

SUPPLEMENT DATED 1 JULY 2022 TO THE OFFERING CIRCULAR DATED 16 JULY 2021



Arion Bank hf.

(Incorporated with limited liability in Iceland)

€2,000,000,000

Covered Bond Programme

This supplement (the **Supplement**) to the offering circular dated 16 July 2021, as supplemented by the supplement dated 17 September 2021 and 15 March 2022 (as so supplemented, the **Offering Circular**) which comprises a base prospectus for the purposes of the Prospectus Regulation constitutes a supplement to the prospectus for the purposes of Article 23(1) of the Prospectus Regulation and is prepared in connection with the €2,000,000,000 Covered Bond Programme (the **Programme**) established by Arion Bank hf. (the **Bank**). Terms defined in the Offering Circular 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 Covered Bonds that are the subject of the Offering Circular. Investors should make their own assessment as to the suitability of investing in the Covered Bonds.

This Supplement is supplemental to, and should be read in conjunction with, the Offering Circular and any other supplements to the Offering Circular 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 Q1 2022 Interim Financial Statements and the Q1 2022 Factbook into the Offering Circular; (ii) update the “Key Financial Indicators” section of the Offering Circular; (iii) update the “Recent Developments” section of the Offering Circular; and (iv) include a new “Significant change or material adverse change” statement.

Unaudited Interim Consolidated Financial Statements for the three month period ended 31 March 2022

The section entitled "*Documents Incorporated by Reference*" on pages 73 to 75 of the Offering Circular shall be updated as set out below.

On 4 May 2022 the Bank published its unaudited interim consolidated financial statements for the three month period ended 31 March 2022 (the **Q1 2022 Interim Financial Statements**), together with the "Arion Bank Factbook – 31 March 2022" (the **Q1 2022 Factbook**).

A copy of each of the **Q1 2022 Interim Financial Statements** and the **Q1 2022 Factbook** has been filed with the *Commission de Surveillance du Secteur Financier*.

By virtue of this Supplement, the following information contained in the Q1 2022 Interim Financial Statements, and set out at the pages below, is incorporated by reference in, and forms part of, the Offering Circular (available at: <https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2022/Arion%20Bank%20Condensed%20Consolidated%20Interim%20Financial%20Statements%201%20January%20-%2031%20March%202022.pdf>):

Consolidated Interim Income Statement.....	Page 7
Consolidated Interim Statement of Comprehensive Income.....	Page 8
Consolidated Interim Statement of Financial Position.....	Page 9
Consolidated Interim Statement of Changes in Equity.....	Pages 10 to 11
Consolidated Interim Statement of Cash Flows....	Page 12
Notes.....	Pages 13 to 65

The non-incorporated parts of the Q1 2022 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 Offering Circular.

By virtue of this Supplement, the following information contained in the Q1 2022 Factbook, and set out at the pages below, is incorporated by reference in, and form part of, the Offering Circular (available at: [https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2022/Arion%20Bank%20Factbook%20Q1%202022%20-%20Copy%20\(1\).pdf](https://wwwv2.arionbanki.is/library/skrar/English/About-the-Bank/Investor-Relations/Financial-information/Financial-Statements/2022/Arion%20Bank%20Factbook%20Q1%202022%20-%20Copy%20(1).pdf)):

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

The non-incorporated parts of the Q1 2022 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 Offering Circular.

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 Offering Circular 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 Offering Circular can be viewed electronically free of charge at <https://www.arionbanki.is/>.

Key Financial Indicators

By virtue of this Supplement, the table on page 161 of the Offering Circular (as supplemented by the supplement dated 15 March 2022) containing certain of the Bank's key financial indicators for the years ended 31 December 2021 and 31 December 2020 is replaced by the following table containing certain of the

Bank's key financial indicators for the three month period ended 31 March 2022 and for the years ended 31 December 2021 and 31 December 2020.

The following table includes certain of the Bank's key financial indicators for the three month period ended 31 March 2022 and for the years ended 31 December 2021 and 2020. This information should not be considered in isolation from, or as a substitute for, financial information presented in the Q1 2022 Interim Financial Statements and the 2021 Year End Financial Statements (which are incorporated by reference into the Offering Circular) and should be read in conjunction with the Q1 2022 Interim Financial Statements and the 2021 Year End Financial Statements.

	As of and for the three	As of and for the year ended	
	month period ended	31 December	31 December
	31 March	2021	2020
	2022	%	%
Profitability			
Return on equity ¹	12.7	14.7	6.5
Return on assets ²	1.8	2.3	1.1
Return on risk exposure amount ³	2.8	3.7	1.7
Net interest margin			
Net interest margin on interest bearing assets ⁴	3.1	2.8	2.9
Net interest margin on total assets ⁵	2.9	2.6	2.7
Efficiency			
Cost-to-income ratio ⁶	42.7	44.4	48.1
Cost-to-total assets	1.9	2.1	2.1

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 exposure amount is net earnings for the period as a percentage of average risk exposure amount (calculated as the average of the opening, quarter-end and closing balances for the applicable period). For the calculation of risk exposure amount see Note 45 of the 2021 Year End Financial Statements. Return on risk exposure amount is used as an alternative measure of performance of the Bank based on returns generated relative to risk exposure amount and is a measure of the profits generated by the Bank from its risk exposure amount (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 exposure amounts 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 9,528 for the three month period ended 31 March 2022, and ISK 32,063 million and ISK 31,158 million for the years ended 31 December 2021 and 2020, 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 106,022 as at 31 March 2022, ISK 151,852 million as at 31 December 2021 and ISK 157,744 million as at 31 December 2020), derivatives (ISK 2,693 as at 31 March 2022, ISK 2,905 million as at 31 December 2021 and ISK 7,284 million as at 31 December 2020) and listed bonds and debt instruments used for economic hedging (ISK 13,007 as at 31 March 2022, ISK 14,044 million as at 31 December 2021 and ISK 27,215 million as at 31 December 2020). See Note 22 to the Q1 2022 Interim Financial Statements and Note 23 of the 2021 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.

ratio⁷.....

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 159 of the Offering Circular:

“The Bank announced on 23 May 2022 that the approval of the Icelandic Competition Authority has been obtained for the acquisition by Rapyd, a global Fintech-as-a-Service company, of the Bank’s subsidiary, Valitor Holding hf. (**Valitor**), which is an important milestone in obtaining regulatory approval for this transaction. The conditions to the agreement between Rapyd and the Bank for Rapyd’s acquisition of Valitor have not yet been fully met as the acquisition has not been formally approved by the Financial Supervisory Authority of the Central Bank of Iceland (*Fjármálaeftirlitið*) (**FSA**). The aim is to complete the transaction shortly.

The estimated profit for the Bank on the sale, minus costs, is estimated at ISK 5 billion at the current exchange rate.

The Bank has requested authorisation from the FSA to launch a ISK 10 billion share buy-back program following the completion of the transaction.”

General Information

The paragraph "Significant change or material adverse change" on page 216 of the Offering Circular shall be deemed deleted and replaced with the following paragraph:

"Significant or Material Change

Since 31 March 2022, 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 Offering Circular in the sections entitled "*Risk Factors – Risks Relating to the Bank – The outbreak and global spread of COVID-19 has impacted and is expected to further adversely impact the Bank and its customers, counterparties 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 27 to 29 and on pages 159 to 160, respectively, there has been no significant change in the financial performance or position of the Group, nor, since 31 December 2021, 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 Offering Circular, 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 Offering Circular by this Supplement and (b) any other statement in or incorporated by reference in the Offering Circular, 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 Offering Circular since the publication of the Offering Circular.

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.