

**SUPPLEMENT DATED 6 NOVEMBER 2018 TO THE BASE PROSPECTUS DATED 10 JULY 2018**



**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 10 July 2018 (the **Base Prospectus**) constitutes a prospectus supplement for the purposes of article 13 of Chapter 1 of Part II of the Luxembourg Act dated 10 July 2005 on prospectuses for securities, as amended and is prepared in connection with the €3,000,000,000 Euro Medium Term Note Programme established by Arion Bank hf. (the **Bank**). Terms defined in the Base Prospectus have the same meaning when used in this Supplement.

This Supplement is supplemental to, and should be read in conjunction with, the Base Prospectus.

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

**Unaudited Interim Consolidated Financial Statements for the nine month period ended 30 September 2018**

The section entitled "*Documents Incorporated by Reference*" on pages 52 to 53 of the Base Prospectus shall be updated as set out below.

On 31 October 2018 the Bank published its unaudited interim consolidated financial statements for the nine month period ended 30 September 2018 (the **Q3 2018 Interim Financial Statements**), together with the "Arion Bank Factbook – 30.09.2018" (the **Q3 2018 Factbook**).

A copy of each of the Q3 2018 Interim Financial Statements and the Q3 2018 Factbook has been filed with the *Commission de Surveillance du Secteur Financier*.

By virtue of this Supplement, the following information contained in the Q3 2018 Interim Financial Statements, and set out at the pages below, is incorporated by reference in, and forms part of, the Base Prospectus:

Consolidated Interim Income Statement.....	Page 8
Consolidated Interim Statement of other Comprehensive Income.....	Page 9
Consolidated Interim Statement of Financial Position.....	Page 10
Consolidated Interim Statement of Changes in	Page 11

Equity.....	
Consolidated Interim Statement of Cash flows.....	Pages 12 to 13
Reconciliation of Consolidated Statement of Financial Position.....	Page 14
Financial assets and Financial liabilities classification...	Page 15
Significant Accounting Policies.....	Pages 69 to 75
Notes to the Interim Consolidated Financial Statements.....	Pages 16 to 75

The non-incorporated parts of the Q3 2018 Interim Financial Statements 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 2018 Factbook, and set out at the pages below, is incorporated by reference in, and forms part of, the Base Prospectus:

KFI – 5 years.....	Page 2
--------------------	--------

The non-incorporated parts of the Q3 2018 Factbook are either deemed not relevant for an investor or are otherwise covered elsewhere in the Base Prospectus.

Copies of documents incorporated by reference in the Base Prospectus and copies of this Supplement can be obtained from the Luxembourg Stock Exchange's website at <http://www.bourse.lu>, from the registered office of the Bank and from the specified offices of the Paying Agents for the time being in London. Copies of documents incorporated by reference in the Base Prospectus can be viewed electronically free of charge on the Bank's website at <http://www.arionbanki.is/>.

## Key Financial Indicators

By virtue of this Supplement, the table on page 142 of the Base Prospectus containing certain of the Bank's key financial indicators for the three month period ended 31 March 2018 and for the years ended 31 December 2017 and 31 December 2016 is replaced by the following table containing certain of the Bank's key financial indicators for the nine month period ended 30 September 2018 and for the years ended 31 December 2017 and 31 December 2016.

The following table includes certain of the Bank's key financial indicators for the nine month period ended 30 September 2018 and for the years ended 31 December 2017 and 31 December 2016. This information should not be considered in isolation from, or as a substitute for, financial information presented in the Q3 2018 Interim Financial Statements or the 2017 Year End Financial Statements (each of which is incorporated by reference into the Base Prospectus) and should be read in conjunction with the Q3 2018 Interim Financial Statements or the 2017 Year End Financial Statements.

	As of and for the nine month period ended	As of and for the twelve month period ended	
	30 September 2018 %	31 December 2017 %	31 December 2016 %
<b>Profitability</b>			
Return on equity <sup>1</sup> .....	3.9	6.6	10.5
Return on assets <sup>2</sup> .....	0.7	1.3	2.1
Return on risk-weighted assets <sup>3</sup> .....	1.0	1.9	2.9
<b>Net interest margin</b>			
Net interest margin on interest-earning assets <sup>4</sup> .....	2.7	2.9	3.1
Net interest margin on total assets <sup>5</sup> .....	2.5	2.7	2.9

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> 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 43 of the Q3 2018 Interim Financial Statements and Note 44 of the 2017 Year End 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.

<sup>4</sup> 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 21,966 million for the nine-month period ended 30 September 2018, ISK 29,835 and ISK 29,900 million for the twelve month periods ended 31 December 2017 and 2016, 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 64,256 as at 30 September 2018, ISK 51,755 million as at 31 December 2017 and ISK 69,565 million as at 31 December 2016), derivatives (ISK 6,353 as at 30 September 2018, ISK 7,624 million as at 31 December 2017 and ISK 5,159 million as at 31 December 2016) and listed bonds and debt instruments (ISK 9,247 as at 30 September 2018 and ISK 7,318 million as at each of 31 December 2017 and 31 December 2016). See Note 22 of the Q3 2018 Interim Financial Statements, Note 22 of the 2017 Consolidated Financial Statements and Note 22 of the 2016 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.

<sup>5</sup> 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

<b>Efficiency</b>			
Cost-to-income ratio <sup>6</sup> .....	63.5	56.1	56.0
Cost-to-total assets ratio <sup>7</sup> .....	2.9	2.7	3.0

## General Information

The paragraph "Significant or Material Change" on page 186 of the Base Prospectus shall be deemed deleted and replaced with the following paragraph:

### **"Significant or Material Change"**

There has been no significant change in the financial position of the Group since 30 September 2018, and there has been no material adverse change in the prospects of the Bank since 31 December 2017."

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.

---

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>7</sup> 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 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.