

APPLICABLE FINAL TERMS

4 July 2019

ARION BANK HF

Issue of 3,020,000,000 Inflation Linked Subordinated Notes due 2030 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 15 April 2019 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 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. 1. Series Number: | 54 |
| (a) Tranche Number: | 1 |
| (b) Series which Debt Securities will be consolidated and form a single Series with: | Not Applicable |
| (c) 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: | 3,020,000,000 |
| Series: | 3,020,000,000 |
| 4. Issue Price: | 99.269% of the Aggregate Nominal Amount |
| 5. (a) Specified Denominations: | ISK 20,000,000 |
| (b) Calculation Amount | ISK 20,000,000 |

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| 6. | (a) | Issue Date: | 4 July 2019 |
| | (b) | Interest Rate: | Inflation Linked |
| | (c) | Interest Commencement Date: | Issue Date |
| | | | |
| 7. | | Maturity Date: | Interest Payment Date falling in or nearest to 4 January 2030 |
| 8. | | Interest Basis: | 3.875% |
| 9. | | Redemption/Payment Basis: | Inflation linked redemption in accordance with Condition 7.4 |
| 10. | | Change of Interest Basis: | Not applicable |
| 11. | | Put/Call Options: | Issuer Call |
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| 12. | | Date of Board approval for issuance of Debt Securities obtained: | 20 March 2019 |
| 13. | | Method of distribution: | Non-syndicated |
| 14. | | Name and address of the Calculation Agent | Arion Bank hf. Borgartún 19, 105 Reykjavík |
| 15. | | Status of Debt Securities | Subordinated |

PROVISIONS RELATING TO INFLATION LINKED AMORTISING BONDS

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| 16. | Inflation Linked Amortising Bond Provisions | Not Applicable |
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PROVISIONS RELATING TO INFLATION LINKED ZERO COUPON BONDS

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| 17. | Inflation Linked Zero Coupon Bond Provisions | Not Applicable |
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PROVISIONS RELATING TO INFLATION LINKED INSTALMENT BONDS

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| 18. | Inflation Linked Instalment Bond Provisions | Not Applicable |
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PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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| 19. | Fixed Rate Bond Provisions | Not Applicable |
| 20. | Fixed Reset Provisions: | Not Applicable |

21.	Floating Rate Bond Provisions	Not Applicable
22.	Zero Coupon Bond Provisions	Not Applicable
23.	Bills Provisions	Not Applicable
24.	Inflation Linked Non-Amortising Bond Provisions	Applicable
(a)	Rate(s) of Interest:	3,875 per cent. per annum payable semi-annually in arrear
(b)	Interest Payment Date(s):	4 January and 4 July in each year up to and including the Final Maturity Date
(c)	Base Index:	468.18, being the value of the CPI on Issue date
(d)	Day Count Fraction:	30/360

PROVISIONS RELATING TO REDEMPTION

25.	Issuer Call	Applicable
(a)	Optional Redemption Date(s):	4 January 2025 and on each interest payment date thereafter.
(b)	Optional Redemption Amount of each Debt Security:	ISK 20,000,000 per Debt Security of 20,000,000 Specified Denomination
(c)	If redeemable in part:	
(i)	Minimum Redemption Amount:	Not Applicable
(ii)	Maximum Redemption Amount:	Not Applicable
(d)	Notice period (if other than as set out in the Conditions):	Minimum period: 30 days Maximum period: 60 days
26.	Investor Put:	Not Applicable
27.	Final Redemption Amount of each Debt Security	In accordance with Condition 7.4 per Debt Security of 20,000,000 Specified Denomination
28.	Early Redemption Amount of each Debt Security payable on redemption for taxation reasons, upon the occurrence of a Capital Event or on an event of default:	20,000,000 per Calculation Amount
29.	Relevant Percentage:	As at the Issue Date, 23.5 per cent.

GENERAL PROVISIONS APPLICABLE TO THE DEBT SECURITIES

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

DISTRIBUTION

36. (a) If syndicated, names of Managers: Not Applicable
- (b) Date of Subscription Agreement: Not Applicable
- (c) Stabilising Manager(s) (if any): Not Applicable
37. If non-syndicated, name of Dealer: Arion Bank hf. Borgartún 19, 105 Reykjavík
38. U.S. Selling Restrictions: Reg. S Category 2; TEFRA D

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 ICELAND hf. (The Icelandic Stock Exchange) with effect from the Issue Date.

Estimate of total expenses related to admission to trading: 710,000

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 | As set out in the “Use of Proceeds” in the Prospectus |
| (ii) Estimated net proceeds: | 2,997,213,800 |
| (iii) Estimated total expenses: | 710,000 |

5. **YIELD (FIXED RATE BONDS AND FIXED RESET BONDS 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)**

The Debt Securities are linked to the performance of the Icelandic Consumer Price Index (CPI) produced based on data from Statistics Iceland

Information about the CPI can be obtained from the website of Statistics of Iceland being <https://www.statice.is/publications/indices-overview/>

The Issuer does not intend to provide post-issuance information

7. OPERATIONAL INFORMATION

- (i) ISIN Code: IS0000031334
- (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): Nasdaq CSD Iceland Ltd., Iceland. The Issuer shall be entitled to obtain certain information from the register maintained by the NCS D for the purpose of performing its obligations under the issue of NCS D Debt Securities. The NCS D 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 NCS D.
- (iv) Delivery: Delivery free of payment
- (v) Names and addresses of additional Paying Agent(s) (if any) or, in the case of NCS D Debt Securities, the NCS D 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 Euroclear, and Clearstream, Luxembourg and NCS D.
- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: No.
Whilst designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Debt Securities are capable of meeting them the Debt Securities may then be deposited with one of the ICSDs as common safekeeper. Note that this does not necessarily mean that the Debt Securities will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.

Signed on behalf of the Issuer:

By:

Eirikur M. Jensen

Kristin Erla Jónsd.

Duly authorised signatory