

**SUPPLEMENT TO THE BASE PROSPECTUS DATED 6 APRIL 2018**

**THE DATE OF THIS SUPPLEMENT IS 22 AUGUST 2018**



**LANDSBANKINN HF.**

*(incorporated with limited liability in Iceland)*

**€2,000,000,000**

**Euro Medium Term Note Programme**

This supplement (“**Supplement**”) to the base prospectus dated 6 April 2018 as supplemented by the supplement dated 30 May 2018 (the “**Base Prospectus**”), constitutes a supplement to the Base Prospectus for the purposes of Article 16 of Directive 2003/71/EC as amended (the “**Prospectus Directive**”) (as implemented in the Republic of Ireland by the Prospectus (Directive 2003/71/EC) Regulations 2005, as amended) and is prepared in relation to the €2,000,000,000 Euro Medium Term Note Programme (the “**Programme**”) of Landsbankinn hf. (the “**Bank**” or the “**Issuer**”).

This Supplement has been approved by the Central Bank of Ireland as a competent authority under the Prospectus Directive. The Central Bank of Ireland only approves this Supplement as meeting the requirements imposed under Irish and European Union law pursuant to the Prospectus Directive. Such approval relates only to the Notes which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU or which are to be offered to the public in any Member State of the European Economic Area.

Unless the context otherwise requires, terms defined in the Base Prospectus shall have the same meaning when used in this Supplement. This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus dated 6 April 2018 and supplement to the Base Prospectus dated 30 May 2018, and all documents which are incorporated herein or therein by reference.

To the extent that there is any inconsistency between (a) any statement in this Supplement or any statement incorporated by reference into this Supplement and (b) any statement in or incorporated by reference in the Base Prospectus, the statements referred to in (a) will prevail.

The Issuer accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Supplement is in accordance with the facts and does not omit anything likely to affect the import of such information.

Save as disclosed in this Supplement, no other significant new factor, material mistake or inaccuracy relating to information included in the Base Prospectus has arisen or been noted, as the case may be, since the publication of the Base Prospectus.

This Supplement is and will be available on the website of the Central Bank of Ireland at [www.centralbank.ie](http://www.centralbank.ie) for a period of 12 months from the date of the Base Prospectus. This Supplement and the documents incorporated by reference may be obtained on written request and without charge from the registered office of the Issuer at Austurstræti 11, 155 Reykjavík, Iceland.

### **Purpose of this Supplement**

The purpose of this Supplement is to:

- (i) incorporate by reference into the Base Prospectus, at the section entitled ‘Documents Incorporated by Reference’ on page iv of the Base Prospectus, the Bank’s Condensed Consolidated Interim Financial Statements for the first six months, ended 30 June 2018 (as defined below), an extract of which is set out in this Supplement at page 2 below;
- (ii) confirm that there has been no significant change in the financial or trading position of the Group since 30 June 2018;
- (iii) confirm that there has been no material adverse change in the prospects of the Bank since 31 December 2017;
- (iv) set out the extract for the Condensed Consolidated Interim Financial Statement for the first six months ended 30 June 2018 displaying the endorsement of the Bank’s Board of Directors and the CEO; and
- (v) update the credit rating of the Bank.

### **Documents incorporated by reference**

By virtue of this Supplement the Consolidated Interim Financial Statements for the six months ended 30 June 2018 (the “**Q2 2018 Interim Financial Statements**”), (<https://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-H1-2018-EN.pdf>), which has previously been published on the website of the Issuer and has been filed with the Central Bank of Ireland, shall be incorporated in, and form part of, the Base Prospectus dated 6 April 2018 at the section entitled ‘Documents Incorporated by Reference’ on page iv of the Base Prospectus.

### **Significant change**

There has been no significant change in the financial or trading position of the Group since the end of the last financial period for the six months ended 30 June 2018, published 26 July 2018, and there has been no material adverse change in the prospects of the Bank since 31 December 2017.

Any documents themselves incorporated by reference in the documents incorporated by reference do not (and shall not be deemed to) form part of this Supplement for the purposes of the Prospectus Directive except where such information or other documents are specifically incorporated by reference.

### **Extract for the Condensed Consolidated Interim Financial Statement for the six months ended 30 June 2018**

The following extract shall be incorporated at page 81 of the Base Prospectus, under the paragraph entitled ‘Recent Developments’:

“The Condensed Consolidated Interim Financial Statements of Landsbankinn hf. (the “**Bank**” or “**Landsbankinn**”) for the first six months ended 30 June 2018 include the Bank and its subsidiaries (collectively referred to as the “**Group**”).

*Operations*

Consolidated profit amounted to ISK 11,613 million for the first six months of the financial year 2018. Consolidated total equity amounted to ISK 232,113 million and total assets to ISK 1,249,853 million at the end of this period. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 24.1% at the end of the second quarter of 2018.

#### *Risk factors*

The Group's risk factors have generally been within the Group's risk appetite limits in 2018. Credit quality has improved as expected loss has decreased together with a slight drop in probability of default. Large exposures have risen to 31.8% of eligible capital, up by 10.3 percentage points from year-end 2017, with the single largest exposure equivalent to 19.2% of eligible capital, an increase of 7.8 percentage points from year-end 2017, while both remain within the Bank's risk appetite. The Group's liquidity position remains strong, with both liquidity and financing ratios well above regulatory minimums.

#### *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 3.3% growth in 2018 and an average economic growth of 3.0% for the period 2018 to 2020. Increasing 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 close to the Central Bank's target in 2018, i.e. at 2.3%, and then to increase slightly in coming years to average 2.8% 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 six months ended 30 June 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 six months of 2018, its consolidated financial position as at 30 June 2018, and its consolidated cash flows for the first six 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 six months ended 30 June 2018.

### **Ratings**

On 17 July 2018, the international rating agency Standard & Poor's Credit Market Services Europe Limited ("S&P") announced an affirmation of Landsbankinn's long-term and short-term rating, BBB+/A-2, with an unchanged stable outlook.

The following wording shall replace the fourth paragraph in the chapter "Overview" under the section "Description of the Bank" on page 81, in the Base Prospectus, dated 6 April 2018:

On 17 July 2018, the International rating agency Standard & Poor's ("S&P") affirmed the rating of the Bank, BBB+/A-2, with an unchanged stable outlook. The previous rating was from October 2017, where S&P raised the long term rating from BBB/A-2, with "positive outlook", to BBB+/A-2, with a "stable outlook".