

Supplement dated 4 May 2018  
to the Base Prospectus dated 27 March 2018

**Landsbankinn hf.**  
**(incorporated in Iceland as a limited liability company)**  
**ISK 50,000,000,000**  
**Debt Issuance Programme**

This supplement (the “Supplement”) to the base prospectus dated 27 March 2018 (the “Base Prospectus”) constitutes a supplement for the purposes of Article 16 of Directive No. 2003/71/EC of the European Parliament and the Council of 4 November 2003 (the “Prospectus Directive”) as amended. The Prospectus Directive has been implemented into Icelandic law and the Supplement is prepared in accordance with Article 46 of the Securities Transactions Act No. 108/2007 (the “Act on Securities Transactions”). This supplement is supplemental to, forms part of and must be read and construed in conjunction with, the Base Prospectus dated 27 March 2018.

The Base Prospectus has been issued by Landsbankinn hf. (the “Issuer”) in respect of an ISK 50,000,000,000 Debt Issuance Programme (the “Programme”) and is dated 27 March 2018.

The Supplement and the Base Prospectus are available on the Issuer’s website, [www.landsbankinn.is](http://www.landsbankinn.is) (<http://www.landsbankinn.is/vixlar>). Investors can request printed copies of the Base Prospectus and any supplements free of charge at the Issuer’s registered office at Austurstræti 11, 155 Reykjavík, Iceland.

Terms given a defined meaning in the Base Prospectus shall, unless the context otherwise requires, have the same meaning when used in this Supplement. To the extent that there is any inconsistency between a) any statement in this Supplement or any statement incorporated by reference into the Base Prospectus by this Supplement and b) any other statement in or incorporated by reference into the Base Prospectus, the statements referred to in a) above shall prevail.

The Financial Supervisory Authority, Iceland (the “FME”) in its capacity as competent authority under the Act on Securities Transactions has scrutinised and approved this Supplement, which is published in English only.



**Landsbankinn hf.**  
**This Supplement is dated 4 May 2018**

## 1. ISSUER'S STATEMENT

There have been no significant changes in the future prospects of the Issuer that could have a negative impact on the Issuer, since the last audited financial statements of the Issuer for the year 2017, published 15 February 2018.

There have been no significant changes in the financial position of the Issuer since the end of the last financial period for the first three months of 2018, published 3 May 2018.

Chief Executive Officer and Chief Financial Officer of Landsbankinn hf., Reg. No. 471008-0280, registered office at Austurstræti 11, 155 Reykjavík, Iceland, on behalf of the Issuer, hereby declare, that having taken all reasonable care to ensure that such is the case, the information contained in this Supplement is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

Reykjavík, 4 May 2018

On behalf of Landsbankinn hf.,



Lilja Björk Einarsdóttir

Chief Executive Officer



Hreiðar Bjarnason

Chief Financial Officer

## 2. INCORPORATION BY REFERENCE

The following document which has previously been published shall be incorporated in, and form part of this Supplement:

- i) The Condensed Consolidated Interim Financial Statements of the Issuer for the three months ended 31 March 2018.

The Condensed Consolidated Interim Financial Statements for the first three ended 31 March 2018 are available for viewing on the Issuer's website, [www.landsbankinn.is](http://www.landsbankinn.is)

<https://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-Q1-2018-EN.pdf>

Following is an extract for the Condensed Consolidated Interim Financial Statements for the first three months ended 31 March 2018 displaying the endorsement of the Issuer's Board of Directors and the CEO.

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the first three months of 2018 include the Bank and its subsidiaries (collectively referred to as the "Group").

### Operations

Consolidated profit amounted to ISK 8,102 million for the first three months of the financial year 2018. Consolidated total equity amounted to ISK 228,601 million and total assets to ISK 1,206,148 million at the end of this period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 24.7% at the end of the first quarter of 2018.

## **Risk factors**

Risk appetite metrics show that the Bank's risk has on the whole remained unchanged or decreased since the beginning of the year. While probability of default is unchanged, expected loss has decreased alongside improvement in underlying collateral values, mostly real estate based. One new large exposure has been taken on. The combined exposure is well within regulatory requirements and the Bank's risk appetite. The Bank's liquidity position remains strong and liquidity and financing ratios are well above regulatory minimums.

## **Outlook**

The economic forecast from Landsbankinn Economic Research dated November 2017 predicts 4.5% economic growth in 2018, 3.6% growth in 2019 and 2.5% in 2020 - an average economic growth of 3.5% for the forecast period. A forecast from the Central Bank of Iceland from February 2018 expects, 3.2% growth in 2018 and average economic growth of 3.0% for the period 2018 to 2020. Investment and private consumption are expected to be the main drivers of economic growth in coming years. The inflation outlook is fairly stable up to the forecast horizon in 2020, with average inflation expected to hold at the Central Bank's target in 2018, i.e. at 2.5%, and then to increase slightly in coming years to average 2.9% in 2019 and 2020.

## **Other matters**

On 21 March 2018, Landsbankinn's Annual General Meeting (AGM) approved the Board's proposal to pay dividends to shareholders for the operating year 2017 in the amount of ISK 15,366 million, or ISK 0.65 per share. The dividend corresponds to 78% of net profit for the operating year and is in line with the Bank's policy to pay a dividend amounting to 60-80% of annual net profit. The dividend was paid to shareholders on 28 March 2018. The recommendation of the Board of Directors to pay an extraordinary dividend to shareholders in the amount of ISK 9,456 million, or ISK 0.40 per share, was also approved by the AGM. The extraordinary dividend is payable to shareholders on 19 September 2018.

On 1 January 2018, the Group implemented the international financial reporting standard IFRS 9 Financial Instruments. The reporting standard makes fundamental changes to the assessment of impairment on loans and receivables. Under the new standard, the assessment shall be based on expected credit losses rather than, as was the case under the previous standard, on incurred credit losses. The impact of IFRS 9 on the Group's financial statements is described in Note 4.

## **Statement by the Board of Directors and the CEO**

The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the three months ended 31 March 2018 have been prepared on a going-concern basis in accordance with International Financial Reporting Standards as adopted by the European Union and applicable Icelandic laws and regulations.

In our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the first three months of 2018, its consolidated financial position as at 31 March 2018, and its consolidated cash flows for the first three months of 2018.

Furthermore, in our opinion, the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. describe the principal risks and uncertainties faced by the Group.

The Board of Directors of the Bank and Chief Executive Officer hereby endorse the Condensed Consolidated Interim Financial Statements of Landsbankinn hf. for the three months ended 31 March 2018.

Reykjavík, 3 May 2018.



### 3. RISK FACTORS - LEGAL RISKS

On 22 March 2018 a bill was submitted to the Icelandic Parliament which proposes amendments to the Act on Financial Undertakings, which are based on provisions from Directive 2013/36/EU and Regulation (EU) No. 575/2013. Therefore the following changes shall be made to the two risk factors sections “*Changes to the Capital Requirements Directive could adversely affect the Issuer’s results*” and “*The European Union adopted the bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive in Iceland and its impact on the Issuer is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Debt Securities*”, which can be found in the Legal risk section on pages 24 and 25 in the Base Prospectus dated 27 March 2018.

The following wording shall be inserted and replace the wording in the second paragraph of the section “*Changes to the Capital Requirements Directive could adversely affect the Issuer’s results*” on page 24 in the Base Prospectus dated 27 March 2018:

#### ***Changes to the Capital Requirements Directive could adversely affect the Issuer’s results***

The transposition of the CRD IV into Icelandic law is set to take place in separate amendments. The first amendment was introduced on 9 July 2015 by Act No. 57/2015, which amended the Financial Undertakings Act. This amendment includes CRD IV’s provisions on capital buffers and adopts a regulation implementing the provisions of the CRR and related technical standards. The second amendment, which was introduced on 1 September 2016, by Act No. 96/2016, and further amended the Financial Undertakings Act, includes CRD IV’s provisions on operating licences, initial capital, information obligations, leverage ratios, supervisory review and evaluation process. The third amendment, which was introduced on 9 May 2017 by Act No. 23/2017, further amended the Financial Undertakings Act, includes the CRD IV provision on whistle-blowing. The fourth amendment was introduced on 22 March 2018 when a bill was submitted to the Icelandic Parliament. The bill proposes amendments to the Act on Financial Undertakings, which are based on provisions from Directive 2013/36/EU and Regulation (EU) No. 575/2013. The proposed amendments include provisions on supervision on consolidated basis, prudential requirements on consolidated basis, supervisory collaboration among competent authorities in EU Member States, and legal basis for large risk exposure. Furthermore the bill updates the legal basis for implementing Regulation (EU) No. 575/2013, on prudential requirements for credit institutions and investment firms, which was too a large extent implemented into Icelandic law in March 2017 with Regulation No. 233/2017.

The following wording shall be inserted and replace the wording in section “*The European Union adopted the bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive in Iceland and its impact on the Issuer is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Debt Securities*” on page 24 and 25 in the Base Prospectus dated 27 March 2018:

***The European Union adopted the bank recovery and resolution directive which is intended to enable a range of actions to be taken in relation to credit institutions and investment firms considered to be at risk of failing. The full scope of the directive in Iceland and its impact on the Issuer is currently unclear but the implementation of the directive or the taking of any action under it could materially affect the value of any Debt Securities***

On 2 July 2014, Directive 2014/59/EU providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms (the “**Bank Recovery and Resolution Directive**” or “**BRRD**”), entered into force. Iceland, Liechtenstein, Norway and Switzerland are members of the EFTA and Iceland, together with Liechtenstein and Norway (the “**EEA EFTA States**”), is also a party to the EEA Agreement by which the EEA EFTA States participate in the internal market of the EU. The BRRD was applied by EU

member states from 1 January 2015 and the general bail-in tool (see below) was applied from 1 January 2016. In November 2016, the European Commission published a proposal to amend and supplement certain provisions of the BRRD.

The BRRD was incorporated into the EEA Agreement on 9 February 2018 with decision No. 21/2018 of the EEA Joint Committee.

The BRRD is designed to provide authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system.

The BRRD contains four resolution tools and powers which may be used alone or in combination where an institution is considered as failing or likely to fail: (i) sale of business which enables resolution authorities to direct the sale of the firm or the whole or part of its business on commercial terms; (ii) bridge institution which enables resolution authorities to transfer all or part of the business of the firm to a "bridge institution" (an entity created for this purpose that is wholly or partially in public control); (iii) asset separation - which enables resolution authorities to transfer impaired or problem assets to a bridge institution or one or more asset management vehicles to allow them to be managed with a view to maximising their value through eventual sale or orderly wind-down; and (iv) bail-in which gives resolution authorities the power to write down the claims of unsecured creditors of a failing institution (which write-down may result in the reduction of such claims to zero) and to convert unsecured debt claims to equity or other instruments of ownership (the "**general bail-in tool**") (subject to certain parameters as to which liabilities would be eligible for the bail-in tool), which equity or other instruments could also be subject to any future cancellation, transfer or dilution.

An institution will be considered as failing or likely to fail when: (i) it is, or is likely in the near future to be, in breach of its requirements for continuing authorisation; (ii) when its assets are, or are likely in the near future to be, less than its liabilities; (iii) when it is, or is likely in the near future to be, unable to pay its debts as they fall due; or (iv) when it requires extraordinary public financial support (except in limited circumstances).

The powers set out in the BRRD impact how credit institutions and investment firms are managed, as well as, in certain circumstances, the rights of creditors.

On 10 February 2014 a committee was appointed to prepare a bill implementing the BRRD in Iceland. The Ministry of Finance and Economic Affairs decided, in collaboration with the committee, that the BRRD should be implemented into Icelandic laws with more than one bill. The first bill regarding the implementation of the BRRD into Icelandic law was submitted to the Icelandic Parliament on 22 March 2018. The bill proposes amendments to the Act on Financial Undertaking which will, if passed, implement the content of recovery plan, early intervention and intra-group financial support. The aforementioned actions are all subject to the supervision of the FME. According to this first bill the objective is to submit another bill during the next legislative parliament to further implement the BRRD into Icelandic law.

Notwithstanding the foregoing no assurance can be made on if and when the BRRD will be implemented into Icelandic law. Furthermore, there can be no assurance that, if implemented in Iceland, its implementation or the taking of any actions currently contemplated in it would not adversely affect the rights of Debt Securities Holders, the price or value of their investment in the Debt Securities and/or the ability of the Issuer to satisfy its obligations under the Debt Securities.