

## APPLICABLE FINAL TERMS

15 July 2014

### ARION BANK HF

#### Issue of ISK 10,000,000,000 Fixed Rate Covered Bonds under the €1,000,000,000 Covered Bond 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 Offering Circular dated 23 August 2013 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 Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Offering Circular. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Offering Circular. The Offering Circular and the Final Terms are available for viewing at Borgartún 19, 105 Reykjavík, Iceland and on the Luxembourg Stock Exchange's website at [www.bourse.lu](http://www.bourse.lu) and from the registered office of the Issuer and from the specified office of the Agent in London.

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|----|-----|--|--|
| 1. | (a) | Series Number:   | 2  |
|    | (b) | Tranche Number:  | 4  |
|    | (c) | Series which Covered Bonds will be consolidated and form a single Series with:                                 | ISK 10,000,000,000 Fixed Rate Covered Bonds due 16 May 2015 issued on 16 May 2012.   |
|    | (d) | Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above: | 15 July 2014   |
| 2. |     | Specified Currency or Currencies:  | ISK  |
| 3. |     | Aggregate Nominal Amount:  |  |
|    | –   | Tranche:   | 10,000,000,000   |
|    | –   | Series:  | 14,340,000,000   |
| 4. |     | Issue Price:   | 100.205 of the Aggregate Nominal Amount plus accrued interest from and including 16 November 2012 to but excluding the Issue Date. |
| 5. | (a) | Specified Denominations:   | ISK 20,000,000   |
|    | (b) | Calculation Amount:  | ISK 20,000,000   |
| 6. | (a) | Issue Date:  | 15 July 2014   |

	(b)	Interest Rate:	Fixed Interest Rate
	(c)	Interest Commencement Date:	Issue Date
7.		Maturity Date:	16 May 2015
8.		Extended Final Maturity Date:	16 May 2018
			If an Extended Final Maturity Date is specified and the Final Redemption Amount is not paid in full on the Maturity Date, payment of the unpaid amount will be automatically deferred until the Extended Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the relevant Extended Final Maturity Date. See Condition 8.1
9.		Interest Basis:	See paragraph 17 below
10.		Redemption/Payment Basis:	Subject to any purchase or cancellation or early redemption, the Covered Bonds will be redeemed on the Maturity Date at 100 per cent. of their nominal amount.
11.		Change of Interest Basis or Redemption/Payment Basis:	Not Applicable
12.		Put/Call Options:	Not Applicable
13.		Date of Board approval for issuance of Covered Bonds obtained:	27 June 2013
14.		Method of distribution:	Non Syndicated
15.		Name and address of the Calculation Agent:	Arion Bank hf. Borgartún 19, 105 Reykjavík, Iceland

#### **PROVISIONS RELATING TO INFLATION LINKED COVERED BONDS**

16. Inflation Linked Covered Bond Provisions      Not Applicable

#### **PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

17. **Fixed Rate Covered Bond Provisions**      Applicable

(a) Rate(s) of Interest:      6.50% per annum payable semi-annually in arrear

(b) Interest Payment Date(s):      16 May and 16 November in each year up to and

including the Maturity Date or the Extended Final Maturity Date, as applicable

- (c) Fixed Coupon Amount:  
*(Applicable to Covered Bonds in definitive form.)* Not Applicable
- (d) Broken Amount(s):  
*(Applicable to Covered Bonds in definitive form.)* Not Applicable
- (e) Day Count Fraction: 30/360
- (f) Determination Date(s): Not Applicable

- 18. **Floating Rate Covered Bond Provisions** Not Applicable
- 19. **Zero Coupon Covered Bond Provisions** Not Applicable
- 20. **Inflation Linked Non-Amortising Covered Bond Provisions** Not Applicable

- (a) Rate(s) of Interest: Not Applicable
- (b) Interest Payment Date(s): Not Applicable
- (c) Base Index: Not Applicable
- (d) Day Count Fraction Not Applicable

#### **PROVISIONS RELATING TO REDEMPTION**

- 21. Issuer Call Not Applicable
- 22. Investor Put: Not Applicable
- 23. Final Redemption Amount of each Covered Bond: ISK 20,000,000 per Covered Bond of ISK 20,000,000
- 24. Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons: As set out in Condition 8.6
- 25. Relevant Percentage: Not Applicable

#### **GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS**

- 26. Form of Covered Bonds: ISD Covered Bonds  
  
ISD Covered Bonds issued in uncertificated and dematerialised book entry form. See further item 8 of Part B below.

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|-----|---|-------------------------------|
| 27. | New Global Covered Bond:  | No                            |
| 28. | Additional Financial Centre(s) or other special provisions relating to Payment Dates:   | Not Applicable                |
| 29. | Talons for future Coupons or Receipts to be attached to definitive Covered Bonds in bearer form (and dates on which such Talons mature):  | No                            |
| 30. | Details relating to Partly Paid Covered Bonds: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences (if any) of failure to pay, including any right of the Issuer to forfeit the Covered Bonds and interest due on late payment: | Not Applicable                |
| 31. | Redenomination:   | Redenomination not applicable |

#### **DISTRIBUTION**

- |     |                                       |                            |
|-----|---------------------------------------|----------------------------|
| 32. | (a) If syndicated, names of Managers: | Not Applicable             |
|     | (b) Date of Subscription Agreement:   | Not Applicable             |
|     | (c) Stabilising Manager(s) (if any):  | Not Applicable             |
| 33. | If non-syndicated, name of Dealer:    | Arion Bank hf.             |
| 34. | U.S. Selling Restrictions:            | Reg. S Category 2; TEFRA C |

## PART B – OTHER INFORMATION

- 1. LISTING AND ADMISSION TO TRADING**

Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on NASDAQ OMX Iceland hf. (the Icelandic Stock Exchange) and listing on the Regulated Market of the NASDAQ Iceland hf., with effect from 15 July 2014.

This application regards the ISK 10,000,000,000 fungible Tranche 4 of original Covered Bonds already admitted to trading.

Estimate of total expenses related to admission to trading: ISK 200,000
- 2. RATINGS**

Ratings: The Covered Bonds 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 Covered Bonds has an interest material to the offer.
- 4. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

  - (i) Reasons for the offer As set out in "Use of Proceeds" in the Base Prospectus
  - (ii) Estimated net proceeds: ISK 10,199,920,778
  - (iii) Estimated total expenses: ISK 200,000
- 5. YIELD (FIXED RATE COVERED BONDS ONLY)**

Indication of yield: 6.50%

The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.
- 6. PERFORMANCE OF INDEX/FORMULA, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING:**

Not Applicable
- 7. PERFORMANCE OF RATE[S] OF EXCHANGE AND EXPLANATION OF EFFECT ON VALUE OF INVESTMENT:**

Not Applicable
- 8. OPERATIONAL INFORMATION**

  - (i) ISIN Code: IS0000021442
  - (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. Laugavegur 182, 105 Reykjavik, Iceland  
ID No. 500797-3209
- (iv) Delivery: Delivery free of payment
- (v) Names and addresses of additional Paying Agent(s) (if any) or, in the case of ISD Covered Bonds, the ISD Agent: Arion Bank hf.  
Borgartún 19, 105 Reykjavík, Iceland
- (vi) Deemed delivery of clearing system notices for the purposes of Condition 14 (*Notices*): Any notice delivered to Covered Bondholders 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 ISD
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- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: No

Signed on behalf of the Issuer:

By:



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*Duly authorised signatory*