

SUPPLEMENT DATED 16 MAY 2017 TO THE BASE PROSPECTUS DATED 7 JUNE 2016



Arion Bank hf.

(incorporated with limited liability in Iceland)

€2,000,000,000

Euro Medium Term Note Programme

This Supplement (the **Supplement**) to the base prospectus dated 7 June 2016, as supplemented by the supplements dated 19 September 2016, 17 November 2016 and 1 March 2017 (the **March Supplement**) (the base prospectus dated 7 June 2016 as so supplemented, 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 (the **Prospectus Act**) and is prepared in connection with the €2,000,000,000 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.

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.

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 three month period ended 31 March 2017

On 11 May 2017 the Bank published its unaudited interim consolidated financial statements for the three month period ended 31 March 2017 (the **Q1 2017 Interim Financial Statements**), together with the "Arion Bank Factbook – 31.03.2017" (the **Q1 2017 Factbook**).

A copy of each of the Q1 2017 Interim Financial Statements and the Q1 2017 Factbook has been filed with the *Commission de Surveillance du Secteur Financier*.

By virtue of this Supplement, the following information contained in the Q1 2017 Interim Financial Statements, and set out at the pages below, is incorporated by reference in, and forms part of, the Base Prospectus:

Interim Consolidated Statement of Comprehensive Income.....	Page 6
Interim Consolidated Statement of Financial Position.....	Page 7
Interim Consolidated Statement of Changes in Equity.....	Page 8

Interim Consolidated Statement of Cash Flows.....	Pages 9 to 10
Significant Accounting Policies.....	Page 57
Notes to the Interim Consolidated Financial Statements.....	Pages 11 to 57

The non-incorporated parts of the Q1 2017 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 Q1 2017 Factbook, and set out at the pages below, is incorporated by reference in, and forms part of, the Base Prospectus:

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The non-incorporated parts of the Q1 2017 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 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 at <http://www.arionbanki.is/>.

Key Financial Indicators

By virtue of this Supplement, the table on page 107 of the Base Prospectus containing certain of the Bank's key financial indicators for the years ended 31 December 2016 and 31 December 2015 (as included in the Base Prospectus by the March Supplement) is replaced by the following table containing certain of the Bank's key financial indicators for the three month period ended 31 March 2017 and for the years ended 31 December 2016 and 31 December 2015.

The following table includes certain of the Bank's key financial indicators for the three month period ended 31 March 2017 and for the years ended 31 December 2016 and 31 December 2015. This information should not be considered in isolation from, or as a substitute for, financial information presented in the Q1 2017 Interim Financial Statements or the 2016 Year End Financial Statements (each of which is incorporated by reference into the Base Prospectus) and should be read in conjunction with the Q1 2017 Interim Financial Statements and the 2016 Year End Financial Statements, as applicable.

	As of and for the three month period ended	As of and for the twelve month period ended	
	31 March 2017	31 December 2016	31 December 2015
	%	%	%

Profitability

Return on equity ¹	6.3	10.5	28.1
Return on assets ²	1.2	2.1	5.0
Return on risk weighted assets ³	1.8	2.9	6.7
Net interest margin			
Net interest margin on interest bearing assets ⁴	2.8	3.1	3.0
Net interest margin on total assets ⁵	2.7	2.9	2.7
Efficiency			
Cost-to-income ratio ⁶	64.4	57.2	32.3
Cost-to-total assets ratio ⁷	3.0	3.0	2.9

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 42 of the Q1 2017 Interim Financial Statements and Note 44 of the 2016 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.

⁴ Net interest margin on interest bearing assets is interest income on interest bearing assets less interest expense (i.e. net interest income) as a percentage of average interest bearing assets (calculated as the average of the opening, quarter-end and closing balances for the applicable period). Net interest income was ISK 7,160 million for the three month period ended 31 March 2017, ISK 29,900 million and ISK 26,992 million for the twelve month periods ended 31 December 2016 and 2015, respectively. "Interest bearing assets" means the sum of cash and balances with Central Bank, loans to credit institutions, loans to customers and interest bearing financial instruments (which is made up of bonds and debt instruments (ISK 65,486 million as at 31 March 2017, ISK 69,565 million as at 31 December 2016 and ISK 78,794 million as at 31 December 2015), derivatives (ISK 5,032 million as at 31 March 2017, ISK 5,159 million as at 31 December 2016 and ISK 2,401 million as at 31 December 2015) and listed bonds and debt instruments (ISK 8,345 million as at 31 March 2017, ISK 7,318 million as at 31 December 2016 and ISK 1,519 million as at 31 December 2015). See Note 21 of the Q1 2017 Interim Financial Statements and Note 22 of the 2016 Year End Financial Statements). Net interest margin on interest bearing assets is used as an alternative measure of performance of the Bank based on the Bank's net interest margin relative to its interest bearing assets and is a measure of the difference in the interest income generated by the Bank's interest bearing assets and its interest expense by reference to the average interest bearing assets for the relevant period. The higher this figure, the greater the returns from the Bank's interest bearing 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 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.

General Information

The paragraph "Significant or Material Change" on page 124 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 31 March 2017, and there has been no material adverse change in the prospects of the Bank since 31 December 2016."

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.