

Supplement dated 31 October 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 and supplement to the Base Prospectus dated 4 May 2018 and 27 July 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/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 31 October 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 nine months of 2018, published 25 October 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, 31 October 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 nine months ended 30 September 2018.

The Condensed Consolidated Interim Financial Statements for the first nine months ended 30 September 2018 are available for viewing on the Issuer's website, www.landsbankinn.is

<https://bankinn.landsbankinn.is/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-Q3-2018-IS.pdf>

Following is an extract for the Condensed Consolidated Interim Financial Statements for the nine months ended 30 September 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 nine months of 2018 include the Bank and its subsidiaries (collectively referred to as the "Group").

Landsbankinn is a leading provider of financial services in Iceland, offering a comprehensive range of financial products and services to individuals, corporates and institutional customers.

Operations

Consolidated profit amounted to ISK 15,393 million for the first nine months of the financial year 2018. Consolidated total equity amounted to ISK 235,892 million and total assets to ISK 1,317,205 million at the end of this period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 24.8% at the end of the third quarter of 2018.

On 30 August 2018, the Bank completed its inaugural EUR 100 million issuance of Tier 2 subordinated bonds. The bonds have a final maturity in September 2028, but are callable in 2023. They were priced at a spread of 285 basis points above the EUR mid-swap market rate, with a fixed coupon of 3.125%. The bonds are issued under the Bank's 2,000 million Euro Medium Term Note (EMTN) programme and are listed on the Irish Stock Exchange. The subordinated bonds have been rated BBB- by S&P Global Ratings.

Risk factors

The main risk factors of the Group have been within the limits set by its risk appetite during the period. Credit quality continues to be favourable as expected loss has decreased while probability of default has increased from year-end 2017. One additional large exposure was taken on during the period and the total ratio of large exposures to eligible capital is now 40%, which is within the Group's risk appetite.

The Group's loans to customers have increased by ISK 112,369 million during the period and deposits from customers by ISK 87,517 million during the same period. The Bank's borrowings, including subordinated borrowings, have also increased by ISK 39,286 million during the period. The Group's liquidity position remains strong, with both liquidity and financing ratios well above regulatory minimums.

Domestic markets have exhibited increased volatility so far this year. The share prices of twelve out of eighteen companies listed on NASDAQ Iceland have declined and total turnover has contracted by 26% between years. The ISK depreciated in the third quarter following a period of relative stability and the inflation premium on the bond market has increased, as have inflation expectations.

Outlook

Landsbankinn Economic Research forecasts 4.1% economic growth in 2018, and 2.4% growth in 2019 and 2020 - an average economic growth of 3.0% for the forecast period. The Central Bank of Iceland forecasts 3.6% growth in 2018 and an average economic growth of 3.1% for the period 2018 to 2020. Investment and private consumption are expected to be the main drivers of economic growth going forward. Inflation is expected to increase slightly in coming years to average 2.8% in 2019 and 2020.

Other matters

The Bank owns 22.04% of shares in the holding company Eyrir Invest hf. (EI). The Bank's shareholding is considered to involve temporary activity according to Article 22 of Act No. 161/2002, on Financial Undertakings. The Financial Supervisory Authority (FME) has in recent years granted extensions to the time limit given the Bank to lower its shareholding in the company and thereby terminate its temporary activity in EI. In 2016, the Bank publicly advertised its shareholding in EI for sale in an open sale process, without success. Since then, the Bank has publicly held its shareholding in EI for sale. No acceptable offers have been received. On 29 August 2018, the FME decided to impose an ISK 500 thousand per diem fine on the Bank as of 15 September 2018 and until such time as Bank has met the FME's requirement to terminate temporary activity in EI. The Bank continues to work to resolve the matter and evaluates possible responses to the FME's decision.

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 was paid 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 nine months ended 30 September 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 nine months of 2018, its consolidated financial position as at 30 September 2018, and its consolidated cash flows for the first nine 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 nine months ended 30 September 2018.

Reykjavík, 25 October 2018