

SUPPLEMENT TO THE BASE PROSPECTUS DATED 6 APRIL 2018

THE DATE OF THIS SUPPLEMENT IS 10 JANUARY 2019



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 supplements dated 30 May 2018 and 22 August 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 supplements to the Base Prospectus dated 30 May 2018 and 22 August 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 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 nine months, ended 30 September 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 September 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 nine months ended 30 September 2018 displaying the endorsement of the Bank’s Board of Directors and the CEO;
- (v) update the section “*Shareholders and Share Capital*” on page 82 of the Base Prospectus; and
- (vi) update the table “*Board of Directors*” in section “*Administrative, Management, and Supervisory Bodies*” on page 105 of the Base Prospectus.

Documents incorporated by reference

By virtue of this Supplement the Consolidated Interim Financial Statements for the first nine months ended 30 September 2018 (the “**Q3 2018 Interim Financial Statements**”), (<https://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-Q3-2018-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 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 first nine months ended 30 September 2018, published 25 October 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 first nine months ended 30 September 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 nine months of 2018 include the Bank and its subsidiaries (collectively referred to as the “**Group**”).

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

Shareholders and Share Capital

On 6 December 2018, Landsbankinn announced that the Bank would offer to purchase shares from shareholders under the terms of a buy-back programme during the period 10 December 2018 to 20 December 2018. During the period the Bank acquired a total of 14,995,121 own shares at a share price of 9.9787, for the total amount of ISK 149,631,819.

The following wording shall replace the wording in section “*Shareholders and Share Capital*” on page 82 in the Base Prospectus:

As at 31 December 2018, the Bank had 883 shareholders. The ISFI manages 23,567,013,778 (98.2 per cent.) shares and the corresponding voting rights on behalf of the largest shareholder, the Icelandic State Treasury. The ISFI manages its holdings in the Bank in accordance with its publicly available ownership policy. The second largest shareholder is the Bank, which holds 375,460,240 (1.56 per cent.) of its own shares after acquisition by the Bank of its own shares under its buy-back Programme (the “Buy-back programme”), which was initiated in December 2018. Current and former employees of the Bank and also former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses hold 57,525,982 (0.24 per cent.) shares and the corresponding voting rights in the Bank, after the Bank exercised an authorisation to purchase shares under the Buy-Back Programme, in December 2018 (see section “*Share Capital*”). The shares and the corresponding voting rights of current and former employees of the Bank and also former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurlands ses. are held by each shareholder individually.

	Shares 31 December 2018	% of the Bank's share capital
Icelandic State Treasury	23,567,013,778	98.20
Landsbankinn's own shares	375,460,240	1.56

	Shares 31 December 2018	% of the Bank's share capital
Current and former employees of Landsbankinn and current and former owners of Sparisjóður Vestmannaeyja and Sparisjóður Norðurland ses	57,525,982	0.24
Total shares	24,000,000,000	100.00

The Icelandic Parliament has authorised a sale of all of the Icelandic State Treasury's shares in the Bank which are in excess of 70 per cent of the Bank's total share capital – see also "*Risk factors - The Icelandic State Treasury is the largest shareholder of the Bank. This may affect the Bank and its business*".

The Bank is not directly or indirectly owned or controlled by others, other than those listed above.

The Bank does not know of any arrangements, the operation of which may at a subsequent date result in a change in control of the Bank.

Share Capital

The Bank's total share capital is ISK 24,000,000,000 of which 23,624,539,760 shares are outstanding. Each share is of the nominal value of one ISK and entitles the owner to one vote at shareholders' meetings.

The Bank's AGM held on 21 March 2018, authorised the Bank, in accordance with Article 55 of the Act on Public Limited Companies, No. 2/1995, to acquire its own shares, up to 10 per cent. of the nominal value. The minimum and maximum amount the Bank is authorised to pay for each share shall be equivalent to the Bank's book value, i.e. the ratio of shareholder equity to share capital, as disclosed in the most recently published annual or interim financial statement prior to the commencement of the repurchase period. This authorisation is valid until the AGM of the Bank in 2019. Disposal of own shares purchased by the Bank based on this authorisation is subject to approval by a shareholders' meeting. On 6 December 2018, the Bank's Board of Directors decided to exercise an authorisation to purchase the Bank's own shares. Under the Buy-Back Programme, the maximum purchase amounted to 72.5 million shares, or the equivalent of 0,3 per cent. of issued shares. Before the aforementioned Buy-Back Programme the Bank has three times previously offered shareholder the chance to sell their shares in the Bank, most recently in February 2017. Under the Buy-Back Programme which was announced on the 6 December 2018, the Bank offered to purchase shares from shareholders during a repurchase period, extending from 10 December 2018 up to and including 20 December 2018. Based on the Bank's interim result for the nine months of 2018, the equity held by the Bank's shareholders amounts to ISK 235,892 million and outstanding shares number 23,640 shares. In accordance to the aforementioned, the Bank offered to purchase each share at a price of ISK 9.9787 during the repurchase period. Prior to the repurchase period in December 2018, the Bank held 360,465,119 of own shares or equivalent of around 1.50 per cent. of issued share capital in the Bank. At the end of the repurchase period the Bank held 375,460,240 of own shares, or the equivalent of around 1.56 per cent. of issued share capital.

Administrative, Management, and Supervisory Bodies

On 7 November 2018, one board member, Samúel Guðmundsson resigned from the Board of Directors of Landsbankinn. Samúel was elected as alternate to the Board of Directors in April 2016 and became a regular

member in March 2018. Samúel owned a share in the management company of a restaurant which faced operating difficulties. Under the circumstances, he deemed it right to resign from the Board of Directors.

The following table shall replace the table in section “*Board of Director’s*” in section “*Administrative, Management and Supervisory Bodies*” on page 105 in the Base Prospectus:

Board of Directors

Ms. Helga Björk Eiríksdóttir	Chairman	Chairman of the Board of Directors of Firkir ehf. General Manager and Board Member of Integrum ehf. Board Member of Budz Boot Camp ehf. General Manager and Alternate Board Member of Förli ehf. Alternate Board Member of Slysabætur ehf. Fösull ehf. and Fenlogi ehf.
Ms. Berglind Svavarsdóttir	Board Member	Lawyer at Lögmannstofa Reykjavíkur. Board Member of Kulygin ehf.
Mr. Einar Þór Bjarnason	Board Member	General Manager and Board Member of Gyrus ehf. Chairman of the Board of Directors of Intellecta ehf. Alternate Board Member of Glöggvir ehf.
Mr. Hersir Sigurgeirsson	Board Member	Associate Professor in the Faculty of Business Administration of the University of Iceland, and independent consultant. Board Member of Endurreisnarsjóðurinn ehf. and Auðfræðasetur sf. General Manager and Board Member of Kvant ehf.
Mr. Jón Guðmann Pétursson	Board Member	General Manager and Board Member of Krumur ehf.
Ms. Sigríður Benediktsdóttir	Board Member	Works in research and teaching at Yale University in the US, where she was awarded her doctorate in economics in May 2005. Board member of non-profit organization New Have Reads.

Ms. Guðrún Ó. Blöndal	Alternate	N/A
Mr. Thorvaldur Jacobsen	Alternate	Works for Valcon Consulting A/S. Was Managing Director at Vátryggingarfélag Íslands hf. from 2012 until 2017. Board Member of Sensa ehf. Director of Board of USB Baltic IT Services, ITIVA A/S and DanSupport A/S.