

120 <sup>1886</sup>/<sub>2006</sub>



Landsbanki

Annual General Meeting

# Strength From Adversity

Reykjavík, 9 February 2007

Halldór J. Kristjánsson

Chief Executive Officer Landsbanki

Sigurjón Th. Árnason

Chief Executive Officer Landsbanki

1

**Volatility and imbalances in the Icelandic economy marked 2006  
but benign overall operating environment going forward**

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2006 a year of integration and consolidation of  
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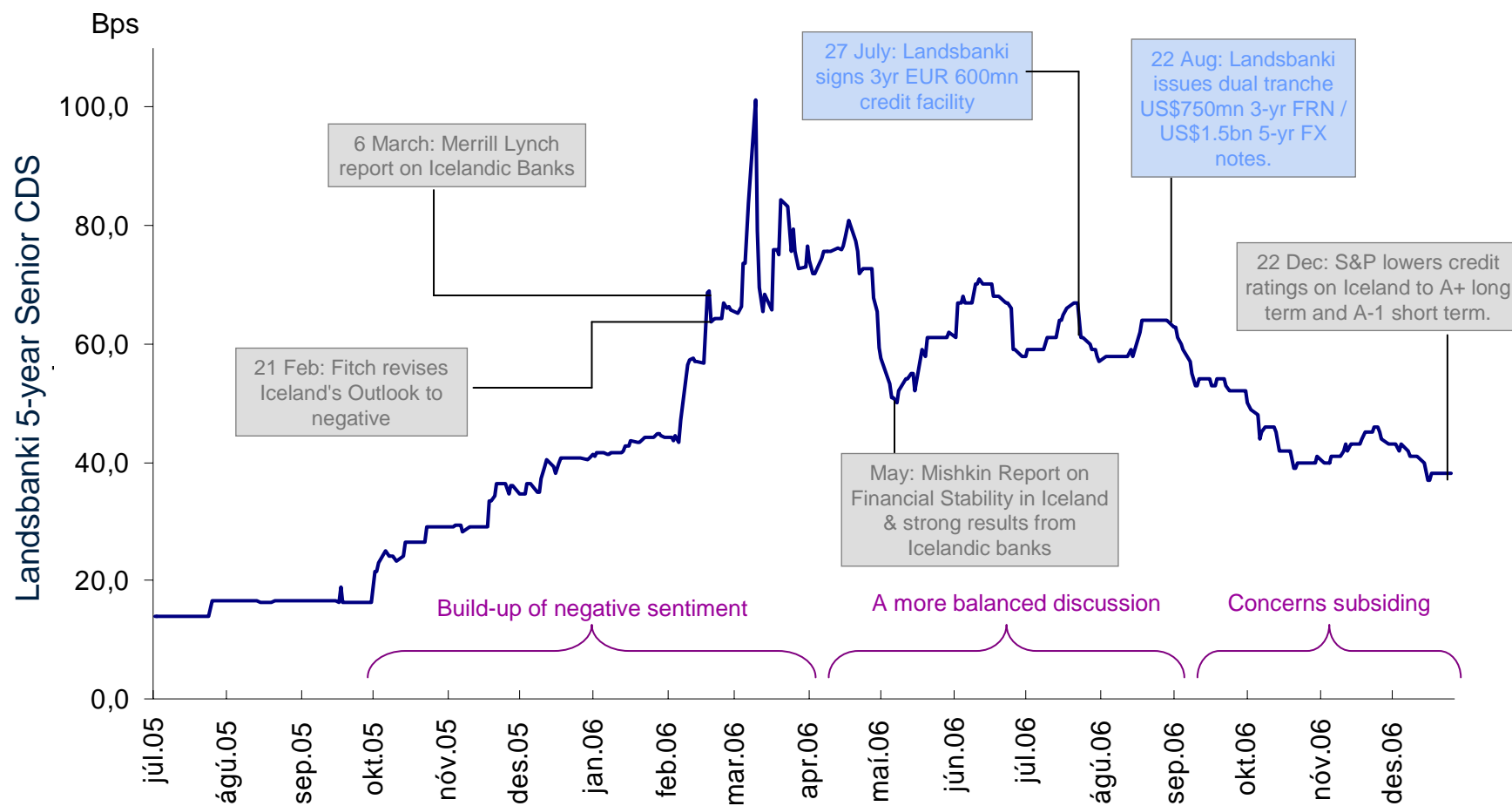
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Strong 2006 results – Core income demonstrates strong underlying  
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## Efficiently Reacting to Market Developments in 2006

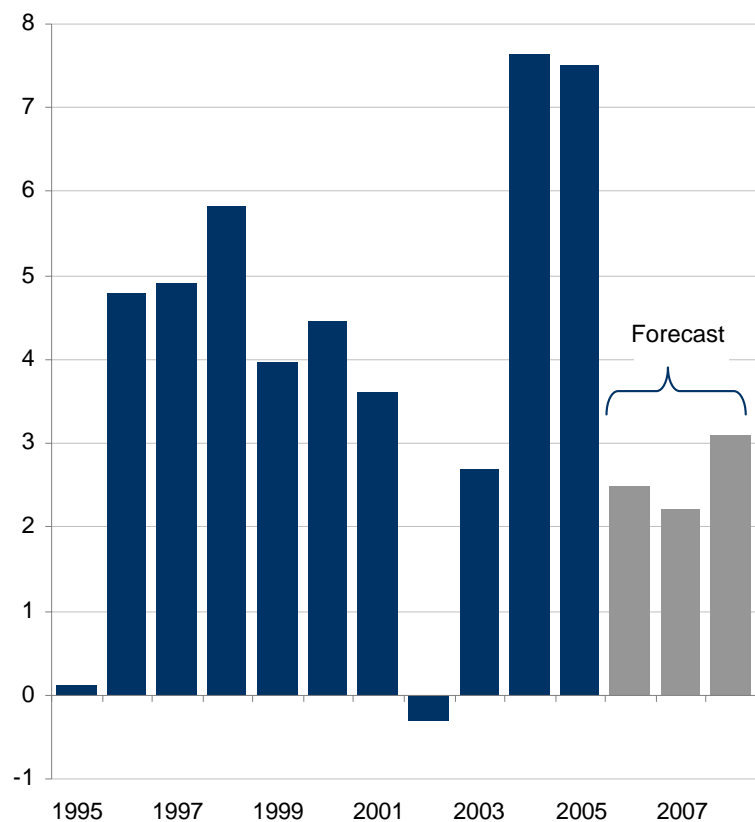
- Main concerns expressed by market participants in early 2006 were in relation to volatility and imbalances in the Icelandic economy
- Some topical issues were based on misconceptions that were effectively redressed through improved and proactive communications
- Certain concerns were warranted and Landsbanki implemented several strategic measures to address them
  - Reduced market risk from 4-5% to well below 3% of total assets
  - Diversified funding and reduced reliance on market funding – radically increasing deposits
  - Emphasis on integration and consolidation of operations
  - Clarified ownership issues including clear division of hedged positions
- Furthermore, steps were taken to strengthen foundation for Landsbanki's continued organic growth
  - Tier 1 capital increased boosting Capital Adequacy Ratios
  - Pre-funding of 2007 completed and liquidity strengthened
  - Enhanced quality and transparency of information disclosure

# Turning Points in 2006



## Economic Consolidation in Iceland Proceeding According to Schedule

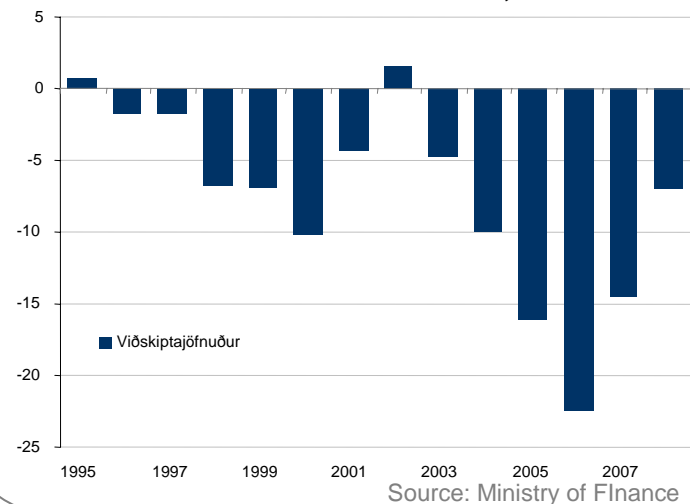
### GDP growth 1995-2008



Source: Statistics Iceland, Landsbanki Research

- Economic growth will be slightly lower in Iceland in short-term than in past years but still showing healthy growth rates
- Assets prices in Iceland and the ISK exchange rate have adjusted down to sustainable levels without any disturbance, neither in real economy nor in the financial system.
- Adjustment of present external imbalances expected to take place in 2007 – 2008 without significant impact on household or corporate balance sheets

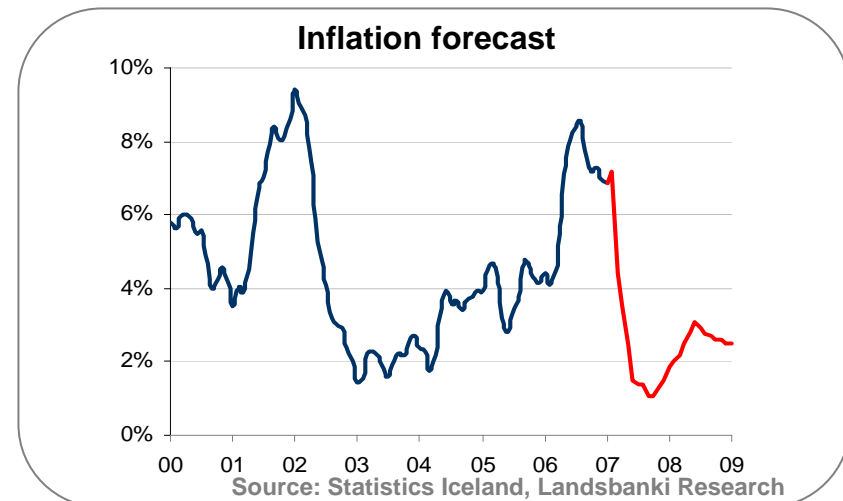
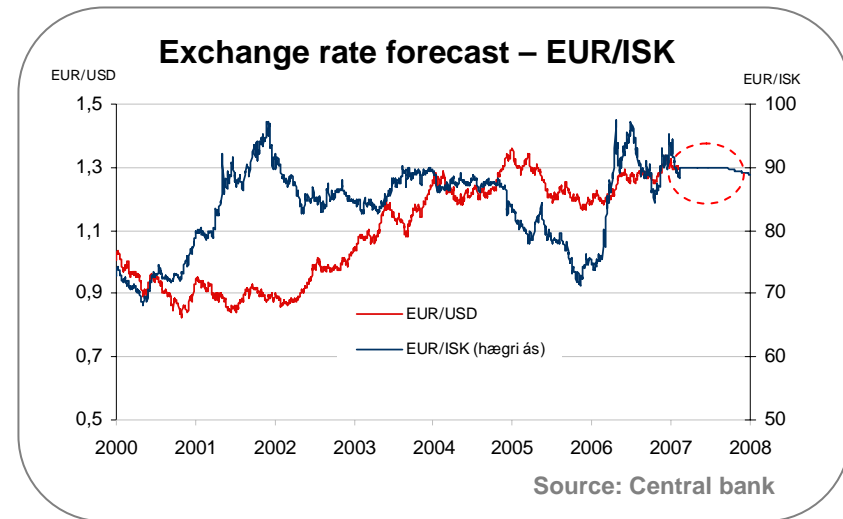
### Current Account Balance, % of GDP



Source: Ministry of Finance

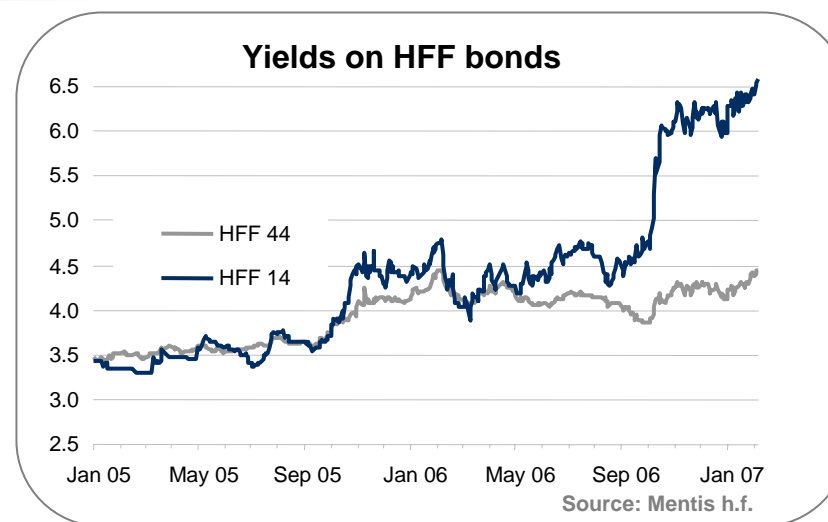
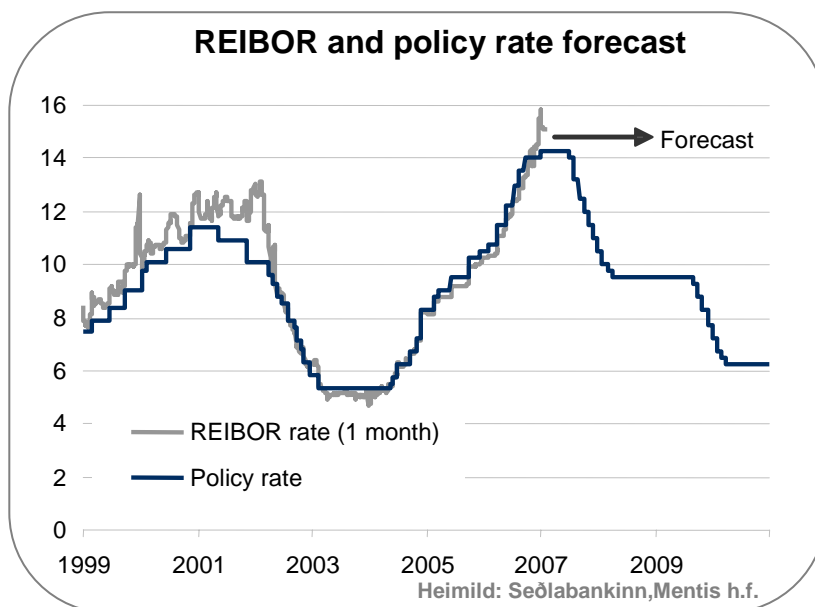
## ISK Correction Behind Us – Inflation Targets Within Reach

- Correcting existing misalignment in 2004 - 2005, the ISK depreciated sharply by 20% in early 2006
- The adjustment process is now completed and current position of the ISK is close to it's long-term equilibrium
- Short-term fluctuations are likely to persist as the current adjustment runs it's full course
- Good medium-term prospects and an attractive carry should, however, put an appreciating pressure on the ISK over the longer term
- The outlook in 2008 is for inflation close to the CB's 2.5% inflation target - Concurrently, policy stance will loosen and policy rates will come down
- However, the positive interest rate differential will continue to encourage carry trade activity and sustain investor interest in the ISK



## Interest Rates Still High

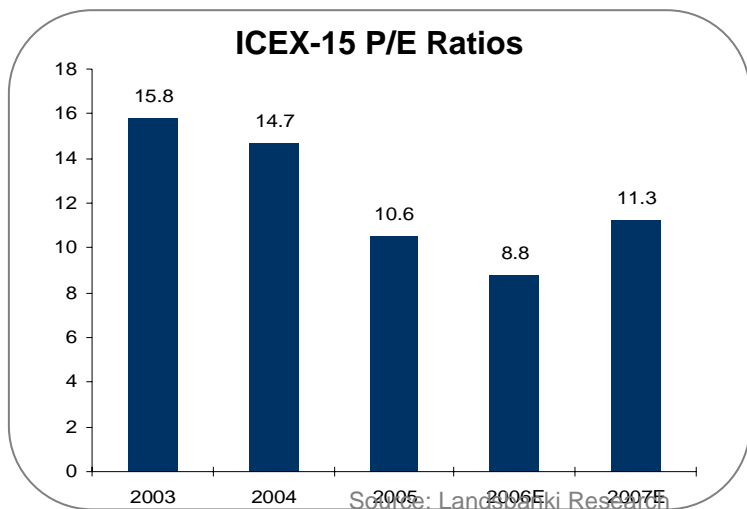
- The nominal rate has risen in line with the Central Bank's policy rate, but been significantly higher than the policy rate in the past few months
- Central Bank not likely to raise the policy rate further – policy rate projected to come down from mid-year



- Real interest rates currently higher than previously
- Conditions conducive to a substantial drop in real interest rates
  - Nominal rate coming down
  - Increased macroeconomic balance
  - Inflation coming down
- High proportion of inflation-indexed debt (85% of household debt)



# Solid Market Sentiment



	2006	2007 spá
Bretland, UKX	18.4	13.2
Frakkland, CAC	14.8	13.7
Þýskaland, DAX	14.6	13.9
Sviss, SMI	18.5	16.7
Ítalía, MIB30	14.4	14.9
Spánn, IBEX	14.0	15.7
Írland, ISEQ	17.1	15.7
Holland, AEX	12.5	12.4
Ísland, ICEXI15	9.5	10.4

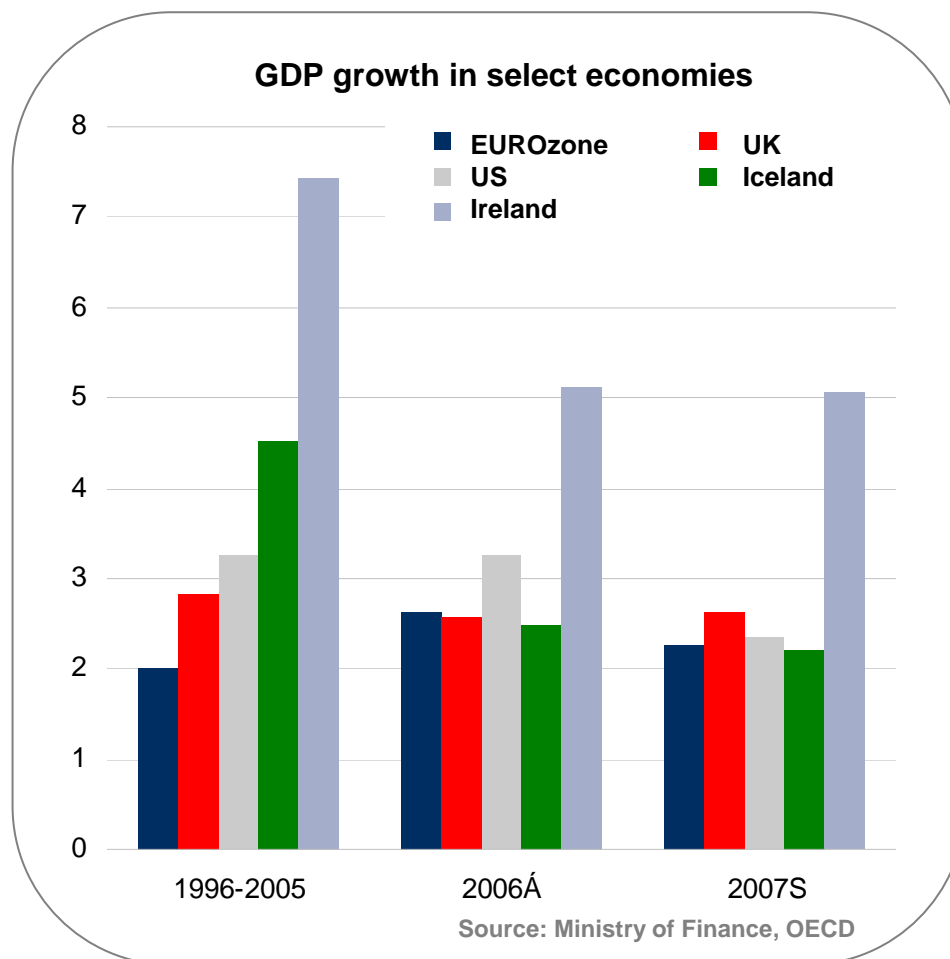
Source: Bloomberg

- By international comparison the Icelandic equity market is fairly priced
  - P/E ratio estimate for 2007 is 11.3
  - P/E ratios of leading foreign indices range from 13 to 17
- ICEX-listed companies expected to demonstrate solid performance in 2007 although trading gains expected to be lower compared with 2006
- In general, asset prices in Iceland have withstood the ISK correction and the business cycle turnaround
  - Equity prices have had a strong pull-back
  - Housing prices are levelling off without noticeable signs of overheating

	2008-2010	2011-2015
GDP growth, % change	5.0	2.0
Current account balance, % of GDP	-5.7	-3.3
ISK Index (TWI)	120.0	138.5

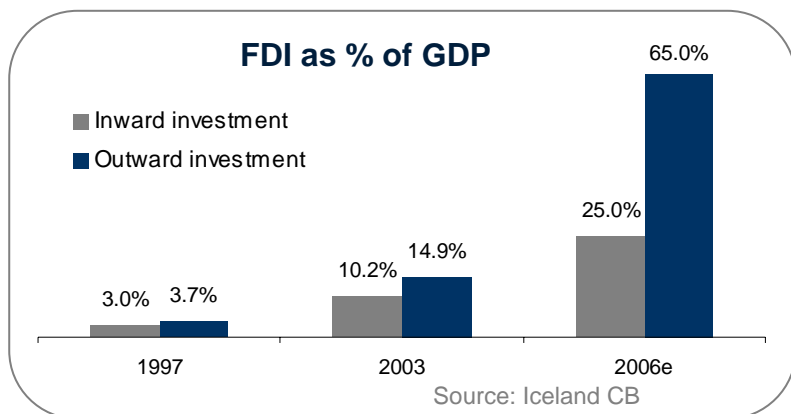
## Outlook in International Markets Stable and Favourable

- All large industrial economies appear to be approaching trend level growth rates
- Prospects in securities market appear to be good even though equity prices are expected to rise less in 2007 than in 2006
- Some corrections could take place in real estate prices in a number of countries
  - Limited impact on Landsbanki as exposure to these markets is conservative
- Dynamism associated with healthy growth rates in the international economy will have a favorable impact on Landsbanki business in all areas of financial services

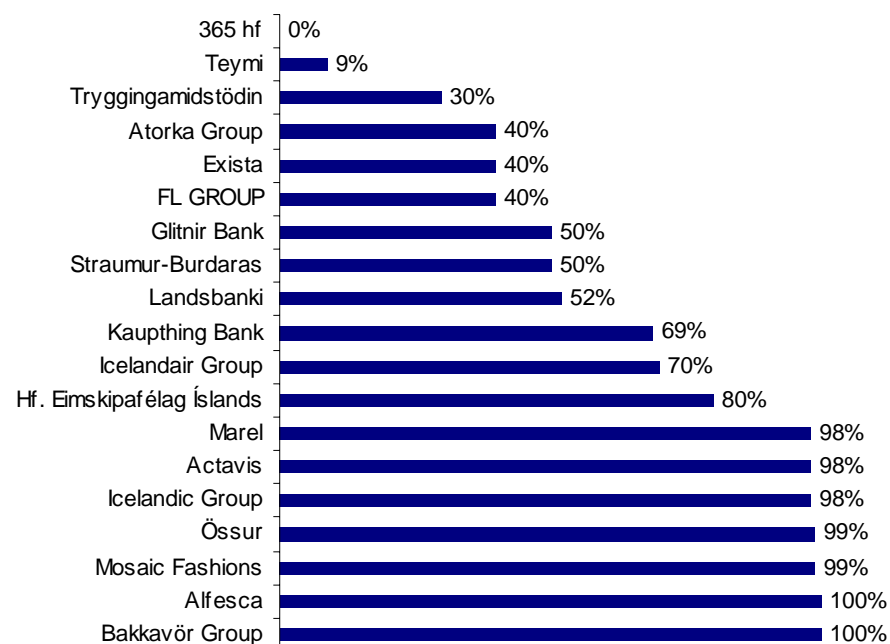


# Continued International Diversification of the Icelandic Economy

- Continued growth underpinned by strong inward and outward FDI flows
- Strong growth of FDI and Portfolio capital abroad – 215% of GDP in 2006 (Q3)
- Landsbanki – well hedged against cyclical economic developments
- About 75% of cash flow of ICEX listed companies is denominated in foreign currencies, 80-90% excluding the banks



## Estimated foreign earnings 2007 as a ratio of total income of largest ICEX-15 corporates



Source: Landsbanki Research

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- 2 **2006 a year of integration and consolidation of operational platforms**
- 3 Major funding initiatives implemented - Highly successful new deposit programs changing the funding profile
- 4 Strong 2006 results – Core income demonstrates strong underlying profitability and continued good performance

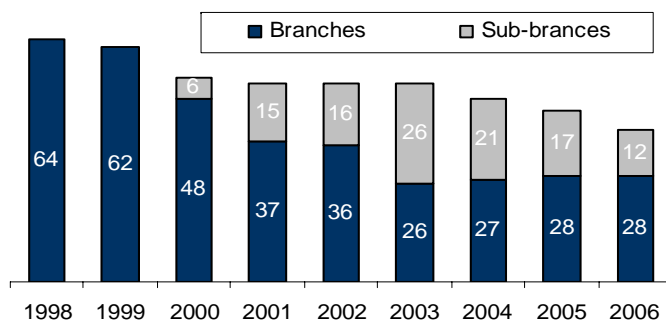
# Extensive Financial Operations in 15 Countries



## Implementing a Clear Domestic Strategy

To reinforce and build upon Landsbanki's position as the leading provider of universal financial services based on long-term business relationships

Branch network in domestic market



- Maintain and protect position as the leading bank in Iceland
  - With 30% market share in domestic retail market and over 37% market share in corporate lending
  - Leading provider of M&A, foreign exchange, derivatives, equity and fixed income services with more than 40% market share in FX
  - Full range of Asset Management services with 34% market share in domestic funds
- Streamline the branch network with fewer, larger and more effective branches
  - Increased online banking service
  - Responsible and flexible financial advisory
  - Maximising cross-selling opportunities emphasising life insurance sales and distribution of non-life insurance products

## Implementation of a Balanced International Strategy

Continue organic growth in international banking operations and acquire banking assets that increase stable, recurring revenue streams

Continue to build a profitable corporate and investment bank, focused on mid-cap corporates in Europe through organic growth and bolt-on acquisitions

**Specialty  
finance  
banking &  
retail  
deposits**

- Strong track record of profitably integrating new subsidiaries both domestically and internationally since first overseas acquisition in 2000
- Implementation of growth strategy
  - Buy small platforms, efficiently run quality assets, that support strong organic growth
  - Retain existing management and add key employees with relevant experience
  - Add new services and strengthen existing product line
- Product and service synergies with Landsbanki
  - Corporate finance with direct link with Landsbanki
  - Risk control, compliance, audit & accounting
  - Joint IT and marketing support

**European  
corporate  
&  
investment  
banking**

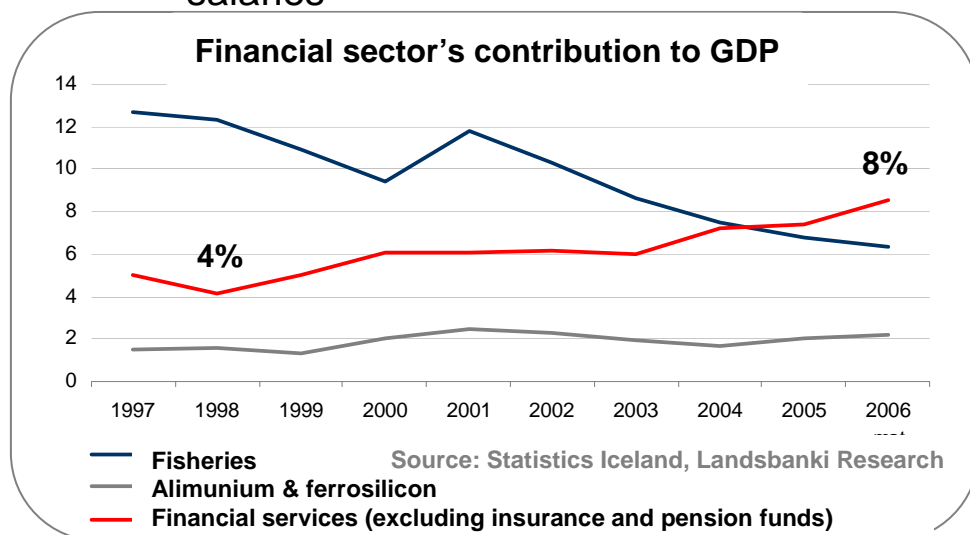
# Extensive International Operations

	Brokerage & Research	Corporate Banking	Corporate Finance	AM & PB	FX & Derivatives	Intl. Treasury	Retail Banking & Speciality Finance	Deposits
Fully Operational								
Start-up Phase								
Iceland								
UK								
Ireland								
Luxembourg								
Germany								
France								
Spain								
Italy								
Switzerland								
Netherlands								
US								
Canada								
Guernsey								
Norway / Faroe Islands								



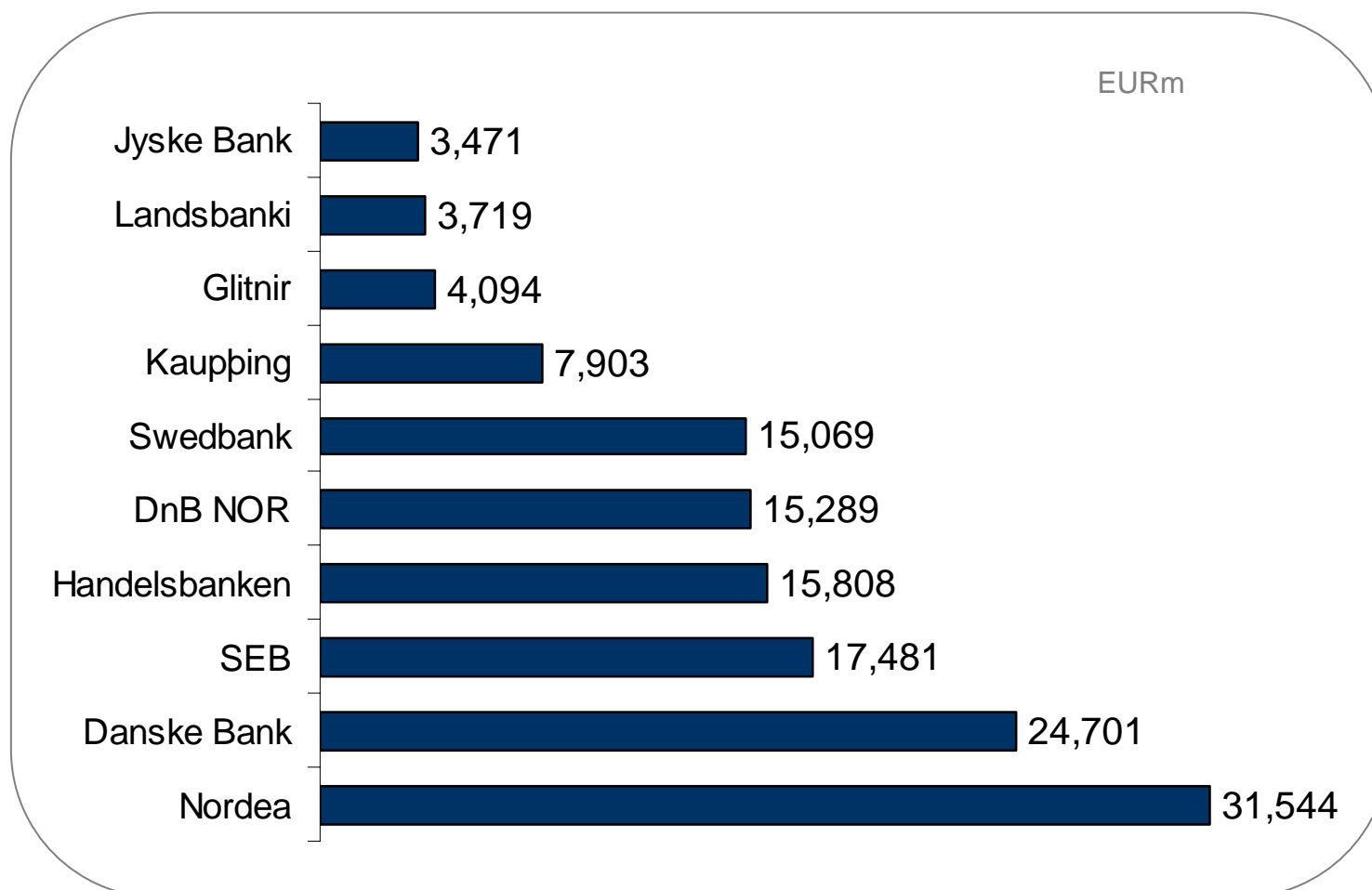
## Positive Impact of Financial Services

- Financial sector has and will continue to support prosperity in Iceland
  - ▶ A significant part of 20% GDP growth in the past 5 years can be attributed to the financial sector
  - ▶ Increased employment in financial sector double that of total increase in Iceland
  - ▶ New high income jobs – finance sector has 4% of total workforce yet pays 6% of total salaries



- Icelandic financial services increasingly competitive
  - ▶ Interest margin has fallen from 4.3% to below 2% in last 10 years
  - ▶ Household debt service mitigated through increases in indexed loans – now 85% of total loans
  - ▶ Efficiency in banking sector has increased and cost-income ratios lowered from 70% in 2003 to 50% in 2005
- Favourable comparison of service charges in Nordic region
  - ▶ Of 27 service areas, Iceland had the lowest price in 23 instances or 85% on average
  - ▶ Total service fees per average customer is 62% higher in Denmark, Sweden and Norway on average than in Iceland

## Top 10 Nordic Financial Institutions Landscape (by Market Cap.)



1

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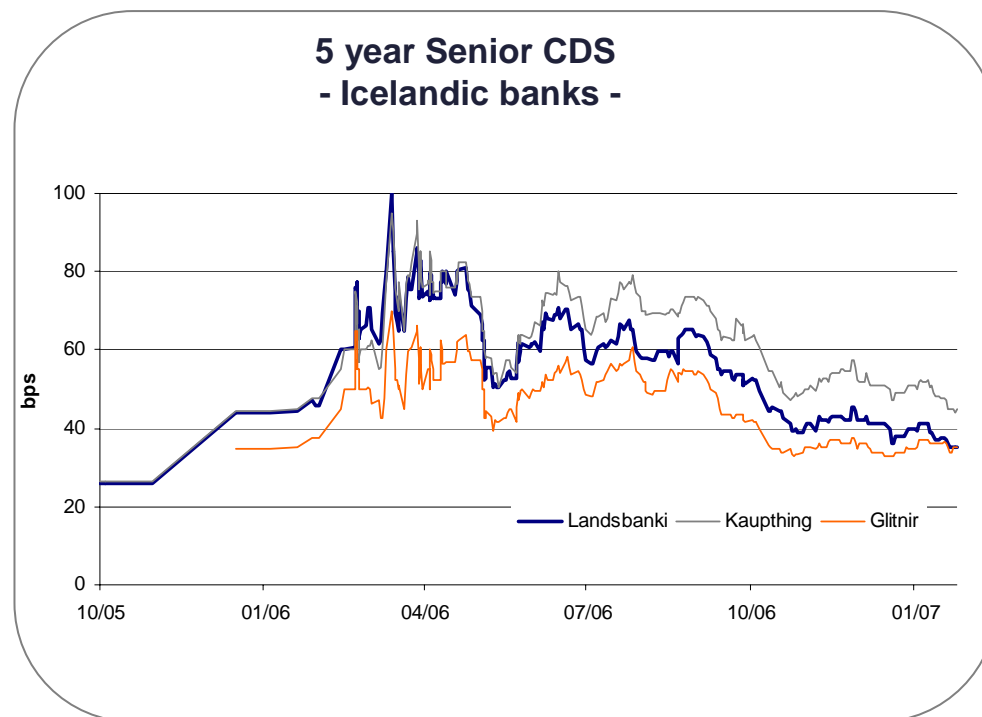
**Major funding initiatives implemented - Highly successful new deposit programs changing the funding profile**

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Strong 2006 results – Core income demonstrates strong underlying profitability and continued good performance

## Successful Market Funding in 2006

- Number of successful bond issues were concluded despite market conditions
  - In line with forecasts, total senior international funding raised was EUR 3.9 bn
- Funding in 2006 turned out to be highly successful with emphasis on diversification
  - Long-term debt maturing in 2007 and 2008 amounts to EUR 3.3 billion compared to liquid assets of EUR 7.2 billion at 31 Dec 2006
  - New markets entered and thereby reaching new investors and broadening the funding base
- Landsbanki is looking to raise around EUR 2.0bn from International Capital Markets for long-term funding in 2007



## Successful Implementation of Deposit Initiatives

- Strong deposit growth with 104% increase in 2006
- Landsbanki continues to be the leading domestic deposit-taking bank with over 30% market share
- Significant growth in overseas-based wholesale and retail deposits
  - Deposit-taking at Amsterdam Branch established in 2006
  - Deposit-taking at London Branch growing fast
  - Landsbanki Luxembourg - stable growth of deposits in PB operations
  - Heritable Bank is fully deposit funded with deposits growing substantially in 2006
  - Acquisition of Landsbanki Guernsey for further international off-shore deposits

<b>Strong Deposit Growth</b>	31 Dec 2006	31 Dec 2005
Customer Deposits ISK bn	683	334
Customer Deposits / Total Assets	31%	24%
Customer Deposits / Total Lending	47%	34%

## Increase in International Deposits a Foundation for Further Growth

- An easy-access Internet savings account launched Oct.10th with a competitive interest rate guaranteed to exceed base rate by at least 0.25% until Oct 2009
- ICESAVE deposits already total GBP1.6 bn
  - Over 50,000 accounts opened
  - Accelerated growth – steady week-on-week increase since launch
- Market leader in internet deposit savings accounts in UK in terms of interest rate
  - Well-received in market place and featured in all the best-buy tables
- Substantial scope for further growth of ICESAVE
  - UK personal savings market is around GBP 800 bn
  - Projected net annual inflow of GBP 40bn\*
- Successful deposit programs are transforming Landsbanki's balance sheet and funding profile

### Time for savers to get their skates on

**Cover story:  
The heat is on  
as an Icelandic  
bank opens in  
the UK. Rupert  
Jones reports**

The Guardian, Saturday 14 Oct. 2006

The Times, Sunday 3 Dec. 2006



### Icesave looks a hot deal

The Times, Sunday 15 Oct. 2006

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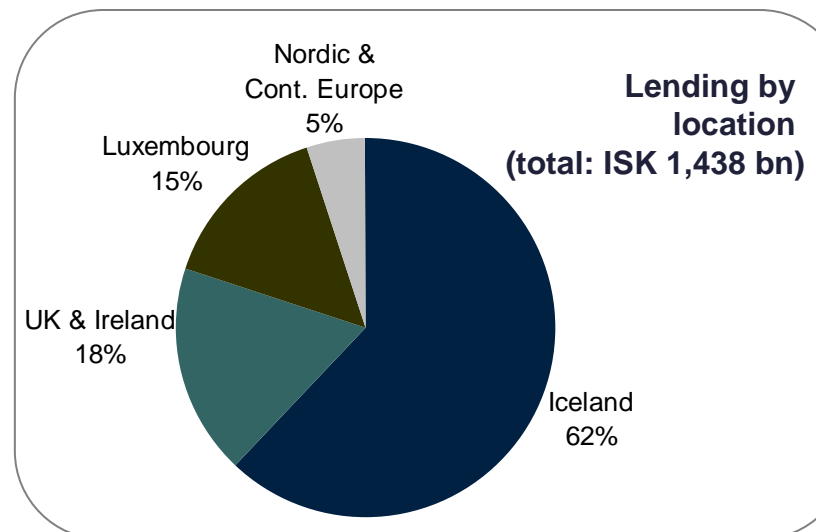
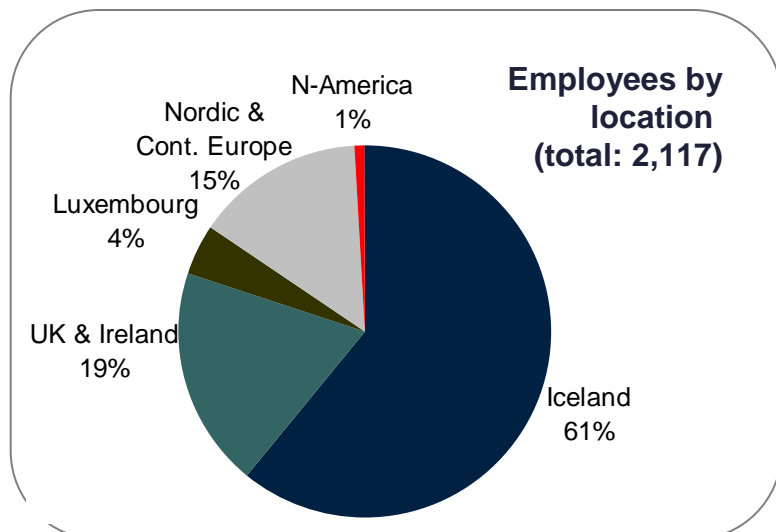
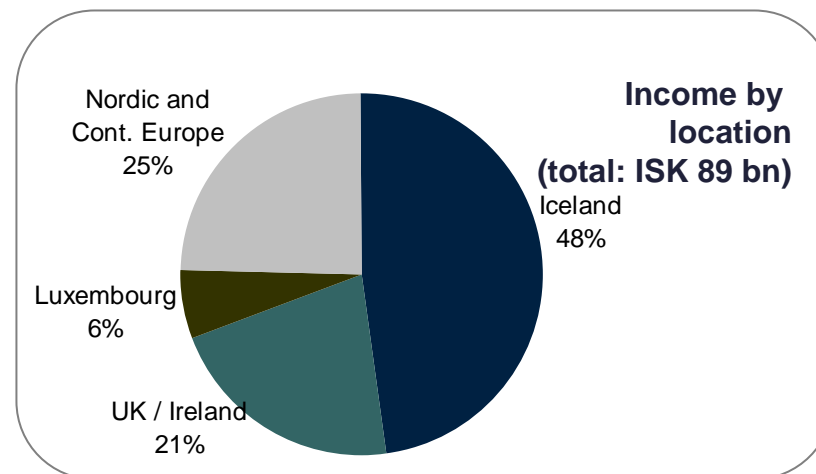
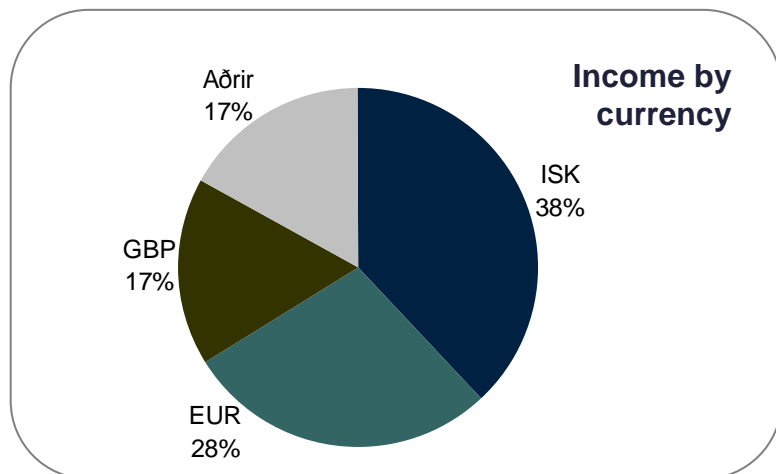
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# Extensive Financial Services in 15 Countries





# A Growing European Bank



## 2006 Main Financial Results

### Strong results

- Profit before taxes ISK 44.7 bn
- Profit after taxes ISK 40.2 bn
- ROE before taxes 40%
- ROE after taxes 36%
- Cost-Income Ratio 43%

### Efficient core banking operations

(excl. net financial income)

- Core profit before taxes ISK 28.8bn
- Core ROE before taxes 26%
- Core Cost-Income Ratio 53%

### Strong balance sheet

- Total assets ISK 2,173 bn
- Shareholders equity ISK 144 bn
- Tier 1 Capital Ratio 13.0%
- CAD Ratio 14.8%

Subsidiaries fully included in 2006 results but only partly in 2005

#### ISK / EUR

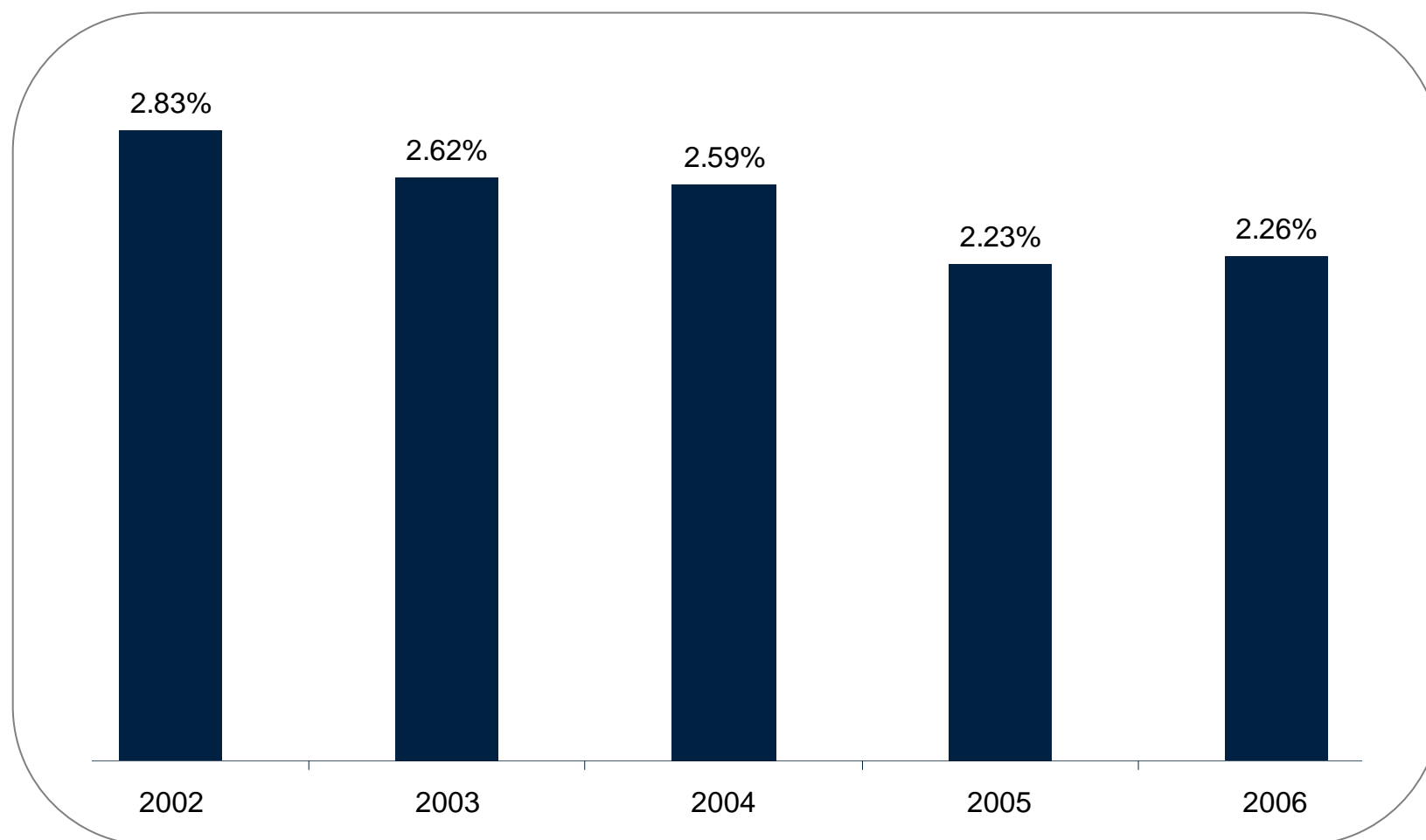
Beginning of 2006	74.70
At Year-end 2006	93.72
Average 2006	87.57
At 9 February 2007	88.08

# Income Statement

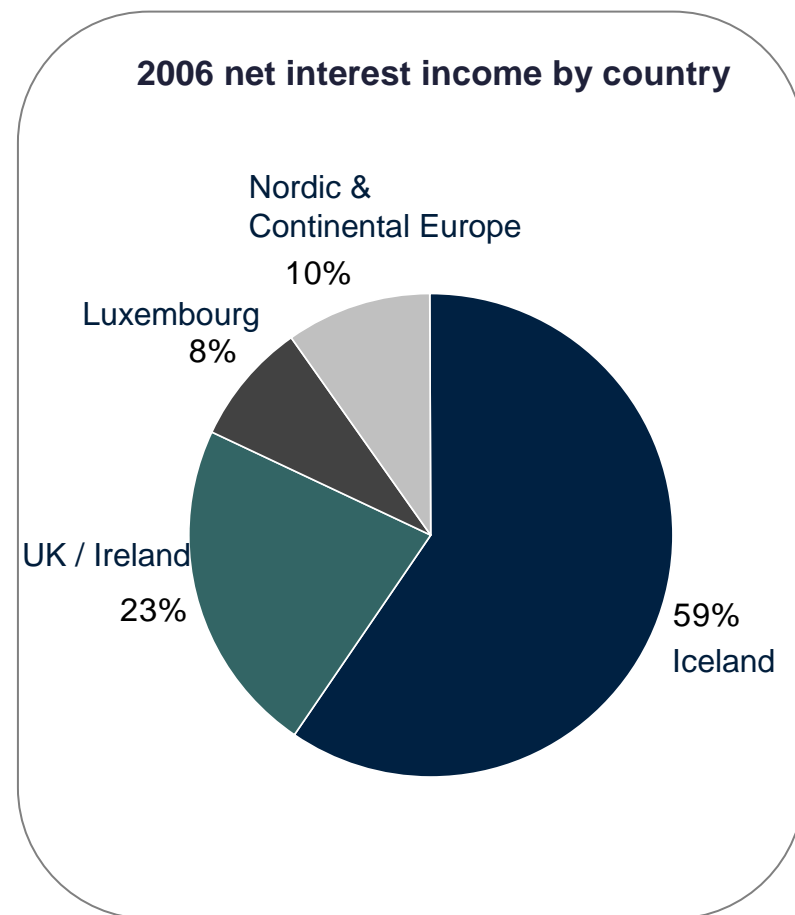
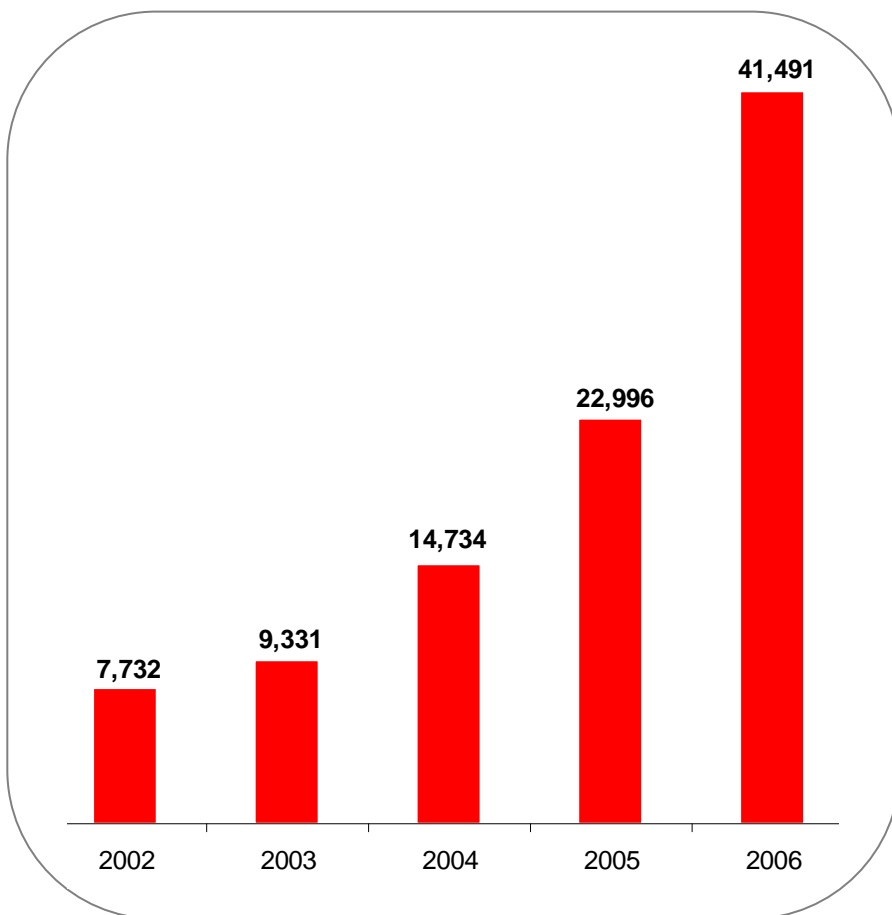
	2006	2005	Diff	%	Q4 2006	Q3 2006	Q2 2006	Q1 2006
Net interest revenues	41,491	22,996	18,495	80%	9,581	9,314	13,662	8,934
Net fee and commission income	28,366	16,726	11,641	70%	7,998	6,568	6,943	6,857
Net financial income	19,568	21,257	-1,688	-8%	7,240	2,656	-1,478	11,150
<b>Net operating revenues</b>	<b>89,426</b>	<b>60,978</b>	<b>28,447</b>	<b>47%</b>	<b>24,819</b>	<b>18,538</b>	<b>19,127</b>	<b>26,942</b>
Salaries and related expenses	24,458	12,682	11,776	93%	6,989	5,963	6,256	5,249
Administrative expenses	14,130	8,284	5,846	71%	4,042	3,754	3,496	2,839
<b>Operating expenses</b>	<b>38,588</b>	<b>20,967</b>	<b>17,621</b>	<b>84%</b>	<b>11,031</b>	<b>9,717</b>	<b>9,752</b>	<b>8,088</b>
Impairment on loans and advances	6,144	6,197	-53	-1%	1,332	1,597	1,660	1,555
<b>Profit before taxes</b>	<b>44,694</b>	<b>33,815</b>	<b>10,879</b>	<b>32%</b>	<b>12,457</b>	<b>7,224</b>	<b>7,714</b>	<b>17,299</b>
Impairment on goodwill	0	3,033	-3,033	-100%	0	0	0	0
Income tax	4,479	5,764	-1,286	-22%	-1,596	1,480	1,572	3,023
<b>Net profit</b>	<b>40,215</b>	<b>25,017</b>	<b>15,198</b>	<b>61%</b>	<b>14,053</b>	<b>5,744</b>	<b>6,143</b>	<b>14,276</b>
<b>Attributable to:</b>								
Net profit	38,906	24,740	14,166	57%	13,664	5,281	5,966	13,995
Minority interests	1,309	277	1,032	373%	389	463	177	280

ISK million

## Interest Spread as a Ratio of Average Total Assets Position

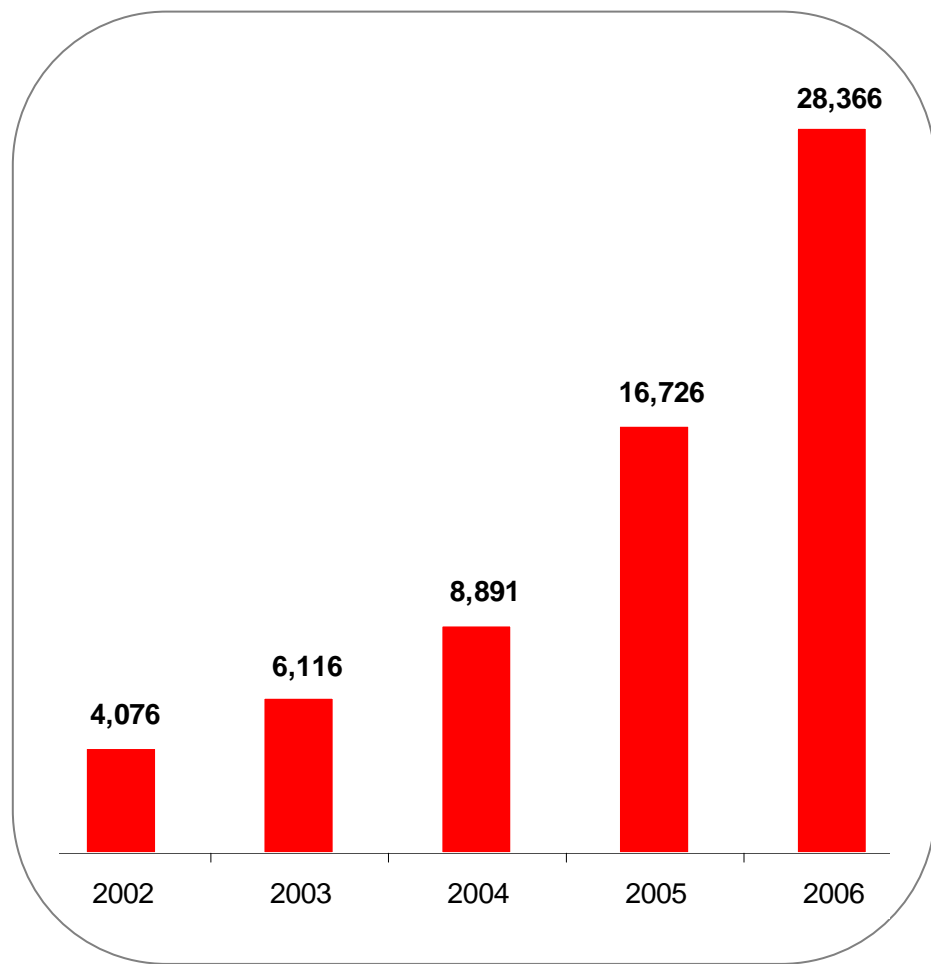


# Net Interest Income

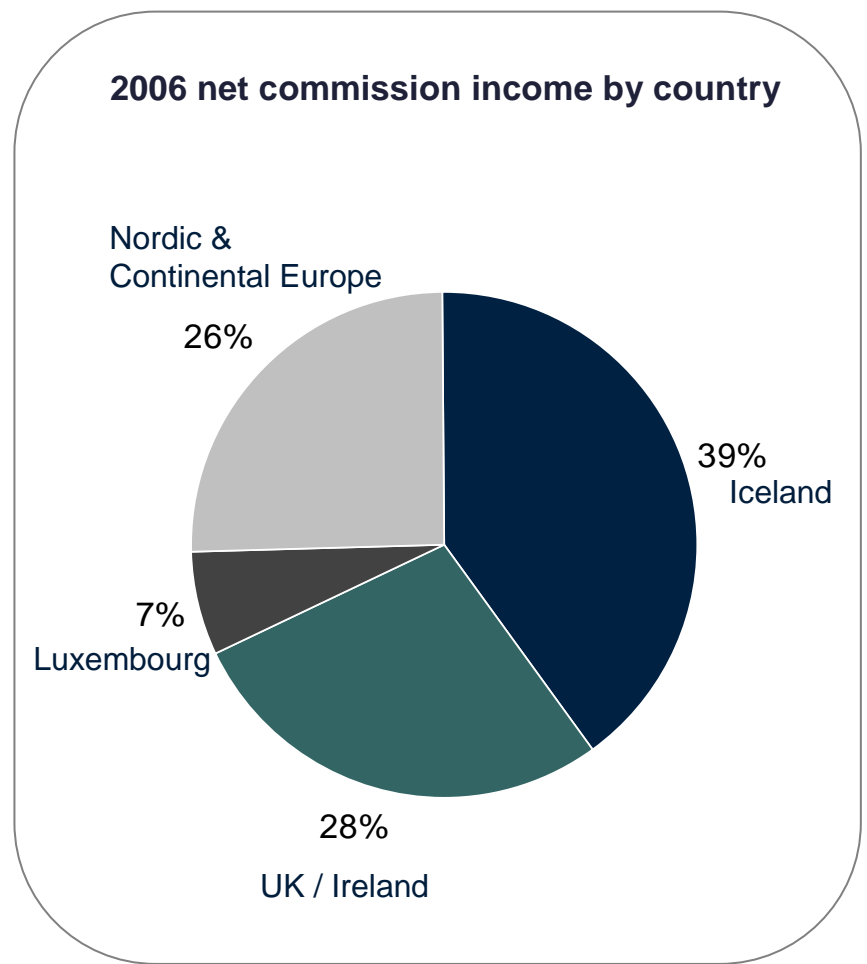


ISK million

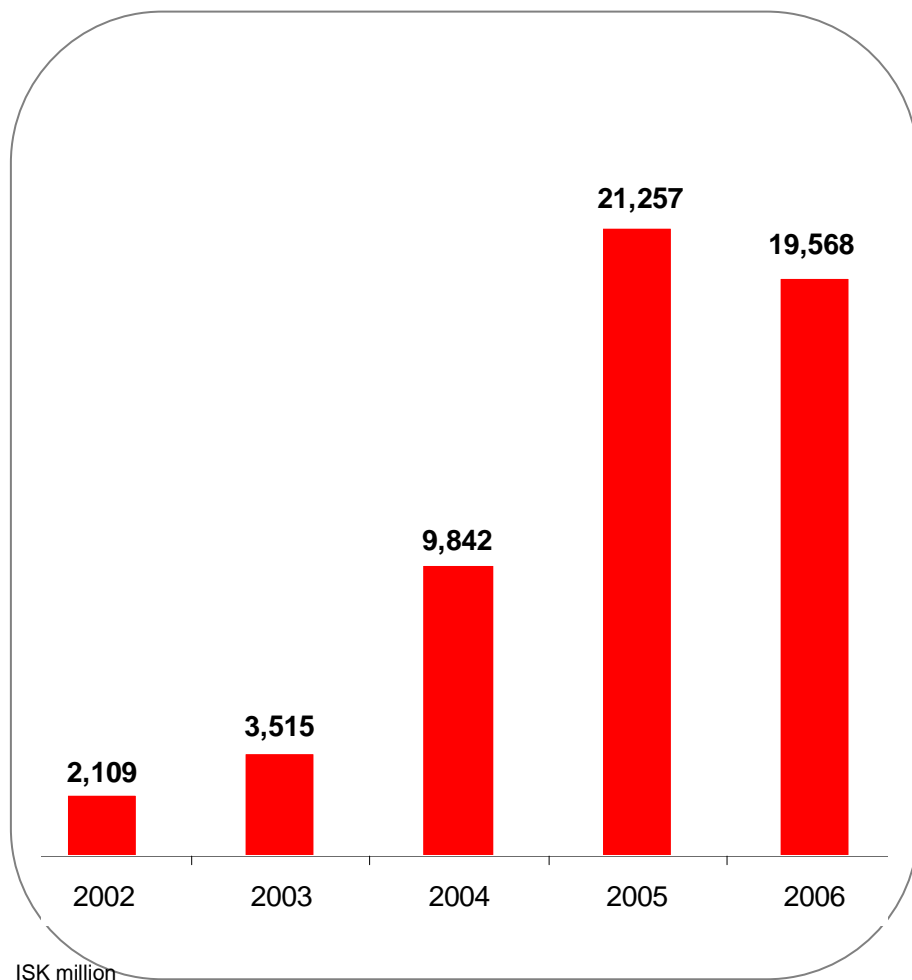
# Net Commission Income



ISK million

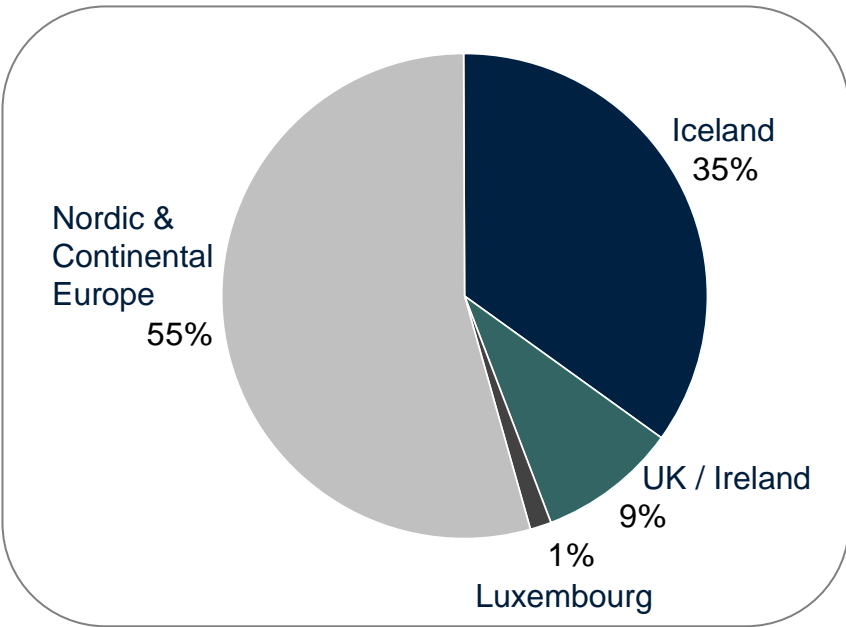


# Net Financial Income



## Split of net financial assets based on origin

Revenue from equities	19,192
Revenue from bonds	257
Revenues from foreign exchange	-263
Other	382
<b>Total</b>	<b>19,568</b>



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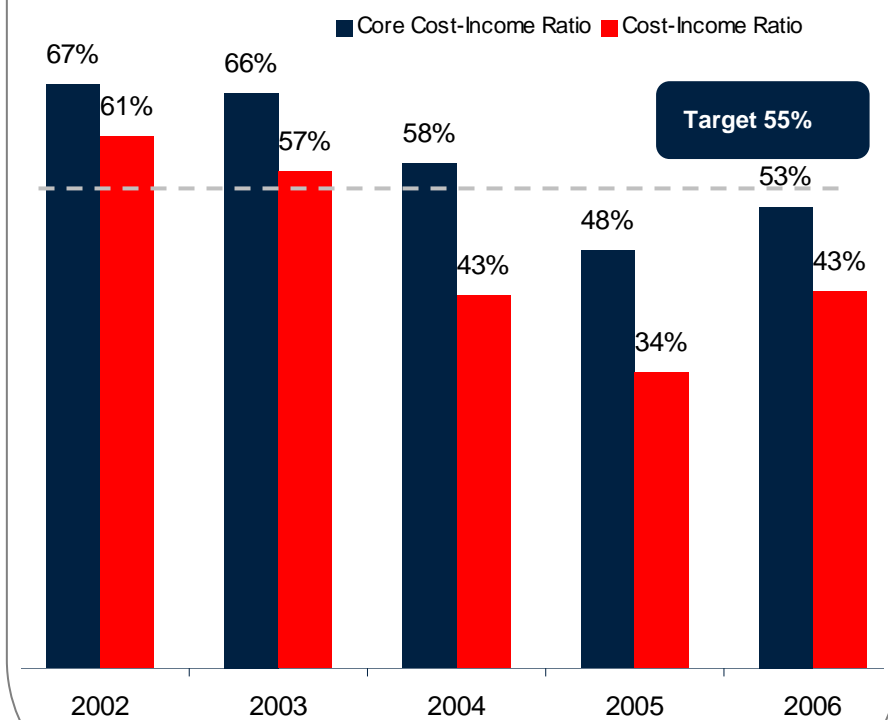
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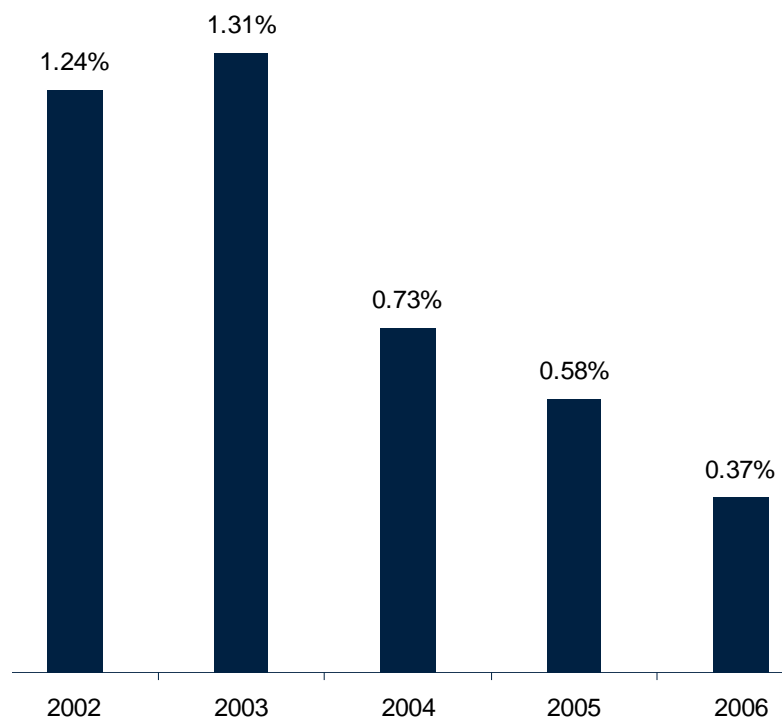


## Cost-Income Ratio & Impairment on Loans and Advances

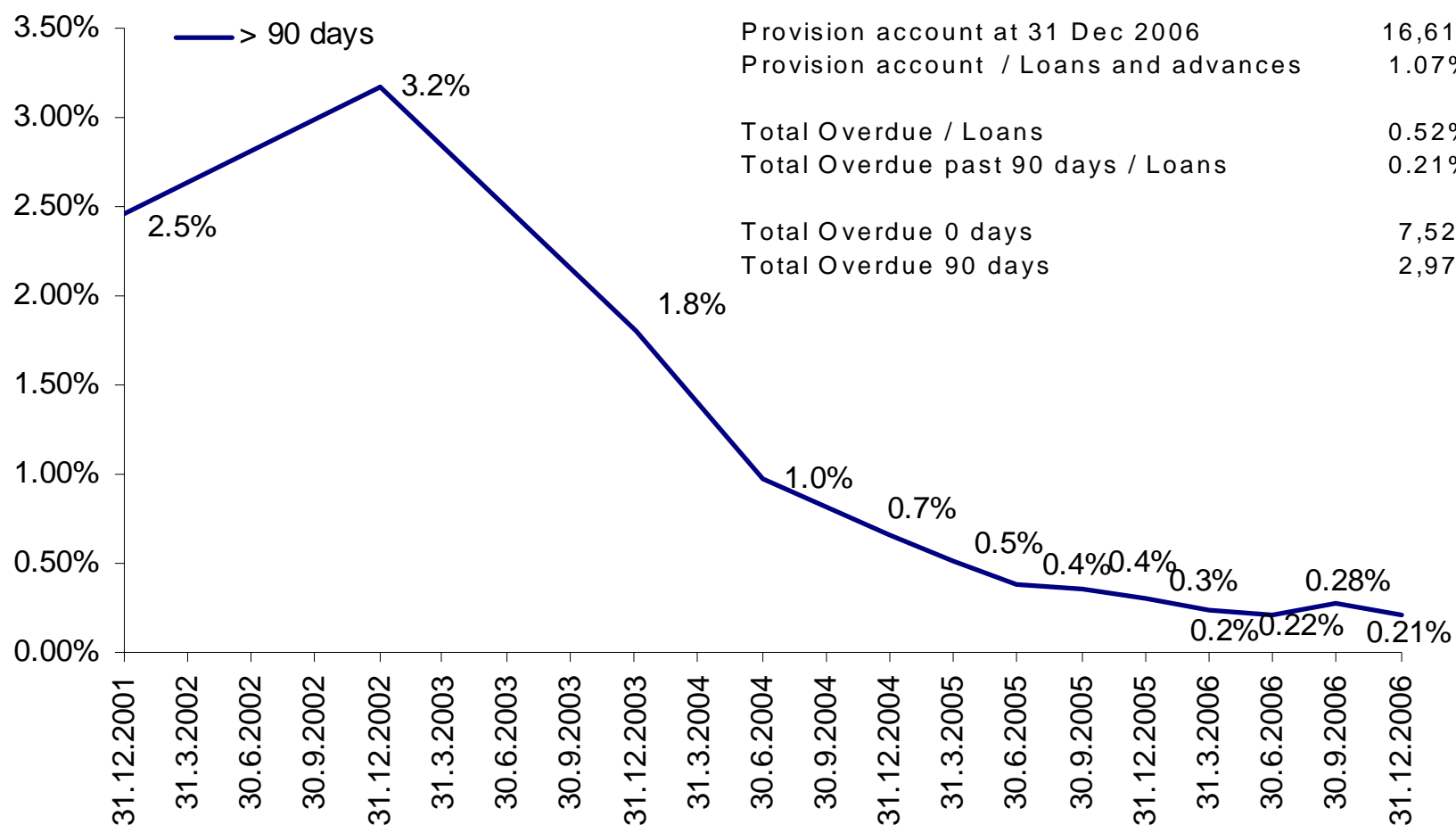
### Core Cost-Income Ratio vs. Cost-Income Ratio



### Impairment on Loans & Advances



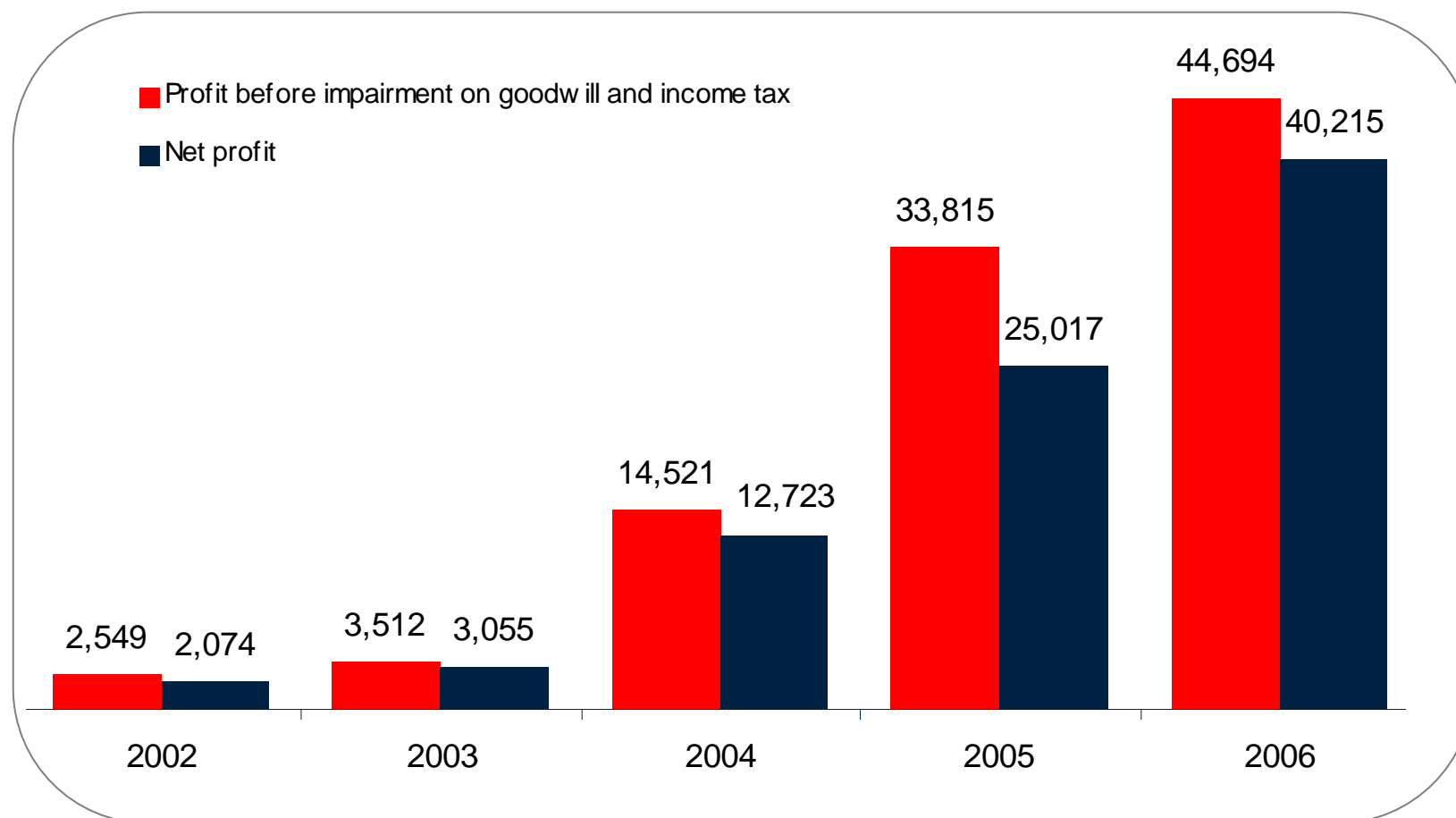
## Past Due as a Portion of Total Lending



Provision account at 31 Dec 2006	16,611
Provision account / Loans and advances	1.07%
Total Overdue / Loans	0.52%
Total Overdue past 90 days / Loans	0.21%
Total Overdue 0 days	7,529
Total Overdue 90 days	2,970

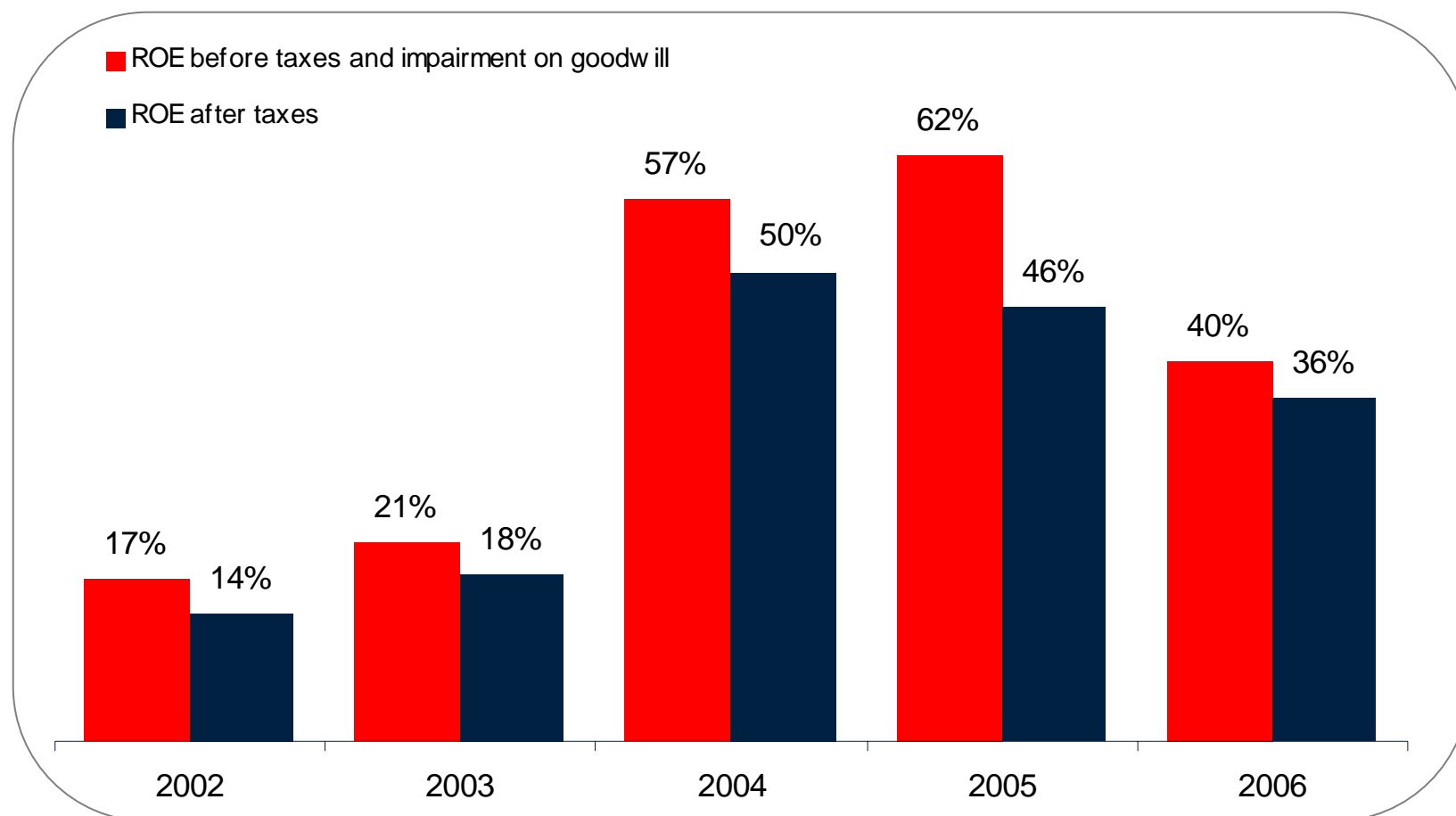
ISK million

# Profit



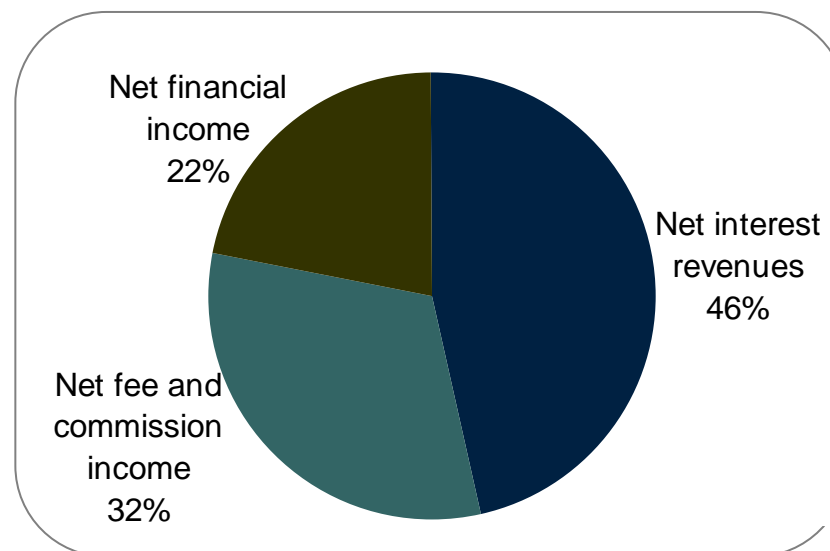
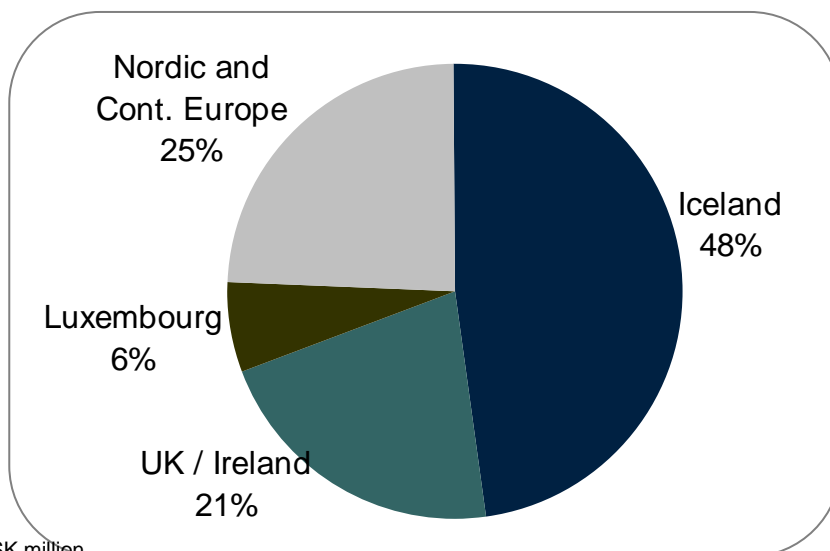
ISK million

## Return on Equity



## Revenue Breakdown by Country

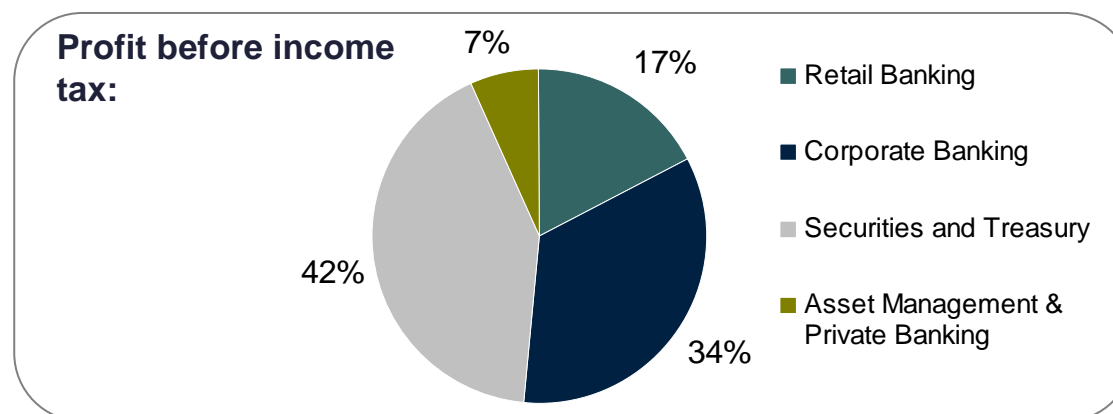
2006	Iceland	UK / Ireland	Luxembourg	Nordic and Continental Europe	Total
Net interest revenues	24,622	9,407	3,403	4,059	41,491
Net fee and commission income	11,334	7,907	1,845	7,281	28,366
Net financial income	6,866	1,796	267	10,640	19,568
<b>Net operating revenues</b>	<b>42,822</b>	<b>19,109</b>	<b>5,514</b>	<b>21,980</b>	<b>89,426</b>
Share in net operating revenues	48%	21%	6%	25%	



ISK million



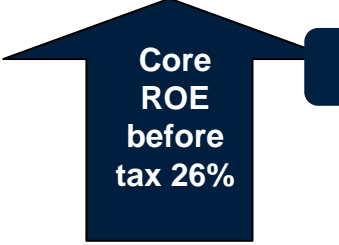
## Business Segments

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>
<b>Operating expenses</b>	<b>8,752</b>	<b>6,003</b>	<b>19,101</b>	<b>3,239</b>	<b>1,493</b>	<b>38,588</b>
Impairment on loans and advances	1,200	3,642	1,307	-5	0	6,144
<b>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>



ISK million

## Core Income

	Actual Income	2006	2005	2004
 <p><b>Profit before tax</b> ISK 44.7 bn</p>	Net interest revenues	41,491	22,996	14,734
	Net commissions and fees	28,366	16,726	8,891
	Net gain on equity, securities and FX	19,568	21,257	9,842
	<b>Net operating revenues</b>	<b>89,426</b>	<b>60,978</b>	<b>33,467</b>
	Operating expenses	38,588	20,967	14,460
	Impairment on loans and advances and assets held for sale	6,144	6,197	4,485
	Impairment on goodwill	0	3,033	0
	<b>Profit before income tax</b>	<b>44,694</b>	<b>30,781</b>	<b>14,521</b>
	Cost Income Ratio	43%	34%	43%
	ROE before tax	40%	56%	57%
 <p><b>Core profit before tax</b> 28.8 bn</p>	<b>Adjustments</b>			
	Net interest revenues	3,640	3,652	1,200
	Net gain on equity, securities and FX	-19,568	-21,257	-9,842
	Impairment on goodwill	0	3,033	0
		<b>-15,929</b>	<b>-14,572</b>	<b>-8,642</b>
 <p><b>Core ROE before tax</b> 26%</p>	<b>Core Income</b>			
	Profit before income tax	28,765	16,210	5,879
	Core Cost Income Ratio	53%	48%	58%
	Core ROE before tax	26%	30%	23%

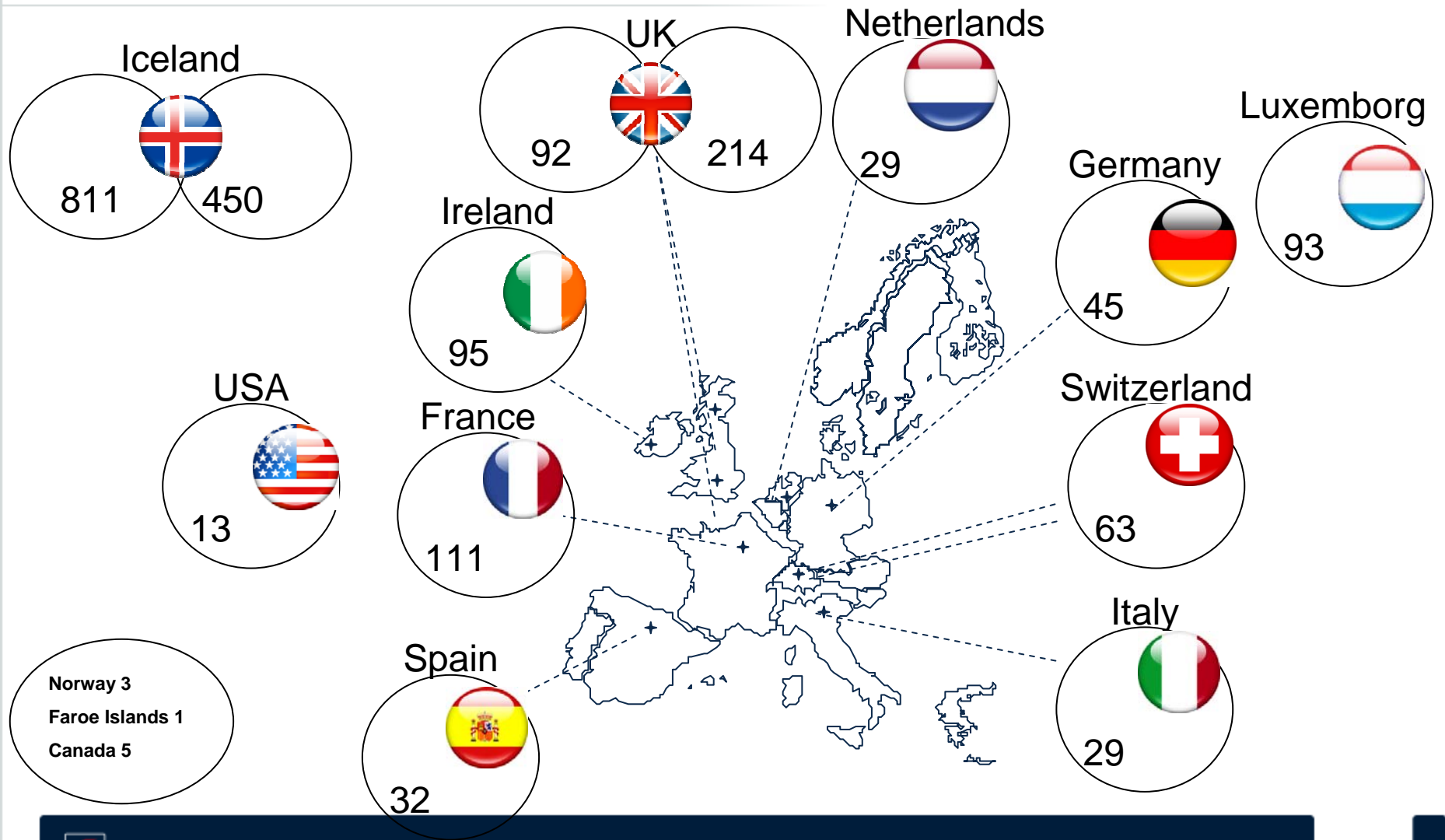
ISK million

## Transformation of Landsbanki Since 2002

	2002	2006	Change
Total assets	277.8	2,172.9	+8x
Total loans to customers	214.8	1,438.4	+7x
Total deposits from customers	108.3	682.8	+6x
Net operating income	13.9	89.4	+6x
Cost-income ratio	61%	43%	
Number of countries	2	15	+7x
Number of employees	986	2,117	+2x
Profit before taxes	2.5	44.7	+18x
Market cap	25.0	347.2	+14x
Past due >90 days / total lending	3.2%	0.2%	

ISK billion





# Significant Opportunities in a Fragmented Market

## Global players

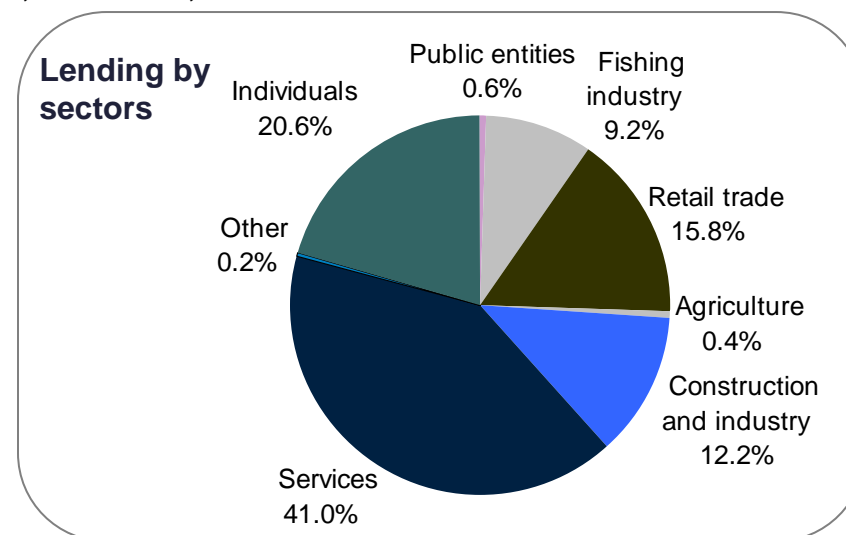
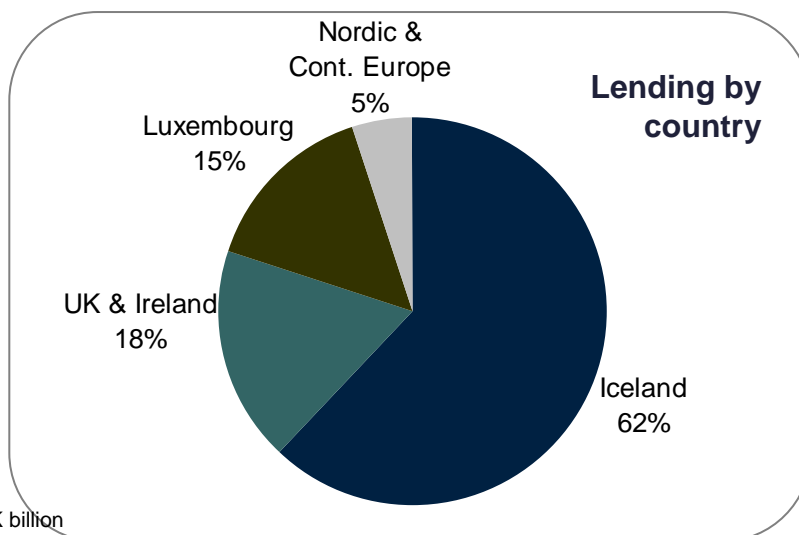
ABN Amro	CSFB	Deutsche Bank	DRKW	Goldman Sachs
JPMorgan	Lehman	Merrill Lynch	Morgan Stanley	UBS

## Local players

UK	Ireland	Germany	France	Spain	Netherlands	Switzerland	Italy	Iceland
Landsbanki	Landsbanki	Landsbanki	Landsbanki	Landsbanki	Landsbanki	Landsbanki	Landsbanki	Landsbanki
Evolution	NCB	Berenberger	BNP Exane	SCH	Petercam	LODH	Intemonte	Glitnir
Seymour Pierce	Goodbody	Sal Oppenheim	Ixis Seurities Societe	Fidentis	Rabobank	Bank am Bellevue	Eurombiliare	KB banki
Bridgewell	Davy	Chevreurx	General	BBVA	Chevreurx	Vontobel		Straumur
Peel Hunt	Bloxham	Metzler	Chevreurx	Chevraux	Fortis	Chevreurx	Mediobanca	

## Balance Sheet – Assets 31 December 2006

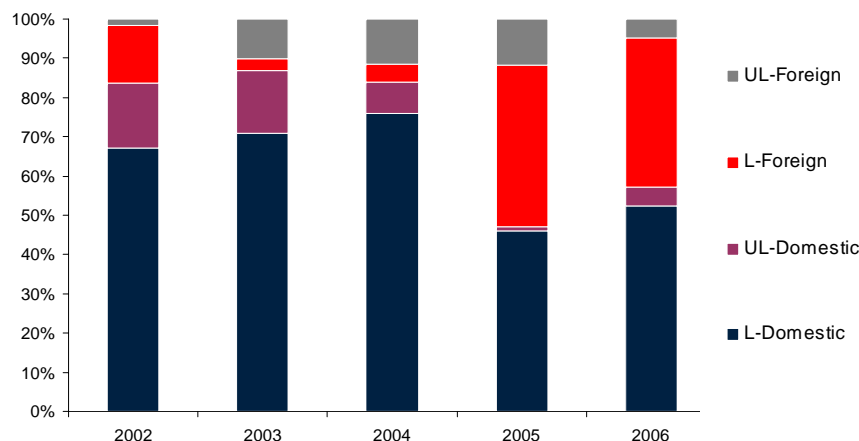
	31 Dec 2006	31 Dec 2005	Change	%	Real chg %
Cash and cash balances with Central Bank	32	17	15	91%	71%
Loans and advances to financial institutions	216	87	129	148%	115%
Loans and advances to customers	1,438	985	454	46%	24%
Bonds and debt instruments	170	52	118	229%	188%
Shares and equity instruments	49	58	-9	-15%	-21%
Hedged securities	105	130	-24	-19%	-26%
Derivatives held for trading	38	14	24	176%	138%
Derivatives held for hedging	10	5	6	124%	82%
Intangible assets	14	10	4	37%	23%
Other assets	100	49	51	105%	73%
	<b>2,173</b>	<b>1,405</b>	<b>767</b>	<b>55%</b>	<b>33%</b>



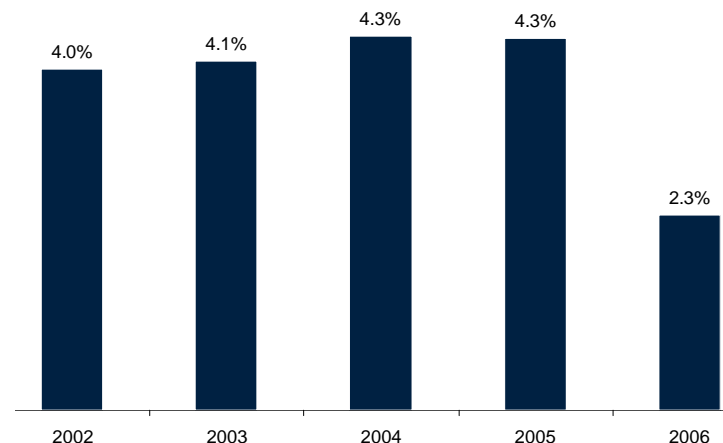
ISK billion

# Net Equity Position of Landsbanki

## Shares and equity instruments



## Equity exposure as % balance sheet



31 Dec 2006

31 Dec 2005

### Domestic Shares:

	2006	%	2005	%
Listed	25.9	52.4%	26.8	46.0%
Unlisted	2.4	4.9%	0.7	1.2%

### Foreign Shares:

	2006	%	2005	%
Listed	18.7	37.8%	23.9	41.1%
Unlisted	2.4	4.9%	6.9	11.8%

<b>49.3</b>	<b>100.0%</b>	<b>58.3</b>	<b>100.0%</b>
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## Equity exposure

- Landsbanki intends to keep its equity exposure below 3% of total assets
- Landsbanki sold its stake in Carnegie in Q2 2006 and in Straumur-Burdaras Investment Bank in Q4 2006

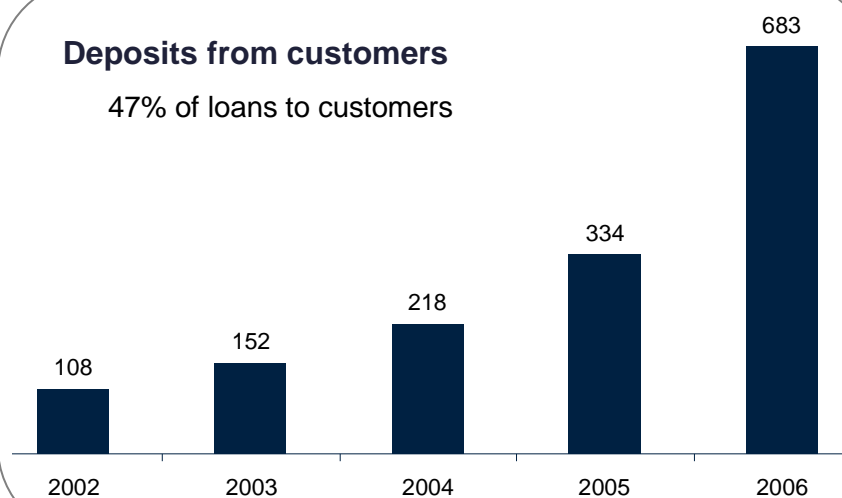
ISK billion

## Balance Sheet – Liabilities and Equity 31 December 2006

	31 Dec 2006	31 Dec 2005	Change	%	Real chg %
Deposits from credit institutions	141	145	-3	-2%	-29%
Deposits from customers	683	334	349	104%	90%
Borrowing	1,015	690	325	47%	21%
Subordinated loans	90	49	41	83%	49%
Other liabilities	95	74	21	28%	12%
Minority interest	5	4	2	45%	45%
Shareholders' equity	144	110	34	31%	29%
	<b>2,173</b>	<b>1,405</b>	<b>767</b>	<b>55%</b>	<b>32%</b>

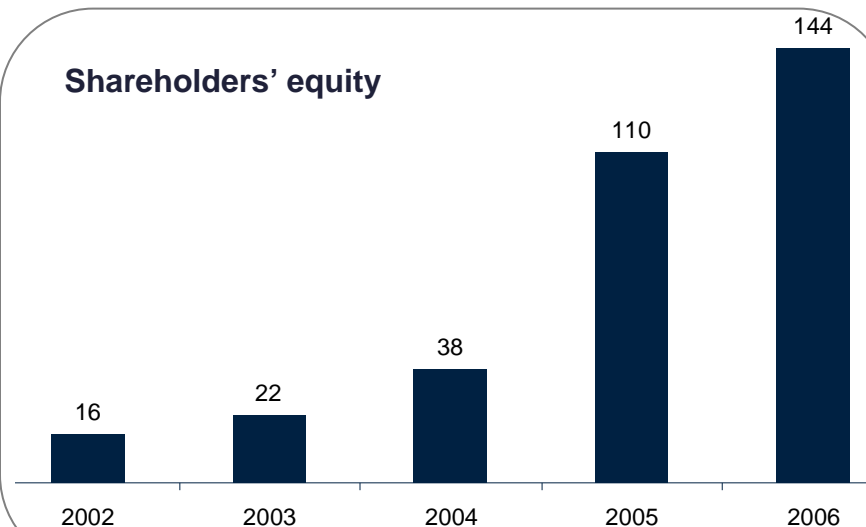
### Deposits from customers

47% of loans to customers

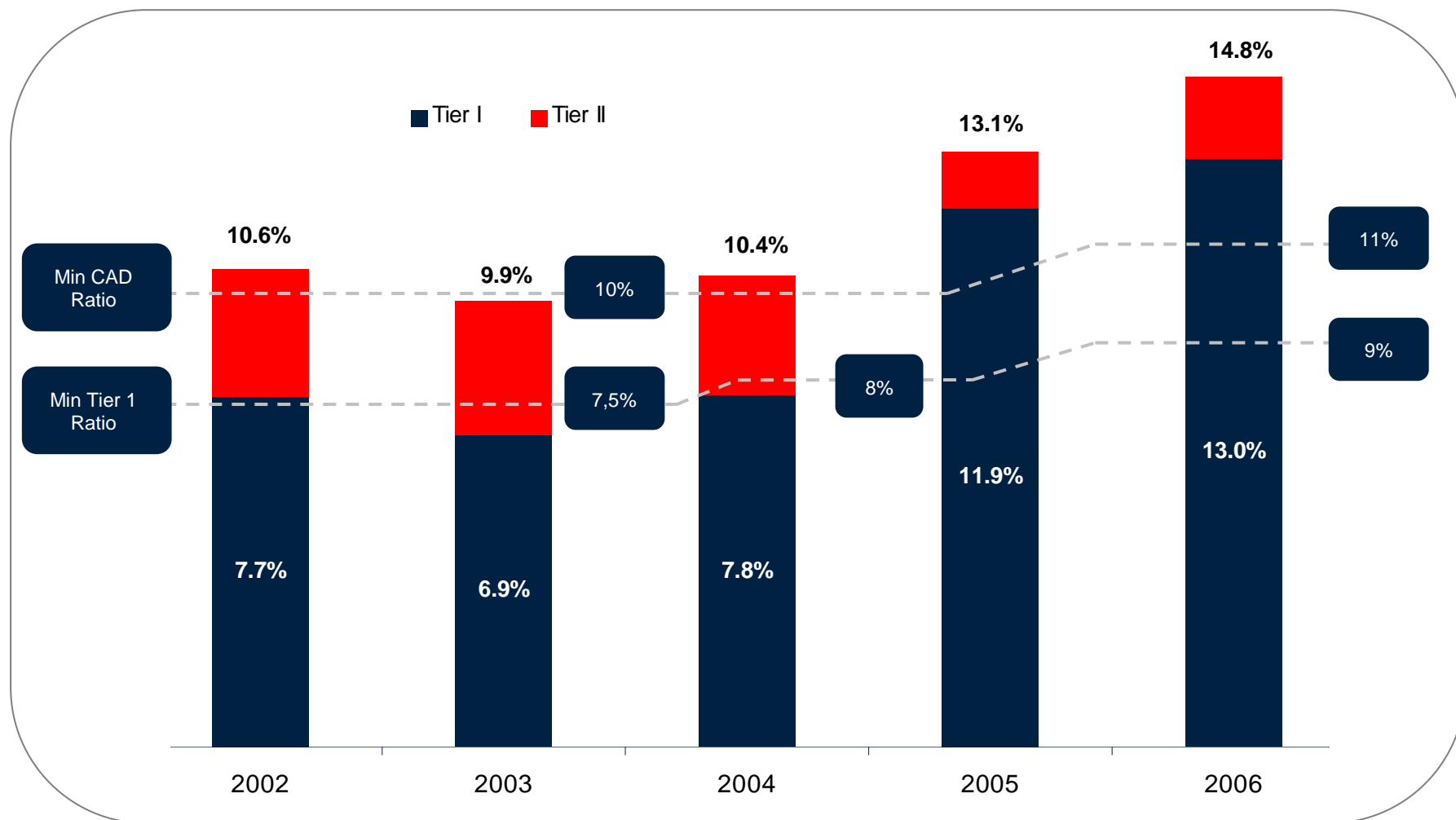


ISK-billion

### Shareholders' equity



# Equity Ratio - CAD



## Outlook

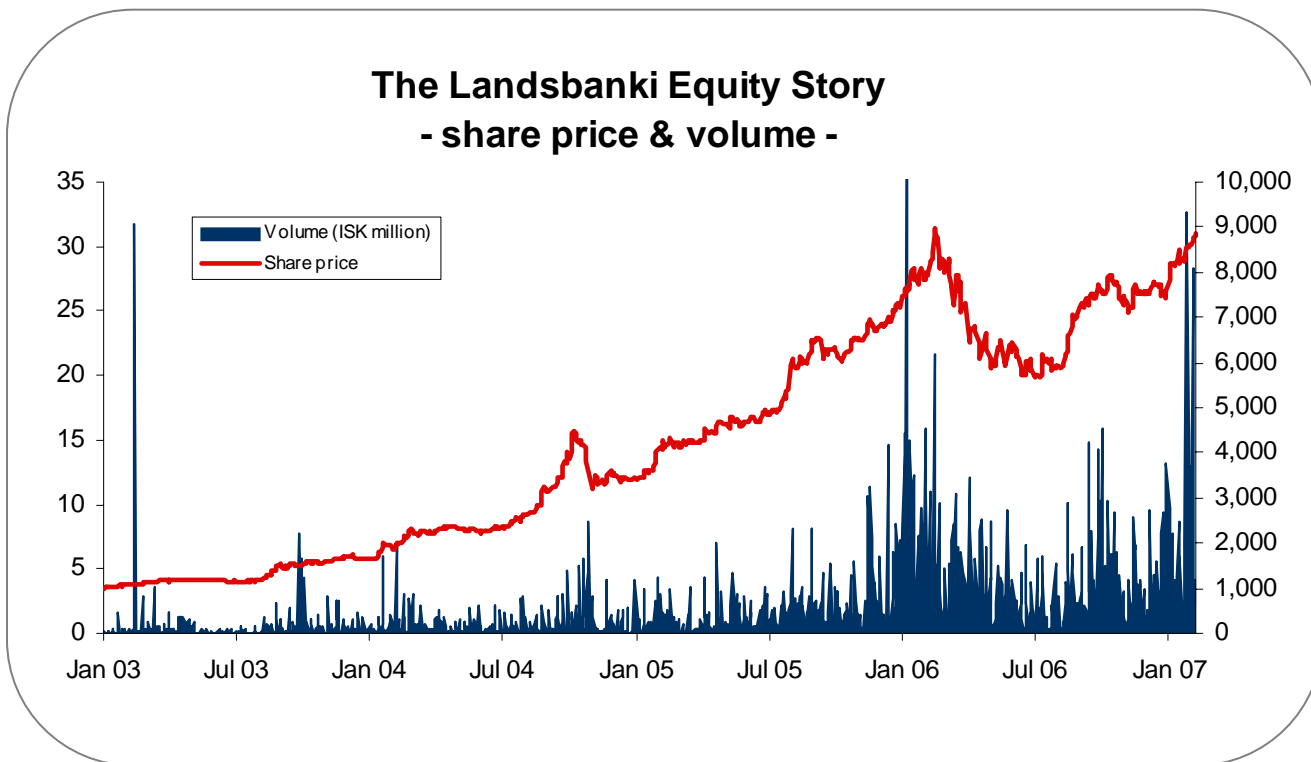
- 2006 – a record profit in Landsbanki's history
- Solid platform with continued increase in core banking income
- Diversified revenue streams both by country and business lines
- Solid asset quality with strong provisioning account and effective risk control
- Positive trends in net interests income and commissions along with efficient operations
- Focus on profitability and growing and consolidating the platform
- Uncertainty about Icelandic market environment that however seems to be stabilising

# The Equity Story – Good Share Liquidity

Share price 31.5  
 Market Cap ISK 347 bn  
 Equity ISK 144 bn

Volume YOY 2006:  
 ISK 318.8 bn  
 (22,896 transactions)

Volume YTD 2007:  
 ISK 60.6 bn  
 (2,201 transactions)





1

**Volatility and imbalances in the Icelandic economy marked 2006 but benign overall operating environment going forward**

2

**2006 a year of integration and consolidation of operational platforms**

3

**Major funding initiatives implemented - Highly successful new deposit programs changing the funding profile**

4

**Strong 2006 results – Core income demonstrates strong underlying profitability and continued good performance**

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