

**SUPPLEMENT DATED 8 FEBRUARY 2016 TO THE BASE PROSPECTUS DATED 5 JUNE 2015**



**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 5 June 2015 as supplemented on 10 December 2015 (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.

The purpose of this Supplement is to update the Base Prospectus to reflect certain recent developments relating to the Bank, including (i) the issuance of USD747,481,000 Resetable Notes due 2023 (the **Resetable Notes**) to Kaupthing ehf. (**Kaupthing**) as part of the arrangements for the liberalisation of capital controls in respect of Kaupthing; (ii) the announcement on 21 July 2015 by Standard and Poor's Credit Market Services Europe Limited (**S&P**) that it has updated its long-term rating of the Bank; (iii) agreements entered into by the Bank relating to the acquisition of Vörður tryggingar hf. (**Vörður**), the Icelandic insurer; (iv) the sale by the Bank of shares in Síminn hf. (**Síminn**), the largest telecommunication company in Iceland; and (v) the merger of the Bank with AFL - sparisjóður (**AFL**), a savings 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.

**Updates to the Base Prospectus**

***Issuance of the Resetable Notes to Kaupthing***

On 11 January 2016 the Bank issued the Resetable Notes under the Programme. The initial purchaser of the total nominal amount of the Resetable Notes, Kaupthing, a private limited liability company incorporated in Iceland, holds 87 per cent. of the Bank's issued share capital through its wholly-owned subsidiary Kaupskil ehf. Kaupthing entered into winding-up proceedings on 22 November 2010 with retrospective effect from

22 April 2009. The requisite majority of Kaupthing's unsecured creditors voted at a creditors' meeting held on 24 November 2015 to approve a composition proposal (at which point it became a composition agreement, the **Composition Agreement**), through which Kaupthing would exit the winding-up proceedings. The Composition Agreement was approved by the District Court of Reykjavik on 15 December 2015 and became final and binding on 23 December 2015. In order to allow Kaupthing to implement the Composition Agreement, the Central Bank of Iceland (**CBI**) has granted Kaupthing certain exemptions from Icelandic foreign exchange controls on the basis that Kaupthing, among other things, has made a "stability contribution" to the CBI. The Resettable Notes were issued to Kaupthing as part of a refinancing of the Bank's debt position being undertaken in connection with the "stability contribution".

The Bank and Kaupthing agreed to set off Kaupthing's obligation to pay the purchase price in respect of the Resettable Notes against the Bank's obligation to make payment of all amounts outstanding under a foreign currency loan provided to the Bank by the CBI on 22 January 2010 (such loan having been purchased by Kaupthing from the CBI) and to return certain foreign currency deposits held by the Bank for Kaupthing.

### ***Capital controls***

As a result of the financial crisis in 2008, the CBI introduced capital controls in November 2008 which have been in the process of being gradually relaxed in accordance with the capital controls liberalisation strategy established in March 2011.

In June 2015 the government announced a plan towards removal of the capital controls. The plan is threefold: firstly, the estates of Glitnir Bank hf., Landsbanki Íslands hf. (later renamed LBI hf.), Kaupthing and other smaller bankrupt banks will be subject to certain stability conditions, which can either be fulfilled voluntarily by making a contribution (after completing their winding up proceedings by reaching composition agreements with their respective creditors, which are ultimately confirmed by the Reykjavik District Court, no later than 15 March 2016) or paying a 39 per cent. tax on all of their respective assets; secondly, offshore holders of ISK denominated deposits or government bonds will be offered a currency auction held by the CBI; and thirdly, controls will gradually be lifted on the domestic market when conditions allow.

The government and the Central Bank have announced that further easing of the capital controls will follow in the beginning of 2016, and will be aimed at individuals and the investments of legal entities.

### ***S&P Ratings Upgrade***

On 21 July 2015, S&P announced that it had upgraded its long-term rating of the Bank to BBB- from BB+.

### ***Acquisition of Vörður***

In October 2015, the Bank concluded a conditional purchase agreement with BankNordik P/F (**BankNordik**) to acquire a 51 per cent. shareholding in the Icelandic insurer Vörður. The Bank and BankNordik also entered into another agreement at the same time in relation to the purchase of the remaining shareholding in Vörður, which will come into effect when restrictions on the sale of the remaining minority shareholding have been lifted and no later than in 2017. The purchase price agreed for 100 per cent. of the shares of Vörður was EUR 37.3 million.

These transactions are conditional on the approval of the relevant Icelandic authorities, and the parties expect to complete the sale of the initial 51 per cent. shareholding in Vörður over the coming months.

### ***Sale of shares in Síminn***

As of 30 September 2015, the Bank held a 27.8 per cent. shareholding in Síminn, the largest telecommunication company in Iceland. In October 2015, Síminn was listed on the main market of

NASDAQ OMX Iceland and, following Síminn's listing, the Bank sold a shareholding of approximately 22 per cent. in Síminn. Accordingly, as at the date of this Supplement the Bank's shareholding in Síminn is approximately 6 per cent.

### ***Merger of the Bank and AFL***

In September 2015, the Bank increased its shareholding in the savings bank AFL to 100 per cent. On 15 October 2015, the Bank's merger with AFL was approved by the Icelandic Financial Supervisory Authority.

### ***Administrative action regarding Article 123 of the Securities Transactions Act No. 108/2007***

On 20 November 2015 the board of the Icelandic Financial Supervisory Authority (the **FME**) decided to impose administrative fines in the amount of ISK 30,000,000 on the Bank for violations of Article 123 of the Securities Transactions Act No. 108/2007 regarding insider misconduct. On 4 December 2015 the FME published its decision in a transparency statement.

The Bank objects to the decision as it believes that all parties to the transaction were in possession of the same inside information. Consequently the Bank is of the opinion that it did not breach the rules on insider trading and the Securities Transactions Act. This opinion was examined in detail by the Bank, which considers it founded on EU directives and legal precedents established by the European Court of Justice and supported by legal opinions.

There is no arbitration committee to which this matter can be referred but the Bank is considering referring the matter to the courts.