

Annual Report
2004



Landsbanki
The National Bank of Iceland

Annual Report 2004

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Björgólfur Guðmundsson, Chairman
Kjartan Gunnarsson, Vice-Chairman
Andri Sveinsson
Einar Benediktsson
Thorger Baldursson

Group Managing Directors and CEOs:

Halldór J. Kristjánsson
Sigurjón Th. Árnason

Alternate Board of Directors:

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Guðbjörg Matthíasdóttir
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The Road to Success

The year just concluded was without doubt among the most economically favourable ever for Iceland. GDP growth was high and employment ample, purchasing power increased, inflation remained under control, business operations were highly successful and the ICEX-15 equity index on the Iceland Stock Exchange rose far more than indices in neighbouring countries. Icelandic enterprises also redoubled their expansion abroad. In the financial sector, the successful efforts of Iceland's banks to extend their operations beyond the country's borders were characteristic of this trend. They were also a response to stiffening domestic competition, evident in declining interest rates and greatly improved services for individuals and corporations.

Landsbanki reinforced its position in Iceland in 2004, emerging as the leader in both domestic deposits and loans. Organic growth was phenomenal, as the Bank's balance sheet grew more this past year than it had for many decades prior to that. Landsbanki's image has also been strengthened, not least due to its resolve to set an example in social responsibility. The Bank was involved in a variety of undertakings, all of them promoting the arts, education and culture and adding to the quality and colour of life in Iceland. The Bank has encouraged development of Reykjavik's city centre; it is the strongest supporter of sports in Iceland; the leading sponsor of the Reykjavik Festival of the Arts, Reykjavik Culture Night and the Iceland Dance Company; it sponsors foreign activities of the Iceland Symphony Orchestra and innumerable other endeavours. Landsbanki provides facilities for 170 young artists in the gallery and art workshop *Klink og Bank*.

The Bank's extensive activities during 2004 were clearly well received, as the company's share price rose by 104%, considerably more than the average share price of other financial enterprises and well exceeding the average price rise of companies listed on ICEX.



Activities of financial undertakings are becoming steadily more international. The future of Icelandic banks lies in their growing international operations. Landsbanki's vision is to become a powerful international bank with deep roots in Iceland. Its operations abroad increased during the past year. The Bank's subsidiaries in both the UK and Luxembourg have expanded and the foreign projects undertaken by its corporate advisory services become much more numerous. A major expansion of Landsbanki's activities abroad is to be expected in the coming years.

Two years after its privatisation, it is clear that Landsbanki is heading in the right direction. Both the management and personnel have witnessed major changes, with the Bank showing its new strength and stamina in the face of stiff competition on the home market. There are plenty of challenges ahead, where Landsbanki's capable personnel will take on the growing competition, both at home and abroad. The turbulent currents of the past two years are only the beginning of the Bank's long voyage in the direction of new projects and goals in a new century.

On behalf of Landsbanki's shareholders, I would like to take this opportunity to thank the Bank's management and personnel for their fine contribution in the past year. Together we head towards new opportunities, to ensure Landsbanki's enduring status and strength in international competition.

Björgólfur Gudmundsson
Chairman of the Board, Landsbanki Íslands hf.



Landsbanki's Board of Directors

Björgólfur Gudmundsson, Chairman of the Board, was born on 2 January 1941 and graduated from the Commercial College of Iceland. He served for many years as CEO of the Icelandic shipping line Hafskip, and subsequently worked with other related companies abroad. After directing Pharmaco Ltd., a beverage manufacturing company in Iceland, he founded Baltic Brewing and later another brewery, Bravo Ltd., in St Petersburg, Russia. Mr Gudmundsson is the owner of Edda Publishing, Iceland's largest book publisher. He was first elected Chairman of the Board of Landsbanki in February 2003 following the purchase by Samson Ltd. of nearly 45% of the Bank's shares from the Icelandic government. Samson is a holding company owned by Björgólfur Thor Björgólfsson, Björgólfur Gudmundsson and Magnús Thorsteinsson. A strong supporter of culture, sport and youth activities, Mr Gudmundsson was awarded the Order of the Falcon by the President of Iceland for his contribution to business and culture, in January 2005.

Kjartan Gunnarsson, born 4 October 1951, graduated from the Faculty of Law of the University of Iceland in 1978 and from the Norwegian Defence College in 1980. He has been Secretary General of the Independence Party since 1 October 1980. Mr Gunnarsson was first elected by the Icelandic parliament, *Althingi*, to sit on Landsbanki's Board of Directors in 1992 when the Bank was state-owned, and served as Vice-Chairman and later Chairman of the Board until 1997. When Landsbanki became a limited company in September 1997, Mr Gunnarsson was elected Vice-Chairman. He was Chairman of the Board of the insurance companies Líftryggingafélag Íslands 1997-2003 and Vátryggingarfélag Íslands 1997-2002, and a member of the Board of Landsbanki's subsidiary, Heritable Bank Ltd., in London since March 2003. Mr Gunnarsson currently chairs Landsbanki's Audit Committee.

Andri Sveinsson, born on 21 September 1971, graduated as an economist from the University of Iceland in 1996. He has worked in investments and banking since then, first for Skandia in Iceland and then Búnadarbanki Íslands hf. Mr Sveinsson is currently Managing Director of Amber International Ltd., a holding company owned by Björgólfur Thor Björgólfsson. He is also a member of the Board of the pharmaceutical company Actavis, and a member of the Executive Board of the Reykjavik sports club KR. Mr Sveinsson was first elected to the Board of Landsbanki in 2003.

Einar Benediktsson was born on 6 May 1951. He graduated from the University of Iceland with a degree in business administration and served for many years as assistant managing director, and later managing director, of the Herring Export Board of Iceland. He has also served in various capacities on committees and boards connected with fisheries and fish exports, and Icelandic industry in general. Since 1992 he has been CEO of Iceland Oil Ltd. (Oliuverslun Íslands hf.) He was first elected to the Board of Landsbanki in February 2003.

Thorgeir Baldursson, born 25 September 1942, graduated from the Commercial College of Iceland in 1960, and subsequently studied at Denmark's Graphic College. After serving as director of operations at the printing company Oddi from 1965, he took over as CEO in 1982. He has been a member of the Executive Board of the Confederation of Icelandic Employers since its consolidation in 1999. Mr Baldursson has served as Chairman of the Board of SP-Fjármögnun since 1995, and on the boards of several Icelandic companies. He was appointed Icelandic honorary consul for Spain in 2000. He was first elected to the Board of Landsbanki in 2003.



Halldór J. Kristjánsson, Sigurjón Th. Árnason, Group Managing Directors and CEOs

A Record Year for Landsbanki

By any measure, the year 2004 was a particularly successful one for Landsbanki. With rapid growth in all areas of operation, the Bank reinforced its position as the leading force on the Icelandic financial market. Total assets grew by 63%. Commissions from investment banking have increased greatly, as has the Bank's net operating income excluding trading gains. There has been a significant increase in the quality of its loan portfolio, as is evident in the development of provisions for credit losses. Loans in arrears are at their lowest level in many years.

Restructuring during the year was aimed at boosting sales and services, with a focus on both retail and corporate banking. The Bank's headquarters are now all in a single location in downtown Reykjavík, branches have been merged and emphasis placed on recruiting specialised personnel. IT development has been a priority, with innovations introduced in Personal and Corporate Internet Banking and computer infrastructure was updated to provide increased services and automation. The issuing of new share capital and subordinated convertible bonds has improved the Bank's equity position and placed its operations on a stronger foundation. This places Landsbanki in a prime position to meet domestic competition and expand on foreign financial markets.

Operations

Landsbanki's profit in 2004 amounted to ISK 12.7 billion, as compared with ISK 3.0 billion in 2003. This represents a 50%

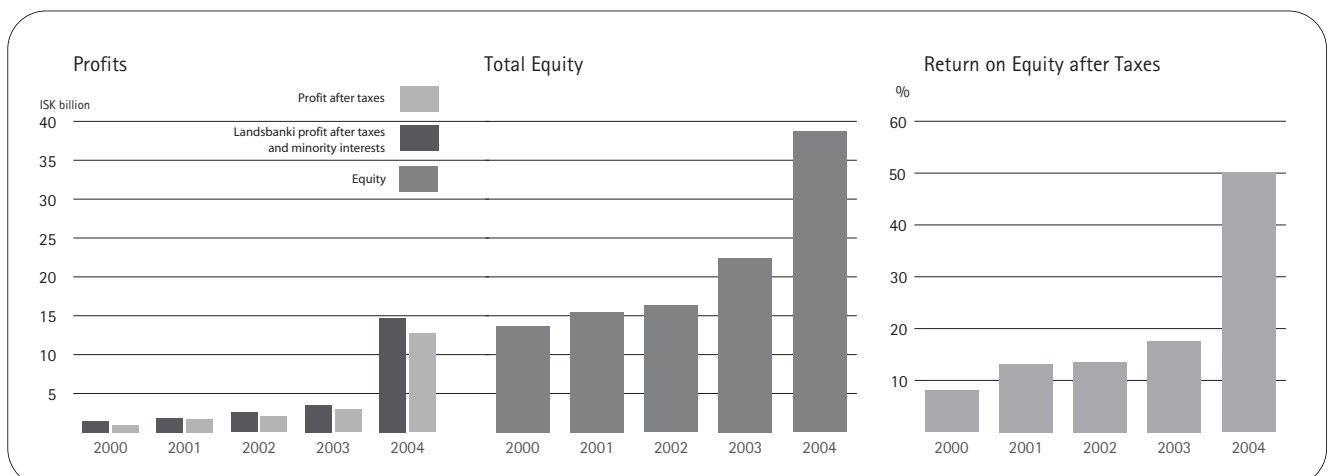
return on equity after taxes. All the Bank's income divisions returned a satisfactory profit, as did its subsidiaries.

At year-end, assets were ISK 730 billion, an increase of ISK 282 billion during the year. Total lending by the Group amounted to ISK 550 billion, increasing 68% during the year. Deposits totalled ISK 218 billion, increasing by 43% during the year.

Continued Growth

A sizeable portion of the Bank's lending growth has been used to finance corporations and related services. Landsbanki managed a good number of large financing projects both in Iceland and abroad, providing both credit and advisory services. The highest growth has been in lending to foreign parties through the Bank's syndicated loan team in London. As a result, Landsbanki's loan portfolio has become more diversified in terms of industrial sectors, currencies and geographical areas.

The year 2004 was the most profitable year ever for investment banking. Fees and commissions have doubled in the past two years, while capital gains on securities have also grown substantially. Securities brokerage grew considerably, with the domestic market characterised by strong growth in share prices and a substantial increase in turnover. Landsbanki's market share of equity trading on ICEX grew from 25% to 34%, making the Bank the largest trader on the Iceland Stock Exchange. The Bank arranged 14 bond issues during the year, or 50% of new primary



bond issuance on ICEX.

Landsbanki played a major role in the record growth of investment and mutual funds. Domestic mutual funds grew by 50%, of which Landsbanki's market share was 34%.

Provision of residential housing mortgages was transformed when commercial and savings banks began granting residential mortgages at rates lower than previously available, with a loan-to-value ratio of up to 100%, competing with the state-owned Housing Financing Fund. At the end of the year, Landsbanki was the only commercial bank to reduce this ratio to 90%, emphasising responsible financial services.

The year 2004 was a record year for the Bank's subsidiaries in London and Luxembourg, both in terms of total asset growth and profitability. The importance of activities outside of Iceland, both by the parent company and subsidiaries, has been increasing rapidly. Lending abroad as a proportion of total lending has grown from around 10% to 27% in less than two years, and the interest margin on the Bank's foreign operations is higher than in Iceland.

Strategy and Goals

Landsbanki's goal is to provide individuals, corporations and institutional investors with solid, comprehensive financial services based on a long-term business partnership. Retail banking services will remain the core of the Bank's activities. By utilising its extensive branch network and leading position on the domestic market, Landsbanki aims at increasing its market share in all types of financial transactions.

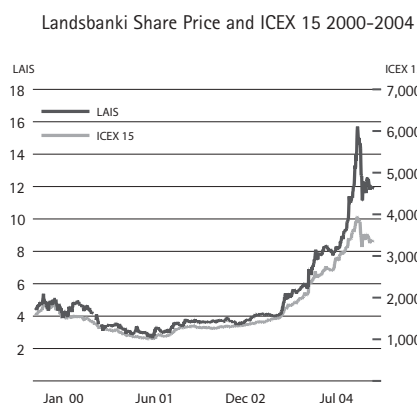
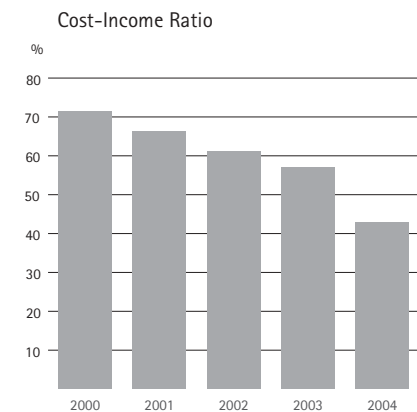
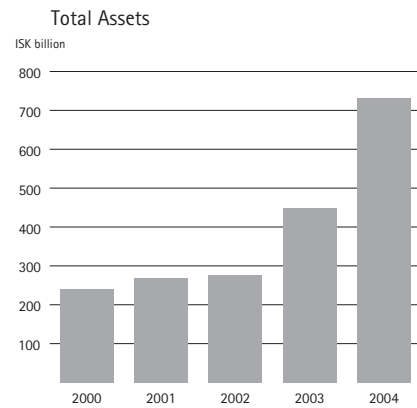
Realistic options for co-operation and integration on the financial market will be considered. Landsbanki has declared its willingness to take the initiative in the consolidation of the banking system, thereby increasing the efficiency of the financial market in Iceland. In addition, the Bank emphasises further privatisation of residential mortgages in Iceland.

Increasing its operations abroad is Landsbanki's prime opportunity for growth. Although the Bank's possibilities for expansion in Iceland are limited, due to the small size of the market, it will continue to examine potential domestic investments. Investment by Icelandic enterprises abroad has been greater than ever in the past two years. Landsbanki will continue to support these enterprises in their endeavours. New projects are in preparation in the Bank's Corporate Banking division and corporate advisory service.

Investment opportunities will be examined in financial enterprises abroad with an eye to increasing diversification of risk and achieving greater economies of scale. Landsbanki will use its strong position on the domestic market as the base for a powerful Northern European bank, emphasising corporate and investment banking activities. Anchored by its strong roots in Iceland, the Bank is ready to take on new challenges abroad.

Landsbanki's Group Managing Directors and CEOs

Halldór J. Kristjánsson *Sigurjón Th. Árnason*
Halldór J. Kristjánsson Sigurjón Th. Árnason



Operating Environment

Overall conditions in the Icelandic economy in 2004 were conducive to continued growth and rising demand. With GDP growth at 5.4%, the Icelandic economy is once again in a state of rapid expansion. There has been extensive investment in large energy and aluminium projects as well as in other sectors of industry and in residential property. A 7% rise in private consumption during 2004, following on the heels of a similar rise in 2003, is an indication of the sizeable acceleration in household spending. Buoyant consumer spending is partly due to an increased supply of credit and declining interest rates, as well as the wealth effect of rising housing prices and anticipated tax cuts. However, slower growth in public consumption last year did curb total domestic demand somewhat.

Export production showed a healthy increase despite appreciation of the Icelandic króna, with both traditional marine exports and manufacturing exports growing by 5-10% in real terms. The rise in imports, however, considerably exceeded export growth, causing an expanding trade deficit which, along with a negative factor income balance, resulted in a current account deficit estimated at 6.5% of GDP.

Although marine product prices showed an upward trend, overall terms of trade were slightly unfavourable as the rise in import prices exceeded the change in export prices. Rising oil prices had a strong impact, although partly compensated for by the USD depreciation.

As the economy gathered momentum, the unemployment rate gradually declined from 3.7% in January to around 2.5% at year-end, improving the labour market situation. Increased use of foreign labour, in particular in connection with the large investment projects, has mitigated the impact of strong GDP growth on labour demand, preventing upward pressure on wages.

Fuelled by rising housing prices, inflation increased steadily to 3.9%, just below the 4% upper limit of the Central Bank's inflation target. After depreciating during the early months of

the year, the króna rose substantially, ending the year 8.5% stronger than at the outset.

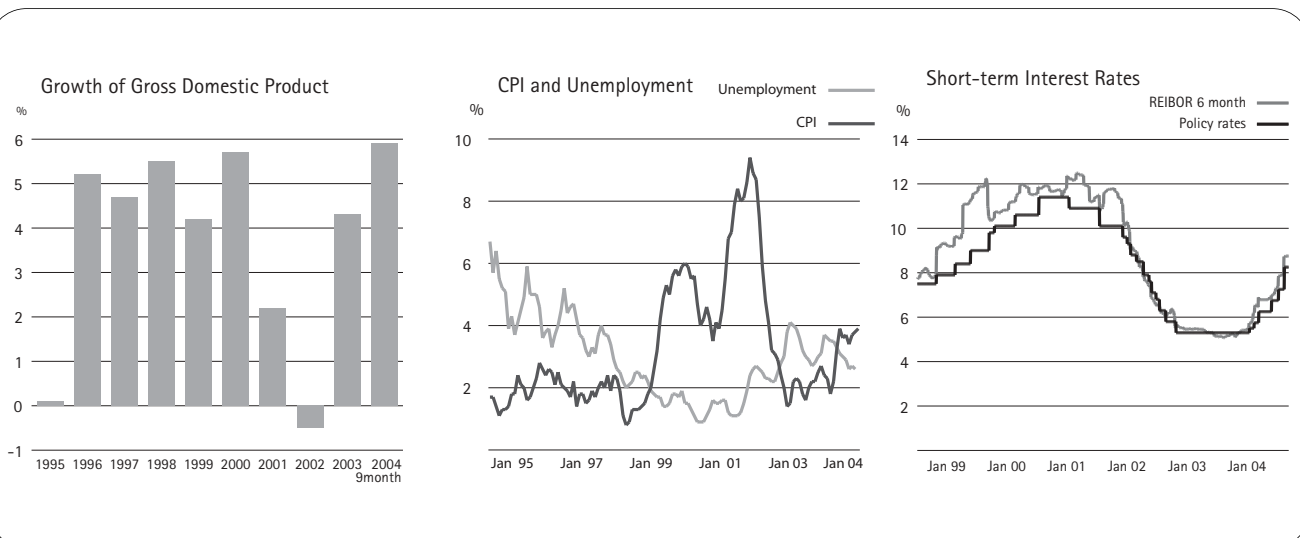
The 2004 fiscal outcome was characterised by rising revenue due to high GDP growth and, despite rising expenditures, there was a significant improvement in the fiscal position. However, an estimated positive revenue balance of 0-1% of GDP suggests that fiscal policy is not as tight in the present upswing as at this point of the last business cycle, when the fiscal surplus was 2-3% of GDP.

The first sign of increasing monetary restraint by the Central Bank appeared in May, with a policy rate increase of 20 basis points to 5.5%. By the end of the year, the rate had been increased six times, concluding with a 100 basis points hike to 8.25% in early December. The impact of tighter monetary policy was somewhat counteracted by the Central Bank's purchasing of foreign currency in the amount of ISK 27 billion, bringing its net foreign currency reserves to ISK 66 billion. In December the Central Bank announced the conclusion of these purchases and its intention to use the currency market only for the financing needs of the central government's foreign currency debt redemption.

Improved productivity and good performance in the corporate sector in recent years, led by privatisations in the financial sector, has improved the resilience of the Icelandic economy. This is borne out by favourable sovereign ratings, confirmed by both Fitch and Moody's. Fitch confirmed their AA- rating for foreign currency loans and AAA for loans in domestic currency. Moody's confirmed their Aaa/P-1 sovereign rating. Both agencies have a stable ratings outlook for Iceland.

Financial Markets

From January to early May the króna depreciated. However, with the policy rate rising and a strong inflow of foreign currency due to record-high foreign borrowing, the downward trend was reversed and the subsequent appreciation has continued virtually unbroken in the second half of the year. Turnover in the currency



interbank market totalling ISK 950 billion was, however, 20% lower than in 2003, mainly reflecting lower reliance by the commercial banks on interbank trading. Following the December policy rate hike, the ISK index fell below its previous 120-125 index point range, reaching a new low of 112.78 points in early December.

Turnover on the interbank market increased as interest rates followed the movements of the policy rate. The 6-month rate stood at 5.13% at the beginning of the year and was up to 8.55% at year-end. Interest rate differentials vis-à-vis other countries, as measured by the LIBOR 6-month rate, moved in tandem from 3.02% at the outset to 6.19% at the end of the year.

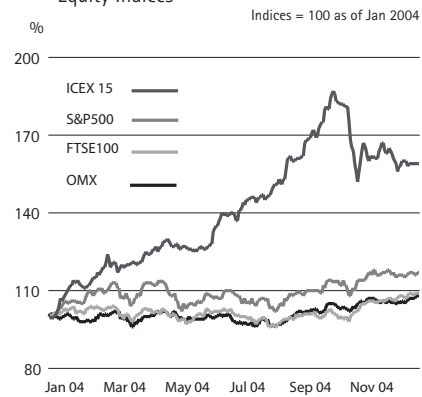
Long-term real yields on the Icelandic bond market were at an historical low at year-end after a continuous downward trend since early 2002. The gradual removal of structural and organisational impediments has encouraged foreign investors to enter the Icelandic market, pressing yields downward. The entry of foreign investors is to a large extent a consequence of the modernisation of the Icelandic market, but also part of the on-going global search for good financial market returns. The Icelandic bond market offers high-yielding products with low credit risk. A growing appetite for inflation-indexed instruments has also served the Icelandic market well in recent years.

Housing financing underwent a complete transformation in 2004. A major restructuring of its bond issuance enabled the public Housing Financing Fund (HFF) to obtain financing on better terms and increase the loan-to-value ratio. In August, the banks responded by offering residential mortgages on terms more favourable than those previously available.

On average, the yield on long-term indexed bonds fell by 80 basis points during the year to 3.5-3.6%. The yield on non-indexed bonds with shorter maturities (RIKB 07, RIKB 10) rose parallel to the policy rate while the yield on the longer RIKB 13 fell by around 50 basis points.

Turnover on the Iceland Stock Exchange (ICEX) totalled ISK 2,218 billion and has never been greater. Total turnover increased by 41% year-over-year, with trading in bonds and bills growing by 46% and equity trading by 30%. Corporations, local authorities and credit institutions issued new bonds amounting to almost ISK 60 billion, another new record. No company listed its shares on ICEX this year, but there were extensive share capital increases on the market. The shares of 14 companies were delisted. The ICEX-15 equity index rose by almost 60%; by comparison the FTSE index in London rose by 7.5% and S&P500 in the US by 9%. Shares in companies with extensive foreign direct investment rose the most. The turnover of these companies, along with their estimated profit, has also grown with the result that increases in price multiples have not exceeded rising share prices. The estimated P/E ratio for the ICEX-15 index was 16.9 at year-end 2004, as compared to 14.9 at year-end 2003.

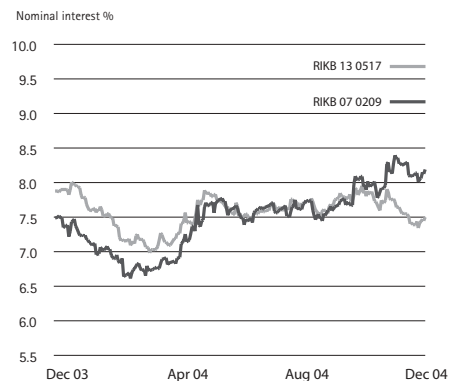
Equity Indices



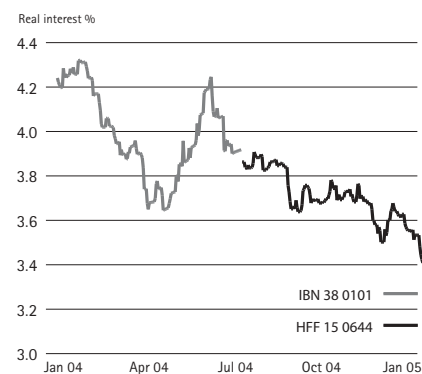
ISK Trade-Weighted Currency Basket

EUR	42%
USD	22%
GBP	12%
DKK	8%
NOK	6%
SEK	4%
JPY	3%
CHF	1%
CAD	1%

Yields on Treasury Notes



Yields on 40-year Housing Bonds





S. Elín Sigfúsdóttir, Managing Director, Corporate Banking

Landsbankinn

Corporate Banking

The Corporate Banking division is responsible for direct services to the Bank's largest customers and providing support to business services offered by branches. Extensive efforts have gone into product development and marketing directed at corporations, in co-operation with the branches and other Landsbanki divisions. Parallel to this, the division's activities have expanded substantially, personnel have been added and specialised teams formed for various sectors of industry.

Growth in the Bank's lending has been considerable and a large share of the increase is the result of corporate lending and related services, domestically and abroad. Increased corporate activity led to large investments in vessels, aircraft and real

estate, and Landsbanki was active in supporting this growth. The Bank has also utilised its expertise in the fisheries sector to assist international customers, which have become an increasing share of this business area. This is a trend which the Bank expects to continue. The Bank directed a number of large financing projects, providing loans and advisory services, and arranging securities issues on the market. This past year a large number of companies, both long-established and recent arrivals, were added to the Bank's clientele. Seventy percent of companies listed on ICEX currently do substantial business with Landsbanki. For most of Iceland's 50 largest companies, Landsbanki is either their house bank or one of their two key banks. According to a recent Gallup survey, Landsbanki's market share in corporate banking is 32% while that of other banks ranges from 19% to 26%.

Emphasis has been placed on specialisation and acquiring expertise in all the major industrial sectors and areas of lending. While the independence of branches has been increased, the Corporate Banking division provides them with support in corporate business. Each client has a customer relations manager, who follows up on its business with the Bank. Customer relations managers have extensive experience and specialise in the different industrial sectors. They know the companies well and can tailor financial solutions to their individual needs. They are experts in sectors such as fisheries, international trade, retail and services, construction, heavy industry, local government or investor services.



A new department was set up in Corporate Banking during the past year to offer specialised services to fisheries companies abroad. The department has carved out a niche for itself on the market and established connections with a number of the world's largest fisheries enterprises. To begin with, the focus will be on companies in Europe and North America.

The Bank's lending operations to foreign borrowers, which have increased sizeably, are now its fastest growing area of activity. Lending outside of Iceland in 2004 amounted to ISK 76,973 million.

Corporate Banking Activities in London

Landsbanki's participation in international syndicated loans is directed by Corporate Banking's team in London. They have been highly successful in developing business connections with, for instance, Deutsche Bank AG London, Credit Suisse First Boston, Royal Bank of Scotland, Halifax Bank of Scotland and Barclays Capital, all leading players in the European banking market.

The loan portfolio has grown substantially, especially during the latter half of the year, and at year-end it amounted to over ISK 20 billion. Borrowers include 25 businesses in the UK, Germany, the Netherlands and France in retailing, manufacturing, services and the chemical industry. Around 30% of the loan portfolio is comprised of mezzanine financing.

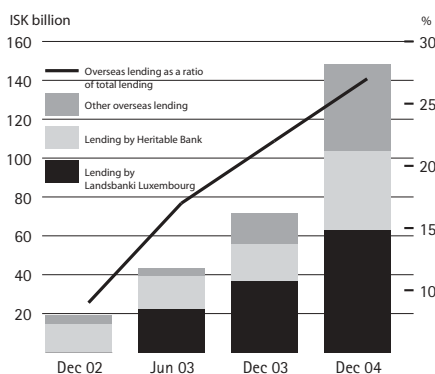
The London team also arranges and underwrites the debt financing of leveraged buyouts, often in co-operation with Corporate Advisory and Proprietary Trading. In such projects, Landsbanki provides mezzanine financing and/or senior loans in support of acquisitions, mergers and/or delistings. As an example of UK-based projects, the Bank underwrote mezzanine financing



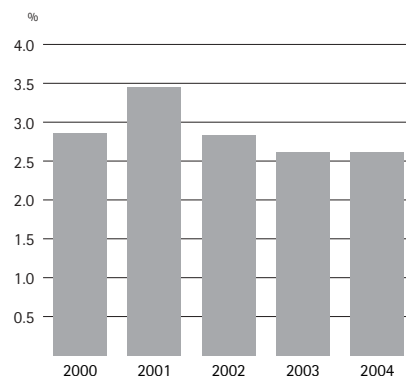
for Baugur Group's acquisition of Goldsmiths. The Bank also underwrote mezzanine financing and, together with Barclays Bank, jointly underwrote a senior loan for the acquisition by Baugur Group and Landsbanki of MK One. Landsbanki also played a key role in financing Baugur's recent offer for Big Food Group.

The Bank intends to continue building up its syndicated loan portfolio and other activities in London to strengthen its presence abroad and increase its foreign income. The next steps in its continuing development are further expansion of the Bank's corporate advisory services and the establishment of a branch in London.

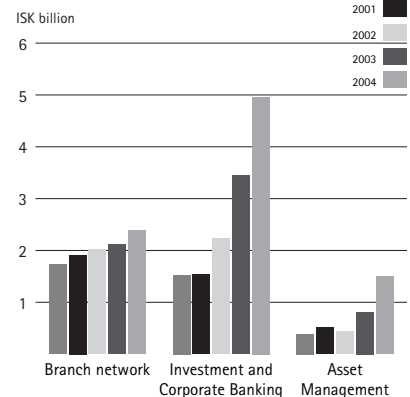
Diversification of Lending Portfolio



Interest Margin



Fees and Commissions





Yngvi Ö. Kristinsson, Managing Director, Securities and Treasury

Securities

Securities and Treasury, the investment bank arm of Landsbanki is active in securities trading, foreign exchange, derivatives trading, brokerage, corporate advisory as well as research. The division focuses mainly on corporations, organisations and institutional investors as its customer base.

This was Landsbanki's most successful year ever in investment banking. Commissions grew significantly, while trading gains on the Bank's securities assets also reached new heights.

This is partly due to highly favourable conditions on both securities and foreign exchange markets in Iceland, but also to the restructuring of investment banking operations carried out in 2003. This reflects the Bank's growing market share in all investment banking activities in Iceland. In addition, Landsbanki managed corporate advisory projects abroad for the first time in 2004.

Landsbanki's securities assets, in both market bonds and listed domestic equities, increased substantially in 2003. The increase in bonds assets was partly a consequence of the Bank's strong liquidity position, but also of its expectations of declining yields on indexed obligations in 2004. This proved to be the case, and the Bank realised a good profit by selling its bonds in the second half of the year. Landsbanki later increased its market bond assets, which stood at ISK 17 billion at year-end as compared to ISK 23 billion at the beginning of the year.

Corporate Advisory

The increase in projects abroad is the major factor in the expansion of corporate advisory activities. The largest foreign projects were advisory services in connection with the take-over

of Excel Airways and its delisting from the London Stock Exchange, the acquisition of the UK food producers Seachill and Cavaghan & Gray, and the acquisition of the fashion clothing chain MK One. Corporate Advisory played a major role in domestic restructuring projects. These included advising on the sale of Útgerðarfélag Akureyringa, Skagstrendingur, Haraldur Bödvarsson and Boyd Line, which formerly comprised Eimskip's fisheries division, Brim; on the sale of Skífan, Íslenska útvarpsfélagid, Frétt and the retail division of Taeknival; on the merger of Kaldbakur and Burdará; and on take-overs of Saeplast and Afl fjárfestingarfélag. As an indication of just how successful Landsbanki's corporate advisory work was, the Bank made Bloomberg's league table of the 20 Scandinavian banks with the largest market share in handling mergers and acquisitions.



Proprietary Trading

The great majority of Landsbanki's equity holdings this past year are linked to the corporate restructuring in which the Bank was involved in 2003, plus several new overseas private equity restructuring projects in 2004. Equity holdings in the trading book have thus comprised a lesser portion of the Bank's assets. By far the largest of these projects was the restructuring of Hf. Eimskipafélag Íslands as Burdará's hf. The sale of the former's fishery operations was the largest corporate advisory project undertaken by the Securities division. In addition, Landsbanki has been involved, both as shareholder and advisor, in expansion abroad by Icelandic Group and in the continuing development of Og Vodafone hf. All of these projects have earned the Bank substantial capital gains. At the end of the year the value of the Bank's equity portfolio was ISK 29.4 billion or 4.3% of its balance sheet as compared to 4.1% at the beginning of the year.

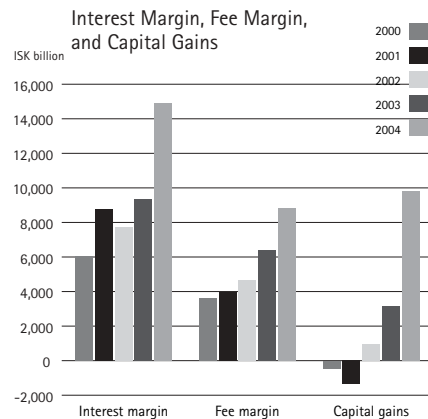
Brokerage

Securities brokerage grew substantially and the domestic market was characterised by rising prices and a large increase in turnover. The record equity turnover totalled ISK 721 billion, a year-over-year increase of more than 30%. Landsbanki's share in brokerage increased by over 80%, rising from ISK 140 to 245 billion. Its market share of total equity trading on ICEX grew from 25% to 34%, making Landsbanki the market leader. The bond market was also very active, with turnover in bonds and bills increasing by around 46% over the previous year. The Bank's share in this trading grew from 19% to 23%. Continuing efforts were focused on bond issuance by corporations, municipalities and credit institutions. Landsbanki served as arranger for 14 bond issues for a total of ISK 33 billion, which represents around 50% of primary issuance of these bonds on ICEX in 2004.

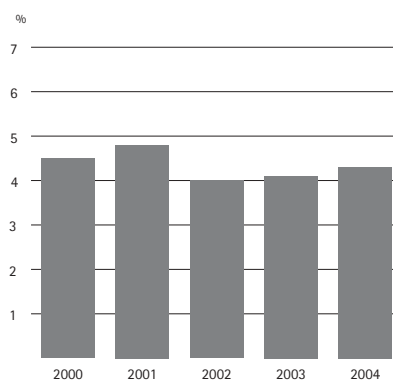
There was a sizeable increase in brokerage of foreign equities in 2004, resulting in an income increase of over 200%. Landsbanki is the only Icelandic bank which has offered direct Internet securities trading on foreign markets since 1999. Through this service, Landsbanki's customers have had online access to stock trading on Wall Street. In 2004, the Bank concluded a co-operation agreement with E*TRADE Bank in Denmark and opened a new website for Internet securities trading called E*TRADE. Customers are now offered direct Internet trading on stock exchanges in the US, Denmark, Finland and Sweden. The new E*TRADE website has been well received, and the number of active clients has increased greatly.

Foreign Exchange and Derivatives Trading

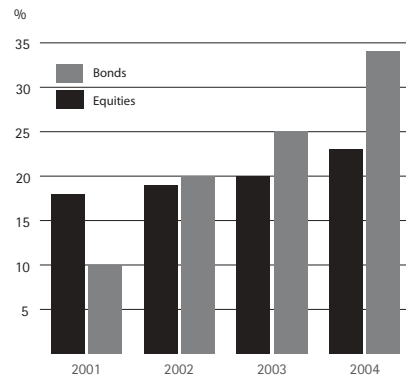
Landsbanki leads the market in foreign exchange and derivatives trading. Foreign exchange trading grew significantly and the Bank has maintained its strong position. Part of the explanation for the Bank's increased presence on the domestic foreign exchange market, and in derivatives trading in general, is extensive product development. Use of derivatives by participants on the domestic financial market has increased substantially as expertise within corporations grows. Foreign investors have also increased their activities, investing in bonds and taking ISK positions through forward contracts. In 2004, debt under management amounted to ISK 75 billion, a sizeable increase over the previous year.



Equity Positions as a Share of Total Assets



Landsbanki's Market Share on Iceland Stock Exchange



ISK Index

Dec 1991 = 100





Stefán H. Stefánsson, Managing Director, Asset Management

Asset Management

The division is responsible for asset management and the investment and management of mutual funds and investment funds operated by Landsbanki's subsidiary, Landsvaki hf. It also invests and manages pension funds and other portfolios, for instance, of corporations, local authorities and high net worth individuals. Asset Management also oversees sales of domestic and foreign mutual funds to corporate and institutional investors.

Landsbanki made a major contribution to the record growth of mutual and investment funds in 2004. Landsvaki's domestic funds grew by around 50% to a market value of some ISK 89 billion at year-end. The total market value of Landsvaki's mutual and investment funds was around ISK 93 billion. This makes Landsbanki the leader in the domestic funds market, with a 34% market share.

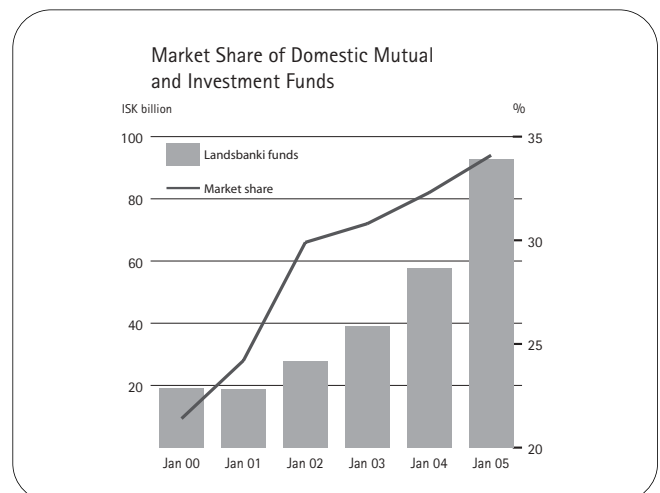
The highest-growth funds are *Fyrirtækjabréf*, a specialised fund investing in corporate bonds, *Peningabréf*, a money-market fund, and *Sparibréf*, a subscription fund for individuals. Two new funds were established in 2004: *Vísitölubréf*, a mutual fund which tracks the ICEX-15 equity index, and the *Landsbanki Mezzanine Fund*, an international fund for institutional investors providing mezzanine financing for companies on the international market.

Returns on domestic mutual and investment funds were excellent, and conditions on the domestic financial markets in general very favourable. The performance of funds under management was also very good: Nine of the Bank's eleven mutual and investment funds out-performed their respective benchmarks. A clear investment policy, solid analytical work and effective actions have thus returned substantial value to fund owners.

Total assets under active management at year-end amounted to over ISK 190 billion, increasing by 47% during 2004. This, in turn,

is reflected in the growth of mutual and investment funds, increased pension fund operation and management, and a significant rise in asset management within Private Banking, to mention but a few aspects. Increased emphasis has been placed on portfolio asset management by the Bank, with the development of a strong, specialised unit for this purpose. Services for pension funds were made a priority, with the result that currently 12 pension funds are either completely operated or have their assets managed by Landsbanki. In recent years, the Bank's pension fund operations have been very successful and returns on their investments and those of other managed portfolios have been very good. Five of the twelve Icelandic pension funds recording the highest average five-year returns are managed by Landsbanki.

The Bank will continue to place major emphasis on the growth of asset management and investment services for corporations and institutional investors. The goal is to remain the leader in asset management in Iceland, expanding the range of these services in the coming years to meet clients' needs.





Ingólfur Gudmundsson, Managing Director, Private Banking

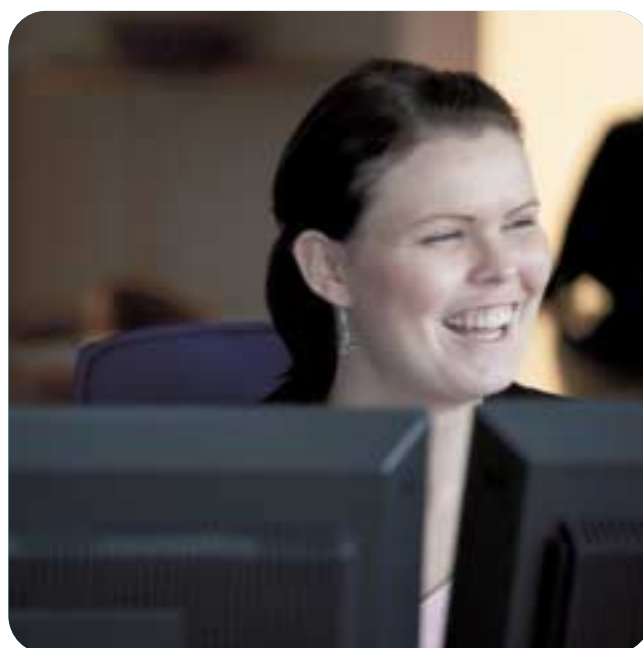
Private Banking

Private Banking offers clients comprehensive international financial services, including a variety of investment options, taxation advice and asset management. The objective is to look after the financial needs of high net worth individuals, enabling them to turn their attention elsewhere while the Bank's experts handle their asset portfolios.

Each client is assigned his or her own financial advisor, who looks after all their business with the Bank, whether this is in connection with general banking services, such as access to credit, payment of invoices, issuing of credit cards, or other areas. Financial advisors handle contacts with fund managers for asset management, derivative experts for derivative trading, credit specialists for borrowing and securities brokers for securities trading. Corporate advisory is among the services offered, e.g. on the sale of companies and/or their restructuring and further development.

Private Banking also serves as an intermediary in obtaining real estate mortgages from Heritable Bank in the UK, and provides general advice and assistance in purchasing real estate in Spain or Florida.

Asset management contracts increased significantly in number in 2004, and the total increase in assets under active management was around 50%.





Brynjólfur Helgason, MD International Banking, Alternate Group CEO

International Banking

Funding and Credit Ratings

Landsbanki's own funding consists of domestic and UK-based deposits, EMTN and ECP programmes as well as credit lines, syndicated loans and other bilateral facilities. Total debt issuance in 2004 amounted to over EUR 3 billion in 56 issues with 26 different banks as lead arrangers. In 2003, the issues numbered 23 with 13 banks, amounting to a total of EUR 1,250 million. Funding was characterised by an overall lengthening of the maturity profile, enlarging of key benchmark issues and further diversification. Three of the Bank's four largest bond issues ever were placed in 2004, and the Bank made its first bond issues in CAD, CZK and SEK. Landsbanki's international funding activity was supported by investor roadshows in London, Paris, Stockholm and Geneva.

In 2004 the EMTN programme was increased from USD 1,500 million to EUR 3,500 million in two increments, and at year-end over EUR 3 billion were outstanding under the programme. Refinancing of maturing EMTN issues in 2004 amounted to EUR 775 million, while total issuance under the EMTN programme in 2004 amounted to EUR 2.2 billion. Of the EUR 3 billion total issuance, private placements amounted to EUR 1.6 billion of this total.

In late February, Landsbanki completed a five-year EUR 400 million EMTN bond issue, which was joint-led by Banc of America Securities Limited, Credit Suisse First Boston (Europe) Limited and Deutsche Bank AG London. This was the first EUR public benchmark issue of an Icelandic financial institution with a five-

year maturity. This issue was subsequently increased to EUR 500 million. In April, Landsbanki issued a three-year EUR 160 million term loan facility jointly arranged by DZ BANK AG, KBC Bank NV and Lloyds TSB Bank plc.

In September 2004, Landsbanki was the first Icelandic bank to issue subordinated Tier 1 non-cumulative undated capital notes, arranged by HSBC and sold to retail investors in Europe. The notes are fully convertible to conditional equity and their value is included in Tier I capital under new rules on additional own funds of financial undertakings. The key purpose of the issue was to support further acquisitions by strengthening the capital position. In December 2004, Landsbanki sold its largest bond issue ever, by placing a five-year EUR 500 million issue under stand-alone documentation, arranged by HSBC.

Moody's ratings remained unchanged during the course of 2004 at A3/P-1/C with a positive outlook. Fitch affirmed its A/F1/C ratings with a stable outlook in November 2004. In February, Fitch assigned Heritable Bank for the first time with ratings of A/F1 and Support 1 with a stable outlook. Heritable Bank's ratings have enabled it to accept UK-based deposits.

International Investments

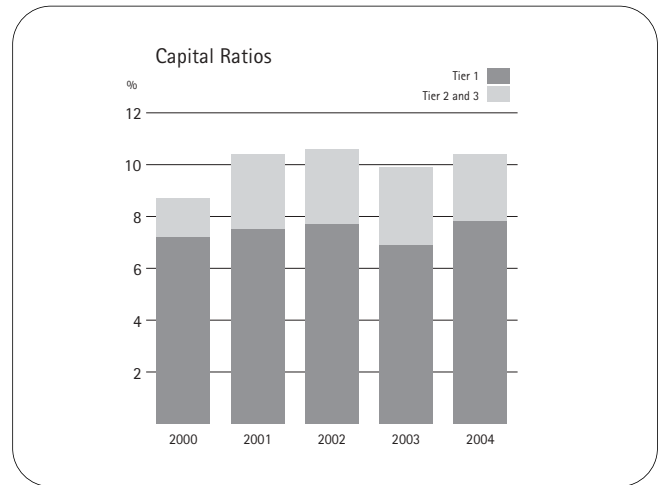
Part of Landsbanki's strategy is to invest in financial undertakings abroad and a good number of potential opportunities were explored in 2004. The Bank's international endeavours are based both on organic growth abroad and foreign investment. Prime emphasis is placed on investments in the UK as well as elsewhere in Western

Europe and in the world's financial centres. The Bank's objective is to improve its risk diversification and increase the share of foreign income in its total revenue.

Extensive effort has been devoted to mapping out a detailed international strategy, defining main objectives and singling out opportunities in individual markets. Part of this work has been carried out in consultation with leading international investment banks. Landsbanki is well placed to take the next step in its expansion abroad and will continue to seek investment opportunities, emphasising good returns and further diversification of risk.

Foreign activities will be increased, in particular in three key areas. Firstly, emphasis will be placed on increasing corporate banking and expanding Landsbanki's investment banking activities through the acquisition of specialised investment banks or securities houses.

Secondly, an acquisition of a bank with a sizeable balance sheet and stable income generation is envisaged to increase the variety and ensure adequate diversification of risk in the Bank's activities. In deciding on such an acquisition, the focus would be on a fairly sizeable bank with emphasis on corporate lending and a good cash flow, creating opportunities for increased investment banking activities.



Thirdly and finally, efforts will be devoted to expanding Landsbanki's establishments abroad and on other major financial markets, to support the Bank's growth internationally. A branch is being established in London, focusing on corporate advisory services and syndicated loans. Another objective is to expand Heritable Bank in London through organic growth and acquisitions of specialised financial undertakings. Landsbanki Luxembourg's private banking services are also to be increased.





Hermann Jónasson, Managing Director, Sales and Marketing

Sales and Marketing

Sales and Marketing is responsible for the organisation of sales, service, marketing and Internet services. Since the Bank's branches are the focal point of sales and service to customers, the division aims at supporting branches in obtaining new clients and providing even better service.

This division was restructured in October 2004, following a review of the Bank's organisational chart intended to boost sales and marketing efforts as well as improving customer service. It includes a marketing and Internet department responsible for advertising and promotions, further expansion of Landsbanki's Internet services and its brand management. A new sales department handles the actual selling of all the Bank's services and products. Finally, a third department is responsible for customer relationship management, product development and co-ordination of customer service policy.

Landsbanki continues to be the main bank of most Icelanders. The Bank has image and marketing surveys conducted several times each year and the most recent Gallup survey showed that Landsbanki's market share was 29.7%, as compared with 24.6% for its closest competitor.

The same Gallup survey indicated that the Bank has a strong image and enjoys high customer confidence. Among the Bank's customers, 94.6% regarded it as a reliable bank, and this percentage has been stable in the past few years. The proportion of customers who regarded Landsbanki as a progressive bank has been growing steadily in Gallup's polls and was 78.2% in December.

Retail Lending, Deposits and Savings Products

The greatest change in credit offerings occurred in connection with residential mortgages. The Bank now offers mortgages of up to 90% of market value at considerably lower interest rates than were offered at the beginning of the year. The lowest rate now offered is 4.15%, inflation-indexed. These terms are offered to borrowers who fulfil the Bank's requirements as active customers in the field of insurance, deposits and loans. Customers are now also offered mortgages fully or partly denominated in foreign currencies.

In increasing its activity on the residential mortgage market, Landsbanki faces stiff competition from other commercial banks and the Housing Financing Fund (HFF). The Icelandic banks began offering mortgages at significantly lower rates than HFF in August, 4.2% and 5.1% respectively. Shortly after that all Icelandic banks began to offer mortgages equivalent to 100% of market value. Near the end of 2004, Landsbanki took the initiative in reducing this loan-to-value ratio. The Bank emphasises prudent financial services and advises its clients not to borrow more than 90% of the value of their homes.

According to the Central Bank of Iceland, domestic lending by Landsbanki grew by 52% during 2004, the highest increase of any commercial or savings bank in Iceland. This substantial increase produces a market share of 30.14% for Landsbanki, with its nearest competitor slightly behind at 30.12%. The two other leading players on the market have shares of 28% and 12% respectively.

The increase in Landsbanki's domestic deposits in 2004 was the greatest of any commercial or savings bank. Deposits grew by 23% from year-end 2003 to the end of December 2004. Landsbanki has the highest market share of deposits, or 31%, while its three competitors have shares ranging from 21% to 25%.

The mutual fund marketing campaign "*Spend it on Savings*" has been an annual event since Landsbanki took over state services for government savings bond subscribers. At the beginning of 2004, the market value of the fund *Sparibréf* was over ISK 20 billion. It grew by nearly ISK 9 billion during the year. The number of Landsbanki customers with regular savings plans, for investment in funds or time deposits, has increased with each passing year. Landsbanki has the highest number of regular savings clients.

Pension Savings

A large number of employees in Iceland chose to increase their pension savings when this became an option under new pension legislation and the number of subscribers to supplementary pension plans grew. According to an IMG Gallup survey, Landsbanki's market share of supplementary pension savings grew from 20.8% in November 2003 to 25.1% in September 2004, strengthening the Bank's position in this market. One competitor has a slightly higher market share, 28%.

Landsbanki offers a variety of pension savings' options, many of which include comprehensive insurance coverage. This past year a new product, *Launavernd*, was launched, combining the advantages of pension savings with those of insurance protection, aimed primarily at families. *Launavernd* offers financial protection for a certain period in the case of illness or death of a family member.

Payment Cards

The issue of new debit cards by the Bank grew by 9.7% during the year. The greatest emphasis was placed on promoting a gold debit card, which is linked to the loyalty programme *Vardan*, both among new and current customers. Credit card issuing also grew, with the number of new cards issued by Landsbanki in co-operation with credit card companies increasing by 7.9%.

Loyalty Programmes

Specialised services offered to various target groups have been expanded. The number of customers has grown in all of the Bank's loyalty programmes, its Kids' Club (*Krakkaklúbbur*), Sports Club (*Sportklúbbur*), Student Service (*Náman*) and the Premier Club (*Vardan*), which offers comprehensive financial services for individuals and households. New participants in these programmes grew by 18.5% from the previous year.

Landsbanki took the initiative in negotiating with the Icelandic Students' Loan Fund on issuing of bank guarantees for student loans. This enables students to receive their loans without requiring a guarantor, and pay a commission for the bank's guarantee instead.

Internet Banking

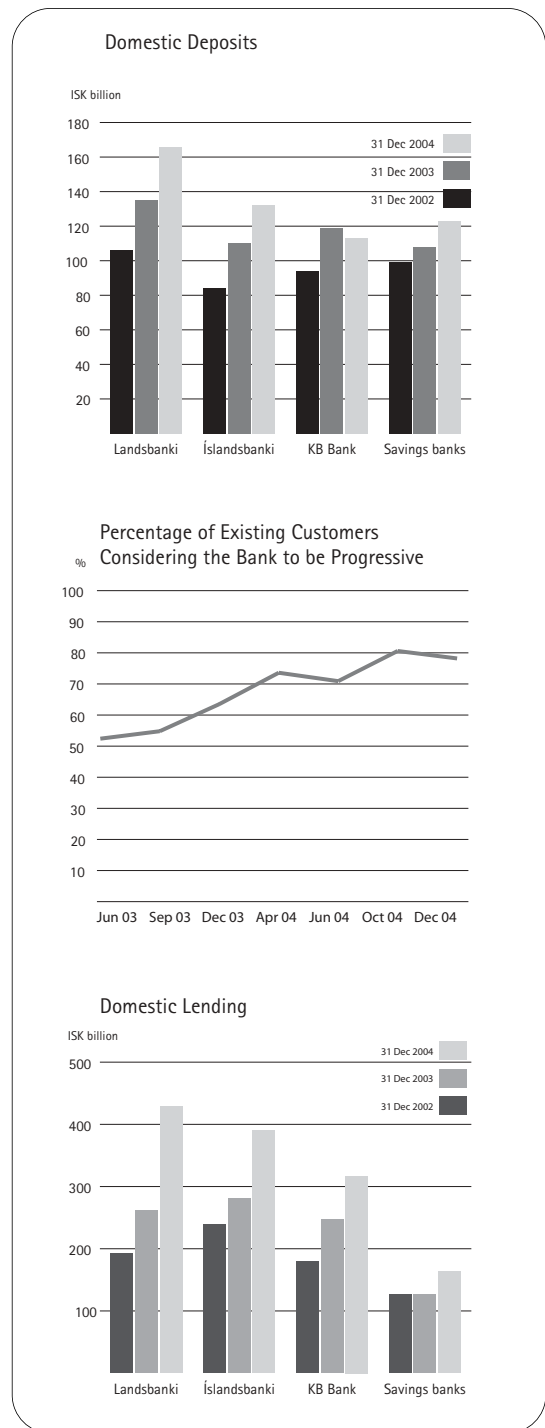
The Bank has continued to invest heavily in Internet banking solutions, anticipating that an increasing portion of transactions will utilise this channel.

A completely new website, including the Corporate Web and Personal Internet Banking, was launched during the year, with emphasis on usability and intuitive site design. The new web made a clean sweep of the Icelandic web awards last fall, selected for the best design, best corporate web and best all-round website in Iceland.



Major improvements have been made to Personal Internet Banking. The appearance was adapted to the Bank's new website and a number of innovations added. Personal Internet Banking users increased by 21.3% over the previous year.

Corporate Internet Banking has undergone considerable changes, with the addition of a variety of new solutions. These include a collections system, electronic presentation of documents and invoices, and cash pooling. The Bank-to-Business (BTB) solution enables the Bank's clients to link up their payment and collection systems directly to the Bank, increasing efficiency and shortening processing time. Special attention has also been devoted to security measures with increased control of user authorisations. The innovations have been welcomed by the Bank's clients. Use of Corporate Internet Banking has increased, the number of users has doubled and payments tripled.





Ársael Hafsteinsson, Managing Director, Legal and Credit Control

Retail Banking

Landsbanki's branches are managed directly by the Management Board, with support and assistance from head office divisions.

In 2004, further streamlining of Landsbanki's branch network was carried out, adapting it to the increasingly automated services available to individuals and businesses. Four smaller branches were merged with larger branches in their vicinity, reducing the number of branches and outlets at year-end to 48.

At the same time, many of Landsbanki's major branches were renewed and new experts and advisors hired. Services provided by the branches have also improved significantly with the addition of new information systems to commercial banking. One of the major projects this year involved the introduction of a new CRM system for the branches, which will greatly boost the services offered to customers and contribute to the Bank's advance in the retail market.

The operations of two of Landsbanki's largest Reykjavík branches, Múlaútibú and Austurbæjarútibú, have been merged and are now located at Laugavegur 77. The merged branch has in its service a large number of advisors and experts, enabling it to provide specialised services for individuals and businesses.



Branches at Hagatorg in Reykjavík and at Bæjarhraun in Hafnarfjörður were completely renovated and the Kópavogur branch was moved to attractive new premises in the town centre.

The Bank's branch network outside the capital area was also improved. Major renovations were carried out in branches in Ísafjörður, Hornafjörður and Selfoss, resulting in greatly improved facilities for both staff and customers. Following agreements concluded with Iceland Post, the Bank's branches will serve as postal outlets in several smaller towns in East Iceland.

For decades, Landsbanki has been the leader in foreign exchange services at Keflavík International Airport. A new agreement was signed with the Leifur Eiríksson Air Terminal for foreign exchange and banking services. Travellers will benefit significantly with new outlets opening in the airport arrivals area and waiting hall, more ATMs and additional improvements.

Legal Division, Credit Control & Branch Support

Landsbanki's legal division handles collections for the Bank's branches and sales of appropriated assets, as well as the Bank's own legal affairs. The division is also responsible for various tasks linked to retail banking, such as registering loan documents and payment services. Furthermore, it is entrusted with supervising new lending, secondary collection and final write-offs, as well as the preparation of reports for senior management on loan quality. The Legal Division inspects branches and prepares reports for the Financial Supervisory Authority on high-risk exposures, lending and defaults.

One of the priorities during the past year was to improve loan monitoring and collection, in part through new electronic solutions and more extensive reporting. A new database of collateral is being developed in connection with the introduction



Haukur Thór Haraldsson, Managing Director, Finance and Operations

of *Spakur*, a CRM system. This will enable more detailed analysis of security and collateral, and facilitate closer monitoring and assessment of the Bank's exposures. As a result, management will have a comprehensive view of its overall lending position.

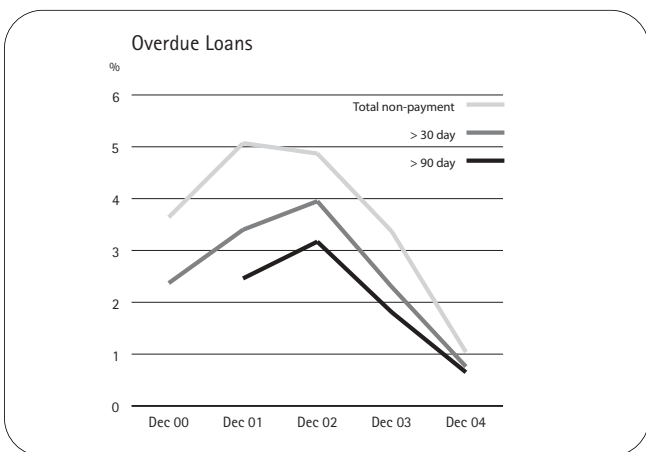
Operations

Landsbanki's Operations division is responsible for the Bank's financial affairs and day-to-day operations. The division is divided

into two main sections, finances and property. The finance department looks after accounting and finances, settling accounts for all its various units and supervising the preparation of the Bank's annual and interim financial statements and financial forecasting. The property department is responsible for internal aspects of the Bank's operations, such as maintenance of real estate and facilities, and security issues.

The division's main tasks in 2004 were in connection with changes to the operating environment of financial enterprises. As of 2005, the International Financial Reporting Standards (IFRS) will apply to all companies listed on ICEX. The change will not significantly affect Landsbanki's balance sheet or financial results. New rules on capital adequacy, Basel II, are being implemented and will apply to all financial enterprises. Although the entry into force of these rules has been postponed for two years, extensive preparation is already underway in order to fulfil their extensive requirements when implemented.

Operations has supervised extensive renovation of the Bank's premises. All head office operations have been moved to a single location in downtown Reykjavík. Security measures were reviewed and supplementary equipment added in parallel to the improvements to premises.





Atli Atlason, Managing Director, Human Resources

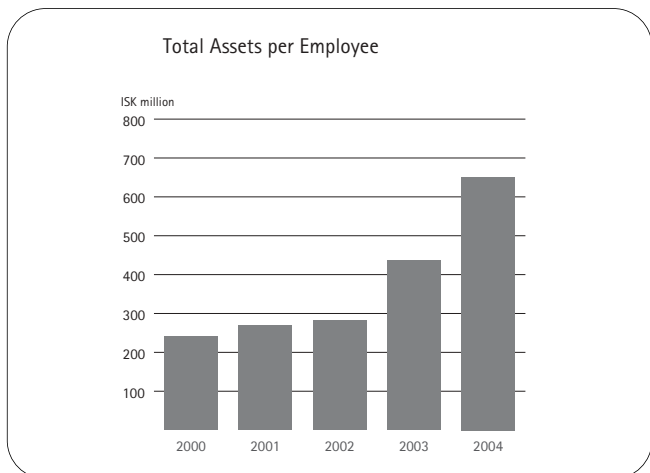
Human Resources

Substantial growth of the Bank's activities during the year has called for changes in its human resource policy and reorganisation of its internal structure. New departments have been set up and measures taken aimed directly at strengthening all of the Bank's divisions, reinforcing the branch network significantly. Landsbanki's altered operating environment requires additional specialised employees and recruitment has focused on securing the services of well-educated personnel.

Human resources development continues to be a priority at Landsbanki. A new personnel policy was introduced and the Bank's system of employee interviews improved. Each year, workplace analyses are carried out in the Bank, assessing its employee views towards management and the Bank as a whole.

Training programmes offered in 2004 focused on maintaining and improving Landsbanki's competitive position by offering goal-oriented courses reflecting the needs of the Bank and its personnel.

In 2004, Landsbanki was awarded the corporate Continuing Education Award for outstanding efforts in continuing education. In its citation, the award panel referred to the fact that the Bank's training programmes had caught media attention. The award was presented by the President of Iceland at a formal ceremony.





Gudmundur Gudmundsson, Managing Director, IT

Information Technology

The IT division assists the Bank's other divisions in achieving their objectives by ensuring they have the best available computer equipment and software at their disposal and advising the divisions on software selection. Furthermore, all back-office processing for securities, foreign exchange and derivatives trading is under the direction of the IT division, together with fund management and accounting. State-of-the-art solutions and automation in back-office processing has been made a priority in order to ensure security, speed and surveillance in concluding and monitoring of transactions.

A complete upgrade of all hardware has transformed Landsbanki's IT environment. This includes workstations, servers, network gear, phones, fibres and cables. Restructuring provided an opportunity for a major server consolidation, cutting the number of servers by 40%, both through retirement of systems and extensive use of virtualisation technology. The successful introduction of IP telephony led to a bank-wide implementation, resulting in both direct savings in operations as well as better usability.

Insourcing of IT is supplemented by partnering where practicable. For example, when constructing its website, credit systems and CRM for the retail operations, the Bank has used partners to assist with development or even to supply whole systems. System upgrading will continue, to ensure that the Bank's equipment is capable of supporting today's requirements and enabling the rapid development that increased competition demands. Almost 40 million financial transactions and roughly 350 million non-financial transactions are processed annually by the Bank's core retail systems. Substantial growth in the number of transactions

is expected, especially as new online options will be introduced in 2005 offering an increased number of services and better usability.

All new systems are written using Microsoft .Net technology for speed and ease of development and applicability of the same systems across various user interfaces. Core retail systems are developed in C++ with third-party libraries, running mostly on IBM AIX. The transactional database of the Bank is Oracle, but MS SQL is serving a larger role in the Bank.

Growing importance has been placed on structured information security in the re-engineering process, following guidelines from regulatory bodies. This led to the appointment of an Information Security Officer. Landsbanki has centralised tasks, such as automation of internal processes, contingency planning and review of systems and infrastructure, using ISO-17799 and similar standards. The Bank intends to be fully ISO-17799 compliant by 2005.



Risk Management

It is Landsbanki's business to assume calculated and acceptable risks. In the banking business, risk is uncertainty about future performance, as assessed for each of the Group's risk categories. Risk management is aimed at protecting the Bank's financial strength and ensuring that its good reputation is maintained. In practice, it follows several main principles: maintaining financial strength, defining risk governance, ensuring independent risk surveillance and developing methods of risk assessment and measurement.



Landsbanki protects its financial strength by requiring adequate reward for the risk assumed. This involves continuous evaluation of the Bank's risk appetite, for instance by reviewing risk limits.

The Board of Directors sets the general framework for risk-taking. Bank management ensures transparent and efficient risk management by placing it in the hands of four permanent committees: the Credit Committee, Asset and Liability Committee (ALCO), Operations Committee and Asset Management Committee. The most important of these are the Credit Committee, which takes decisions on its lending activities, and ALCO, which deals with the activities of the Securities Division.

Risk monitoring involves ensuring that total risk is always kept within defined and acceptable limits, and that the Bank possesses the technology and expertise to assess and limit its overall risk level. Landsbanki evaluates its exposure according to the type of risk. It involves counterparty risk, market risk or operating risk, and risk arising from type mismatch of assets and liabilities.

Financial Instruments as a Risk Management Tool

Customers' deposits may bear either fixed or floating interest rates, for shorter or longer periods. To earn a satisfactory interest rate margin, Landsbanki must carefully monitor its investments to avoid a rate or duration mismatch. The Bank also endeavours to increase its interest margin by offering both short-term and longer-term loans while at the same time maintaining sufficient liquidity to meet all its obligations.

By providing credit to enterprises and individuals with varying credit ratings, it seeks to achieve a satisfactory interest margin, taking write-offs into consideration. Such risk is not only the result of loans and credit included on the balance sheet, as the Bank also provides guarantees.

By trading and taking positions in financial instruments, such as derivatives, both within and outside of regulated securities markets, the Bank can take advantage of short-term movements on equity and bond markets as well as currency and interest rate movements. Currency risk is generally balanced, in addition to the use of special hedges.

Part of the Bank's currency risk is hedged through currency interest rate swaps. Interest rate risk is also partly hedged against any drop in the market value of assets at fixed interest rates and rises in the market value of customers' fixed-term deposits through interest rate swaps and currency interest rate swaps.

Counterparty Risk

Counterparty risk refers to a situation where the counterparty is unable to make full payment of amounts when due. The Bank makes provisions against such risk. Every effort is made to manage credit risk diligently, to respond to substantial economic fluctuations or changing conditions in a specific industrial sector which could negatively affect the Bank's asset portfolio.

Landsbanki manages counterparty risk by setting limits for acceptable risk towards individual borrowers or groups of borrowers, specific regions or industrial sectors. Such risk factors are continually monitored and reviewed at least once a year.

Counterparty risk is managed by evaluating the financial capacity of potential and current borrowers to meet their repayment commitments, and altering credit authorisations as necessary. Risk is also managed by requiring collateral or other forms of security from enterprises and individuals.



a) Derivatives

Counterparty risk from derivative contracts is managed by the Bank's Securities Division as part of customers' credit

authorisations, together with possible risk of market price movements. Risk from derivative contracts is assessed as a credit equivalent, comprised of the market value of the contract and assessed future risk.

b) Netting Arrangements

The Bank further reduces its risk of loss on derivative contracts through netting arrangements with counterparties. Netting arrangements reduce counterparty risk in the event of default on payment, as in such an event all amounts due from the counterparty are settled by netting.

c) Credit-related Commitments

Credit-related commitments ensure that financing is available to customers as required. Guarantees which irrevocably commit the Bank to make payment to a third-party in the event a customer cannot fulfil his obligations involve the same credit risk as loans. Import guarantees and documentary credits are secured by the goods shipments they cover, thus representing a lower risk than direct loans.



Unused credit lines represent a commitment to increase loans or guarantees. The Group could conceivably suffer losses equivalent to the total amount of unused credit lines due to counterparty risk. Landsbanki monitors the duration of credit lines, since long-term obligations generally imply a greater credit risk.

Market Risk

Market risk results from interest rate, foreign exchange and securities exposures, all of which involve risk due to market price movements. The Bank analyses Value-at-Risk (VAR) to assess the market risk of positions and estimates maximum loss based on expectations of various changes in market conditions. ALCO sets maximum limits for VAR, which is monitored daily.

Daily VAR is an assessment of conceivable loss if positions remain unchanged for one business day, with 99% confidence intervals. The daily loss is not to exceed VAR more often than once every hundred days on average. The actual outcome is controlled regularly to verify the accuracy of the predictions and parameters used in calculating VAR.

ALCO sets VAR limits for all trading in securities, interest rates, foreign exchange, derivatives and securities portfolios. Each day, senior management reviews the actual risk and compares this with authorisations and VAR. These methods do not, however, prevent losses from exceeding the limits when major market fluctuations occur.

Foreign Exchange Risk

Changes in the exchange rates of major foreign currencies affect the Bank's financial position and cash flow, and constitute currency risk. ALCO sets risk limits for each currency and for total currency exposures both overnight and intra-day, which are monitored daily. The table below gives a summary of the Bank's assets and liabilities at book price, classified by currency. The off-balance sheet amount shows the difference between the base amount of financial instruments in foreign currencies and their fair price.

Market risk						
All amounts in ISK million	1.1.2004 – 31.12.2004			1.1.2003 – 31.12.2003		
	Mean	Highest	Lowest	Mean	Highest	Lowest
Interest rate risk	37	84	3	43	87	15
Currency risk	4	27	0	6	29	0
Equity risk	667	1,662	339	160	498	44
Total	718	1,773	342	209	615	59

Operational Risk

Landsbanki's operational risk arises from direct or indirect losses resulting from the failure or inadequacy of internal processes or systems, employee mistakes or external circumstances. The Bank endeavours to manage operational risk as effectively as possible.

Risk from Mismatch of Assets and Liabilities

a) Interest Rate Risk

Landsbanki's interest rate risk is of two types: on the one hand, due to changes in interest on the Bank's trading book assets (market bonds and derivative contracts) and, on the other hand, due to the impact on the interest rate differential of a mismatch in the interest base and duration of the Bank's other assets and liabilities.

b) Liquidity Risk

The risk that the Bank might not have sufficient liquid assets to meet its short-term obligations at any given time is referred to as liquidity risk. The Bank's liquidity management is intended to ensure that it always has sufficient liquid assets to meet such obligations without limiting its possibilities to take advantage of market opportunities. ALCO formulates liquidity management policy, monitors its liquidity and provides advice on the composition of its assets and liabilities. The goal is to minimise fluctuations and for the Bank to always have sufficient access to funding to meet next month's commitments. Treasury is responsible for managing the Group's liquidity and forecasting cash flow in co-operation with Risk Management.

At the end of 2004, Landsbanki's liquidity ratio was 1.389, as calculated by balancing assets and liabilities in accordance with rules no. 386 of the Central Bank.



Mark Sismey-Durrant, Managing Director, Heritable Bank

Subsidiaries

Heritable Bank in London

Heritable Bank has been involved in property finance and deposit taking since its foundation in 1877. Today Heritable Bank provides specialist services from its offices in Mayfair in the property development and residential mortgage markets. It accepts wholesale deposits from UK institutions, universities and large corporations, as well as offering competitive retail savings accounts through a centralised savings operation.

Economic Environment

The year commenced with the UK economy at full speed fuelled by a strong housing market and brisk consumer spending. The Bank of England increased its minimum lending rate five times from a low of 3.5% towards the end of 2003 to 4.75% by the end of 2004. This resulted in a sharp slowdown on the housing market and in consumer spending in the final quarter of the year.

Business Performance

Against this economic background, Heritable Bank made significant progress during 2004 with growth in each of its business lines of corporate banking, residential mortgages and deposit taking. Satisfactory progress has been made towards the strategic objective of diversifying assets and funding. Total assets

rose significantly from GBP 137 million to GBP 365 million, whilst total deposits rose from GBP 66 million to GBP 307 million or by 465%, fully funding the asset growth.

Heritable's corporate banking business comprises loans amounting to GBP 189 million, mainly to residential property developers throughout the UK. This represents an increase of 75% on 2003. Lending is relatively short-term with high repeat business with existing customers. Growth was achieved through effective marketing, niche product positioning and strategic recruitment. Margins weakened slightly, reflecting competition for new customers, but this was more than offset by strong fee income.

Specialist residential mortgage lending, which commenced in the third quarter of 2003, amounted to GBP 151 million, up from GBP 16 million in December 2003. Distribution is primarily through a growing number of appointed mortgage intermediaries and has proved to be very effective with the number of actual applications received significantly higher than planned. The business comprises 50% owner-occupied and 50% buy-to-let loans for investment. Heritable has developed a reputation for its expertise in financial services for higher net worth customers, foreign nationals, expatriates and professional buy-to-let investors. Security margins are conservative and asset quality has been satisfactory. Interest margins strengthened towards the end of the year and fee income was above expectations.

Consistent with the overall Group objective of expanding the deposit base, Heritable obtained a Fitch credit rating during 2004. Total wholesale deposits rose to GBP 266 million from GBP 56 million at the start of the year. The overall effect has been to reduce the cost of funds for the Group as a whole, whilst enabling effective liquidity management.

In June 2004 a retail savings operation was established utilising a third-party outsourced administration. A narrow range of carefully selected notice and fixed rate savings accounts has

Heritable Bank

Sector:	Property Finance, Savings
Founded:	1877
Headquarters:	Mayfair, London
Staff:	42
Total assets:	GBP 365 million
Total deposits:	GBP 307 million
Total lending:	GBP 340 million
Pre tax profit:	GBP 3.0 million



Gunnar Thoroddsen, Managing Director, Landsbanki Luxembourg

been launched. These products have enabled Heritable to feature consistently in the UK media best-buy tables for savings products, raising its market profile and stimulating a growth in retail deposits to GBP 41 million by year-end.

Pre-tax profit increased by 20% to GBP 3.0 million with a satisfactory improvement in the cost-income ratio and the ratio of operating costs to assets under management. There was strong performance in the corporate banking business and the new residential mortgage business broke even during the final quarter of the year. Asset quality was good with minimal non-performing loans.

Future Development

Heritable's strategic development will be the result of a combination of organic growth of its established businesses plus diversification into new, specialised lending businesses, either through start-up or acquisition. The slowdown in the UK housing market towards the end of 2004 is expected to continue during 2005. Whilst not immune to the effects of this on its business, Heritable believes that its specialist niches in property development and residential mortgage lending will position it well to exploit opportunities in this market.

Landsbanki Luxembourg S.A.

Landsbanki Luxembourg is a wholly owned subsidiary of Landsbanki. It offers a wide range of private banking and wealth management products and services. In addition, the Bank has developed good business relations with various small and medium-size financial institutions in Northern Europe providing financing and balance sheet management services. Furthermore, the Bank is involved in financing wealthy European investors' purchases of commercial property in Europe.

Business Performance

Pre-tax profit was EUR 6.7 million, a year-over-year increase of

136.4%. The cost-income ratio of 38.7% was significantly lower than the 2003 ratio of 55.1%.

Total assets increased by 81% to EUR 1.2 billion, mainly due to increased lending to customers and credit institutions. Loans and advances to customers have increased by 84% between years to EUR 752 million and deposits by 56% to EUR 159 million. These increases reflect the progression of the Bank's activities in private banking and asset management services. Return on equity was 32% before taxes.

Products and Services

Private banking activities increased significantly, both as measured by the flow of new customers and trading volume. Although leveraged investments in securities continued to be a large part of the Bank's lending activities, private banking has expanded into new market areas, most significantly in Spain and France. Such activities include equity release and investment products targeted at high net worth European individuals holding real-estate as secondary homes in Spain and France, buy and lease-back funding and various customised project financing. The Bank foresees further growth in these areas and is currently looking into new markets. The Bank launched several new products intended to meet demand for wealth management services.

Landsbanki Luxembourg S.A.

Sector:	Private banking, Corporate Banking
Founded:	2000
Headquarters:	Route de Thionville, Luxembourg
Staff:	36
Total assets:	EUR 1.2 billion
Total deposits:	EUR 159 million
Total lending:	EUR 752 million
Pre tax profit:	EUR 6.7 million



Kjartan Georg Gunnarsson, Managing Director

SP-Fjármögnun

SP-Fjármögnun hf. is a leasing company in which Landsbanki has a 51% holding. The company's operations consist of providing financing of industrial equipment, such as machinery and equipment for industry, fisheries and agriculture and other sectors, as well as both private and corporate automobile leasing.

In the two years since Landsbanki acquired a majority holding in SP-Fjármögnun, the company has built up an extensive business network. By utilising this network and co-operating with Landsbanki, the company has achieved a strong competitive position, enabling it to provide premier service to clients.

Business Performance

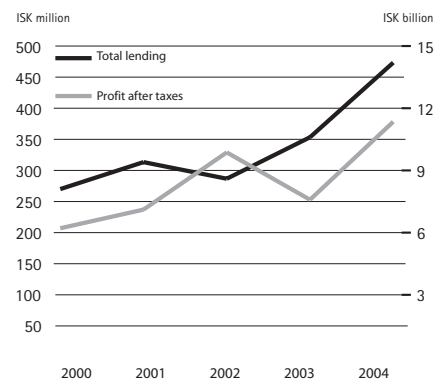
Pre-tax profit was ISK 378.3 million, the best ever for the company. After-tax profit amounted to ISK 303.8 million, a year-over-year increase of 50%. Lending has increased substantially, with new loans totalling ISK 10.6 billion, an increase of 63% on the preceding year, and total assets have increased by 34%.



SP-Fjármögnun hf.

Sector:	Leasing in Iceland
Founded:	1995
Headquarters:	Reykjavik
Staff:	20
Total assets:	ISK 14.9 billion
Total deposits:	not applicable
Total lending:	ISK 14.3 billion
Pre tax profit:	ISK 378.3 million

SP Profit After Taxes and Total Lending



Annual Accounts 2004

Key figures

	2004	2003	2002	2001	2000
Operations					
Interest revenues	34,489	21,871	21,813	27,909	20,356
Interest expenses	19,587	12,540	14,082	19,136	14,330
Net interest revenues	14,902	9,331	7,732	8,772	6,026
Net profit from shareholdings	22	144	523	873	743
Commissions and fees	9,995	6,959	4,745	4,197	2,901
Commission expenses	(1,344)	(843)	(669)	(575)	-
Trading gains (losses)	9,830	2,673	208	(1,704)	(113)
Other revenues	194	718	1,378	687	403
Operating revenues	18,697	9,651	6,185	3,479	3,935
Net operating revenues	33,599	18,982	13,916	12,251	9,961
Payroll expenses	7,700	5,656	4,387	4,184	3,620
Administrative expenses	4,713	3,562	3,208	2,995	2,770
Depreciation of fixed assets	1,715	1,307	752	754	584
Other expenses	246	289	157	174	144
Operating expenses	14,374	10,815	8,505	8,108	7,118
Net provisions for credit losses	4,485	4,656	2,863	2,298	1,340
Profit before taxes and minority interests	14,740	3,512	2,549	1,846	1,504
Taxes	1,882	457	475	(9)	518
Minority interests	149	99	45	107	31
Net profit	12,709	2,956	2,028	1,749	955
Balance Sheet					
Cash and interbank operations	91,672	48,772	18,893	22,023	22,447
Loans	549,801	326,400	214,787	199,083	169,374
Securities and shareholdings	75,254	63,744	36,337	39,939	38,076
Other assets	13,651	9,323	7,808	7,881	9,398
Total assets	730,379	448,239	277,824	268,926	239,294
Financial institutions	63,476	43,840	30,665	29,410	36,981
Deposits	217,970	152,320	108,306	99,747	82,665
Funding	372,424	209,357	108,479	111,639	97,152
Other items	14,950	6,389	5,057	3,131	2,706
Subordinated loans	22,552	13,090	8,216	8,527	5,436
Minority interests	991	862	792	967	716
Equity	38,016	22,382	16,309	15,505	13,639
Total liabilities and equity	730,379	448,239	277,824	268,926	239,294
Key ratios					
Return on equity before taxes	58.1%	20.9%	17.0%	13.9%	12.7%
Return on equity after taxes	50.1%	17.6%	13.5%	13.1%	8.1%
Tier 1 ratio	7.8%	6.9%	7.7%	7.5%	7.2%
Equity ratio	10.4%	9.9%	10.6%	10.4%	8.7%
Cost-income ratio	42.8%	57.0%	61.1%	66.2%	71.5%
Operating expenses as a ratio of average capital position	2.5%	3.0%	3.1%	3.2%	3.3%
Interest spread as a ratio of average capital position	2.62%	2.62%	2.83%	3.45%	2.86%
Ratio of provision to lending position at year-end	0.83%	1.47%	1.33%	1.17%	0.83%
Total assets per position at year-end	652	415	282	270	240
Share price at year-end	12.10	5.80	3.65	3.39	3.45
Share price increase adjusted for dividend payments	110.3%	61.6%	10.6%	0.1%	-22.1%
Number of positions at year-end	1,121	1,025	986	997	996

ISK million

Key figures

	2004	2004	2004	2004	2003	2003	2003	2003
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Operations								
Interest revenues	10,780	8,186	8,772	6,751	6,453	5,393	4,704	5,321
Interest expenses	6,060	4,385	5,306	3,836	3,721	2,971	2,603	3,245
Net interest revenues	4,720	3,801	3,466	2,915	2,732	2,422	2,101	2,077
Net profit from shareholdings	(78)	55	26	18	6	71	(2)	70
Commissions and fees	3,146	2,389	2,054	2,406	1,818	1,774	2,139	1,226
Commission expenses	(382)	(365)	(301)	(296)	(299)	(230)	(169)	(145)
Trading gains	(2,144)	6,592	1,161	4,221	807	1,114	427	325
Other revenues	(0)	120	26	48	110	60	48	500
Operating revenues	542	8,791	2,966	6,397	2,443	2,789	2,443	1,977
Net operating revenues	5,263	12,592	6,432	9,313	5,175	5,211	4,544	4,053
Payroll expenses	2,112	2,266	1,701	1,620	1,741	1,485	1,255	1,175
Administrative expenses	1,287	1,286	1,124	1,015	1,085	836	838	803
Depreciation of fixed assets	316	684	235	480	388	459	252	208
Other expenses	43	30	20	153	(2)	95	39	158
Operating expenses	3,758	4,267	3,080	3,269	3,212	2,874	2,384	2,345
Net provisions for credit losses	1,223	1,293	978	991	1,418	809	1,642	788
Profit before taxes and minority interests	282	7,032	2,374	5,053	545	1,528	518	921
Taxes	(784)	1,330	405	931	75	216	81	84
Minority interests	52	42	27	27	28	19	29	23
Net profit	1,014	5,660	1,941	4,094	442	1,293	408	813

Balance Sheet

	31.12.2004	30.9.2004	30.6.2004	31.3.2004	31.12.2003	30.9.2003	30.6.2003	31.3.2003
Cash and interbank operations	91,672	84,977	53,260	57,461	48,772	33,450	29,880	20,039
Loans	549,801	487,076	431,822	384,596	326,400	286,113	264,071	215,793
Securities and shareholdings	75,254	56,311	62,406	58,191	63,744	41,358	27,028	37,788
Other assets	13,651	10,049	11,005	10,761	9,323	7,571	7,847	7,273
Total assets	730,379	638,413	558,493	511,008	448,239	368,492	328,826	280,893
Financial institutions	63,476	52,323	51,516	29,147	43,840	14,658	44,103	25,438
Deposits	217,970	224,848	188,579	182,542	152,320	147,830	128,625	113,960
Funding	372,424	287,944	262,663	245,105	209,357	171,015	126,448	111,426
Other items	14,950	11,027	7,685	7,697	6,389	2,826	3,008	4,044
Subordinated loans	22,552	23,416	14,897	15,333	13,090	9,910	8,687	8,207
Minority interests	991	939	897	870	862	834	844	813
Equity	38,016	37,916	32,256	30,314	22,382	21,420	17,111	17,006
Total liabilities and equity	730,379	638,413	558,493	511,008	448,239	368,492	328,826	280,893

Profit by Business Segments for the year 2004

	Commercial banking	Securities & Treasury	AM & PB *	Other	Total
Net interest revenues	13,948	(187)	1,141	0	14,902
Operating revenues	3,760	3,879	1,228	0	8,867
Trading gains (losses)	(46)	9,792	84	0	9,830
Net operating revenues	17,662	13,483	2,454	0	33,599
Operating expenses	8,617	2,153	1,714	1,889	14,374
Net provisions for credit losses	4,255	-4	235	0	4,485
Profit before taxes and minority interests	4,790	11,335	504	(1,889)	14,740

* Asset Management & Private Banking

ISK million

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

The accounts for 2004 comprise the consolidated accounts of the parent company and its subsidiaries. The accounts of Landsbanki Íslands hf. have been prepared in accordance with enacted law on the preparation of annual accounts of commercial banks, savings banks and other financial institutions.

According to the profit and loss account, the Bank's profit in 2004 amounted to ISK 12,709 million. The Board of Directors recommends a dividend payment of 20% to shareholders in 2004, amounting to ISK 1,620 million. In other respects, the Board of Directors recommends that profit should be used in the manner set out in the section of the annual accounts on changes in capital. The Landsbanki Group's equity at year-end totalled ISK 38,016 million. The capital adequacy ratio (CAD) of the Group was 10.4%. Total assets of the Group were ISK 730,379 million at year-end.

During the year the Bank's Board of Directors reviewed its Rules of Procedure, having regard for the Guidelines on

Corporate Governance issued early in 2004. In the estimation of the Board, both Landsbanki's Rules of Procedure and working practices accord with these Guidelines.

At year-end 2004, shareholders in Landsbanki numbered 14,765. Samson Holding ehf. is the only shareholder with a stake over 10%, namely a 44.79% stake.

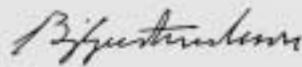
Landsbanki's share capital was increased by ISK 600 million during 2004, bringing the total nominal value of share capital issued to ISK 8,100 million at the end of the year.

Number of positions at year-end was 1,121. Salaries and wages totalled ISK 7,700 million.


The Board of Directors of the Bank and the Group Managing Directors & CEOs hereby confirm the Annual Accounts of Landsbanki Íslands hf. for 2004 with their signatures.

Reykjavik, 28 January 2005

Board of Directors


Björgólfur Gudmundsson


Kjartan Gunnarsson

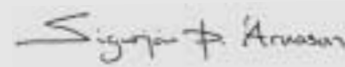

Sindri Sindrason


Andri Sveinsson


Thorgerður Baldursson

Group Managing Directors and Chief Executive Officers


Halldór J. Kristjánsson


Sigurjón Th. Árnason

Auditor's Report

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

We have audited the 2004 consolidated annual accounts of the Landsbanki Group and the annual accounts of the Bank's subsidiaries. The Annual Accounts consist of the Report of the Board of Directors and Group Managing Director & CEO, the profit and loss account, balance sheet, statement of cash flow and notes no. 1 - 50. These annual accounts are the responsibility of the Bank's Management. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that

the annual accounts are free of material misstatement. An audit includes, based on our assessment of materiality and risk, an analytical review and an examination, on a test basis, of evidence supporting the amounts and disclosures in the annual accounts. The audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.


In our opinion the annual accounts present fairly the 2004 results of the operations of Landsbanki Group, the financial position as at 31 December 2004 and cash flows for the year then ended, in accordance with law and generally accepted accounting standards in Iceland.

Reykjavík, 28 January 2005

PricewaterhouseCoopers hf.



Hjalti Schiöth



Ólafur Kristinsson

Profit and loss account for the year 2004

Note	2004	2003
Interest on deposits and loans to financial institutions	1,672.1	1,167.2
Interest on loans to customers	30,191.2	18,786.2
Interest on fixed-income securities	1,261.4	1,899.0
Other interest revenues	1,364.4	18.8
Interest revenues	34,489.0	21,871.3
Interest on deposits and loans from financial institutions	1,110.4	380.0
Interest on deposits from customers	8,960.9	6,108.7
Interest on funding	7,298.1	4,822.2
Interest on subordinated loans	866.5	423.9
Other interest expenses	1,350.9	805.1
Interest expenses	19,586.7	12,539.8
Net interest revenues	14,902.3	9,331.4
43 Net profit from shareholdings	22.0	144.1
44 Commissions and fees	9,995.2	6,958.6
Commission expenses	(1,343.8)	(842.5)
45 Trading gains	9,829.9	2,672.8
Other revenues	193.9	717.9
Operating revenues	18,697.1	9,651.0
Net operating revenues	33,599.4	18,982.4
40 Payroll expenses	7,699.9	5,656.4
Administrative expenses	4,713.2	3,562.0
46 Depreciation of fixed assets	1,715.0	1,306.7
Other expenses	245.7	289.5
Operating expenses	14,373.8	10,814.5
14 Net provision for credit losses	4,485.4	4,656.0
Profit before taxes	14,740.1	3,511.9
31 Taxes	(1,881.9)	(456.7)
Profit before minority interests	12,858.3	3,055.2
3 Minority interests	(148.9)	(99.4)
Net profit	12,709.4	2,955.8

ISK million

Balance sheet 31 December 2004

Assets

Note		2004	2003
5	Cash and current account at Central Bank	13,431.8	1,373.3
	Treasury bills	4,804.8	9,204.8
6-7	Financial institutions	73,435.4	38,193.9
	Cash and interbank operations	91,671.9	48,772.0
	Loans to customers	537,377.9	317,579.8
	Capital leases	11,640.7	7,132.4
	Appropriated assets	782.5	1,687.5
8-14	Loans	549,801.1	326,399.7
15	Bonds and other fixed-income securities	18,528.8	38,696.0
16	Equity and other variable-income securities	52,969.6	23,708.5
17	Shares in partially-owned companies	3,756.1	1,339.9
	Securities and shareholding	75,254.5	63,744.3
18	Premises	2,710.3	2,888.4
18	Liquid assets	2,035.3	1,818.2
19	Goodwill	1,012.2	1,168.6
	Other assets	1,396.6	506.9
	Accruals	6,496.8	2,940.6
	Other assets	13,651.3	9,322.7
	Total assets	730,378.7	448,238.7

Liabilities and equity

23-24	Financial institutions	63,475.6	43,839.7
25-26	Customers accounts	217,969.6	152,320.0
27-28	Funding	372,424.0	209,356.9
29	Other items	14,387.3	5,754.5
30	Computed commitments	563.1	634.2
	Total liabilities	668,819.6	411,905.3
32	Subordinated loans	22,552.2	13,089.7
3	Minority interests	991.1	861.7
	Share capital	7,975.0	7,500.0
	Share premium account	7,525.7	4,354.7
	Statutory reserve funds	268.5	268.5
	Retained earnings	22,246.7	10,258.8
33-34	Equity	38,015.9	22,381.9
	Total liabilities and equity	730,378.7	448,238.7

35-38 Off-balance sheet items

ISK million

Cash flow statement for the year 2004

Note		2004	2003
	Net profit	12,709.4	2,955.8
	Reconciliation of operating profit to net cash flow from operating activities:		
	Indexation and foreign exchange	(8,366.8)	(3,772.3)
14	Provisions for credit losses	4,556.0	4,787.0
	Changes in obligations	9.5	35.6
	Other items	2,026.8	224.0
	Changes in current assets and liabilities	1,148.0	(1,220.5)
	Cash flow from operating activities	12,083.0	3,009.6
	Change in reserve requirement account at Central Bank	(287.9)	5,039.2
	Other time-deposits at financial institutions	(38,986.4)	(16,506.1)
	Change in loans	(255,248.7)	(117,006.1)
	Change in trading bonds	20,667.7	(23,768.6)
	Change in trading securities	(21,866.6)	(12,152.8)
	Change in investment bonds	36.4	9,004.8
	Change in investment securities	81.1	(30.1)
	Change in subsidiaries and partially owned companies	(2,539.0)	3,510.3
	Investment in fixed assets	(1,701.8)	(859.9)
	Fixed assets sold	115.8	175.7
	Other items, change	(802.9)	333.7
	Cash flow used by investing activities	(300,532.4)	(152,259.9)
	Loans from financial institutions	21,351.1	14,052.7
	Change in deposits	67,568.3	42,485.5
	Change in funding	185,900.7	102,876.0
	Other loans	3,254.6	58.7
	Subordinated loans	10,710.7	5,111.0
33	Increased share capital	4,560.0	3,233.6
33	Dividends paid	(721.5)	(664.3)
	Own stock, change	(914.0)	547.5
	Cash flow provided by financing activities	291,710.1	167,700.6
	Increase in cash	3,260.6	18,450.3
	Cash at beginning of year	22,369.3	3,919.1
4	Cash at year-end	25,630.0	22,369.3
	Other information		
	Income tax paid	344.1	12.7
	Dividends from subsidiaries and partially-owned companies	173.0	211.8

ISK million

Notes

Accounting principles

1 Accounting policies

The annual accounts of Landsbanki Íslands hf. for the year 2004 shows the consolidated accounts of the Landsbanki Group. The consolidated accounts are prepared in accordance with enacted law of annual accounts and rules on the preparation of annual accounts of commercial banks, savings banks, and other financial institutions. These accounts are prepared using essentially the same accounting policies as in 2003, with the exception noted below.

Fees from the brokerage of foreign exchange are now entered among commissions and fees revenues instead of among FX trading gains, as was done in 2003. Comparison figures from 2003 have been adjusted, but there is no operational effect from this change.

2 International Accounting Standards

As provided for in the ICEX Rules on Publication of Annual Financial Statements of Listed Companies, from 2005 onwards Landsbanki will publish its financial statements in accordance with International Financial Reporting Standards (IFRS).

The Bank has assessed the consequences of implementing these standards on its profit and loss account and balance sheet, and the conclusions indicate that this will not substantially affect its equity. The principal changes to the financial statements concern the following aspects:

The presentation of both the profit and loss account and balance sheet (in particular with regard to shares and holdings) will be altered considerably, and Notes and breakdowns will be more detailed.

Depreciation of goodwill will cease, and be replaced by an annual impairment test to assess whether goodwill has declined. If the result of the impairment test is lower than book value, the difference is expensed.

Treatment of loan origination fees will be changed. Instead of crediting the entire amount to the interest rate spread when the loan is granted, part of the revenue will fall under fees and commissions and part credited to interest rate spread, distributed over the entire term of the loan. This will result in lowering interest rate spread and increasing fees and commissions.

The methodology used in calculating provisions for credit losses will be changed and based on net present value (NPV) of cash flow. The general credit loss allowance account will be eliminated, to be replaced by amounts set aside in defined loan portfolios, having regard to their loss history.

Accounting for derivatives will be defined in two ways: on the one hand derivatives which will be part of the Bank's trading assets or trading liabilities and, on the other hand, precisely defined hedge accounting.

3 Consolidated accounts and shareholdings

The consolidated accounts incorporate the accounts of Landsbanki Íslands hf. and group undertakings, which include companies in which Landsbanki holds a share of, greater than 50%. At year-end these companies were:

	share in %
Heritable Bank Limited	100.0
Hömlur hf.	100.0
Landsbanki Luxembourg S.A.	100.0
Landsbanki Eignarhaldsfélag ehf.	100.0
Landsbanki Fjárfesting hf.	100.0
Landsbanki Fasteignafélag ehf.	100.0
Landsvaki hf.	100.0
Co-operative credit union	100.0
SP-Finance hf.	51.0

Minority interests in the profit and loss account, as well as the balance sheet, of subsidiaries are specifically shown in the consolidated accounts.

Landsbanki was involved in the restructuring of Landsafl hf. in 2003. At period-end 2004 the Bank had a 100% stake in the entity. The purpose of the holding is not to hold this stake in the long run, but this is rather a short-term holding. Landsafl hf. is not consolidated in the accounts as permitted in Act No 161/2002. The stake in Landsafl hf. is booked at cost value with "Equity and Other Variable Income Securities".

The annual accounts of the Group have been prepared by adding together corresponding assets, liabilities, income and expenses from the annual accounts of individual Group companies and eliminating intragroup balances, transactions and investments. Intragroup balances, claims and liabilities, as well as income and expenses have been eliminated in the consolidated accounts of the Group. Assets and liabilities of foreign subsidiaries are translated into króna at the exchange rate on 31 December 2004. Income and expenses of foreign subsidiaries are translated into króna using the average exchange rate of the year.

Associated undertakings are companies in which Landsbanki Group has made a long-term investment, and exercises influence on their management, but holds less than 50% of the shares. Investments in associated undertakings, and share in their net profit, or loss, are accounted for by the equity method. Dividends are credited to the Group's asset value in the associated undertakings.

The Bank's share in pre-tax results of partially-owned companies is stated under the item "Net profit from Shareholdings". Income and net worth taxes are entered under "Taxes" in the annual accounts.

The Audit Committee and Salaries Committee work under the auspices of the Board of Directors. Kjartan Gunnarsson, Andri Sveinsson and Thorgeir Baldursson sit on the Audit Committee, while Björgólfur Guðmundsson and Einar Benediktsson are members of the Salaries Committee.

4 Cash flow

Cash and cash equivalents consists of domestic and foreign cash on-hand, demand deposits at the Central Bank, and claims due from financial institutions.

Cash and interbank operations

5 Cash and current account at Central Bank	<u>2004</u>	<u>2003</u>
Cash	914.2	915.7
Demand deposits with Central Bank	<u>12,517.5</u>	<u>457.5</u>
	<u>13,431.8</u>	<u>1,373.3</u>
6 Financial institutions		
Deposits at Central Bank		
Reserve requirement account	1,375.9	1,063.6
Loans to other financial institutions		
Other financial institutions	72,059.5	37,130.3
	<u>73,435.4</u>	<u>38,193.9</u>
7 Maturity of loans to other financial institutions		
On demand	7,393.4	11,791.3
3 months and below	31,327.1	3,754.7
3 months to 1 year	17,023.1	15,882.3
1 year to 5 years	14,060.9	5,211.4
Over 5 years	<u>2,254.9</u>	<u>490.7</u>
	<u>72,059.5</u>	<u>37,130.3</u>

ISK million

Loans

Loans are stated at nominal value and are adjusted for accrued interest. Indexed loans are stated with accrued indexation, based on the Consumer Price Index for January 2005. Foreign assets are translated at the rate of exchange published in the official Central Bank guidelines at year-end. The same principles are applied to the entering and assessment of leasing contracts. Provisions are deducted from loans for specific, as well as latent unidentified risks. Interest revenues are recognised on an accrual basis as they are earned or incurred. However, for overdrafts, interest is accrued as at 20 December instead of 31 December.

8 Loans to customers	2004	2003
Loans denominated in foreign currency	329,215.4	185,762.0
Debentures	145,291.9	87,652.6
Overdrafts	43,135.2	39,995.9
Other loans	19,735.4	4,169.4
	<u>537,377.9</u>	<u>317,579.8</u>
9 Capital leases		
Vehicles	7,453.4	3,340.3
Plants and machinery	956.0	963.8
Equipment	1,193.9	861.6
Computers, electronics and office fixtures	722.7	818.0
Real estate	645.2	680.7
Other items	669.4	467.9
	<u>11,640.7</u>	<u>7,132.4</u>

10 Loans to customers and capital leases

	2004	2004	2003	2003
	%		%	
Government and state-owned companies	0.1	491.5	0.1	304.9
Municipalities	0.5	2,639.0	0.6	1,937.4
Business loans by category:				
Holding Companies	28.7	157,785.8	20.4	66,265.9
Services	14.7	80,846.6	17.9	58,276.8
Fisheries and fish processing	12.0	65,766.6	12.4	40,191.7
Manufacturing and contractors	11.9	65,313.0	15.6	50,703.2
Trade	9.6	52,643.5	12.5	40,667.4
Agricluture	0.6	3,186.2	0.8	2,685.0
Other	1.9	10,380.4	1.7	5,486.1
Consumers	20.0	109,966.1	17.9	58,193.8
	<u>100.0</u>	<u>549,018.6</u>	<u>100.0</u>	<u>324,712.2</u>

Categorization of loans according to industries has been changed. The Bank now uses ISAT industry categorization of Statistics Iceland when classifying loans by industries. Comparative figures from previous years have been changed accordingly.

11 Maturity of loans to customers and of capital leases

	2004	2003
On demand	17,907.8	12,921.3
3 months and below	117,471.2	75,967.5
3 months to 1 year	100,037.1	81,356.9
1 year to 5 years	174,989.4	100,181.6
Over 5 years	138,613.0	54,284.8
	<u>549,018.6</u>	<u>324,712.2</u>

ISK million

12 Appropriated assets

Under certain circumstances, it may be necessary for the Landsbanki Group to appropriate assets that have been pledged as collateral security. Interest income from appropriated assets is not recorded unless it has been received. Holdings in undertakings and net current assets, which the Group has acquired as a part of a debt settlement, are valued at cost, with an allowance being made for reserves, and entered as "Appropriated Assets". Real estate, entered among appropriated assets is booked at estimated fair market value at year-end.

	2004	2003
Real estate	659.1	1,116.0
Equipment	55.7	28.1
Trading securities and other securities	67.7	543.5
	782.5	1,687.5

13 Non-performing loans other than appropriated assets

Loans with special provisions	6,901.7	6,940.1
Special allowance account for credit losses	(5,586.3)	(5,175.3)
	1,315.4	1,764.8
Other non-performing loans	2,492.6	2,589.9
Total non-interest bearing loans	3,808.0	4,354.7

14 Provisions for credit losses

Loans to customers, leasing contracts, appropriated assets, and other commitments of the Landsbanki Group are assessed on the basis of potential credit losses in accordance with rules issued by the Financial Supervisory Authority. An allowance account for credit losses is established on the basis of such an assessment and credited to the balance sheet item in question.

The allowance account for credit losses comprises specific and general provisions. Specific provisions are intended to offset losses on loans and advances to customers that are deemed to be at particular risk as a result of deteriorating financial strength, or prolonged arrears. General provisions are provisions that are not specifically allocated or restricted to any individual loan, or group of loans, but raised to absorb general lending risk inherent in the portfolio. General and specific provisions made during 2004, less recovered bad debts, were charged against the profit and loss account.

Any loan that has been written off, pursuant to a decision of the Board of Directors, is removed from the Bank's books. Such loan amounts are then deducted from the allowance account.

Changes during the year:	2004			2003
	Special	General	Total	Total
Balance at beginning of year	5,498.6	2,200.9	7,699.5	6,621.6
Provisions for the year	4,077.2	478.8	4,556.0	4,787.0
Loans written off	(3,610.6)		(3,610.6)	(3,709.0)
Balance at year-end	5,965.2	2,679.7	8,645.0	7,699.5

	2004	2003
Provisions for the year	4,556.0	4,787.0
Collected previously written-off loans	70.6	131.0
	4,485.4	4,656.0

Provisioning ratio	1.5%	2.3%
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ISK million

Securities and shareholding

Securities held by the Group consist of trading securities and investment securities. Trading securities include all market securities, excluding investment securities and T-bills. Trading securities, bonds, and shares listed on official stock exchanges are entered at market prices as at year-end 2004. Unlisted trading securities are entered at the lower of cost price, including accrued interest, or their assessed value.

Investment securities are those market securities, bonds and equities, which the Bank/Group has decided to hold for a period exceeding one year. The Bank has no holding in investment bonds at period-end. Unlisted investment shares are stated at cost.

Changes in prices of listed shares, and changes in yields of listed bonds, can materially affect the Bank's operating results, irrespective of the sale of such securities. Gains resulting from appreciation in value of unlisted trading securities are, however, only recognised when realised by sale.

Treasury bills, and related sales or buy-back contracts are entered as assets and liabilities under the items "Cash and Interbank Operations" and "Financial Institutions".

15 Bonds and other fixed income securities

	2004	
	Market value	Book value
Trading bonds		
Iceland Stock Exchange	18,328.9	18,328.9
Other foreign listed bonds	199.9	199.9
	<u>18,528.8</u>	<u>18,528.8</u>
Market securities by issuer:		
Issued by Government	5,454.3	5,454.3
Issued by others	13,074.5	13,074.5
	<u>18,528.8</u>	<u>18,528.8</u>

The Bank has entered into forward and option contracts of ISK 1,785 million against its underlying bond holdings. These contracts are entered at market value. Securities maturing within 12 months amounted to ISK 44 million at year-end.

16 Equity and other variable income securities

	2004	
	Market value	Book value
Trading securities		
Iceland Stock Exchange	39,522.5	39,522.5
Other quoted securities	7,748.2	7,748.2
Unlisted securities		5,680.9
		<u>52,951.6</u>
Investment securities		
Unlisted securities		18.0
		<u>18.0</u>
Total securities		<u>52,969.6</u>

The Bank has entered into derivative positions for the amount of ISK 23,596 million, which offset underlying shareholdings. These contracts are entered at market value.

17 Shares in partially owned companies

	Ownership %	Profit share	Nominal value	Book value
Fjárfestingafélagid Grettir hf.	49.8	(112.6)	49.8	2,374.9
VISA - Iceland Ltd.	38.0	54.6	152.0	531.2
The Banks's Data Center*	35.2	(15.2)	434.9	427.2
Eurocard - Iceland Ltd.	20.0	40.4	100.0	217.8
Creditinfo Group hf.	26.4	2.2	110.0	120.7
Intrum hf.	25.0	6.3	156.3	78.4
Other partially owned companies		1.4		5.8
		<u>(22.9)</u>		<u>3,756.1</u>

*Share in the net income of the Bank's Data Center is netted against "Other Expenses".

ISK million

Other items

18 Fixed assets

Fixed assets are depreciated on a straight-line basis. Liquid assets consist of office fixtures, security systems and vehicles.

	<u>Premises</u>	<u>IT</u>	<u>Liquid assets</u>	<u>Total</u>
Fixed assets:				
Revalued cost at beginning of year	4,967.4	3,565.9	1,863.5	10,396.7
Additions	290.8	949.2	456.1	1,696.1
Disposals	(169.5)	0.0	(43.5)	(213.0)
Revalued cost at year-end	<u>5,088.7</u>	<u>4,515.0</u>	<u>2,276.0</u>	<u>11,879.8</u>
Accumulated depreciation at beginning of year	2,041.9	2,566.7	1,081.5	5,690.1
Depreciation charge	386.2	769.4	367.4	1,523.1
Disposals	(49.7)	0.0	(29.2)	(78.9)
Accumulated at year-end	<u>2,378.4</u>	<u>3,336.1</u>	<u>1,419.7</u>	<u>7,134.2</u>
Net book value at year-end	<u>2,710.3</u>	<u>1,178.9</u>	<u>856.4</u>	<u>4,745.6</u>
Depreciation (straight-line)	0,5-4%	20-33%	10-20%	

Assessment value of land, equipment and Bank Premises:

	<u>2004</u>	<u>2003</u>
Official assessment value of land and Bank premises	2,787.1	2,535.1
Replacement value of buildings	5,034.0	4,909.7
Insurance value of liquid assets	1,082.4	1,067.3

19 Goodwill

Book value at beginning of year	1,168.6	950.8
Investments	35.6	352.8
Amortisation charge	(192.0)	(135.0)
Book value at year-end	<u>1,012.2</u>	<u>1,168.6</u>

Goodwill is amortised over ten years

Specification of balance with subsidiaries and partially owned companies

20 Claims and liabilities with partially owned companies

	<u>2004</u>	<u>2003</u>
Assets		
Loans	6,337.6	2,063.9
Liabilities		
Deposits	220.8	157.1

Assets and liabilities denominated in foreign currency or index-linked

	<u>2004</u>	<u>2003</u>
21 Denominated in foreign currency		
Assets	696,952.3	393,199.5
Liabilities	695,610.0	392,675.5
	<u>1,342.3</u>	<u>524.0</u>

ISK million

22 Index-linked	<u>2004</u>	<u>2003</u>
Assets	101,489.4	92,280.2
Liabilities	<u>73,985.5</u>	<u>83,943.3</u>
	<u>27,503.9</u>	<u>8,336.9</u>

Financial institutions

23 Financial institutions

Loans from Central Bank in repurchase agreements	0.0	0.0
Loans from other financial institutions	<u>63,475.6</u>	<u>43,839.7</u>
	<u>63,475.6</u>	<u>43,839.7</u>

24 Maturity of debt to financial institutions

On demand	1,079.4	1,219.0
3 months and below	55,284.0	37,416.2
3 months to 1 year	7,112.1	5,204.5
1 year to 5 years	0.0	0.0
Over 5 years	<u>0.0</u>	<u>0.0</u>
	<u>63,475.6</u>	<u>43,839.7</u>

Customers accounts

Deposits are stated at nominal value and adjusted for accrued interest. Indexed deposits are stated with accrued indexation, based on the Consumer Price Index for January 2005. Foreign liabilities are translated at the rate of exchange published in the official Central Bank guidelines at year-end. Interest expenses are recognised on an accrual basis as they are earned or incurred. However, for certain deposit categories, interest is accrued as at 20 December instead of 31 December.

25 Customers accounts	<u>2004</u>	<u>2003</u>
Demand deposits	84,224.8	58,273.0
Time deposits	<u>133,744.8</u>	<u>94,047.0</u>
	<u>217,969.6</u>	<u>152,320.0</u>

26 Maturity of customer accounts

On demand	84,224.8	58,273.0
3 months and below	93,467.6	65,508.6
3 months to 1 year	13,251.7	5,262.2
1 year to 5 years	19,027.6	17,838.7
Over 5 years	<u>7,997.9</u>	<u>5,437.5</u>
	<u>217,969.6</u>	<u>152,320.0</u>

Funding

27 Funding

Foreign banks	46,888.3	26,476.1
Securities issues	325,535.6	175,784.6
Other funding	<u>0.0</u>	<u>7,096.2</u>
	<u>372,424.0</u>	<u>209,356.9</u>

ISK million

28 Maturity of funding	2004	2003
3 months and below	90,720.4	53,065.9
3 months to 1 year	43,089.0	44,006.0
1 year to 5 years	195,780.2	96,972.0
Over 5 years	42,834.4	15,313.0
	372,424.0	209,356.9

Other items

29 Other items		
Other liabilities	5,815.2	2,385.9
Accruals	8,572.1	3,368.5
	14,387.3	5,754.5

30 Computed commitments

Pension obligations	380.8	396.8
Rent commitment	0.0	64.6
Deferred income tax liability	182.3	172.8
	563.1	634.2

The difference of income tax according to the profit and loss account and income tax calculated on the base of taxable profit of the year payable next year, is recorded under the liabilities section in the balance sheet, as deferred income tax liabilities. This difference arises because taxable profit according to the company's tax return is based on other assumption than profit before taxation according to the profit and loss account. The main reason for this is time difference of realised income and charges.

Deferred income tax liability generally reflects the income tax which would be payable, according to current tax law, if the company's assets were to be sold or redeemed at book value.

Changes in deferred income tax liability:	2004	2003
Deferred income tax liability at beginning of the year	172.8	137.2
Computed taxes for the year	1,844.5	416.3
Transferred within group	28.0	65.5
Income tax payable	(1,863.0)	(446.3)
	182.3	172.8

Deferred income tax liability breakdown:

Carry-forward losses	(0.9)	(28.0)
Shareholdings	(28.6)	4.4
Premises and equipment	167.7	208.9
Obligations	(67.6)	(98.4)
Miscellaneous assets	111.6	86.0
	182.3	172.8

31 Breakdown of computed taxes for the year:

Computed taxes for the year	1,844.5	416.3
Computed taxes for subsidiaries	1.4	0.0
Computed taxes for partially-owned companies	29.7	32.0
Property tax	6.3	5.5
Adjustment for taxes	0.0	2.8
	1,881.9	456.7

ISK million

32 Subordinated loans

Subordinated loans of the Group at year-end

	Classification	Currency	Interest	Maturity	2004
Quoted on Iceland Stock Exchange	Tier I	ISK	5.80%+CPI	callable	1,088.1
Quoted on Iceland Stock Exchange	Tier I	ISK	6.5%+CPI	callable	1,063.1
Quoted on Iceland Stock Exchange	Tier I	ISK	8.65%+CPI	callable	1,046.3
Quoted on Luxembourg Stock Exchange	Tier I	EUR	Euribor+1.23%	callable	8,357.8
Quoted on Luxembourg Stock Exchange	Tier II	JPY	Euribor+0.8%	2033	2,987.6
Quoted on Iceland Stock Exchange	Tier II	USD	Libor+0.15%	2011	1,837.9
Quoted on Iceland Stock Exchange	Tier II	ISK	5.60%+CPI	2013	1,614.0
Quoted on Luxembourg Stock Exchange	Tier II	EUR	Euribor+1.2%	2018	920.5
Quoted on Luxembourg Stock Exchange	Tier II	EUR	Euribor+1.35%	2026	850.0
Quoted on Luxembourg Stock Exchange	Tier II	EUR	Euribor+1.35%	2011	419.2
Quoted on Luxembourg Stock Exchange	Tier II	EUR	Euribor+0.8%	2013	336.5
Unlisted	Tier II	ISK	6.00%+CPI	2013	811.1
Unlisted	Tier II	ISK	6.00%+CPI	2010	249.5
Unlisted	Tier III	EUR	Libor+2.66%	2006	970.5
					22,552.2

Subordinated loans are a part of equity according to regulation on the calculation of equity ratio (see note 34).
Subordinated loans are fully applicable to the calculation of CAD ratio

Equity

33 Changes in equity

	Capital	Share premium account	Statutory reserve	Retained earnings	Total
Capital at beginning of year	7,500.0	4,354.7	268.5	10,258.8	22,381.9
Capital increase	600.0	3,960.0			4,560.0
Dividends paid				(721.5)	(721.5)
Purchase of own shares	(125.0)	(789.0)			(914.0)
Net profit				12,709.4	12,709.4
Capital at year-end	7,975.0	7,525.7	268.5	22,246.7	38,015.9

34 Capital ratio

	2004	2003
Capital and capital ratio according to laws:		
Tier I		
Recorded equity	38,015.9	22,381.9
Subordinated loans	6,721.7	1,960.0
Goodwill	(917.6)	(1,049.2)
Minority interests	991.1	861.7
Total Tier I	44,811.1	24,154.5
Tier II	14,860.0	11,129.8
Tier III	970.5	0.0
– deduction in accord with Articles 28 and 85 of Act No 161/2002	(749.0)	(724.4)
Total capital	59,892.6	34,559.8
Risk-adjusted assets	576,498.2	350,307.8
Tier I ratio	7.8%	6.9%
Capital ratio	10.4%	9.9%

ISK million

As stipulated by law, the sum of subordinated loans and equity, after the defined deduction of the book value of shares in partially owned financial companies, may not, at any time, fall below 8% of the Bank's risk-adjusted asset base. This base is made up of total assets and issued guarantees, less such balance sheet items specified in regulations issued by the Financial Supervisory Authority.

Consequently, the Bank fulfilled all capital adequacy ratios as stipulated by law.

Off-balance sheet items

35 Derivatives

The Bank has entered into forward foreign exchange contracts, options, and interest and currency swap contracts. Forward foreign exchange contracts are commitments to buy or sell currencies, market bonds or market securities at a future date at a contracted price. Currency options represent the right to buy or sell a specified amount of foreign currency at a fixed price at a specified time in the future. Interest and currency swap contracts are transactions between two parties involving exchanging interest payments or currencies based on differentials between specified indices. The Bank has reduced its risk exposure related to these commitments through counterparty agreements. The accrued interest and exchange-rate differentials have been accounted for in the accounts. The credit equivalent of Landsbanki's derivatives, quantified on the basis of risk-base rules, is ISK 6,080 million at year-end.

	2004	2003
36 Guarantees		
Guarantees issued	23,994.0	15,310.4
37 Other off-balance sheet items		
Available overdrafts	24,676.3	19,990.2
Unused credit commitments	9,917.6	13,250.2
Other off-balance sheet items	34,593.9	33,240.4

38 Breakdown of derivatives

	Principal	Book value	
		Assets	Liabilities
Currency derivatives			
Forward exchange rate contracts	167,114.7	3,501.0	3,102.1
Currency interest rate swaps	67,273.6	2,941.6	511.7
Options, purchased	96,702.4	2,694.3	0.0
Options, sold	85,321.3	0.0	3,147.2
Interest rate derivatives			
Interest rate swaps	93,982.3	229.3	81.4
Bond and other interest rate and exchange rate derivatives	19,165.5	398.4	123.9
Equity derivatives			
Swaps	23,586.6	1,607.3	917.7
Options, purchased	1,738.8	218.5	0.0
Options, sold	371.1	0.0	0.8

Personnel

	2004	2003
39 Number of employees		
Average number recalculated to full-time positions	1,159	1,092
Number of full-time positions at year-end	1,121	1,025
Thereof engaged in banking activities	1,093	995

ISK million

40 Payroll expenses

	2004	2003
Salaries	6,632.5	4,729.6
Pension-fund contributions	693.3	586.0
Other personnel expenses	374.1	340.7
	<u>7,699.9</u>	<u>5,656.4</u>

Employee stock option plan

The Bank offers a stock option plan to employees. Arrangements have been made to fulfil the stock option plan and the resulting costs have been expensed in the income statement.

41 Payroll Expenses and Management Compensation

Compensation, in respect of the Bank's Board of Directors, Group Managing Directors & CEOs, Managing Directors of the Parent is as follows:

	Payroll and benefits	Stock Options			Option held at year-end
		unused	Contracts 2004-2006	Total	
Björgólfur Gudmundsson, Chairman of the Board of Directors	2	0	0	0	3,628
Kjartan Gunnarsson, Vice-chairman of the Board of Directors	1	0	0	0	82
Other Members of the Board of Directors	4	0	0	0	1
Halldór J. Kristjánsson, Group Managing Director & CEO	27	13	28 ¹	41	2
Sigurjón Th. Árnason, Group Managing Director & CEO	34	17	38	55	0
Managing Directors	191	53	78	131	6
	<u>260</u>	<u>83</u>	<u>144</u>	<u>227</u>	<u>3,719</u> ²

The stock options of Managing Directors & CEOs and Managing Directors have an exercise price of 3.58 – 7.0.

Stock option rights are transferable between years and can be accumulated and exercised at period-end.

Landsbanki has made arrangements taking stock options into consideration.

Loans to the GMDs & CEOs, Members of the Board of Directors as well as loans to undertakings fully owned by these individuals, amount to ISK 252 million. The interest rate terms of these loans are in accordance with loans to other customers. The lending amount does not include loans to corporates managed by board members.

1. The agreement is variable by nature, ranging from the minimum of ISK 23 million to a ceiling of ISK 28 million.

2. A holding refers to holdings in the name of the parties in question themselves, their spouses, children who are not financially competent or legal entities in which they are involved.

42 Employee stock option plan

The Bank offers a stock option plan to some employees with a strike price of ISK 3.58 - ISK 9.0 Arrangements have been made to fulfil the stock options. The purchase right will be accumulated in the years 2001 - 2008. The purchase right is transferable between years. The purchase right is not transferable between individuals, and unused purchase rights are annulled at concurrent with employment termination. The nominal value of the employee stock option plan at year-end amounted to ISK 467 million. Accumulated unused purchase rights at 31 December 2004 had a nominal value of ISK 192 million.

ISK million

Other notes

43 Income from shareholdings				2004	2003
Trading and investment equities				0.0	0.0
Partially-owned financial institutions before taxes				120.4	137.5
Partially-owned companies before taxes				(98.4)	6.6
Associated companies before taxes				0.0	0.0
				22.0	144.1
44 Commissions and fees					
Securities				4,005.7	2,045.3
Asset management				926.7	1,111.7
Lending				1,942.5	1,242.6
Cards				858.8	800.2
Interbank revenues				1,084.2	760.1
Collection and payment services				502.5	485.5
Foreign trade				343.9	297.2
Other commissions and fees				330.7	216.0
				9,995.2	6,958.6
45 Net trading gains					
Foreign exchange				343.8	153.0
Bond trading				1,306.2	34.1
Stock trading				8,179.9	2,485.8
				9,829.9	2,672.8
46 Depreciation in profit and loss account					
Fixed assets				626.9	789.7
Write-down of fixed assets				896.2	382.0
Goodwill amortisation				192.0	135.0
				1,715.0	1,306.7
47 Auditors fee in parent company					
For audit services				19.3	13.6
Other professional services				19.9	8.7
				39.2	22.3
48 Profit and loss account by quarter					
Operations	Q4 - 2004	Q3 - 2004	Q2 - 2004	Q1 - 2004	Q4 - 2003
Net interest revenues	4,720.3	3,801.0	3,465.9	2,915.1	2,731.9
Operating revenues	542.4	8,791.3	2,966.0	6,397.5	2,442.8
Net operating revenues	5,262.7	12,592.3	6,431.8	9,312.5	5,174.6
Payroll expenses	2,116.0	2,266.2	1,700.8	1,620.5	1,741.1
Operating costs	1,641.8	2,000.6	1,379.1	1,648.9	1,470.6
Operating expenses	3,757.9	4,266.7	3,079.9	3,269.3	3,211.7
Net provision for credit losses	1,223.0	1,293.5	978.3	990.6	1,417.6
Profit before taxes and minority interests	281.8	7,032.1	2,373.6	5,052.6	545.4
Taxes	(784.4)	1,329.8	405.3	931.2	75.4
Minority interests	52.5	42.0	26.9	27.5	27.9
Net profit	1,013.7	5,660.3	1,941.4	4,093.9	442.0

ISK million

49 Income / Revenue breakdown by countries

	Iceland	Britain	Luxembourg	Total
	2004	2004	2004	2004
Net interest revenues	11,767.3	912.2	2,222.7	14,902.3
Net profit from shareholdings	22.0	0.0	0.0	22.0
Net commissions	7,627.3	554.3	469.8	8,651.4
Trading gains	9,745.3	0.0	84.5	9,829.9
Other revenues	173.0	20.9	0.0	193.9
	29,334.9	1,487.3	2,777.1	33,599.4

50 Business Segments

	Commercial Banking	Securities and Treasury	Asset Management Private Banking	Other operations	Total
Net interest revenues	13,948.3	(186.9)	1,140.9	0.0	14,902.3
Operating revenues	3,760.3	3,878.6	1,228.3	0.0	8,867.2
Trading gains	(46.1)	9,791.5	84.5	0.0	9,829.9
Net operating revenues	17,662.5	13,483.2	2,453.7	0.0	33,599.4
Operating expenses	8,617.3	2,152.5	1,714.5	1,889.5	14,373.8
Net provision for credit losses	4,254.7	(4.2)	234.9	0.0	4,485.4
Profit before taxes	4,790.4	11,334.9	504.3	(1,889.5)	14,740.1

ISK million

Organisation

