

Supplement dated 2 March 2016
to the Base Prospectus dated 9 December 2015

Landsbankinn hf.
(incorporated in Iceland as a limited liability company)
ISK 100,000,000,000
Covered Bond Programme

This supplement (“Supplement”) to the base prospectus dated 9 December 2015 (“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 (“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 (“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 9 December 2015.

The Base Prospectus has been issued by Landsbankinn hf. (“Issuer”) in respect of an ISK 100,000,000,000 Covered Bond Programme (“Programme”) and is dated 9 December 2015.

The Supplement and the Base Prospectus are available on the Issuer’s website, www.landsbankinn.is (<http://www.landsbankinn.is/sertryggd-skuldabref>). 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 (“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 2 March 2016

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 2015, published 25 February 2016.

There have been no significant changes in the financial position of the Issuer since the end of the last financial period for the year 2015, published 25 February 2016.

The Board of Directors and Chief Executive 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, 2 March 2016

On behalf of the Board of Directors,



Tryggvi Pálsson

Chairman of the Board of Directors

On behalf of Landsbankinn hf.,



Steinþór Pálsson

Chief Executive 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 Consolidated Financial Statements of the Issuer for the year ended 31 December 2015.

The Consolidated Financial Statements for the year 2015 are available for viewing on the Issuer's website, www.landsbankinn.is

<http://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2015.pdf>

Following is an extract for the Consolidated Financial Statements for the year 2015 displaying the endorsement of the Issuer's Board of Directors and the CEO.

The Consolidated Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the financial year 2015 include the Bank and its subsidiaries (collectively referred to as the "Group").

Landsbankinn was founded on 7 October 2008. The Bank is a leading bank in the domestic market and offers a comprehensive range of financial products and services to personal, corporate and institutional customers.

Operations in 2015

Consolidated profit amounted to ISK 36,460 million for the financial year 2015. The Board of Directors will propose to the Annual General Meeting that a total dividend of ISK 1.20 per outstanding share will be paid to shareholders, in two interim payments of ISK 0.60 each in 2016. The total dividend corresponds to approximately ISK 28,538 million or 78% of the consolidated profit. Remaining profit will be added to the Bank's equity. Consolidated total equity amounted to ISK 264,531 million and total assets to ISK 1,118,658 million at year-end. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 30.4% at year-end 2015 (see Note 47).

The consolidated profit rose from ISK 29,737 million in 2014 to ISK 36,460 million in 2015, a year-on-year increase of ISK 6,723 million. The higher profit in 2015 is due to stronger revenues from the Bank's core operations, re-occurring positive valuation adjustments and stable costs. Net interest income increased by ISK 4,251 million and net fee and commission income rose by ISK 1,005 million, or 17%. The higher income is partially offset by increases in taxes of ISK 2,630 million and a decrease in income from Net valuation adjustments of ISK 1,912 million, although valuation adjustments on the loan portfolio still have a significant positive effect on the Bank's profit for the year.

In October 2015, the Supreme Court ruled in favour of the Bank in two cases where a company disputed the right of the Bank to receive additional payment as a result of recalculations of foreign currency indexed loans in accordance with Central Bank interest rates instead of contractual interest rates in accordance with final receipts. The Supreme Court concluded that the conditions for an exception from the legal right to receive additional payment had not been met since the difference in the parties comparative position was insignificant and the additional claim would not cause a serious disruption to the company's financial position comparable to the impact that such claims would have on an individual or small enterprise. In November 2015 and in January 2016 the District Court of Reykjavík came to the same substantive conclusion in six rulings involving similar disputes. The effect of these rulings on these financial statements results in a reversal of previously recognised provisions in the amount of ISK 13,776 million in the consolidated income statement at year-end 2015 (see Note 7 and 37).

As disclosed in the Bank's Consolidated Financial Statements for 2014, the Bank sold its 38.00% shareholding in Valitor Holding hf. to Arion Bank during that year. In 2015, the Bank sold once more to Arion Bank its additional 0.62% shareholding in the company which it had acquired in a merger. The sales included, inter alia, an agreement on additional considerations for the Bank's shares in Valitor. The accord is contingent upon an option agreement between Visa Europe and Visa Inc. Under the option agreement the considerations consist of an up-front consideration and an earn-out. As VISA Iceland ehf., a subsidiary of Valitor, is expected to receive proceeds from Visa Inc. as a result of the option agreement and based on indicative information provided by Arion Bank, the Bank has recognised as income in these financial statements ISK 2,436 million as its expected up-front consideration (see Note 24).

In October 2015, the Bank completed refinancing in full the 2016 maturity and in part of the 2018 maturity of senior secured foreign currency bonds issued by the Bank to LBI hf. The refinancing was achieved with the issuance of EUR 300 million (the equivalent of ISK 42,600 million) in senior unsecured bonds following a successful series of fixed income investor meetings in Europe. The bonds are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange. Furthermore, following LBI's final and binding composition agreement in December 2015, the Bank fully prepaid the remaining part of the 2018 maturity of the senior secured foreign currency bonds. In return, LBI at the same time undertook to place the proceeds in term deposits with the Bank for the same maturity (see Note 31).

In December 2015, the Bank completed its first bond issuance in the Scandinavian market with an issue of NOK 250 million and SEK 250 million in senior unsecured bonds, in total equivalent to ISK 7,500 million. The bonds have a 3.5-year maturity with 3-month NIBOR and STIBOR interest rates for the respective currencies plus a 2.6% margin. They are issued under the Bank's 1,000 million Euro Medium Term Note (EMTN) Programme and are listed on the Irish Stock Exchange. In addition, the Bank signed a 5-year loan agreement with the Nordic

Investment Bank (NIB) in the amount of EUR 30 million (the equivalent of ISK 4,200 million). The loan agreement provides for the Bank to allocate the funds to projects which improve the competitiveness of small and medium-sized enterprises, as well as environmentally-friendly ventures.

In 2015, the Bank continued to issue tranches in Landsbankinn's non-indexed covered bond series and added new indexed series to the existing covered bond series. The entire covered bond series have been admitted for trading on NASDAQ Iceland and the total amount as at year-end 2015 is ISK 22,380 million. In addition, the Bank issued new bank bill series which mature over the next year. These are listed and traded on NASDAQ Iceland and the total amount of bank bills at year-end 2015 is ISK 5,616 million (see Note 31).

In 2015, the Bank took over in two separate mergers all assets, liabilities and operations of the savings banks Sparisjóður Vestmannaeyja ses. and Sparisjóður Norðurlands ses. The acquisition prices of the savings banks were respectively ISK 332 million and 594 million, paid to guarantee capital owners of the savings banks in the form of shares in Landsbankinn (see Note 4).

In 2015, the international rating agency Standard and Poor's (S&P) raised both Landsbankinn's long and short term rating grades from BB+/B to BBB-/A-3 with a positive outlook. This upgrade resulted from the recent upgrade of Iceland's sovereign rating based on the Icelandic authorities' proposals toward the eventual removal of capital controls and the Bank's own strong capital position.

Risk management

In 2015, macroeconomic conditions stabilised to a certain degree, and a number of indicators showed a positive trend. The improved economic environment led to reduction of non-performing loans as well as increased borrower credit quality of performing loans. Major emphasis has been placed on securing and maintaining a strong liquidity position. This is reflected in the Bank's business plan, which provides for moderate lending growth and increased bond issuance. The Bank's strong liquidity makes it well equipped to meet future changes in its operating environment, such as further steps towards lifting capital controls. Market risk has remained relatively stable and well within the Bank's risk appetite. Ongoing improvements to work processes, organisation and management framework have enabled better risk management and business relationships.

In June 2015, the Government of Iceland announced a comprehensive strategy for capital account liberalisation. A major milestone of that strategy was reached on 28 October 2015, when the Central Bank of Iceland announced that the draft composition agreements submitted by the estates of the three failed Icelandic banks satisfy the requirements set forth in the Foreign Exchange Act, in that the implementation of the composition agreements together with the proposed mitigating measures would not jeopardise monetary, exchange rate, or financial stability. In December 2015, each of the estates of the three failed banks reached final and binding composition agreements. Based on those composition agreements, the Central Bank of Iceland granted certain exemptions from capital controls, allowing the estates to make distributions to their creditors. Landsbankinn's deposits from customers decreased by around 10% in the fourth quarter of 2015, as a result of the estates withdrawing deposits to make distributions to their creditors. The Bank was well prepared to withstand the anticipated outflow.

The Financial Supervisory Authority (FME) has concluded its latest Supervisory Review and Evaluation Process (SREP) for the Group, based on data from 31 December 2014, whereby the FME determined the minimum capital requirement for the Group to be 14.3%, consisting of the 8% regulatory capital requirement under Pillar I and a 6.3% capital requirement under Pillar II. In addition to these capital requirements, new legislation entered into force during 2015, implementing capital buffer requirements under the European Union Capital Requirements Directive (EU CRD) IV. The target for the Group's minimum total capital ratio is to be *comfortably above the fully phased-in FME capital requirements plus capital buffers. The Bank also aims to be in the highest category for risk-adjusted capital ratio, as determined and measured by the relevant credit rating agencies (see Note 46).*

Outlook

Landsbankinn Economic Research forecasts GDP growth in Iceland of 4.5% in 2016 and 2017, which will then slow to 3.7% in 2018. The Central Bank has also recently upgraded its forecast for 2016 from 3.2% to 4.2% and predicts an average growth of 3.2% in 2017 and 2018. Increased investment and private consumption are expected to be the principal drivers of growth in coming years. During the forecast period, which extends until the end of 2018, the near-term inflation outlook is positive but inflation is expected to pick up second half of the current year and peak at close to 5% during the first half of 2017 due to substantial general wage increases over the coming years. Average inflation during the forecast period is expected to be around 3.3%.

The Bank's return on equity has been at a relatively high level in most recent years. This is due in large part to extraordinary items having had a significant and positive impact on profitability, which are not expected to re-occur. Among the largest extraordinary items are the value adjustments of the loan portfolio, contributing ISK 13,500 million to net after-tax profit in 2015 compared to ISK 14,900 million in the previous year. The Bank continues to focus on the execution of its strategy, including the aim to ensure sustainable profitability in the long term.

Other matters

On 25 March 2015, the Bank paid dividends for the operating year 2014 to its shareholders in accordance with a resolution passed at the Bank's Annual General Meeting on 18 March 2015. Dividends amounted to ISK 23,687 million, equivalent to ISK 1.00 per share for the year 2014, or 80% of net profit for the year 2014.

Following the conclusion of an agreement between Landsbankinn hf. and the Board of Directors of Sparisjóður Vestmannaeyja ses. of 28 March 2015 and the decision of the Financial Supervisory Authority (FME) the following day on the merger of these companies, a shareholders' meeting of Landsbankinn hf. was convened on Monday, 4 May 2015. The shareholders' meeting agreed to authorise Landsbankinn hf. to allocate own shares as a consideration for the acquisition of other Icelandic financial undertakings or the merger of such companies with the Bank.

In January 2016, Icelandic State Financial Investments (ISFI) published a status report on the sale of the Icelandic State Treasury's holding in Landsbankinn. Given the economic situation in Iceland, corporate valuations, investor interest and capacity, and the readiness of Landsbankinn in general, ISFI concluded it would be appropriate for the Icelandic State to launch the sales process of up to 28.2% of its shares in the Bank.

Ownership

The total number of shareholders at year-end 2015 was 1,835, up from 1,403 at the beginning of 2015. The ten largest shareholders in the Bank at year-end 2015 are as follows:

Shareholder		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
Tryggingasjóður sparisjóðanna	Icelandic Savings Banks' Insurance Fund	10.0	0.04%
Lífeyrissjóður Vestmannaeyja	Pension fund	5.0	0.02%
Vestmannaeyjabær	Local municipality	3.5	0.01%
Vinnslustöðin hf. Vestmannaeyjum (VSV)	Seafood company	1.7	0.01%
Eignarhaldsfélag Seðlabanka Íslands ehf.	Central Bank of Iceland's holding company	1.1	0.00%
Íslensk verðbréf hf.	Asset management company	1.1	0.00%

Helgi T. Helgason	Employee of Landsbankinn hf.	0.5	0.00%
Hreiðar Bjarnason	Employee of Landsbankinn hf.	0.5	0.00%
Árni Þ. Þorbjörnsson	Employee of Landsbankinn hf.	0.5	0.00%
Top 10 total		23,590.9	98.30%
Other shareholders		190.8	0.79%
Total shares outstanding		23,781.7	99.09%
Landsbankinn hf.	Own shares	218.3	0.91%
Total shares issued		24,000.0	100.00%

ISFI manages the state's holding in the Bank on behalf of Ríkissjóður Íslands (the Icelandic State Treasury).

Governance

The governance structure of the Bank forms the foundation for solid relations between shareholders, the Board of Directors, executives, employees and other stakeholders and encourages objectivity, integrity, transparency and responsibility in the management of the Bank. Each year, the Bank reviews recognised guidelines on corporate governance to determine whether its own governance complies with current guidelines.

The underlying regulatory framework for the Bank's corporate governance policy and procedures includes the Act on Financial Undertakings No. 161/2002, as subsequently amended, the Act on Annual Financial Statements No. 3/2006 as subsequently amended, as well as other applicable laws and regulations.

Landsbankinn complies with the recommendations of the most recent Corporate Governance Guidelines issued in June 2015 (fifth edition) by the Iceland Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers with the exception of certain aspects of Sections 2.3.5 and 5.4.1 of the Guidelines. Further details on the Bank's corporate governance in general and these exceptions are provided in the Annual Report of the Group for the year 2015 and on the Bank's website www.landsbankinn.is.

In December 2014, the Centre for Corporate Governance of the University of Iceland recognised the Bank as a model of corporate governance following a formal review of the Bank's governance practices. The Centre's conclusion was based on a review of governance practices carried out by Deloitte. Deloitte's review of the Bank's governance provided a clear overview of the Bank's governance practices and indicated the Bank could in many ways serve as a model of good corporate governance to other companies.

Statement by the Board of Directors and the CEO

The Consolidated Financial Statements of Landsbankinn hf. for the year ended 31 December 2015 have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the EU.

In our opinion, the Consolidated Financial Statements of Landsbankinn hf. give a true and fair view of the consolidated financial performance of the Group for the year 2015, its consolidated financial position as at 31 December 2015 and its consolidated cash flows for the year 2015.

Furthermore, in our opinion, the Consolidated Financial Statements of Landsbankinn hf. and endorsement of its Board of Directors and CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Landsbankinn hf. for the year 2015 and confirmed them by their signatures. The Board of Directors and the

CEO recommend that the Consolidated Financial Statements of Landsbankinn hf. be approved at the Annual General Meeting of Landsbankinn hf.

Reykjavík, 25 February 2016.

3 THE ISSUER'S LICENCE TO ISSUE COVERED BONDS

On 29 April 2013 the FME granted the Issuer a licence to issue Covered Bonds under the Act on Covered Bonds. Pursuant to the terms of such a licence, the Issuer is able, from time to time, to issue Covered Bonds that entitle the holder to the benefit of a statutory preferred creditor status in respect of the assets contained in the Issuer's Cover Pool in the event of the insolvency of the Issuer.

On 19 May 2015 FME authorised the Issuer to exceed the size limit of the Covered Bonds programme from ISK 10,000,000,000 to ISK 30,000,000,000 and on 16 February 2016 to ISK 50,000,000,000. The result of the increased authorisation from FME requires an update on the following sections and pages in the Issuer's Base Prospectus dated 9 December 2015: *Definitions* on page 66, and *The Issuer's Licence to Issue Covered Bonds* on page 99.

The following wording shall replace the wording in the paragraph "Programme" under the section "Definitions" on page 66 of the Base Prospectus dated 9 December 2015:

Programme

ISK 100,000,000,000 (or its equivalence in other currencies calculated as described herein) covered bond programme established by the Issuer on the Issue Date which shall in the beginning not exceed a limit of ISK 10,000,000,000. Any increases of the Programme shall be subject to FME approval. On 16 February 2016 FME granted the Issuer a licence to increase the size limit to ISK 50,000,000,000.

The following paragraph shall replace the wording under the section "The Issuer's Licence to issue Covered Bonds" on page 99 of the Base Prospectus dated 9 December 2015:

Paragraph (a)

The Programme shall not exceed a limit of ISK 10,000,000,000. Any further increase of the Programme is subject to the approval of the FME. On 19 May 2015 FME granted the Issuer a licence to increase the size limit of the Programme to ISK 30,000,000,000 and on 16 February 2016 FME granted the Issuer a licence to increase the size of the Programme to ISK 50,000,000,000.