

APPLICABLE FINAL TERMS

18 May 2016

ARION BANK HF

Issue of ISK 140,000,000 Bills under the ISK 25,000,000,000 Debt Issuance Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 8.04.2016 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**). This document constitutes the Final Terms of the Debt Securities described herein for the purposes of Article 5.4 of the Prospectus Directive, cf. Paragraph 6 og Article 45 of the Act on Securities Transactions No. 108/2007, and must be read in conjunction with the Base Prospectus. Full information on the Issuer and the offer of the Debt Securities is only available on the basis of the combination of these Final Terms and the Base Prospectus. The Base Prospectus and the Final Terms are available for viewing at Borgartún 19, 105 Reykjavík, Iceland and on the NASDAQ OMX Iceland hf. website at www.nasdaqomxnordic.com, on the Issuer's website: arionbanki.is. and from the registered office of the Issuer.

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| 1. | (a) | Series Number: | 18 |
| | (b) | Tranche Number: | 1 |
| | (c) | Series which Debt Securities will be consolidated and form a single Series with: | Not Applicable |
| | (d) | Date on which the Debt Securities will be consolidated and form a single Series with the Series specified above: | Not Applicable |
| 2. | | Specified Currency or Currencies: | ISK |
| 3. | | Aggregate Nominal Amount: | |
| | | Tranche: | 140,000,000 |
| | | Series: | 140,000,000 |
| 4. | | Issue Price: | 93.531% of the Aggregate Nominal Amount |
| 5. | (a) | Specified Denominations: | ISK 20,000,000 |
| | (b) | Calculation Amount | ISK 20,000,000 |
| 6. | (a) | Issue Date: | 20 May 2016 |
| | (b) | Interest Rate: | Zero Coupon (further particulars specified below) |

(c)	Interest Commencement Date:	Not Applicable
7.	Maturity Date:	19 May 2017
8.	Interest Basis:	Zero Coupon
9.	Redemption/Payment Basis:	Subject to any purchase or cancellation or early redemption the Debt Securities will be redeemed on the Maturity Date at 100 per cent. of their nominal amount.
10.	Change of Interest Basis:	Not applicable
11.	Put/Call Options:	Not Applicable
12.	Date of Board approval for issuance of Debt Securities obtained:	11 December 2013
13.	Method of distribution:	Non-syndicated
14.	Name and address of the Calculation Agent	Arion Bank hf. Borgartún 19, 105 Reykjavík, Iceland

PROVISIONS RELATING TO INFLATION LINKED AMORTISING BONDS

15.	Inflation Linked Amortising Bond Provisions	Not Applicable
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PROVISIONS RELATING TO INFLATION LINKED ZERO COUPON BONDS

16.	Inflation Linked Zero Coupon Bond Provisions	Not Applicable
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PROVISIONS RELATING TO INFLATION LINKED INSTALMENT BONDS

17.	Inflation Linked Instalment Bond Provisions	Not Applicable
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PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

18.	Fixed Rate Bond Provisions	Not Applicable
19.	Floating Rate Bond Provisions	Not Applicable
20.	Zero Coupon Bond Provisions	Not Applicable
21.	Bills Provisions	Applicable
(a)	Accrual Yield:	6.84% per annum

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| (b) | Reference Price: | 93.531 |
| (c) | Day Count Fraction in relation to Early Redemption Amounts and late payment: | Conditions 7.8 apply Actual/Actual (ICMA) |
| 22. | Inflation Linked Non-Amortising Bond Provisions | Not Applicable |

PROVISIONS RELATING TO REDEMPTION

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| 23. | Issuer Call | Not Applicable |
| 24. | Investor Put: | Not Applicable |
| 25. | Final Redemption Amount of each Debt Security | ISK 20,000,000 per Debt Security of 20,000,000 Specified Denomination |
| 26. | Early Redemption Amount of each Debt Security payable on redemption for taxation reasons: | As set out in Condition 7.8(b) |
| 27. | Relevant Percentage: | As at the Issue Date |

GENERAL PROVISIONS APPLICABLE TO THE DEBT SECURITIES

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| 28. | Form of Bonds: | ISD Debt Securities

ISD Debt Securities issued in uncertificated and dematerialised book entry form. See further item 7 of Part B below. |
| 29. | New Global Bond: | No |
| 30. | Additional Financial Centre(s): | Not Applicable |
| 31. | Talons for future Coupons or Receipts to be attached to definitive Debt Securities in bearer form (and dates on which such Talons mature): | No |
| 32. | Details relating to Instalment Bonds; amount of each instalment, date on which each payment is to be made: | Not Applicable |
| 33. | Redenomination: | Redenomination not applicable |

DISTRIBUTION

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| 34. | (a) If syndicated, names of Managers: | Not Applicable |
| | (b) Date of Subscription Agreement: | Not Applicable |

- (c) Stabilising Manager(s) (if any): Not Applicable
35. If non-syndicated, name of Dealer: Arion Bank hf.
36. U.S. Selling Restrictions: Not Applicable

PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING** Application has been made by the Issuer (or on its behalf) for the Debt Securities to be admitted to trading on *NASDAQ OMX Iceland hf.*

Estimate of total expenses related to admission to trading: ISK 256,000

2. **RATINGS**

Ratings: The Debt Securities to be issued have not been rated.

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

Save for any fees payable to the Dealer, so far as the Issuer is aware, no person involved in the issue of the Debt Securities has an interest material to the offer. The Dealer and its affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for, the Issuer and its affiliates in the ordinary course of business

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

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| (i) Reasons for the offer | For general funding purposes of the Issuer |
| (ii) Estimated net proceeds: | 130,687,400 |
| (iii) Estimated total expenses: | 256,000 |

5. **YIELD (FIXED RATE DEBT SECURITIES ONLY)**

Indication of yield: Not Applicable

6. **PERFORMANCE OF FORMULA/CPI, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (INFLATION LINKED BONDS AND INFLATION LINKED NON AMORTISING BONDS ONLY)**

Not Applicable

7. **OPERATIONAL INFORMATION**

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| (i) ISIN Code: | ISIN0000027035 |
| (ii) Common Code: | Not Applicable |
| (iii) Any clearing system(s) other than Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme (together with the address of each such clearing system) and the relevant identification number(s): | Icelandic Securities Depository Ltd., Iceland. The Issuer shall be entitled to obtain certain information from the register maintained by the ISD for the purpose of performing its obligations under the issue of ISD Debt Securities. The ISD Agent shall be entitled to obtain such information as is required to perform its duties under the Terms and Conditions |

of the Debt Securities and rules and regulations of, and applicable to, the ISD.

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| (iv) | Delivery: | Delivery free of payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any) or, in the case of ISD Debt Securities, the ISD Agent: | Not Applicable |
| (vi) | Deemed delivery of clearing system notices for the purposes of Condition 13 (<i>Notices</i>): | Any notice delivered to Debt Security holders through the clearing systems will be deemed to have been given on the second business day after the day on which it was given to ISD. |
| (vii) | Intended to be held in a manner which would allow Eurosystem eligibility: | No |

Signed on behalf of the Issuer:

By:

Eivindur Jónsson



Duly authorised signatory