



Landsbanki

Securities Note December 2007

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1 Risk Factors

The Issuer considers the following factors liable to affect its ability to fulfil its obligations as provided for in these Notes and to be material for the purpose of assessing the market risks associated with the Notes. Most of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

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

Issuer's accountability for payment

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

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

Equity and currency risk

Payments of the Notes are divided into two parts: payment of principal and payment of a possible yield. The payment of the principal will be in ISK but the payment of the possible yield in USD. The yield is subject to returns of a basket of stock indices as described further in chapter 4. The characteristics of the Notes make them therefore subject to equity and currency risk

Equity risk

Equity risk is the risk that an investment will depreciate because of stock market dynamics, causing a loss. Where the return on a security depends on stock markets, the principal risk stems from unfavourable developments of the underlying stock market. The yield of the Notes is therefore subject to the development of the stock markets that comprise the relevant portfolio basket, as described in chapter 4. The indices are on the equity markets in Australia, Hong Kong, Japan, Korea, Singapore and Taiwan and the possible yield is therefore subject to the development of stock markets in these countries.

The indices are made up of number of stocks in the relevant markets, as described in chapter 4. The development of the indices is therefore subject to the development of the underlying stocks.

If the portfolio basket increases the Note owner will receive a yield in addition to a repayment of principal. However, if the portfolio basket decreases the Note owner will only receive repayment of principal but no yield. No statement can be made as to whether the underlying stock markets will go up or down.

The equity risk is though limited since at maturity, the Note owner will receive the principal repaid in the denomination currency (ISK). Hence if the equity basket depreciates then the loss is limited via repayment of the principal. The potential upside is however not restricted.

Currency risk

The possible yield of the Notes will be paid in USD and its value in ISK will therefore be determined by the USD/ISK exchange rate. An appreciation of the ISK against the USD will therefore decrease the value of the possible yield in ISK but a depreciation of the ISK against the USD will however increase the value of the possible yield in ISK.

USD/ISK is a market based exchange rate and therefore depends on the value of both currencies, USD and ISK. A currency will tend to become more valuable whenever demand for it is greater than the available supply. Likewise, it will become less valuable whenever demand is less than available supply. A change in demand for currencies is due to either a change in 'transaction demand' for money, or an increased 'speculative demand' for money.

The development of the USD/ISK currency cross is shown in the picture below.



Amendments to legislation

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

Liquidity risk

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

The Notes may not be a suitable investment for all investors

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

1. have sufficient knowledge and experience to make a meaningful evaluation of the Notes,
2. understand the merits and risks of investing in the Notes and the information contained or incorporated by reference in the Prospectus, comprising of Registration Document published 22 December 2007 and this Securities Note. The potential investors should familiarize themselves thoroughly with this Prospectus.
3. have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;
4. have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
5. understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

2 Persons responsible

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

Reykjavík, 21 December 2007.

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

Halldór J. Kristjánsson
CEO

Sigurjón Þ. Árnason
CEO

3 Manager

The FX, Derivatives and Risk Consulting department is the Manager of the listing of the Notes on OMX ICE and the issue co-ordinator.

This Securities Note has been compiled by the Corporate Finance department of Landsbanki in co-operation with the FX, Derivatives and Risk Consulting department of the bank.

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

4 Information concerning the Securities to be admitted to Trading

Issuer	Landsbanki Íslands hf., Austurstræti 11, 155 Reykjavík, ID No. 540291-2259
Symbol:	LAIS 06 1
Type:	Notes, that are 100% capital guaranteed with yield linked to an equity portfolio, see subsection Payments. The Notes are electronically issued and registered by the Icelandic Securities Depository (ISD).
ISIN –code:	IS0000012367
Size limit:	ISK 1,500,000,000
Issued:	ISK 625,000,000
Denomination:	ISK 5,000,000
Issue date:	5 May 2006
Currency:	The principal is in ISK and the possible yield is in USD. See further details in subsection Settlement.
Maturity date:	The securities mature on 7 May 2013 but the possible addition payment of yield will be paid on 10 May 2013.
Indication of yield	The yield of the Notes has been 12.95% from the issue date until the date of this Securities Note.
Depository Agent:	Icelandic Securities Depository (ISD), Laugavegi 182, 105 Reykjavík. The Icelandic Securities Depository (ISD) operates as provided for in Act No. 131/1997, on Electronic Registration of Title to Securities.
Calculation Agent	The FX, Derivatives and Risk Consulting department of Landsbanki. The department will provide all necessary information regarding the Notes.

Authorisation

Landsbanki's Asset and Liability Committee (ALCO) approved this Notes issue on 21 February 2006. Landsbanki's representatives, Halldór J. Kristjánsson, CEO and Sigurjón Þ. Árnason, CEO are members of the ALCO. At the time of this Securities Note Landsbanki has issues Notes amounting to ISK 625 m under LAIS 06 1 and therefore has unused authorization to issue Notes amounting to ISK 875 m under LAIS 06 1.

Rights related to the Notes

The Issuer is accountable to make payments on the Notes when due. Repayment of the Notes is guaranteed by Landsbanki with its income and assets. No pre-emptive rights or privileges are attached to the Notes. No advance payment on the Notes is allowed.

The Notes are not subject to any provision on priority nor subordination. The Notes are all in the same class and equally ranked. The priority of claims on a bankrupt estate shall be as provided for in Chapter XVII of Act No. 21/1991, on Bankruptcy etc.

There are no restrictions on transferring the Notes to other parties. The Notes must however be transferred to parties mentioned by name.

Settlement

At maturity, the Note owner will receive a minimum of the principal repaid in proportion to the principal guarantee in ISK. Since the principal guarantee is 100% the Note owner will receive all of the principal repaid at the date of maturity. In addition, the Notes owner may receive a payment determined by the value of the equity portfolio. This possible additional payment will be made on 10 May 2013 and the nomination will be USD. This additional payment consists of the multiple of the participation, the principal in USD, and the maximum of a) the portfolio value at the maturity date, b) the Lock-Ins (see further explanation below), c) zero.

Definitions

H :	Principal in ISK.
G_0 :	74.06 USD/ISK.
HD:	Principal in USD ($HD = H / G_0$).
P :	Participation is 130%.
v_i :	Weight of index i in the portfolio, see the portfolio in Table 1 below.
$I_{i,0}$:	Closing level of index $i=(1,2,3)$ at 8 May 2006 and $i=(4,5,6)$ at 5 May 2006.
$I_{i,T}$:	Closing level of index i at 7 May 2013.
$I_{i,t}$:	Closing level of index i at quarterly fixing on time t .

The basket of stock indices

The equity basket is defined in Table 1 and consists of six stock indices. Each index is briefly described below.

i	Index name	Ticker name on Reuters *	Ticker name on Bloomberg *	Weight v_i
1	S&P Topix150	.topx	TPX	1/6
2	Hang Seng Index	.hsi	HSI	1/6
3	Kospi Index	.ks11	KOSPI	1/6
4	MSCI Taiwan	.mxtw	TWY	1/6
5	MSCI Singapore	.mxsg	MXSG	1/6
6	S&P ASX200	.axjo	AS51	1/6

* Reuters and Bloomberg are information providers

Standard & Poor's (S&P) Topix 150

The index is a capitalization-weighted stock market index consisting of 150 of the largest companies on the Japanese market, representing approximately 70% of the market capitalization of the Tokyo Stock Exchange.

Hang Seng Index

The index is a capitalization-weighted stock index on the Hong Kong Stock Exchange, representing about 65% of the market capitalization of the Hong Kong Stock Exchange.

Kospi Index

The index a capitalization-weighted stock index consisting of all common stocks traded on the Stock Market Division of the Korea Exchange.

MSCI Taiwan

The index is a free float-adjusted and capitalization-weighted stock index consisting of 102 Taiwanese companies.

MSCI Singapore

The index is a free float-adjusted and capitalization-weighted stock index consisting primarily of stocks that are traded on the Singapore Stock Exchange, consisting of around 40 stocks.

Standard & Poor's (S&P) ASX 200

The index is a free float-adjusted and capitalization-weighted stock index on the Australian Stock Exchange, consisting of 200 stocks. The index covers approximately 78% of the Australian equity market.

Should the publication of any of the previously mentioned indices cease during the lifetime of the Notes, another index, which can be considered equivalent, will be selected as substitute. The Calculation Agent, The FX, Derivatives and Risk Consulting department of Landsbanki, will publish information regarding such change on the Landsbanki website, www.landsbanki.is.

Payment linked to the basket of stock indices in USD

$$P \times HD \times \text{MAX} \left\{ \left[\sum_{i=1}^6 \frac{I_{i,T}}{I_{i,0}} \cdot v_i \right] - 1; \text{LockIn}; 0 \right\}$$

No interest is paid on the basket-linked payment from 7 May 2013 to the delivery date 10 May 2013.

Lock-In

30%	If the basket performance from 5 May 2006 to the day-closing level of any given quarterly fixing dates is 30% or greater.
60%	If the basket performance from 5 May 2006 to the day-closing level of any given quarterly fixing dates is 60% or greater.
90%	If the basket performance from 5 May 2006 to the day-closing level of any given quarterly fixing dates is 90% or greater.

Basket performance at time t

$$\left[\sum_{i=1}^6 \frac{I_{i,t}}{I_{i,0}} \cdot v_i \right] - 1$$

The basket performance is measured on quarterly fixing dates, given in Table 2 below, during the lifetime of the Notes, that is from the issue date (5 May 2006) to the maturity date (7 May 2013).

Table 2: Quarterly fixing dates

2006	2007	2008	2009	2010	2011	2012	2013
-	5 Feb	5 Feb	5 Feb	5 Feb	7 Feb	6 Feb	5 Feb
-	8 May	6 May	5 May	5 May	5 May	8 May	-
7 Aug	6 Aug	5 Aug	5 Aug	5 Aug	5 Aug	6 Aug	-
6 Nov	5 Nov	5 Nov	5 Nov	5 Nov	7 Nov	5 Nov	-

Method of payment:

Amounts payable under the Notes will be paid to the financial institution where the registered owner has his/her custody account.

Registration and admission to trading

The Notes are issued electronically at the Icelandic Securities Depository (ISD) and are registered there under the name of the relevant bondholder or his/her nominee. The Notes are expected to be admitted to trading on the OMX Nordic Exchange Iceland hf. (OMX ICE) and the ticker Symbol on OMX ICE will be LAIS 06 1. Application has been made for the Notes to be admitted to trading on the regulated market of OMX ICE, which is an EU regulated market within the meaning of Directive 2004/39/EC.

The Notes are expected to be admitted to trading on the OMX ICE on 27 December 2007.

Expense of the admission to trading

Total expenses related to the admission to trading is estimated to be ISK 650,000. The cost of listing of the Notes according to the OMX ICE tariff is ISK 450,000. The fee charged by the ISD is ISK 200,000. The estimated net proceeds from the Notes already issued at the date of this Securities Note is ISK 624,350,000.

Legislation

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

According to Act 14/1905 the Notes will become void unless presented for payment within ten years (in the case of principal) and four years (in the case of interest or any other amount) after the relevant date. Repayment of principal will therefore become void within ten years and repayment of the possible yield in four years.

The Notes are registered electronically and are therefore subject to Act No. 131/1997 on Electronic Registration of Title to Securities.

Event of default and enforcement

In the event of default of payment of the principal or interest on any note, it is permitted to declare the Note immediately due and payable, whereupon it shall become immediately due and payable at its outstanding principal amount together with accrued interest. If default occurs the Issuer shall furthermore pay default interest at the rate determined by the Central Bank of Iceland, according to article 6 of Act no. 38/2001.

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

Taxation

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

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

5 Other information

5.1 Landsbanki's credit ratings

Landsbanki is rated by both Moody's and Fitch.

Landsbanki is rated Aa3 / P-1 / C with a stable outlook at Moody's.

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

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