

SUPPLEMENT DATED 16 NOVEMBER 2020 TO THE BASE PROSPECTUS DATED 6 AUGUST 2020



Arion Bank hf.

(Incorporated with limited liability in Iceland)

€3,000,000,000

Euro Medium Term Note Programme

This Supplement (the **Supplement**) to the base prospectus dated 6 August 2020 (the **Base Prospectus**) which comprises a base prospectus for the purposes of the Prospectus Regulation constitutes a supplement to the prospectus for the purposes of Article 23 of the Prospectus Regulation and is prepared in connection with the €3,000,000,000 Euro Medium Term Note Programme (the **Programme**) established by Arion Bank hf. (the **Bank**). Terms defined in the Base Prospectus have the same meaning when used in this Supplement. When used in this Supplement, **Prospectus Regulation** means Regulation (EU) 2017/1129.

This *Commission de Surveillance du Secteur Financier* (the **CSSF**) of the Grand Duchy of Luxembourg in its capacity as competent authority under the Prospectus Regulation has approved this Supplement as a supplement within the meaning of Article 23(1) of the Prospectus Regulation. The CSSF only approves this Supplement as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Approval by the CSSF should not be considered as an endorsement of the Bank or of the quality of the Notes that are the subject of the Base Prospectus. Investors should make their own assessment as to the suitability of investing in the Notes.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus and any other supplements to the Base Prospectus issued by the Bank from time to time.

The Bank accepts responsibility for the information contained in this Supplement. To the best of the knowledge of the Bank 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.

Purpose of the Supplement

The purpose of this supplement is to (i) incorporate by reference specified pages of the Q3 2020 Interim Financial Statements and the Q3 2020 Factbook into the Base Prospectus; (ii) update the “Key Financial Indicators” section of the Base Prospectus; (iii) update the “Recent Developments” section of the Base Prospectus; and (iv) include a new “Significant or Material Change” statement.

Unaudited Interim Consolidated Financial Statements for the nine month period ended 30 September 2020

The section entitled "*Documents Incorporated by Reference*" on pages 51 to 53 of the Base Prospectus shall be updated as set out below.

On 28 October 2020 the Bank published its unaudited interim consolidated financial statements for the nine month period ended 30 September 2020 (the **Q3 2020 Interim Financial Statements**), together with the "Arion Bank Factbook - 30.09.2020" (the **Q3 2020 Factbook**).

A copy of each of the Q3 2020 Interim Financial Statements and the Q3 2020 Factbook has been filed with the *Commission de Surveillance du Secteur Financier*.

By virtue of this Supplement, the following information contained in the Q3 2020 Interim Financial Statements, and set out at the pages below, is incorporated by reference in, and form part of, the Base Prospectus (available at: <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2020/Arion%20Bank%20-%20Condensed%20Consolidated%20Interim%20Financial%20Statements%201%20January%20-%202030%20September%202020.pdf>):

Consolidated Interim Income Statement.....	Page 7
Consolidated Interim Statement of Comprehensive Income.....	Page 8
Consolidated Interim Statement of Financial Position.....	Page 9
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The non-incorporated parts of the Q3 2020 Interim Financial Statements which, for the avoidance of doubt, are not included in the cross-reference list above, are either deemed not relevant for an investor or are otherwise covered elsewhere in the Base Prospectus.

By virtue of this Supplement, the following information contained in the Q3 2020 Factbook, and set out at the pages below, is incorporated by reference in, and form part of, the Base Prospectus (available at: <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2020/Q3%202020%20Factbook.pdf>):

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The non-incorporated parts of the Q3 2020 Factbook which, for the avoidance of doubt, are not included in the cross-reference list above, are either deemed not relevant for an investor or are otherwise covered elsewhere in the Base Prospectus.

A copy of this Supplement may be obtained from <https://www.arionbanki.is/english/about-us/investor-relations/debt-investors/funding-programmes-and-prospectuses/#Tab1>. A copy of this Supplement may also be obtained from the Luxembourg Stock Exchange's website at www.bourse.lu. Copies of all documents incorporated by reference in the Base Prospectus and in the Supplement can be obtained from the Luxembourg Stock Exchange's website at www.bourse.lu. Copies of documents incorporated by reference in the Base Prospectus can be viewed electronically free of charge at <https://www.arionbanki.is/>.

Key Financial Indicators

By virtue of this Supplement, the table on page 129 of the Base Prospectus containing certain of the Bank's key financial indicators for the six month period 30 June 2020 and for the years ended 31 December 2019 and 31 December 2018 is replaced by the following table containing certain of the Bank's key financial indicators for the nine month period ended 30 September 2020 and for the years ended 31 December 2019 and 31 December 2018.

The following table includes certain of the Bank's key financial indicators for the nine month period ended 30 September 2020 and for the years ended 31 December 2019 and 2018. This information should not be considered in isolation from, or as a substitute for, financial information presented in the Q3 2020 Interim Financial Statements or the 2019 Year End Financial Statements (each of which is incorporated by reference into the Base Prospectus) and should be read in conjunction with the Q3 2020 Interim Financial Statements and the 2019 Consolidated Financial Statements, as applicable.

	As of and for the nine month period ended	As of and for the twelve month period ended	
	30 September 2020 %	31 December 2019 %	31 December 2018 %
Profitability			
Return on equity ¹	4.7	0.6	3.7
Return on assets ²	0.8	0.1	0.7
Return on risk-weighted assets ³	1.2	0.1	1.0
Net interest margin			
Net interest margin on interest-earning assets ⁴	2.9	2.8	2.7
Net interest margin on total assets ⁵	2.6	2.6	2.5
Efficiency			
Cost-to-income ratio ⁶	49.5	56.0	56.9
Cost-to-total assets ratio ⁷	2.0	2.3	2.3

¹ Return on equity is net earnings for the period as a percentage of average total equity (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Return on equity is used as an alternative measure of performance of the Bank based on returns generated relative to equity and is a measure of the profits generated by the Bank from the equity of its shareholders. The higher this figure, the greater the profits of shareholders relative to their equity for the relevant period.

² Return on assets is net earnings for the period as a percentage of average total assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Return on assets is used as an alternative measure of performance of the Bank based on returns generated relative to total assets and is a measure of the profits generated by the Bank from its assets. The higher this figure, the greater the profits from the Bank's assets for the relevant period.

³ Return on risk-weighted assets is net earnings for the period as a percentage of average risk-weighted assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). For the calculation of risk-weighted assets see Note 45 of the 2019 Consolidated Financial Statements. Return on risk-weighted assets is used as an alternative measure of performance of the Bank based on returns generated relative to risk-weighted assets and is a measure of the profits generated by the Bank from its risk-weighted assets (which is a prudential measure by which the assets of the Bank are adjusted to give different weight to certain risk based considerations as a means to assess those assets relative to such risks). The higher this figure, the greater the profits from the Bank's risk-weighted assets for the relevant period, which can then be compared to return on assets above to assess the risk based return of the Bank relative to the total asset return.

⁴ Net interest margin on interest-earning assets is interest income on interest-earning assets less interest expense (i.e. net interest income) as a percentage of average interest-earning assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Net interest income was ISK 30,317 million and ISK 29,319 million for the twelve month periods ended 31 December 2019 and 2018, respectively. "Interest-earning assets" means the sum of cash and balances with Central Bank, loans to credit institutions, loans to customers and interest-earning financial instruments (which is made up of bonds and debt instruments (ISK 65,874 million as at 31 December 2019 and ISK 71,451 million as at 31 December 2018), derivatives (ISK 6,617 million as at 31 December 2019 and ISK 6,241 million as at 31 December 2018) and listed bonds and debt instruments used for economic hedging (ISK 10,852 million as at 31 December 2019 and ISK 10,010 million as at each of 31 December 2018). See Note 23 of the 2019 Consolidated Financial Statements). Net interest margin on interest-earning assets is used as an alternative measure of performance of the Bank based on the Bank's net interest margin relative to its interest-earning assets and is a measure of the difference in the interest income generated by the Bank's interest-earning assets and its interest expense by reference to the average interest-earning assets for the relevant period. The higher this figure, the greater the returns from the Bank's interest-earning assets for that period.

⁵ Net interest margin on total assets is net interest income as a percentage of average total assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Net interest margin on total assets is used as an alternative measure of performance of the Bank based on the Bank's net interest margin relative to its total assets and is a measure of the difference in the interest income generated by the Bank's total assets and its interest expense by reference to the average total assets for the relevant period. The higher this figure, the greater the returns from the Bank's total assets for that period.

⁶ With respect to cost-to-income ratio, "cost" means salaries and related expense and other operating expense. "Income" means operating income. Cost-to-income ratio is used as an alternative measure of performance of the Bank based on the costs of the Bank relative to income generated and is a measure of the Bank's costs as compared with its income. The lower this figure, the lower the Bank's costs relative to its income.

⁷ With respect to cost-to-total assets ratio, "cost" means salaries and related expense and other operating expense. "Total assets" means total assets of the Bank as set out in the financial statements of the Bank (calculated as the average of the opening, quarter-end and closing balances for the applicable

Recent Developments

By virtue of this supplement, the following paragraph will be added at the end of the section entitled “Recent Developments” starting on page 127 of the Base Prospectus:

“The COVID-19 pandemic has had a substantial effect on the Bank and is expected to continue to do so over the coming quarters. Net impairment for the nine months ended 30 September 2020 was negative by a further ISK 3,553 million at ISK 5,118 million, compared to ISK 1,585 million for the same period in 2019, mostly due to more pessimistic assumptions in the Bank’s IFRS models (see “*Risk Management – Impairment and Provisions*”). Given the ongoing economic uncertainty due to the COVID-19 pandemic and its current resurgence in Iceland and Europe more generally, including the re-imposition of measures and restrictions to limit the spread of the pandemic, further impairments cannot be excluded if the asset quality outlook turns out to be worse than expected. However, the Bank reported net earnings of ISK 8,637 million from continuing operations and net earnings of ISK 6,708 million for the nine months ended 30 September 2020, compared to ISK 8,849 million and ISK 3,875 million respectively for the same period in 2019.”

General Information

The paragraph "Significant or Material Change" on page 163 of the Base Prospectus shall be deemed deleted and replaced with the following paragraph:

“Significant or Material Change

Since 30th September, 2020, the last day of the financial period in respect of which the most recent unaudited interim financial statements of the Bank have been published, save as disclosed in this Base Prospectus in the sections entitled "*Risk Factors – Factors that may affect the Bank’s ability to fulfil its obligations under Notes issued under the Programme - The outbreak of COVID-19 has impacted and is expected to further adversely impact the Bank and its customers, counterparties, employees, and third-party service providers, and could have a material adverse effect on the Bank’s business, financial position, results of operations, and prospects*" and "*Description of the Bank – Recent Developments*" on pages 18 to 20 and on pages 127 to 128, respectively, there has been no significant change in the financial performance or position of the Group, nor, since 31st December, 2019, the last day of the financial period in respect of which the most recent audited financial statements have been published, save as disclosed in the above sections of this Base Prospectus, has there been any material adverse change in the prospects of the Bank."

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 in the Base Prospectus, the statements in (a) above will prevail.

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

period). Cost-to-total assets ratio is used as an alternative measure of performance of the Bank based on the costs of the Bank relative to its total assets and is a measure of the Bank’s costs as compared with its total assets. The lower this figure, the lower the Bank’s costs relative to its total assets.