

SUPPLEMENT TO THE BASE PROSPECTUS DATED 6 APRIL 2018

THE DATE OF THIS SUPPLEMENT IS 12 FEBRUARY 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, 22 August 2018 and 10 January 2019 (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, 22 August 2018, and 10 January 2019, 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 Consolidated Financial Statements for the financial year 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 31 December 2018;
- (iii) confirm that there has been no material adverse change in the prospects of the Bank since 31 December 2018;
- (iv) set out the extract for the Consolidated Financial Statement for the financial year ended 31 December 2018, displaying the endorsement of the Bank’s Board of Directors and the CEO;

Documents incorporated by reference

By virtue of this Supplement the Consolidated Financial Statements for the financial year ended 31 December 2018 (the “2018 Financial Statements”),

(<https://www.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-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 31 December 2018 and there has been no material adverse change in the prospects of the Bank since 31 December 2018.

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 Consolidated Financial Statement for the financial year 2018

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

Landsbankinn is a leading financial institution in Iceland, offering a comprehensive range of financial services to individuals, corporates and investors. The Consolidated Financial Statements of Landsbankinn hf. (the “Bank” or “Landsbankinn”) for the financial year 2018 include the Bank and its subsidiaries (collectively referred to as the “Group”).

Operations in 2018

Consolidated profit amounted to ISK 19,260 million for the financial year 2018 compared with 19,766 in 2017. Return on equity after tax remained unchanged from 2017 at 8.2% while the cost-income ratio has declined between years, to 45.5% compared with 46.1% in 2017. Net interest income increased between years by ISK 4,543 million while net fee and commission income decreased by ISK 274 million. The average number of full-time equivalent positions during the year 2018 was 961, as compared with 1,034 in 2017.

Consolidated total equity amounted to ISK 239,610 million and total assets to ISK 1,326,041 million at year-end. The total capital ratio of the Group, calculated according to the Act on Financial Undertakings, was 24.9% at year-end 2018 as compared with 26.7% at year-end 2017 (see Note 50).

The Board of Directors intends to propose to the Annual General Meeting (AGM) that a dividend of ISK 0.42 per share be paid to shareholders in two equal payments in 2019. The total dividend of ISK 9,922 million corresponds to 52% of the consolidated profit in 2018. If the AGM approves the dividend proposal, the capital requirement of the Group will be reduced by an amount equivalent to the dividend payment and the Bank's capital ratios, in accordance with the Act on Financial Undertakings, will decrease by 1.0 percentage points.

In July 2018, international rating agency S&P Global Ratings affirmed Landsbankinn's credit rating of BBB+/A-2 with a stable outlook.

Risk factors

The carrying amount of the Bank's credit portfolio increased by 15% in 2018 yet credit risk remained more or less the same. Loss given default (LGD) continued to decrease in 2018, reflecting rising real estate prices, and probability of default (PD) also decreased. Expected credit loss (ECL) has thus declined in 2018 and remains well within the Bank's risk appetite. Despite a decline in credit risk, the growth in new lending resulted in a slightly increased economic capital (EC) for credit risk in 2018.

The Bank's liquidity ratios, both total and in foreign currencies, were robust in 2018 and the total liquidity coverage ratio (LCR) was 158% at year end, compared with 157% in 2017 (see Note 75). The Bank continues to seek to diversify its funding, especially in foreign currency, with the issuance of subordinated bonds in euros. In August 2018, the Bank completed the sale of its inaugural Tier 2 issuance of EUR 100 million 10-year bonds which are callable in 5 years. The issuance is rated BBB- by S&P Global Ratings and is a step towards further optimising the Bank's capital structure, supporting long-term return-on-equity targets.

Market risk remains low and well within risk appetite. In 2018, the Bank reduced its CPI indexation imbalance consisting of indexed financial assets in excess of indexed financial liabilities, using *inter alia* interest rate swaps.

Information about the Group's risk management is included in the notes to the Annual Financial Statement that discuss risk management, and in the Bank's Pillar III Risk Report.

Outlook

Following a long period of robust economic growth alongside low and stable inflation, the outlook in coming years is for slower growth and rising inflation. Nevertheless, moderate yet continuous growth is expected over the forecast period with a horizon of year-end 2021. The Bank's Economic Research department's forecast for the next three years predicts 2% average economic growth over the period. This is comparable to the average growth expected in developed economies in the coming years.

The inflation outlook has worsened somewhat since mid-2018 and inflation is expected to remain above the Central Bank's inflation target over the forecast period. The deterioration of the inflation outlook is due to sharp ISK depreciation, rising import prices and increasing labour costs. There is increased uncertainty in the inflation forecast, with the ISK exchange rate and oil price developments weighing heavily. There is also a considerable uncertainty surrounding the outcome of collective bargaining talks which may have a

considerable impact on the development of inflation in the coming years. The forecast inflation is on average 3.7% in 2019, 3.4% in 2020 and falls to 2.9% in 2021.

Other matters

In November 2018, the Bank sold a 9.2% shareholding in the investment company Eyrir Invest hf. for ISK 3,900 million in an open sale process. With this transaction the Bank responded to the amelioration requirement set by the Financial Supervisory Authority (FME) that the Bank terminate its temporary activity in the company. The remaining 12.1% of the Bank's shareholding in the company now falls under proprietary transactions.

In accordance with a resolution passed at the Bank's Annual General Meeting on 21 March 2018, the Bank paid dividend to its shareholders for the operating year 2017 on 28 March 2018. The dividend payment amounted to ISK 15,366 million, equivalent to ISK 0.65 per share, and corresponded to 78% of net profit for the operating year. On 19 September 2018, the Bank paid an extraordinary dividend in accordance with the AGM's resolution. The extraordinary dividend amounted to ISK 9,456 million, or ISK 0.40 per share. Total dividend payments in 2018 for the operating year 2017 amounted to ISK 24,822 million.

As of 1 January 2018, the Group implemented the international financial reporting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The IFRS 9 standard makes fundamental changes to the assessment of impairment on loans and receivables. Under the new standard, assessment is based on expected credit losses rather than, as was the case under the previous standard, on incurred credit losses. The impact of IFRS 9 and IFRS 15 on the Group's financial statements is described in Note 4.

Ownership

Shareholders at year-end 2018 numbered 883, down from 931 at the beginning of 2018. The ten largest shareholders in the Bank at year-end 2018 were as follows:

Shareholder		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,567.0	98.20%
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%
Hjördís D. Vilhjálmsdóttir	Individual	0.3	0.00%
Top 10 total		23,580.0	98.25%
Other shareholders		44.5	0.19%
Total shares outstanding		23,624.5	98.44%
Landsbankinn hf.	Own shares	375.5	1.56%
Total shares issued		24,000.0	100.00%

Icelandic State Financial Investments (ISFI) manages the State's holding in the Bank on behalf of Ríkissjóður Íslands (the Icelandic State Treasury) in accordance with Act No. 88/2009, on Icelandic State Financial Investments.

On 6 December 2018, the Bank's Board of Directors announced its decision to exercise an authorisation to purchase the Bank's own shares, granted by the Bank's AGM on 21 March the same year. On this occasion, the buy-back period extended from 10 December 2018 up to and including 20 December 2018. During the repurchase period, the Bank acquired a total of 15 million own shares at a share price of 9.9787, for the total amount of ISK 149.6 million.

Governance

Landsbankinn is committed to good corporate governance as described in 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 governance in general are provided in the Annual Report of the Group for the year 2018 and on the Bank's website, www.landsbankinn.is. Each year, Landsbankinn reviews whether the Bank's governance accords with the Guidelines. In April 2018, the Centre for Corporate Governance in Iceland renewed its recognition of the Bank as a model of good corporate governance for the period 2017-2018.

Corporate social responsibility

Corporate social responsibility (CSR) is an integral part of the overall strategy of Landsbankinn to promote economic growth, social well-being and conservation of the environment. CSR underwrites sustainability through competitiveness, the productive use of resources and good governance, having regard for human rights, anti-fraud and anti-corruption measures. In December 2018, the Bank endorsed UNEP FI's new Principles for Responsible Banking, intended to align the banking industry with the Sustainable Development Goals (SDGs) and the Paris Climate Agreement. Every year, the Bank publishes a Report on Social Responsibility, disclosing the Bank's progress in terms of social responsibility and social performance indicators. The Bank's report for 2017 was awarded the best CSR report of 2018 by the national representative body of CSR. The report is accessible in Icelandic on the Bank's website, 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 2018 have been prepared on a going-concern basis in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The Consolidated Financial Statements have, furthermore, been prepared in accordance with Act No. 3/2006, on Annual Financial Statements, Act No. 161/2002, on Financial Undertakings, and Rules No. 834/2003, on Accounting for Credit Institutions.

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 2018, its consolidated financial position as at 31 December 2018 and its consolidated cash flows for the year 2018.

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 2018. The Board of Directors and the CEO recommend that the Consolidated Financial Statements of Landsbankinn hf. for the year 2018 be approved at the Annual General Meeting of Landsbankinn hf.

Reykjavík, 7 February 2019