

Supplement dated 24 March 2015

to the Base Prospectus dated 9 December 2014

**Landsbankinn hf.**  
**(incorporated in Iceland as a limited liability company)**  
**ISK 100,000,000,000**  
**Covered Bond Programme**

This supplement (“Supplement”) to the base prospectus dated 9 December 2014 (“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 (“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 (“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 9 December 2014.

The Base Prospectus has been issued by Landsbankinn hf. (“Issuer”) in respect of a ISK 100,000,000,000 Covered Bond Programme (“Programme”) and is dated 9 December 2014.

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 this Supplement 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 (“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 24 March 2015**


## 1 ISSUER'S STATEMENT

There have been no significant changes in the future prospects of the Issuer or financial position of the Issuer that could have a negative impact on the Issuer, since the last audited financial statements of the Issuer for the year 2014 published 26 February 2015.

The Board of Directors and Chief Executive 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, 24 March 2015

On behalf of the Board of Directors,



Tryggvi Pálsson

Chairman of the Board of Directors

On behalf of Landsbankinn hf.,



Steinþór Pálsson

Chief Executive 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 Consolidated Financial Statements of the Issuer for the year ended 31 December 2014.

The Consolidated Financial Statements for the year 2014 are available for viewing on the Issuer's website, [www.landsbankinn.is](http://www.landsbankinn.is) (<http://corporate.landsbankinn.com/uploads/documents/arsskyrsluroguppjor/Consolidated-Financial-Report-2014-EN.pdf>).

Following is an extract for the Consolidated Financial Statements for the year 2014 displaying the endorsement of the Issuer's Board of Directors and the CEO.

The Consolidated Financial Statements of Landsbankinn hf. (the "Bank" or "Landsbankinn") for the financial year 2014 include the Bank and its subsidiaries (collectively referred to as the "Group").

Landsbankinn was founded on 7 October 2008. The Bank is a leading bank in the domestic market and offers a complete range of financial products and services to personal, corporate and institutional customers.

## Operations in 2014

Consolidated profit amounted to ISK 29,737 million for the financial year 2014. The Board of Directors will propose to the Annual General Meeting that ISK 1.00 dividend per outstanding share will be paid to shareholders, corresponding to ISK 23,687 million or 80% of the consolidated profit. Remaining profit will be added to the Bank's equity. Consolidated total equity amounted to ISK 250,803 million and total assets amounted to ISK 1,098,370 million at the end of the year. The capital adequacy ratio of the Group, calculated according to the Act on Financial Undertakings, was 29.5% at year-end 2014 (see Note 45).

The carrying amount of loans and advances to customers increased by 5.6% during the year, to ISK 718,355 million from ISK 680,468 million, predominately due to increased mortgage lending. Mortgages now account for roughly 22.9% of loans and advances at year-end 2014 versus 18.4% at year-end 2013. As a result of a successful completion of restructuring of loans and advances acquired at deep discount and improved credit risk management, net valuation adjustments and credit impairment charges were positive by ISK 20,128 million for the year.

On 4 December 2014, an agreement between the Bank and the Winding-up Board of LBI hf. to extend the repayment schedule of the secured foreign currency bonds issued by the Bank to LBI hf. became effective (see Note 30). The agreement is an important step towards further strengthening the Bank's foreign currency financing and should facilitate the Bank's efforts to access debt financing in international capital markets at favourable terms. Furthermore, the agreement marks a significant step towards the easing of capital controls in Iceland.

In October 2014, the international rating agency Standard and Poor's (S&P) revised the outlook for Landsbankinn from stable to positive, and affirmed its long and short-term credit ratings at 'BB+/B'. The revision reflects S&P's view of improving economic conditions in Iceland, supported by expected strong real GDP growth, decreasing government debt and increasing quality of the Bank's assets. The sovereign and banking sector ratings nevertheless continue to be constrained by the risks associated with the removal of capital controls. S&P assumes that the removal will be approached prudently to minimize the impact on the economy and the exchange rate. In its rating, S&P also anticipated that the agreement between the Bank and the Winding-up Board of LBI hf., to extend the repayment profile of the Bank's secured bonds, would come into effect.

In August 2014, the Bank's base prospectus for the issue of foreign currency notes was approved by the Dublin Stock Exchange in Ireland. Subsequently, the Bank listed a Euro Medium Term Note (EMTN) programme on the Irish Stock Exchange. This EMTN programme enables the Bank to issue notes in the equivalent amount of up to EUR 1,000 million in various currencies and at fixed or floating interest rates. Deutsche Bank served as arranger of this EMTN programme. Listing a note programme on a foreign stock exchange puts the Bank in a position to issue foreign currency notes, should favourable terms become available.

In April 2014, the Bank opened a specialised Corporate Service Centre for corporates and the capital city region's small and medium-sized enterprises (SMEs). This arrangement provides corporate and SMEs in the capital city region with access to higher quality and more comprehensive expert services in one place. Other branches in the capital city region will be dedicated to personal banking and basic services to corporates. These changes are intended to improve quality of service to individuals and corporates alike and increase the operational efficiency of the Bank's customer service.

In 2014, the Bank sold all of its shares in the payment card companies Borgun hf. and Valitor Holding hf., as well as all of its shares in IEI slhf. and a 9.9% shareholding in Icelandic Enterprise Investment Fund slhf. As a result, the carrying amount of investments in equity-accounted associates have been reduced from ISK 14,224 million at year-end 2013 to ISK 777 million at year-end 2014 (see Note 23).

In 2014, the Bank continued to issue tranches in Landsbankinn's non-indexed covered bond series. New series LBANK CB 17 and LBANK CB 19 were added to the coexisting series LBANK CB 16 during the year. All of the series have been admitted for trading on NASDAQ OMX Iceland and the total amount of issued covered bonds at year end 2014 is ISK 7,470

million. The covered bond issues provide broader funding opportunities for the Bank's mortgage portfolio and reduce the Bank's fixed interest rate risk (see Note 30).

Amongst the open material litigation cases disclosed at year-end 2014 in the litigation section in Note 35, some may have a greater impact on the amounts disclosed in the Group's Financial Statements than others. The cases of greatest importance relate, on the one hand, to recalculation of foreign currency indexed loans and, on the other, to the inflation-indexation of financial obligations. In the former, the comparative position between the Bank against the customer and the disruptive impact on the corporate customer's financial position are being disputed. In the latter, the legitimacy of information disclosure by the Bank and consumer price indexation provisions of financial obligations is being disputed. The EFTA Court submitted its advisory opinion on the latter without decisive conclusions, leaving final judgment in the hands of the national courts. In February 2015, the Reykjavik District Court, in two comparable cases, rejected the argument that provisions on consumer price indexation of loan agreements should be declared null and void.

### **Risk management**

The Bank's core operations are sound and have been improving in recent years. Processes are being revised on a continuous basis to improve risk management, efficiency and customer relationship management. As a result of improved credit risk management, the ratio of non-performing loans has decreased steadily since the beginning of the year 2014 and borrower credit quality has strengthened in the fourth quarter of 2014. The improved position is evidenced by the decreasing number of borrowers on watch lists.

The Group's liquidity position is strong in both ISK and foreign currencies, and liquidity ratios are well above minimum regulatory requirements. The Bank's leverage and funding ratios are also strong and well above minimum requirements. The Bank is well positioned to meet additional capital requirements, as forthcoming Icelandic legislation, implementing the new EU Capital Requirements Directive (CRD IV), is expected to require the Bank to hold capital buffers in addition to existing capital requirements. The Bank has set a target for a total capital ratio of at least 20% of risk-weighted assets (see Note 44), which is over and above legal and regulatory requirements.

### **Outlook**

Preliminary estimates from Statistics Iceland suggest that annual gross domestic product (GDP) growth was just 0.5% for the first three quarters of 2014. Domestic demand, however, grew by 3%, thereof consumption and investment by 3.9%. Landsbankinn Economic Research expects strong GDP growth in Q4 and an upward revision of the preliminary figures for Q1-Q3. With that in mind, GDP growth for 2014 is expected to have been significantly stronger than preliminary figures suggest. The outlook for 2015 is favourable; GDP is expected to grow by 4.3%.

The sharp year-over-year income increase in Net valuation adjustments and credit impairment charges is largely attributed to the increased quality of the loan portfolio. This increase is to a large extent offset by decreased Net interest income, Other net operating income and Share of profit of equity accounted associates. The decrease in Net interest income is greatly due to a sharp and unexpected decrease in inflation. The net valuation adjustments, plus increased taxation of the Bank, have a considerable effect on the total net profit and are factors that need to be considered in terms of the Bank's future profitability. Excluding Net valuation adjustments, the Bank's cost efficiency ratio rose to 56.0%, which is above the target range. This was due to a reduction in net interest income and other net operating income, higher staff costs and investment in strategic initiatives. The Bank has reviewed its strategy with the aim to improve sustainable profitability in the future.

### Other matters

In the fourth quarter of 2014, the Bank made a prepayment of principal of the secured foreign currency bonds equivalent to ISK 30,000 million in total. The Bank's strong liquidity position in foreign currencies has enabled the Bank to reduce its foreign currency liabilities by making significant early repayments on the bonds in recent years.

On 26 March 2014, the Bank paid dividends for the operating year 2013 to its shareholders in accordance with a resolution passed at the Bank's Annual General Meeting held on 19 March 2014. The dividend payment amounted to ISK 19,897 million, equivalent to ISK 0.84 per share for the year 2013, or 70% of net profit for the year 2013.

In February 2014, the Bank completed the allocation of own shares received from LBI hf. in 2013, in accordance with the requirements of LBI hf. and a resolution passed at a shareholders' meeting of the Bank in July 2013. The net result of the 500 million shares being allocated, and partly repurchased by the Bank for settlement of tax obligations and pension liabilities, is that the Bank's current and former employees now own 187 million shares in total (0.78%) and the Bank itself holds 313 million of own shares (1.30%).

### Ownership

The total number of shareholders at year-end 2014 was 1,403, up from 1,394 at the beginning of 2014. The ten largest shareholders in the Bank at year-end 2014 are as follows:

Shareholders		Number of shares (in ISK million)	%
Ríkissjóður Íslands	Icelandic State Treasury	23,500.0	97.92%
Helgi T. Helgason	Employee of Landsbankinn hf.	0.5	0.00%
Hreiðar Bjarnason	Employee of Landsbankinn hf.	0.5	0.00%
Árni Þ. Þorbjörnsson	Employee of Landsbankinn hf.	0.5	0.00%
Helgi Þ. Arason	Employee of Landsbréf hf.	0.4	0.00%
Hermann M. Þórisson	Employee of Landsbréf hf.	0.4	0.00%
Guðni Einarsson	Employee of Landsbankinn hf.	0.4	0.00%
Sigrún Sæmundsdóttir	Employee of Landsbankinn hf.	0.4	0.00%
Davíð Björnsson	Employee of Landsbankinn hf.	0.4	0.00%
Einar K. Jónsson	Employee of Landsbankinn hf.	0.4	0.00%
<b>Top 10 total</b>		<b>23,504.0</b>	<b>97.93%</b>
Other shareholders		183.1	0.76%
<b>Total shares outstanding</b>		<b>23,687.1</b>	<b>98.70%</b>
Landsbankinn hf.	Own shares	312.9	1.3%
<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).

### **Governance**

The Bank's good governance practices form the foundation for trust in the interrelationship between shareholders, Board of Directors, management, employees and interested parties, and they promote objectivity, integrity, transparency and responsibility in the management of the Bank.

Each year, the Bank reviews compliance with generally accepted guidelines on corporate governance and whether the Bank's governance practices are in accordance with those guidelines at all times.

The underlying regulatory framework for the Bank's corporate governance policy and procedures is comprised of, inter alia, the Act on Financial Undertakings No. 161/2002 and subsequent amendments (No. 75/2010), the Act on Annual Financial Statements No. 3/2006 and subsequent amendments (No. 118/2011), as well as other applicable laws and regulations.

Landsbankinn complies with the recommendations of the most recent Corporate Governance Guidelines issued in March 2012 (fourth edition) by the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers, except for certain items in Articles 1.1, 2.7, 5.B.3 and 5.B.4 in the Guidelines. Further details on the Bank's corporate governance in general and these exceptions are provided in the Annual Report of the Group for the year 2014 and on the Bank's website [www.landsbankinn.is](http://www.landsbankinn.is).

In December 2014, the Bank was recognised as a model of good corporate governance following a formal review of the work procedures of its Board and executives. The review was performed by the Centre of Corporate Governance of the University of Iceland and was based on the Corporate Governance Guidelines. The review is performed under a co-operative agreement between the Centre of Corporate Governance and the Iceland Chamber of Commerce, NASDAQ OMX Iceland and the Confederation of Icelandic Employers.

### **Statement by the Board of Directors and the CEO**

The Consolidated Financial Statements of Landsbankinn hf. for the year ended 31 December 2014 have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the EU.

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 2014, its consolidated financial position as at 31 December 2014 and its consolidated cash flows for the year 2014.

Furthermore, in our opinion, the Consolidated Financial Statements of Landsbankinn hf. and Endorsement of its Board of Directors and CEO give a fair view of the development and performance of the Group's operations and its position and describe the principal risks and uncertainties faced by the Group.

The Board of Directors and the CEO have today discussed the Consolidated Financial Statements of Landsbankinn hf. for the year 2014 and confirmed them by their signatures. The Board of Directors and the CEO recommend that the Consolidated Financial Statements of Landsbankinn hf. be approved at the Annual General Meeting of Landsbankinn hf.

Reykjavík, 26 February 2015.

### 3 ANNUAL GENERAL MEETING (AGM) OF THE ISSUER HELD 18 MARCH 2015.

The Issuer's AGM, held 18 March 2015, elected a statutory auditor for the year 2015, authorised the Issuer to buy its own shares and elected a new alternate on the Board of Directors. These results of the Issuer's AGM require an update on the following sections and pages in the Issuer's Base Prospectus dated 9. December 2014: *Statutory Auditor* on page 39, *Shareholders* on pages 106-107 and *Administrative, Management and Supervisory Bodies* on pages 129-130.

#### **Statutory Auditors**

The following three paragraphs shall replace the wording under the section *Statutory Auditor* on page 39 in the Base Prospectus dated 9 December 2014:

The National Audit Office, Skúlagata 57, 105 Reykjavík, Iceland (the "National Audit Office") has been the Issuer's statutory auditor for the financial years 2013 and 2014. The National Audit Office is authorized to outsource part of its assignments and has outsourced the audit of the Issuer to KPMG ehf., Borgartún 27, 105 Reykjavík, Iceland for the financial years 2013 and 2014. The Issuer's statutory auditor has not resigned, been removed or not re-appointed during that period. Helgi F. Arnarsson and Sigríður Helga Sveinsdóttir were the auditors on behalf of KPMG ehf., for the financial years 2013 and 2014. They are members of the Institute of State Authorized Public Accountants in Iceland.

The Issuer's AGM held on 18 March 2015 elected The National Audit Office as the Issuer's statutory auditor for the financial year 2015. The National Audit Office has outsourced the audit of the Issuer for the financial years 2015-2020 to Grant Thornton endurskoðun ehf., Suðurlandsbraut 20, 108 Reykjavík. Davíð Arnar Einarsson and Sturla Jónsson are the auditors on behalf of Grant Thornton endurskoðun ehf. They are members of the Institute of State Authorized Public Accountants in Iceland.

In accordance with Art. 90 of the Act on Financial Undertakings, an auditor of a financial undertaking shall be elected for a five year term and the same auditor or audit firm shall not be re-elected until five years have passed from the term previously concluded. KPMG ehf. had audited the Issuer for five years at the end of the financial year 2014.

#### **Shareholders**

The following wording shall be inserted after paragraph 3 in the section *Shareholders* on page 107 of the Base Prospectus dated 9 December 2014:

The Issuer's AGM held 18 March 2015 authorized the Issuer, in accordance with Art. 55 of the Act on Public Limited liability Companies, No. 2/1995, to acquire own shares, up to 10% of nominal value. The minimum and maximum amounts the Issuer is authorised to pay for each share shall be equivalent to the ratio of equity held by the Issuer's shareholders to share capital as disclosed in the most recent annual or interim financial statement published before the purchase of own shares takes place. This authorisation is valid until the Annual General Meeting of the Issuer in 2016. Allocation by the Issuer of own shares purchased based on this authorisation is subject to approval of a shareholders' meeting.

#### **Administrative, Management and Supervisory Bodies**

The following information shall be inserted in the table listing the Issuer's Board of Directors, in the section *Administrative, Management and Supervisory Bodies* on pages 129-130 in the Base Prospectus dated 9 December 2014:

Name	Function	Principal Outside Activities
<b>Board of Directors</b>		
Mr. Árni G. Hauksson	Alternate	Chairman of the Board of Directors of Amivox ehf., president of Au Management Inc. and Vice Chairman of the Icelandic Chamber of Commerce in Japan.