

Supplement dated 19 February 2018  
to the Base Prospectus dated 8 December 2017

**Landsbankinn hf.**  
**(incorporated in Iceland as a limited liability company)**  
**ISK 120,000,000,000**  
**Covered Bond Programme**

This supplement (the “Supplement”) to the base prospectus dated 8 December 2017 (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 2017.

The Base Prospectus has been issued by Landsbankinn hf. (the “Issuer”) in respect of an ISK 120,000,000,000 Covered Bond Programme (the “Programme”) and is dated 8 December 2017.

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 19 February 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 year 2017, published 15 February 2018.

Chief Executive Officer and Director of Legal Department 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, 19 February 2018

On behalf of Landsbankinn hf.,



Lilja Björk Einarasdóttir

Chief Executive Officer



Hallgrímur Asgeirsson,

Director of Legal Department

## 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 Financial Statements of the Issuer for the year ended 31 December 2017.

The Condensed Consolidated Financial Statements for the year 2017 are available for viewing on the Issuer's website, [www.landsbankinn.is](http://www.landsbankinn.is)

<https://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppgjor/Consolidated-Financial-Report-2017-EN.pdf>

Following is an extract for the Condensed Consolidated Financial Statements for the year 2017 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 2017 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 2017

Consolidated profit amounted to ISK 19,766 million for the financial year 2017. The Board of Directors proposes that a dividend of ISK 0.65 per outstanding share, total amount of ISK 15,366 million, be paid before the end of March 2018. Consolidated total equity amounted to ISK 246,057 million and total assets to ISK 1,192,870 million at year-end. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 26.7% at year-end 2017 as compared with 30.2% at year-end 2016 (see Note 47).

Consolidated profit increased from ISK 16,643 million in 2016 to ISK 19,766 million in 2017, a year-on-year increase of ISK 3,123 million. The Bank's core operations are returning improved revenues and costs remain stable. Net interest income increased by ISK 1,621 million and net fee and commission income rose by ISK 622 million. The average number of full-time equivalent positions during the year 2017 was 1,034, as compared with 1,047 during 2016.

In 2017, the Bank completed refinancing the remaining senior secured bonds issued to LBI ehf. In addition, in the fourth quarter of 2017, the Bank partially refinanced the 2018 maturity of the EUR-denominated senior unsecured bond series with the issuance of new senior unsecured bonds in euros. The Bank's successful issues of senior unsecured bonds in foreign currencies during the past few years have enabled the Bank to refinance previous issues of bonds on more favourable and longer terms and strengthen the Bank's liquidity.

The senior unsecured bonds in foreign currencies issued by the Bank to date are all issued under the Bank's 2,000 million Euro Medium Term Note (EMTN) programme and are listed on the Irish Stock Exchange (see Note 31).

In 2017, the Bank continued to issue indexed and non-indexed ISK covered bond series under the Bank's ISK 120,000 million Covered Bond Programme and new bank bill series under the Bank's ISK 50,000 million Debt Issuance Programme. The total year-on-year increase amounts to ISK 27,546 million.

In 2017, the international rating agency S&P Global Ratings upgraded Landsbankinn's credit rating to BBB+/A-2 with a stable outlook from BBB/A-2 with a positive outlook. The stable outlook reflects S&P's expectation that domestic economic developments will continue to remain supportive and that Landsbankinn will maintain very strong risk-adjusted capitalisation.

## Risk factors

Despite a considerable increase in new lending in 2017, the Bank's credit risk remained fairly stable. Loss given default (LGD) decreased in 2017, *inter alia*, as a result of rising real estate prices, and probability of default (PD) continued to decrease slightly. Expected credit loss (ECL) has thus declined in 2017 and remains well within the Bank's risk appetite. Despite dwindling credit risk, the growth in new lending resulted in an increased EC for credit risk in 2017.

The Bank's liquidity position was robust in 2017 and the aggregate LCR was 157% at year-end. The Bank continues to seek to diversify its funding, especially in foreign currency, with the issuance of unsecured bonds in euros as well as Swedish and Norwegian krona. FX borrowing in 2017 was on much more favourable terms and longer-term with high demand from a diverse group of investors demonstrating confidence in the Bank. The Bank issued covered bonds and bills in ISK in accordance with its 2017 funding plan.

Market risk remains low and well within the Bank's risk appetite despite a difficult year in the domestic security and FX markets.

Information about the Group's governance as regards risk management and the Bank's risk profile is included in those notes to the Consolidated Financial Statements that discuss risk governance, and in the Bank's Risk and Capital Management – Pillar III Risk Report.

## Outlook

Landsbankinn Economic Research forecasts 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. The Central Bank of Iceland forecasts 3.2% growth in 2018 and an 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

In accordance with a resolution passed at the Bank's Annual General Meeting on 22 March 2017, the Bank paid dividends and extraordinary dividend to its shareholders for the operating year 2016 on 29 March 2017 and 20 September 2017, respectively. The dividend payments amounted in total to ISK 13,002 million, equivalent to ISK 0.55 per share, and the extraordinary dividend amounted in total to ISK 11,820 million on outstanding shares, or ISK 0.50 per share. Total dividend payments in 2017 for the operating year 2016 amounted to ISK 24,822 million.

In November 2017, the Icelandic Banks' Data Centre (RB) and Landsbankinn deployed a new core system for payments and deposits. The new system replaces many older systems operated by RB and the implementation process has brought on some challenges which the Bank and RB are working to resolve. Implementation of the new system has been a three-year process and has been the most extensive software project undertaken by the Bank to date.

Around year-end 2017, the private limited company JCC ehf. was established around the joint bank-cash centre operated by the Bank, Arion Bank hf. and Íslandsbanki hf. The company operates as a separate legal entity and is managerially and operationally independent from its owners.

## Ownership

Shareholders at year-end 2017 numbered 931, down from 1,003 at the beginning of 2017. The ten largest shareholders in the Bank at year-end 2017 were as follows:

| <b>Shareholder</b>              |                          | <b>Number of shares (in ISK million)</b> | <b>%</b>       |
|---------------------------------|--------------------------|--|----------------|
| 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                | 1.8                                      | 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>23,589.6</b>                          | <b>98.29%</b>  |
| Other shareholders              |                          | 49.9                                     | 0.21%          |
| <b>Total shares outstanding</b> |                          | <b>23,639.5</b>                          | <b>98.50%</b>  |
| Landsbankinn hf.                | Own shares               | 360.5                                    | 1.50%          |
| <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).

On 24 February 2017, the third repurchase period of the Bank's buy-back programme of own shares expired. During this period, Landsbankinn purchased a total of 8.5 million of own shares at a share price of 10.6226, for the total amount of ISK 90.4 million. Landsbankinn has acquired a total of 142 million of own shares under the buy-back programme, or the equivalent of 0.6% of issued shares in the Bank, for a purchase price of ISK 1,482 million. At the conclusion of the third repurchase period, the Bank holds 360.5 million of own shares, or the equivalent of 1.5% of issued share capital in the Bank.

## **Governance**

Landsbankinn is committed to 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. Further details on the Bank's corporate governance in general are provided in the Annual Report of the Group for the year 2017 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, having regard for human rights, anti-fraud and anti-corruption measures. Every year, Landsbankinn publishes a CSR 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 2017 have been prepared on a going concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable Icelandic laws and regulations.

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 2017, its consolidated financial position as at 31 December 2017 and its consolidated cash flows for the year 2017.

Furthermore, in our opinion, the Consolidated 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 Consolidated Financial Statements of Landsbankinn hf. for the year 2017. The Board of Directors and the CEO recommend that the Consolidated Financial Statements of Landsbankinn hf. for the year 2017 be approved at the Annual General Meeting of Landsbankinn hf.

Reykjavík, 15 February 2018