



Landsbanki

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Table of Contents

1	RISK FACTORS	3
1.1	Credit Risk	3
1.2	Market Risk	6
1.3	Mismatch of Assets and Liabilities	8
1.4	Operational Risk	11
1.5	Other Risk Factors	14
2	RISK MANAGEMENT	16
2.1	Risk Governance	16
2.2	Managing Credit Risk	17
2.3	Managing Market Risk	18
2.4	Managing Liquidity Risk (risk arising from mismatch of assets and liabilities)	19
2.5	Managing Operational Risk	19
3	PERSONS RESPONSIBLE	20
4	STATUTORY AUDITORS	20
5	SELECTED FINANCIAL INFORMATION	22
6	INFORMATION ABOUT LANDSBANKI	24
6.1	Regulation	24
6.2	Key Milestones	25
6.3	Organisation	26
6.4	Investments	27
6.5	Subsidiaries	28
6.6	Other Subsidiaries	30
6.7	Associates	30
7	SHARE CAPITAL AND SHAREHOLDERS	33
7.1	Share Capital	33
7.2	Landsbanki's Articles of Association	36
8	ACTIVITIES	39
8.1	Retail Banking	39
8.2	Corporate Banking	40
8.3	Investment Banking	43

8.4	Asset Management and Private Banking	46
8.5	International Banking	47
8.6	Sales and Marketing.....	48
8.7	Legal Division, Credit Control and Branch Services	48
8.8	Operations.....	49
8.9	Human Resources	49
8.10	Information Technology	49
9	PRINCIPAL MARKETS.....	51
10	CORPORATE GOVERNANCE, BOARD OF DIRECTORS AND PERSONNEL	54
10.1	Corporate Governance	54
10.2	Board of Directors, CEOs and Senior Management.....	55
10.3	Remuneration and Benefits.....	60
10.4	Employees.....	62
11	OUTLOOK AND FUTURE VISION.....	63
11.1	Policy and Outlook	63
11.2	Profitability and Capitalisation Targets	64
12	PERFORMANCE AND BALANCE SHEET	65
12.1	Performance in Q1-Q3 of 2007 and 2004-2006	65
12.2	Balance Sheet 2004- 30 September 2007.....	68
12.3	Capital Resources.....	72
12.4	Significant changes from the latest Financial Statement.....	75
12.5	Related Party Transactions	75
13	OTHER INFORMATION.....	77
13.1	Documents Incorporated by Reference.....	77
13.2	Documents on Display	77
13.3	Abbreviations used in this Registration Document:.....	77

1 Risk Factors

The business of financial enterprises involves taking and managing risks and as a universal bank Landsbanki is no exception to this rule. Landsbanki classifies exposures according to the type of risk involved, which may be credit risk, market risk, risk arising from mismatch of assets and liabilities and operating risk.

1.1 Credit Risk

Credit risks arising from changes in credit quality and the recoverability of loans and amounts due from counterparties are inherent in a wide range of Landsbanki's businesses. Credit risk is the risk that a borrower in a transaction with Landsbanki will be unable to meet its financial obligations as provided for in its contract. Credit risk arises whenever Landsbanki commits its funds, resulting in capital or earnings being dependent on the performance of a counterparty, issuer or borrower. Credit risk is the largest single risk factor for Landsbanki.

Adverse changes in the credit quality of the bank's borrowers and counterparties or a general deterioration in the Icelandic economy or global economic conditions, or systemic risks in the financial markets, could affect the recoverability and value of the bank's assets and require an increase in provision for bad and doubtful debts and other provisions.

Landsbanki manages credit risk by setting limits for acceptable risk for individual borrowers or groups of borrowers, specific regions or industrial sectors. Credit risks of Landsbanki's entities are under constant surveillance and the regulatory regime controlling the bank's lending activities is reviewed regularly. Landsbanki's rules on lending deal specifically with credit risk.

Credit risk is managed by Landsbanki's Credit Committee. Risk is assessed and managed through regular credit assessment of clients, amendments to lending authorisations and rules and collateral requirements for clients' obligations. Landsbanki's credit risk is assessed on a group basis by evaluating total exposures of clients and financially connected parties. Despite these efforts to manage credit risk, Landsbanki may be unable to assess the credit risk of potential borrowers adequately and may provide advances to certain customers that increase the bank's credit risk exposure.

Loan portfolio growth

Total lending by Landsbanki at year-end 2006 amounted to ISK 1,438 bn. Of this amount, ISK 1,147 bn is corporate lending, which increased by 54% year-on-year, while lending to households represents ISK 291 bn and increased by 22% over the previous year. At the end of September 2007 total lending by Landsbanki amounted to ISK 1,841 bn, up 28% from the beginning of the year.

At the end of September 2007, lending by the bank's international operations constituted 40% of total lending, or the same proportion as at year-end 2006, compared to 33% at year-end 2005. Corporate lending has grown substantially, both in Iceland and abroad. The bank's loan portfolio grew by 46% in 2006, with the greatest increase in loans to financially strong clients, including most of Iceland's largest corporations. International borrowers also account for a major portion of this growth, as a key aspect of this lending growth is increased geographical and sector diversification. All the measures used for credit risk indicate that the quality of Landsbanki's loan portfolio in general has improved in recent years.

There can be no assurance that Landsbanki will continue to expand its banking activities and achieve similar rates of loan portfolio growth as in the past. Furthermore, the number of high credit quality customers to whom banking services may be provided is limited. The pace of loan portfolio growth may be constrained by, among other factors, the bank's ability to increase lending volumes to customers that meet the bank's credit quality standards. If Landsbanki is unable to further expand its loan portfolio it may not generate sufficient interest income to offset any decline in net interest margins, which could have a material adverse effect on Landsbanki's business, financial condition and results of operations.

Collateral

A substantial portion of Landsbanki's loans to corporate and individual borrowers is secured by collateral. Downturns in the relevant markets or general deterioration of economic conditions in the industries in which these borrowers operate, or other markets in which the collateral is located, may result in declines in the value of collateral securing loans to levels below the outstanding principal balance on those loans. A decline in the value of collateral securing these loans or the inability to obtain additional collateral may, in some cases, require Landsbanki to reclassify the relevant loans, establish additional provisions for loan losses and increase reserve requirements. In addition, failure to recover the expected value of collateral in the event of foreclosure may expose the bank to losses that could have a material adverse effect on its business, financial condition and results of operations.

Securing loans by collateral is the traditional method of mitigating credit risk. A collateral is obtained by Landsbanki in respect of customer liabilities where considered appropriate. Collateral normally takes the form of a lien on customer assets, and gives Landsbanki a claim on these assets for both existing and future liabilities. Credit extended by Landsbanki is secured by residential or corporate real estate, land, securities, transport vessels, fishing vessels together with their non-transferable fishing quotas, aircraft etc. Landsbanki 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. Landsbanki has credit derivatives to mitigate credit risk for a part of its mortgage portfolio. Landsbanki's mortgage portfolio amounted to ISK 240.4 bn at 30 September 2007.

Large exposures

At 30 September 2007, 10 clients were rated as having large exposures by Landsbanki. Clients are rated as large exposures if their total obligations, or those of financially or administratively connected parties, exceed 10% of Landsbanki's equity, as set out by the Financial Supervisory Authority's Rules No. 531/2003 on large exposures incurred by financial undertakings. According to these rules, total exposures of parties with obligations exceeding 10% of the bank's equity may never exceed 800% of equity. As of 30 September 2007, this ratio for Landsbanki was 170.4%. The maximum individual exposure may not exceed 25% of the bank's equity.

All of Landsbanki's large exposures were within these limits at the end of September 2007. The Board of Directors regularly reviews detailed reports on the commitments of the bank's largest clients. The Credit Committee review reports on the situation of the bank's largest exposures, together with other reports on the bank's loan portfolio, e.g. analyses of the economic situation and of individual sectors.

Declines in the financial condition of the bank's largest borrowers could, however, have a material adverse effect on Landsbanki's business, financial condition and results of operations.

Calculation of loan impairment

Provisions are made for impairment to cover possible credit losses, as provided for in IFRS. Loans and other obligations are assessed in terms of the risk of future loss. Based on this assessment, provisions are made for impairment losses and expensed against the relevant balance sheet item. Provisions to the impairment account are determined by applying an impairment test to loans that fulfil specific criteria indicating increased risk. This test involves assessing the discounted cash flow of individual loans or loan portfolios. If the assessment proves to be less than the payback value of the loan on the date of settlement, the difference is expensed as a provision to the impairment account. Assessment involves, firstly, a detailed examination and assessment of the risk parameters of all loans by the bank exceeding a specified amount. Secondly, all the bank's other lending is divided into buckets with the same or similar risk parameters. In this manner, the quality of all the bank's loans is regularly evaluated and the size of the impairment reserve determined. At 30 September 2007, provisions for impairment amounted to ISK 19.7 bn, or 1.00% of total loans and advances outstanding. At year-end 2006, impairment provisions were equivalent to 1.07% of loans and advances provided, compared to 1.27% at year-end 2005 and 1.29% at year-end 2004. Provisions were 2.25% and 2.96% of loans and advances granted at the end of 2003 and 2002 respectively.

Although Landsbanki uses its best efforts to establish the provision for loan losses, that determination is subject to significant judgement, and the bank may have to increase or decrease its provisions for loan losses in the future as a result of increases or decreases in nonperforming assets or for other reasons. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the

estimate of the risk of loss inherent in the portfolio of non-impaired loans could have an adverse effect on Landsbanki's business, results of operations and financial condition.

Counterparty risk in derivative transactions

Like many participants in the derivatives marketplace, Landsbanki is party to a large number of derivative transactions. Derivative contracts and other transactions entered into with third parties are not always confirmed by the counterparties on a timely basis. While the transaction remains unconfirmed, Landsbanki is subject to heightened credit and operational risk and in the event of a default may find it more difficult to enforce the contract. The growth in the derivatives industry, including credit derivatives and other swap transactions, has also exposed the bank and other industry participants to an increasing incidence of counterparties seeking to unilaterally assign transactions without required prior notice and consent.

Although industry participants have taken steps to eliminate this practice, it is not yet clear how effective these efforts will be, and the steps taken do not resolve the issue retroactively for derivative contracts that were previously entered into. Unauthorised assignments could introduce uncertainty as to the status of a transaction, impair the bank's ability to evaluate credit risk and impede trade reconciliations, which could lead to a higher number of failed transactions and collateral call defaults.

Landsbanki is also party to credit derivatives, which require the bank to deliver to the counterparty the underlying security or obligation in order to receive payment. In a number of cases, Landsbanki does not hold the underlying security or obligation and may have difficulty obtaining or be unable to obtain the underlying security or obligation through the physical settlement of other transactions. As a result, the bank is subject to the risk that it may not be able to obtain the security or obligation within the required contractual timeframe for delivery. This could cause Landsbanki to forfeit the payments due to the bank under these contracts or could result in settlement delays, with the attendant credit and operational risk as well as increased costs to the bank. The derivatives industry is working on various proposals to address this issue. Failure to do so could result in an unwillingness of counterparties to enter into certain types of derivative transactions, which could negatively impact Landsbanki's business.

Landsbanki uses derivatives to hedge its own currency and interest rate risk, in addition to offering derivative products to its clients. All these derivatives are OTC, recognised in the bank's balance sheet at market value as part of its trading portfolio. Derivatives are classified as either market derivatives or hedging derivatives. The counterparty risk on a derivative is assessed by evaluating its credit equivalent, based on the fair value of the derivative plus the future risk, which in turn is based on the nature and characteristics of the derivative contract. The fair value of a derivative is the amount for which a trade that is reasonable to all parties involved in a voluntary transaction could be concluded. Landsbanki has developed models to determine the fair value of its derivatives portfolio. In addition, the bank uses an independent party to calculate the value of its most complex derivative contracts. To limit counterparty risk arising from derivative contracts, Landsbanki has netting arrangements with counterparties and often requires collateral in the form of cash or other liquid securities assets. The positions of clients with derivative contracts are checked daily and the bank can make a margin call if the negative value of a derivative (positive value for the bank) exceeds the reference in the contract.

Derivatives held for trading and trading liabilities			
	Contract/ notional amount	30 September 2007 Assets	Fair value Liabilities
Foreign exchange derivatives	1,645,046	25,581	28,974
Interest rate derivatives	1,009,473	8,390	9,913
Equity derivatives	114,331	10,858	9,590
Credit derivatives	44,375	0	1,388
Total derivatives held for trading	2,813,225	44,830	49,865
Derivatives held for hedging			
	Contract/ notional	30 September 2007 Assets	Fair value Liabilities
Interest rate swaps	583,407	4,189	7,562
Cross-currency interest rate swaps	0	0	0
Total derivatives held for hedging	583,407	4,189	7,562

Amounts in ISK m

1.2 Market Risk

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

Changes in interest rate levels, yield curves and spreads may affect the interest rate spread on lending and borrowing activities. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of the bank's investment and trading portfolios.

Landsbanki has a substantial investment portfolio that includes equity and debt securities of the largest issuers of securities in Iceland and Northern Europe. A decline in the value of these assets could substantially reduce the value of the bank's securities portfolio and the amount of other operating income attributable to trading gains. Under IFRS standards, Landsbanki's portfolio is marked to market and reflected in the bank's financial statements. As a result of timing issues, there may be unrealised gains and losses.

It is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the bank's financial performance and business operations. In addition, the bank's investment banking business line invests in unlisted and listed companies on a proprietary basis with a view towards exiting these investments in a limited time from the date of acquisition. Landsbanki could be adversely affected by a decline in the value or the illiquid nature of this investment portfolio, which is subject to factors affecting the industries and countries in which the companies in the portfolio operate as well as to general market fluctuations.

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% and interest rate risk on market bonds and other financial instruments may not exceed 6%. 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 parent company, where total market risk for Landsbanki is also managed. In addition to the Investment Banking division at the bank's head office, trading desks of its subsidiaries Landsbanki | Kepler, Landsbanki Securities UK and Merrion I Landsbanki have limited authorisations for market risk on own account.

Equity risk

Equity risk is the largest component of the bank's market risk, and mostly originates from its headquarters. The equity risk ceiling is set at 12% of the bank's risk-weighted asset base. At 30 September 2007, the equity risk was 5.0%. The bank currently operates under a tighter limit set by the Asset and Liabilities Committee, which is 3% of total assets or about 6.5% of risk-weighted assets. At 30 September 2007 the bank's equity positions were 27% domestic and 73% foreign equities. Of the bank's total equity holdings, 54% are listed on stock exchanges. Total equity holdings for the bank's own account amounted to ISK 70.5 bn at 30 September 2007, of which ISK 33.5 bn are entered as trading securities. In addition, Landsbanki holds equity positions against forward contracts and swaps that the bank has concluded with its customers. At 30 September 2007 these hedge positions amounted to ISK 140.8 bn, which are included under "Hedged securities" in the balance sheet. In August 2006, Landsbanki transferred these hedge positions to a new entity named LI-Hedge. The purpose of this transaction is to increase the transparency of the bank's equity holdings. Landsbanki's equity position at 30 September 2007 was 2.5% of the total balance sheet compared to 2.3% at year-end 2006 and 4.3% at year-end 2005.

Currency risk

Changes in the exchange rates of major foreign currencies may affect Landsbanki's financial position and cash flow and constitute currency risk. Currency risk originates in the bank's trading portfolio as well as the bank's other portfolios. Landsbanki's currency risk is managed by Investment Banking, with the objective of limiting this total risk factor to within 7.6% of the risk-weighted asset base for long positions and 3.3% for short positions. Landsbanki's reporting currency is the Icelandic krona (ISK). In addition to trading currency for its clients, Landsbanki trades foreign exchange for its own account and maintains open currency positions in currencies other than ISK. Landsbanki does not fully hedge its foreign currency exposure at all times. Although the bank has taken steps to limit this exposure, adhering to regulatory limits and establishing strict limits aimed at reducing currency risk, there can be no assurance that future mismatches will not occur or that trading limits will not be breached. As a result,

fluctuations in exchange rates could have an adverse effect on the bank's business, financial condition and operating results.

Interest rate risk

Changes in the interest rate levels, yield curves and spreads may affect Landsbanki's financial position. The interest rate risk on the trading portfolio is primarily the result of Landsbanki's holdings in domestic and foreign market bonds. Bond assets are a key factor in the bank's liquidity management and Landsbanki is one of the principal traders and market makers in domestic government-backed bonds. The bank also takes domestic and highly liquid and highly rated foreign bond positions when it anticipates changes in their returns.

Since a major portion of the bank's assets and liabilities is interest rate related in one manner or another, one of the most significant risks the bank faces is interest rate risk. The bank evaluates this risk on its market bonds portfolio and sets limits for total portfolio risk. Landsbanki's Risk Management department is responsible for supervision of overall market bond risk. The market bond trading book is managed in line with current expectations on interest rate developments, and the risk it involves is closely monitored.

Landsbanki's financial operations depend on interest rate and other monetary policies of governments and central banks in the jurisdictions in which it operates. For example, loans with fixed rates will become less profitable if interest rates rise. Landsbanki currently operates in a rising interest rate environment. A significant portion of the bank's borrowings are short-to-medium term, which may have to be refinanced at higher rates. These rates can, to a large extent, be passed on to customers. Nevertheless, fluctuations in interest rates could have an adverse effect on the bank's business, financial condition and results of operations.

Derivatives

Derivatives are contracts whose value is derived from one or more underlying financial instruments or indices defined in the contract. The main types of derivatives are futures, forwards, options and swaps. Derivatives instruments may be privately negotiated contracts, which is often referred to as over the counter (OTC) derivatives, or they may be listed and traded on the exchange. Derivatives mainly affect Landsbanki's net interest income, net trading income, net fee and commission income. Notional amounts of the contracts are not recorded on the balance sheet. The fair value of these contracts are recorded on Landsbanki balance sheet. The fair value of exchange traded derivatives are generally determined from quoted market prices. OTC derivatives are valued using valuation models.

Landsbanki enters into derivative contracts to manage own exposure to fluctuations in interest, exchange rates and equity prices, to take proprietary positions and to facilitate client transactions.

Landsbanki applies hedge accounting under IFRS to certain derivative contracts. Landsbanki designates certain interest rate and cross-currency interest rate swaps as fair value hedges to manage certain interest rate and currency exposure.

Landsbanki participates both in exchange traded and over the counter derivatives markets.

Exchange traded derivatives

Landsbanki buys and sells financial instruments that are traded or cleared on specialized derivatives exchanges or other exchanges. Holders of exchange traded instruments provide margin daily with cash or other security at the exchange.

OTC traded derivatives

Landsbanki also buys and sells financial instruments that are traded over the counter. These instruments are usually governed by an International Swaps and Derivatives Association (ISDA) agreement.

Foreign exchange derivatives

Landsbanki principal exchange rate related derivatives are currency forwards, cross-currency interest rate swaps and currency options. Currency forwards are agreements to buy or sell a specified quantity of foreign currency on a specified future date at an agreed date. A cross-currency interest rate swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. Currency option provide the buyer with the right, but not the obligation, either to purchase or sell a fixed amount of a currency at a specified exchange rate on or before a future date. As compensation for assuming the option risk, the option writer receives a premium at the start of the option.

Interest rate derivatives

Landsbanki principal interest rate related contracts are interest rate swaps, caps, floors and swaptions.

An interest rate swap is an agreement between two parties to exchange fixed rate and floating rate interest by means of periodic payments based upon a notional principal amount and the interest rate defined in the contract.

Credit derivatives

Landsbanki uses credit derivatives, including total return swap, as part of its risk management to manage credit exposure. Credit derivative is a financial instrument whose price and value derives from creditworthiness of the obligations of a third party, which is isolated and traded.

Total return swap (TRS) is a contract between two counterparties whereby they swap periodic payments for the period of the contract. Typically, one party receives the total return from a specified reference asset, while the other receives a specified fixed or floating cash flow that is not related to the creditworthiness of the reference asset. The payments are based upon the same notional amount.

Credit spread risk

Credit spread risk is the risk that the spread over a reference rate will increase for an outstanding debt obligation. Credit spread, the difference in yield between securities due to different credit quality, can change over time due to, for example, varying market conditions, changes in the credit ratings of issuers, or changes in the expectations regarding recovery rate.

In current market instability due to subprime mortgage loan turmoil credit spreads are wider.

1.3 Mismatch of Assets and Liabilities

Mismatch of assets and liabilities is a risk that cannot be classified directly under a single risk factor, but results from a combination of factors. It applies generally to the bank's total on- and off-balance sheet obligations. All Landsbanki's risk factors can be interrelated. In order to maximise the margin, given a specific risk in the composition of assets and liabilities, all the bank's risk factors must be considered. Risk due to asset-liability mismatch is thus intended to cover risk factors that an assessment of market risk does not cover or that cannot be regarded as purely market risk factors. Mismatch of assets and liabilities includes risk factors arising from, for instance, portfolio risk, indexation risk, and liquidity risk, reserves required by the Central Bank, the duration of individual balance sheet items, large exposures, off-balance sheet guarantees and capital ratio.

Portfolio interest rate risk

Changes in interest rates on the bank's assets and liabilities, other than those in its trading book, have an impact on its interest rate margin and/or the value of its shareholders' equity. This risk is primarily the result of duration mismatch of assets and liabilities. Portfolio interest rate risk is among the bank's more important risk factors. Interest rate repricing is carried out at intervals of several months, to take into account the bank's interest rate risk on assets and liabilities. There are two exceptions to this rule. Heritable Bank offers long-term loans at fixed rates of interest. The interest rate risk on this portfolio is hedged using interest rate swaps. In addition, the parent company

provides fixed-rate loans in ISK, most of which are housing mortgages to households. Landsbanki has hedged a large part of its interest rate risk on housing mortgages. The Treasury department at Landsbanki's head office manages the bank's interest rate risk.

Indexation risk

Landsbanki's indexation risk derives from imbalance in its indexed assets and liabilities, including both on- and off-balance sheet items. The majority of Landsbanki's mortgage loans and consumer loans are indexed to the Icelandic consumer price index (CPI). Indexation risk is calculated on the basis of CPI and is mainly used on long-term loans in domestic currency. Treasury is responsible for the bank's indexation risk. According to Landsbanki's balance sheet, indexed assets exceeded indexed liabilities by ISK 134 bn at 30 September 2007.

Liquidity risk

Liquidity risk is the risk of losses the bank could incur should it be unable to meet its obligations when due. Ready access to funds is essential to Landsbanki and the bank relies almost entirely on continuous access to financial markets for short and long-term financing. An inability on Landsbanki's part to access funds may result in an inability to finance the bank's operations. A rising interest rate environment compounds the risk that the bank will not be able to access funds at favourable rates. These and other factors also could lead creditors to form a negative view of the bank's liquidity, which could result in less favourable credit ratings, higher borrowing costs and less accessible funds. In addition, because the bank receives a portion of its funding from retail deposits, the bank is also subject to the risk that depositors could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing liquidity strains. In addition, the bank's ability to raise or access funds may be impaired by factors that are not specific to its operations, such as general market conditions, the sovereign rating of Iceland, severe disruption of financial markets or negative views about the prospects for the industries to which the bank provides a large proportion of its loans. Strains on the bank's liquidity caused by any of these factors or others could adversely affect the business, results of operations and financial condition.

Landsbanki's credit ratings are important to its liquidity. A reduction in credit ratings could adversely affect liquidity and competitive position, increase borrowings costs and limit access to capital markets.

Landsbanki is rated by both Moody's and Fitch. Furthermore, Landsbanki's London-based subsidiary, Heritable Bank is also rated by Fitch.

Landsbanki is rated Aa3/P-1/C with a stable outlook at Moody's. During 2006, Moody's credit ratings for Landsbanki remained unchanged and were affirmed at A2/P-1/C. The agency did make one change to Landsbanki's ratings outlook in 2006, altering the bank's C financial strength rating outlook to negative from stable. The change in outlook reflected the potential impact of a more difficult operating environment in Iceland on the bank's financial fundamentals.

In 2007, Moody's introduced their updated BFSR methodology and their new JDA methodology. This resulted in the removal of negative outlook on the financial strength rating, but the FSR was affirmed unchanged at C. At the initial rollout of the JDA methodology, Landsbanki's senior ratings were changed from A2 to Aaa on 24 February 2007. On 10 April 2007, Moody's introduced a refined JDA methodology, and subsequently adjusted the senior ratings of Landsbanki from Aaa to Aa3.

On 22 May 2007 Moody's affirmed Landsbanki's ratings, following the acquisition of Bridgewater Group plc.

Landsbanki's ratings from Fitch remained unchanged during 2006. On 28 November 2006, the ratings were again affirmed unchanged following its annual review of Landsbanki. In its rating announcement, Fitch Ratings stated that its assessment reflected the bank's strong domestic market position, greater earnings diversification, prudent provisioning policies and high capitalisation.

Fitch affirmed Landsbanki's ratings on 15 March 2007, following Fitch's downgrade of the Iceland sovereign rating. Fitch again affirmed Landsbanki's ratings on 22 November 2007. 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.

On 26 May 2006, Heritable's individual rating was upgraded from C/D to C, with Fitch citing the management's ability to develop the bank profitably, while increasing the diversification of its loan book. Fitch's other ratings for Heritable Bank were affirmed at A / F1 with a stable outlook.

Central Bank's reserve requirements

Landsbanki must comply with reserve requirements prescribed by the Central Bank's Rules No. 879/2005. A specified percentage of the bank's balance sheet, as defined in these rules, must be kept in a reserve account with the Central Bank. Reserve requirements apply to commercial banks and savings banks, as well as other institutions and companies authorised by law to accept deposits from the public for custody and investment. The rules apply to the calculation and settlement of minimum reserve requirements of the disposable funds of deposit institutions and other credit institutions at the end of each month.

Duration of individual balance sheet items

A risk can arise where a major portion of the bank's assets are tied up and it cannot access these assets for other purposes. The bank's obligations are of varying duration and it endeavours to ensure a balance between its non-liquid assets and liabilities.

Off-balance sheet guarantees

Off-balance sheet guarantees provided by Landsbanki amounted to ISK 105 bn at 30 September 2007 compared to ISK 95.9 bn at year-end 2006 and ISK 40.7 bn at year-end 2005.

Capital adequacy ratio

The bank manages its capital resources to meet the regulatory capital requirement 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.

According to these rules, subordinated debt and equity, net of the book value of holdings in other financial undertakings, may not be less than 8% of the risk-adjusted asset base. In the case of holdings in financial undertakings amounting to up to 10% of share capital in each individual financial undertaking, the deduction shall, however, be limited to the total amount of holdings and subordinated claims exceeding 10% of the bank's equity. The risk-weighted asset base of an undertaking is evaluated taking into account its total assets, off-balance sheet items, foreign-exchange risks and other market exposures, in accordance with detailed rules set by the Financial Supervisory Authority (FME) on assessment of risk-weighted asset base.

At 30 September 2007 Landsbanki's CAD ratio, according to CAD rules, was 11.2% of which 9.9% was Tier 1 capital. At the beginning of 2007, the bank's CAD ratio was 14.8%, of which 13.0% was Tier 1 capital compared to a CAD ratio of 13.1%, of which 11.9% was Tier 1 capital, at the beginning of 2006. It is the responsibility of the bank's CEOs to ensure that its CAD ratio according to CAD rules is always above the prescribed minimum.

Equity and subordinated loans are the base upon which the bank can draw to meet unexpected losses without becoming insolvent. Landsbanki's strategy is to maintain its CAD ratio above 11%, which is considerably higher than the minimum statutory requirement of 8%. The bank has also adopted minimum levels for Tier 1 capital, which must be over 9%, calculated using a risk-weighted asset base. In Landsbanki's estimation, these criteria take into consideration the relative weight of commercial and investment banking activities in Landsbanki's operations, as well as the risk the bank is prepared to take in market securities. Despite Landsbanki strategy to maintain its CAD ratio above 11% and Tier 2 above 9% it has to be taken into account that Landsbanki hedges its equity by taken position against the Icelandic krona. Landsbanki also performs regular stress test that the Icelandic Supervisory Authority (FME) has implemented. The FME has calculated the effects of simultaneous shocks on capital ratios of the largest Icelandic banks. The shocks imply that a financial undertaking must be in a position to take on certain setbacks that simultaneously may lead to changes in the value of shares, market bonds, non-performing/impaired loans and appropriated assets and the Icelandic krona without having its capital adequacy ratio drop below 8%. Landsbanki has always passed the FME stress test.

1.4 Operational Risk

Operational risk is inherent in all areas on the bank's activities. It is the risk of financial losses resulting from inadequate or failed internal processes or systems, human error or external events. Although Landsbanki has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training, it is not possible to implement procedures that are fully effective in controlling each of the operational risks.

The definition of operational risk includes legal risk, but excludes reputational risk.

Employees

Landsbanki has comprehensive guidelines on working procedures and processes, which are accessible to personnel on the bank's Intranet. Their aim is to enable employees to fulfil their tasks satisfactorily and prevent mistakes from occurring. It is the responsibility of the Managing Directors of each division to ensure that their employees acquaint themselves with and follow the relevant guidelines. Both current and former employees of Landsbanki can damage the bank if they infringe its rules either intentionally or through negligence. While it is difficult to evaluate the damage in each instance, the loss can be both financial and related to the bank's reputation.

Landsbanki has well-qualified employees with years of experience in banking and financial markets. The bank endeavours to hire qualified and well-educated employees. The bank offers its employees a wide selection of training and continuing education programmes to increase their qualifications and it endeavours to treat its employees well. There is always a risk that competitors will attract Landsbanki's employees. The departure of key personnel can have a negative impact on the bank's performance.

The role of the compliance officer is to oversee securities transactions by Landsbanki's employees. The compliance officer also handles cases concerning employees' misdeeds and their involvement in commercial operations, as well as supervising actions to counteract money laundering and complaints from clients.

Compliance risk

Compliance is one of Landsbanki's support and risk functions. It is intended to assist in managing the bank's compliance risk on a consolidated basis, which can be defined as the risk of legal or regulatory sanctions, financial loss or damage to its reputation as a result of failure to comply with applicable laws, regulations, codes of conduct and standards of good practice.

Legal and compliance risk is a subcategory of operational risk, emphasising issues such as market abuse and fraud prevention, anti-money laundering, codes of ethics, avoidance of conflicts of interest and ensuring best practice.

The compliance officer ensures that the bank's rules on securities trading and insider's dealing are followed, and that Landsbanki's operations comply with the Act on Securities Transactions, the Act on Actions to Combat Money Laundering and other relevant legislation and regulations. Each of Landsbanki's subsidiaries has a compliance officer, whose efforts are co-ordinated by the parent company's compliance function. The parent company's compliance officer reports on the activities of subsidiaries' compliance officers to Landsbanki's senior management.

The risk however always exists that the bank could suffer if the above-mentioned rules are not followed.

Work procedures

The risk involved in work procedures means losses can occur due to flaws in current working procedures or because there are no documented work processes. A loss can result from human error or because the current working procedures were not followed. The bank's rules and working procedures are maintained in the Employees' Manual, which employees have easy access to, for instance, on the Intranet. It is intended to ensure that all the main information on work processes is available in one place. Department heads are responsible for the accuracy and recording of their department's working procedures. They must also see to it that their employees have acquainted themselves with Landsbanki's rules and working procedures and comply with them.

Information security

Information technology (IT) processes represent a significant risk in the financial services industry. The bank's IT infrastructure is constantly being developed, with IT-related risks continually evaluated and corrective measures implemented as required. The bank employs a wide variety of IT systems and in many instances depends upon co-operating partners such as Reiknistofa bankanna (the Icelandic Banks' Data Centre), telecom operators and Reuters, to mention only a few.

A special information security officer has been appointed, with the task of ensuring that all work processes in the IT division comply with Icelandic and international standards.

A special information security officer has been appointed, with the task of ensuring that all information handling processes in the bank comply with the Icelandic and international standard ISO/IEC 27001:2005 (ISO 27001). The bank's Information Security Management System is certified to ISO 27001 since 30 October 2007. The scope of the certification is all the bank's operation in Iceland.

A Disaster Recovery Plan is in place for the bank's core systems to minimise the effects of unexpected incidents.

Criminal actions

The risk always exists that the bank could suffer a loss as a result of criminal actions, such as a bank robbery, fraud, money laundering or embezzlement. All of these risk factors could cause the bank extensive damage and affect its performance. Great emphasis is placed on the bank's security and access control systems, in addition to which front-line employees receive special training in responding to situations that may arise, such as bank robberies.

Clear procedures instruct staff to identify evidence of fraud or money laundering. The bank's settlement system is intended to prevent misconduct from going unnoticed. Branches and bank departments are closely monitored by the bank's Internal Audit division. To reduce the risk of damage due to criminal actions, the bank's security affairs are reviewed on an ongoing basis. In addition, money transportation is insured in accordance with the interests at stake in each instance.

External events

Various external events beyond the control of Landsbanki and its management can have a major impact on the operations, performance and share price of the bank. Examples are natural catastrophes, war, vandalism and terrorist attacks.

Legal risk

Like other financial enterprises, Landsbanki operates within a complex regulatory framework and a variety of specific regulations apply to its operations. Development is rapid on financial markets, with the result that acts and regulations are reviewed regularly. Amendments to legislation can have a major impact on the bank's operations. In addition, Ministerial Regulations and rules or guidelines issued by the Central Bank and Financial Supervisory Authority (FME) or other public authority can have a substantial effect on the bank's operating environment. Amendments to other types of legislation, such as laws on taxation, company law, competition law, etc., can also affect the services provided by the bank. Close watch is kept on impending changes to legislation and rules applicable to Landsbanki, and an assessment is made of the most suitable response in each case.

The bank is subject to surveillance by public authorities such as the Financial Supervisory Authority (FME). It could be the object of investigation or other action by public authorities, and be required to pay fines or be subjected to restrictions on its operations if such an investigation or action were to reveal violations of rules or laws. The bank's operating license is subject to compliance with the acts and regulations governing its operations, and any breach of those laws or regulations is subject to serious penalties, liability for damages, or the revocation of license.

A central aspect of Landsbanki's activities is to provide consultation and serve as an intermediary in business transactions. This opens up a risk that the bank could be sued for damages as a result of its intermediation in business transactions or of incorrect advice or analysis.

With increased activities abroad in recent years, Landsbanki now has activities in 17 countries; Canada, Faroese Islands, Finland, France, Germany, Guernsey, Hong Kong, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Spain, Switzerland, the United States and the UK,

Operating abroad, either through the establishment or acquisition of subsidiaries, branches or agencies, or providing cross-border services, requires knowledge of the regulatory framework in those countries where operations are located. The risk of liability for damages or penalties from public authorities exists if activities fail to comply fully with local legislation in each case, resulting in a risk of financial loss and damage to the bank's reputation.

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

Competition

Landsbanki operates in a financial market that has been changing rapidly in recent years, with increased competition and competitors increasing in strength. The bank's main competitors in Iceland are Kaupthing, Glitnir Bank, Straumur-Burðarás Investment Bank, the country's savings banks and the Housing Financing Fund (HFF), as well as competitors from foreign markets. Internationally, Landsbanki's strategy is to focus on serving the mid-cap market and its competitors include Evolution and Seymour Pierce in the UK, and Seymour Pierce, Goodbody Chevreux, Société Générale, SCH, Rabobank, Bank am Bellevue and Intermonte in Continental Europe. There is always a risk of new entrants to the market, or for smaller competitors to merge and increase their strength. Such competition could develop in individual market sectors or in the market as a whole.

Landsbanki makes every effort to keep its product range, service and pricing competitive, and must constantly monitor who its competitors are and what they have to offer. There is always a risk that the bank could lose its competitive edge if its new products fail to meet the demands of the market or to compete with competitors' products. There is always a possibility that new product launches could be unsuccessful. All of these risk factors could undermine the bank's income generation and affect its performance.

Image

The image and reputation of financial enterprises are among their most valuable assets. The risk of damage to the bank's image or reputation is present whenever it is the subject of discussion. Damage to its image or reputation could prompt the bank's clients to direct their business elsewhere. This could have a very negative impact on the bank's performance and share price. Such damage could result, for instance, from business mistakes, violations of law or regulations, errors of judgement, and poor service or products offered.

Insurance

Landsbanki has taken a conscious decision to insure itself against specific risks. The bank holds all mandatory insurance coverage, including fire insurance and mandatory vehicle insurance, plus comprehensive vehicle insurance. The bank also holds insurance policies provided for in collective bargaining agreements with the Union of Icelandic Bank and Finance Employees, such as life and accident insurance, and insurance stipulated by other wage contracts as applicable. In addition, the bank has taken out liability insurance against third-party claims, insurance on moveable property and professional liability insurance for its auditor. The bank also carries insurance designed specifically for banking operations, such as Bankers' Blanket Bond, insurance against computer crime and professional indemnity coverage. In addition, money transportation is insured in accordance with the interests at stake in each instance. It should be borne in mind, however, that despite the insurance policies carried by the bank, there is no guarantee that it will be fully compensated should it need to lodge claims. If the bank did submit claims under its policies, the premiums it pays could be expected to increase in the future. The bank's insurance policies are subject to Icelandic and/or foreign terms and conditions.

1.5 Other Risk Factors

Fluctuations in investment banking activities

For the first nine months of 2007 Landsbanki derived approximately 40% of its profit before income tax from investment banking activities, comprised of fee income and gains on investments. Fee income is in part related to the number and size of capital market and corporate advisory transactions in which the bank participates and to underlying market conditions. Fees generated by these transactions are typically not recurring and are subject to volatility. Accordingly, income from the investment banking business tends to be variable, and any reduction in the number and/or size of such transactions will affect Landsbanki's results of operations. We cannot give assurance as to what, if any, income from investment banking activities will be realised in any period.

Rapid growth

Landsbanki has grown very rapidly, primarily through acquisitions since 2002. The bank's total assets increased from ISK 277.8 bn (Icelandic GAAP) to ISK 2,846.7 bn (IFRS) between 31 December 2002 and 30 September 2007. This growth has strained the bank's management, operational and financial resources. Failure to manage future growth effectively could result in increased costs and harm the bank's results of operations.

Acquisitions

Since 2000, Landsbanki has acquired several businesses, including Heritable Bank, Landsbanki Luxembourg S.A., Landsbanki | Kepler, Merrion | Landsbanki as well as Teather & Greenwood | Landsbanki and Bridgewell. The two units Teather & Greenwood | Landsbanki and Bridgewell have been merged under Landsbanki Securities UK. The bank is focusing more time and resources on the acquisition of additional complementary businesses. Negotiating potential acquisitions or integrating newly acquired businesses could divert management's attention from other business concerns and could be expensive and time consuming. Landsbanki might not be successful in integrating any acquired businesses, and may not achieve anticipated benefits. An adverse effect on the bank's business, operating results and financial condition could ensue, should any of the following problems, or others, occur due to the bank's acquisition strategy, :

- difficulties integrating personnel and other corporate cultures into Landsbanki's business;
- difficulties integrating information systems;
- potential loss of key employees;
- assumption of liabilities and exposure to undisclosed liabilities of acquired companies;
- diversion of management attention from existing operations.

As a result of these potential problems and risks, businesses Landsbanki acquires may not produce the revenues, earnings or business synergies anticipated, and acquired products, services or technologies might not perform as expected. As a result, Landsbanki may incur higher costs and realise lower revenues than anticipated. Landsbanki may not be able to address these problems successfully.

Landsbanki cannot give any assurance that future acquisitions will be successfully identified and completed or that, if acquisitions are completed, the acquired businesses, products or services will generate sufficient revenue to offset the associated costs or other harmful effects on the bank's business. In addition, future acquisitions could result in issuances of equity securities that dilute the positions of existing shareholders or the issuance of debt securities that will increase the bank's leverage and costs. Furthermore, Landsbanki may incur contingent liability or possibly impairment charges related to goodwill or other intangible assets or other unanticipated events or circumstances, any of which could adversely affect the bank's results of operations and financial condition.

Shareholders

Certain of the bank's board members and their affiliated entities beneficially own more than 40% of the bank's outstanding share capital. Björgólfur Guðmundsson, Chairman of the Board is one of the owners of Samson eignarhaldsfélag ehf. that owns around 4,559,048,058 shares or a 40.73% holding in Landsbanki. Kjartan Gunnarsson, Vice-chairman of the Board is the owner of Skipholt ehf. that owns around 89,000,000 shares or a 0.80% holding in Landsbanki and Þór Kristjánsson, Board Member is also a board member of Brimalda Capital Ltd. that owns around 45,428,949 shares or a 0.41% holding in Landsbanki. The combined ownership in own name and of financially related parties of these board members is around 42%. These shareholders, if acting together, could exercise significant influence over the bank's operations and business strategy. These shareholders have sufficient voting power to influence all matters requiring shareholder approval, including the election and removal of directors and the approval or rejection of mergers or other business combination transactions and amendments to the Articles of Association. In addition, this concentration of ownership may delay, prevent or deter a change in control of the bank. Further information about the board members' holdings in Landsbanki can be found in chapter 8 of this Registration Document.

Financial condition in Iceland and globally

Landsbanki's results are significantly affected by general economic and other business conditions in Iceland and globally. These conditions include changing economic cycles that affect demand for investment and banking products. These cycles also are influenced by global political events, such as terrorist acts, war and other hostilities as well as by market-specific events, such as shifts in consumer confidence and consumer spending, the rate of unemployment, industrial output, labour or social unrest and political uncertainty.

Landsbanki's results depend on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing depend on customer confidence, employment trends, the state of the economy and market interest rates at the time. As the bank currently conducts about half of its business in Iceland, its performance is influenced by the level and cyclical nature of business activity in Iceland, which is, in turn, affected by both domestic and international economic and political events. There can be no assurance that a weakening in the Icelandic economy or economies elsewhere will not have a material effect on Landsbanki's future results.

In addition, market perceptions and reports regarding the Icelandic economy or its performance may influence general economic and business conditions in Iceland due to the small size of the Icelandic economy. These perceptions and reports may have an adverse effect on Landsbanki's business, financial condition and results of operations.

The developments in the markets in which Landsbanki operates may have a material adverse effect on Landsbanki's business, financial condition and results of operations. In the first nine months of 2007, 53% of the bank's net operating revenues originated in Iceland, 20% in the Nordic countries and Continental Europe, 21% in the UK and Ireland and 6% in Luxembourg. The bank's retail and corporate banking business may be affected during recessionary conditions, as there may be less demand for loan products or certain customers may face financial problems and the bank may experience higher loan defaults. The impact of the economy and business climate on the credit quality of borrowers and counterparties can affect the recoverability of loans and amounts due from counterparties. Interest rate increases also may impact the demand for mortgages and other loan products and credit quality. Landsbanki's investment banking, securities trading, asset management and private banking services, as well as its investments in, and sales of products linked to, financial assets, will be affected by several factors, such as the liquidity of global financial markets, the level and volatility of equity prices and interest rates, investor sentiment, inflation and the availability and cost of credit, which are related to the economic cycle. These conditions may have an adverse effect on Landsbanki's business, financial condition and results of operations.

2 Risk Management

Management of risk is intended primarily to safeguard Landsbanki's financial solidity. It follows several main principles: defined risk governance, independent risk monitoring and methods of risk assessment and measurement, which are continuously refined and adapted. The bank's risk policy and procedures ensure that risks are known, measured and monitored. Risk is managed to ensure that it remains within the limits set by the bank for its operations and complies with regulatory requirements. Landsbanki has adopted a policy on the risk structure of its portfolio to ensure that fluctuations resulting from unexpected events, affecting both the bank's equity and its performance, are both limited and manageable.

Landsbanki operates under those acts and regulations applicable to financial undertakings and is regulated by the Icelandic Financial Supervisory Authority (FME). The bank's operating license is subject to compliance with the acts and regulations governing the bank and its operations, and any breach of those laws or regulations may be subject to serious penalties, liability for damages, or the revocation of license.

2.1 Risk Governance

The Board of Directors is responsible for the bank's general policy on risk, ensuring that it conforms to the bank's strategy, the experience of its management, its capital adequacy and readiness to accept risk. The bank's CEOs are responsible to the Board of Directors for daily operations and they manage the bank's risk through committees. Furthermore, managing directors are responsible to the CEOs for the activities of their respective divisions and for ensuring that risk accords with the bank's policy. Landsbanki has four standing committees: the Asset and Liability Committee (ALCO), the Credit Committee, the Asset Management Committee and the Operations Committee. In these committees, the relevant business areas are represented by their key managers and risk officers as well as the CEOs. The CEOs take their relevant decisions in these committees.

The ALCO is entrusted with monitoring risk factors in the bank's activities and for setting limits on exposures. Policy decisions concerning market risk are taken by the ALCO, which has set detailed rules on Landsbanki's maximum market risk. Before undertaking new types of transactions or new contracts with clients or on the bank's own account, a written summary of the proposed undertaking must be submitted to the ALCO for its opinion and decision. The ALCO formulates liquidity management policy, monitors the bank's liquidity position and provides advice on the composition of its assets and liabilities.

Landsbanki's Credit Committee sets detailed lending rules, applying the basic policy laid down by the Board of Directors. Employees' lending authorisations are well defined and incremental. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules. Comprised of the CEOs and key managers, it meets regularly to discuss all credit decisions exceeding the authorisations 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, in addition to monitoring defaults and default trends. Detailed reports on the position of the bank's largest debtors are reviewed by the Credit Committee, together with special reports, e.g. on the situation of the economy in general and that of specific industrial sectors.

The Asset Management Committee is involved in all major decisions concerning asset management and private banking. In addition to the CEOs, the Committee is comprised of the Managing Director of Finance and Operations together with the managing directors and directors of the bank's Asset Management and Private Banking division. Monthly meetings review total assets under management, the overall development of the business and the market share of the bank's funds. The Committee approves all new products in Asset Management and Private Banking.

The Operations Committee co-ordinates the bank's operations, directs efficiency measures, technical development, retail banking development and property matters. It also makes decisions on exposure limits and quality procedures in retail banking, interest rate changes and pricing, as well as decisions on new products and services offered by Landsbanki branches.

In addition to these committees, meetings of managing directors serve as a forum for consultation between the CEOs and managing directors. Two committees operate within the Board of Directors: an Audit Committee and a Remuneration Committee.

Significant resources are devoted to developing risk management policies, procedures and assessment methods for Landsbanki's banking, investment banking and asset management businesses. Landsbanki, like other financial institutions, uses a sophisticated value-at-risk (VaR) model, duration analysis and sensitivity analysis as well as other risk assessment methods. Nonetheless, these risk management techniques and strategies may not be fully effective in mitigating risk exposure in all economic market environments or against all types of risk, including risks that the bank fails to identify or anticipate.

2.2 Managing Credit Risk

Landsbanki's Credit Control is divided into three units: Credit Risk, Corporate Credit Control and Branch Credit Control. Landsbanki's Credit Control evaluates the bank's credit risk on an on-going basis, for instance, by evaluating clients' capacity to meet their obligations towards the bank. Credit Control is responsible for the systematic and regular control of the bank's lending and procedures for granting credit, in addition to maintaining an overview of the quality of all lending. This is done by regular reporting to the Board of Directors, the Credit Committee, the bank's senior management and regulatory authorities on the development of the bank's credit risk and the quality of its loan portfolio. In recent years, as the bank has expanded, its credit supervision has been substantially augmented, the number of employees in credit control has been increased, the surveillance systems reinforced and specialised groups set up to monitor individual credit classes. Lending databases and IT systems have concurrently been upgraded throughout Landsbanki, to increase possibilities for very detailed analyses of the loan portfolio or of individual loans. The Credit Risk department is constantly working on adopting and amending Landsbanki's risk assessment systems.

The Board of Directors sets the bank's overall group lending rules, including maximum obligations for individual clients and connected parties. This is complemented by internal rules on the aggregate exposure of Landsbanki. The rules cover the bank's clients' total exposures, so that the indirect risk is added to direct claims of the bank and its subsidiaries. Financial instruments issued by a client, which are used to guarantee other obligations of third parties not financially connected, are also added to the direct claims. According to Landsbanki's internal rules, the maximum total exposures through an individual customer or financially connected parties may not exceed 20% of the bank's own funds. Clients classified in the best risk classes according to the bank's rating system may constitute an aggregate exposure of as much as 25% of the bank's own funds, but only in the form of short-term obligations. Parties classified in riskier categories may not constitute overall exposures for the bank exceeding 10% of its own equity. In similar fashion, however, this exposure may be increased to as much as 15%, provided the portion exceeding 10% is in the form of short-term commitments.

Landsbanki's Credit Committee sets detailed lending rules implementing the basic policy laid down by the Board of Directors. Employees' lending authorisations are incremental and defined in detail. The Credit Committee delegates and reviews employees' authorisations and is responsible for reviewing lending rules.

Landsbanki has prioritised improving its collection procedures, with the aim of increasing efficiency and monitoring of collections. Improved collection procedures have greatly reduced loans in arrears, for instance, both as a ratio of total lending and in absolute terms. Definitive action is taken at an earlier stage if an increased probability of client default is perceived. Long-term defaults have fallen substantially as a result. In major default cases, or if there are signs of increasing probability of default by individual clients, an effort is made to obtain additional collateral. Efforts are also made to assist clients with debt restructuring and in so doing improve their possibility of meeting their commitments.

At the end of September 2007, the total amount of arrears was ISK 13.7 bn, or 0.75% of total loans outstanding. Landsbanki's default ratio has inched upwards during past nine months, after having decreased in the preceding two years. Defaults vary depending on the type of loan and the nature and location of the branch extending credit. Defaults are highest, for example, for Landsbanki branches in the capital region on loans to households and small businesses, and proportionally lowest for Corporate Banking on exchange rate-linked loans to large corporations. Defaults on credit granted by the bank's establishments overseas are extremely low. Individual loans in arrears or other signs of imminent default are monitored closely and efforts made to take suitable measures in response as quickly as possible. Such measures could include, for instance, refinancing, sale of assets or demanding additional collateral.

2.3 Managing Market Risk

Total market risk for Landsbanki is calculated at the end of each banking day and controlled by means of an authorisation system adopted by the Asset and Liability Committee (ALCO). Since no single instrument can cover all the aspects of market risk, the bank applies a number of methods in its daily risk measurements, including Value at Risk (VaR), stress testing and indicators such as net position and value per basis point (Vbp). Value at Risk (VaR) is a statistical measurement indicating the likelihood of loss due to unfavourable changes in market conditions within a specific time period and with a specified probability.

Landsbanki uses VaR to monitor trading book market risk. The accompanying tables show the bank's maximum expected loss for the next working day under normal market conditions for a 99% confidence interval. The bank's loss should only exceed the resulting value on one working day out of a hundred. VaR is shown separately for interest rates, FX and equities.

Value at Risk

(including assets at fair value)

	1 Jan 2007 - 30 September 2007			30.09.07	12 months to 31 December 2006		
	Average	High	Low	Balance	Average	High	Low
Interest rate risk	300	542	169	537	176	749	58
Currency risk	536	2,033	2	1,562	67	360	2
Equity risk	1,272	3,288	501	2,252	1,281	2,908	541
Total VaR (99% 1 day holding period)	2,108	5,755	844	4,351	1,524	4,017	601
Total VaR (99% 10 day holding period)	6,666	18,199	2,669	13,759	4,819	12,703	1,901

(excluding assets at fair value)

	1 Jan 2007 - 30 September 2007			30.09.07	12 months to 31 December 2006		
	Average	High	Low	Balance	Average	High	Low
Interest rate risk	300	542	169	537	176	749	58
Currency risk	536	2,033	2	1,562	67	360	2
Equity risk	991	2,910	330	2,097	1,183	1,926	323
Total VaR (99% 1 day holding period)	1,827	5,379	604	4,196	1,426	3,035	383
Total VaR (99% 10 day holding period)	5,777	17,010	1,910	13,269	4,509	9,598	1,211

(excluding assets at fair value and unlisted equities)

	1 Jan 2007 - 30 September 2007			30.09.07	12 months to 31 December 2006		
	Average	High	Low	Balance	Average	High	Low
Interest rate risk	300	542	169	537	176	749	58
Currency risk	536	2,033	2	1,562	67	360	2
Equity risk	671	1,531	278	837	296	427	180
Total VaR (99% 1 day holding period)	1,507	3,979	551	2,936	539	1,536	240
Total VaR (99% 10 day holding period)	4,766	12,564	1,742	9,284	1,704	4,857	759

Amounts in ISK m

To assess VaR, the bank uses historical data and data weighted to give more significance to recent figures. As VaR gives an assessment of the risk based on previous market conditions, very substantial changes in market conditions can result in some inaccuracy in assessment. Landsbanki 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 is counted. According to the regulatory standard for back-testing, VaR is to be measured assuming a ten-day holding period with a 99% level of confidence. For Landsbanki's regulatory trading book, there were three instances in the last 12 months where the results of back testing exceeded the corresponding VaR.

2.4 Managing Liquidity Risk (risk arising from mismatch of assets and liabilities)

The bank's liquidity risk is divided into three types: intraday liquidity risk, short-term liquidity risk extending over several months, and risk due to mismatch of longer-term assets and liabilities. In measuring and managing liquidity risk, a distinction is also made between domestic and foreign liquidity risk. The bank's objective is to minimise 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. Treasury implements this policy and estimates future cash flow in co-operation with Risk Management. Landsbanki follows rules on liquidity set by the Central Bank of Iceland, i.e. 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. At the end of September 2007, Landsbanki's liquidity ratio, calculated by balancing assets and liabilities in accordance with Central Bank Rules No. 317/2006 on the Liquidity Ratio for Credit Institutions, was 1.96.

Landsbanki has also adopted in-house criteria for foreign currency liquidity, following the issuance by the Icelandic Financial Supervisory Authority (FME) of Guidelines on Foreign Currency Liquidity Management. These Guidelines cover both short-term and longer-term liquidity risk. They provide for stress testing of the foreign liquidity position regularly, based on conceivable future scenarios resulting from limited access to foreign financial markets. The key criterion is whether the liquidity position covers a situation (stress test) where access to capital market funding is closed for up to 12 months while the bank repays all due liabilities at maturity as well as other confidence-sensitive customer deposits and maintains a stable business volume. At 30 September 2007, Landsbanki surpassed this target by a comfortable margin. Long-term debt maturing in 2007 and 2008 amounts to EUR 1.1 bn compared to liquid assets of EUR 9.7 bn at 30 September 2007.

2.5 Managing Operational Risk

While managing directors are responsible for operational risk within their respective divisions, the day-to-day management is in the hands of department heads. The Operational Risk department is responsible for establishing, maintaining and co-ordinating the bank's operational risk management framework in co-operation with relevant departments. The framework's purpose is to ensure that identification, assessment, reporting and monitoring of operational risk is consistent throughout the bank. Other primary goals include ensuring that all of the bank's business units are highly aware of operational risk, that a robust monitoring system is in place and that controls are implemented in a targeted and effective manner.

In assessing operational risk, the bank applies a range of methods developed over recent years. This includes self-assessment by the management of each business unit. The self-assessment focuses on the possible frequency of events and their potential financial impact in order to identify and estimate key risks. In future, all Landsbanki business units are to carry out regular self-assessment exercises. Tracking financial losses resulting from operational risk events is a good basis for assessing and analysing this type of risk.

3 Persons Responsible

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

The Registration Document has been prepared by Landsbanki Íslands hf. - Corporate Finance, Hafnarstræti 5, Reykjavik, Iceland.

Reykjavik, 21 December 2007.

On behalf of the Board of Directors of Landsbanki Íslands hf., Austurstræti 11, 155 Reykjavik, Iceland

Björgólfur Guðmundsson

Chairman of the Board

On behalf of Landsbanki Íslands, Austurstræti 11, 155 Reykjavik, Iceland

Halldór J. Kristjánsson

CEO

Sigurjón Þ. Árnason

CEO

4 Statutory Auditors

Landsbanki's Statutory Auditors at the time covered by the historical financial information in the Registration Document were PricewaterhouseCoopers hf., Skógarhlíð 12, Reykjavik, Iceland, and on their behalf Vignir Rafn Gíslason, Seiðakvísl 34, Reykjavik, Iceland, Hjalti Schiöt, Melahvarfi 7, Kópavogur, Iceland, Þórir Ólafsson, Hálsaseli 33, Reykjavik, Iceland and Ólafur Kristinsson, Frostafold 14, Reykjavik, Iceland. All of the above mentioned persons are members of the Institute of State Authorized Public Accountants in Iceland.

Landsbanki's Statutory Auditors have not resigned or been removed from their positions during the period covered by the historical information. Landsbanki's Statutory Auditors have been re-appointed during the period covered by the historical information.

Landsbanki's Statutory Auditors have audited Landsbanki's financial statements for the period 1 January 2004 to 31 December 2006. The financial statements for 2005 and 2006 have been prepared in accordance with International Financial Reporting Standards (IAS/IFRS). The financial statements for 2004 were prepared in accordance with Icelandic GAAP. Their examination did not reveal anything to indicate otherwise than that the financial statements

give a true and fair picture of the bank's performance during this period, its balance sheets as of 31 December each year and changes to its financial situation occurring during the period.

Landsbanki's Statutory Auditors have reviewed Landsbanki's interim financial statement for the first nine months of 2007 and 2006. The interim financial statements were prepared in accordance with International Standards on Review Engagements 2410. Based on their review nothing came to their attention that caused them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The financial information for 2004 represented in this Registration Document is based on the transition to IFRS explained in note 40 in the 2005 financial statement, which makes this information comparable to the 2005 and 2006 financial information.

5 Selected Financial Information

The following table shows selected financial information from Landsbanki's Consolidated Financial Statements. The information dates from the years 2006, 2005, 2004 and the first nine months of 2007 and 2006. Further information regarding Landsbanki's accounts is located in chapter 13 of the Registration Document.

Key figures					
Income Statement	2007 Q1-Q3	2006 Q1-Q3	2006	2005	2004
Interest revenues	144,160	98,216	133,102	66,437	34,252
Interest expenses	105,336	66,306	91,611	43,441	19,517
Net interest revenues	38,825	31,910	41,491	22,996	14,734
Fee and commission income	33,712	23,136	32,459	18,479	10,234
Fee and commission expense	4,004	2,767	4,092	1,754	1,344
Net fee and commission income	29,709	20,368	28,366	16,726	8,891
Other operating revenues	16,672	12,328	19,568	21,257	9,842
Net operating revenues	85,206	64,607	89,426	60,978	33,467
Salaries and related expenses	26,919	17,469	24,458	12,682	7,794
Administrative expenses	13,981	10,089	14,130	8,284	6,667
Operating expenses	40,900	27,557	38,588	20,967	14,460
Impairment on loans and advances and assets held for sale	4,670	4,812	6,144	6,197	4,485
Profit before impairment on goodwill and income tax	39,636	32,237	44,694	33,815	14,521
Impairment on goodwill	0	0	0	3,033	0
Income tax	4,608	6,075	4,479	5,764	1,798
Net profit	35,028	26,162	40,215	25,017	12,723
Attributable to:					
Shareholders of Landsbanki	34,215	25,242	38,906	24,740	12,574
Minority interest	812	920	1,309	277	149
Balance sheet	30.09.07		31.12.06	31.12.05	31.12.04
Cash and cash balances with Central Bank	48,440		31,669	16,611	18,237
Loans and advances to financial institutions	134,379		215,618	86,919	72,060
Loans and advances to customers	1,840,584		1,438,395	984,593	542,215
Financial assets at fair value and associates	680,728		376,809	218,894	64,730
Other assets	142,552		110,432	98,443	39,900
Total assets	2,846,682		2,172,924	1,405,460	737,141
Deposits from financial institutions	210,332		141,105	144,596	63,476
Deposits from customers	1,390,022		682,846	334,163	215,730
Borrowing	749,629		1,014,976	689,989	375,084
Subordinated loans	82,517		89,754	49,074	22,570
Other liabilities	234,211		94,785	74,022	21,572
Equity	176,486		144,282	110,059	37,705
Minority interest	3,485		5,175	3,557	1,004
Total liabilities and equity	2,846,682		2,172,924	1,405,460	737,141
Cash flow *	2007 Q1-Q3	2006 Q1-Q3	2006	2005	2004
Cash flow from (used by) operating activities	314,056	(206,932)	(162,146)	(346,317)	(179,601)
Cash flow used by investing activities	(16,361)	(5,676)	(11,126)	(36,290)	(16,675)
Cash flow provided by financing activities	(202,400)	216,556	177,304	388,730	199,536

Amounts in ISK m

* In 2006 Landsbanki changed its method of preparing the cash flow from the direct method to the indirect method. Both methods yield the same result but different procedures are used to arrive at the cash flows. The 2006 and 2005 numbers are based on the indirect method but 2004 numbers on the direct method.

Key ratios

	2007 Q1-Q3	2006 Q1-Q3	2006	2005	2004
Return on equity before taxes	37.5%	40.4%	40.3%	61.8%	57.2%
Return on equity after taxes	33.0%	32.6%	36.3%	45.8%	49.5%
Tier 1 ratio	9.9%	13.0%	13.0%	11.9%	7.8%
Equity ratio (CAD)	11.2%	15.0%	14.8%	13.1%	10.4%
Cost-income ratio	48.0%	42.7%	43.2%	34.4%	43.2%
Operating expenses as a ratio of average capital position	2.2%	2.1%	2.1%	2.0%	2.5%
Interest spread as a ratio of average capital position	2.1%	2.5%	2.3%	2.2%	2.6%
Deposits/loans to customers	75.5%	39.4%	47.5%	33.9%	39.6%
Deposits/total assets	48.8%	26.1%	31.4%	23.8%	29.3%
Ratio of provision to lending position at year-end	0.32%	0.44%	0.37%	0.58%	0.73%
Loan loss ratio	0.07%	0.11%	0.13%	0.19%	0.33%
Share price at period-end	40.5	26.6	26.5	25.3	12.1
Change in share price adjusted for dividend payments	54.3%	6.3%	5.9%	110.7%	110.3%
Number of positions at year-end	2,499	2,046	2,117	1,725	1,121

6 Information about Landsbanki

Legal name:	Landsbanki Íslands hf.
Commercial name:	Landsbankinn within Iceland and Landsbanki outside of Iceland
State Reg. No.:	540291-2259
Domicile and registered office:	Austurstræti 11, 155 Reykjavik, Iceland
Telephone number:	+354 410 4000
Legal form:	Public limited company
Place of registration:	Iceland
Date of incorporation:	1 July 1886
Country of incorporation:	Iceland
Website:	www.landsbanki.is

6.1 Regulation

Landsbanki operates in accordance with Act No. 2/1995 on Public Limited Companies. Various other Acts apply to the Bank's activities, such as Act No. 161/2002 on Financial Undertakings; Act No.108/2007 on Securities Transactions; Act No. 30/2003 on Undertakings for Collective Investment in Transferable Securities (UCITS) and Investment Funds; Act No. 110/2007 on Stock Exchanges; Act No. 98/1999 on Deposit Guarantees and an Investor-Compensation Scheme; Act No. 131/1997 on Electronic Registration of Title to Securities; Act No. 36/2001 on the Central Bank of Iceland; Act No. 87/1992 on Foreign Exchange and Act No. 64/2006 on Measures to Prevent Money Laundering and Terrorist Financing.

Landsbanki is authorised and regulated by the Financial Supervisory Authority (FME), as provided for in Act No. 161/2002 on Financial Undertakings, and Act No. 87/1998 on Official Supervision of Financial Activities.

The regulatory framework for Landsbanki's main operating subsidiaries, Landsbanki Luxembourg, Landsbanki I Kepler, Merrion I Landsbanki, Landsbanki Securities UK, Landsbanki Guernsey Ltd. and Heritable Bank are as follows.

Landsbanki Luxembourg S.A. operates in accordance with the Law of 5 April 1993 on the financial sector and is authorised by the Commission de Surveillance du Secteur Financier (CSSF). Landsbanki Luxembourg S.A. is subject to surveillance by the CSSF.

Landsbanki | Kepler operates in accordance with the French Code Monétaire et Financier. Landsbanki | Kepler is authorised and is subject to surveillance by both the Banque de France (French Code Monétaire et Financier) and the Autorité des Marchés Financiers (General Regulations of the Autorité des Marchés Financiers).

Landsbanki I Kepler branches act under the European passport (French Code Monétaire et Financier) and are subject to surveillance by the AFM (Amsterdam branch), BaFin (Frankfurt branch), CNMV (Madrid branch), CONSOB (Milan branch), and SFBC (Zurich branch). Landsbanki | Kepler has subsidiaries in Geneva and New York, which are licensed and regulated by SFBC and NASD respectively.

Merrion I Landsbanki is authorised and regulated by the Financial Regulator in Ireland and is a member firm of the Irish Stock Exchange and London Stock Exchange. Various Acts apply to Landsbanki I Merrion and its subsidiaries, such as Companies Acts, 1963-2003; Markets in Financial Instruments Regulations 2007; Investment Funds, Companies and Miscellaneous Provisions Act, 2005; Criminal Justice Act, 1994 (as amended); Investor Compensation Act, 1998 and Data Protection Act, 1988-2003.

Landsbanki Securities (UK) is registered in England and Wales, is a member of the London Stock Exchange and is authorised and regulated in the United Kingdom by the Financial Services Authority.

Heritable Bank is registered in Scotland and authorised and regulated in the United Kingdom by the Financial Supervisory Authority.

The main Acts under which Landsbanki Securities (UK) and Heritable Bank Ltd. operate in the UK are the Companies Act 2006, the Financial Services and Markets Act 2000 and the Data Protection Act 1998.

Landsbanki Guernsey Ltd. is licensed and regulated by the Guernsey Financial Services Commission under the Banking Supervision (Bailiwick of Guernsey) Law 1994, as amended and conducts business only in Guernsey; it is not authorised to accept deposits elsewhere.

6.2 Key Milestones

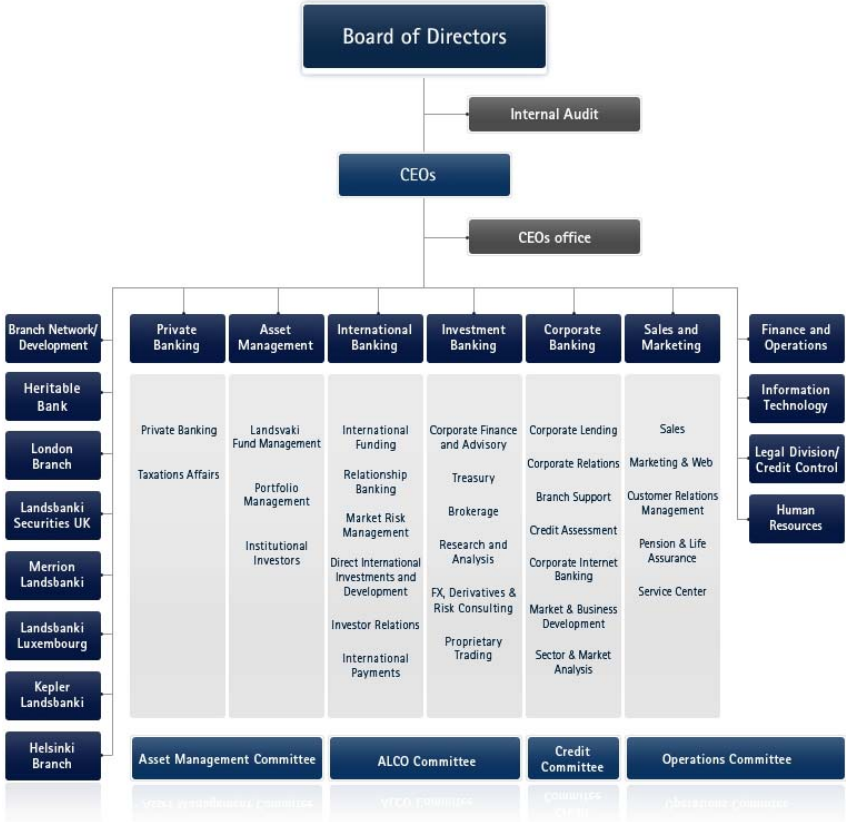
1886	Landsbanki established by the Icelandic government. The purpose of establishing the bank was to provide the monetary basis to encourage industrial progress in Iceland.
1887	Landsbanki merged with the Reykjavik Savings Bank (Sparisjóður Reykjavíkur) and started to provide savings and current account facilities.
1899	Landsbanki moved to grand, new premises on the corner of Pósthússtræti and Austurstræti, where the bank's head office is still located.
1927/1928	Alþingi (Icelandic Parliament) passed new legislation on Landsbanki, giving the bank central banking functions, with exclusive right to issue bank notes.
1957	Landsbanki was divided into two divisions, the Central Bank and the Commercial Bank, each under separate management. The final separation was enacted in 1961, with the founding of the Central Bank of Iceland, at which point Landsbanki ceased issuing notes and became purely a commercial bank.
1997	The first step in the privatisation of Landsbanki was taken when a limited liability company was founded on 10 September 1997, as Landsbanki Íslands hf. took over all of Landsbanki's operations as well as its assets and obligations as of 1 January 1998.
1998	Landsbanki was listed on the Iceland Stock Exchange (now OMX ICE) through issuing 15% of new shares to the market.
1999	The Icelandic state sold 15% of its holding in a public offering.
2000	Landsbanki purchased a 70% holding in Heritable Bank Ltd. in London. Landsbanki also obtained an option on the remaining 30% held by other parties, which it exercised gradually. At the end of 2003, Landsbanki had fully acquired the company.
2001	Alþingi approved the sale of the state's entire remaining holding in Landsbanki.
2002	Another 20% of the bank's shares were sold in a public offering and that same year the holding company Samson eignarhaldsfélag ehf. acquired a stake of 45.8% from the state.
2002	Landsbanki acquired 51% of SP-Fjármögnun hf.
2003	The privatisation of Landsbanki was formally completed when the national treasury sold its remaining 2.5% in a public offering.
2003	An additional CEO was appointed and the executive administration extensively restructured. Branches were made more independent. Securities and investment banking activities were substantially reinforced with additional personnel under the new structure and corporate banking activities were expanded.
2003	Landsbanki acquired Bunadarbanki International S.A. in Luxembourg, which subsequently became Landsbanki Luxembourg S.A.
2005	Landsbanki opened a London branch which was formally licensed to operate at the beginning of 2005, specialising in lending.

- 2005 Landsbanki acquired UK stockbroker Teather & Greenwood plc. in London in February.
- 2005 Landsbanki acquired an 81% holding in the Paris-based securities firm Kepler Equities S.A., with an agreement to acquire the remaining 19% share capital over the next five years.
- 2005 The Minister of Agriculture accepted Landsbanki's offer for the assets and liabilities of the Agricultural Loan Fund at the end of September.
- 2005 Landsbanki acquired Merrion Capital Group Ltd. in Ireland in November, with an initial 50% shareholding and an agreement to acquire the remaining 50% over the next three years.
- 2006 Landsbanki acquired Cheshire Guernsey Ltd.
- 2007 Landsbanki acquired Bridgewell Group plc, which was merged with Teather & Greenwood Landsbanki to form Landsbanki Securities UK.

6.3 Organisation

Landsbanki's current operations are divided into six profit-generating divisions: Private Banking, Asset Management, International Banking, Investment Banking, Corporate Banking and Sales and Marketing. In addition, the bank's subsidiaries abroad, Heritable Bank, Landsbanki Luxembourg S.A., Landsbanki | Kepler, Merrion | Landsbanki, Landsbanki Securities UK, and Landsbanki's London and Helsinki Branches constitute separate divisions.

The bank's branches are directly responsible to the bank's CEOs, while their daily operations are under the direction of its various divisions, according to the nature of their activities. The bank has four support divisions: Legal Division/Credit Control, Operations, Human Resources and Information Technology.



6.4 Investments

The following table shows Landsbanki's principal investments in related companies in 2005, 2006 and up to the date of this Registration Document. There were no principal investments in related companies in 2004.

Investment in related companies, 2004-2007					
Company	Residence	Ownership	Financing	Purch.price	Year
Bridgewell Group plc	UK	100.0%	From operations/shares in Landsbanki	8,341	2007
Merrion Capital Group Ltd.	Ireland	17.0%	From operations	2,265	2007
Kepler Equities S.A.	France	16.0%	From operations	3,641	2007
Cheshire Guernsey Ltd.	UK	100.0%	From operations	2,887	2006
Merrion Capital Group Ltd.	Ireland	50.0%	From operations	2,100	2005
Agricultural Loan Fund	Iceland	100.0%	From operations	2,653	2005
Key Business Finance Corporation plc	UK	100.0%	From operations	1,530	2005
Lex Life & Pension S.A.	Luxembourg	97.5%	From operations	468	2005
Kepler Equities S.A.	France	84.0%	From operations	5,906	2005
Teather & Greenwood Holdings plc	UK	100.0%	From operations	5,486	2005

Amounts in ISK m

Cheshire Guernsey Ltd. now operates under the name Landsbanki Guernsey Ltd., and offers a good selection of no-notice, notice and fixed-rate fixed term postal deposit products.

Merrion Capital Group Ltd. (Merrion | Landsbanki) is a leading independent stockbroking and corporate finance firm in Ireland. In early 2007 Landsbanki acquired a further 16.67% of the company in accordance with the earnout structure agreed at the outset of the acquisition. Landsbanki will acquire the remainder of the company in 2009.

At the time of Landsbanki's acquisition of the Agricultural Loan Fund in September 2005 it had built up valuable business relationships with Icelandic farmers and provided them with significant financial services in connection with their investments and agricultural development throughout the country. It had around 3000 clients, with a total of 10,000 loans totalling some ISK 14 bn. The Agricultural Loan Fund's liquid assets amounted to around ISK 3 bn. The terms of Landsbanki's offer provided for the bank to take over debt instruments issued by the Agricultural Loan Fund amounting to ISK 13.75 bn.

Key Business Finance Corporation plc provides short-term working capital financing for the legal profession and is a subsidiary of Heritable Bank Ltd., a Landsbanki subsidiary.

Lex Life & Pension S.A. provides specialised life insurance products to European and international clients. It is a subsidiary of Landsbanki Luxembourg S.A., a Landsbanki subsidiary.

Kepler Equities S.A. (Landsbanki | Kepler) is a Continental European securities company that provides equity research and research-based institutional brokerage and securities placement.

Teather & Greenwood Holdings plc is a holding company for Teather & Greenwood Ltd., which is an independent UK stockbroker specialising in institutional stockbroking and corporate finance advisory services in the small and mid-cap sectors, along with a large-cap institutional agency business.

Bridgewell Group plc is a UK broker and investment bank. Payment was made up of cash (10%) and new issued Landsbanki shares (90%).

Teather & Greenwood Ltd. and Bridgewell Group plc have been merged to form Landsbanki Securities UK.

Prospective investments

Landsbanki's well-publicised strategic vision is to achieve expansion through a balanced combination of organic growth and strategic acquisitions. Being a part of a consolidating financial industry, Landsbanki is therefore routinely presented with capital investment opportunities which it evaluates from time to time. Consequently, it may at any given time, be considering any number of such opportunities.

When evaluating such opportunities, Landsbanki takes into account its financial targets, as well as other factors concerning the potential acquisition, such as its strategic fit with the Landsbanki Group, its profitability, funding structure, level of goodwill within its assets, as well as any conflicts of interest which the contemplated acquisition

may give rise to. Landsbanki will only pursue those opportunities which it believes will complement its strategic vision.

At the date of this Registration Document Landsbanki has not made any firm commitments in respect of any such principal investments. However, on 8 November 2007, Landsbanki announced that it is contemplating submitting a cash offer for the entire issue share capital of the UK financial services provider Close Brothers Group plc in cooperation with Cenkos Securities plc, a leading UK securities house. Should the contemplated transaction succeed, Landsbanki would ultimately be acquiring the banking business of the Close Brothers Group plc, whereas Cenkos Securities plc would ultimately be acquiring Close Brothers Group plc's other business lines. These considerations are still ongoing and there can be no certainty that they will lead to the submission of an offer for Close Brothers Group plc.

6.5 Subsidiaries

The following table shows the principal subsidiaries of Landsbanki that the bank believes are likely to have a notable permanent effect on the assessment of the assets and liabilities and the financial position of the bank. Voting rights are in accordance with Landsbanki's shareholdings. Landsbanki and its subsidiaries conclude internal transactions on normal commercial terms and subject to rules on arm's length transactions.

Principal subsidiaries			
Name	Residence	Operation	Ownership
Landsvaki hf.	Iceland	Operation company for mutual funds	100%
Merrion Capital Group Ltd.	Ireland	Stockbrokers and financial services	67%
SP Fjármögnun hf.	Iceland	Leasing company	51%
Landsbanki Holdings Europe S.A.	Luxembourg	Holding company	100%
Landsbanki Luxembourg S.A.	Luxembourg	Private and corporate banking	100%
Kepler Equities S.A.	France	Stockbrokers and financial services	100%
Heritable Bank Ltd.	UK	Corporate banking	100%
Landsbanki Guernsey Ltd.	UK	Retail banking	100%
Landsbanki Securities Holdings plc	UK	Stockbrokers and financial services	100%

Landsbanki Guernsey Ltd. (UK)

Cheshire Guernsey Ltd. was established in 1997, with the aim of attracting sterling deposits from UK and international retail depositors whose circumstances allow them to benefit from placing their funds in a high quality, well regulated, politically stable offshore financial services centre. After Landsbanki's acquisition of Cheshire Guernsey Ltd. its name was changed to Landsbanki Guernsey Ltd.

Landsbanki has paid up its entire holding in the company. Landsbanki and Landsbanki Guernsey Ltd. conclude internal transactions, none of which involve any abnormal lending activities.

Heritable Bank Ltd. (UK)

Heritable Bank Ltd. was established in 1877. In 2000, Landsbanki acquired a 70% holding in the bank and steadily increased its stake until Heritable Bank Ltd. became a wholly owned subsidiary of Landsbanki at the end of 2003.

Heritable Bank Ltd. specialises in advisory and financing services for housing development ventures. In 2003, the bank added residential mortgages to its core activities. It also began to receive deposits from UK corporations and local authorities.

Landsbanki has paid up its entire holding in the company. Landsbanki and Heritable Bank Ltd. conclude internal transactions, none of which involve any abnormal lending activities.

Landsbanki Securities Holdings plc (UK)

The businesses of Bridgewell Group plc and Teather & Greenwood | Landsbanki are complementary and were therefore merged to form Landsbanki Securities UK. Landsbanki Securities Holdings plc is the holding company for Landsbanki Securities UK.

Landsbanki has paid up its entire holding in the company. Landsbanki Securities Holdings plc concludes internal transactions, none of which involve any abnormal lending activities.

Landsbanki Holdings Europe S.A. (Luxembourg)

Landsbanki Holdings Europe S.A. is a holding company fully owned by Landsbanki. Kepler Equities S.A. (Landsbanki | Kepler) and Landsbanki Luxembourg S.A. are subsidiaries of Landsbanki Holdings Europe S.A.

Landsbanki Luxembourg S.A. offers a variety of private banking services, asset management and other financial services for high-net-worth individuals and their companies. It has also developed solid business connections with small and medium-size financial enterprises in Northern Europe providing financing and asset management services. In addition, the bank participates in financing purchases of European commercial real estate by wealthy European investors.

Kepler Equities S.A. (Landsbanki | Kepler) was founded in Paris in 1997 as Julius Baer brokerage. The Kepler Equities brand was launched in February 2004. Headquartered in Paris, Landsbanki | Kepler has operations in seven countries: France, Germany, Italy, the Netherlands, Spain, Switzerland and the United States, where it carries out brokering activities in New York. The company specialises in equity research and brokering services.

In September 2005, Landsbanki acquired a holding of 81% in Landsbanki | Kepler with the agreement to acquire the remaining shares in the company over the following five years. Landsbanki's holding in Landsbanki | Kepler is 100% as of 30 September 2007.

Landsbanki has paid up its entire holding in Landsbanki Holdings Europe S.A. Landsbanki and Landsbanki Holdings Europe S.A. conclude internal transactions, none of which involve any abnormal lending activities.

Landsvaki hf. (Iceland)

Landsvaki hf. is the management company for Landsbanki's mutual funds. With the coming into effect of Act No. 30/2003 on Undertakings for Collective Investment in Transferable Securities (UCITS) and Investment Funds, the funds Landssjóður hf. and Landssjóður 2 hf. were merged with Landsvaki hf.

Landsbanki has paid up its entire holding in the company. Landsbanki and Landsvaki hf. conclude internal transactions, none of which involve any abnormal lending activities.

Merrion Capital Group Ltd. (Ireland)

Established in Ireland in 1999, Merrion Capital Group Ltd. (Merrion | Landsbanki) is a leading independent stockbroking and corporate finance firm in Ireland. Landsbanki acquired a 50% share holding in Merrion | Landsbanki in November 2005, a further 16.67% in 2007 with acquisition of the remaining 33.33% scheduled over the next two years.

Landsbanki has paid up its entire holding in the company. Landsbanki and Merrion | Landsbanki conclude internal transactions, none of which involve any abnormal lending activities.

SP-Fjármögnun hf. (Iceland)

SP-Fjármögnun hf. was established by the Icelandic savings banks in 1995. In November 2002, Landsbanki acquired a 51% stake in SP-Fjármögnun hf., with the remaining 49% held by the savings banks. SP-Fjármögnun hf. has two types of activities: equipment financing in the form of asset leasing, and motor vehicle financing, for both individuals and corporations.

Landsbanki has paid up its entire holding in the company. Landsbanki and SP-Fjármögnun hf. conclude internal transactions, none of which involve any abnormal lending activities.

6.6 Other Subsidiaries

The following table shows the other subsidiaries of Landsbanki. Voting rights are in accordance with Landsbanki's shareholdings. Landsbanki and its subsidiaries conclude internal transactions on normal commercial terms and subject to rules on arm's length transactions.

Other subsidiaries			
Name	Residence	Operation	Ownership
LI Investments Ltd.	British Virgin Islands	Holding company	100%
Hömlur hf.	Iceland	Holding company for appropriated assets	100%
Landsbankinn eignarhaldsfélag ehf.	Iceland	Holding company	100%
Landsbankinn fasteignafélag ehf.	Iceland	Real estate company	100%
Landsbankinn - Fjárfesting hf.	Iceland	Holding company	100%
Landsbanki Vatnsafl ehf.	Iceland	Holding company	100%
Stofnlánadeild Samvinnufélaga	Iceland	Holding company (dormant)	100%
Verðbréfun hf.	Iceland	Securitization company	100%
LI Investments AB	Sweden	Holding company	100%
Landsbanki Holdings plc	UK	Holding company	100%

6.7 Associates

Associates are companies in which Landsbanki has made a long-term investment and in which it owns a considerable share, but no more than 50%. Holdings in affiliates are recognised in accordance with the bank's share in their equity capital and its proportionate share in their profit or loss. Dividends paid are entered against the bank's holding in the company in question.

Associates of the Group		
Name	Holding	Book Value 30.9.07
Eignarhaldsfélagið ehf.	49.0%	1,013
Eignarhaldsfélagið Portus hf.	50.0%	855
Valitor hf.	38.0%	854
Creditinfo Group hf.	39.4%	535
Reiknistofa bankanna	33.9%	515
Rockview Merriion Investments	50.0%	403
Borgun hf.	20.0%	307
Intrum á Íslandi ehf.	33.0%	172
Liftryggingamiðstöðin hf.	34.0%	144
Hydrokraft Invest hf.	50.0%	100
LME eignarhaldsfélag ehf.	40.0%	0
Other partially owned companies		133

Amounts in ISK m

Eignarhaldsfélagið ehf.

Landsbanki owns 49% in the investment company Eignarhaldsfélagið ehf. The carrying amount of shares in Eignarhaldsfélagið ehf. in Landsbanki's accounts was ISK 1,013 m as of 30 September 2007. No abnormal lending activities are involved.

Eignarhaldsfélagið Portus hf.

Portus hf. is a special-purpose entity established to build and operate a concert hall, convention centre and hotel in downtown Reykjavik. Landsbanki owns 50% of the company's share capital. The carrying amount of shares in Eignarhaldsfélagið Portus hf. in Landsbanki's accounts was ISK 855 m as of 30 September 2007. No abnormal lending activities are involved.

Valitor hf.

Valitor hf. operates payment card services, issuing VISA credit cards and VISA ELECTRON debit cards backed by commercial banks and savings banks. Landsbanki owns 38% of the company's share capital. The carrying amount of shares in Valitor hf. in Landsbanki's accounts was ISK 854 m as of 30 September 2007. No abnormal lending activities are involved.

Creditinfo Group hf.

The company's purpose is the registration and communication of information relating to financial and credit matters in foreign markets. Landsbanki owns 39.4% of the company's share capital. The carrying amount of shares in Creditinfo Group hf. in Landsbanki's accounts was ISK 535 m as of 30 September 2007. No abnormal lending activities are involved.

Reiknistofa bankanna (Icelandic Banks' Data Centre)

Reiknistofa bankanna is owned by the country's commercial banks and savings banks, the Central Bank, Greiðslumiðlun hf. and Kreditkort hf. The purpose of Reiknistofa Bankanna is to operate settlement and information systems for its members. Reiknistofa bankanna is jointly operated by its owners, who share the profit or loss on its activities. Landsbanki's share is 33.9% and the carrying amount of Reiknistofa Bankanna in the bank's accounts was ISK 515 m as of 30 September 2007. No abnormal lending activities are involved.

Rockview Merrion Investments Ltd.

Landsbanki's subsidiary Merrion | Landsbanki has been successfully involved in fund management since 2000 through Rockview Merrion Investments Ltd. Landsbanki's holding in Rockview Merrion Investments Ltd. is 50%. The carrying amount of shares in Rockview Merrion Investments Ltd. in Landsbanki's accounts was ISK 403 m as of 30 September 2007. No abnormal lending activities are involved.

Borgun hf.

Borgun hf. operates payment card services and is the agent for MasterCard and Maestro cards in Iceland. Landsbanki owns 20% of the company's share capital. The carrying amount of shares in Borgun hf. in Landsbanki's accounts was ISK 307 m as of 30 September 2007. No abnormal lending activities are involved.

Intrum á Íslandi ehf.

The purpose of Intrum á Íslandi ehf. is to collect payments in arrears for companies, institutions and individuals. It assists customers in achieving maximum results in collecting receivables efficiently, guided by the interests both of its customers and their debtors. Landsbanki owns 33% of the company's share capital. The carrying amount of shares in Intrum á Íslandi ehf. in Landsbanki's accounts was ISK 172 m as of 30 September 2007. No abnormal lending activities are involved.

Líftryggingamiðstöðin hf.

Landsbanki owns 34% of the life insurance company Líftryggingamiðstöðin hf. The carrying amount of shares in Líftryggingamiðstöðin hf. in Landsbanki's accounts was ISK 144 m as of 30 September 2007. No abnormal lending activities are involved.

Hydrokraft Invest hf.

The purpose of Hydrokraft Invest hf. is to invest in energy projects outside of Iceland, mainly hydropower projects, but also projects in other fields of renewable energy. Landsbanki owns 50% of the company's share capital. The carrying amount of shares in Hydrokraft Invest hf. in Landsbanki's accounts was ISK 100 m as of 30 September 2007. No abnormal lending activities are involved.

LME eignarhaldsfélag ehf.

LME eignarhaldsfélag ehf. holds a 43% stake in Stork N.V. London Acquisition B.V. has announced that it intends to make an offer for all outstanding shares in Stork N.V. If this offer will be declared unconditional LME eignarhaldsfélag ehf. will be dissolved and Landsbanki will put 65.75 m.EUR into London Acquisition B.V.

Landsbanki owns a 40% stake in LME eignarhaldsfélag ehf. The carrying amount of shares in LME eignarhaldsfélag ehf. in Landsbanki's accounts was ISK 0 m as of 30 September 2007. No abnormal lending activities are involved.

Total credit extended to associated companies by the bank amounted to ISK 51,487 m as of 30 November 2007. All of these loans referred have been granted in accordance with the bank's credit rules and on normal commercial terms. No impairment has been recognised by the bank against these loans.

7 Share Capital and Shareholders

7.1 Share Capital

Landsbanki's total share capital amounts to ISK 11,192,754,087 nominal value, fully paid up. All shares are in a single class, bear equal rights and are divided into units of one Icelandic krona (1 ISK) or multiples thereof.

The bank and its subsidiaries own ISK 229,999,510 treasury shares as of 14 December 2007. Treasury shares do not bear voting rights, with the result that active share capital is ISK 10,962,754,577.

Changes in Landsbanki's share capital 2002 - 30 September 2007

Date	Explanation of change	Change (no. of shares)	Total number of shares
01.01.01	Position at beginning of 2001		6,845,703,621
28.08.03	Share capital increase at a share price of 4.8 in exchange for shares in Straumur-Burðarás hf. at the share price of 3.9	344,518,275	7,190,221,896
28.08.03	Share capital increase, sold to Afl fjárfestignarfélag hf. at a share price of 5.1	309,778,103	7,500,000,000
01.01.04	Position at beginning of 2004		7,500,000,000
12.03.04	Share capital increase, sold in a private offering at a share price of 7.6	600,000,000	8,100,000,000
01.01.05	Position at beginning of 2005		8,100,000,000
18.04.05	Share capital increase, sold to shareholders at price of 14.25	800,000,000	8,900,000,000
03.10.05	Share capital increase, delivered to shareholders in Burðarás hf. in connection with the latter's merger with Landsbanki	2,120,677,803	11,020,677,803
01.01.06	Position at beginning of 2006		11,020,677,803
01.01.07	Position at beginning of 2007		11,020,677,803
09.08.07	Share capital increase, delivered to shareholders in Bridgewater Group plc in connection with the latter's merger with Landsbanki at price of 39.4	172,076,284	11,192,754,087

During the period 2004–2006 more than 10% of Landsbanki's capital was paid with assets other than cash in the instance of the share capital increase on 3 October 2005. The share capital increase was turned over to shareholders of Burðarás hf. in connection with the split up of Burðarás hf. into two parts that were subsequently merged with Straumur Fjárfestingabanki hf. and Landsbanki, respectively. Shareholders in Burðarás hf. received shares totalling ISK 2,120,677,803 nominal value in Landsbanki in exchange for their shares of ISK 2,940,400,149 nominal value in Burðarás hf. The exchange ratio for shares in Landsbanki was thus 0.72122.

Authorisation to increase share capital and purchase treasury shares

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

On the Annual General Meeting held 9 February 2007 the Board of Directors was authorised to decide to purchase own shares, or to accept such shares as collateral, amounting to up to 10% of its share capital. The authorisation must be exercised within 18 months of its approval by the Annual General Meeting. Pursuant to this authorisation, the bank may acquire own shares of up to ISK 1,102 m nominal value; if the Board of Directors avails itself of its authorisation to increase share capital, the nominal value provided for shall be increased in direct proportion. Since the date of the Annual General Meeting the bank's share capital has been increased by 172,076,284 shares and

therefore the bank may now acquire own shares of up to ISK 1,119 m nominal value. The purchase price of the shares shall not be higher than 10% above nor lower than 10% below the listed share price on the OMX Nordic Exchange Iceland hf. (OMX ICE) at the time of purchase. This authorisation shall replace an authorisation to acquire up to 10% of the Company's own share capital that was approved by the Annual General Meeting on 4 February 2006.

Shareholders

At the time of publication of this Registration Document, 56% of the share capital of Landsbanki is owned by general investors. General investors include all investors who are not board members, key managers, individual shareholders holding 10% or more, or parties financially connected to them, such as spouses, co-habiting partners and financially dependent children, parent companies or subsidiaries.

At the time of publication of this Registration Document, Landsbanki's shareholders total around 28,000. The ten largest own 7,751,403,443 shares, or the equivalent of 69%. A list of Landsbanki's ten largest shareholders is shown in the accompanying table.

Landsbanki's ten largest shareholders as of 14 December 2007		
Name	No. of shares	Holdings
Samson eignarhaldsfélag ehf	4,559,048,058	40.73%
Landsbanki Luxembourg S.A.	739,928,194	6.61%
LI-Hedge	566,650,791	5.06%
Lífeyrissjóður verslunarmanna	331,092,603	2.96%
ÍslandsbankiFBA - custody account	308,902,434	2.76%
Lífeyrissjóðir Bankastræti 7	277,915,218	2.48%
LB Holding Ltd	276,185,949	2.47%
Arion custody account	267,745,237	2.39%
Proteus Global Holding S.A.	217,966,367	1.95%
Gildi - lífeyrissjóður	205,968,592	1.84%
Total ten largest shareholders	7,751,403,443	69.25%
Other shareholders	3,441,350,644	30.75%
Total share capital	11,192,754,087	100.00%
Treasury shares	229,999,510	2.05%
Total active shares	10,962,754,577	97.95%

Principal shareholders and connections with Landsbanki

The holding company Samson eignarhaldsfélag ehf. has a qualifying holding in Landsbanki amounting to ISK 4,559,048,058 shares, or 40.73%. The principal owners of Samson eignarhaldsfélag ehf. are Björgólfur Guðmundsson, Chairman of Landsbanki's Board of Directors, and Björgólfur Thor Björgólfsson. Although Samson's holding in Landsbanki is over 40%, the company is not obliged to make a takeover bid, since its holding was already over 40% when the law concerning mandatory takeover bids was amended, lowering the reference limit for takeover obligations to 40% from the previous 50%. Should Samson's holding increase to over 45%, or drop below 40% and then increase to over the 40% limit once more, the company could be obliged to make a takeover bid for Landsbanki. The bank has not assisted the company with any provision of credit.

Landsbanki Luxembourg S.A. is formally registered as one of Landsbanki's leading shareholders. Landsbanki Luxembourg S.A. is a wholly owned subsidiary of Landsbanki. Shares registered under Landsbanki Luxembourg S.A. are not Landsbanki's own shares, but are in fact owned by customers of Landsbanki Luxembourg S.A. These shares confer voting rights. Landsbanki Luxembourg S.A. does not exercise the voting rights in a limited company except on the instructions of the customers who are the beneficial owners of the shares. Landsbanki Luxembourg S.A. does not take equity positions on its own account.

Shares registered under LI-Hedge represent forward contracts between Landsbanki and individual investors, who own the voting rights of these shares. No single investor in forward contracts holds voting rights of 5% or more.

Landsbanki's major shareholders do not have different voting rights.

Landsbanki's is a listed company and therefore Article 100 of Chapter X of Act No. 108/2007, on Securities Transactions about mandatory take-over bids applies to the bank. To the knowledge of Landsbanki, no party, or parties acting in concert, other than mentioned above, own or control 40% or more of voting rights in the company, as defined in chapter X of the Act on Securities Transactions. Landsbanki does not know of any arrangement that may at a subsequent date result in change of control of the company.

Members of the Board of Directors of Landsbanki and financially related parties control 41% of the voting rights of the bank. The following table shows the number of shares in Landsbanki held by individual members of the Board of Directors and number of shares held by parties financially related to them.

Board of Directors, holdings as of 14 December 2007

	Holdings in own name	Holdings of fin.rel. parties
Björgólfur Guðmundsson, Chairman of the Board	1,651	4,559,263,379
Kjartan Gunnarsson, Vice-chairman of the Board	2,752,772	89,000,000
Svafa Grönfeldt, Board Member	-	-
Pór Kristjánsson, Board Member	-	45,428,949
Porgeir Baldursson, Board Member	1,490,054	-
Andri Sveinsson, Alternate Board Member	557	-
Gunnar Felixsson, Alternate Board Member	79,440	-
Helga Jónsdóttir, Alternate Board Member	43,891	-
Helga Theodórsdóttir, Alternate Board Member	-	-
Þorsteinn Sveinsson, Alternate Board Member	14,932	61,517

Samson eignarhaldsfélag ehf. owns 4,559,048,058. shares in Landsbanki, or 40.73%. Björgólfur Guðmundsson, Chairman of Landsbanki's Board of Directors is one of the principal owners of Samson eignarhaldsfélag ehf. as discussed above.

Skipholt ehf. owns 89,000,000 shares in Landsbanki, or 0.80%. Kjartan Gunnarsson, Vice-chairman of the Board, is the owner of Skipholt ehf.

Brimalda Capital Ltd. owns 45,428,949 shares, or 0.41% in Landsbanki. Pór Kristjánsson, Board Member of Landsbanki, is a board member of Brimalda Capital Ltd.

Voting rights

All of Landsbanki's shareholders have voting rights in accordance with their shareholdings. Each share in Landsbanki has a nominal value of one Icelandic krona (ISK 1) or multiples thereof. At shareholders' meetings, one ISK in share capital confers one vote. Decisions at shareholders' meetings shall be taken by majority vote unless otherwise specified in the company's Articles of Association or statutory law. In the event of an equality of votes, the election shall be decided by casting lots. Voting shall be by ballot if anyone present and voting at the meeting so requests.

Shareholder agreements

Landsbanki is neither aware of any agreement among company shareholders regarding the exercise of voting rights, nor that shareholders have obliged themselves not to sell their shares for a specific period.

Dividends

Landsbanki has maintained a prudent dividend policy, retaining a high proportion of profits to support its capital ratio and growth strategy.

A decision on the payment and the amount of dividends is based on an assessment of Landsbanki's current situation, its operating outlook, the development of its capital adequacy and proposed investments. Decisions on the payment of dividends, the date of payment, and the issue of bonus shares are taken at the bank's Annual General Meeting, based on recommendations by the Board of Directors. Dividends shall be paid to parties registered in the register of shares at the end of the day of the Annual General Meeting, unless the bank is notified of the assignment of the dividend through the transfer of shares.

Dividends for the years 2004–2006*

	Paid dividend	% of profit	Dividends per share (ISK)
2006	4,408,000,000	11.00%	0.4
2005	3,306,000,000	13.00%	0.3
2004	1,620,000,000	12.75%	0.2

*Dividends for the operating years 2004–2006 were disbursed in 2005–2007

7.2 Landsbanki's Articles of Association

Company's object and purposes

The purpose of the Company is to operate a commercial bank engaging in all activities permitted under the Act on Financial Undertakings according to Article 3 of Landsbanki's Articles of Association.

The company's Board of Directors and senior management

The governing body of the company, which pursuant to Landsbanki's Articles of Association and the Act on Financial Undertakings is called the Board of Directors of the bank, shall be composed of five members elected at the Annual General Meeting for a term of one year. Five alternate members shall be elected at the same time. The eligibility of members of the Board shall be subject to statutory law. Elections shall always be by ballot if the number of nominations exceeds the number of members to be elected.

The Board of Directors of the bank shall elect a Chairman from among its members and allocate tasks in other respects as required. The Board of Directors may entrust the Chairman of the Board to perform certain tasks in the service of the company.

The Chairman shall convene meetings of the Board of Directors of the bank and preside over the meetings. Meetings shall be held whenever the Chairman considers them necessary. The Chairman shall also convene a meeting of the Board of Directors of the bank if requested by a Member of the Board or Group Managing Director and Chief Executive Officer of the bank. Meetings of the Board shall be called with at least twenty-four hours' notice. The presence of the majority of the members of the Board or their alternates constitutes a quorum. Issues shall be decided by majority vote. In the event of an equality of votes, the Chairman shall cast the deciding vote. The Board of Directors of the bank shall keep minutes of proceedings at meetings of the Board and confirm such minutes with their signatures.

The Board of Directors of the bank is responsible for the activities of the bank pursuant to legislation governing such activities, regulations and Landsbanki's Articles of Association, and supervises the operation of the bank. The Board of Directors is responsible for recruiting Group Managing Directors and CEOs and determining their number and terms of employment. The Board of Directors confirms the recruitment of Alternate Group Managing Directors and CEOs pursuant to proposals by the Group Managing Directors and CEOs. The Board of Directors shall determine the company's policy on division of tasks between the Board of Directors and the Group Managing Directors and CEOs,

in accordance with the Companies Act No. 2/1995, and paragraph 1, article 54 of Act 161/2002 on Financial Undertakings.

The Board of Directors will determine the company's internal regulations of Corporate Governance, which will determine the Board's modus operandi in further detail. These regulations shall specifically address the Board's decision-making authority relating to particular transactions, enforcement of regulations relating to the qualifications of board members, handling of information relating to particular clients, board members' memberships on the boards of subsidiaries and associated companies, and enforcement of regulations relating to the handling of board members' own businesses and transactions. These regulations of Corporate Governance shall be sent to the Financial Services Authority in accordance with paragraph 2, article 54 of Act No. 161/2002 on Financial Undertakings.

The Board of Directors alone has authority to grant power of procuration. A majority signature from the Board of Directors commits the bank.

In accordance with the Act on Financial Undertakings, the company's general managers shall be referred to as "bankastjóri" ("Group Managing Director and CEO" in this translation). The Group Managing Directors and CEOs are responsible for the day-to-day operations of the bank and are empowered to make decisions in all affairs of the bank that are not entrusted to others by statutory law, regulations or Landsbanki's Articles of Association. The Group Managing Directors and CEOs shall ensure that the operations of the bank conform to statutory law, government regulations or Landsbanki's Articles of Association and the decisions of the Board of Directors of the bank. The Group Managing Directors and CEOs shall attend the meetings of the Board of Directors of the bank unless the Board of Directors of the bank decides otherwise. The Group Managing Directors and CEOs shall keep a record of all significant decisions made by their office. The Group Managing Directors and CEOs shall meet all qualifications stipulated by the Act on Financial Undertakings and the Companies Act as amended at any time.

Shareholders rights according to Landsbanki's Articles of Association

Shares in the bank may be sold and pledged unless otherwise provided by law.

Transfers of ownership of a share, whether through sale, gift, inheritance, liquidation or enforcement of a court decision, shall always be notified to the offices of the bank as soon as they are effected and the share register shall be amended accordingly.

Any party coming into possession of a share in the company may not exercise his rights unless his name has been registered in the register of shares or he has notified and submitted proof of his ownership of the share. For the bank's part, the register of shares shall be regarded as valid proof of ownership of shares, and dividends at any time as well as bonus shares, notices of meetings and all other notices shall be sent to the party registered at any time as the owner of the shares in question in the register of shares. Dividends shall be paid to those whose names are registered in the register of shares at the end of the day of the Annual General Meeting, unless the company is notified of the endorsement of dividend by the endorsement of share. The bank shall not be held responsible if payments or notices are lost owing to negligence in notifying the bank of changes in ownership or domicile.

No privileges are attached to any shares in the bank. Shareholders are not required to suffer redemption of their shares.

Each shareholder is bound, without special commitment, to abide by Landsbanki's Articles of Association in their present form or as lawfully amended at any time. Shareholders are not liable for the commitments of the bank beyond their share.

Changes to the rights of shareholders

Landsbanki's Articles of Association may be amended at a valid Annual General Meeting or extraordinary shareholders' meeting provided that the amendment is supported by 2/3 of the cast votes and that shareholders controlling at least 2/3 of the shares represented at the meeting participate in the voting, provided that the Articles of Association of the bank or statutory law do not require another proportion of votes.

Convening of shareholders' meetings

Shareholders' meetings are the supreme authority in the affairs of the bank. Shareholders' meetings may be attended by shareholders, their agents and advisors, the bank's Auditor and the bank's Group Managing Director and Chief Executive Officer.

A shareholder may appoint a proxy to attend a meeting on his behalf. The proxy shall submit a written and dated authorisation. A shareholder may attend a meeting accompanied by an advisor. The advisor shall not be entitled to speak, submit motions or vote at shareholders' meetings. The bank's Auditor and the Group Managing Directors and Chief Executive Officers shall have full rights to speak and submit motions even if they are not shareholders. The Board of Directors of the bank shall have the right to invite experts to attend individual meetings if their opinion or assistance is required.

The Annual General Meeting shall be held before the end of the month of April each year. The Annual General Meeting shall be called with a notice on the radio and in newspapers or by other verifiable means with at least one week's and at most four weeks' notice. The notice shall specify the business of the meeting. The Annual General Meeting is valid if it is lawfully convened, regardless of the number of attendees.

Extraordinary shareholders' meetings shall be held when deemed necessary by the Board of Directors of the bank, by a resolution of a meeting, or if the elected Auditor or shareholders holding a minimum of 1/10 of the shares of the company request a meeting by a written notice stating the business of the meeting. Such shareholders' meetings shall be convened no later than 14 days from the date on which the Board of Directors receives the notice.

Extraordinary shareholders' meetings shall be called with at least one week's and at most four weeks' notice. If all shareholders or their proxies are present, they may grant exception from this provision. Shareholders' meetings shall be convened by a notice on the radio and in newspapers or by other verifiable means. The validity of shareholders' meetings shall be governed by the rules governing the validity of Annual General Meetings, cf. paragraph 3 of Article 11 of Landsbanki's Articles of Association hereof.

Change in control of the company

There are no provisions in the company's Articles of Association that would have an effect of delaying, deferring, or preventing a change in control of the company.

Disclosure on shareholder ownership

There are no provisions in the company's Articles of Association that states an ownership threshold above which shareholder ownership must be disclosed. However, as shareholders in a company listed on OMX ICE, shareholders have to comply with provisions in Chapter IX. of Act No. 108/2007 on Securities Transactions, regarding changes in the ownership of substantial holdings.

Changes to share capital

There are no conditions imposed by the company's Articles of Association governing changes in the share capital of the company more stringent than as required by law.

8 Activities

Landsbanki is a full service commercial bank headquartered in Iceland providing retail, corporate and investment banking services. Landsbanki currently has 40 branches and sub-branches throughout Iceland. Through an extensive domestic branch system and a wide-ranging network of international correspondent banks, coupled with a broad range of financial products and services, Landsbanki is a leading provider in Iceland of general and specialised financial services to individuals, corporate entities and institutions. Since 2002, Landsbanki has experienced significant organic growth in its Icelandic banking operations, due in part to the growth of the Icelandic economy.

In recent years, through strategic alliances, Landsbanki has entered into new lines of business, including brokerage, specialty finance and insurance. Through several acquisitions, the bank has expanded its international operations by focusing on opportunities in certain geographic markets and on niche investment banking and asset management businesses.

Landsbanki's main categories of services include retail banking, corporate banking, investment banking business including capital markets services and asset management and private banking services.

8.1 Retail Banking

The retail banking business includes the parent company's branch network, Heritable Bank's residential mortgage division in the UK, and SP-Fjármögnun hf., a leasing subsidiary.

Banking in Iceland today and in recent years has been characterised by rapid changes in customer service channels, with more customers switching banks and stiffening competition. Increasing integration of financial services is a challenge that Landsbanki is meeting proactively and innovatively.

The range of services offered by commercial banks has expanded rapidly over the past few years. Landsbanki's policy has been to build long-term customer relationships, always aiming to provide professional, responsible advice along with a full suite of conventional banking services. In recent years streamlining efforts have meant fewer but larger branches, able to provide a broader service range. Since 1998 the number of branches has been reduced by 24, while the network's productivity has been boosted through better co-ordination of sales and service. More emphasis is placed on personalised customer services and advice, for instance through increased use of electronic channels, including telephone and Internet banking.

In 2006 the bank started to sell non-life insurance, enabling customers to manage all of their traditional household finances in one place. The bank's personal retail offering now includes regular savings, pension savings, loans, debit and credit cards, payment services, investment in equity and bond funds and comprehensive personal and non-life insurance.

Branch lending amounted to ISK 374 bn at 30 September 2007, ISK 294 bn at the year-end 2006 up from ISK 235 bn at year-end 2005 and ISK 130 bn at year-end 2004. Contributing to the increase in 2005 was the 80% growth in personal loans as a result of the Icelandic banks' entry into the housing mortgage market. In 2006 corporate lending growth was however highest, at 39%, while growth in personal loans was only 22%. In 2006 personal lending was scaled down considerably, collateral requirements raised and maximum mortgage loan-to-value ratios lowered.

Branch deposits totalled ISK 249 bn at 30 September 2007, ISK 194 bn at year-end 2006 up from ISK 187 bn at year-end 2005 and ISK 156 bn at year-end 2004. The very modest increase in 2006 reflects a clear shift away from traditional deposits towards other forms of savings in Iceland.

Market share and key indicators

Landsbanki's market share of Icelandic retail banking has remained quite stable from 2004 but according to a telephone survey by Capacent¹, Landsbanki's share of this market stood at around 30% at the end of 2006. Its share of debit card and of credit card turnover was also close to 30% at year-end 2006, according to statistics from the Central Bank of Iceland² and has also remained quite stable from 2004.

Surveys continue to confirm a high level of trust in Landsbanki, both amongst its customers and the general public. In a survey by Capacent¹ at year-end 2006, 97% of the bank's customers described it as reliable or very reliable compared to 97% at year-end 2005 and 95% at year-end 2004.

Retail markets outside Iceland

In 2006, Icesave, a deposit-taking operation offering online, easy-access savings accounts to UK customers at very competitive interest rates was launched. Although retail banking still represents a minor part of the bank's activities outside Iceland, this will change with expansion of the group's overseas deposit-taking businesses.

Landsbanki's launch of Icesave in the UK, the acquisition of Cheshire Guernsey Ltd., and Heritable Bank's deposit activities are the bank's first ventures into retail banking outside Iceland. So far the focus has been exclusively on raising deposits and this will continue to be the main emphasis of retail operations outside Iceland. The Icesave programme was well received after launch on the UK market. At the end of September 2007 total deposits amounted to GBP 4.3 bn and the total number of accounts amounted to 108,000.

8.2 Corporate Banking

The corporate banking business includes the parent company's corporate banking business line (Corporate Banking division in Iceland), the corporate lending of the branches in Iceland, the London and Amsterdam branches and Heritable Bank's corporate banking business line.

Landsbanki's corporate lending totalled ISK 1,454 bn at 30 September 2007 and thus constituted 79% of the bank's total loan portfolio. This is an increase from year-end 2006, when corporate lending totalled ISK 1,147 bn, also constituting 79% of the bank's total loan portfolio. At year-end 2005 corporate lending amounted to ISK 745 bn or 75% and ISK 436 bn or 79% at year-end 2004. Concurrently with the overseas expansion of Landsbanki and other Icelandic

Corporate lending by sector, %

Sector	31.12.06	31.12.05	31.12.04
Services	52%	41%	55%
Retail trade	20%	19%	12%
Construction and industry	15%	16%	15%
Fisheries and seafood industry	12%	13%	15%
Agriculture	1%	1%	1%
Other	0%	10%	2%
Total	100%	100%	100%

businesses, lending to foreign corporate clients has accounted for an ever-larger share of the bank's operations, broadening and diversifying its asset portfolio considerably. At 30 September 2007, 43% of corporate loans were to foreign clients, up from 40% at year-end 2006, 36% in 2005 and 24% in 2004. Landsbanki now serves the European corporate and structural loan market from its offices in Reykjavik, London and Amsterdam and Heritable Bank in London.

In June 2006, the bank opened a branch in Amsterdam focusing on corporate lending. Representative offices were also launched in the Faroe Islands and Norway in 2006, with special emphasis on serving the fisheries and seafood industry. In 2006 another office was opened in Halifax, Canada, concentrating on trade/commodity finance.

¹ Sourced from telephone surveys produced at Landsbanki's request. The consultant firm Capacent, Borgartúni 27, Reykjavik Iceland conducted the surveys. This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information from Capacent.

² Sourced from the Central Bank of Iceland, www.sedlabanki.is. This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information published by the Central Bank.

Regional offices were also opened in 2006 in Birmingham and Manchester in the UK. In the beginning of 2007 Landsbanki opened a branch in Oslo, Norway. The branch took over the role of the representative office opened in 2006. In August 2007 a branch was opened in Helsinki, the bank's second one in Scandinavia. In November 2007 a sales office was opened in Hong Kong, which will serve as a hub for Landsbanki's operations in the Far East, emphasising to begin with specialised trade and inventory finance, corporate finance and asset-backed lending.

The parent company's Corporate Banking division handles transactions with Iceland's largest companies, institutions and local government, as well as assisting individual Landsbanki branches in their corporate transactions. This support to branches enables the bank to offer corporate clients most services these parties require from Landsbanki, regardless of their size or the branch at which they do their banking. Providing credit is naturally the largest single activity, as corporate lending has always been the core of Landsbanki's lending activities.

The bank is a major financier in all industrial sectors and makes every effort to offer professional assistance to all areas of business. Landsbanki counts the majority of OMX ICE-listed companies, excluding the commercial banks, among its corporate clients, acting either as their main bank of business or as one of two banks they deal with. Clients are offered a varied and flexible range of borrowing options and the types of credit and interest terms offered by the bank are very flexible and adapted to the individual client's circumstances.

The Corporate Banking division is comprised of Corporate Lending, Corporate Relations, Branch Support, Credit Assessment, Corporate Internal Banking, Market and Business Development and Sector and Market Analysis.

Customer relations managers handle dealings with the largest corporations, institutions and municipalities. All larger clients have a customer relations manager who is well informed of their situation, in order to ensure prompt response and optimal service. Services range from all types of credit, investments and general handling of numerous other client requirements. To ensure specialist expertise, the customer relations managers are divided into teams by the type of client or service, such as institutional investors, fisheries (serving both fishing and fish processing companies), other industrial sectors, and credit development, which handles more complex and specialised solutions. The number of corporate specialists in the bank's branches has also been increased greatly over the past few years

In 2004, a special group was established to provide services to fisheries clients outside Iceland, especially foreign corporations. The members of the group have lengthy experience of fisheries and marketing of marine products abroad. The foreign corporations are offered comprehensive credit management, including long-term and receivables financing.

The Sector and Market Analysis team was established at the beginning of 2005. It is specifically intended to support lending activities with analyses of markets, sectors, regions, countries, etc. which are broader in scope and more detailed than analyses of individual companies and borrowers.

Credit Assessment in Corporate Banking has two main tasks. Firstly, branch contact persons assist the bank's branches, especially those that do not have an in-house corporate specialist, in lending to small and medium-sized companies. Credit Assessment also handles both corporate and household loan approvals that are in excess of the authorisations of branch managers, but not high enough to require approval by Corporate Banking's credit meetings.

Secondly, Credit Assessment keeps a record of decisions taken at Corporate Banking's credit meetings with the Credit Committee and carries out work related to the bank's annual accounts and development of credit information systems. Credit Assessment also provides general professional support to branches' corporate services, for instance through data processing, product development and developing lending strategies.

Over recent years, considerable changes have been made in processing corporate lending with the aim of improving credit quality and the decision-making process. The regional organisation of branches was eliminated and the role of corporate banking was adjusted to strengthen lending services in the branches and other services to large and medium-sized companies. Most corporate lending activities are administered centrally by Corporate Banking, but all major corporate lending decisions are co-ordinated on a group basis through a centralised Credit Committee in Reykjavik, ensuring consistency and a good overview of lending activities. Landsbanki's lending supervision has been transferred to the legal business line and a new department, branch network supervision, has been established and expanded with added personnel. This department supervises corporate loans in cooperation with the branches and regularly conducts branch loan reviews.

Landsbanki holds a large share in the Icelandic corporate lending market. Near the end of 2006, this share was around 40% compared to 37% at year-end 2005 and 38% at year-end 2004. Of individual business sectors, the bank's share of lending is highest in retail. It also has a very strong showing in the fisheries and seafood industry, as well as general industry sectors.

Around 80% of the non-bank companies listed on the OMX Nordic Exchange Iceland hf. (OMX ICE) at year-end 2006 had Landsbanki as either their principal bank of business or as one of two. The same was true of Iceland's 50 largest companies, ranked in terms of turnover by the business magazine Frjáls verslun³. For 78% of them, Landsbanki was the principal bank of business or one of their two business banks. Of the country's 100 largest companies in this same ranking, 75% do business with Landsbanki.

Landsbanki's market share in domestic corporate lending, leading sectors

	2006	2005	2004
Corporate	40%	37%	38%
Retail trade	54%	45%	34%
Fishing industry	47%	45%	42%
Fisheries	40%	35%	44%
Services	40%	39%	42%
Construction and industry	39%	37%	34%

Source: Landsbanki and the Central Bank of Iceland. This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information published by the Central Bank.

Source: Frjáls verslun³. For 78% of them, Landsbanki was the principal bank of business or one of their two business banks. Of the country's 100 largest companies in this same ranking, 75% do business with Landsbanki.

London Branch

The lending activities in Landsbanki's London Branch are part of Corporate Banking. The London Branch was established in 2005 and includes 5 business lines across lending, derivative, fixed income and deposit taking. There are 3 major areas of lending within the branch. Leverage finance, also often referred to as structured finance, is focused on acquisition related transactions where the bank can act as an originator or as a participant. In the latter case the team works with major international banks on taking participations in loans syndicated to the European leverage loan market. The participations are sometimes supplemented by trading in the secondary loan market, both for diversifying the loan portfolio or to get to the target hold level for the loan. The other half of leverage finance, origination, aims to arrange and underwrite the debt side of transactions normally led by a private equity house, frequently as part of an acquisition. The bank has developed good relationships and outstanding reputation in this market and has funded deals both in the UK as well as in continental Europe. As part of the structuring, the bank frequently works alongside another bank as a joint lead arranger, or heads up the banking group by syndicating to other banks on the market. Landsbanki's Amsterdam branch has a sister operation in the leverage finance area where the team in Amsterdam has the same setup but focuses mainly on local deals.

During latter half of the year 2005 the bank joined forces with a lending team, coming from GMAC Financial Services, and established a lending group which provides asset based lending products to clients. The nature of the asset based deals is that the cash flow is secured by inventory, receivables and then potentially plant&machinery or property. The potential is also to provide leasing and hire purchases in specific situations. The main relationships are across several of the large accounting firms as well as good, long term, with private equity houses. In many cases the two products, have been put together to form a debt package for the client comprising both of a cash flow part, through a leveraged loan, and an asset based part.

In 2007 the branch has launched 3 new business lines, one of them being the third major lending area - trade finance. In this instance the bank is building onto its current foundation and success in seafood related trade finance business. The London operation focuses on commodities, other than fish, and will be funding and providing documentary credits across the trade cycle.

Trading commenced in 2007 for a fixed income team in London. The team is an extension of the treasury operation in Iceland and its main purpose is maintaining a long term liquidity portfolio for the bank, but in addition providing clients with an access to an experienced fixed income trading team.

Also in 2007 we saw the start of trading in the Capital Market Products Unit team, or CMPU, where the bank provides securities finance services, equity derivative trading and structured products. The main clients are institutional investors and hedge-funds across Europe as the CMPU operation partners with Landsbanki's subsidiaries in UK and continental Europe.

³ Sourced from the 9th issue 2006 of Frjáls verslun. Frjáls verslun is published by Heimur hf, Borgartúni 23, Reykjavík Iceland. This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information published by Frjáls Verslun.

From late 2005, the London Branch started raising wholesale deposits in the London money market. These deposits are administered through Landsbanki's subsidiary, Heritable Bank. The success story for the deposit business line really starts towards the end of year 2006 when the bank established a retail deposit program, Icesave, again managed by Heritable bank but customer services outsourced. As explained above the Icesave deposit program is aimed towards UK residents and is an internet only savings account. Similar to the lending side the wholesale deposit business line is also present in Amsterdam where the branch is an active participant in the money market.

Amsterdam Branch

The Amsterdam Branch, established in 2006, works closely with the London Branch. Established with a team previously at HBOS plc, the Amsterdam branch is based on the London branch's successful business model of lending activities mixed with a deposit-taking function. The operational focus of the Amsterdam branch is on corporate and structural lending in the Netherlands and Belgium, as well as commercial real estate. This is a structured finance group where one of the core lending activities will be cash flow lending, concentrating both on the leverage market as well as the corporate market through participations and originations. The Amsterdam branch also intends to participate in real estate portfolio deals in well defined locations within the Benelux areas.

Heritable Bank

Landsbanki acquired 70% ownership of its subsidiary, Heritable Bank in London, in 2000. Heritable became a wholly owned subsidiary of Landsbanki at the end of 2003. Heritable Bank's corporate lending is focused on structured property finance for small and medium-size property developers, mainly in UK residential and commercial markets, and includes senior debt, mezzanine and principal finance structures. Its specialist residential mortgage arm also lends to professional property investors from the UK and elsewhere, secured on UK residential properties. Heritable Asset Finance, established in 2005, undertakes leasing and hire purchase transactions for small and medium companies in the UK, secured on vehicles and other business assets. Its subsidiary, Key Business Finance, acquired in 2005, provides short-term working capital financing for the legal profession.

8.3 Investment Banking

Landsbanki's investment banking business is comprised of the securities business line of the parent company and the three subsidiaries Landsbanki Securities UK, Landsbanki | Kepler and Merrion | Landsbanki .

Investment Banking provides large corporations, local government and institutional investors with a broad range of financial services, including securities brokerage, corporate finance, foreign exchange and derivatives trading. Investment Banking also manages the bank's treasury and debt management and proprietary trading.

Landsbanki's investment banking business was reconstructed in 2003 which created a platform for further growth and since then Landsbanki has placed increasing emphasis on investment banking activities, with the aim of meeting the needs of its clients and broadening the bank's income base. The three foreign securities brokers acquired in 2005, as well as Bridgewell Group plc acquired in 2007, have increased the bank's commission income still further, but the aim of the acquisitions was to offer additional services to domestic clients and build up new groups of foreign clients. Since Landsbanki has extensive experience serving large Icelandic corporations, it is a logical step for the bank to seek new corporate clients of a similar size and scope abroad.

Within Investment Banking, Proprietary Trading handles the bank's own investments in both domestic and foreign listed and unlisted equities, as well as underwriting and market-making of equities. Active management of the bank's equity portfolio in recent years has outperformed the returns on the equity market as a whole. Landsbanki's share of equity assets as a proportion of the bank's total assets has decreased since 2004 and at end of September 2007 it was under 3%. This represents the bank's lowered target ratio and also simplifies the bank's equity holdings and limits its sensitivity to domestic market movements.

Treasury is responsible for the bank's liquidity management, internal treasury management and internal pricing. Its tasks involve investing and financing all of the bank's short-term commitments through borrowing, granting loans and issuing bonds and bills. Treasury also manages Landsbanki's bond assets and is a market maker for bonds issued by the National Debt Management Agency (NMDA) and the Housing Financing Fund (HFF), pursuant to the bank's contracts with these parties. Treasury also manages the bank's FX balance and its currency exposures on own account. In addition, Treasury is a FX market maker on the interbank market for both domestic and foreign banks.

Landsbanki's market bond assets have increased from ISK 26 bn at year-end 2004 to 332 bn at year-end 2006. A substantial share of this increase is in highly liquid foreign securities, which are part of the bank's liquidity management.

Corporate Finance provides independent consulting services to companies and institutions concerning the acquisition, sale or merger of companies and operating units. It also advises on and co-ordinates public offers and listings on the OMX Nordic Exchange Iceland hf. (OMX ICE).

The total transaction value handled by the bank's own Corporate Finance team, managed from the Icelandic and UK Corporate Finance offices during 2006 was ISK 200 bn, whereas in 2004 the comparable figure was around ISK 90 bn. Priority has been placed on boosting corporate finance services abroad, resulting in an increase in the number of employees working at Landsbanki's London Branch. In 2006 important steps were taken towards integrating the full product offerings in each of the subsidiaries, a key move towards generating higher fee revenues in the future. All of Landsbanki's recently acquired international subsidiaries increased their corporate finance activities in 2006. The addition of a new corporate finance team to Landsbanki | Kepler's Paris office in 2006 was an important step to further this development. In 2006 and 2007 Corporate Finance teams were also reinforced in London, Dublin, Zurich, Amsterdam and Frankfurt.

FX, Derivatives and Debt Management provides clients with currency overlay and derivatives. Landsbanki has a long history as a major corporate financier, not least in fisheries and commerce, giving it a strong position in FX trading. FX and derivative trading includes both spot and forward currency transactions. Debt management and currency overlay services provide companies, local governments and pension funds with comprehensive advice on currency and interest rate risk. Risk assessment is based on recognised methodology followed up with advice on actions that can be taken to minimise both risk and financial expense. Total FX trading by Landsbanki in Iceland rose by nearly 70% in 2006 compared to a 99% increase in 2005 and a 98% increase in 2004.

In 2006 Landsbanki | Kepler opened a new unit in Geneva, Switzerland, focusing on Emerging Market Inter-dealer broking in the bond and OTC derivative markets, acting as an intermediary between major financial institutions to facilitate interdealer trades for a commission. The new unit now employs over 30 brokers and is active in FX, swaps, bonds and as well as equity sales.

Securities Brokerage serves as an intermediary for institutional investors dealing in domestic and foreign equities and bonds, and handles the issue and sale of corporate, municipal and national government bonds. Landsbanki's equity and bond trading volume has increased since 2004 with the bank's equity trading volume on the OMX ICE increasing from 245 bn in 2004 to 441 bn in 2006 and its bond trading volume increasing from 342 bn to 471 bn.

Foreign equity broking has also grown rapidly in recent years, both through direct Internet trading by clients and through the services of the bank's securities broking. During the latter part of 2005, Landsbanki became a member of the OMX exchanges in Stockholm, Copenhagen and Helsinki, enabling it to trade directly on these exchanges.

In 2007 Landsbanki opened a branch in Helsinki focusing on research-driven equity brokerage service to Finnish and international investors. Finnish investors will be offered access to European equity markets through the intermediation of Landsbanki's brokerage network and similarly the Landsbanki network will be enhanced by offering Finnish equities to European and North American clients.

Analysing companies and markets is an important aspect of securities brokerage on behalf of clients. Landsbanki Research in Iceland carries out independent analysis and data collection, for distribution to the public, corporations and clients, as well as for the bank's internal use. It analyses the macroeconomic situation as well as equity, bond and FX markets. Landsbanki Research publishes Vegvisir (the Signpost), a daily market overview (in Icelandic) as well as a shorter Daily Economic Briefing in English, plus more in-depth reports on macroeconomic trends and the bond market, reports on domestic equities, economic and inflation forecasts, valuations of OMX ICE-listed companies and special reports on economic issues of current significance. Landsbanki Research also holds regular seminars on economic issues and securities markets.

Major advances were made in 2006 in co-ordinating the research work of Landsbanki and its subsidiaries, Landsbanki | Kepler, Landsbanki Securities UK (formerly Teather & Greenwood | Landsbanki) and Merrion | Landsbanki. Most significant among them is a new joint database for equity research, providing harmonised data presentation and facilitating intermarket comparisons. It improves accessibility to group research by securities brokers and other Landsbanki experts. Both the content and format of publications was standardised. Departments have begun jointly producing individual sector reports extending over the bank's market regions, organising seminars

and customer road shows. The high quality of Landsbanki's research was confirmed by Bloomberg's⁴ ranking of Landsbanki | Kepler as top broker in Europe for accuracy of recommendations relative to the number of stocks covered.

Opportunities for synergies have also been identified in the area of capital markets products and derivatives. The mission of Landsbanki is to increase revenues from capital market products/derivatives sales and trading across the bank by offering Landsbanki's affiliates and clients a full range of product and services currently not offered to these clients.

Landsbanki can leverage the bank's expertise in derivatives products in order to increase the product offering to the current clients and establish new clients. Landsbanki also believes synergies could be created within the bank on product development, sales and marketing of more advanced capital markets products. To exploit these potentials the bank set up a Capital Markets Unit in London in early 2007.

The business proposal was to start a new business unit, the capital markets products unit (CMPU) which will provide new and existing clients with an outstanding service of capital markets products and services, including sales, trading and structuring capabilities. The CMPU unit offers equity derivatives, securities finance, structured products and corporate solutions on a broad range of underlying assets to existing and new clients.

A significant change in the investment banking business of Landsbanki occurred in 2005 when the scope of the business was significantly expanded and bolstered by the acquisition of new subsidiaries acquired in the UK, Ireland and Continental Europe. In 2007 another acquisition was made when Bridgewell became part of Landsbanki.

Landsbanki Securities UK

Landsbanki Securities UK is comprised of two entities, Teather & Greenwood | Landsbanki and Bridgewell Group plc. The businesses of the two units are complementary and were therefore merged after Landsbanki's acquisition of the UK broker and investment bank Bridgewell Group plc, which was completed in July 2007.

The new entity, in parallel with Landsbanki's London Branch, makes Landsbanki a leading UK investment bank in the small to mid-cap UK market, offering a full range of financial services to its clients. It is a milestone in Landsbanki's strategy of building an integrated corporate investment bank focusing on the mid-cap sector in Europe.

Acting as broker to around 200 UK companies, Landsbanki will be the second largest broker to listed companies on the London Stock Exchange, as measured by number of clients. It will rank tenth for FTSE250 companies by the same measure, and will also be the retained financial adviser to around 100 corporate clients.

Landsbanki Securities UK is a stockbroker specialising in institutional stockbroking and corporate finance advisory services in the small and mid-cap sectors, along with a large-cap institutional agency business. Landsbanki Securities UK is also active in the closed-end funds sector. Landsbanki Securities UK provides clients with fully integrated services spanning corporate finance advice and execution, equities research, institutional sales and market making.

Landsbanki | Kepler

Landsbanki | Kepler, previously known as the Julius Baer Brokerage, is a Continental European securities company that provides equity research and research-based institutional brokerage and securities placement. Landsbanki | Kepler has operations in Amsterdam, Frankfurt, Madrid, Milan, Paris, Geneva, New York and Zurich.

Since the acquisition of Landsbanki | Kepler, it has transformed itself from a pure equity brokerage into an investment bank with five business lines: Equity Brokerage, Fixed Income, Structured Products & Derivatives, Corporate Finance and Asset Management

The most recent business line was augmented with the recruitment of a highly respected Eurobonds team from Anthium Finance in Paris with an average of 15 years of experience. This marks the first step for Landsbanki | Kepler's ten-year old brokerage business into Fixed Income. Kepler | Landsbanki has identified strong cross-selling

⁴ Sourced from the November 2006 issue of BLOOMBERG MARKETS® magazine. This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information published by Bloomberg.

opportunities between the French institutional client base of the new Eurobonds team and the clientele of the existing Equity Brokerage business line. Additionally, there are synergies between the new Eurobonds team and the existing Landsbanki | Kepler convertible bonds team.

The team's recruitment is an expansion of the Fixed Income business line which was founded in Geneva in June, 2006 and now numbers 40 people. The team in Geneva is one of the leading inter-dealer-brokers for Emerging Markets fixed income and currencies. It was recently complemented by the establishment of a Structured Products desk dealing in debt instruments.

Merrion | Landsbanki

Merrion | Landsbanki is a leading independent stockbroking and corporate finance firm in Ireland. Merrion | Landsbanki also provides asset management services for discretionary portfolios and pension accounts. As a broker, Merrion | Landsbanki has an international reputation for the quality and independence of its research and sales teams.

8.4 Asset Management and Private Banking

Asset Management and Private Banking includes the parent company's asset management business line, the fund management subsidiary Landsvaki hf., the asset management operation of Landsbanki | Kepler and the wealth and fund management operations of Landsbanki Luxembourg S.A. and Merrion | Landsbanki.

Asset Management is responsible for managing the assets of third parties, through mutual funds, investment funds and institutional investors' funds; for operating and managing pension funds and other portfolios, e.g. for companies, institutions and local authorities; and for asset management on behalf of Landsbanki's Private Banking division. Asset Management also handles sales and distribution of third party mutual funds.

Asset Management is comprised of four units, Landsvaki hf., the Asset Allocation team, Institutional Fund Sales and Internal Control and Compliance.

Landsvaki hf. is an independent subsidiary and the management company for Landsbanki's mutual funds, investment funds and institutional investment funds. Landsvaki's main focus is on fixed income, equities and increasingly alternative investments, including private equity, real estate and hedge funds. Landsvaki hf. is a financial undertaking supervised by the Financial Supervisory Authority (FME), but in an organisational respect it is part of Landsbanki's Asset Management division. The Asset Allocation team manages assets for pension funds, companies, institutions and local authorities, as well as for Landsbanki's Private Banking clients. Institutional Fund Sales handles sales and marketing of the bank's own mutual funds as well as third-party funds to corporate and institutional investors. Internal Control and Compliance is an independent supervisory team that monitors performance, practice and compliance of managed funds and portfolios. Landsbanki's Private Banking customers have grown significantly in number in recent years; in 2006 the number of customers grew by 75%, compared to 264% growth in 2005 and 31% growth in 2004. From year-end 2006 until 30 September 2007 the number of customers grew by 27%.

Private Banking provides customers with comprehensive international financial services, including investment counselling, taxation advice and asset management. These services are intended to meet the needs of high net worth individuals, enabling them to devote their energies elsewhere while the bank's experts manage their assets. In addition Private Banking has an office in Winnipeg Canada that was opened in April 2007.

Each customer has a designated financial advisor, who handles all transactions with Landsbanki, whether this involves general banking services, such as access to credit, payment services, obtaining payment cards, or other services. The financial advisor handles relations with fund managers, specialists on derivative trading, credit experts for lending matters and brokers for securities transactions.

It is Landsbanki's policy to offer its clients a broad spectrum of funds and in addition to Landsbanki's own funds, clients are offered a varied selection of mutual funds from other fund managers. Total assets under Landsbanki's management at 30 September 2007 were ISK 543.1 bn as compared to ISK 377 bn at the end of 2006, ISK 300 bn at year-end 2005 and ISK 191 bn at year-end 2004.

The acquisitions of Landsbanki | Kepler and Merrion | Landsbanki impact the bank's asset management and private banking. Landsbanki | Kepler's asset management business in Frankfurt currently manages three European and German equity funds in total. Merrion | Landsbanki is highly active in wealth management and investment fund

management. The company operates two international equity investment funds as well as an equity hedge fund and has been active in setting up and financing various specialised investment funds, notably in real estate, both in Ireland and elsewhere. In addition Landsbanki Luxembourg S.A. operates a number of SICAV funds.

Landsbanki Luxembourg S.A.

Landsbanki Luxembourg S.A. offers private banking, wealth management and other banking facilities. Besides serving Iceland, the bank is involved in business in Scandinavia and Northern Europe, offering institutions financing and balance sheet management services.

Landsbanki Luxembourg S.A. has two income streams: providing specialised private banking services for high net-worth individuals and developing products offered to targeted investor groups, taking into consideration the regulatory environment of their home country. Originally, Landsbanki Luxembourg S.A.'s lending activities were aimed in particular at smaller Nordic credit institutions, but as the subsidiary has developed more extensive business contacts and a broader client base, the predominance of this lending has decreased. Today, Landsbanki Luxembourg S.A.'s lending generally consists of loans to private banking clients for securities brokerage (Lombard), mortgages for the benefit of Danish private banking clients to purchase real estate in Europe (also known as K/S loans), and refinancing loans for real estate purchases in France and Spain, secured with a mortgage on the property or guaranteed by funds under management.

In 2005, Landsbanki Luxembourg S.A. acquired a majority stake in Lex Life & Pension S.A., which provides specialised life insurance products to European and international clients. The acquisition provided a valuable extension to Landsbanki's overall offering of wealth management products. In September 2006, Landsbanki Luxembourg S.A. opened a representative office in Marbella in southern Spain in order to serve the growing number of customers located in southern Europe. A representative office has also been opened in Cannes, France. Landsbanki has also obtained licences to operate in Portugal.

8.5 International Banking

International Banking handles the international funding requirements of Landsbanki and its subsidiaries. The bank's relationships with financial institutions, international money transfers (SWIFT), risk management and investor relations also fall under this division. International Banking supervises Landsbanki's direct international investments and evaluates investment opportunities in international financial undertakings through its Business Development Unit. International Banking also handles contacts with rating agencies.

International Banking is responsible for all the bank's foreign relations, including funding, marketing and promotion abroad. Landsbanki obtains financing on international markets through bond issuance under the European Medium Term Note (EMTN), US 144 Medium Term Note Programme, Australian Medium Term Note Programme and the short-term European Commercial Paper (ECP) programmes as well as through syndicated loans and credit lines. Subordinated loans (innovative and non-innovative hybrid capital) classified as Tier 1 and Tier 2 capital are issued in international capital markets.

The Business Development Unit of International Banking studies and monitors potential acquisition targets for Landsbanki in various markets. It works on establishing branches or subsidiaries for Landsbanki in international locations. Business Development has also devoted resources to developing new deposit initiatives for Landsbanki in the UK and elsewhere.

International Payments are responsible for all the bank's international payments transfers (SWIFT).

Risk Management enforces compliance with working procedures and rules set for employees. Risk Management with a special focus on market risk is responsible for supervising and reporting on developments in the bank's risk-weighted asset base, market and currency risk, liquidity risk, duration mismatch and interest-rate and inflation risk.

The role of the Investor Relations Officer is to provide shareholders, investors, analysts and other interested parties with clear and reliable information on the bank's activities. The Investor Relations Officer also supervises preparation of the bank's international promotional material.

Landsbanki's strategy is to seek suitable opportunities for growth and investment internationally. The bulk of Landsbanki's growth is now expected to come through its international operations, given to the bank's high market share in Iceland and the relatively modest overall size of the Icelandic economy. The international portfolio as a

percentage of Landsbanki's total balance sheet and of overall revenues and profits is therefore planned to continue to grow. Emphasis is placed on building up important corporate and investment banking activities in Europe, with a special emphasis on financial services for small and medium-sized companies.

8.6 Sales and Marketing

Sales and Marketing is responsible for the organisation of sales, services, marketing and Internet services for households and individuals. The bank's branches, Call Centre and web applications are the main points of sales and service, and the division aims at supporting and developing operations in these channels to obtain new clients and provide fast high-quality service to existing customers.

The division is currently divided into six departments: Sales, Marketing and Web Services, Customer Management (including Call Centre), Performance and Project Management, Bank Cards and Pension and Life Assurance.

Sales is responsible for selling the bank's products intended for households and individuals. The department is also responsible for introducing a sales-oriented corporate culture in the bank's branches.

Marketing and Web Services is responsible, on the one hand, for formulating and implementing the bank's marketing strategy and planning. On the other hand, Web Services is responsible for the development and technical maintenance of the intranet and external Internet services, as well as special solutions for the bank's various divisions.

Customer Management formulates and implements the customer service strategy in Landsbanki's retail operations and determines and manages the key measurements of the bank's service level. Customer service is regarded as one of the key success factors in Landsbanki's retail operation.

Performance and Project Management is responsible for performance management in sales, service and marketing, market research and analytics, as well as managing business development and portfolio management projects.

Bank Cards is a new division responsible for credit and debit card strategy, product development and issuing.

Pension and Life Assurance is responsible for products, sales and advisory services concerning pensions, investments in securities, insurance and overall financial planning for households.

8.7 Legal Division, Credit Control and Branch Services

The Legal Division consists of ten departments: Legal Collection, Legal Advisory and Company Secretary, Branch Supervision, Corporate Credit Control, Credit Risk Control, Operational Risk, Branch Support, Debt Recovery, Branch Services and Compliance.

The Legal Collection department carries out legal collection for the bank's branches and handling and sale of appropriated assets.

Legal Advisory and Company Secretary provides legal advice to senior management, individual divisions and the bank's branches. The department handles preparation of contracts and documents, drafts rules that apply to the bank's operations and is involved in securing operating licenses for foreign offices and branches. Legal Advisory also handles relations with domestic and foreign supervisory authorities and other public authorities.

Credit Control is responsible for the systematic and regular control of the bank's lending and procedures for granting credit. Special emphasis is placed, on the one hand, on supervising the bank's largest debtors and, on the other, on controlling credit granted by the bank's branches. In addition, emphasis is placed on surveillance of specific loan types and on Landsbanki's collection procedures. Reporting to the bank's senior management and supervisory authorities on the assessment of and changes in the bank's credit risk and on the quality of its loans is an important aspect of Credit Control. The Credit Control department is constantly working on adopting and amending databases and statistical models to fulfil, for instance, the requirements of Basel II.

Operational Risk is the department that assesses and monitors Landsbanki's operational risk. The department works in close co-operation with other divisions.

Branch Support supervises and arranges training in the practices, procedures, standards and systems used in the bank's branches.

Debt Recovery handles larger loan defaults, with the aim of minimising the bank's risk of loss.

Branch Services is responsible for operating and developing the main back office operations of branches, i.e. middle office processing, loan handling and chief cashier.

Compliance ensures that Landsbanki complies with all laws and regulations. Compliance ensures that the bank's activities comply with good and sound business practices and that work procedures that have been adopted are followed.

The Legal Division also comprises the risk management functions of Credit Control, Operational Risk and Compliance. These functions work in co-operation with the Market Risk department in coordinating risk management at Landsbanki.

8.8 Operations

Operations is responsible for the bank's financial affairs and day-to-day operations. The division is divided into two main sections, Financial Administration and Operational Administration.

Financial Administration looks after accounting and Landsbanki's own finances, settles the accounts for all its various units and supervises the preparation of the bank's annual and interim financial statements. The department also handles preparation of Landsbanki's budget and investment plans, all accounts payable, relations with subsidiaries concerning financial issues and internal supervision of financial information. The department is responsible for relations with auditors as well as handling insurance and related issues. Financial Administration is responsible for reporting and information provision on financial matters to senior management, the Financial Supervisory Authority (FME) and the Central Bank.

The Operational Administration oversees the bank's internal operations, i.e. the operation and maintenance of all its property, including sale or purchase. The department is also responsible for employees' working facilities, purchase of equipment for the bank's operations, internal security and relations with external security facilities, custodial operations and the archives. Custodial operations look after all necessary supplies, as well as handling various types of reproduction tasks, all transport services and internal mail distribution. The archive section is ultimately responsible for the storage and preservation of Landsbanki's data and documents.

The objective of Operations is to ensure that the bank's internal activities proceed smoothly and efficiently.

8.9 Human Resources

The Human Resources division is responsible for all employee-related issues, such as salary and benefits, recruitments and job development. The cafeteria at the bank headquarters, catering and the Education and Training department are also within the Human Resources division. Emphasis has been placed on job development and educational work, focusing on effective training to maintain and improve further Landsbanki's competitive position.

Employee appraisal interviews are carried out annually in the bank, as well as a workplace analysis that assesses, among other things, employee satisfaction and commitment and their views towards management and the bank as a whole.

In its human resources strategy the bank emphasises the recruitment of highly qualified and motivated employees and the importance of encouraging and helping them to develop their professional potential. To encourage the bank's growth and profitability, emphasis is placed on ensuring an enjoyable working environment, job satisfaction, effective job development and employee expertise. Landsbanki's management recognises that the bank's employees, their expertise, ambition, energy and loyalty are the pre-requisites for its successful operation.

8.10 Information Technology

Information Technology is a critical part of every bank, providing the systems and capabilities necessary for capturing transactions, efficiency, scalability and controlled work flows. Landsbanki combines the back office for securities, funds, life and pension with the information technology staff for more efficient process flows.

Much effort is being directed at automating flow of transactions, straight from the front office through middle and back office and into accounting. This continuity is key in setting up volume-insensitive processes to handle the ever-

increasing business volumes that the bank generates. These efforts have resulted in continued development of platforms as well as major new implementations of systems and processes, especially for the capital markets.

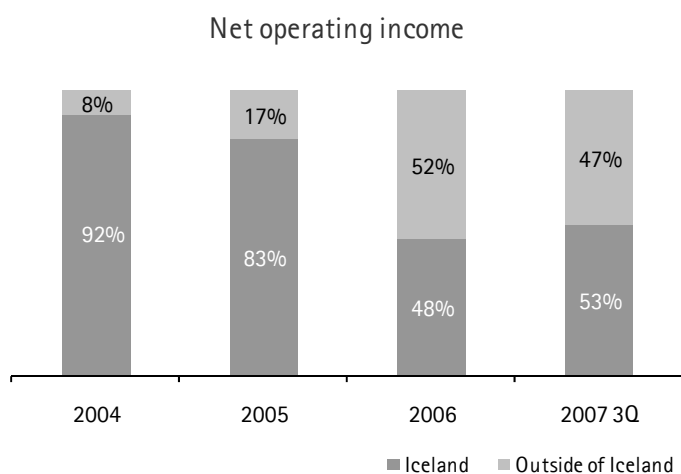
The bank is responding to globalisation by setting up common information technology infrastructure, while at the same time continuing with strong local teams to support the business where it operates. The bank bases its information technology operations in Reykjavik, London and Paris, thereby gaining efficiencies and cost savings compared to a fully decentralised model. This also allows for easier process harmonisation across the entities within Landsbanki as needed.

Better interaction between the bank and its customers using the web and other network-enabled methods continues to be a major focus going forward. The bank has a clear strategy in this area, which is intended to deliver great value, both to the bank and its customers.

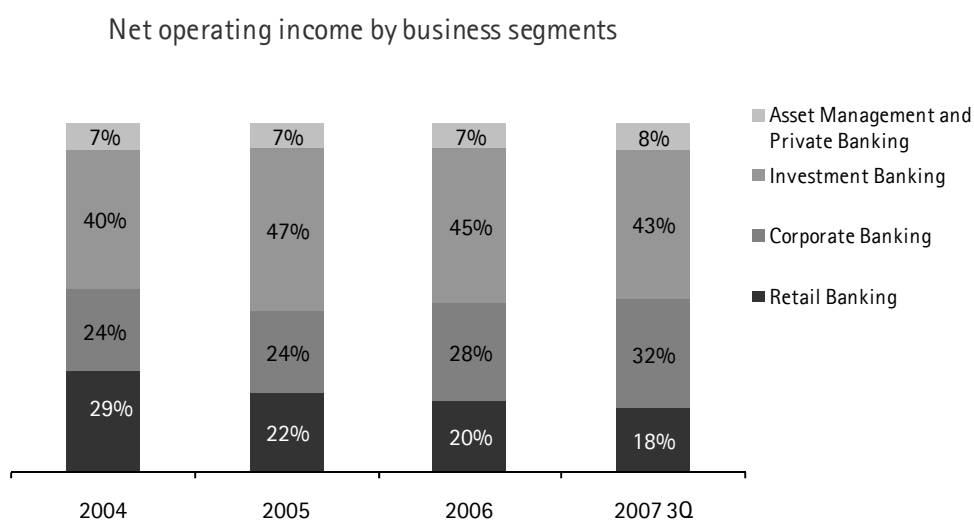
9 Principal Markets

In 2004 around 8% of Landsbanki's net operating income was originated outside of Iceland. Landsbanki's business was therefore first and foremost affected by economic and political conditions in Iceland.

Landsbanki's operations abroad have been increasing in recent years and in 2006 net operating revenues generated outside of Iceland amounted to 52% of total net operating revenues in of 2006. Landsbanki's profitability could therefore also be affected by the general economic conditions in the bank's principal markets abroad. In the international spectrum the UK and Continental Europe are of most importance for Landsbanki, with 21% of its net operating income in 2006 originating from the UK and 25% from Nordic and Continental Europe.



Landsbanki's net operating income by business segments has not changed significantly since 2004. The proportion of Asset Management and Private Banking in the bank's total income has remained quite stable and the proportion of Investment Banking and Corporate Banking of total income has increased slightly at the expense of Retail Banking.



Landsbanki's results depend on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing depend on customer confidence, employment trends, the state of the economy and market interest rates at the time. Landsbanki's performance is influenced by the level and cyclical nature of business activity in Iceland and the markets in which the bank operates, which are, in turn, affected by both domestic and international economic and political events. A weakening in the Icelandic economy or economies elsewhere could therefore have a material effect on Landsbanki's business.

The Icelandic market

The Icelandic economy has experienced high growth rates in recent years. Recently, interest rates and the rate of inflation in Iceland have been rising. The Central Bank of Iceland's official policy interest rate has increased from 5.2% at 31 December 2003 to 13.75% in November 2007. Inflation has increased from 3.9% in 2004 to 4.4% in 2005 and 6.9% in 2006. The 12-month inflation rate was down to 5.2% in November 2007, although it had started to increase again after falling to 3.4% in August. In addition, Iceland's current account deficit worsened from 16% of gross domestic product in 2005 to 26% in 2006. The current account deficit during the first half of 2007 was 13% of GDP, a significant improvement from the previous year. The substantial deficit is partly the result of an appreciated currency. Restoring external balance in the economy will undoubtedly imply depreciation of the ISK in the coming years. A summary of economic indicators in Iceland for the period 2004-2009 can be found in the table below.

	2004	2005	2006	2007E	2008E	2009E
GDP growth, %	7.7	7.1	4.2	1.8	3.7	4.0
National expenditure, annual growth %	9.9	15.4	9.2	(5.0)	2.5	5.8
Current account, % of GDP	(9.8)	(16.2)	(25.7)	(16.1)	(15.5)	(17.8)
Registered unemployment, % of labour force	3.1	2.1	1.3	1.1	1.3	1.6
CPI, annual change %	4.0	4.4	6.9	5.2	2.4	3.6
Disposable income per capita, annual change, %	8.8	10.9	15.9	9.8	4.3	3.9

Source: Icelandic Ministry of Finance, Statistics Iceland, the Central Bank of Iceland and Landsbanki. This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information published by the Icelandic Ministry of Finance, Statistics Iceland and the Central Bank.

UK and Continental Europe

UK output growth has remained for over a year at or above the average rate of the past decade, led by growth in the service sector and manufacturing exports. Rising labour productivity and increased labour participation have kept inflationary pressure subdued, although headline inflation has edged above the Bank of England's 2% inflation target and the Bank of England has raised its policy rate to 5.75%, its highest since 2001. The UK property market witnessed yet another year of strong growth in all sectors in 2006. A continued imbalance between housing supply and demand, strong buy-to-let investment and the impact of high City bonuses fuelled house price inflation to 10% in 2006, although this was skewed in particular to London and the South East. House prices continued to increase in 2007 although they declined slightly in October, for the first time in two years. Commercial property was also in high demand, resulting in good growth in 2006. While specific sectors such as City and West End offices remain strong, commercial property in general appears fully valued, and more modest growth is expected over the coming year.

A summary of economic indicators in the UK for the period 2004-2008 can be found in the table below.

Key Economic Indicators the UK, 2004-2008

	2004	2005	2006	2007E	2008E
GDP growth, %	3.3	1.8	2.8	3.1	2.3
National expenditure, annual growth %	3.8	1.9	3.0	2.8	2.7
Current account, % of GDP	(1.6)	(2.5)	(3.2)	(3.5)	(3.6)
Registered unemployment, % of labour force	4.8	4.8	5.4	5.4	5.4
CPI, annual change %	1.4	2.1	2.8	2.1	2.0

Source: The International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD).
This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information published by IMF and OECD.

As for the Eurozone, solid economic recovery has finally taken hold; business investment has risen and positively affected household spending. Job creation has been strong and unemployment is falling towards 7%, the lowest it has been in the history of the Eurozone. Assuming that policy makers continue to implement structural reforms, the expansion looks likely to continue, aided by favourable financial conditions and solid corporate and household balance sheets.

A summary of economic indicators in the Eurozone for the period 2004-2008 can be found in the table below.

Key Economic Indicators in the Eurozone, 2004-2008

	2004	2005	2006	2007E	2008E
GDP growth, %	2	1.5	2.8	2.5	2.1
National expenditure, annual growth %	1.7	1.8	2.6	2.5	2.3
Current account, % of GDP	1.1	0.3	0.0	(0.2)	(0.4)
Registered unemployment, % of labour force	8.8	8.6	7.8	6.9	6.8
CPI, annual change %	2.4	2.2	1.9	2.2	2.0

Source: The International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD).
This information has been accurately reproduced as far as Landsbanki is aware and is able to ascertain from the information published by IMF and OECD.

The full effects of the financial tumult that has spread from the US mortgage market are however not yet known and the uncertainty may hold back growth in these markets in the near term

10 Corporate Governance, Board of Directors and Personnel

10.1 Corporate Governance

Landsbanki's Board of Directors follows the bank's Articles of Association. Landsbanki has also approved the Guidelines on Corporate Governance issued by the Iceland Chamber of Commerce, OMX Nordic Exchange Iceland hf. (OMX) and Confederation of Icelandic Employers, to guide listed companies and their boards of directors in their investor relations, and to reinforce market confidence in listed companies. Landsbanki has adopted its own governance rules, meeting international best practice standards. The bank regularly reviews its internal rules and organisational structure with reference to legislation and regulations in force at any given time. These rules and the activities of the Board comply with the Guidelines on Corporate Governance.

Good corporate governance within Landsbanki is reflected, for instance, in solid development of operations on a group-wide basis, good access to information, sound decision-making and effective control of risk factors. The aim is to ensure healthy and strong business operations, as well as proper disclosure to shareholders, market participants and regulators in the jurisdictions in which Landsbanki operates. In addition, a rigorous framework is in place to prevent conflicts of interest in decision-making and to ensure that the bank's activities meet the varying legal requirements within the jurisdictions in which it does business.

The Board of Directors has, in accordance with the Guidelines on Corporate Governance, appointed two working committees, the Audit Committee and the Remuneration Committee, to discuss and prepare specific issues. Board member's appointments to the committees are made in conformity with the definition of board member's independence in the Guidelines on Corporate Governance.

Audit Committee

The Audit Committee consists of three board members, all of whom are independent of Landsbanki as recommended by the Guidelines. The Managing Director of the Legal Division, the Managing Director of Finance and Operations and the Director of Internal Audit work with the committee. The Audit Committee prepares the Board's discussion of the bank's quarterly and annual financial statements. The following Directors are members of the Audit Committee: Kjartan Gunnarsson (Committee Chairman), Þór Kristjánsson and Þorgeir Baldursson.

Remuneration Committee

Three Directors sit on the Remuneration Committee, all of whom are independent of Landsbanki in accordance with the Guidelines. The Remuneration Committee negotiates with the CEOs on their salaries and other terms of employment. Each year it proposes a remuneration policy for the bank, which is then submitted to the Annual General Meeting for approval. The following Directors serve on the Remuneration Committee: Björgólfur Guðmundsson (Committee Chairman), Þór Kristjánsson and Andri Sveinsson.

External and internal audit

Each Annual General Meeting elects an independent chartered accountant or auditing firm to audit the bank's annual financial statements and review the interim financial statements in accordance with laws and International Standards on Auditing. Landsbanki's Internal Audit is an independent, objective assurance and consulting unit designed to add value and improve the bank's operations. It helps Landsbanki accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Director of Internal Audit is appointed by the Board of Directors and is responsible to the Board under a Statement of Duties, in accordance with the Act on Financial Undertakings and Landsbanki's Articles. The Director of Internal Audit administers internal audit activities within Landsbanki in accordance with accepted internal audit

guidelines and principles. Responsibilities include providing the Board with consulting services on issues relating to audits, internal controls, risk management and risk exposures, and making recommendations to the Board and the bank's CEOs on measures to be taken or rules to be set in that context. Internal Audit performs special audits and investigations by request or in cooperation with the Board and the CEOs, and is responsible for internal auditing of sections of the bank's headquarters and branches as well as its foreign and domestic subsidiaries.

Internal Audit evaluates the adequacy and effectiveness of controls covering the organisation's governance, operations and information systems. This evaluation includes the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, safeguarding of assets, and compliance with laws, regulations and agreements.

Internal Audit's activity plans are submitted to the Board Audit Committee for approval.

Shareholders meetings

Shareholders meetings are the supreme authority in the affairs of Landsbanki, within the limitations established by the Articles of Association or statutory law. Shareholders meetings may be attended by shareholders, their agents and advisors, the bank's auditors and the Managing Directors and CEOs. A shareholder may appoint a proxy to attend a meeting on his behalf. In addition, the meetings are open to members of the media.

All shareholders have equal rights to speak, make motions and vote at shareholders' meetings. Resolutions at shareholders' meetings are adopted by majority vote unless otherwise stipulated by the bank's Articles of Association or statutory law, with each ISK 1 share in the bank carrying one vote. However, the unanimous approval of all shareholders is required in certain cases. Extraordinary shareholders' meetings may be held at the discretion of the Board further to a resolution passed at a Board meeting.

10.2 Board of Directors, CEOs and Senior Management

Board of Directors

The Board of Directors has supreme authority in the bank's affairs between shareholders' meetings and manages the bank in accordance with its Articles of Association. The Board of Directors of the bank is responsible for the activities of the bank pursuant to legislation governing such activities, regulations and the bank's Articles of Association, and supervises the operation of the bank.

The Board is comprised of five members and five alternates elected at each Annual General Meeting for a term of one year at a time. Directors are elected in accordance with the provisions on board members' independence in the Guidelines on Corporate Governance. All five board members of Landsbanki are considered independent of Landsbanki and three board members, Kjartan Gunnarsson, Svafa Grönfeldt and Þorgeir Baldursson are considered independent of Landsbanki's largest shareholders. The Board functions under clear guidelines set out in the Rules and Procedures, which have been submitted to the Financial Supervisory Authority (FME), in keeping with the Act on Financial Undertakings. The Rules and Procedures contain provisions to the effect that the Board shall evaluate its work, working procedures and other aspects of its administrative tasks annually, assessing where improvements could be made.

The Board is ultimately responsible for the bank's activities, including compliance with laws and rules. The Act on Public Limited Companies and the Act on Financial Undertakings stipulate the main responsibilities of the Board. Its rules and procedures further outline the Board's activities, which include engaging the CEOs, who are responsible for the bank's day-to-day operations. The Board also engages Landsbanki's Director of Internal Audit and confirms the appointment of the bank's Compliance Officer.

There are no family relationships between any of the members of the Board of Directors or between board members and senior management other than that Helga Theodórsdóttir, alternate director is married to Örn Friðrik Clausen who is a foster child of Björgólfur Guðmundsson, Chairman of the Board. No member of the Board of Directors has any conflict of interest between their duties to Landsbanki and their private interest and/or other duties.

The members of the Board of Directors of Landsbanki have had no convictions in relation to fraudulent offences in the previous five years. The members of the Board of Directors have not been senior managers, members of the administrative, management or supervisory bodies of a company that has been party to or associated with

bankruptcy, receivership or liquidation in the previous five years. The members of the Board have not been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities. The members of the Board have never been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in the previous five years.

Below are details about the members of the Board of Directors. The business address of each board member is Austurstræti 11, 155 Reykjavik, Iceland.

Björgólfur Guðmundsson, Chairman of the Board

Education: Graduate of the Commercial College of Iceland, 1962.

Elected: 2003

Current board positions: Eignarhaldsfélagið Portus hf. (Chairman), West Ham United Football Club plc (Chairman), Westham United plc (Chairman), WHU Holding Limited (Chairman), Hansa ehf. Ólafsfell ehf. Vesturfarasetrið ses.

Past board positions (within 5 years): SP-Fjármögnun hf. (Chairman), Edda – Útgáfa hf., Samson eignarhaldsfélag ehf., Snorri Þorfinnsson ehf.

Mr. Guðmundsson served as CEO of the Icelandic shipping line Hafskip hf. from 1977 to 1985 and subsequently worked with other related companies abroad. Mr. Guðmundsson is beneficial owner of 50% of the shares in Samson eignarhaldsfélag ehf.

Kjartan Gunnarsson, Vice Chairman of the Board

Education: Law degree from the University of Iceland, 1978. Graduate of the Norwegian Defence College, 1980

Elected: 1992

Current board positions: Gunnlaugsstaðir ehf., Kvoslækur ehf., Íhald ehf., Skipholt ehf. and Þingeyrabúið ehf.

Past board positions (within 5 years): Líftryggingafélag Íslands hf. (Chairman) and Vátryggingarfélag Íslands hf. (Chairman)

Mr. Gunnarsson was Secretary General of the Independence Party from 1980 to 2006. Mr. Gunnarsson currently chairs Landsbanki's Audit Committee.

Pór Kristjánsson, Member of the Board

Education: BSc. degree in Business Administration from the University of Iceland, 1989.

Elected: 2006

Current board positions: , Árvakur hf., Brimalda Capital ehf., Drangar ehf., Edda – Útgáfa hf., Hersir- ráðgjöf og þjónusta ehf., Hf. Eimskipafélag Íslands, and Westham United Holding plc.

Past board positions (within 5 years): AB Capital ehf. (Chairman), Icelandic Group hf. (Vice Chairman), Burðarás hf., Brimalda Services Ltd., Delta ehf., Fako Illicari, Fjárfestingafélagið Grettir hf., Komax Fjárfesting & Ráðgjöf ehf., Medis ehf., Samson Partners Properties 1 ehf. (Chairman), Samson Properties hf. (Chairman), Straumur Burðarás Investment Bank hf.

Mr. Kristjánsson worked in various financial and managerial corporate restructuring projects in Iceland and internationally from 1989 until late 2001 when he took a position with Actavis Group hf., first as a consultant to the Board of Directors and later as the Deputy CEO of Actavis Group hf. He left that position late 2004 to join Samson eignarhaldsfélag ehf. as a senior advisor on various projects in Iceland and internationally.

Svafa Grönfeldt, Member of the Board

Education: BA degree in Political Science and Mass Communication from the University of Iceland, 1990. MSc. degree in Science Technical and Professional Communication from Florida Institute of Technology, 1995. PhD in Industrial Relations from London School of Economics, 2000

Elected: 2007

Current board positions: None

Past board positions (within 5 years): IMG ehf., Landssími Íslands hf. and MFriðriksson ehf.

Ms. Grönfeldt was Managing Director and Managing Partner of IMG Gallup/Deloitte from 1995–2004. She was Chief Executive of Strategy and Organisational Development of Actavis Group hf. from 2004 to 2005 and Deputy CEO from 2005 to 2007, when she became President of Reykjavik University.

Porgeir Baldursson, Member of the Board

Education: Graduate of the Commercial College of Iceland, 1960. MGK degree from Graphic College in Denmark, 1965.

Elected: 2003

Current board positions: Infopress (Chairman), Laugarholt ehf., Oddi Atlantic, Plastprent hf., SP fjármögnun hf., Súluur ehf.

Past board positions (within 5 years): Kassagerðin ehf. (Chairman), Miðaprentun hf. (Chairman), Bylgjuhús ehf., Oddi skrifstofuvörur ehf., Prentsmiðjan Oddi hf., Gutenberg hf., Kassagerðin hf., Gutenberg ehf. (Alternate), Prentsmiðjan Oddi ehf. (Alternate) and OPM ehf. (Alternate).

Mr. Baldursson served as Director of Operations at the printing company Prentsmiðjan Oddi hf. from 1965 and took over as CEO in 1982.

If a board member is unable to attend a meeting, he will be replaced by the respective alternate in the order indicated.

For Björgólfur Guðmundsson and Þór Kristjánsson:

First alternate: Andri Sveinsson

Second Alternate: Helga Theodórsdóttir

For Kjartan Gunnarsson, Svafa Grönfeldt and Porgeir Baldursson:

First alternate: Gunnar Felixson

Second alternate: Helga Jónsdóttir

Third alternate: Þorsteinn Sveinsson

Alternate Board Members

Andri Sveinsson, alternate Member of the Board

Education: Cand. Oecon in Business from the University of Iceland, 1996.

Elected: 2003

Current board positions: Actavis Group hf. and Gildur ehf.

Past board positions (within 5 years): None

Mr. Sveinsson has worked in investments and banking since graduation. He worked for Búnaðarbanki Íslands hf. from 1997 to 1999, for Gilding ehf. from 1999 to 2001 and Hersir ráðgjöf og þjónusta ehf. from 2001 to 2005. He joined Novator LLP in 2005, where he is CFO.

Gunnar Felixson, alternate Member of the Board

Education: Graduate of the Commercial College of Iceland, 1960

Elected: 2005

Current board positions: Vinnlustöðin hf. (Chairman), Lex Life & Pension S.A. (Chairman), Íslensk Endurtrygging hf., Myllan Carberry's Bakery LLC and Lífeyrissjóðurinn Skjöldur.

Past board positions (within 5 years): Viðlagatrygging Íslands

Mr. Felixson was general manager of Tryggingamiðstöðin hf. from 1991 to 2005 when he retired.

Helga Jónsdóttir, alternate Member of the Board

Education: Graduate of Reykjavik College (Menntaskólinn í Reykjavík), 1977. Studied at Bankamannaskólinn from 1982 to 1984 and completed a course in project management in the continuing education system of the University of Iceland in 2004.

Elected: 2005

Current board positions: Bank Employees' Pension Fund (Lífeyrissjóður bankamanna)

Past board positions (within 5 years): None

Ms. Jónsdóttir has been an employee of Landsbanki for 31 years where she has had diverse work experience. She has been President of FSLÍ (Membership of Landsbanki's employees) from 2001 and Vice President of the Confederation of Icelandic Bank and Finance Employees (SÍB) from 1995 to 2007.

Helga Theodórsdóttir, alternate Member of the Board

Education: Cand. Oecon degree from the University of Iceland, 1980

Elected: 2006

Current board positions: Fjárfestingafélagið Grettir hf., Fvs media ehf. (alternative).

Past board positions (within 5 years): None

Ms. Theodórsdóttir was CFO of Ofnasmiðjan hf. from 1987 to 2004. She currently is CFO of Samson eignarhaldsfélag ehf.

Þorsteinn Sveinsson, alternate Member of the Board

Education: Graduate of Samvinnuskólinn.

Elected: 2003

Current board positions: Austfar ehf. (Chairman) and Spanarhóll ehf. (Chairman)

Past board positions (within 5 years): Selhraun ehf.

Mr. Sveinsson was manager of the cooperative society Kaupfélag Djúpavogs svf. for 20 years and manager of Kaupfélag Héraðsbúa svf. for 21 years.

CEOs

Landsbanki has two Chief Executive Officers, who are responsible for the bank's day-to-day activities and serve as its spokesmen on business and administrative issues. They are empowered to make decisions in all of the bank's affairs not entrusted to others by legislation, the bank's Articles of Association or decisions of the Board. The bank's Managing Directors are ten in number and are directly responsible to the CEOs for the day-to-day activities of their respective divisions. Regular meetings are held between the Managing Directors and the CEOs. No single senior manager is considered relevant to establishing that the Issuer has the appropriate expertise and experience for the management of the Issuer's business.

There are no family relationships between the CEOs or between these individuals and any of the board members. The CEOs have no conflict of interest between their duties to Landsbanki and their private interests.

The CEOs of Landsbanki have had no convictions in relation to fraudulent offences in the previous five years. The CEOs of Landsbanki have not been senior managers, members of the administrative, management or supervisory bodies of companies that have been party to or associated with bankruptcy, receivership or liquidation in the previous five years. The CEOs of Landsbanki have not been subject to any official public incrimination and/or sanctions by statutory or regulatory authorities and have never been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer in the previous five years.

Below are details about the CEOs.

Halldór J. Kristjánsson

Austurstræti 11, Reykjavík, Iceland.

Education: Law degree from the University of Iceland, 1979. Master of Law (LLM) in International Law from New York University, 1981. Studied contractual law at Harvard Law School, 1986.

Current board positions: Heritable Bank Ltd. (Chairman), Landsbanki Luxembourg S.A. (Chairman), Fasteignafélagið Fell ehf., Kepler Equities S.A., Kumbaravogur ehf., Landsbanki eignarhaldsfélag ehf., Landsbanki Guernsey Ltd., Lex Life & Pension S.A., Merrion Capital Group Ltd. and Gunnlaugsstaðir ehf.

Past board positions (within 5 years): The Association of Commercial Banks in Iceland (Samband íslenskra viðskiptabanka) (Chairman), VISA Ísland hf. (Chairman and Board Member), Confederation of Icelandic Industry (Samtök atvinnulífsins), European Banking Federation, Vátryggingarfélag Íslands hf., Líftryggingarfélag Íslands hf. and Teather & Greenwood Ltd.

From 1981 to 1991 Mr. Kristjánsson served in the Ministry of Industry as Director of Legal and International Affairs from 1989 to 1991. Mr. Kristjánsson served as Alternate Executive Director at the European Bank for Reconstruction and Development in London from 1991 to 1994. He was Director and later Secretary-General at the Ministry of Trade and Commerce from 1994 to 1998. In 1998 he became CEO of Landsbanki.

Sigurjón Þ. Árnason

Austurstræti 11, Reykjavík, Iceland.

Education: BSc degree in Mechanical Engineering from the University of Iceland, 1992. MBA in Finance from the University of Minnesota, 1994. Studied Economic Engineering at Technische Universität Berlin from 1994 to 1995.

Current board positions: Gírósamskipti ehf. (Chairman), Hömlur hf. (Chairman), Icelandic Banks' Negotiation Committee (Chairman), Kepler Equities S.A. (Chairman), Landsbanki eignarhaldsfélag ehf., Frumkvöðull ehf., Heritable Bank Ltd., Intrum Justitia AB, Landsbanki Luxembourg S.A., Landsbanki Guernsey Ltd., Lex Life & Pension S.A., Merrion Capital Group Ltd., Landsbanki Securities Holdings plc, Creditinfo Group hf. (Alternate), Intrum á Íslandi ehf. (Alternate), the Confederation of Icelandic Bank and Finance Employees (SÍB) (Alternate) and Reiknistofa bankanna (Icelandic Banks' Data Centre) (Alternate).

Past board positions (within 5 years): Auðkenni hf., Eik fasteignafélag hf., Fjölgreiðslumiðlun hf., Gírósamskipti ehf., Íslenski hugbúnaðsjóðurinn hf., Bank Employees' Pension Fund (Lífeyrissjóður Bankamanna), Gen hf., Hlutabréfasjóður Búnaðarbankans hf., Landsafl hf., Rekstrarfélag Verðbréfasjóðs Búnaðarbankans hf.,

Séreignalífeyrissjóðurinn, Eftirlaunasjóður starfsmanna Búnaðarbanka Íslands, Intrum á Íslandi ehf., Lánstraust hf. (Alternate) and Lýsing hf., (Alternate).

Mr. Árnason was Senior Manager of Economics and Budgeting at Búnaðarbanki Íslands hf. from 1995 to 1998, and Managing Director of Administration and Operations at Búnaðarbanki Íslands hf. from 1998 to 2003. Mr. Árnason joined Landsbanki in April 2003 as its second Group Managing Director and CEO.

10.3 Remuneration and Benefits

The remuneration to the Board of Directors in 2006 and their holdings in Landsbanki as of 14 December 2007 are as follows.

Board of Directors			
	Salary and benefits *	Holdings	Holdings of fin.rel. parties
Björgólfur Guðmundsson, Chairman of the Board	6.0	1,651	4,559,263,379
Kjartan Gunnarsson, Vice-chairman of the Board	5.0	2,752,772	89,000,000
Svafa Grönfeldt, Board Member	-	-	-
Pór Kristjánsson, Board Member	3.7	-	45,428,949
Porgeir Baldursson, Board Member	3.0	1,490,054	-
Guðbjörg Matthíasdóttir, former Board Member	2.2	-	91,537,499
Andri Sveinsson, Alternate Board Member	1.0	557	-
Gunnar Felixsson, Alternate Board Member	0.1	79,440	-
Helga Jónsdóttir, Alternate Board Member	-	43,891	-
Helga Theodórsdóttir, Alternate Board Member	-	-	-
Þorsteinn Sveinsson, Alternate Board Member	-	14,932	61,517
Einar Benediktsson, former Alternate Board Member	-	-	-

* Amounts in ISK m

The members of the Board of Directors do not hold stock options in Landsbanki.

The remuneration of the Board of Directors for the operating year 2007-2008 was decided at the bank's Annual General Meeting on 9 February 2007. The remuneration paid to each board member for the period extending from the Annual General Meeting in 2007 to the Annual General Meeting in 2008 shall be ISK 350,000 per month, paid in accordance with salaries paid to bank employees. Remuneration to the Chairman of the Board shall be triple that of the directors and remuneration to the Vice-chairman double that of the remuneration to directors. Remuneration to alternates shall be ISK 100,000 for each meeting attended. In addition, those directors who are members of the Audit Committee and the Remuneration Committee shall be paid ISK 150,000 per month for their participation in each committee and the chairman of each committee shall receive double that amount.

The remuneration to the CEOs in 2006, their stock options and holding in Landsbanki as of 14 December 2007 are as follows:

Senior Management							
	Salary and benefits*	Options exercised 2006*	Earned unexercised*	Contracts 2007-2012*	Total*	Holdings in own name	Holdings of fin.rel. parties
Halldór J. Kristjánsson, CEO	119	-	19	30	49	10,808,487	167,678
Sigurjón Þ. Árnason, CEO	153	-	80	60	140	-	-

*Amounts in ISK m

The strike price of call options on Landsbanki's shares held by the CEOs ranges from 3.58-32 ISK per share. The 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. Holdings include holdings of the parties concerned, their spouses, children who are not financially competent and legal entities under their control/in which they have a holding.

Remuneration to CEOs and managing directors is comprised of basic salary, benefits and performance-linked bonuses reflecting the bank's return on equity (ROE) and its increase in value. Basic salary and benefits to CEO Halldór J. Kristjánsson were ISK 29.2 m and to CEO Sigurjón Þ. Arnason ISK 37.6 m. Other payments are performance-linked bonuses.

Loans to members of the Board of Directors and their fully owned companies as of 30 November 2007 amounted to ISK 12,719 m, including credit granted to companies with which members of the board are connected through membership of the companies' boards or ownership ties. Loans to CEOs and managing directors, and to companies fully owned by these persons, amounted to ISK 193 m as of 30 November 2007. These loans have been granted in accordance with the bank's credit rules and on normal commercial terms. No impairment has been recognised by the bank against these loans.

Landsbanki or its subsidiaries have not made any contracts with any members of the board or the CEOs that provide for benefits upon termination of employment.

Employee stock options

Employees and managers within Landsbanki hold call options on Landsbanki's shares with a strike price of 3.58 to 39.4. Stock options are granted at market share price on the date granted. 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. 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 30 September 2007 totalled ISK 1,488.7 m shares. Earned and unexercised options as of 30 September 2007 totalled ISK 877 m shares.

Options that were granted at prices 3.58-4.12, ISK per share, earned in 2003-2006 and exercisable in 2006-2008 represent a total ISK 98.1 m nominal value. Options that were granted at prices 7.0-9.0, earned in 2004-2007 and exercisable in 2007-2009 represent a total 332.0 m nominal value. Options that were granted at prices 12.0-14.25, earned in 2005-2008 and exercisable in 2008-2010 represent a total 432.2 m nominal value. Options that were granted at prices 19.0-39.4, earned in 2006-2009 and exercisable in 2009-2011 represent a total 626.4 m nominal value.

Pension liabilities

Landsbanki's pension liabilities amounted to ISK 779 m at 30 September 2007. The pension liabilities in the balance sheet of Landsbanki represent defined benefit plans that a few of the bank's companies have in place.

10.4 Employees

Landsbanki has a dedicated group of energetic and ambitious employees, working together in a productive and encouraging environment with first-class facilities. The bank's management recognises that its employees and their dynamism, expertise, experience, ideas and initiative are the key to future growth and development.

Landsbanki aims to be among the most desirable workplaces in Iceland and to attract, further develop and retain exceptional employees. To encourage the bank's growth and profitability, emphasis is placed on job satisfaction, a good working environment, and effective job development and employee expertise. The bank's employees, their expertise, ambition, energy and loyalty are a pre-requisite for its successful operation.

Personnel - full time equivalent positions

	30.09.07	31.12.06	31.12.05	31.12.04
Total	2,499	2,117	1,725	1,163
In Iceland	1,416	1,293	1,133	1,041
In establishments abroad	1,083	824	592	122
-Heritable Bank	112	90	55	42
-Landsbanki Securities UK*	231	157	131	-
-Merrion	101	95	75	-
-Kepler Equities	369	309	227	-
-Landsbanki Luxembourg SA	120	97	62	74
-London Branch	127	67	34	-
-Helsinki Branch	15	-	-	-
-Other establishments abroad**	8	9	9	6

* Landsbanki Securities UK consists of Teather & Greenwood I Landsbanki and Bridgewell (acquired in 2007).

** Employees located in Canada, Faroese Islands, Hong Kong, the Netherlands, Norway and Spain

11 Outlook and future vision

11.1 Policy and Outlook

During the past four years, Landsbanki has expanded rapidly and undergone a veritable transformation. Its balance sheet has grown almost eight-fold during this time, and its international activities have been greatly augmented, both by acquiring operating units and establishing new operations from the ground up. Landsbanki aims at broadening its income generation base both in Iceland and abroad. Its overarching objectives are to increase shareholder value, diversify risk and attain economies of scale, thereby exercising a positive impact on the bank's credit ratings.

Domestic activities

Building on its 121 years of operation, Landsbanki aims to maintain its position in the domestic market as a universal provider of financial services. In tandem with a changing market environment and technological advances, further consolidation of the branch network can be expected. Although they are fewer in number, the operational scale and scope of services provided by the branches have increased significantly, enabling them to provide customers with more comprehensive and customised services. Landsbanki has declared its willingness to take the initiative in further restructuring the banking sector, which would step up the efficiency of financial markets in Iceland. In addition, the bank advocates further privatisation of housing financing in Iceland.

International activities

Overseas expansion has been the key to Landsbanki's growth in recent years. Here the bank follows a balanced strategy, based on building profitable international banking operations, with strong emphasis on corporate and investment banking. Landsbanki will build organically on its acquired platform by adding new teams, products and services, as well as strengthening existing ones, to provide an integrated range of financial services for its target market. At the same time, the bank aims to increase its international banking operations further by acquiring additional banking assets. After making a number of acquisitions in 2000–2005, Landsbanki has focused on integrating and consolidating its platforms and operations in 2006 with an ongoing integration in 2007 together with the acquisition of Bridgewell. The bank has also successfully established branches and representative offices in key locations to boost organic growth.

Landsbanki's acquisition strategy has been to buy quality assets that are efficiently run. A strategic fit is the key criterion: the asset must geographically complement existing operations and offer potential product and service synergies. The bank's past acquisitions have all been executed in a friendly manner, the acquired companies' senior management teams have remained on board and incentive schemes have been put in place to inspire trust and loyalty on a group level.

Corporate, investment banking, asset and wealth management

Corporate lending, capital markets and corporate finance are Landsbanki's three major service offerings to businesses. Backed up by in-house knowledge of Europe's leading companies and markets, plus a growing international client base, Landsbanki can make its income generation increasingly independent of local business cycle fluctuations.

To this end, more attention will be devoted to the bank's corporate lending, with substantial growth expected in its London and Amsterdam branches, as well as in Canada, Norway, Finland and Hong Kong. The initial success of the bank's operations in Canada gives cause for optimism concerning future developments in that market. To date, overseas lending has primarily taken the form of corporate lending, concentrating on asset-based as well as structured lending. Landsbanki has increasingly acted as lead arranger in syndicated facilities, especially in the UK. The bank has also placed emphasis on services to the global seafood industry, including trade finance, building on its experience as the leading provider of financial services to the Icelandic fishing industry.

Further Landsbanki aims to grow its asset and wealth management business, building on the bank's strong current platforms and the capital markets strengths it has in Europe.

Integration and consolidation

The strong anchoring and fine reputation of the bank's subsidiaries in European markets opens up new business possibilities, as well as opportunities for sharing distribution channels. To take full advantage of this, efforts to coordinate Landsbanki's branding and image strategy will continue, emphasising inter-departmental co-operation and integrated financial services. Additional steps towards harmonisation of the Landsbanki brand will be taken in upcoming quarters.

Having short communication channels and a proactive approach to business that fosters entrepreneurial leadership provides Landsbanki with a competitive advantage in entering new markets. By offering a stimulating working environment and competitive compensation, the bank continues to attract highly qualified and capable employees.

Bright business outlook

The outlook for Landsbanki's operations is generally positive. In recent quarters, the bank's core earnings have been increasing steadily and its underlying ROE before taxes has been around 25%.

The changed composition of its funding has reinforced the group's balance sheet; in recent months the contribution of customer deposits to total group funding has surged. Deposits are now equivalent to 76% of Landsbanki's total lending, as compared to 34% at the beginning of 2006 and 47% at the beginning of 2007. The group's income streams are well diversified, both geographically and by operating segment.

Landsbanki's credit risk is based on an asset portfolio that is well-diversified both in terms of sector and market region. The bank's moderate equity exposures comprised 2.5% of total assets as of end September 2007. Landsbanki's capital adequacy is very strong and currently well above the average of banks in the Nordic countries, the US and the UK.

The economic situation on those markets where Landsbanki is active is generally favourable and its management is confident that it is well positioned to continue to deliver a high ROE.

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

11.2 Profitability and Capitalisation Targets

Landsbanki's targets for profitability and capital ratios reflect its combined role as a universal bank domestically and a corporate and investment bank internationally.

With regard to proprietary trading, Landsbanki has set a cap on its equity portfolio, which may not exceed 3% of the bank's balance sheet. Conscious of the inherent risk, the bank has set clear targets for both profitability, which it has surpassed, and for risk, capital and liquidity, where it has remained well within the defined limits.

The target pre-tax ROE is 18-20%, and the target after-tax ROE 15-17%. For the past four years running, Landsbanki has far outperformed these targets.

The Tier 1 capital ratio target is not lower than 9%.

The overall capital ratio target is not lower than 11%.

The liquidity position target is to be capable of covering a situation (simulated by a stress test) where access to capital market funding is closed for up to 12 months, during which time the bank will repay all due liabilities at maturity as well as other confidence-sensitive customer deposits and maintain a stable business volume.

12 Performance and Balance Sheet

Landsbanki's consolidated accounts are compiled by combining comparable items under assets, liabilities, income and expenses, from the accounts of individual companies in the group. Internal positions between group companies, balances owing or owed to, as well as income and expenses are netted in the accounts. Assets and liabilities of subsidiaries abroad are converted to ISK at the exchange rate as of the end of the reporting period, while income and expenses of foreign subsidiaries are converted to ISK at the average annual exchange rate.

Affiliated companies are companies in which Landsbanki has made a long-term investment and in which it owns a considerable share, but no more than 50%. Holdings in affiliated companies are recognised according to the bank's share of their capital. The share in their profit or loss is recognised in similar fashion. Dividends paid are entered against the bank's holding in the company in question.

Landsbanki introduced International Financial Reporting Standards, IFRS, as of 1 January 2005, in accordance with requirements set for companies listed on European Stock Exchanges.

The principal changes resulting from the introduction of IFRS concern the evaluation and presentation of financial instruments. Valuation of loans, loan commitment fees, derivatives and other financial assets have changed, and in addition, the presentation of these items on the income statement and balance sheet differs from previous practice. Treatment of goodwill and other items has also changed. Notes to the financial statements are more detailed than previously.

Landsbanki availed itself of the exemption granted in IFRS 1 First Time Adoption of International Financial Reporting Standards with regard to retroactive application of IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement. This means that changes resulting from these standards affect the evaluation and presentation of financial instruments as of 1 January 2005, but not amounts in the 2004 income statement and balance sheet. Other changes resulting from the transition were applied retroactively, and the 2004 income statement and balance sheet restated to reflect IFRS conventions.

Landsbanki's 2004 Audited Financial Statements are therefore prepared under Icelandic GAAP and the 2005 and 2006 Audited Financial Statements are prepared under IFRS. Note 40 to Landsbanki's 2005 Audited Financial Statements with comparatives as at and for the year ended 31 December 2004 contains an explanation of how the transition to IFRS, which occurred on 1 January 2005, affected the bank's reported financial condition and results of operations. This note includes reconciliations of equity and profit or loss to IFRS as at and for the year ended 31 December 2004 from equity and profit and loss reported under Icelandic GAAP. The financial information for 2004 represented in this Registration Document is based on this transition to IFRS which makes this information comparable to the 2005 and 2006 financial information.

12.1 Performance in Q1-Q3 of 2007 and 2004-2006

The operations of Teather & Greenwood | Landsbanki (now Landsbanki Securities UK) are included in the consolidation as of Q2 2005, Landsbanki | Kepler as of the beginning of December 2005 and Merrion | Landsbanki at year-end 2005. Figures for 2006 are therefore not fully comparable with the 2005 results. Landsbanki Guernsey Ltd. is included in the consolidated accounts as of the end of Q3 2006 and Bridgewell Group plc's operations are included from the middle of Q3 2007.

The ISK exchange rate affects figures in both the balance sheet and the income statement. Foreign-denominated balance sheet assets and liabilities are recognised at the closing exchange rate as of 30 September 2007, whereas amounts in the income statement are recognised at the average 9M 2007 exchange rate. The following table shows exchange rate developments of foreign reporting currencies used by the Landsbanki Group and the ISK trade-weighted index.

	31.12.06	Average 9M	%	31.12.06	30.09.07	%
ISK/EUR	93.72	87.11	-7%	93.72	87.85	-6%
ISK/GBP	139.08	128.63	-8%	139.08	125.97	-9%
ISK, TWI	127.90	118.18	-8%	127.90	117.60	-8%

Income Statement

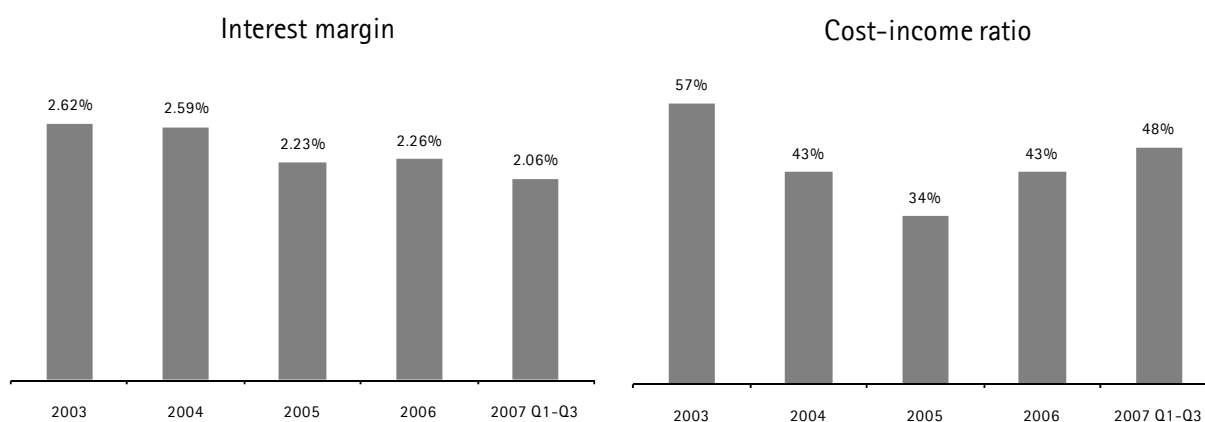
Landsbanki's net operating income amounted to ISK 85.2 bn in the first nine months of 2007 as compared to ISK 64.6 bn the previous year. In 2006 the bank's net operating income amounted to ISK 89.4 bn as compared to ISK 61.0 bn in 2005 and ISK 33.5 bn in 2004. Part of the increase in 2005 can be attributed to the acquisition of Teather & Greenwood | Landsbanki (now Landsbanki Securities UK), Landsbanki | Kepler and Merrion | Landsbanki, which were not included in the 2004 operating year, as explained above.

Increased net operating income can be explained by an increase in net interest income, growth in net commission income as well as an increase in the bank's trading and investment income.

The bank's net interest income was ISK 38.8 bn in the first nine months of 2007, as compared with ISK 31.9 bn in the first nine months of 2006. The ratio of interest spread to average capital position was 2.1% compared to 2.5% for the first nine months of 2006. Net interest income in 2006 amounted to ISK 41.5 bn as compared to ISK 23.0 bn in 2005 and 14.7 in 2004. This improvement reflects Landsbanki's increasing economies of scale, as its total assets have tripled since the end of 2004. On the other hand, interest spread as a ratio of average capital position was 2.3% in 2006, a slight drop from the 2.6% ratio of 2004.

Net fee and commission income increased by 46% in the first nine months of 2007, amounting to ISK 29.7 bn as compared to ISK 20.4 bn in the first nine months of 2006. Net fees and commissions amounted to ISK 28.4 bn in 2006 as compared to ISK 16.7 bn in 2005 and ISK 8.9 bn in 2004. The increased income from fees and commissions is the result of the bank's increased securities trading, growth in asset management and overseas activities of both the parent company and subsidiaries.

The bank's trading and investment income in the first nine months of 2007 amounted to ISK 16.7 bn as compared to ISK 12.3 bn during the same period in 2006. The bank's trading and investment income amounted to ISK 19.6 bn in 2006, as compared to ISK 21.3 bn in 2005 and 14.5 bn in 2004. The OMXI15 rose by an average 28% in 2004-2006, which explains much of Landsbanki's high trading and investment income.



Landsbanki's operating expenses in the first nine months of 2007 totalled ISK 40.9 bn, making its cost-income ratio for the period 48.0%. Landsbanki's operating expenses in 2006 totalled ISK 38.6 bn as compared to ISK 21.0 bn in 2005 and ISK 14.5 in 2004. The bank's cost-income ratio was 43% in 2006, 34% in 2005 and 43% in 2004. In 2006 Landsbanki's expenses relative to its income changed markedly with the inclusion of its subsidiaries abroad. These are primarily stockbrokers, which generally have higher cost-income ratios than do banks.

In 2005, the bank wrote down goodwill amounting to ISK 3.0 bn resulting from the merger of the assets of Burðarás hf. with Landsbanki. After deducting this write-down, Landsbanki's pre-tax profit for 2005 was ISK 30.8 bn.

Income Statement

	2007	2006	2006	2005	2004
	1.1-30.9	1.1-30.9	1.1 - 31.12	1.1 - 31.12	1.1 - 31.12
Interest income	144,160	98,216	133,102	66,437	34,252
Interest expense	105,336	66,306	91,611	43,441	19,517
Net interest income	38,825	31,910	41,491	22,996	14,734
Commission income	33,712	23,136	32,459	18,479	10,234
Commission expense	4,004	2,767	4,092	1,754	1,344
Net commission income	29,709	20,368	28,366	16,726	8,891
Dividend income	1,779	2,202	2,362	1,073	453
Net gain on financial assets and financial liabilities held or trading	4,303	1,682	2,174	10,868	4,116
Net gain on financial assets designated at fair value through profit and loss	3,592	7,786	13,699	5,866	4,918
Fair value adjustments in hedge accounting	(37)	(96)	(18)	6	0
Foreign exchange difference	2,666	(205)	(263)	387	364
Profit from associates	(38)	566	1,699	1,907	(8)
Net gain (loss) of disposal groups held for sale	4,409	394	(85)	1,150	0
Income from operations	16,672	12,328	19,568	21,257	9,842
Net income from operations	85,206	64,607	89,426	60,978	33,467
Salaries and related expenses	26,919	17,469	24,458	12,682	7,794
Operating expenses	13,981	10,089	14,130	8,284	6,667
Total operating expenses	40,900	27,557	38,588	20,967	14,460
Impairment of loans and advances and assets held for sale	4,670	4,812	6,144	6,197	4,485
Profit before impairment on goodwill and income tax	39,636	32,237	44,694	33,815	14,521
Impairment on goodwill	0	0	0	3,033	0
Income tax	4,608	6,075	4,479	5,764	1,798
Net profit	35,028	26,162	40,215	25,017	12,723

Amounts in ISK m

Attributable to:

Shareholders of Landsbanki	34,215	25,242	38,906	24,740	12,574
Minority interest	812	920	1,309	277	149
Earnings per share	3.20	2.38	3.67	2.74	1.61
Diluted earnings per share	3.00	2.28	3.48	2.61	1.55

Amounts in ISK m

12.2 Balance Sheet 2004- 30 September 2007

Assets

Total assets of Landsbanki amounted to ISK 2,847 bn at the end of September 2007, rising from ISK 2,173 bn at the beginning of this year, an increase of ISK 674 bn or 31% during the year. Loans to customers totalled ISK 1,841bn at the end of September 2007, up 28% from ISK 1,438 bn at the beginning of the year. Non-current assets and disposal groups held for sale amounted to ISK 3.3 bn at the end of September 2007 as compared to ISK 21.3 bn at the beginning of this year. The decrease is the result of the bank's disposal of the real estate company Landsafl hf.

Total assets of Landsbanki amounted to ISK 2,173 bn at year-end 2006, rising from ISK 1,405 bn at year-end 2005 and ISK 737 bn at year-end 2004. Landsbanki's assets have tripled in this period, based almost completely on organic growth.

The 2005 increase is partially due to the impact of Landsbanki's subsidiaries acquired in 2005, as explained above. Much of the 2006 increase results from ISK depreciation during the year and the resulting inflationary impact. Converted to EUR, the bank's total assets at year-end 2006 amounted to 23.2 bn, as compared to EUR 18.8 bn at the beginning of the year, an increase of 23%.

The increase in total assets is however mostly due to an increase in loans and advances to customers. At the end of September 2007 loans and advances to customers amounted to ISK 1,841 bn compared to ISK 1,438 bn at year-end 2006, ISK 984 bn at year-end 2005 and ISK 547 bn at year-end 2004. The increase is primarily in corporate lending to major clients through Landsbanki's Corporate Banking division and the bank's London branch, plus growth in housing mortgages in Iceland. The ISK weakening mentioned above had an impact on customer lending in 2006 and when this is taken into consideration, the real increase in 2006 is 24%.

The increase in total assets in 2006 can also be attributed to an ISK 128.7 bn increase in loans and advances to financial institutions. The increase reflected prefunded 2007 maturities.

Landsbanki's property and equipment amounted to ISK 10,142 as of 30 September 2007. At 31 December 2006 the bank's property and equipment amounted to ISK 5,823 m, of which ISK 2,075 m were premises. Landsbanki has declared its intention to build new headquarters in central Reykjavik. At this stage no contracts have been signed regarding this project. The aim is to have the new headquarters ready in 2010.

Property and equipment			
Fixed assets	2006	2005	2004
Premises	2,075	1,794	2,908
Other	3,748	2,465	1,238
Total	5,823	4,260	4,146
Assessment value of land and bank premises	2006	2005	2004
Official assessment value of land and bank premises	1,877	1,756	2,787
Replacement value of buildings	2,799	2,470	5,034

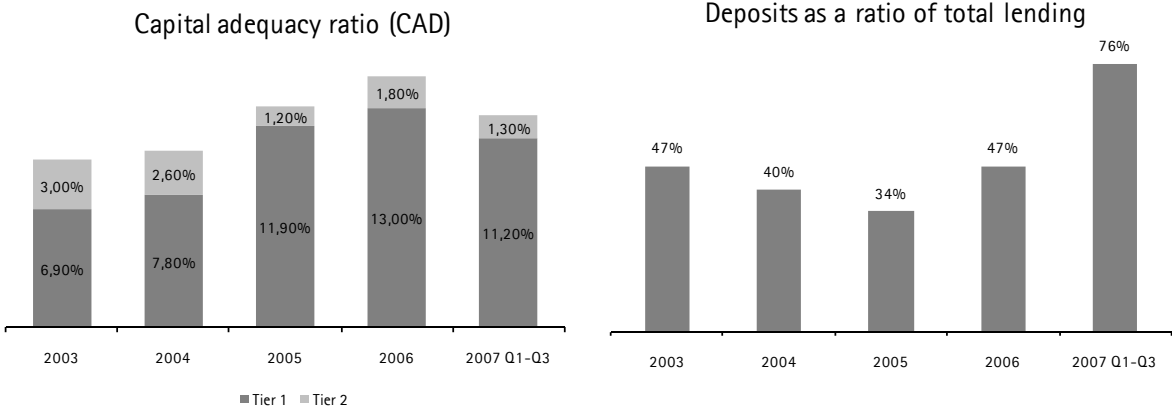
Amounts in ISK m

Liabilities and equity

Landsbanki's total deposits amounted to ISK 1,600 bn as of the end of September 2007. Of this amount, ISK 1.390 bn were customers' deposits, as compared to ISK 683 bn at the beginning of this year, increasing by 104% during the nine-month period. Landsbanki's customer deposits overseas amounted to ISK 1,038 bn at the end of September 2007, as compared to ISK 417 bn at the beginning of 2007, an increase of 149%.

Landsbanki's total deposits amounted to ISK 823.9 bn as at year-end 2006, compared to ISK 478.8 bn at year-end 2005 and 279.2 bn at year-end 2004. At year-end 2006, ISK 683 bn were customer deposits, as compared to ISK 334 bn at year-end 2005 and ISK 218 bn at year-end 2004. The increase in 2006 can partly be attributed to an increase in customer deposits with the bank's establishments abroad, which amounted to ISK 417 bn at year-end 2006, as compared to ISK 105 bn at the year-end 2005, an increase of ISK 312 bn or 300%.

Landsbanki's total borrowing at the end of September 2007 amounted to ISK 750 bn, as compared to ISK 1,015 bn at the beginning of 2007. The decrease is due both to ISK appreciation and debt retirement during the interim period. Total borrowing amounted to ISK 1,014 bn as at year-end 2006, compared to ISK 690 bn at year-end 2005 and ISK 375 bn at year-end 2004. Increased borrowing is due to an increase in corporate lending.



Landsbanki's equity was ISK 176 bn at the end of September 2007 compared to ISK 144 bn at year-end 2006, ISK 110 bn at year end 2005 and ISK 38 bn at the beginning of 2005. In connection with the takeover of Bridgewell Group plc Landsbanki issued new share capital of ISK 172 million nominal value at a share price of 39.4. Apart from that, the change in equity is the result of profit during the period on transactions in own shares and dividends. The increase in 2005 can be partly explained by the fact that in Q3 2005, Landsbanki issued additional shares of ISK 2.1 bn nominal value at a share price of ISK 19, in connection with its acquisition of the assets of Burðarás hf. Furthermore, the bank had issued new capital in March 2005 amounting to ISK 800 m shares at a share price of 14.25.

Balance Sheet

	30.09.07	31.12.06	31.12.05	31.12.04
Assets				
Cash and cash balances with Central Bank	48,440	31,669	16,611	18,237
Loans and advances to financial institutions	134,379	215,618	86,919	67,107
Loans and advances to customers	1,840,584	1,438,395	984,593	547,167
Bonds and debt instruments	383,108	169,598	51,536	16,744
Shares and equity instruments	70,451	49,328	58,292	26,720
Hedged securities	173,119	105,190	129,663	25,381
Derivatives held for trading	44,830	38,358	13,886	8,702
Derivatives held for hedging	4,189	10,498	4,689	4,930
Investments in associates	5,031	3,837	4,456	3,792
Property and equipment	10,142	5,823	4,260	4,146
Intangible assets	27,212	14,351	10,461	1,585
Non-current assets and disposal groups classified as held for sale	3,326	21,349	16,459	9,962
Unsettled securities trading	85,082	36,965	11,264	-
Other assets	16,790	31,944	12,372	2,668
Total assets	2,846,682	2,172,924	1,405,460	737,141
Liabilities				
Deposits from financial institutions	210,332	141,105	144,596	61,236
Deposits from customers	1,390,022	682,846	334,163	217,970
Borrowing	749,629	1,014,976	689,989	375,084
Financial liabilities designated at fair value	50,119	-	-	-
Subordinated loans	82,517	89,754	49,074	22,570
Trading liabilities	49,865	20,866	26,504	8,077
Derivatives held for hedging	7,562	6,473	4,086	1,582
Tax liabilities	8,369	6,593	7,289	1,674
Liabilities included in disposal groups classified as held for sale	0	7,242	4,475	4,204
Unsettled securities trading	76,258	29,987	20,428	0
Other liabilities	42,037	23,623	11,240	6,035
Total liabilities	2,666,711	2,023,466	1,291,844	698,432
Equity				
Share Capital	10,864	10,581	10,614	7,954
Share Premium	54,456	50,595	52,277	7,557
Reserves	215	2,060	1,790	-20
Retained earnings	110,951	81,046	45,378	22,214
	176,486	144,282	110,059	37,705
Minority interest	3,485	5,175	3,557	1,004
Total equity	179,971	149,457	113,616	38,709
Total liabilities and equity	2,846,682	2,172,924	1,405,460	737,141

Amounts in ISK m

Cash flow

	2006	2005		2005	2004
	1.1 -31.12	1.1 -31.12		1.1 -31.12	1.1 -31.12
Interest received	112,432	32,750	Net profit	24,740	12,574
Interest paid	(42,388)	(36,847)	Reconciliation of operating profit to net cash flow from operating activities:		
Fees and commission received	31,259	14,810	- Provisions for credit losses	6,197	4,485
Fees and commission paid	(3,012)	(1,814)	- Changes in tax liabilities	3,486	97
Dividends received	2,362	537	Depreciation of property and equipment	713	1,706
Net trading and other income	11,826	10,084	Translation differences in subsidiaries	(53)	0
Cash payments to employees and suppliers	(18,618)	(19,711)	Change in other non-cash items	(64,299)	(7,998)
Income taxes paid	(3,915)	(1,769)			
Cash flows from (to) operating profits before changes in operating assets and liabilities	89,945	(1,960)	Cash flows from (to) operating profits before changes in operating assets and liabilities	(29,217)	10,864
Changes in operating assets and liabilities:			Changes in operating assets and liabilities:		
- net decrease/(increase) in loans and advances to banks	(125,964)	(4,678)	- net decrease/(increase) in loans and advances	(4,678)	(39,203)
- net increase in loans and advances to customers	(387,282)	(415,215)	- net increase in loans and advances to customers	(415,215)	(255,249)
- net increase in trading assets	(62,374)	(146,849)	- net change in trading assets:		
- net (increase)/decrease in other assets	(24,398)	(17,001)	- net change in trading bonds	(78,794)	20,668
- net increase in deposits from other banks	54,705	83,458	- net increase in trading securities	(64,070)	(21,867)
- net increase in amounts due to customers	305,433	113,478	- net increase in bought and sold derivatives	(3,985)	12,335
- net increase in trading liabilities	(6,016)	18,427	- net change in derivatives held for hedging - assets/liabilities	1,297	482
- net increase in other liabilities	(6,194)	24,023	- net change in non-current assets and disposal groups classified as held for sale	1,260	0
			- net (increase)/decrease in other assets	(19,558)	195
			- net increase in deposits from other banks	83,458	21,351
			- net increase in amounts due to customers	113,478	67,568
			- net increase in trading liabilities and other liabilities	42,450	3,255
Cash flow used in operating activities	(162,146)	(346,317)	Cash flow used in operating activities	(373,575)	(179,601)
Change in property and equipment	(1,670)	(734)	Purchase of property and equipment	(2,376)	(1,702)
Change in financial assets designated at fair value through profit and loss	18,076	(21,589)	Proceeds from sale of property and equipment	1,642	116
Change in subsidiaries and associates	(26,589)	(5,909)	Financial assets designated at fair value through profit and loss	(21,589)	(12,700)
Change in intangible assets	(942)	(8,058)	Change in intangible assets	(8,058)	150
			Change in subsidiaries	(5,909)	(2,539)
Cash flow used in investing activities	(11,126)	(36,290)	Cash flow used in investing activities	(36,290)	(16,675)
Repayments and proceeds from borrowed funds and debt securities	197,333	339,613	Repayments and proceeds from borrowed funds and debt securities	339,613	185,901
Interest paid on long term borrowed funds and debt securities	(39,087)	(23,790)	Repayments and proceeds from subordinated loans	30,235	10,711
Repayments and proceeds from subordinated loans	30,220	30,235	Dividends paid	(1,577)	(722)
Interest paid on subordinated loans	(4,508)	(3,133)	Change in own stock	44,721	(914)
Dividends paid	(3,237)	(1,577)	Increased share capital	2,661	4,560
Change in own stock	401	44,721			
Increased share capital	(3,818)	2,661			
Cash flow provided by financing activities	177,304	388,730	Cash flow provided by financing activities	415,652	199,536
Increase in cash	4,032	6,123	Increase in cash	5,787	3,261
Cash at beginning of year	31,417	25,630	Cash at beginning of year	25,630	22,369
Foreign exchange difference	5,698	(336)			
Cash at year-end	41,147	31,417	Cash at year-end	31,417	25,630

* In 2006 Landsbanki changed its method of preparing the cash flow from the indirect method to the direct method. The difference between the direct method and the indirect method consists of different presentation of cash flow from operating activities. Both methods however yield the same result.

12.3 Capital Resources

The following table shows Landsbanki's cash sources and uses.

Summary of cash flow						
	2007 1Q-3Q	2006 1Q-3Q	2006	2005	2005*	2004
Cash flow from (used in) operating activities	314,056	(206,932)	(162,146)	(346,317)	(373,575)	(179,601)
Cash flow used in investing activities	(16,361)	(5,676)	(11,126)	(36,290)	(36,290)	(16,675)
Cash flow provided by financing activities	(202,400)	216,556	177,304	388,730	415,652	199,536

* In 2006 Landsbanki changed its method of preparing the cash flow from the indirect method to the direct method. Both methods yield the same result but different procedures are used to arrive at the cash flows

Amounts in ISK m

Under IFRS, companies are encouraged to report cash flows using the direct method. Landsbanki therefore changed its method of preparing cash flow in 2006. The difference between the direct method and the indirect method consists of different presentation of cash flow from operating activities. Both methods however yield the same result.

Because of the change in the method of preparing cash flow, discussion of changes in cash flow between 2005 and 2006 are based on the direct method of preparing cash flow while discussion of changes between 2004 and 2005 are based on the indirect method of preparing cash flow (see table above).

Cash flow used in operating activities

Net cash used in operating activities came to ISK 162 bn in 2006 as compared to 346 bn in 2005. The difference is attributed to several factors, the most significant changes being an increase of ISK 192 bn in amounts due to customers and a decrease of ISK 84.5 bn in trading assets.

Net cash used in operating activities came to ISK 374 bn in 2005 (indirect method) as compared to 180 bn in 2004. The difference is attributed to several factors, the most significant changes being an increase of ISK 160 bn in loans and advances to customers and an increase of 100 bn in trading bonds.

Cash flow used in investing activities

Net cash used in investing activities amounted to ISK 11 bn in 2006 as compared to ISK 36 bn in 2005.

Net cash used in investing activities amounted to ISK 36 bn in 2005 (indirect method) as compared to ISK 17 bn in 2004.

Cash provided by financing activities

Net cash provided by financing activities amounted to ISK 177 bn in 2006 as compared to ISK 389 bn in 2005. The difference is attributed to several factors, the most significant change being a decrease of ISK 142 bn in repayments and proceeds from borrowed funds and debt securities.

Net cash provided by financing activities amounted to ISK 416 bn in 2005 (indirect method) as compared to ISK 200 bn in 2004. The difference is attributed to several factors, the most significant change being an increase of ISK 154 bn in repayments and proceeds from borrowed funds and debt securities.

Funding structure

The following table shows Landsbanki's funding structure as of 30 September 2007. The table also shows Landsbanki's equity and liabilities classified according to their maturities. The classification is based on the residual maturity as of 30 September 2007.

Funding structure						
Equity		Up to 3 months	3-12 month	1-5 years	Over 5 years	No maturity
Share capital	10,864	-	-	-	-	10,864
Share premium	54,456	-	-	-	-	54,456
Reserves	215	-	-	-	-	215
Retained earnings	110,951	-	-	-	-	110,951
Minority interest	3,485	-	-	-	-	3,485
Total equity	179,971	0	0	0	0	179,971
Liabilities						
Deposits	1,600,354	1,406,192	140,777	47,531	5,854	0
Borrowings	749,629	53,717	75,056	536,888	83,968	0
Subordinated loans	82,517	0	0	1,856	26,443	54,218
Other liabilities	234,211	141,901	22,488	35,417	34,404	0
Total liabilities	2,666,711	1,601,810	238,321	621,692	150,669	54,218
Total	2,846,682	1,601,810	238,321	621,692	150,669	234,189

Amounts in ISK m

In recent months Landsbanki has taken steps to modify its funding structure and the bank's composition of funding has therefore changed, with the increase of customer deposits. At the end of September 2007 deposits were 76% of Landsbanki's total lending as compared to 34% at the beginning of 2006 and 47% at the beginning of 2007. This has proved to be a major advantage in the turbulent times experienced this year on global financial markets. Customer deposits now provide around half of total Landsbanki funding, with the lion's share of this deposits placed with the bank by 110,000 UK retail customers using the bank's Icesave on-line savings programme. When the liquidity squeeze began on international markets in recent months, Landsbanki was therefore in a very favourable position. Both the bank's equity ratio and its liquidity are high, which means good opportunities for the bank given the current global market situation.

Landsbanki has sufficient liquid assets to withstand non-access to capital markets for refinancing for well over 12 months. At the end of September 2007 liquid assets totalled EUR 9.6 bn.

Landsbanki operates in a regulated environment. According to Act No. 161/2002 on Financial Undertakings, and Rules on the Capital Adequacy Ratio of Financial Undertakings No. 530/2003, subordinated debt and equity net of the book value of holdings in other financial undertakings may not be less than 8% of the risk-adjusted asset base. Other than that there are no restrictions on Landsbanki's use of capital resources.

Performance by business segment

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

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

The following table gives a breakdown of performance by business segment.

Retail Banking includes the parent company's branch network, the commercial banking operations of Heritable Bank, SP-Fjármögnun hf. and Landsbanki Guernsey Ltd.

Corporate Banking includes the parent company's Corporate Banking division, including its London and Amsterdam Branches, as well as corporate banking activities at Heritable Bank and Landsbanki Luxembourg S.A.

Investment Banking is comprised of the parent company's Investment Banking division plus the subsidiaries Landsbanki Securities UK, Landsbanki | Kepler and Merrion | Landsbanki.

Asset Management and Private Banking includes the parent company's Asset Management division, Landsvaki hf. and asset management operations of Landsbanki Luxembourg S.A.

Performance by Division, Q1-Q3 2006 and Q1-Q3 2007

	Retail Banking	Corporate Banking	Securities and Treasury	Asset Management and Private Banking	Other *	Total
1.1 – 30.9.2006						
Net interest income	11,029	16,317	2,382	2,181	0	31,910
Net fees and commissions	2,235	1,852	14,000	2,281	0	20,368
Net financial gains	(10)	36	12,047	255	0	12,328
Net income from operations	13,255	18,204	28,430	4,718	0	64,607
Operating expenses	6,839	3,837	13,473	2,292	1,116	27,557
Impairment on loans and advances and assets held for sale	1,227	2,149	1,304	131	0	4,812
Pre-tax profit	5,189	12,218	13,654	2,294	(1,116)	32,237
1.1 – 30.9.2007						
Net interest income	13,295	26,482	(3,912)	2,960	0	38,825
Net fees and commissions	2,189	1,654	22,601	3,265	0	29,709
Net financial gains	(55)	(1,291)	17,814	204	0	16,672
Net income from operations	15,428	26,845	36,503	6,430	0	85,206
Operating expenses	7,958	7,457	19,412	3,830	2,243	40,900
Impairment on loans and advances and assets held for sale	2,406	2,789	(532)	7	0	4,670
Pre-tax profit	5,064	16,599	17,623	2,592	(2,243)	39,636

Amounts in ISK m

* The item "Other" is cost that cannot be attributed to the three business segments

Performance by Division, 2004–2006

	Retail Banking	Corporate Banking	Securities and Treasury	Asset Management and Private Banking	Other *	Total
1.1 – 31.12.2004						
Net interest income	6,838	6,943	(187)	1,141	0	14,734
Net fees and commissions	2,781	979	3,663	1,228	0	8,651
Net financial gains	0	(46)	10,043	85	0	10,081
Net income from operations	9,619	7,876	13,519	2,454	0	33,467
Operating expenses	6,594	2,078	2,246	1,653	1,890	14,460
Impairment on loans and advances and assets held for sale	2,870	1,385	(4)	235	0	4,485
Pre-tax profit	156	4,413	11,277	566	(1,890)	14,521
1.1 – 31.12.2005						
Net interest income	10,466	11,866	(1,063)	1,727	0	22,996
Net fees and commissions	3,131	2,343	8,785	2,466	0	16,726
Net financial gains	66	247	20,789	154	0	21,257
Net income from operations	13,664	14,456	28,511	4,348	0	60,978
Operating expenses	8,272	4,155	5,906	2,208	425	20,967
Impairment on loans and advances and assets held for sale	2,026	3,268	0	902	0	6,197
Impairment on goodwill	0	0	3,033	0	0	3,033
Pre-tax profit	3,366	7,032	19,572	1,237	(425)	30,781
1.1 – 31.12.2006						
Net interest income	15,145	22,714	1,280	2,351	0	41,491
Net fees and commissions	2,860	2,547	19,294	3,665	0	28,366
Net financial gains	(32)	62	19,235	303	0	19,568
Net income from operations	17,974	25,323	39,809	6,320	0	89,426
Operating expenses	8,752	6,003	19,101	3,239	1,493	38,588
Impairment on loans and advances and assets held for sale	1,200	3,642	1,307	(5)	0	6,144
Pre-tax profit	8,022	15,678	19,400	3,086	(1,493)	44,694

Amounts in ISK m

* The item "Other" is cost that cannot be attributed to the three business segments

12.4 Significant changes from the latest Financial Statement

No significant changes in the financial or trading position of Landsbanki have occurred since the end of the last financial period on 30 September 2007.

12.5 Related Party Transactions

All of the loans referred to here have been granted in accordance with the bank's credit rules and on normal commercial terms. No impairment has been recognised by the bank against these loans.

The holding company, Samson eignarhaldsfélag ehf., has a 40.73% holding in the bank. The bank 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 amounts in the table below.

Related party transactions

	30.11.07	31.12.06	31.12.05
Loans to CEOs, managing directors and their fully owned companies	193	153	78
Loans to members of the Board of Directors and their fully owned companies *	12,719	26,267	11,656
Credit extended to associated companies	51,487	14,152	19,912

* Includes credit granted to companies with which members of the Board are connected through membership of the companies' Boards or ownership ties

Amounts in ISK m

In 2004 loans to the CEOs and board members as well as loans to undertakings fully owned by these individuals, amount to ISK 252 m. The interest rate terms of these loans are in accordance with loans to other customers. The lending amount does not include loans to corporations managed by board members.

13 Other information

13.1 Documents Incorporated by Reference

The Registration Document is valid for 12 months after its publication. For the life of the Registration Document, the following documents shall be deemed to be incorporated in, and to form part of this Registration Document.

- Interim Financial Statements for Landsbanki covering the first nine months of 2007 and 2006.
- Annual Financial Statements for Landsbanki covering the years 2004, 2005 and 2006. The auditors' reports for Landsbanki are part of the Financial Statements.
- The Issuer's Articles of Association

Copies of the aforementioned documents can be obtained at Landsbanki's headquarters, and on the bank's website www.landsbanki.is.

13.2 Documents on Display

For the life of the Registration Document the following documents are available for viewing:

- Landsbanki's historical financial information for the past three years, 2006, 2005 and 2004 as well as for the first nine months of 2007 and 2006, can be obtained at Landsbanki's headquarters or on the bank's website: www.landsbanki.is.
- Landsbanki's Articles of Association may be obtained at Landsbanki's headquarters or on the bank's website www.landsbanki.is.

13.3 Abbreviations used in this Registration Document:

AFM	Autoriteit Financiële Markten - The Financial Supervisory Authority in the Netherlands
ALCO	Asset and liability committee
BaFin	Die Bundesanstalt für Finanzdienstleistungsaufsicht - The Financial Supervisory Authority in Germany
bn	Billion
Bridgewell	Bridgewell Group plc
CAD	Capital adequacy
CPI	Consumer price index
CMPU	Capital Market Products Unit
CNMV	Comisión Nacional del Mercado de Valores - The Financial Supervisory Authority in Spain
CONSOB	Commissione Nazionale per le Società e la Borsa - The Financial Supervisory Authority in Italy
CSSF	Commission de surveillance du secteur financier - The Financial Supervisory Authority in France
ECP	European Commercial Paper

EMTN	European Medium Term Note
EUR	Euro, the currency of many European Union countries
FME	Icelandic Financial Supervisory Authority
FX	Foreign exchange
HFF	Housing Financing Fund
GAAP	Generally Accepted Accounting Principles
GBP	British pound, the currency of the United Kingdom
OMX ICE	OMX Nordic Exchange Iceland hf.
Heritable Bank	Heritable Bank Ltd.
IFRS/IAS	International Financial Reporting Standards
ISK	Icelandic kronur, the currency of Iceland
ISDA	International Swaps and Derivatives Association
IT	Information Technology
Landsbanki Kepler	Kepler Equities S.A.
Landsbanki, the bank or the Issuer	Landsbanki Íslands hf.
Merrion Landsbanki	Merrion Capital Group Ltd.
m	Million
NDMA	National Debt Management Agency
OTC	Over the counter
ROE	Return on equity
SICAV	An open-ended collective investment scheme common in Western Europe especially Luxembourg, Switzerland, Italy and France
SWIFT	International transfer
Teather & Greenwood Landsbanki	Teather & Greenwood Ltd.
TWI	Trade weighted index
UK	United Kingdom
USA	United States of America
TRS	Total Return Swaps
USD	United States dollar, the currency of the United States
UCITS	Undertakings for Collective Investments in Transferable Securities
VaR	Value at Risk
Vbp	Value per basis point

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