

APPLICABLE FINAL TERMS

17 March 2016

ARION BANK HF

Issue of ISK 500,000,000 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 17.04.2015 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: | 12 |
| | (b) | Tranche Number: | 2 |
| | (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: | 500,000,000 |
| | | Series: | 1,820,000,000 |
| 4. | | Issue Price: | 97.346% of the Aggregate Nominal Amount |
| 5. | (a) | Specified Denominations: | ISK 20,000,000 |
| | (b) | Calculation Amount | ISK 20,000,000 |
| 6. | (a) | Issue Date: | 21 March 2016 |
| | (b) | Interest Rate: | Zero Coupon (further particulars specified below) |

(c)	Interest Commencement Date:	Not Applicable
7.	Maturity Date:	19 August 2016
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:	6.50% per annum

(b)	Reference Price:	97.346
(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

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

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

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

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

- (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 (*Notices*): 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 Jensen

Duly authorised signatory