

FINAL TERMS

THESE FINAL TERMS HAVE BEEN PREPARED BY THE BANK IN CONNECTION WITH THE ISSUE OF THE NOTES DESCRIBED BELOW, WHICH AS OF THEIR ISSUE DATE ARE NEITHER TO BE ADMITTED TO TRADING ON A REGULATED MARKET IN THE EUROPEAN ECONOMIC AREA NOR OFFERED IN THE EUROPEAN ECONOMIC AREA IN CIRCUMSTANCES WHERE A PROSPECTUS IS REQUIRED TO BE PUBLISHED UNDER THE PROSPECTUS DIRECTIVE. ACCORDINGLY, NO PROSPECTUS IS REQUIRED PURSUANT TO DIRECTIVE 2003/71/EC FOR THE ISSUE OF THE BELOW NOTES.

11 January 2016

ARION BANK HF

**Issue of USD747,481,000 Resettable Notes due 2023
under the €2,000,000,000
Euro Medium Term Note 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 5 June 2015 and the supplement to it dated 10 December 2015 (the **Base Prospectus**). This document constitutes the Final Terms of the Notes described herein and must be read in conjunction with the Base Prospectus. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus.

1. (a) Series Number: 3
- (b) Tranche Number: 1
- (c) Date on which the Notes will be consolidated and form a single Series: Not Applicable
2. Specified Currency or Currencies: United States dollars (**USD**)
3. Aggregate Nominal Amount:
 - (a) Series: USD747,481,000
 - (b) Tranche: USD747,481,000
4. Issue Price: 100 per cent. of the Aggregate Nominal Amount
5. (a) Specified Denominations: USD200,000 and integral multiples of USD1,000 in excess thereof up to and including USD399,000. No Notes in definitive form will be issued with a denomination above USD399,000.
- (b) Calculation Amount: USD1,000
6. (a) Issue Date: 11 January 2016

- (b) Interest Commencement Date: Issue Date
7. Maturity Date: Interest Payment Date falling in or nearest to January 2023
8. Interest Basis: In respect of each Interest Period occurring during the Floating Rate Period (as defined below), USD 3 month LIBOR + 2.60 per cent. Floating Rate and, in respect of each Interest Period occurring during the Credit Spread Reset Period (as defined below), USD 3 month LIBOR + the Credit Spread
- (see paragraph 13 and Annex 1 below)
9. Redemption/Payment Basis: Subject to any purchase and cancellation or early redemption, the Notes 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: Issuer Call
- (see paragraph 15 below)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

12. Fixed Rate Note Provisions Not Applicable
13. Floating Rate Note Provisions Applicable
- (a) Specified Period(s)/Specified Interest Payment Dates: (i) 11 January, 11 April, 11 July and 11 October in each year from (and including) 11 January 2016 to (but excluding) 11 January 2018 (the **Reset Date**) (together, such Interest Periods, the **Floating Rate Period**); and
- (ii) 11 January, 11 April, 11 July and 11 October in each year from (and including) the Reset Date to (but excluding) the Maturity Date (together, such Interest Periods, the **Credit Spread Reset Period**),
- in each case, subject to adjustment in accordance with the Business Day Convention set out in (b) below
- (b) Business Day Convention: Modified Following Business Day Convention
- (c) Additional Business Centre(s): Not Applicable
- (d) Manner in which the Rate of Interest and Interest Amount is to be determined: Screen Rate Determination
- (e) Party responsible for calculating Not Applicable

the Rate of Interest and Interest Amount (if not the Fiscal Agent):

- (f) Screen Rate Determination:
- Reference Rate: USD 3 month LIBOR
 - Interest Determination Date(s): Second London business day prior to the start of each Interest Period
 - Relevant Screen Page: Reuters LIBOR01
- (g) ISDA Determination: Not Applicable
- (h) Linear Interpolation: Not Applicable
- (i) Margin(s):
- (i) in respect of each Interest Period occurring during the Floating Rate Period, + 2.60 per cent. per annum; and
 - (ii) in respect of each Interest Period occurring during the Credit Spread Reset Period, + the Credit Spread (as determined in accordance with the provisions for such determination set out in Annex 1)
- (j) Minimum Rate of Interest:
- (i) in respect of each Interest Period occurring during the Floating Rate Period, 2.60 per cent. per annum; and
 - (ii) in respect of each Interest Period occurring during the Credit Spread Reset Period, the Credit Spread
- (k) Maximum Rate of Interest: Not Applicable
- (l) Day Count Fraction: Actual/360
14. Zero Coupon Note Provisions: Not Applicable

PROVISIONS RELATING TO REDEMPTION

15. Issuer Call: Applicable
- (a) Optional Redemption Date(s): 31 March, 30 June, 30 September and 31 December in each year from the Issue Date until the Reset Date and the Business Day immediately preceding the Reset Date.
 - (b) Optional Redemption Amount: USD 1,000 per Calculation Amount
 - (c) If redeemable in part:
 - (i) Minimum Redemption: Not Applicable

Amount:

(ii) Maximum Redemption Amount: If the Notes are to be redeemed pursuant to the Issuer Call on a partial redemption basis, the aggregate nominal amount of Notes outstanding immediately following the Issuer Call shall be at least USD165,000,000

(d) Notice periods: Minimum period: 5 days
Maximum period: 30 days

16. Mandatory Prepayment Events: See Annex 1

17. Final Redemption Amount: USD1,000 per Calculation Amount

GENERAL PROVISIONS APPLICABLE TO THE NOTES

18. Form of Notes:

(a) Form: Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes only upon an Exchange Event

(b) New Global Note: Yes

19. Additional Financial Centre(s): Not Applicable

20. Talons for future Coupons to be attached to Definitive Notes: Yes, as the Notes have more than 27 coupon payments, Talons may be required if, on exchange into definitive form, more than 27 coupon payments are still to be made

Signed on behalf of **ARION BANK HF.:**

By: 

Duly authorised

Stefán Pétursson
CFO

By: 

Duly authorised

Eiríkur Magnús Jónsson
Head of Funding
Arion Bank

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- | | | |
|------|---|----------------|
| (i) | Listing and Admission to trading | Not Applicable |
| (ii) | Estimate of total expenses related to admission to trading: | Not Applicable |

2. RATINGS

Ratings:	The Notes to be issued are expected to be rated at the earlier of (i) promptly following the delivery of a written request by any Noteholder to the Bank or (ii) the Reset Date.
----------	--

3. YIELD (*Fixed Rate Notes only*)

Indication of yield:	Not Applicable
----------------------	----------------

4. OPERATIONAL INFORMATION

- | | | |
|-------|--|---|
| (i) | ISIN: | XS1344761256 |
| (ii) | Common Code: | 134476125 |
| (iii) | Any clearing system(s) other than Euroclear and Clearstream, Luxembourg and the relevant identification number(s): | Not Applicable |
| (iv) | Delivery: | Delivery free of payment |
| (v) | Names and addresses of additional Paying Agent(s) (if any): | Not Applicable |
| (vi) | Intended to be held in a manner which would allow Eurosystem eligibility: | Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met. |

5. DISTRIBUTION

- | | | |
|------|-------------------------|----------------|
| (i) | Method of distribution: | Non-syndicated |
| (ii) | If syndicated, names of | Not Applicable |

Managers:

- (iii) Date of Subscription Agreement: 11 January 2016
- (iv) Stabilisation Manager(s) (if any): Not Applicable
- (v) If non-syndicated, name of relevant Dealer: Not Applicable
- (vi) U.S. Selling Restrictions: Reg. S Compliance Category 2; TEFRA D

ANNEX 1

Credit Spread

The **Credit Spread** applicable to each Interest Period occurring during the Credit Spread Reset Period shall be determined by the Calculation Agent on the Reset Date in accordance with the following provisions:

- (a) As soon as reasonably practicable after 9.00 a.m. (London time) on the Reset Date, the Calculation Agent shall request each Quotation Dealer to submit a Spread Indication at or before the Reset Time.
- (b) If:
 - (i) more than one Quotation Dealer submits a Spread Indication to the Calculation Agent at or before the Reset Time on the Reset Date, the Credit Spread shall be determined by the Calculation Agent as the arithmetic mean of such Spread Indications;
 - (ii) only one Quotation Dealer submits a Spread Indication to the Calculation Agent at or before the Reset Time on the Reset Date, such Spread Indication shall constitute the Credit Spread; and
 - (iii) in the event Deutsche Bank AG, London Branch (**Deutsche Bank**) (or an alternative independent investment bank of international repute as notified to the Noteholders in accordance with Condition 12, with references in this Annex 1 to Deutsche Bank being construed accordingly) is not one of the Quotation Dealers (Deutsche Bank having agreed with the Bank in a side letter dated 11 January 2016 that where it is one of the Quotation Dealers it shall provide a Spread Indication by the Reset Time on the Reset Date) and no Quotation Dealer submits a Spread Indication to the Calculation Agent by the Reset Time on the Reset Date, the Calculation Agent shall as soon as practicable after the Reset Time on the Reset Date request Deutsche Bank to submit a Spread Indication as soon as practicable and such Spread Indication as submitted by Deutsche Bank shall constitute the Credit Spread and references in this Annex 1 to a Quotation Dealer shall be construed accordingly as references to Deutsche Bank, where applicable;

provided that the Credit Spread shall not be less than zero.

- (c) The Calculation Agent shall determine the Credit Spread as soon as practicable after the Reset Time on the Reset Date and shall notify the Fiscal Agent of the Credit Spread.
- (d) The Calculation Agent shall as soon as practicable after it has determined the Credit Spread notify Kaupthing of (i) the Credit Spread and (ii) the relevant Spread Indications (and the corresponding identity of the submitting Quotation Dealer(s)) submitted to the Calculation Agent pursuant to paragraphs (a) and (b) above.
- (e) Any Quotation Dealer or Deutsche Bank, as the case may be, shall be acting exclusively upon request from the Calculation Agent and none of the Calculation Agent, any Quotation Dealer or Deutsche Bank shall have any relationship of agency or trust with, and shall not be liable nor incur any liability towards, the Noteholders or the Bank in relation to the provision of any such Spread Indication.
- (f) In this paragraph:

Calculation Agent means Arion Bank hf as calculation agent in respect of the determination of the Credit Spread;

Investors means third party independent investors based in London, Paris, Frankfurt, Geneva and/or New York who operate in, and have experience of, the international capital markets;

Quotation Dealers means the three independent investment banks of international repute which shall provide Spread Indications on the Reset Date at the request of the Calculation Agent, the first of which shall be selected by the Bank, the second of which shall be selected by Kaupthing ehf. (**Kaupthing**) and the third of which shall be selected jointly by the Bank and Kaupthing, in each case, in respect of the Reset Date;

Representative Notes means a hypothetical debt security with a nominal amount equal to the aggregate nominal amount of the Notes outstanding as at the Reset Date and having the same terms and conditions that are applicable to the Notes from the Reset Date;

Reset Time means, in respect of the Reset Date, 2.00 p.m. (London time) on the Reset Date; and

Spread Indication means, in respect of any Quotation Dealer and the Reset Date, the margin quoted by the relevant Quotation Dealer which reflects the relevant Quotation Dealer's view (acting in good faith and a commercially reasonable manner) of the credit spread per annum that would result from a hypothetical primary market offering to Investors of the Representative Notes on the basis of an issue price at par.

Mandatory Prepayment Event

Upon the occurrence of a Mandatory Prepayment Event, the Bank shall redeem the Notes (a **Mandatory Prepayment**), not less than 20 and not more than 45 days following such Mandatory Prepayment Event in whole or in part, as determined by the amount of the relevant Additional MTN Proceeds, at the Mandatory Prepayment Amount, plus accrued interest to (but excluding) the date on which such Notes are redeemed (the **Note Prepayment Date**), which Mandatory Prepayment shall be funded by application of the relevant Additional MTN Proceeds from such Mandatory Prepayment Event, provided that, if the Notes can only be redeemed in part (and not in whole) because the relevant Additional MTN Proceeds are less than the nominal amount of the Notes then outstanding, no Mandatory Prepayment shall occur if the nominal amount of the Notes outstanding immediately following such redemption would be less than USD165,000,000. The Bank shall give the Noteholders notice in accordance with Condition 12 (which notice shall be irrevocable, specify the occurrence of the Mandatory Prepayment Event, the aggregate amount of the Notes to be redeemed and the date fixed for redemption of the Notes). In the case of a partial redemption of Notes, the Notes to be redeemed (**Redeemed Notes**) will (i) in the case of Redeemed Notes represented by definitive Notes, be selected individually by lot, not more than 30 days prior to the date fixed for redemption and (ii) in the case of Redeemed Notes represented by a Global Note, be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg, (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 12 not less than 15 days prior to the date fixed for redemption.

For these purposes:

Additional MTN Proceeds means 75 per cent. of the aggregate net proceeds received by the Bank from an issue by the Bank of debt securities which is within the scope of a Mandatory Prepayment Event;

Mandatory Prepayment Amount means USD1,000 per Calculation Amount;

Mandatory Prepayment Event means the Bank (or a special purpose vehicle subsidiary of the Bank set up for the purpose of issuing debt securities) issues debt securities with a nominal amount greater than or equal to USD165,000,000 or such equivalent amount in a currency other than Icelandic Króna (**ISK**) during the Relevant Period, provided that no Mandatory Prepayment Event shall occur if all the proceeds of such issue

of debt securities are used by the Bank to prepay, repay, redeem, or purchase and cancel forthwith debt securities denominated in a currency other than ISK, which are outstanding as at the Issue Date and have an originally scheduled maturity date not later than 30 months after the Issue Date; and

Relevant Period means the period from (and including) the Issue Date to (and including) the Reset Date.