelines on Corporate Governance. Candidature for the Board of Directors must be announced at least five days prior to the Annual General Meeting. Any proposals for changes to Landsbanki's Articles of Association must be submitted to Landsbanki with sufficient notice to allow this to be placed on the agenda of the meeting, as provided for in Landsbanki's Articles of Association.

The Bank's Board of Directors is authorised to increase its share capital in stages, by up to ISK 1,027,923,716 nominal value, with subscriptions for new shares. Shareholders waive their pre-emptive rights to new shares issued, as provided for in Article 34 of Act No. 2/1995, on Public Limited Companies. The Board of Directors is authorised to determine the details of the price and terms of payment for such an increase. This authorisation is valid until 9 February 2012. 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.

Landsbanki has entered as a borrower into loan agreements, which have change of control provisions. As a result of such provisions the outstanding loan amount under said agreements can be declared payable with immediate effect if a new party gains control of Landsbanki. Control is defined as the power to direct the management and policies of Landsbanki whether through the ownership of voting capital, by contract, or otherwise. The total amount of the loan agreements in question is ISK 131,380 million.

In August, the Group completed the acquisition of all the shares in UK stockbroker Bridgewell Group plc. The operation of Bridgewell Group plc. was merged with the operation of Teather & Greenwood Ltd under the new name Landsbanki Securities (UK) Ltd.

As a part of the acquisition, the Board of Directors of Landsbanki exercised its authorisation to raise the share capital of Landsbanki in accordance with a resolution approved by its Annual General Meeting held on 9 February 2007. Thus Landsbanki's share capital has been increased by ISK 172,076,284 nominal value, from ISK 11,020,677,803 to ISK 11,192,754,087.

According to the Directors' best knowledge, these annual financial statements comply with Act No. 3/2006, on Annual Financial Statements, and give a true and fair picture of the company's assets and liabilities, financial position and operating performance, as well as describing the principal risk and uncertainty factors faced by the company. The Report of the Board of Directors provides a clear overview of developments and achievements in the company's operations and its situation.

The Board of Directors of the Bank and the Group Managing Directors and Chief Executive Officers hereby endorse the Consolidated Financial Statements of Landsbanki Íslands hf. for the year 2007 by affixing their signatures.

Reykjavík, 28 January 2008

Board of Directors

Björgólfur Guðmundsson
Chairman

Kjartan Gunnarsson
Vice Chairman

Þorgeir Baldursson
Board Member

Þór Kristjánsson
Board Member

Svafa Grönfeldt
Board Member

Group Managing Directors and Chief Executive Officers

Sigurjón Þ. Árnason

Halldór J. Kristjánsson

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Landsbanki Íslands hf. and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (EU). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group 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 EU.

Reykjavík, 28 January 2008

PricewaterhouseCoopers hf.

Vignir Rafn Gíslason

Þórir Ólafsson

Consolidated Income Statement for the year 2007

Notes		2007	2006
	Interest income	202,095	133,102
	Interest expenses	148,044	91,611
8	Net interest income	54,052	41,491
	Fee and commission income	45,247	32,459
	Fee and commission expenses	5,878	4,092
9	Net fee and commission income	39,369	28,366
10,11	Dividend income	2,015	2,362
11	Net gains (losses) on financial assets and financial liabilities held for trading	(1,004)	2,174
11,12	Net gains on financial assets designated at fair value through profit and loss	3,704	13,699
11	Fair value adjustments in hedge accounting	(51)	(18)
11	Foreign exchange differences	6,889	(263)
11,21	Profit from associates	633	1,699
11	Net gains (losses) of disposal groups held for sale, net of tax	4,417	(85)
	Other operating income	16,605	19,568
	Net operating income	110,025	89,426
13	Salaries and related expenses	37,688	24,458
	Administrative expenses	19,827	14,130
	Operating expenses	57,515	38,588
14	Impairment provisions on loans and advances and assets held for sale	6,956	6,144
	Pre-tax profit	45,555	44,694
15	Income tax	5,605	4,479
	Net profit	39,949	40,215
	Attributable to:		
	Shareholders of Landsbanki Íslands hf.	38,800	38,906
	Minority interest	1,150	1,309
16	Earnings per share:		
	Earnings per share	3.56	3.67
	Diluted earnings per share	3.29	3.48

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Consolidated Balance Sheet as at 31 December 2007

Notes		2007	2006
	Assets		
	Cash and cash balances with Central Bank	81,559	31,669
	Loans and advances to financial institutions	162,929	215,618
17	Loans and advances to customers	2,022,738	1,438,395
18	Bonds	362,617	169,598
18	Equities	64,407	49,328
18	Hedged securities	176,181	105,190
18,19	Derivatives held for trading	50,198	38,358
20	Derivatives held for hedging	8,719	10,498
21	Investments in associates	5,820	3,837
22	Property and equipment	11,862	5,823
23	Intangible assets	27,679	14,351
24	Non-current assets and disposal groups classified as held for sale	3,641	21,349
	Unsettled securities trading	58,845	36,965
	Other assets	20,352	31,944
	Total assets	3,057,546	**2,172,924**
	Liabilities		
25	Deposits from financial institutions	337,915	141,105
26	Deposits from customers	1,421,410	682,846
27	Borrowings	774,754	1,014,976
28	Financial liabilities designated at fair value	61,231	0
29	Subordinated loans	111,890	89,754
19	Trading liabilities	62,161	20,866
20	Derivatives held for hedging	6,953	6,473
30	Tax liabilities	8,149	6,593
	Liabilities included in disposal groups classified as held for sale	0	7,242
	Unsettled securities trading	48,399	29,987
31	Other liabilities	40,679	23,623
	Total liabilities	2,873,542	**2,023,466**
	Equity		
	Share capital	10,865	10,581
	Share premium	53,417	50,595
	Reserves	191	2,060
	Retained earnings	115,535	81,046
		180,008	**144,282**
	Minority interest	3,996	5,175
	Total equity	184,004	**149,457**
	Total liabilities and equity	3,057,546	**2,172,924**

32-39 Other information

Landsbanki Consolidated Financial Statements 2007 8 ISK million

Consolidated Changes in Equity

	Share capital	Share Premium: Additionally paid in capital	Share Premium: Statutory account	Reserves: Translation	Reserves: Fair value	Retained earnings	Minority interest	Total
	Attributable to Equity Holders of the Company							
Equity 1 January 2006	10,614	52,009	268	(73)	1,864	45,377	3,557	113,617
Exchange difference on translating foreign operations				269				269
Net income/(expense) recognised directly in equity				269				269
Net profit 2006						38,906	1,309	40,215
Total recognised income and expense 2006	0	0	0	269	0	38,906	1,309	40,484
Purchases and sales of treasury shares	(33)	(1,683)						(1,715)
Dividends paid						(3,237)		(3,237)
Changes in minority interest							308	308
	(33)	(1,683)	0	0	0	(3,237)	308	(4,644)
Equity 31 December 2006	10,581	50,326	268	196	1,864	81,046	5,175	149,457
Equity 1 January 2007	10,581	50,326	268	196	1,864	81,046	5,175	149,457
Exchange difference on translating foreign operations				(5)				(5)
Fair value adjustment of investment properties, included in disposal groups					(1,864)			(1,864)
Net income/(expense) recognised directly in equity				(5)	(1,864)			(1,868)
Net profit 2007						38,800	1,150	39,949
Total recognised income and expense 2007	0	0	0	(5)	(1,864)	38,800	1,150	38,081
Issued new shares	172	6,608					81	6,861
Purchases and sales of treasury shares	111	(6,564)						(6,453)
Accrued stock options		2,778					25	2,803
Dividends paid						(4,311)	(56)	(4,367)
Sales of minorities interests							(2,344)	(2,344)
Changes in minority interest							(35)	(35)
	283	2,822	0	0	0	(4,311)	(2,329)	(3,534)
Equity 31 December 2007	10,865	53,148	268	191	0	115,535	3,996	184,004

According to the Bank's Articles of Association, total share capital amounts to ISK 11.193 millions. At year-end 2007 own shares amounted to ISK 328 millions and share capital in the balance sheet thus amounted to ISK 10.865 millions. One vote is attached to each share.

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Consolidated Statement of Cash flow for the year 2007

	2007	2006
Interest received	193,215	112,432
Interest paid	(98,418)	(42,388)
Fees and commission received	43,796	31,259
Fees and commission paid	(6,176)	(3,012)
Dividends received	2,015	2,362
Net trading and other income	25,695	11,826
Cash payments to employees and suppliers	(52,999)	(18,618)
Income taxes paid	(5,068)	(3,915)
Cash flow from operating profits before changes in operating assets and liabilities	**102,060**	**89,945**
– net increase/(decrease) in loans and advances to financial institutions	16,651	(125,964)
– net (decrease) in loans and advances to customers	(601,729)	(387,282)
– net (decrease) in trading assets	(304,096)	(64,076)
– net (decrease) in other assets	(22,948)	(24,398)
– net increase in deposits from other banks	316,899	54,705
– net increase in amounts due to customers	784,848	305,433
– net increase/(decrease) in trading liabilities	4,296	(6,016)
– net increase/(decrease) in other liabilities	17,053	(6,194)
Cash flow provided in operating activities	**313,034**	**(163,848)**
Change in property and equipment	(6,589)	(1,670)
Change in financial assets designated at fair value through profit and loss	(4,150)	18,076
Change in subsidiaries and associates	758	(26,589)
Change in intangible assets	(4,596)	(942)
Cash flow used in investing activities	**(14,577)**	**(11,126)**
Repayments and proceeds from borrowed funds and debt securities	(164,424)	197,333
Interest paid on long term borrowed funds and debt securities	(39,310)	(39,087)
Repayments and proceeds from subordinated loans	25,464	30,220
Interest paid on subordinated loans	(5,520)	(4,508)
Dividends paid	(4,311)	(3,237)
Change in own stock	329	(1,715)
Cash flow used in financing activities	**(187,770)**	**179,006**
Increase in cash	110,687	4,032
Cash at beginning of year	41,147	31,417
Foreign exchange difference	(2,563)	5,698
Cash and cash equivalents at year-end	**149,271**	**41,147**

Landsbanki Consolidated Financial Statements 2007 10 ISK million

1. General information

Landsbanki (the Group) is a universal bank, providing retail, corporate, and investment banking services. The Group operates in 14 countries and has 2,640 employees at year-end.

The Group's parent company is Landsbanki Íslands hf. (the Bank), which is a limited-liability company incorporated and domiciled in Iceland. The registered office is Austurstræti 11, 155 Reykjavík. The Bank was established in 1886 and remained state-owned until 1998 when the Government of Iceland decided to privatise the Bank through a public offering. Today, the Bank's shares are listed on the OMX, the Nordic Exchange.

These consolidated financial statements were approved for issue by the Board of Directors on 28 January 2008.

2. Summary of significant accounting policies

The principal accounting policies applied in preparing these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The consolidated financial statements reflect IFRS and interpretations issued and effective as of 31 December 2007.

IFRS, as adopted by the EU, depart from full IFRS in the following areas, relating to the Group's operations:
Standards not adopted by the EU:

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction, or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. This amendment is not yet effective and has not been adopted by the EU. The Group will apply it as soon as has been adopted by the EU.

Interpretations to existing standards not adopted by the EU:
IFRIC 12, 'Service concession arrangements' (effective from 1 January 2008)
IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008).
IFRIC 14 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008).

Standards, amendment, and interpretations adopted by the EU and effective in 2007:
Standards:
IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures to improve the information about financial instruments, including quantitative aspects of risk exposures and the method of risk managements. The new disclosures provide information about the extent of exposure to risk, based on information provided internally to the entity's key management. Qualitative and quantitative disclosures over exposure to credit risk, liquidity risk and market risk. IFRS 7 supersedes IAS 30 'Disclosures in the financial statements of banks and similar financial institutions' and some of the disclosure requirements of IAS 32 'Financial instruments, disclosure and presentation'. The amendment to IAS 1 introduced disclosures about the level of the entity's capital and how it manages capital.

These standards have significant impact on the classification of the group's financial instruments and disclosures. The Group has implemented both standards into its accounting policies and applied them in preparing these consolidated financial statements.
IFRS 4, 'Insurance contracts': This standard does not have any impact on the Group's financial statements.

Interpretations:
IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'
IFRIC 8, 'Scope of IFRS 2'
IFRIC 9, 'Re-assessment of embedded derivatives'
IFRIC 10, 'Interim financial reporting and impairment'
IFRIC 11, 'IFRS 2 – Group and treasury share transactions'

The following standard has been published and is mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods. The standard has been adopted by the EU, but the Group has not early adopted it:

IFRS 8, 'Operating segments ' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in accordance with IFRS requires the use of certain accounting estimates. It also requires management to exercise judgement in the process of applying various accounting policies. Critical accounting estimates and judgements in applying accounting policies are disclosed in Note 3.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. On the date of reporting, the Bank's significant subsidiaries were:

Company	Share owned	Activity
Heritable Bank Ltd (UK)	100%	Corporate banking
Landsbanki Securities (UK) Holdings plc	100%	Stockbrokers and financial services
Landsbanki Holdings Europe SA (Luxembourg)	100%	Holding company
- Landsbanki Luxembourg SA (Luxembourg)	100%	Private and corporate banking
- Landsbanki Kepler SA (France)	100%	Stockbrokers and financial services
Landsbanki Guernsey Ltd (UK)	100%	Retail banking
Merrion Capital Group Ltd (Ireland)	67%	Stockbrokers and financial services
LI Investments AB (Sweden)	100%	Holding company
Landsbanki Holdings (UK) plc	100%	Holding company
LI Investments Ltd (British Virgin Islands)	100%	Holding company
Landsvaki hf. (Iceland)	100%	Operation company for mutual funds
Landsbankinn eignarhaldsfélag ehf. (Iceland)	100%	Holding company
Landsbankinn - Fjárfesting hf. (Iceland)	100%	Holding company
Landsbankinn fasteignafélag ehf. (Iceland)	100%	Real estate company
Landsbanki Vatnsafl ehf. (Iceland)	100%	Holding company
SP – Fjármögnun hf. (Iceland)	51%	Leasing company
Verðbréfun hf. (Iceland)	100%	Securitization company
Stofnlánadeild Samvinnufélaga (Iceland)	100%	Holding company (dormant)
Hömlur hf. (Iceland)	100%	Holding company for appropriated assets
Span ehf. (Iceland)	100%	IT-services

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued, and liabilities incurred or assumed at the transaction date, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value on the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances, and unrealised gains on transactions between Group companies are eliminated in the consolidated accounts. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities, which the Group has significant influence, but not control, generally accompanying a shareholding of between 20% and 50% of the share capital conferring voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of movements in reserves is recognised in reserves within equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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2.3 Segment reporting

A business segment is a part of the Group's assets and operations, which is subject to risks and returns differing from those of other business segments. A geographical segment is a part of the assets and operations within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's individual entities are measured using the currency of the economic environment in which the entity operates (the functional currency). These consolidated financial statements are presented in millions of Icelandic kronas (ISK), which is also the Bank's functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying net investment hedges. Translation differences on non-monetary items, such as equities held at fair value through profit and loss, are reported as part of the fair value gain or loss.

(c) Group companies

The results and financial position of the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) the assets and liabilities of each balance sheet are translated at the closing rate at the year-end;
(ii) items of each income statement are translated at the average exchange rate for the year (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
(iii) all resulting exchange differences are recognised as a separate component of equity.

Exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges on such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are based on quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is based on comparison with comparable transactions in similar instruments. Fair value can also be based or founded on the basis of pricing models.

Derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit and loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

(a) Fair value hedge

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the fair value of assets or liabilities (fair value hedges). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The relationship is documented and an assessment made, both at hedge inception and at each reporting period, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(a) Fair value hedge (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Any ineffectiveness is recorded in 'Fair value adjustments in hedge accounting'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Net investment hedge

Any gain or loss on a hedging instrument relating to the effective portion of a hedge of net investments in foreign operations is recognised in equity as translation reserve; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(c) Derivatives that do not qualify for hedge accounting

Derivative financial instruments, which do not qualify for hedge accounting are recognised as trading assets or trading liabilities. Changes in their fair value are recognised immediately in the income statement.

2.6 Interest income and expense

Interest income and expense for all instruments measured at amortised cost are recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset, or a financial liability, and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts exactly estimated future cash flows or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, making it equivalent to the net carrying amount of the financial asset or financial liability in the balance sheet. When calculating the effective interest rate, the Group estimates cash flows, considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, as well as transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans are generally deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commissions and fees arising from participating in the negotiation of a transaction for a third party – such as arrangement of transactions with equities or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period the service is provided. The same principle for income reporting is applied for other custody services that are continuously provided over an extended period of time.

2.8 Dividend income

Dividends are recognised in the income statement when the entity’s right to receive payment is established.

2.9 Financial assets

The Group classifies its financial assets in the following categories: financial assets designated at fair value through profit or loss including financial assets held for trading and loans and advances. Management determines the classification of its investments at initial recognition.

(a) Assets held for trading

A financial asset at fair value through profit or loss is classified in this category if it is primarily held for the purpose of trading in the near term. Derivatives are classified as assets held for trading unless designated as a hedging instrument.

(b) Financial assets designated at fair value through profit or loss

Financial assets are designated at fair value through profit or loss when:
• Certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy; and
• Financial instruments, such as debt securities held, contain one or more embedded derivatives significantly modify the cash flows; and
• Financial assets backing investment contracts have related liabilities that have cash flows that are contractually based on the performance of the assets.

Such financial assets are carried at fair value with changes in fair value recognised in the income statement. The classification of financial assets designated in this category cannot be subsequently changed.

(c) Loans and advances

Loans and advances are financial assets with defined payments that are not quoted in an active market. They arise when the Group provides funds directly to a debtor with no intention of trading them.

Regular way purchases and sales of financial assets designated at fair value through profit or loss are recorded on the date on which the Group commits to purchase or sell the asset. Loans are recognised when the funds related to the loan are disbursed to the borrowers.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and reward of ownership, but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restriction on the sale.

Financial assets designated at fair value through profit or loss and trading assets are subsequently carried at fair value. Loans and advances are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss and trading assets are recorded in the income statement in the period in which they arise.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using recognised valuation techniques. These include the use of information about recent arm's length transactions, references to other materially equivalent instruments, discounted cash flow analysis and option pricing models and other valuation techniques commonly used by market participants.

2.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legal enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2.11 Sale and repurchase agreements

Sale and repurchase agreements (repos) provide for the sale of securities under agreement to repurchase the same securities at a predetermined price on a predetermined future date. Securities sold under sale and repurchase agreements are not deregonised as the Group does not transfer substantially all risks and rewards associated with them.

2.12 Securities lending and borrowings

Lending agreements are financial instruments where the securities are not sold, but are returned to the Group at the end of contract. Control of the securities remains in the hands of the Group during their entire transaction period and the securities remain on its balance sheet as trading assets or as financial assets designated at fair value through profit or loss, as appropriate.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, at which point the obligation to repurchase the securities is recorded as a trading liability at fair value and any subsequent gain or loss included in net trading income.

2.13 Impairment of loans and advances

At each balance sheet date, the Group assesses whether there is objective evidence that a loan or loan portfolio is impaired. A loan or loan portfolio is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset ('loss event') and that loss event (or events) has an impact on the estimated future cash flows of the loan or group of loans that can be reliably estimated. Objective evidence of impairment includes observable data about the following loss events:

(i) significant financial difficulty of the borrower;

(ii) a breach of contract, such as a default on instalments or on interest or principal payments;

(iii) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a refinancing concession, that the lender would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or undergo other financial reorganisation; or

(v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans since the initial recognition of those assets, even if the decrease cannot yet be identified with the individual financial assets in the group, including:
– adverse changes in the payment status of borrowers in the group; or
– general detoriation of economic conditions connected with a group of loans.

The Group defines loans that are individually significant and assesses first whether objective evidence of their impairment exists, and individually or collectively for loans and advances that have not been defined as individually significant. If the Group determines that no objective evidence of impairment exists for significant loans, it includes the loan in a group of loans with similar credit risk characteristics and collectively assesses them for impairment. Individual significant assets for which an impairment loss is recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the asset's recoverable value. The recoverable value is the present value of estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced by the amount of impairment through the use of an allowance account and the amount of the loss is recognised in the income statement. In the case of loans with variable interest rates, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such loans by being indicative of the debtors' ability to pay all amounts due according to their contractual terms.

Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience was originally based and to remove the effects of previously existing loss factors, which do not exist currently.

Estimates of changes in future cash flows for groups of assets should be consistent with changes in observable data from period to period (for example, changes in property prices, payment status, or other factors indicative of changes in the probability of losses on the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to minimise any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the provision for loan impairment on the balance sheet. Loans are written off after all the necessary procedures have been completed, as set out in the Group's lending directives, and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised in the income statement.

If, in the subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the original impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

2.14 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include the carrying amount of goodwill relating to the entity sold.
Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Computer software and other intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring into service the specific software. Computer software recognised as intangible assets is amortised over its useful life (determined to be 5 years).

Cost associated with maintaining computer software are recorded as expenses, when incurred.

Other intangible assets are customers agreements indentified at business acquisition, amortised over its useful life (determined to be 15 years).

2.15 Property and equipment

All property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and these cost can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on property and equipment, other than land, is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	25-100 years,
Computer hardware	3-5 years,
Other equipment and motor vehicles	3-10 years.

The assets' residual values and useful lives are reviewed annually and adjusted, if appropriate.

Gains and losses on disposals are determined by comparing the sale price of an asset with its carrying amount on the date of sale. Gains and losses are included in the income statement.

2.16 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.17 Non-current assets held for sale

Non-current assets held for sale are comprised of repossessed collateral, which is in the process of being sold, as well as disposal groups. Liabilities connected with the disposal group are recognised as a separate liability on the balance sheet. Items included under non-current assets held for sale are recognised at the lower of carrying amount and fair value less cost to sell.

2.18 Leases

(a) A group company is the lessee

The leases entered into by the Group are primarily operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(b) A group company is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable as a part of loans and advances to customers. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using a method that reflects a constant periodic rate of return.

2.19 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents are defined as cash and non-restricted balances with the Central Bank and amounts due from other financial institutions.

2.20 Provisions

Provisions for restructuring costs and legal claims are recognised when (i) the Group has a present legal or constructive obligation as a result of past events; (ii) it is more likely than not that an outflow of resources will be required to settle the obligation; (iii) and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.21 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions, and other bodies on behalf of customers to secure loans, overdrafts, and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management.

2.22 Employee benefits

(a) Pension obligation

Group companies operate various pension schemes. Most of the Group companies have defined contribution plans, where the companies are paying fixed contributions to publicly or privately administered pension insurance plans on a mandatory, contractual, or voluntary basis. The Group has no further payment obligations once these contributions have been paid. The contributions are recognised as an expense when they become due.

A few of the Group's companies have defined benefit plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service, and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. Past service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

(b) Share-based compensation

The Group has entered into stock options contracts with its employees enabling them to acquire shares in the Bank. In all instances the exercise price corresponds to the market value of the shares at grant date. Cost related to the stock option agreements is expensed during the vesting period based on the related terms.

All stock options are equity settled share-based compensation, and the Group recognises the fair value of the services received as an expense in the period that these services are received.

The Group uses the Black-Scholes valuation model to determine the fair value of options granted. The significant inputs into the model were share prices at the grant date, exercise price, the volatility of standard deviation of expected share price, dividend yield and the a risk free interest rate.

2.23 Deferred income tax

Deferred income tax is recognised in full as a liability, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is, however, not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination, which, at the time of the transaction, affects neither its accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from revaluation of certain financial assets and liabilities, including derivative contracts. Temporary differences also include tax losses carried forward and the difference between the fair values of assets acquired and their tax base.
Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax arising from temporary differences in connection with investments in subsidiaries and associates is recognised in the consolidated financial statements. This is not done, however, where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

The tax effects of tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

2.24 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method.

2.25 Subordinated loans

The Group has borrowed funds by issuing bonds on subordinated terms. These bonds are subordinated to the other liabilities of the Group. For the purpose of the calculation of the capital ratio, the bonds are included within Tier I and Tier II capital. Subordinated loans are carried at amortised

2.26 Financial liabilities designated at fair value through profit or loss at inception

Financial liabilities are designated at fair value through profit or loss when:
• Doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost such as loans and advances to customers or banks and debt securities in issue; and
• Financial instruments, such as debt securities held, contain one or more embedded derivatives that significantly modify the cash flows; and
• The Group is engaged in a unit-linked investment contracts where the liability reflects the value of of assets held within unitlinked investment pools.

Such financial liabilities are reported at current fair value and changes recognised in the income statement. The classification of financial liabilities placed in this category cannot be changed after their original classification.

2.27 Share capital

(a) Share issue costs

Costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders meeting.

(c) Treasury shares

Where the Bank, or other members of the Group, purchases the Bank's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.28 Fiduciary activities

The Group acts as a custodian, holding or placing assets on behalf of individuals, institutions and pension funds. These include various mutual funds managed by the Group. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

2.29 Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The accounting estimate based on these assumptions will by definition seldom be equivalent to the relevant real outcome. The discussion below examines estimates and assumptions, which involve a substantial risk of causing material correction to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of derivatives

The fair value of financial instruments not quoted in active markets are determined by various recognised valuation techniques. When valuation techniques (e.g. models) are used to determine fair value, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practicable, models use only observable data, however areas such as credit risk require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4. Management of financial risk

The Group's risk policy and procedures ensure that the risks involved in its operations are known, measured, and monitored. Exposure to risks is managed to ensure that it remains within the limits adopted by the Group for its operations and complies with regulatory requirements. The Group has adopted a policy on the risk structure of its portfolio to ensure that fluctuations resulting from unexpected events, affecting both the Group's equity and its performance, are both limited and manageable.

The Board of Directors is responsible for the Group's general policy on risk, ensuring that it conforms to the Bank's strategy, the experience of its management, its capital adequacy and risk appetite. The Group's CEOs are responsible to the Board for its daily operations and manage its risk through committees. Furthermore, managing directors report to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the Group's policy.

Standing meetings of managing directors is as a forum for consultation between the CEOs and managing directors.

The Bank has five standing committees: the Asset and Liability Committee (ALCO), the Asset Management Committee, the Credit Committee, the Operations Committee and the Group Risk Management Committee. The Landsbanki Group Risk Committee (LGRC) is responsible for effective risk management and control in the Landsbanki Group.

The Board of Directors has two sub-committees, an Audit Committee and Remuneration Committee, which prepare examination by the Board of specific areas of operation and detailed investigation of issues falling within their sphere of responsibility.

The Compliance Officer ensures that the Bank's rules on securities trading and insider trading are followed, and that Group operations comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and other relevant statutes and regulations. Each of Landsbanki's subsidiaries has a compliance officer, and the Group's Compliance Officer supervises their work and reports to the Board of Directors.

Landsbanki's internal auditing is carried out on a Group basis, the Director of Internal Audit for the Bank audits all Group companies. Internal auditing is an essential aspect of the Bank's risk management control; each operating unit is audited at least once a year.

4.1 Financial instruments and risk management strategy

Clients' assets and liabilities bear fixed or variable rates of interest over longer or shorter terms, it is essential for the Group to control its investments closely to maintain a balance in the interest rates and maturities of assets and liabilities. The Group also endeavours to increase its interest rate margin by offering both short-term and long-term credit, while at the same time it must maintain sufficient liquidity to meet its commitments. By extending credit to both corporations and individuals, on varying terms reflecting the risk of loss in each instance, the Group aims to achieve an acceptable interest rate margin. Interest rate risk is not limited to interest bearing assets on the Group's balance sheet, but also includes guarantees and derivatives.

By taking positions and trading in listed and unlisted financial instruments, the Group can take advantage of short-term movements on the equity and bond markets, as well as currency and interest rate fluctuations. Currency risk is generally kept in balance. Part of the Group's currency risk is hedged with currency swaps. Interest rate swaps and currency interest rate swaps are used to partly hedge interest rate risk against any drop in the fair value of fixed interest rate assets and any increase in the fair value of customers' deposits on fixed terms.

4.1.1 Hedge accounting

In order to decrease volatility in profit and loss due to changes in market rates, the Group aims to hedge future cash flow of fixed income payment by entering into interest rate and cross-currency swaps, effectively exchanging the fixed rate for floating rate. The Group designates specific derivatives as hedges of the fair value of assets or liabilities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

(a) Fair value hedge

The Group uses interest rate and currency swaps to hedge part of its interest rate risk against any possible impairment of the fair value of fixed and floating interest rate assets and liabilities in both ISK and foreign currencies. The net fair value of these swaps as of 31 December 2007 was positive in the amount of ISK 1,765 million.

(b) Net investment hedge

The Group balances currency risk arising from net investment in foreign operation against foreign currency borrowing. At 31 December 2007, loans amounting to ISK 86,469 million (31.12.2006: ISK 50,288 million) were recognised as hedges, resulting in exchange rate profit in 2007 of ISK 2,504 million (2006: ISK 6,857 million loss) recognised in equity against exchange rate profit from investments in subsidiaries.

4.2 Credit Risk

Credit risk is the greatest single risk faced by the Group. Credit risk is the risk that a borrower or counterparty in a transaction with the Group will be unable to meet its financial obligations. The Group manages this risk by setting limits for acceptable risk-weighted exposures to individual borrowers or groups of related borrowers, geographical regions, or industrial sectors. Such limits are monitored and reviewed regularly. Credit risk is also managed through regular assessments of clients' credit ratings, modifications of authorized credit limits, or acquiring better collateral for existing clients' obligations.

The credit risk management and control within the Group is centralized. The Board of Directors sets a lending policy, including maximum exposure to individual borrowers and groups of related borrowers. The purpose of these rules is to control the maximum exposure of the Group by monitoring the indirect risk exposure of the Group through its clients and direct claims of the Group and its subsidiaries on a combined basis. In particular, direct claims include financial instruments issued by a client, which are used to guarantee other obligations of third unrelated parties. According to the Group's internal rules, a maximum total exposure to an individual customer or to a group of related parties may not exceed 20% of the Group's

Exposure to clients with the best credit standing according to the Group's rating system, may comprise as much as 25% of the Group's equity, but only when in the form of short-term obligations. Exposure to clients with a lower credit standing may not comprise more than 10% of Group's equity. This exposure may however be increased to as much as 15%, provided that at least 5% of that exposure would be short-term.

At year-end 2007, 9 clients were rated as having large exposures by the Landsbanki Group. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of the Group's equity, in accordance with the Financial Supervisory Authority's Rules on large exposures incurred by financial undertakings. All of Landsbanki's large exposures were within these limits at the end of 2007. The Board of Directors regularly reviews detailed reports on the commitments of the bank's largest clients. Reports on the situation of the largest group exposures are reviewed by the Credit Committee, together with other reports concerning the Group's loan portfolio, e.g. analyses of the economic situation and of individual sectors.

The Group's Credit Committee sets detailed lending rules based on the policy approved by the Board of Directors. Credit officers' lending authorization levels are similarly well defined and incremental. The Credit Committee delegates and reviews employees' authorization levels and is responsible for review of the lending rules. Comprised of the Group's subsidiaries CEOs and managing directors, it meets regularly to discuss all credit decisions exceeding the authorization levels of branches, subsidiaries or the Corporate Banking Division. The Committee checks the composition of the loan portfolio with regard to industrial sectors, geographical regions, collateral, and other aspects, as well as the level defaults and default trends. Detailed reports on the financial position of the Group's largest debtors are reviewed by the Credit Committee, together with special reports, e.g. on the situation of the economy in general and specific industrial sectors, etc.

(a) Collateral

Securing loans with collateral is the traditional method of mitigating credit risk. The Bank obtains collateral to secure client obligations where considered appropriate normally in the form of a lien on client assets giving the Group a claim on these assets for both existing and future client obligations. Credit extended by the Group may be secured on residential or commercial properties, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft etc. The Group also secures its loans with receivables and operating assets, such as machinery, equipment, raw materials, and inventories. Residential mortgages are generally fully secured with the underlying residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowings.

(b) Derivatives

The Group maintains strict control limits on net open derivative positions, by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Group, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

(c) Credit-related commitments

Guarantees and letters of credit, which irrevocably commit the Group to make payment to a third-party in the event a customer cannot fulfil his obligations, involve the same credit risk as loans. Import guarantees and documentary credits are secured by the goods shipments they cover, thus representing a lower risk than direct loans. Unused credit lines represent a commitment to increase loans or guarantees. The Group could conceivably suffer losses equivalent to the total amount of open credit lines. The Group monitors the duration of credit lines, since longer-term obligations generally imply a greater credit risk.

(d) Netting arrangements

In order to further limit counterparty risk arising from financial instruments, the Group enters into netting agreements. These arrangements ensure that in the case of foreclosure, the Group can set off all contracts covered by the netting agreement against the debt. The arrangements generally include all market transactions between the Group and its clients.

4.2.1 Credit risk measurement

(a) Loans and advances

One of the basic elements for the quantification of credit risk is the measurement of probability of default with an effective and accurate credit risk classification system. Credit risk is measured within the Group by rating customers (or exposures) on a single rating scale. Different systems are used for rating and scoring customers and exposures, but the common denominator is that they all rank credit according to risk and to predict defaults. Every rating grade has a probability of default (PD) assigned to it.

The Group assesses the probability of default of individual counterparties using internal and external rating tools tailored to various categories of the counterparties. These have been developed internally and combine statistical analysis with credit officers' judgment and are validated, where appropriate, by comparison with externally available data. Clients of the Group are segmented into thirteen credit quality classes that are mapped to the four rating classes below. The rating scale, which is shown below, reflects the range of default probabilities defined for each risk classification. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are regularly reviewed and upgraded as necessary. The Group regularly validates the performance of the ratings' bands and their predictive power with regard to default events.

Group's internal risk classification and mapping of external ratings

		Probability of default	
Group's rating	Description of the grade	From	To
1	Investment grade	0%	0.55%
2	Standard monitoring	0.55%	2.29%
3	Special monitoring	2,29 +	
4	Sub-standard	Problem loans	

The probability of default is the likelihood of a loan to falling into 90 days default within the next 12 months, as defined in the Basel II regulatory framework.

(b) Bonds

For Bonds external rating such as Moody´s ratings or their equivalents are used by the Group for managing of the credit risk exposures. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

4.2.2 Impairment and provisioning policies

The internal and external rating systems described in Note 4.2.1 focus on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the balance sheet date based on an objective evidence of impairment.

The impairment provision shown in the balance sheet at year-end is derived from each of the four internal risk classifications. However, the majority of the impairment provision comes from the bottom two grades. The table below shows the breakdown of the Group's loans and advances and the associated impairment provisions along with the Group's internal risk classification:

Group's internal risk classification	2007		2006	
Group's rating	Loans and advances (%)	Impairment provision (%)	Loans and advances (%)	Impairment provision (%)
1. Investment grade	27.0	0.0	25.0	0.0
2. Standard monitoring	46.8	0.2	53.3	0.5
3. Special monitoring	24.6	2.8	20.0	2.9
4. Sub-standard	1.6	17.4	1.7	21.9
	100	1.08	100	1.21

The Group's policy requires that individual financial assets that are above materiality thresholds are reviewed at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous loans that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

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4.2.3 Maximum exposure to credit risk before collateral held or other credit enhancements

The following table represents a worst case scenario of credit risk exposure to the Group at 31 December 2007 and 2006, without taking into account any collateral held or other credit enhancements attached. For on balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

	Maximum exposures	
Credit risk exposures relating to on balance sheet items are as follows:	2007	2006
Loans and advances to financial institutions	162,929	215,618
Loans and advances to customers:		
Loans to individuals:		
– Mortgages	261,843	194,232
– Other loans	117,566	104,903
Loans to corporates and public entities	1,665,311	1,155,871
Provisions for credit losses on loans and advances	(21,981)	(16,611)
Bonds	362,617	169,598
Hedged securities	53,236	45,583
Derivatives held for trading	50,198	38,358
Derivatives held for hedging	8,719	10,498
Unsettled securities trading	58,845	36,965
Other assets	20,352	31,944
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	112,602	95,911
Loan commitments and other credit related liabilities	131,757	123,156
Total maximum exposure to credit risk	2,983,993	2,206,026

4.2.4 Loans and advances

The following table shows the gross amount of loans and advances to customers.

	2007		2006	
Loans and advances	Customers	Financial institutions	Customers	Financial institutions
Neither past due nor impaired	1,972,961	162,929	1,387,665	215,618
Past due (one day or more), but not impaired	46,736	0	53,071	0
Impaired	25,022	0	14,271	0
Provisions for credit losses on loans and advances	(21,981)	0	(16,611)	0
Total loans and advances	2,022,738	162,929	1,438,395	215,618

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating classification adopted by the Group.

	Individual		Corporates		
At 31 December 2007	Mortgages	Other loans	and public entities	Customer Total	Financial institutions
1. Investment grade	101,430	19,338	423,235	544,003	153,176
2. Standard monitoring	132,346	34,337	758,236	924,919	9,752
3. Special monitoring	15,647	29,583	428,922	474,152	0
4. Sub-standard	1,158	2,024	26,706	29,887	0
Total loans and advances neither past due nor impaired	250,580	85,281	1,637,100	1,972,961	162,929

	Individual		Corporates		
At 31 December 2006	Mortgages	Other loans	and public entities	Customer Total	Financial institutions
1. Investment grade	82,488	19,575	251,743	353,806	210,207
2. Standard monitoring	102,653	25,098	623,880	751,630	5,411
3. Special monitoring	11,599	24,685	224,602	260,885	0
4. Sub-standard	782	2,663	17,898	21,343	0
Total loans and advances neither past due nor impaired	197,521	72,021	1,118,123	1,387,665	215,618

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(b) Loans and advances past due, but not impaired

(i) Loans and advances past due, but not impaired

The following table shows loans and advances past due (one day or more) but not impaired, with a payment delay analysis. The table shows the total amount of the loan if an instalment is past due.

	Individual		Corporates	
At 31 December 2007	Mortgages	Other loans	and public entities	Customer Total
Past due (one day or more) up to 30 days	5,168	9,950	13,645	28,762
Past due 30 - 60 days	2,208	1,262	2,858	6,328
Past due 60-90 days	704	795	2,934	4,434
Past due over 90 days	1,727	821	4,664	7,212
Total loans and advances past due, but not impaired	9,807	12,828	24,101	46,736

	Individual		Corporates	
At 31 December 2006	Mortgages	Other loans	and public entities	Customer Total
Past due (one day or more) up to 30 days	4,773	10,459	18,539	33,770
Past due 30 - 60 days	1,927	1,353	5,232	8,511
Past due 60-90 days	793	432	2,250	3,475
Past due over 90 days	872	995	5,447	7,314
Total loans and advances past due, but not impaired	8,365	13,239	31,467	53,071

No loans to financial institution are impaired.

(ii) Payments of loans and advances to customers past due, but not impaired

The following table shows past due payments of loans and advances to customers at year-end.

	Individual				
At 31 December 2007	Mortgages	Other loans	Corporates and public entities	Customer Total	As % of total loans to customers
Past due (one day or more) up to 30 days	40	960	1,415	2,415	0.12
Past due 30 - 60 days	15	436	961	1,411	0.07
Past due 60-90 days	7	175	562	744	0.04
Past due over 90 days	35	980	3,896	4,911	0.24
Total payments past due	97	2,550	6,834	9,481	0.47

	Individual				
At 31 December 2006	Mortgages	Other loans	Corporates and public entities	Customer Total	As % of total loans to customers
Past due (one day or more) up to 30 days	37	787	1,187	2,011	0.14
Past due 30 - 60 days	14	356	1,313	1,683	0.11
Past due 60-90 days	6	147	712	864	0.06
Past due over 90 days	14	877	2,079	2,970	0.20
Total payments past due	71	2,167	5,291	7,529	0.51

(c) Loans and advances to customers impaired

	Individual			
At 31 December 2007	Mortgages	Other loans	Corporates	Total
Individually impaired loans	345	2,350	22,328	25,022
At 31 December 2006				
Individually impaired loans	1,122	2,501	10,648	14,271

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Securing loans by collateral is the traditional method of mitigating credit risk. The Group obtains collateral in respect of customer liabilities where considered appropriate. Collateral normally takes the form of a lien on customer assets, and gives the Group claim on these assets for both existing and future liabilities. Credit extended by the Group is secured by residential or corporate real estate, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft, other valuable assets etc. The Group also secures its loans with receivables and operating assets, such as machinery and equipment, raw materials and inventories. Residential housing mortgages are generally fully secured by a charge against residential property. Less stringent requirements are set for securing short-term personal loans, such as overdrafts and credit card borrowing.

In the case of loans that are individually impaired, the collateral in question has been judged not to be sufficient to cover the net present value of the loan and therefore the loan has been impaired.

(d) Loans and advances renegotiated

Restructuring activities include extended and modified repayment arrangements and approved external management plans. Following a loan restructuring, a previously overdue loan is reset to a normal status and managed together with other similar loans. Restructuring policies and practices are based on certain indicators or criteria, which in the judgment of local management indicate that payment are most likely to continue after being restructured. These policies are kept under continuous review. Renegotiated loans to individuals amounts ISK 2,972 million at 31 December 2007 (31.12.2006: ISK 1,156 million).

4.2.5 Bonds

The table below presents an analysis of Bonds by ratings assigned by external rating agencies at 31 December 2007, based on Moody's rating or their equivalent.

Moody's	Trading Bonds	Designated at fair value	Hedged Bonds	Total
Aaa	87,722	973	42,456	131,151
Aa1	61,287	0	2,546	63,834
Aa2	44,120	0	0	44,120
Aa3	70,432	0	5,892	76,323
A3 to A1	65,772	0	0	65,772
Lower than A3	15,128	274	0	15,402
Unrated	16,796	113	2,342	19,251
At 31 December 2007	**361,256**	**1,361**	**53,236**	**415,853**

4.2.6 Repossessed collateral

During 2007, the Group obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	Carrying amount 2007
Residential property	658
Other	169
	827

Repossed collateral are classified in the balance sheet as assets held for sale (see note 24).

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4.2.7 Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Group's credit exposure, as categorized by geographical region as of 31 December 2007. For the purpose of this table, exposures are allocated to regions based on the clients' country of domicile.

(a) Geographical sectors

	Iceland	UK & Ireland	Other European countries	US and CAN/other countries	Total
Loans and advances to financial institutions	50,982	73,199	28,902	9,847	162,929
Loans and advances to customers:					
Loans to individuals:					
–Mortgages	146,448	80,644	34,360	392	261,843
–Other loans	103,342	7,904	5,549	771	117,566
Loans to corporates and public entities	941,910	324,945	253,514	144,940	1,665,311
Provisions for credit losses on loans and advances					(21,981)
Bonds	68,257	43,218	169,303	81,839	362,617
Hedged Bonds	50,690	5	2,459	83	53,236
Derivatives held for trading	29,151	11,718	7,538	1,791	50,198
Derivatives held for hedging	1,010	3,292	478	3,938	8,719
Unsettled securities trading	3,400	28,924	26,419	101	58,845
Other assets	4,427	6,507	9,418	0	20,352
At 31 December 2007	1,399,618	580,355	537,940	243,703	2,739,634
At 31 December 2006	1,069,712	316,036	468,681	132,531	1,986,959

(b) Industry sectors

The following tables breaks down the Group's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties.

Loans and advances	2007	2006
Loans and advances to financial institutions	162,929	215,618
Public entities	23,759	8,892
Corporates		
Fisheries	173,489	134,061
Retail trade	245,200	229,312
Agriculture	12,467	6,170
Construction and manufacturing	327,423	177,854
Services	879,252	596,053
Other	3,721	3,529
Individuals		
Mortgages	261,843	194,232
Other loans	117,566	104,903
Provisions for credit losses on loans and advances	(21,981)	(16,611)
Total loans and advances	2,185,667	1,654,013

Other financial assets	Services	Financial institutions	Construction and manu-factoring	Retail trade	Fisheries/ Agriculture	Public entities/ Other	Individuals	Total
Bonds	13,780	292,284	11,435	2,846	1,276	40,995	0	362,617
Hedged bonds	1,647	8,438	695	0	0	42,456	0	53,236
Derivatives held for trading	7,908	28,309	1,976	2,152	3,219	2,682	3,954	50,198
Derivatives held for hedging	0	7,708	0	0	0	1,010	0	8,719
Unsettled securities trading	3,900	54,352	0	0	592	2	0	58,845
Other assets	3,978	8,925	3	28	0	2,287	5,131	20,352
At 31 December 2007	31,212	400,016	14,109	5,026	5,086	89,432	9,085	553,967
At 31 December 2006	13,445	232,290	11,296	4,051	3,743	55,815	12,306	332,946

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4.3 Market Risk

Market risk is the risk arising from the impact of changes in market prices on the value of the Group's assets and liabilities, both on and off its balance sheet. This includes both interest rate and equity risk on its trading portfolio, as well as currency risk on its portfolios. Market risk is, however, mainly limited to the Bank's trading book transactions.

The Board of Directors has set a ceiling on the Bank's market risk, which may not exceed 15% of its total risk-weighted asset base. Within this limit, equity risk may not exceed 12%, currency risk may not be more than 7,6% for long position and 3,3% for short position and the maximum interest rate risk on market bonds and other financial instruments may not exceed 6%. ALCO sets detailed rules on the Group's maximum market risk. Risk control is effected on a Group basis, under the direction of Risk Management. Authorisations to take positions subject to market risk are mainly limited to the Investment Banking Division of the Group, where total market risk for the Group is also managed. In addition to the Investment Banking Division of the Group, company, trading desks of its subsidiaries, Landsbanki Kepler, Landsbanki Securities UK, and Merrion Capital have limited authorisations for exposures on own account.

Total market risk for the Group is calculated at the end of each banking day and controlled by means of an authorisation system adopted by ALCO. Since no single instrument can cover all the aspects of market risk, the Group applies several methods in its daily risk measurement, including VaR (Value-at-Risk) and stress testing, and uses indicators such as net position and value per bp (Vpb).

Value at Risk (VaR) is a statistical instrument which measures the Group's maximum expected loss for the next working day under normal market conditions for a 99% confidence interval. The Group's loss should only exceed the resulting value on one working day out of a hundred. The bank uses VaR to monitor trading book market risk. VaR models are tested for reliability in accordance with the guidelines of the Basel Committee on Banking Supervision.

The first of the following tables show the VaR estimate for market risk for the Group's total equity exposure with and without equity held in financial assets designated at fair value through profit and loss. The second table shows market risk excluding financial assets designated at fair value through profit and loss and unlisted equities:

	1 January to 31 December 2007				12 months to 31 December 2006		
Market risk	Average	High	Low	31.12.2007	Average	High	Low
Interest rate risk	401	886	169	886	176	749	58
Foreign exchange risk	791	2,067	2	2,064	67	360	2
Equities risk	1,482	3,288	501	2,081	1,281	2,908	541
Total VaR (99% 1 day holding period)	2,673	5,808	844	5,031	1,524	4,017	601
Total VaR (99% 10 day holding period)	8,453	18,367	2,669	15,909	4,819	12,703	1,901

Market risk without financial assets designated at fair value through profit and loss	Average	High	Low	31.12.2007	Average	High	Low
Interest rate risk	401	886	169	886	176	749	58
Foreign exchange risk	791	2,067	2	2,064	67	360	2
Equities risk	1,088	2,910	330	1,110	1,183	1,926	323
Total VaR (99% 1 day holding period)	2,280	5,433	604	4,060	1,426	3,035	383
Total VaR (99% 10 day holding period)	7,210	17,181	1,910	12,839	4,509	9,598	1,211

Market risk without financial assets designated at fair value through profit and loss and unlisted equities	Average	High	Low	31.12.2007	Average	High	Low
Interest rate risk	401	886	169	886	176	749	58
Foreign exchange risk	791	2,067	2	2,064	67	360	2
Equities risk	675	1,531	278	607	296	427	180
Total VaR (99% 1 day holding period)	1,866	4,025	551	3,557	539	1,536	240
Total VaR (99% 10 day holding period)	5,901	12,728	1,742	11,248	1,704	4,857	759

The Group recognises the importance of assessing the effectiveness of its VaR models. The models are back-tested, i.e. the number of days when trading losses actually exceeded the estimated VaR figure are counted. According to the regulatory standard for back-testing is to measure VaR assuming a ten-day holding period with a 99% level of confidence. For Landsbanki's regulatory trading book, there were 2 instances in the last 12 months exceeding the corresponding VaR in the back testing.

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4.3.1 Currency Risk

The Group's currency risk is managed with the objective of limiting this total risk factor within defined net position limits set by ALCO. Changes in prices of currency pairs against ISK will affect the Groups equity ratio as its foreign exchange assets are 69% of the Groups asset base and the Groups equity is in ISK. The Group maintains a considerable open currency position and issues subordinated debt in foreign currency to hedge this risk.

The following table shows the carrying amount of the Group's assets and liabilities by currency. Off-balance sheet amounts show the notional amounts of financial instruments in foreign currencies.

Concentrations of assets, liabilities, and off balance sheet items.

At 31 December 2007	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	69,285	8,510	0	1,145	0	2,619	81,559
Loans and advances to financial institutions	22,411	59,290	15,168	57,906	1,203	6,951	162,929
Loans and advances to customers	568,579	458,048	190,106	323,779	213,366	268,860	2,022,738
Bonds	116,166	170,072	59,917	11,730	823	3,909	362,617
Equities	19,656	17,802	1,199	6,421	7	19,322	64,407
Hedged securities	92,931	40,169	23,157	11,440	399	8,085	176,181
Derivatives held for trading	18,066	13,694	9,289	2,516	591	6,044	50,198
Derivatives held for hedging	783	485	7,142	213	5	92	8,719
Investments in associates	5,404	416	0	0	0	0	5,820
Property and equipment	10,355	657	62	789	0	0	11,862
Intangible assets	2,996	10,539	0	14,144	0	0	27,679
Non-current assets and disposal groups classified as held for sale	608	0	0	3,033	0	0	3,641
Unsettled securities trading	3,724	26,270	799	27,982	0	70	58,845
Other assets	4,201	10,189	26	5,478	426	32	20,352
Total assets	**935,164**	**816,140**	**306,864**	**466,575**	**216,820**	**315,983**	**3,057,546**
Liabilities and equity							
Deposits from financial institutions	19,167	90,845	20,373	25,084	5,999	176,447	337,915
Deposits from customers	300,444	191,999	20,472	897,372	1,365	9,758	1,421,410
Borrowing	99,302	460,718	160,976	6,171	17,453	30,134	774,754
Financial liabilities designated at fair value	0	37,706	895	0	0	22,630	61,231
Subordinated loans	6,569	74,310	28,326	0	0	2,685	111,890
Trading liabilities	7,373	20,882	12,371	18,463	582	2,490	62,161
Derivatives held for hedging	0	6,720	0	0	103	130	6,953
Tax liabilities	8,149	0	0	0	0	0	8,149
Unsettled securities trading	0	22,122	443	23,516	2,285	33	48,399
Other liabilities	17,872	10,978	131	11,018	643	37	40,679
Total equity	184,004	0	0	0	0	0	184,004
Total liabilities and equity	**642,880**	**916,280**	**243,987**	**981,624**	**28,430**	**244,344**	**3,057,546**
Net on-balance sheet position	292,284	(100,141)	62,877	(515,049)	188,390	71,639	
Net off-balance sheet position	406,483	(162,831)	26,569	(530,217)	187,887	72,110	
Net position	**(114,199)**	**62,690**	**36,309**	**15,168**	**503**	**(471)**	

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4.3.1 Currency Risk (continued)

At 31 December 2006	ISK	EUR	USD	GBP	CHF	Other	Total
Assets							
Cash and cash balances with Central Bank	20,481	10,054	333	125	591	85	31,669
Loans and advances to financial institutions	24,531	65,641	13,950	109,140	922	1,434	215,618
Loans and advances to customers	542,618	309,612	141,165	204,757	118,553	121,690	1,438,395
Bonds	36,463	131,544	0	1,592	0	0	169,598
Equities	24,810	4,860	1,005	7,131	756	10,766	49,328
Hedged securities	80,528	2,321	3,418	11,231	0	7,692	105,190
Derivatives held for trading	15,737	10,250	8,852	1,598	783	1,137	38,358
Derivatives held for hedging	1,022	7,489	505	1,444	34	3	10,498
Investments in associates	3,531	306	0	0	0	0	3,837
Property and equipment	4,083	785	0	666	288	0	5,823
Intangible assets	1,691	5,500	95	6,998	68	0	14,351
Non-current assets and disposal groups classified as held for sale	18,524	0	0	2,825	0	0	21,349
Unsettled securities trading	5,130	21,068	225	8,996	1,520	26	36,965
Other assets	16,472	12,361	29	2,549	431	102	31,944
Total assets	**795,622**	**581,791**	**169,577**	**359,052**	**123,947**	**142,935**	**2,172,924**
Liabilities and equity							
Deposits from financial institutions	37,427	50,728	10,585	33,201	3,668	5,496	141,105
Deposits from customers	80,440	81,128	13,159	350,257	121	157,741	682,846
Borrowing	108,800	538,249	250,896	24,699	22,219	70,113	1,014,976
Subordinated loans	6,226	78,602	2,137	0	0	2,789	89,754
Trading liabilities	12,375	3,359	1,963	1,305	97	1,767	20,866
Derivatives held for hedging	1,591	2,358	981	1,095	48	400	6,473
Tax liabilities	5,985	492	0	116	0	0	6,593
Liabilities included in disposal groups classified as held for sale	7,242	0	0	0	0	0	7,242
Unsettled securities trading	0	20,142	581	5,886	2,003	1,375	29,987
Other liabilities	10,980	5,492	240	6,407	502	2	23,623
Total equity	149,457	0	0	0	0	0	149,457
Total liabilities and equity	**420,524**	**780,550**	**280,542**	**422,966**	**28,658**	**239,683**	**2,172,924**
Net on-balance sheet position	375,097	(198,759)	(110,965)	(63,914)	95,289	(96,748)	
Net off-balance sheet position	(375,993)	199,281	110,516	64,175	(95,192)	97,213	
Net position	**(896)**	**522**	**(449)**	**261**	**97**	**465**	

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4.4 Mismatch of assets and liabilities

(a) Interest rate risk on portfolios

Portfolio interest rate risk arises from the impact on the interest margin and/or the market value of equity caused by interest rate changes on assets and liabilities outside of the Bank's trading book. This risk results primarily from duration mismatch of assets and liabilities. Portfolio interest rate risk is among the Group's more important risk factors.

The following table gives a summary of the Group's interest rate risk. It shows the carrying amounts of its assets and liabilities. The carrying amount classification is based on either the repricing date of the contract or its maturity, whichever comes first.

At 31 December 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash balances with Central Bank	81,559	0	0	0	0	81,559
Loans and advances to financial institutions	147,665	12,741	1,629	894	0	162,929
Loans and advances to customers	1,164,282	400,984	240,042	217,431	0	2,022,738
Bonds	253,712	6,734	60,652	41,518	0	362,617
Equities	0	0	0	0	64,407	64,407
Hedged securities	362	4,535	8,888	39,451	122,944	176,181
Derivatives held for trading	50,198	0	0	0	0	50,198
Derivatives held for hedging	8,719	0	0	0	0	8,719
Investments in associates	0	0	0	0	5,820	5,820
Property and equipment	0	0	0	0	11,862	11,862
Intangible assets	0	0	0	0	27,679	27,679
Non-current assets and disposal groups classified as held for sale	0	0	0	0	3,641	3,641
Unsettled securities trading	0	0	0	0	58,845	58,845
Other assets	0	0	0	0	20,352	20,352
Total assets	**1,706,497**	**424,994**	**311,212**	**299,294**	**315,550**	**3,057,546**
Liabilities and equity						
Deposits from financial institutions	311,385	23,799	2,471	260	0	337,915
Deposits from customers	1,211,370	134,809	63,947	11,284	0	1,421,410
Borrowing	425,589	22,421	234,096	92,648	0	774,754
Financial liabilities designated at fair value	12,148	2,854	12,523	0	33,706	61,231
Subordinated loans	28,788	2,858	1,180	79,064	0	111,890
Trading liabilities	62,161	0	0	0	0	62,161
Derivatives held for hedging	6,953	0	0	0	0	6,953
Tax liabilities	0	0	0	0	8,149	8,149
Unsettled securities trading	0	0	0	0	48,399	48,399
Other liabilities	0	0	0	0	40,679	40,679
Total equity	0	0	0	0	184,004	184,004
Total liabilities and equity	**2,058,394**	**186,741**	**314,217**	**183,256**	**314,937**	**3,057,546**
Net on balance sheet position	**(351,897)**	**238,253**	**(3,006)**	**116,038**	**613**	
Net off balance sheet position	**98,632**	**11,236**	**(5,761)**	**(14,961)**	**(89,147)**	
Total interest sensitivity gap	**(253,265)**	**249,489**	**(8,767)**	**101,077**	**(88,534)**	

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4.4 Mismatch of assets and liabilities (continued)

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and cash balances with Central Bank	31,669	0	0	0	0	31,669
Loans and advances to financial institutions	202,425	12,938	254	0	0	215,618
Loans and advances to customers	966,114	270,116	93,997	108,168	0	1,438,395
Bonds	52,924	74,982	17,981	23,711	0	169,598
Equities	0	0	0	0	49,328	49,328
Hedged securities	245	1,463	9,037	34,838	59,607	105,190
Derivatives held for trading	38,358	0	0	0	0	38,358
Derivatives held for hedging	10,498	0	0	0	0	10,498
Investments in associates	0	0	0	0	3,837	3,837
Property and equipment	0	0	0	0	5,823	5,823
Intangible assets	0	0	0	0	14,351	14,351
Non-current assets and disposal groups classified as held for sale	0	0	0	0	21,349	21,349
Unsettled securities trading	0	0	0	0	36,965	36,965
Other assets	0	0	0	0	31,944	31,944
Total assets	1,302,234	359,500	121,269	166,717	223,204	2,172,924
Liabilities and equity						
Deposits from financial institutions	131,501	7,808	1,789	8	0	141,105
Deposits from customers	602,074	64,857	10,292	5,623	0	682,846
Borrowing	669,750	54,756	221,659	68,810	0	1,014,976
Subordinated loans	30,621	0	3,839	55,293	0	89,754
Trading liabilities	20,866	0	0	0	0	20,866
Derivatives held for hedging	6,473	0	0	0	0	6,473
Tax liabilities	0	0	0	0	6,593	6,593
Liabilities included in disposal groups held for sale	0	0	0	0	7,242	7,242
Unsettled securities trading	0	0	0	0	29,987	29,987
Other liabilities	0	0	0	0	23,623	23,623
Total equity	0	0	0	0	149,457	149,457
Total liabilities and equity	1,461,287	127,421	237,579	129,734	216,902	2,172,924
Net on balance sheet position	(159,053)	232,079	(116,310)	36,983	6,302	
Net off balance sheet position	59,969	(90,454)	31,553	58,538	(59,607)	
Total interest sensitivity gap	(99,084)	141,625	(84,757)	95,521	(53,305)	

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(b) Liquidity Risk

Liquidity risk is the risk that Landsbanki will be unable to obtain the funds to meet its financial obligations as they come due, either by increasing liabilities or by converting assets without incurring significant losses. This in turn requires reliable access to enough cash resources, at unpredictable times and to unpredictable extents, to meet uncertain cash flow obligations. Such access – and indeed the cash flow obligations themselves – depends on market and other external events and on other agents' behaviour.

ALCO formulates liquidity management policy, monitors the Group's liquidity position and provides advice on the composition of its assets and liabilities. Its objective is to minimise fluctuations in liquidity and ensure that the Group always has sufficient access to funding to cover outflows arising from its obligations in the coming month. Treasury implements this policy and estimates future cash flow in co-operation with Risk Management.

The Bank's objective is to minimize fluctuations in liquidity and ensure that the Bank always has sufficient access to funding to cover outflows arising from its obligations in the coming months. The Bank's policy is to maintain a liquid position (net of haircuts) such that it can sustain at least 12 months non-access to capital markets with a modest reduction in business activity. The Bank's approach to liquidity management closely aligns with the framework of Moody's Bank Financial Strength Rating (BFSR).

The Bank follows rules on liquidity set by the Central Bank of Iceland, governing the ratio of weighted liquid assets and liabilities. The rules require a ratio higher than 1 for the next three months. The Central Bank rules involve a type of stress test, according to which assets and liabilities are weighted using specific co-efficients reflecting how accessible the asset in question would be in a liquidity crisis and how great the need is to repay the liability in question when due.

The bank comfortably fulfils its requirements set in its liquidity policy and as well at the end of the reporting period, the Bank's liquidity ratio, calculated by balancing assets and liabilities in accordance with the Central Bank's Rules No. 317/2006 was 2.23.

The following table shows the cash flow payable by the Group under non-derivative financial assets and liabilities classified by remaining contractual maturities at the balance sheet date. Except for Bonds, Hedged securities, and Equities. They are classified by expected maturities. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash balances with Central Bank	81,559	0	0	0	81,559
Loans and advances to financial institutions	147,325	13,098	1,990	898	163,311
Loans and advances to customers	430,172	324,428	943,963	705,650	2,404,214
Bonds	362,617	0	0	0	362,617
Equties	64,407	0	0	0	64,407
Hedged securities	176,181	0	0	0	176,181
Unsettled securities trading	58,845	0	0	0	58,845
Total assets	**1,321,104**	**337,526**	**945,953**	**706,549**	**3,311,132**
Liabilities					
Deposits from financial institutions	308,412	30,118	3,065	395	341,990
Deposits from customers	1,247,884	130,404	40,972	11,283	1,430,543
Borrowings	26,691	88,243	632,225	167,746	914,905
Financial liabilities designated at fair value	411	2,507	26,304	33,706	62,928
Subordinated loans	0	7,721	27,847	212,322	247,890
Trading liabilities	7,105				7,105
Tax liabilities	5,255	2,894	0	0	8,149
Unsettled securities trading	48,399	0	0	0	48,399
Total liabilities	**1,644,157**	**261,887**	**730,413**	**425,452**	**3,061,909**

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(b) Liquidity Risk (continued)

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Cash and cash balances with Central Bank	31,669	0	0	0	31,669
Loans and advances to financial institutions	203,574	13,439	71	0	217,085
Loans and advances to customers	440,091	230,468	637,645	425,815	1,734,018
Bonds	169,598	0	0	0	169,598
Equties	49,328	0	0	0	49,328
Hedged securities	105,190				105,190
Unsettled securities trading	36,965	0	0	0	36,965
Total assets	**1,036,417**	**243,907**	**637,716**	**425,815**	**2,343,854**
Liabilities					
Deposits from financial institutions	130,476	8,239	4,064	8	142,787
Deposits from customers	576,071	69,505	38,826	13,299	697,701
Borrowings	83,324	213,066	714,672	160,473	1,171,535
Subordinated loans	1,532	3,266	29,183	151,177	185,158
Trading liabilities	1,245	0			1,245
Tax liabilities	0	6,593	0	0	6,593
Unsettled securities trading	29,987	0	0	0	29,987
Total liabilities	**822,635**	**300,669**	**786,745**	**324,957**	**2,235,006**

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4.5 Derivative cash flow

4.5.1 Derivatives settled on a net basis

The Group's derivatives that will be settled on a net basis include:
Commodity derivatives: Commodity option
Credit derivatives: Total return swap
Equity derivatives: Equity forwards
Foreign exchange derivatives: OTC currency options bought and sold
Interest rate derivatives: Interest rate swaps

The table below analyses the Group's derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	110	0	110
Credit derivatives	0	0	0	0	0
Equity derivatives	11,987	34	0	0	12,022
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	30,887	24,746	41,614	13,133	110,380
Derivatives held for hedging					
Commodity derivatives					
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	1,457	(407)	7,277	1,086	9,414
Total assets	44,332	24,374	49,001	14,219	131,926
Liabilites					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	(101)	(934)	(3,418)	0	(4,453)
Equity derivatives	3,133	199	0	0	3,332
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	26,227	18,919	48,380	34,019	127,545
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	(206)	998	943	8,182	9,917
Total Liabilites	29,053	19,182	45,905	42,201	136,341

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4.5.1 Derivatives settled on a net basis (continued)

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	3,064	69	0	0	3,133
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	16,204	27,643	9,547	8,668	62,062
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	2,309	(2,107)	3,435	2,333	5,969
Total assets	21,577	25,604	12,981	11,001	71,164
Liabilites					
Derivatives held for trading					
Commodity derivatives	(33)	(352)	(1,280)	0	(1,664)
Credit derivatives	(33)	(352)	(1,280)	0	(1,664)
Equity derivatives	4,293	1,008	0	0	5,300
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	7,930	7,347	40,571	8,355	64,202
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	0
Credit derivatives	0	0	0	0	0
Equity derivatives	0	0	0	0	0
Foreign exchange derivatives	0	0	0	0	0
Interest rate derivatives	(361)	809	699	2,326	3,474
Total Liabilites	11,795	8,460	38,711	10,681	69,648

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4.5.2 Derivatives settled on a gross basis

The Group's derivatives that will be settled on a gross basis include:
Equity derivatives: Listed and OTC stock options bought and sold
Foreign exchange derivatives: Currency forwards, cross-currency interest rate swaps

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 31 December 2007	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	2,081	2,443	774	0	**5,298**
Foreign exchange derivatives	1,059,549	138,407	251,670	5,837	**1,455,464**
Interest rate derivatives	0	0	0	0	**0**
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	0	0	0	0	**0**
Foreign exchange derivatives	0	0	0	0	**0**
Interest rate derivatives	0	0	0	0	**0**
Total assets	**1,061,630**	**140,851**	**252,444**	**5,837**	**1,460,762**
Liabilites					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	2,081	2,443	774	0	**5,298**
Foreign exchange derivatives	1,075,714	144,106	263,959	6,774	**1,490,554**
Interest rate derivatives	0	0	0	0	**0**
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	0	0	0	0	**0**
Foreign exchange derivatives	0	0	0	0	**0**
Interest rate derivatives	0	0	0	0	**0**
Total Liabilites	**1,077,795**	**146,550**	**264,733**	**6,774**	**1,495,853**

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4.5.2 Derivatives settled on a gross basis (continued)

At 31 December 2006	Up to 3 months	3-12 months	1-5 years	Over 5 years	Total
Assets					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	2,428	2,000	428	0	**4,856**
Foreign exchange derivatives	765,534	232,608	128,761	1,345	**1,128,248**
Interest rate derivatives	0	0	0	0	**0**
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	0	0	0	0	**0**
Foreign exchange derivatives	2,030	70,530	35,858	0	**108,418**
Interest rate derivatives	0	0	0	0	**0**
Total assets	769,993	305,137	165,046	1,345	1,241,521
Liabilites					
Derivatives held for trading					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	0	0	0	0	**0**
Foreign exchange derivatives	759,863	237,321	122,868	2,225	**1,122,277**
Interest rate derivatives	0	0	0	0	**0**
Derivatives held for hedging					
Commodity derivatives	0	0	0	0	**0**
Credit derivatives	0	0	0	0	**0**
Equity derivatives	0	0	0	0	**0**
Foreign exchange derivatives	2,250	64,004	33,692	0	**99,947**
Interest rate derivatives	0	0	0	0	**0**
Total Liabilites	762,114	301,325	156,560	2,225	1,222,224

4.6 Capital Risk Management

The bank manages its capital resources to meet the regulatory capital requirements prescribed by the Icelandic Financial Supervisory Authority (FME). FME requires the Group to hold sufficient capital resources to meet minimum the regulatory capital requirements laid down in the Rules on the Capital Requirement and Risk-weighted Assets of Financial Undertakings, No. 215/2007. These rules are based on the standards of the Basel Committee on Banking Supervision in the Basel II accord. Minimum requirements are expressed as the ratio of capital resources to risk-weighted assets. Risk-weighted assets are determined by applying specific risk weight to the Group's assets following calculations developed by the Basel Committee. Landsbanki's strategy is to maintain its CAD ratio above 10,5%, which is considerably higher that the minimum stautory requirement of 8%. The Group has also adopted minimum levels for Tier 1 capital, which must be over 8,5% calculated using a risk-weighted assets base.

During the year, the Group continued to manage its capital resources. At 31 December 2007, the capital ratio was 11.7% .

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4.7 Fair value of financial assets and financial liabilities

(a) Financial instruments measured at fair value using valuation tecnique

The change in fair value estimated using a valuation technique and recognised in profit or loss in 2007 totalled ISK -337 million (2006: ISK -3.484 million).

(b) Financial instruments not measured at fair value

The following table gives a summary of the carrying amount and fair value of financial assets and financial liabilities not carried at fair value. The fair value has been estimated by discounting the cash flow of financial assets and financial liabilities based on market interest rates for assets and liabilities of the same or similar duration. This gives an estimate of the fair value involved with these instruments in relation to interest rates - not changes to credit spreads.

At 31 December 2007	Carrying value	Fair value	Difference
Financial assets			
Loans and advances to customers	2,022,738	2,004,196	(18,542)
Financial liabilities			
Borrowings	774,754	762,150	12,604
Subordinated loans	111,890	111,353	537
Net difference			(5,401)

At 31 December 2006	Carrying value	Fair value	Difference
Financial assets			
Loans and advances to customers	1,438,395	1,430,638	(7,757)
Financial liabilities			
Borrowings	1,014,976	1,009,555	5,421
Subordinated loans	89,754	89,633	121
Net difference			(2,215)

4.8 Inflation-indexed assets and liabilities

The Group's balance sheet has a positive balance between indexed and non-indexed assets. At year-end, indexed assets exceeded indexed liabilities by ISK 149 billion. These amounts only apply to assets and liabilities in ISK.

	2007	2006
Assets	375,174	336,303
Liabilities	(226,310)	(217,492)
	148,864	118,811

4.9 Core Earnings

Calculation of core earnings is intended to illustrate the underlying profit of the Group. To obtain this figure, net gain/loss from equity holdings of any kind, as well as gain from securities and FX trading are deducted from net interest income and fee and commission income. Net interest Income is consequently accordingly increased by the cost of funding the Group's positions in these items. The LIBOR 3M flat rate is used for each underlying currency to calculate the adjustment increase in net interest income. Notwithstanding the Group's definition of its core earnings, its performance also depends on equity and bond positions taken on own account.

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4.9 Core Earnings (continued)

The following table gives a comparison between the Group's Income and Core Income for the years 2004-2007:

Actual Income	2007	2006	2005	2004
Net interest income	54,052	41,491	22,996	14,734
Net commissions and fees	39,369	28,366	16,726	8,891
Net gain on equity, securities, and FX	16,605	19,568	21,257	9,842
Net operating income	**110,025**	**89,426**	**60,978**	**33,467**
Operating expenses	57,515	38,588	20,967	14,460
Impairment on loans and advances and assets held for sale	6,956	6,144	6,197	4,485
Impairment on goodwill	0	0	3,033	0
Pre-tax profit	**45,555**	**44,694**	**30,781**	**14,521**
Cost Income Ratio	**52%**	**43%**	**34%**	**43%**
Pre-tax ROE	**31%**	**40%**	**56%**	**57%**
Adjustments				
Net interest income	5,753	3,640	3,652	1,200
Net gain on equity, securities, and FX	(16,605)	(19,568)	(21,257)	(9,842)
Impairment on goodwill	0	0	3,033	0
	(10,852)	**(15,929)**	**(14,572)**	**(8,642)**
Core Earnings				
Net interest income	59,804	45,131	26,647	15,934
Net commissions and fees	39,369	28,366	16,726	8,891
Net operating income	**99,173**	**73,497**	**43,373**	**24,825**
Operating expenses	57,515	38,588	20,967	14,460
Impairment on loans and advances and assets held for sale	6,956	6,144	6,197	4,485
Pre-tax profit	**34,703**	**28,765**	**16,210**	**5,879**
Cost-income ratio for core operations	**58%**	**53%**	**48%**	**58%**
Pre-tax ROE for core operations	**24%**	**26%**	**30%**	**23%**

5. Income Statement by quarters

Operations	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Interest income	57,935	54,036	49,078	41,046	34,887
Interest expenses	42,708	39,591	35,578	30,167	25,306
Net interest income	**15,227**	**14,445**	**13,500**	**10,879**	**9,581**
Fee and commission income	11,534	11,813	11,013	10,886	9,323
Fee and commission expenses	1,874	1,595	1,285	1,124	1,325
Net fee and commission income	**9,660**	**10,218**	**9,729**	**9,762**	**7,998**
Dividend income	237	23	1,371	385	161
Net gains (losses) on financial assets and financial liabilities held for trading	(5,306)	(1,858)	3,062	3,098	492
Net gains on financial assets designated at fair value through profit and loss	113	2,501	655	436	5,913
Fair value adjustments in hedge accounting	(14)	7	(37)	(7)	78
Foreign exchange difference	4,223	2,356	(296)	607	(58)
Profit (losses) from associates	671	(1,171)	1,191	(58)	1,133
Net gains (losses) of disposal groups held for sale, net of tax	9	60	9	4,339	(479)
Other operating income	**(68)**	**1,918**	**5,955**	**8,799**	**7,240**
Net operating income	**24,819**	**26,582**	**29,184**	**29,441**	**24,819**
Salaries and related expenses	10,769	10,029	8,919	7,972	6,989
Administrative expenses	5,846	4,806	4,731	4,444	4,042
Operating expenses	**16,615**	**14,835**	**13,650**	**12,415**	**11,031**
Impairment on loans and advances during the period	2,286	1,620	1,501	1,549	1,332
Pre-tax profit	**5,919**	**10,127**	**14,033**	**15,476**	**12,457**
Income tax	997	1,402	1,490	1,716	(1,596)
Net profit	**4,922**	**8,725**	**12,542**	**13,760**	**14,053**
Attributable to:					
Shareholders of Landsbanki Islands hf.	4,584	8,518	12,248	13,450	13,664
Minority interest	337	207	294	311	389

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6. Business segments

The Group operates in four business segments:

- Retail banking
- Corporate banking
- Investment banking
- Asset management and private banking

Retail banking includes the services provided through the branch network in Iceland to individuals and small and medium-size businesses, leasing services provided by the subsidiary SP fjármögnun hf (Iceland) and mortgage lending services provided by Heritable Bank Ltd (UK).

Corporate banking includes the services provided to large and medium-size corporate clients through the corporate division of Landsbanki in Reykjavik and the division's network of international branches. Services provided by Heritable Bank Ltd (UK) and Landsbanki Luxembourg SA (Lux) to medium-size businesses is also included under corporate banking.

Investment banking includes capital markets services, treasury, proprietary trading, and corporate advisory services that are provided through the investment banking division and international branches and Landsbanki Securities (UK) Ltd, Landsbanki Kepler SA (France) and Merrion Capital Group Ltd (Ireland).

Assets Management and Private Banking includes fund and wealth management services provided by divisions of Landsbanki in Reykjavik and Landsbanki Luxembourg SA (Lux), and by the subsidiary Landsvaki hf (Iceland).

Year 2007	Retail banking	Corporate banking	Investment banking	Asset management private banking	Unallocated	Group
Net interest income	18,360	37,446	(6,273)	4,519	0	54,052
Net fee and commission income	2,964	3,294	28,335	4,776	0	39,369
Net financial gains excluding profit (losses) from associates	(106)	(2,315)	18,276	117	0	15,972
Net operating income	**21,218**	**38,424**	**40,337**	**9,412**	**0**	**109,392**
Operating expenses	10,650	10,086	27,662	6,032	3,086	57,515
Impairment on loans and advances	2,417	3,766	762	11	0	6,956
Net segment result	**8,152**	**24,573**	**11,914**	**3,370**	**(3,086)**	**44,922**
Profit (loss) from associates	(290)		923			633
Total assets 31 December 2007	523,287	1,333,768	741,701	429,474	29,317	**3,057,546**
Total liabilities 31 December 2007	502,735	1,258,081	688,814	414,988	8,924	**2,873,542**
Total equity 31 December 2007	20,552	75,687	52,887	14,485	20,392	**184,004**

Year 2006	Retail banking	Corporate banking	Investment banking	Asset management private banking	Unallocated	Group
Net interest income	15,145	22,714	1,280	2,351	0	41,491
Net fee and commission income	2,860	2,547	19,294	3,665	0	28,366
Net financial gains excluding profit (losses) from associates	(32)	62	17,536	303	0	17,870
Net operating income	**17,974**	**25,323**	**38,110**	**6,320**	**0**	**87,727**
Operating expenses	8,752	6,003	19,101	3,239	1,493	38,588
Impairment on loans and advances	1,200	3,642	1,307	(5)	0	6,144
Net segment result	**8,022**	**15,678**	**17,701**	**3,086**	**(1,493)**	**42,995**
Profit (loss) from associates	88	0	1,611	0	0	1,699
Total assets 31 December 2006	369,908	937,353	565,340	289,422	10,901	**2,172,924**
Total liabilities 31 December 2006	353,608	872,745	515,660	275,662	5,792	**2,023,467**
Total equity 31 December 2006	16,300	64,608	49,680	13,760	5,109	**149,457**

Equity is allocated to each business segment at the beginning of each year according to it's share of the Group's Risk-weighted average (RWA).

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7. Geographical segments - breakdown of income

Year 2007	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest income	30,375	13,773	5,404	4,499	54,052
Net fee and commission income	14,103	11,496	2,315	11,455	39,369
Net financial gains	14,960	(2,832)	(47)	4,524	16,605
Net operating income	59,438	22,437	7,672	20,479	110,025
	54%	20%	7%	19%	100%
Total assets 31 December 2007	1,604,684	558,262	314,826	579,774	3,057,546

Year 2006	Iceland	UK & Ireland	Luxembourg	Other*	Total
Net interest income	24,622	9,407	3,403	4,059	41,491
Net fee and commission income	11,334	7,907	1,845	7,281	28,366
Net financial gains	6,866	1,796	267	10,640	19,568
Net operating income	42,822	19,109	5,514	21,980	89,426
	48%	21%	6%	25%	100%
Total assets 31 December 2006	1,191,777	258,691	235,666	486,791	2,172,924

* Other=Continental Europe, Scandinavia, Canada, USA, and other.

8. Net interest income

Interest income	2007	2006
Interest on deposits and loans to financial institutions	6,513	3,767
Interest on loans and advances to customers	161,148	111,247
Interest on other financial assets	19,495	10,368
Other interest income	14,940	7,720
	202,095	133,102

Interest expenses	2007	2006
Interest on deposits from financial institutions	9,501	7,686
Interest on deposits from customers	78,416	32,160
Interest on borrowings	43,377	39,628
Interest on subordinated loans	5,404	4,721
Other interest expenses	11,346	7,416
	148,044	91,611
Net interest income	54,052	41,491
Interest spread is calculated as the ratio of net interest income to average balance sheet position.	2.1%	2.3%

Interest income accrued on impaired financial assets is ISK 625 million in 2007 (2006: ISK 134 million)

9. Net fee and commission income

Fee and commission income	2007	2006
Investment banking	31,418	20,491
Asset management	3,319	2,554
Lending	4,806	3,980
Cards	1,541	1,244
Interbank income	882	972
Collection and payment services	624	755
Foreign trade	499	446
Other commissions and fees	2,158	2,017
	45,247	32,459
Fee and commission expense	5,878	4,092
Net fee and commission income	39,369	28,366

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10. Dividend income

	2007	2006
Trading	1,684	449
Financial assets designated at fair value through profit and loss	332	1,914
	2,015	**2,362**

11. Net gains (losses) on trading in equity, bonds, currency, and associated companies

	Equity	Bonds	FX	Profit from associates	Other	Total 2007	Total 2006
Dividend income	2,015	0	0	0	0	2,015	2,362
Net gain (loss) on financial assets and financial liabilities held for trading	4,734	(5,707)	0	0	(31)	(1,004)	2,174
Net gain (loss) on financial assets designated at fair value through profit and loss	6,139	(2,435)	0	0	0	3,704	13,699
Fair value adjustments in hedge accounting	0	0	0	0	(51)	(51)	(18)
Foreign exchange difference	0	0	6,889	0	0	6,889	(263)
Profit from associates	0	0	0	633	0	633	1,699
Net gain of disposal groups held for sale, net of tax	0	0	0	0	4,417	4,417	(85)
	12,888	**(8,142)**	**6,889**	**633**	**4,335**	**16,605**	**19,568**

12. Net gains (losses) on financial assets designated at fair value through profit and loss

Equities:	2007	2006
Listed	4,186	9,368
Unlisted	1,943	4,331
Total	**6,129**	**13,699**
Bonds:		
Listed	10	0
Unlisted	(2,435)	0
Total	**(2,425)**	**0**
Net gain on financial assets designated at fair value through profit and loss	**3,704**	**13,699**

13. Salaries and related expenses

	2007	2006
Salaries	31,803	20,204
Pension fund contributions	2,932	2,076
Provision for pension settlement	0	655
Other personnel expenses	2,953	1,523
	37,688	**24,458**

Number of positions at year-end

Iceland	1,460	1,292
UK & Ireland	569	314
Luxembourg	135	97
Other	476	414
	2,640	**2,117**

14. Impairment on loans and advances and assets held for sale

	2007	2006
Loans and advances	7,645	5,690
Financial assets	(617)	617
Non-current assets held for sale	36	2
	7,065	**6,309**
Collected previously written-off loans	(109)	(165)
	6,956	**6,144**

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15. Income tax

	2007	2006
Current income tax	5,689	886
Deferred income tax	(83)	3,593
	5,605	4,479

Further information about deferred income tax is presented in Note 30. The tax on Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the parent as follows:

Profit before tax	45,555	44,694
Tax calculated at a tax rate of local 18%	8,200	8,045
Effect of different tax rates in other countries	2,059	1,320
Income not subject to tax	(4,633)	(4,684)
Other	(20)	(201)
Income tax	5,605	4,479

16. Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Bank and held as treasury shares.

	2007	2006
Profit attributable to equity holders of the Bank	38,800	38,906
Weighted average number of ordinary shares in issue	10,890	10,608
Basic earnings per share (ISK per share)	3.56	3.67

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Group's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2007	2006
Profit attributable to equity holders in the Bank	38,800	38,906
Weighted average number of ordinary shares in issue	10,890	10,608
Adjustments for:		
– share options	902	573
Weighted average number of ordinary shares in issue and diluted potential ordinary shares.	11,792	11,181
Diluted earnings per share (ISK per share)	3.29	3.48

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17. Loans and advances to customers

	2007	2006
Public entities	23,759	8,892
Corporates		
Fisheries	173,489	134,061
Retail trade	245,200	229,312
Agriculture	12,467	6,170
Construction and manufacturing	327,423	177,854
Services	879,252	596,053
Other	3,721	3,529
Individuals		
Mortgages	261,843	194,232
Other loans	117,566	104,903
Provisions for credit losses on loans and advances	(21,981)	(16,611)
Total loans and advances to customers	2,022,738	1,438,396

Provisions for credit losses on loans and advances

	2007			2006		
Changes during the year	Individuals	Corporates	Total	Individuals	Corporates	Total
Balance at beginning of year	3,015	13,595	16,611	3,018	10,126	13,144
(Disposals)/acquisitions	0	0	0	(12)	0	(12)
Impairment on loans and advances	781	6,864	7,645	590	5,101	5,690
Loans written off	(561)	(963)	(1,525)	(581)	(1,639)	(2,221)
Translation difference	(9)	(741)	(750)	1	8	9
Balance at year-end	3,226	18,755	21,981	3,015	13,595	16,611

No provision for credit losses are for public entities.

	2007	2006
Provision ratio (Provisions for credit losses/total loans and advances to customers and guarantees issued)	1.02%	1.07%

18. Bonds, Equities and hedged securities

	2007			2006		
Bonds	Trading assets	Fin. assets designated at fair value	Total	Trading assets	Fin. assets designated at fair value	Total
Domestic						
Listed	43,163	0	43,163	32,593	0	32,593
Unlisted	0	0	0	0	0	0
	43,163	0	43,163	32,593	0	32,593
Foreign						
Listed	316,400	973	317,373	136,716	0	136,716
Unlisted	1,694	387	2,081	290	0	290
	318,093	1,361	319,454	137,006	0	137,006
Total bonds	361,256	1,361	362,617	169,598	0	169,598
Equities						
Domestic			Total			Total
Listed	5,651	7,880	13,532	18,843	7,022	25,864
Unlisted	4,309	1,816	6,125	2,070	341	2,411
	9,960	9,696	19,656	20,912	7,362	28,275
Foreign						
Listed	18,702	10,198	28,900	8,849	9,804	18,654
Unlisted	2,400	13,450	15,850	1,176	1,224	2,400
	21,101	23,649	44,750	10,025	11,028	21,053
Total equities	31,061	33,345	64,407	30,938	18,391	49,328
Hedged securities			Total			Total
Bonds	50,690	2,546	53,236	45,583	0	45,583
Equities	89,147	33,797	122,944	59,607	0	59,607
Total hedged securities	139,837	36,344	176,181	105,190	0	105,190
Derivatives held for trading	50,198	0	50,198	38,358	0	38,358
Total	582,353	71,049	653,402	344,084	18,391	362,475

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19. Derivatives held for trading and trading liabilities

	2007			2006		
	Contract/notional	Fair value		Contract/notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
Foreign exchange derivatives						
Currency forwards	1,351,036	8,650	19,852	1,008,938	12,981	6,375
OTC currency options bought and sold	95,087	3,508	2,956	263,844	6,673	3,463
Cross-currency interest rate swaps	343,192	10,204	11,656	182,838	8,753	204
	1,789,315	22,362	34,463	1,455,619	28,407	10,042
Interest rate derivatives						
Interest rate swaps	1,490,765	11,622	13,437	523,844	5,263	4,057
	1,490,765	11,622	13,437	523,844	5,263	4,057
Equity derivatives						
Equity forwards	83,134	12,107	3,384	65,213	2,962	6,545
OTC stock options bought and sold	9,757	3,996	2,845	14,642	1,726	222
Equity futures	0	0	0	1,747	0	0
	92,891	16,103	6,229	81,602	4,688	6,767
Credit derivatives						
Total return swaps	89,099	0	2,435	0	0	0
	89,099	0	2,435	0	0	0
Commdity derivatives						
Listed and OTC commodity options bought and sold	695	110	0	0	0	0
	695	110	0	0	0	0
Other trading liabilities	5,598	0	5,598	0	0	0
Total derivatives held for trading and trading liabilities	3,468,364	50,198	62,161	2,061,066	38,358	20,866

20. Derivatives held for hedging

	2007			2006		
	Contract/notional	Fair value		Contract/notional	Fair value	
	amount	Assets	Liabilities	amount	Assets	Liabilities
Derivatives designated as fair value hedges						
Interest rate swaps	393,705	8,719	6,953	324,627	5,686	5,324
Cross-currency interest rate swaps	0	0	0	99,722	4,812	1,149
	393,705	8,719	6,953	424,349	10,498	6,473

21. Investment in Associates

Company	Total assets	Total liabilities	Ownership %	Profit (loss) from associates	Book value 2007	Book value 2006
Eignarhaldsfélagið ehf.	1,606	1	49.0	(284)	1,171	929
Eignarhaldsfélagið Portus hf.	5,765	3,741	50.0	0	1,045	325
Valitor hf.	35,070	33,156	38.0	18	728	823
Creditinfo Group hf.	2,002	1,546	38.9	(103)	535	471
Reiknistofa bankanna	1,518	222	33.9	0	515	515
Rockview Merrion Investments Ltd.	839	8	50.0	133	416	302
Kredikort hf.	3,296	2,374	0.0	12	184	0
Borgun hf.	11,228	10,660	20.0	57	114	239
Intrum hf.	600	427	33.0	8	173	87
Líftryggingamiðstöðin hf.	547	233	34.0	3	142	139
HydroKraft Invest hf.	202	13	50.0	0	100	0
LME eignarhaldsfélag ehf.	264	249	40.0	791	549	0
Other partially owned companies				(2)	147	5
				633	5,820	3,837

All these investments are in unlisted companies.

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22. Property and equipment

	2007			2006		
Fixed assets:	Premises	Other	Total	Premises	Other	Total
Book value at beginning of year	2,075	3,748	5,823	1,794	2,465	4,260
Translation differences	(25)	(53)	(78)	40	87	127
Additions	2,568	5,584	8,152	493	2,585	3,078
Sold	(21)	(34)	(55)	(63)	(294)	(357)
Disposals	(67)	(1,432)	(1,499)	(38)	(776)	(814)
Depreciation charge	(267)	(214)	(481)	(152)	(319)	(471)
Net book value at year-end	4,262	7,600	11,862	2,075	3,748	5,823
Depreciation (straight-line)	1-4%	10-33%		1-4%	10-33%	

Assessment value of land and Bank premises:	2007	2006
Official assessment value of land and Bank premises	3,876	1,877
Replacement value of buildings	5,377	2,799

23. Intangible assets

Goodwill	2007	2006
Opening net book amount	12,077	9,380
Translation differences	1,014	2,270
Acquisition of Bridgewell Group plc	6,804	0
Other addition during period	4,482	428
Disposals	(1,315)	(1)
Impairment	0	0
Net book carring amount	23,062	12,077
Software and other intangible assets		
Opening net book amount	2,273	1,081
Additions indentfied in the acquisition of Bridgewell Group plc	1,170	0
Other additions	2,208	2,950
Disposals	0	(1)
Amortisation	(1,034)	(1,532)
Impairment	0	(226)
Net book value at year-end	4,617	2,273
Total Intangible assets	27,679	14,351

All goodwill is annually tested for impairment at year-end. The goodwill has been divided between the smallest cash generating units based on the required rate of return from each unit. An assessment of a recoverable value of a goodwill is based on its use value.

24. Non-current assets and disposal groups classified as held for sale

	2007	2006
Repossessed collaterals	827	564
Allowance for repossessed collaterals	(252)	(210)
	576	354
Disposal group held for sale		
– Investment properties included in disposal groups	2,942	18,206
– Other assets included in disposal groups	123	2,789
	3,066	20,996
Total non-current assets and disposal groups classified as held for sale	3,641	21,349

25. Deposits from financial institutions

	2007	2006
Loans from Central Bank and repurchase agreements	202,178	46,451
Loans from other credit institutions	135,737	94,654
	337,915	141,105

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26. Deposits from customers

	2007	2006
Demand deposits	777,179	229,654
Time deposits	644,231	453,192
	1,421,410	682,846

27. Borrowings

	2007	2006
Securities issued	620,610	865,274
Syndicated loans and other borrowings	154,144	149,702
	774,754	1,014,976

Securities issued:		
Europe - MTN	361,652	505,287
USA - MTN	143,371	161,541
European Commercial Paper (ECP)	11,542	21,518
Other	104,045	176,928
	620,610	865,274

Group has not had any defaults of principal, interest, or other breaches with respect to their liabilities during the period (2006: nil).

28. Financial liabilities designated at fair value

	2007	2006
Liabilities to customers under unit-linked investment contracts	33,706	0
Financial liabilities with matched interest rate swaps	22,219	0
Financial liabilities with embedded derivatives	5,306	0
	61,231	0

The Group is engaged in a unit-linked investment contracts. The value of those contracts reflect the fair value of the assets that are held within unitised investment pools.
These contracts are payable on demand and therefore have no maturity. The contractual amount that is required to pay on demand is the fair value of the liability.

Certain long-term debt securities issued have been matched with interest rate swaps as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the debt securities in issue were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt will be accounted for in the income statement.

Certain long-term debt securities issued by the Group are linked to equity price indexes. In such cases, the Group has opted to designate the entire contract at fair value through profit and loss rather than recognise them separately as derivatives held at fair value and loans at amortised cost.

The contractual undiscounted amount that will be required to be paid at maturity of the above debt securities is ISK 62,928 million.

There were no gains or losses attributable to changes in own credit risk for financial liabilities designated at fair value during the year.

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29. Subordinated loans

	2007	2006
Tier I – Non-innovative hybrid capital	38,741	41,801
Tier I – Innovative hybrid capital	44,225	18,288
Tier II	28,925	29,665
	111,890	89,754

Subordinated loans	Classification	Currency	Rate	Maturity	2007	2006
London Stock exchange	Tier I	EUR	6.25%	callable	30,560	33,439
Unlisted	Tier I	USD	7.43%	callable	26,437	0
Luxembourg Stock Exchange	Tier I	EUR	4.65%	callable	14,077	14,763
London Stock exchange	Tier I	EUR	Euribor+1,23%	callable	8,181	8,361
Iceland Stock Exchange	Tier I	ISK	6,5%+CPI	callable	1,280	1,210
Iceland Stock Exchange	Tier I	ISK	5,8%+CPI	callable	1,251	1,183
Iceland Stock Exchange	Tier I	ISK	8,65%+CPI	callable	1,180	1,132
					82,965	60,089
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,35%	2015	18,348	18,752
Luxembourg Stock Exchange	Tier II	JPY	3.45%	2033	2,685	2,789
Luxembourg Stock Exchange	Tier II	EUR	7.20%	2026	1,009	1,032
Luxembourg Stock Exchange	Tier II	EUR	5.44%	2018	914	960
Luxembourg Stock Exchange	Tier II	EUR	4.40%	2035	850	915
Luxembourg Stock Exchange	Tier II	EUR	Euribor+0,8%	2013	372	379
Unlisted	Tier II	USD	Libor+1,85%	2011	1,889	2,137
Unlisted	Tier II	ISK	5,6%+CPI	callable	1,902	1,797
Unlisted	Tier II	ISK	6,09%+CPI	callable	956	903
					28,925	29,665
Total subordinated loans					111,890	89,754

Subordinated loans are considered as part of capital according to regulation on the calculation of capital adequacy ratio (see Note 32). Subordinated loans are fully applicable to the calculation of CAD ratio.

Innovative hybrid capital cannot comprise more than 15% of Tier I capital in calculating the capital adequacy ratio (CAD). For this reason, in calculating the capital ratio as of 31 December 2007, ISK 9,185 million were transferred from Tier I capital to Tier II capital.

30. Tax liabilities

Tax liabilities specified as follows	2007	2006
Tax to be paid	5,255	3,388
Tax liabilities	2,894	3,205
	8,149	6,593
The movement on the deferred income tax account is as follows		
At 1 January	3,205	4,207
Income statement charge	(311)	(1,002)
Charge to goodwill and equity	(241)	0
Exchange differences	(27)	0
	2,627	3,205
Deferred income tax liabilities		
Premises and equipment	476	96
Financial assets designated at tair value through profit and loss	3,744	2,723
Non-current assets and disposal groups classified as held for sale	0	340
Miscellaneous assets	219	657
Loan commitment fee	0	30
	4,439	3,845
Deferred income tax assets		
Obligations	(60)	(62)
Miscellaneous assets	(290)	(579)
Carry-forward losses	(961)	0
Loan commitment fee	(502)	0
	(1,813)	(640)
The deferred tax charge in the income statement is comprised of the following temporary differences:		
Premises and equipment	380	(188)
Miscellaneous assets	(123)	76
Obligations	2	3
Non-current assets and disposal groups classified as held for sale	(340)	(41)
Financial assets designated at tair value through profit and loss	1,021	(1,050)
Charge to goodwill and equity	241	72
Loan commitment fee	(532)	126
Carry-forward losses	(961)	0
	(311)	(1,002)

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31. Other liabilities

	2007	2006
Pension liabilities	985	691
Other liabilities	39,694	22,932
	40,679	**23,623**

Most of the Group companies have defined contribution pension plans, where the companies have no further payment obligation once the contributions have been paid. The pension liabilities in the balance sheet of the Group's is for defined benefit pension plans that a few of the entities have.

32. Capital ratio

	2007	2006
Risk-weighted assets	2,317,362	1,523,143
Capital:		
Tier I capital:		
Equity	180,008	144,282
Subordinated loans	73,780	60,089
Goodwill	(24,190)	(12,078)
Minority interests	3,996	5,175
	233,594	197,468
Tier II capital:		
Subordinated loans	38,111	29,665
– deduction in accord with Articles 28 and 85 of Act No 161/2002	(1,025)	(1,062)
Total capital	270,679	226,071
Tier I ratio	10.1%	13.0%
Capital ratio	11.7%	14.8%

The Group's capital adequacy ratio as of 31 December 2007 is calculated in accordance with the EU Directive 2006/48/EC, cf. Article 78 (Basel II), which has been transposed into Icelandic legislation. The comparison figures for 31 December 2006 are calculated in accordance with previous rules.

33. Contingent liabilities and commitments

	2007			
Off-balance sheet contingent liabilities specifies as follows:	No later than 1 year	Over 1 years	Total	2006
Guarantees issued	12,181	100,421	112,602	95,911
Available overdrafts	28,562	33,159	61,721	59,946
Unused credit commitments	12,086	57,950	70,036	63,210

34. Fiduciary activities

The Group provides asset custody, asset management, investment management, and advisory services. All of them require the Group to make decisions on the treatment, acquisition, or disposal of financial instruments. Assets in Landsbanki's custody are not reported in its accounts. Part of these services involves the Group approving objectives and criteria for the investment of assets in its custody. As of 31 December 2007, financial assets managed by the Group amounted to ISK 513.2 billion (2006: 376.9 bn). Amounts in custody accounts amounted to ISK 2,109 billion (2006: 1,751 bn).

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35. Executive salaries and benefits

The following is a breakdown of compensation to directors, CEOs and managing directors of the Group.

	Salary and benefits	Exercised 2007 options	Stock options: Mature but unexercised	Stock options: Contracts 2008-2009	Stock options: Total	Nominal value of LÍ Shares
Björgólfur Guðmundsson, Chairman of the Board of Landsbanki:	18.0		0	0	0	4,559
Kjartan Gunnarsson, Vice-chairman of the Board of Directors	13.7		0	0	0	92
Þór Kristjánsson	7.8		0	0	0	45
Þorgeir Baldursson	6.1		0	0	0	1
Svafa Grönfeldt	4.2		0	0	0	0
Andri Sveinsson	1.7		0	0	0	0
Guðbjörg Matthíasdóttir	0.4		0	0	0	0
Gunnar J. Felixson	0.3		0	0	0	0
Halldór J. Kristjánsson, CEO	86.9		34	15	49	11
Sigurjón Þ. Árnason CEO	163.5		117	23	140	0
Managing director of a division which accounts for 25% or more of the company's equity or performance:						
Yngvi Örn Kristinsson, managing director	57.1	9	18	3	21	3
Sixteen managing directors of the bank's divisions and subsidiaries	1,432.0	24	258	64	322	14
	1,791.7	**33**	**427**	**105**	**532**	**4,726**

The grant price of call options held by CEOs and managing directors on shares of Landsbanki Íslands hf. ranges from ISK 3.58 to 39.4. Options can be transferred from one year to the next and can be accumulated and exercised at the end of the period. Measures have been taken to enable the bank to fulfil the contracts concluded and the cost of these measures has been expensed through profit and loss. Holding refers to shares in the Group owned by the parties in question, their spouses, children who are not financially competent or companies where they have holdings.

Salaries of CEOs and managing directors are comprised of basic salaries, benefits, and performance-linked compensation which reflect the Group's ROE and value increase. Basic salaries and benefits comprise ISK 39.3 million of compensation to Halldór J. Kristjánsson, CEO, ISK 40.7 million of compensation to Sigurjón Þ. Árnason, CEO, and ISK 20.9 million of compensation to Yngvi Ö. Kristinsson, managing director of Investment Banking. Other payments are performance-linked compensation.

36. Share-Based compensation

Employees and management within the Group were granted options on shares in the Group with grant prices from ISK 3.58 to ISK 39.4; the total options amount to shares of ISK 1,488.7 million nominal value. As of 31 December 2006 shares granted under options totalled ISK 946.4 nominal value; contracts for options totalling ISK 636.8 milllion nominal value were concluded during the year; options exercised during the year totalled ISK 94.5 million nominal value. In 2006 no options were granted or exercised. The options mature and can be exercised during the period 2003-2011. Options mature in four years and can be exercised at the end of the fourth year and during the following two years. Options which are mature but unexercised amount to ISK 1.141,7 million nominal value. Options with a grant price of 3.58-4.12 maturing during the period 2003-2006 can be exercised in 2006-2008; they total ISK 98.1 million nominal value.

Options with a grant price of 7.0-9.0 maturing during the period 2004-2007 can be exercised in 2007-2009; the total amount is ISK 332.0 million nominal value. Options with a grant price of 12.0-14.25 maturing during the period 2005-2008 can be exercised in 2008-2010; the total amount is ISK 432.2 million nominal value. Options with a grant price of 19.0-39.4 maturing during the period 2006-2009 can be exercised in 2009-2011; the total amount is ISK 626.4 million nominal value. Options can generally be exercised 90-120 days after an employee has acquired the right to exercise them, which as a rule occurs on 1 December each year.

37. Related-party transactions

Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 191 million as at 31 December 2007 (ISK 153 million 31.12.2006). Loans to members of the Board of Directors and their fully owned companies amounted to ISK 9,916 million (2006: ISK 26.267 million), including credit granted to companies with which members of the Board are connected through membership of the companies' Boards or ownership ties. The holding company, Samson eignarhaldsfélag ehf., has a 40.73% holding in the Group. The Group has not assisted the company with any provision of credit. One of the company's owners sits on Landsbanki's Board of Directors and loans granted to this person are included in the above amounts. Total credit extended to associated companies by the Group amounted to ISK 52,682 million as at 31 December 2007 (ISK 14,152 million 31.12.2006). Out of ISK 52,682 million the total amount a ISK 37,264 million was extended to associated companies in connection with acquisition of Stork Food Systems.

All of the loans referred to here have been granted in accordance with the Group's credit rules and on normal commercial terms. No impairment has been recognised by the Group against these loans. Fees and interest received for services provided to related-parties amounted to ISK 7,167 million in 2007.

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38. Auditors fee

	2007	2006
Audit and audit related services	259	99
Other professional services	46	45
	305	**145**
Fee to others than the Parent Company's auditors, included in the above total	204	65

39. Acquisitions

On 3 August, the Group completed the acquistition of a 100% interest in the UK brokerage and investment bank Bridgewell Group plc. This acquisition was achieved by direct purchase of shares in Bridgewell Group plc.

Subsequent to the acquisition the operations of Bridgewell Group plc were merged with Landsbanki's other UK brokerage operations to form Landsbanki Securities UK.

The details of the fair value of the assets and liabilities acquired and resulting goodwill are as follows (ISK millions):

Cash and cash equalents (Bridgewells previous carrying amount ISK 978 million)	978
Unsettled trading and other assets (Bridgewells previous carrying amount ISK 3,893 million)	3,282
Intangible assets (Bridgewells previous carrying amount ISK 0)	1,170
Unsettled trading and other liabilities (Bridgewells previous carrying amount ISK (2,854 million)	(4,540)
Goodwill	6,804
Total purchase consideration paid	**7,694**

Landsbankis shares issued (172 million shares), at market value	6,780
Cash payment	815
Cost directly attributable to the acquisiton	99
	7,694

The goodwill is attributable to the high profitability of the acquired business and the significant synergies expected to arise. Fair value of assets and liabilities acquired are based on discounted cash flow models.

In January to April 2007 the Group acquired 14% of minority interest in Landsbanki Kepler SA. The consideration paid was ISK 2,801 million. The amount in excess of the fair value of net assets is recognised as goodwill.

On February 2007 the Group acquired 16% of minority interest in Merrion Capital Group Ltd. The consideration paid was ISK 1,681 million. The amount in excess of the fair value of net assets is recognised as goodwill.