

**Landsbanki Íslands hf. - 2006 Results**  
**After-tax profit ISK 40.2 billion (bn)**  
**Q4 profit ISK 14.1 bn**

**Highlights of the Consolidated Annual Financial Statements of Landsbanki for 2006**

- After-tax profit in 2006 was ISK 40.2 bn (€ 459m), increasing YoY by 61%.
- After-tax ROE was 36.3%.
- The group's core income (interest margin and commission income) was close to ISK 70 billion (€ 798m), an increase over 2005 of ISK 30 bn or 76%.
- The cost-income ratio for 2006 was 43.2%.
- Trading gains and investment income amounted to ISK 19.6 bn (€ 223m), as compared to ISK 21.3 bn in 2005.
- Income from operations overseas amounted to ISK 46.6 bn (€ 532m) or 52% of total group in income, compared to ISK 10.4 bn and 17% in 2005. For the first time overseas operations income exceed domestic operations income.
- The bank's total assets amounted to ISK 2,173 bn at year-end 2006. Converted to EUR, the bank's total assets amounted to EUR 23.2 bn at year-end 2006, compared with EUR 18.8 bn at the beginning of the year.
- Customer deposits increased by 104% during 2006, amounting to ISK 683 billion (€ 7.3bn) at year-end. Deposits were equivalent to almost 50% of total customer loans.
- The bank's capital ratio (CAD) was 14.8% at the end of the year. Tier 1 capital was 13.0%.

**Highlights of Q4 2006:**

- After-tax profit was 14.1 bn (€ 161m).
- Net operating income in Q4 was ISK 24.8 bn (€ 283m) as compared with ISK 18.5 bn in Q3.
- The Q4 cost-income ratio in 2006 was 44.4%.
- Customer lending grew by ISK 135 bn (€ 1.4bn) in Q4, while customer deposits increased by ISK 170 bn (€ 1.8bn).

**GMD Sigurjón Þ. Árnason:**

"Landsbanki has delivered an exceptionally good performance in 2006. After-tax profit amounted to over ISK 40 billion and return on equity was 36%. The bank's core income continues to grow, amounting to ISK 70 billion this year, or a 76% increase. Income from operations abroad now comprises 52% of the group's total income, reflecting its diversified and solid income base. The year's successful funding operations include both bond issues and new and highly successful deposit products. The ratio of deposits to customer loans is now close to 50%, as compared with 34% at the beginning of this year. The especially successful launch of Icesave on the UK market in Q4 was a major factor here. At year-end Icesave deposits totalled almost ISK 110 billion."

**GMD Halldór J. Kristjánsson:**

"Early in 2006 the Icelandic economy and financial enterprises were the focus of considerable international attention. Foreign financial analysts expressed concern at the national economy's ability to adjust to short-term disequilibrium and the accordant impact on the bank's funding and operations. These concerns were partly the result of misconceptions, which were corrected by supplying suitable information promptly and effectively. On the other hand, Landsbanki decided to take specific steps to address other aspects where bank management felt this justified. The bank has, for instance, taken steps to further reduce market risk and substantially increase the role of deposits in its overall funding. It has also raised its capital ratio during the course of the year. Together with the effective integration of parent company and subsidiary establishments both in Iceland and overseas, this has placed Landsbanki in a position to advance confidently on highly competitive global financial markets. Landsbanki increased its funding diversification very substantially this past year, for instance, with a highly successful US bond issue and the UK on-line deposit programme Icesave, which has exceeded all expectations. The bank's liquidity position is therefore very strong and it can already meet all long-term obligations for the next two years."

A copy of Landsbanki's Annual Financial Statements 2006 is available on the Bank's website [www.landsbanki.com](http://www.landsbanki.com)

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## Consolidated Key Figures

Operations	2006	2005	2004	2003	2002
Interest revenues	133,102	66,437	34,252	21,871	21,813
Interest expenses	91,611	43,441	19,517	12,540	14,082
<b>Net interest revenues</b>	<b>41,491</b>	<b>22,996</b>	<b>14,734</b>	<b>9,331</b>	<b>7,732</b>
Fee and commission income	32,459	18,479	10,234	6,959	4,745
Fee and commission expenses	4,092	1,754	1,344	843	669
<b>Net fee and commission income</b>	<b>28,366</b>	<b>16,726</b>	<b>8,891</b>	<b>6,116</b>	<b>4,076</b>
<b>Other operating revenues</b>	19,568	21,257	9,842	3,535	2,109
<b>Net operating revenues</b>	89,426	60,978	33,467	18,982	13,916
Salaries and related expenses	24,458	12,682	7,794	5,656	4,387
Administrative expenses	14,130	8,284	6,667	5,158	4,117
<b>Operating expenses</b>	<b>38,588</b>	<b>20,967</b>	<b>14,460</b>	<b>10,815</b>	<b>8,505</b>
Impairment on loans and advances and assets held for sale	6,144	6,197	4,485	4,656	2,863
<b>Profit before impairment on goodwill and income tax</b>	<b>44,694</b>	<b>33,815</b>	<b>14,521</b>	<b>3,512</b>	<b>2,549</b>
Impairment on goodwill	0	3,033	0	0	0
Income tax	4,479	5,764	1,798	457	475
<b>Net profit</b>	<b>40,215</b>	<b>25,017</b>	<b>12,723</b>	<b>3,055</b>	<b>2,074</b>
<b>Attributable to:</b>					
Shareholders of Landsbanki Íslands hf.	38,906	24,740	12,574	2,956	2,028
Minority interests	1,309	277	149	99	45
<b>Balance Sheet</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Cash and cash balances with Central Bank	31,669	16,611	18,237	11,642	8,145
Loans and advances to financial institutions	215,618	86,919	72,060	37,130	10,748
Loans and advances to customers	1,438,395	984,593	542,215	326,400	214,787
Financials assets at fair value and associates	376,809	218,894	64,730	63,744	36,337
Other assets	110,432	98,443	39,900	9,323	7,808
<b>Total assets</b>	<b>2,172,924</b>	<b>1,405,460</b>	<b>737,141</b>	<b>448,239</b>	<b>277,824</b>
Deposits from financial institutions	141,105	144,596	63,476	43,840	30,665
Deposits from customers	682,846	334,163	215,730	152,320	108,306
Borrowing	1,014,976	689,989	375,084	209,357	108,479
Subordinated loans	89,754	49,074	22,570	13,090	8,216
Other liabilities	94,785	74,022	21,572	6,389	5,057
Equity	144,282	110,059	37,705	22,382	16,309
Minority interests	5,175	3,557	1,004	862	792
<b>Total liabilities and equity</b>	<b>2,172,924</b>	<b>1,405,460</b>	<b>737,141</b>	<b>448,239</b>	<b>277,824</b>
<b>Key ratios</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Return on equity before impairment on goodwill and taxes	40.3%	61.8%	57.2%	20.9%	17.0%
Return on equity after taxes	36.3%	45.8%	49.5%	17.6%	13.5%
Tier 1 ratio	13.0%	11.9%	7.8%	6.9%	7.7%
Equity ratio (CAD)	14.8%	13.1%	10.4%	9.9%	10.6%
Cost-income ratio	43.2%	34.4%	43.2%	57.0%	61.1%
Operating expenses as a ratio of average capital position	2.1%	2.0%	2.5%	3.0%	3.1%
Interest spread as a ratio of average capital position	2.3%	2.2%	2.6%	2.6%	2.8%
Deposits / loans to customers	47.5%	33.9%	39.6%	48.0%	50.4%
Ratio of provision to lending position at period-end	0.37%	0.58%	0.73%	1.47%	1.33%
Loan loss ratio	0.13%	0.19%	0.33%	0.55%	0.89%
Share price at period-end	26.50	25.30	12.10	5.80	3.65
Change in share price adjusted for dividend payments	5.9%	110.7%	110.3%	61.6%	10.6%
Number of positions at period-end	2,117	1,725	1,121	1,025	986
<b>Exchange rates</b>					
Exchange rate ISK / EUR for P/L average of year	87.565	76.59	86.97	87.39	85.92
Exchange rate ISK / EUR for Balance sheet at year-end	93.72	74.7	83.51	89.76	84.71

## Consolidated Key Figures

Operations	2006	2006	2006	2006	2005	2005	2005	2005
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest revenues	34,887	33,154	37,527	27,535	21,073	18,594	14,309	12,461
Interest expenses	25,306	23,840	23,865	18,601	13,818	12,272	9,180	8,172
<b>Net interest revenues</b>	<b>9,581</b>	<b>9,314</b>	<b>13,662</b>	<b>8,934</b>	<b>7,255</b>	<b>6,322</b>	<b>5,129</b>	<b>4,289</b>
Fee and commission income	9,323	7,547	7,791	7,797	5,359	4,775	4,864	3,481
Fee and commission expenses	1,325	979	849	940	598	392	403	361
<b>Net fee and commission income</b>	<b>7,998</b>	<b>6,568</b>	<b>6,943</b>	<b>6,857</b>	<b>4,761</b>	<b>4,383</b>	<b>4,461</b>	<b>3,120</b>
Dividend income	161	99	269	1,834	191	161	616	105
Net (loss) gain on financial assets and liabilities held f	492	1,943	(1,011)	750	5,503	3,550	(163)	1,978
Net (loss) gain on financial assets designated at FV th	5,913	594	(489)	7,680	1,205	1,167	1,003	2,490
Fair value adjustments in hedge accounting	78	25	(25)	(96)	(361)	232	(81)	216
Foreign exchange difference	(58)	(145)	(12)	(49)	92	359	(161)	97
Profit (loss) from associates	1,133	(15)	(262)	843	643	505	275	484
Net gain of disposal groups held for sale	(479)	155	51	188	63	270	817	0
<b>Other operating revenues</b>	<b>7,240</b>	<b>2,656</b>	<b>(1,478)</b>	<b>11,150</b>	<b>7,337</b>	<b>6,243</b>	<b>2,307</b>	<b>5,370</b>
<b>Net operating revenues</b>	<b>24,819</b>	<b>18,538</b>	<b>19,127</b>	<b>26,942</b>	<b>19,352</b>	<b>16,949</b>	<b>11,898</b>	<b>12,779</b>
Salaries and related expenses	6,989	5,963	6,256	5,249	4,136	3,077	3,114	2,355
Administrative expenses	4,042	3,754	3,496	2,839	2,933	1,905	1,764	1,683
<b>Operating expenses</b>	<b>11,031</b>	<b>9,717</b>	<b>9,752</b>	<b>8,088</b>	<b>7,069</b>	<b>4,982</b>	<b>4,879</b>	<b>4,037</b>
Impairment on loans and advances and assets held fo	1,332	1,597	1,660	1,555	1,805	1,687	1,359	1,345
<b>Profit before impairment on goodwill and income tax</b>	<b>12,457</b>	<b>7,224</b>	<b>7,714</b>	<b>17,299</b>	<b>10,479</b>	<b>10,280</b>	<b>5,660</b>	<b>7,396</b>
Impairment on goodwill	0	0	0	0	(259)	3,293	0	0
Income tax	(1,596)	1,480	1,572	3,023	1,929	1,882	602	1,351
<b>Net profit</b>	<b>14,053</b>	<b>5,744</b>	<b>6,143</b>	<b>14,276</b>	<b>8,809</b>	<b>5,105</b>	<b>5,058</b>	<b>6,045</b>
<b>Attributable to:</b>								
Shareholders of Landsbanki Íslands hf.	13,664	5,281	5,966	13,995	8,734	4,995	5,000	6,011
Minority interests	389	463	177	280	75	110	58	34
<b>Balance Sheet</b>	<b>31.12.2006</b>	<b>30.9.2006</b>	<b>30.6.2006</b>	<b>31.3.2006</b>	<b>31.12.2005</b>	<b>30.9.2005</b>	<b>30.6.2005</b>	<b>31.3.2005</b>
Cash and cash balances with Central Bank	31,669	25,714	22,806	19,403	16,611	8,134	8,211	14,136
Loans and advances to financial institutions	215,618	168,993	68,793	75,597	86,919	53,727	66,442	56,984
Loans and advances to customers	1,438,395	1,303,676	1,294,462	1,208,510	984,593	837,941	761,901	630,899
Financials assets at fair value and associates	376,809	305,294	275,113	300,780	218,894	156,243	119,208	82,630
Other assets	110,432	158,395	150,295	165,613	98,443	86,212	66,311	65,993
<b>Total assets</b>	<b>2,172,924</b>	<b>1,962,072</b>	<b>1,811,468</b>	<b>1,769,902</b>	<b>1,405,460</b>	<b>1,142,258</b>	<b>1,022,072</b>	<b>850,642</b>
Deposits from financial institutions	141,105	97,097	135,722	138,092	144,591	138,693	92,755	79,582
Deposits from customers	682,846	513,054	475,045	469,333	334,168	275,295	262,655	218,481
Borrowing	1,014,976	979,748	853,367	806,627	689,989	531,417	521,870	417,947
Subordinated loans	89,754	85,892	91,141	83,514	49,074	47,224	49,394	49,327
Other liabilities	94,785	151,746	128,714	151,130	74,022	48,804	34,378	30,241
Equity	144,282	129,876	123,088	117,187	110,059	98,749	58,954	53,988
Minority interests	5,175	4,660	4,392	4,019	3,557	2,076	2,066	1,076
<b>Total liabilities and equity</b>	<b>2,172,924</b>	<b>1,962,072</b>	<b>1,811,468</b>	<b>1,769,902</b>	<b>1,405,460</b>	<b>1,142,258</b>	<b>1,022,072</b>	<b>850,642</b>

## After-tax profit ISK 40.2 billion

The bank's after-tax profit was ISK 40.2 billion, as compared with ISK 25.0 billion in 2005, a YoY increase of 61%.

After-tax ROE in 2006 was 36.3%.

The operations of Teather & Greenwood have been included in the consolidation as of Q2 2005, Kepler Equities as of the beginning of December 2005 and Merrion Capital Group 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.

The ISK weakening affects figures in both the balance sheet and the income statement. Foreign-denominated assets and liabilities are recognised at the closing exchange rate as of year-end 2006, whereas amounts in the income statement are recognised at the average 2006 exchange rate. The following table shows exchange rate developments of foreign reporting currencies used by the Group and the ISK trade-weighted index.

	12/31/2005	Average	%	12/31/2005	12/31/2006	%
EUR	74.7	87.57	17%	74.7	93.72	25%
GBP	108.85	128.39	18%	108.85	139.08	28%
GVT	104.9	121.00	15%	104.90	127.90	22%

## Highlights of the Income Statement and Balance Sheet

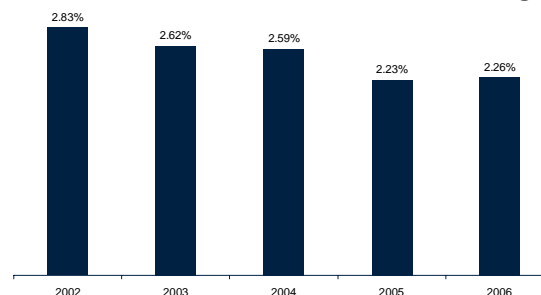
### Income Statement

#### Comparison of 2006 with 2005

Landsbanki's **net operating income** in 2006 amounted to ISK 89.4 bn as compared to ISK 61.0 bn the previous year, a YoY increase of 47%.

**Net interest income** amounted to ISK 41.5 bn as compared to ISK 23.0 bn the previous year, a YoY increase of 81%. Net interest margin as a ratio of average capital position was 2.3%.

#### Interest margin

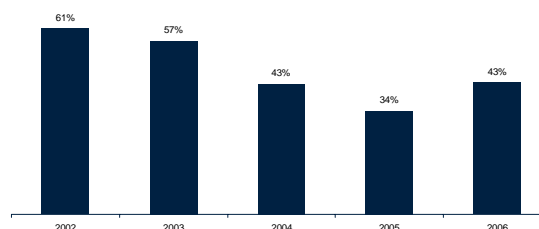


**Net fees and commissions** have grown by 70%, amounting to ISK 28.4 bn in 2006 as compared with ISK 16.7 bn in 2005.

The bank's **trading and investment income** amounted to ISK 19.6 bn in 2006, as compared with ISK 21.3 bn in the previous year.

Group **operating expenses** in 2006 totalled ISK 38.6 bn, and the bank's cost-income ratio was 43.2% in 2006.

#### Cost-income ratio



The group's expenses relative to its income have changed markedly with the inclusion of its subsidiaries abroad. These are primarily stock brokers, which generally have higher cost-income ratios than do banks.

At year-end 2006, Landsbanki's employees held 2,117 full-time equivalent positions. Of these, 1,292 were in Iceland and 825 in the Group's establishments abroad.

**Impairment on loans and financial assets held for sale** in 2006 amounted to ISK 6.1 bn, as compared to ISK 6.2 bn in 2005. Impairment as a ratio of outstanding loans and receivables at year-end was 0.37%.

#### Comparison of Q4 2006 with Q3 2006

The bank's **after-tax** profit was ISK 14.1 bn, as compared with ISK 5.7 bn for Q3.

The bank's **net interest income** was ISK 9.6 bn, as compared with ISK 9.3 bn in Q3 2006.

**Net fees and commissions** were ISK 8.0 bn, as compared with ISK 6.6 bn in Q3 2006. The increase can be attributed in particular to securities trading both in Iceland and abroad.

Landsbanki's **trading and investment income** in Q4 was ISK 7.2 bn as compared to ISK 2.7 in Q3.

The group's **cost-income ratio** in Q4 was 44.4% as compared with 52.4% in Q3 2006.

**Impairment on loans and financial assets held for sale** in Q4 amounted to ISK 1.3 bn, as compared to ISK 1.6 bn in Q3 2006.

## Operations abroad contribute 52% of net operating income

Net operating income originating outside of Iceland amounted to ISK 46.6 bn, or 52% of the total in 2006, compared with ISK 10.4 bn, or 17% in 2005. This income has increased by ISK 36.2 bn YoY, or more than tripled.

## Balance Sheet

**Total assets** of the Group amounted to ISK 2,173 bn at year-end 2006, rising from ISK 1,405 billion at the beginning of the year, an increase of ISK 768 billion or 55% during the year. The increase in Q4 was ISK 211 bn, or 11%. 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 amounted to 23.2 bn, as compared to EUR 18.8 bn at the beginning of the year, an increase of 23%.

**Amounts due from financial institutions** amounted to ISK 216 bn, as compared to ISK 87 bn at the beginning of the year. The increase reflects prefunded 2007 maturities.

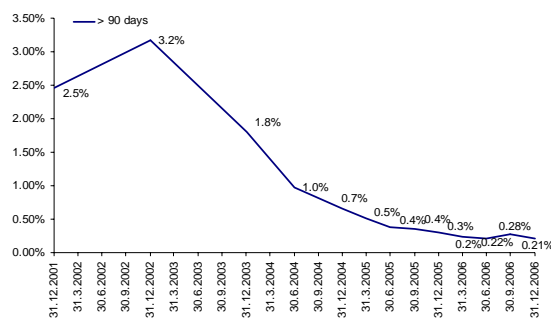
**Customer lending** amounted to ISK 1,438 bn at year-end 2006, compared to ISK 985 bn at the beginning of the year, an increase of 46%. If the impact of the ISK weakening and inflation is taken into consideration, the real increase in customer lending is 24%.

Total **provisions for credit losses** amounted to ISK 16.6 bn or 1.14% of total loans at the end of 2006. Provisions for credit losses do not reflect actual write-offs, but amounts set aside to cover calculated future credit losses.

When and if loans are not recovered, the provisions for credit losses is reduced by the unrecoverable amount.

The ratio of **loans in arrears** has been decreasing steadily in recent years. At year-end 2006, loans in arrears for 90 days or more were 0.21% of total customer lending, compared to 0.4% at the beginning of the year.

Loans 90 days or more in arrears



**Market bonds and other fixed-income securities** held by the bank totalled ISK 170 bn at the end of 2006, as compared with ISK 52 billion at the beginning of the year. The increase reflects prefunded 2007 maturities.

**Equities and other variable income securities** held by the bank totalled ISK 49 bn at the end of 2006, as compared with ISK 58 billion at the beginning of the year. Of the ISK 49 bn, ISK 44 bn were listed equities and ISK 5 bn unlisted equities. Domestic equities amounted to ISK 28 bn and foreign equities to ISK 21 bn at year-end 2006.

**Total assets under management** amounted to ISK 377 bn at year-end 2006, rising from ISK 281 billion at the beginning of the year, an increase of 34% during the year. At the same time, total assets in custody amounted to ISK 1,751 bn as compared to ISK 1,321 bn at the beginning of the year, an increase of 33%.

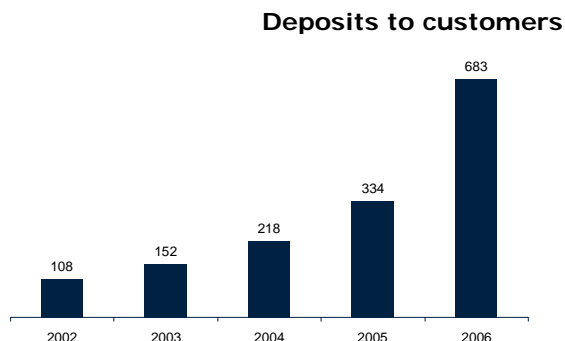
## Liabilities and equity

### Overseas deposits increase by 300%

The Group's **total deposits** amounted to ISK 824 bn as of year-end 2006. Of this amount, ISK 683 bn were customer deposits, as compared to ISK 334 bn at the beginning of the year, increasing by 104% during 2006. Customer deposits with the bank's establishments abroad amounted to ISK 417 bn at year-end, as compared to ISK 105 bn at the

beginning of 2006, an increase of ISK 312 bn or 300%.

**Customer deposits** amounted to 48% of total lending to customers at year-end, compared to 34% at the beginning of 2006.



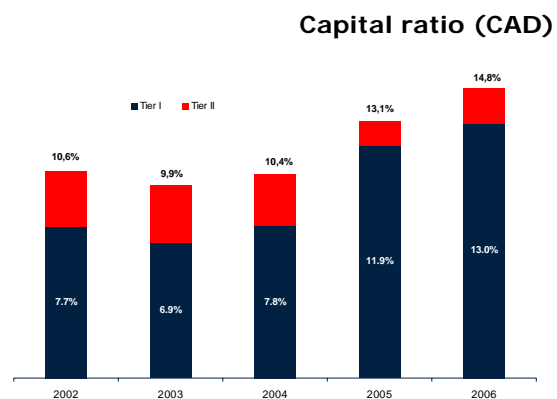
**Total borrowing** at year-end 2006 was ISK 1,015 bn, compared to ISK 690 bn at year-end 2005.

The Group's **subordinated debt** was ISK 90 bn at the end of December as compared to ISK 49 bn at the beginning of the year.

## Capital ratio 14.8%

The Group's **equity** was ISK 144 bn at year-end, compared to ISK 110 bn at the beginning of the year. The change in equity is the result of profit during the period, transactions in own shares and dividends.

The group's **capital adequacy ratio** according to CAD rules was 14.8% at year-end 2006, compared with 13.1% at the beginning of the year. The Tier 1 capital ratio was 13.0% as compared with 11.9% at the beginning of the year.



## Performance by Business Segment

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

- Commercial Banking,
- Corporate Banking,
- Securities Trading, and
- Asset Management and Private Banking.

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

### Summary by business segment

2006	Retail Banking	Corporate Banking	Securities and Treasury	Asset Management & Private Banking	Other	Group
Net interest revenue	15,145	22,714	1,280	2,351	0	41,491
Net commission and fees	2,860	2,547	19,294	3,665	0	28,366
Net financial income	-32	62	19,235	303	0	19,568
<b>Net operating revenue</b>	<b>17,974</b>	<b>25,323</b>	<b>39,809</b>	<b>6,320</b>	<b>0</b>	<b>89,426</b>
Operating expenses	8,752	6,003	19,101	3,239	1,493	38,588
Impairment on loans and advances	1,200	3,642	1,307	-5	0	6,144
<b>Profit before income tax</b>	<b>8,022</b>	<b>15,678</b>	<b>19,400</b>	<b>3,086</b>	<b>-1,493</b>	<b>44,694</b>
<b>Total Assets</b>	<b>369,908</b>	<b>937,353</b>	<b>565,340</b>	<b>289,422</b>	<b>10,901</b>	<b>2,172,924</b>

**Commercial Banking** includes the parent company's branch network, the commercial banking operations of Heritable Bank, SP-Fjármögnun and Landsbanki Guernsey Ltd. The business segment's pre-tax profit amounted to ISK 8.0 bn in 2006, as compared to a profit of ISK 3.4 bn the previous year. The business segment's **total assets** were ISK 370 bn at year-end 2006 as compared to ISK 262 bn at the beginning of the year.

**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. Pre-tax profit for Corporate Banking in 2006 amounted to ISK 15.7 bn, as compared to ISK 7.0 bn in 2005. The business segment's **total assets** were ISK 937 bn at year-end 2006 as compared to ISK 636 bn at the beginning of the year.

**Securities Trading** is comprised of the parent company's Securities and Treasury division plus the subsidiaries Teather & Greenwood, Kepler Equities and Merrion Capital. This business segment includes securities brokerage, corporate advisory, FX and derivative trading, the bank's treasury and debt management and proprietary bond and equity trading. The pre-tax profit of Securities Trading in 2006 amounted to ISK 19.4 bn, as compared to ISK 19.6 bn in 2005. The business segment's **total assets** were ISK 565 bn at year-end 2006 as compared to ISK 286 bn at the beginning of the year. All three subsidiaries in this business segment were acquired in 2005. Teather & Greenwood is included in the business segment from the

beginning of Q2, Kepler Equities from the beginning of December and Merrion Capital from year-end 2005 (no impact on 2005 operations).

**Asset Management and Private Banking** includes the parent company's Asset Management division, Landsvaki hf. and asset management operations of Landsbanki Luxembourg SA. The pre-tax profit of Asset Management and Private Banking in 2006 amounted to ISK 3.1 bn, as compared to ISK 1.2 bn in 2005. The business segment's **total assets** were ISK 289 bn at year-end 2006 as compared to ISK 215 bn at the beginning of the year

## Funding

The fourth quarter marked a significant turning point in Landsbanki's overall funding situation, as the success of the bank's new UK deposit product IceSave began to make a significant contribution. IceSave is an on-line savings account offered to UK residents.

Long-term funding in Q4 increased by ISK 38 billion, primarily as a result of an inaugural CAD 300 m Maple bond transaction in Canada, opening up a new funding market and increasing funding diversity.

The year 2006 turned out to be a challenge for the Icelandic banks, especially on the international funding side. A number of financial analysts and market reports showed an unprecedented level of critical interest in the banks and the Icelandic economy as a whole. Despite slightly higher funding costs, due to concerns at macroeconomic imbalances in the Icelandic economy and the effect on the banks, Landsbanki concluded successful transactions in Europe, USA and elsewhere during the year. At year-end the bank has prefunded 2007 maturities.

During 2006, Landsbanki raised a total of EUR 3,878 m in 39 transactions, as compared to EUR 4,889 m in 57 transactions in 2005. 2006 was a year of diversification of international funding with a highly successful bond issue in the United States in August 2006, plus the Maple Bond issue in Canada in December 2006.

In 2006, Landsbanki emphasised overseas deposit taking, launching successful wholesale deposit projects in both Amsterdam and the UK. Heritable Bank and Landsbanki London Branch have expanded their deposit activities into the offshore deposit market from Guernsey. Landsbanki's Amsterdam and London Branches, as well as Heritable Bank are now all fully self-funded, mostly through deposits.

Overseas deposits now amount to ISK 417 bn, of which 43% are retail deposits. At year-end total deposits from customers were 31% of total assets and 48% of lending, while at year-end 2005 the respective figures were 24% and 34%. Based on the current rapid growth of the Icesave product, Landsbanki forecasts that 70% of lending will be funded by deposits within 3 years.

Landsbanki's credit ratings remained stable during 2006, although Moody's changed the bank's financial strength rating outlook from stable to negative. The stable credit ratings underline the bank's resilience in the face of adversity.

## Core earnings Pre-tax ROE of 26%

Landsbanki's pre-tax core earnings in 2006 amounted to ISK 28.8 bn. ROE on core earnings was 26% in 2006. The accompanying table shows a comparison of performance and core earnings in 2005 and 2006 (mISK).

	12/31/2006	12/31/2005
<b>Profit before income tax</b>	<b>44,694</b>	<b>30,781</b>
Adjusted net gain on equity, securities and	(19,568)	(21,257)
Adjusted net interest revenues	3,640	3,652
Impairment on goodwill	0	3,033
<b>Core income before income tax</b>	<b>28,765</b>	<b>16,210</b>
Adjusted Core Cost Income Ratio	53%	48%
Adjusted ROE before income tax	26%	30%

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

## Outlook

The outlook for Landsbanki's operations is generally positive. The bank's core earnings remain steady and its underlying pre-tax ROE has been extremely good.

The Group's income streams are well diversified, with 52% of the Group's net operating income now originating from its establishments abroad.

Landsbanki's credit risk is based on an asset portfolio which is well-diversified both in terms of sector and geography. Lending in connection with the bank's operations abroad

comprised 38% of total customer lending at year-end 2006.

Considerable turbulence has characterised domestic FX and equity markets in 2006. Both Landsbanki as well as its domestic clients have weathered the market fluctuations without suffering negative long-term impact as a result, since Landsbanki's clients generally have foreign currency revenue offsetting their foreign-denominated liabilities.

As part of its active risk management, Landsbanki has reduced its equity portfolio as a ratio of total assets to 2.3% at year-end.

In view of the above, Landsbanki's management are convinced of the bank's strong position and that it has every capability of continuing to deliver a high ROE. Landsbanki's after-tax ROE target is 15-17%.

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.

## **Presentations for investors and market traders:**

### **in London, on 26 January**

Landsbanki's CEOs, Sigurjón Th. Arnason and Halldór J. Kristjánsson, will present the highlights of the bank's results and respond to questions. A webcast of the presentation will be available on Landsbanki's website, [www.landsbanki.com](http://www.landsbanki.com) where all meeting documentation will also be published concurrently.

Time: 11:00 am (11:00 Icelandic time). Location: Haberdashers Hall, 30 18 West Smithfield, London EC1A 9HQ.

The presentation will be broadcast in real time on the Landsbanki website: [www.landsbanki.com](http://www.landsbanki.com) Persons wishing to listen to the meeting via phone conference should dial +44 (0) 1452 562 717 about 10 minutes prior to the start.

## **in Reykjavík, on 29 January**

Landsbanki's CEOs, Sigurjón Th. Arnason and Halldór J. Kristjánsson, will present the highlights of the bank's results for investors and market analysts and respond to questions. The meeting will be held in the Iðá Hall, 4<sup>th</sup> floor, Lækjargata 2a, commencing at 11:45 am. Meeting material and documentation will be published concurrently on the Landsbanki website. To register for the meeting, visit the Landsbanki website: [www.landsbanki.com/IR](http://www.landsbanki.com/IR)

## **Annual General Meeting and publication of Quarterly Results in 2007**

Landsbanki's Annual General Meeting (AGM) for 2006 will be held on Friday, 9 February 2006, at 4:00 pm at Grand Hótel.

At its meeting today, the Board of Directors agreed to move to the AGM that the Board be authorised to pay shareholders a dividend of 40.0%. The 2006 ex-dividend date is Monday, 12 February 2007. Payment of dividends will be made 7 March 2007.

Scheduled publication of the bank's interim and annual financial statements for 2007 is as follows:

1st quarter:	4 May
2nd quarter:	2 August
3rd quarter:	1 November
4th quarter:	1 February 2008

A copy of Landsbanki's 2006 financial statements is available on the bank's website [www.landsbanki.com](http://www.landsbanki.com)

The financial statements have been endorsed by the auditors.

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