

Supplement dated 15 February 2017  
to the Base Prospectus dated 8 December 2016

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

This supplement (the “Supplement”) to the base prospectus dated 8 December 2016 (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 8 December 2016.

The Base Prospectus has been issued by Landsbankinn hf. (the “Issuer”) in respect of an ISK 100,000,000,000 Covered Bond Programme (the “Programme”) and is dated 8 December 2016.

The Supplement and the Base Prospectus are available on the Issuer’s website, [www.landsbankinn.is](http://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 (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 15 February 2017**

## 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 2016, published 9 February 2017.

There have been no significant changes in the financial position of the Issuer since the end of the last financial period for the year 2016, published 9 February 2017.

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, 15 February 2017

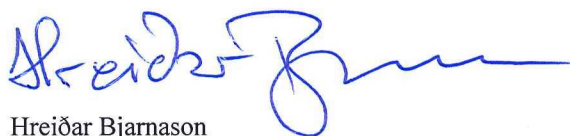
On behalf of the Board of Directors,



Helga Björk Eiríksdóttir

Chairman of the Board of Directors

On behalf of Landsbankinn hf.,



Hreiðar Bjarnason

CFO and interim CEO

## 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 year ended 31 December 2016.

The Condensed Consolidated Interim Financial Statements for the year 2016 are available for viewing on the Issuer's website, [www.landsbankinn.is](http://www.landsbankinn.is)

<https://bankinn.landsbankinn.is/Uploads/Documents/ArsskyrslurOgUppgjor/Consolidated-Financial-Report-2016-IS.pdf>

Following is an extract for the Condensed Consolidated Interim Financial Statements for the year 2016 displaying the endorsement of the Issuer's Board of Directors and the CEO.

The Condensed Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the financial year 2016 include the Bank and its subsidiaries (collectively referred to as the "Group").

Landsbankinn hf. was established on 7 October 2008. The Bank is a leading provider of financial services in the domestic market, offering a comprehensive range of financial products and services to individuals, corporate and institutional customers.



## Operations in 2016

Consolidated profit amounted to ISK 16,643 million for the financial year 2016. The Board of Directors proposes that a dividend of ISK 0.55 per outstanding share, total amount of ISK 13,006 million, be paid before end of March 2017. Additionally, the Board of Directors plans to propose to the Annual General Meeting (AGM) that an extraordinary dividend be paid in September 2017. Consolidated total equity amounted to ISK 251,231 million and total assets to ISK 1,111,157 million at year-end. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 30.2% at year-end 2016 compared with 30.4% at year-end 2015.

Consolidated profit declined from ISK 36,460 million in 2015 to ISK 16,643 million in 2016, a year-on-year decrease of ISK 19,817 million. The lower profit in 2016 is mostly due to a significant yet expected decline in positive valuation adjustments on the loan portfolio. There is also a considerable decline in other net operating income as the result of lower gain on financial assets. However, the Bank's core operations are returning improved revenues in line with the Bank's strategy and costs remain stable. Net interest income increased by ISK 2,326 million and net fee and commission income rose by ISK 968 million. The average number of full-time equivalent positions during the year 2016 was 1,047, compared with 1,095 during 2015.

In the past two years a few companies have commenced litigation against the Bank, disputing the right of the Bank to an additional claim 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. In 2015, the Supreme Court confirmed the rulings of the District Court in favour of the Bank in two such cases. In 2016 and 2017, the Supreme Court ruled in another six cases, confirming the conclusions of the District Court in two cases but reversing the conclusions in four cases. In the latter four cases, the Supreme Court found the impact of the additional claim to be so severe for the companies involved that the Bank should absorb the disputed interest margin. In these cases, the Supreme Court thus upheld the claims of the companies. These rulings may set a precedent for cases involving other foreign currency indexed loans to companies, where circumstances are similar, yet further rulings are necessary to clarify the precedent. Consequently, expenses in the amount of ISK 5,435 million were recognised in the Consolidated Income Statement of the Bank at the end of Q4 2016.

As disclosed in the Bank's Consolidated Financial Statements for 2015, the sale of the Bank's 38.62% shareholding in Valitor Holding hf. to Arion Bank hf. included, *inter alia*, an agreement of an additional consideration for the Bank's shares in Valitor. The accord is contingent upon the exercise of an option agreement between Visa Europe and Visa Inc. In April 2016, Visa Europe and Visa Inc. announced an amendment to the effect that the earn-out payment has been eliminated from the agreement and cash payments increased. The transaction was concluded in Q3 2016, once the relevant supervisory authorities had given their approval. Based on information and payment from Arion Bank hf., Landsbankinn has in these Annual Financial Statements recognised income of ISK 1,129 million as a result of the increased fair value of the additional consideration for the shares in Valitor Holding hf.

In December 2016, the Bank initiated court proceedings against, *inter alia*, the payment card company Borgun hf., claiming recognition of tort liability in relation to the sale of the Bank's shares in the company in 2014.

In 2016, the Bank completed refinancing partially the 2020 maturity and fully the 2022 and 2026 maturities of the senior secured bond series issued to LBI hf. The refinancing was achieved with the issuance of senior unsecured bonds in the total amount of EUR 500 million, SEK 1,100 million and NOK 250 million. The bond issuance was on better terms and strengthened the Bank's liquidity further. The bonds are all issued under the Bank's 1,500 million Euro Medium Term Note (EMTN) programme and are listed on the Irish Stock Exchange.

In 2016, the Bank continued to issue indexed and non-indexed covered bond series under the Bank's ISK 100,000 million Covered Bond Programme and new bank bill series under the Bank's ISK 30,000 million Debt Issuance Programme. The total year-on-year increase amounts to ISK 22,144 million.

In 2016, the international credit rating agency Standard and Poor's (S&P) upgraded Landsbankinn's long and short-term ratings from BBB-/A-3 to BBB/A-2 with a positive outlook. The upgrade recognises the positive

progress towards liberalisation of capital controls in Iceland and improvement in the operating environment of the Icelandic banks, with falling private sector leverage and improved access to foreign debt capital markets. In their report, S&P recognised the material improvement in Landsbankinn's capital position.

### Risk factors

Improving macroeconomic conditions and managerial efforts to mitigate credit risk had positive effects on the Bank's overall credit risk profile in 2016. Probability of default continued to decrease during the year, reaching 2.5% at year-end 2016, compared to 3.4% at the end of 2015, and a reduction of non-performing loans was affirmed. As a result of the improved credit risk profile, the Bank's economic capital for credit risk has decreased significantly in 2016.

The Bank's liquidity position remained strong throughout the year. The Bank continued to work towards diversifying its funding profile, in particular in foreign currency, by issuing unsecured bonds in EUR, SEK and NOK. The Bank used the proceeds primarily to repay maturities on secured bonds issued to LBI hf.

Market risk remains modest and well within the Bank's risk appetite. Total market risk decreased slightly in 2016 whereas foreign exchange risk decreased significantly due to a lower net currency position.

The risk management section of the notes to the Financial Statements and Landsbankinn's report on risk and capital management Pillar III Risk Report analyse in detail the Group's risk management governance and the Bank's risk profile.

### Outlook

Landsbankinn Economic Research forecasts 5.5% GDP growth in Iceland in 2017, 4.0% in 2018 and 3.1% in 2019. The Central Bank has recently upgraded its forecast for 2017 from 4.1% to 4.5% and predicts an average growth of 2.8% in 2018 and 2019. 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 2019, the near-term inflation outlook is positive but inflation is expected to pick up during the second half of 2017 and peak at close to 3.2% during the first half of 2018 due to substantial general wage increases over the coming years. Average inflation during the forecast period is expected to be around 2.9%.

### Other matters

On 20 April 2016 and 21 September 2016, the Bank paid dividends in two equal payments for the operating year 2015 to its shareholders in accordance with a resolution passed at the Bank's Annual General Meeting on 14 April 2016. The total dividend payments for the year 2015 amounted to ISK 28,538 million, equivalent to ISK 1.20 per share or ISK 0.60 per share per payment.

On 30 November 2016, the Board of Directors of Landsbankinn and Steinþór Pálsson, former CEO, agreed that Steinþór cease his employment with the Bank. Hreiðar Bjarnason, CFO and Deputy CEO, assumed the role of interim CEO until a new CEO could be hired and take up the position. On 23 January 2017, the Board of Directors announced it had hired Lilja Björk Einarsdóttir as the new CEO of Landsbankinn. She will assume the position as of 15 March 2017.

### Ownership

The total number of shareholders at year-end 2016 was 1,003, down from 1,835 at the beginning of 2016. The ten largest shareholders in the Bank at year-end 2016 were as follows:

Shareholder		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
Tryggingasjóður sparisjóða	Insurance fund	10.0	0.04%



Lífeyrissjóður Vestmannaeyja	Pension fund	5.0	0.02%
Vestmannaeyjabær	Local municipality	3.5	0.01%
Vinnslustöðin hf.	Corporate	1.7	0.01%
Helgi T. Helgason	Individual	0.5	0.00%
Hreiðar Bjarnason	Individual	0.5	0.00%
Árni Þ. Þorbjörnsson	Individual	0.5	0.00%
Hrefna Ö. Sigfinnsdóttir	Individual	0.4	0.00%
Steinþór Pálsson	Individual	0.3	0.00%
<b>Top 10 total</b>		<b>23,589.5</b>	<b>98.29%</b>
Other shareholders		58.7	0.24%
<b>Total shares outstanding</b>		<b>23,648.2</b>	<b>98.53%</b>
Landsbankinn hf.	Own shares	351.8	1.47%
<b>Total shares issued</b>		<b>24,000.0</b>	<b>100.00%</b>

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

In September 2016, the Bank's Board of Directors decided to offer to buy back own shares in the Bank, in accordance with a resolution passed by the Bank's AGM on 14 April 2016. These buy-backs will amount to a maximum of 480 million shares, or the equivalent of 2% of issued share capital. The objective of the buy-back programme is to reduce the Bank's equity while at the same time offering shareholders an opportunity to sell their shares in the Bank in a transparent manner, as restrictions on the transfer of shares expired on 1 September 2016.

The Bank subsequently announced it would purchase shares from shareholders in accordance with a buy-back programme during three specified periods: from 19 September 2016 to 30 September 2016, from 31 October 2016 to 9 December 2016, and from 13 February 2017 to 24 February 2017.

In accordance with the AGM's decision, Landsbankinn has offered to buy back each share during the above-mentioned periods at a share price determined by the internal value of the Bank's shares, according to its most recently published results prior to the commencement of the repurchase period concerned. The purchase price of the shares may therefore change between repurchase periods depending on the outcome of the Bank's latest quarterly or annual results. At year-end 2016, the Bank had acquired ISK 133.5 million own shares in this manner at the average price of 10.41857, for a total amount of ISK 1,391million.

The Bank has complied with legal requirements to maintain a gender balance among senior executives since 2010. Since 2010, the target has been for both genders to be represented by at least 40% of senior executives. The Bank has to date successfully met this target and the positions of managing directors at Landsbankinn have been filled by women and men in equal numbers, except when that group was an odd number.

### Governance

Landsbankinn has placed great emphasis on enacting good corporate governance in accordance with the recommendations of the most recent Corporate Governance Guidelines issued in June 2015 (5th edition) by the Iceland Chamber of Commerce, NASDAQ Iceland and the Confederation of Icelandic Employers, with the exception of certain aspect of Section 5.4.1 of the Guidelines. Further details on the Bank's corporate governance in general and this exception are provided in the Annual Report of the Group for the year 2016 and on the Bank's website, [www.landsbankinn.is](http://www.landsbankinn.is). Each year, Landsbankinn reviews compliance with the Guidelines and whether the Bank's governance accords with the Guidelines.

## **Corporate Social Responsibility**

Corporate Social Responsibility (CSR) in promoting economic growth, social well-being and protection of the environment is an integral part of the overall strategy of Landsbankinn. CSR underwrites sustainability through competitiveness, the productive use of resources and good governance, *inter alia*, human rights, anti-fraud and anti-corruption measures. The Bank places key emphasis on integrating social responsibility in all levels of the Bank's operations by such means as adopting various international and recognised standards, including the principles of the United Nations Global Compact, the United Nations Environmental Programme Financial Initiative (UNEP FI), the United Nations Principles for Responsible Investment (UNPRI) and numerous other projects in the field of social responsibility. Every year, Landsbankinn's CSR report is published together with the Bank's Annual Report, disclosing the Bank's progress in terms of social responsibility and social performance indicators. The report is accessible in Icelandic on the Bank's website, [www.landsbankinn.is](http://www.landsbankinn.is).

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

The Consolidated Financial Statements of Landsbankinn hf. for the year ended 31 December 2016 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 2016, its consolidated financial position as at 31 December 2016 and its consolidated cash flows for the year 2016.

Furthermore, in our opinion, the Consolidated Financial Statements of Landsbankinn hf. and the Report of the Board of Directors and the 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 of the Bank and the Chief Executive Officer hereby endorse the Consolidated Financial Statements of Landsbankinn hf. for the year 2016. 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, 9 February 2017.