

FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Covered Bonds issued under the Programme.

18 May 2012

ARION BANK HF

Issue of ISK 1,320,000,000 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 9 February 2012 which constitutes a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the **2010 PD Amending Directive**) to the extent that such amendments have been implemented in a relevant Member State). 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 and from the registered office of the Issuer and from the specified office of the Agent in London.

1.	Issuer	Arion Bank hf.
2.	(a) Series Number:	2
	(b) Tranche Number:	1
3.	Specified Currency or Currencies:	ISK
4.	Aggregate Nominal Amount:	
	– Tranche:	1,320,000,000
	– Series:	1,320,000,000
5.	Issue Price:	99.755% of the Aggregate Nominal Amount
6.	(a) Specified Denominations:	ISK 20,000,000
	(b) Calculation Amount:	ISK 20,000,000
7.	(a) Issue Date:	16 May 2012
	(b) Interest Rate:	Fixed Interest Rate

- (c) Interest Commencement Date: 16 May 2012
8. Maturity Date: 16 May 2015
9. Extended Final Maturity Date: 16 May 2018
10. Interest Basis: 6.50% Fixed Rate
11. Redemption/Payment Basis: Redemption at par
12. Change of Interest Basis or Redemption/Payment Basis: Not Applicable
13. Put/Call Options: Not Applicable
14. (a) Status of the Covered Bonds: Senior
- Board approval for issuance of Covered Bonds obtained: 2 March 2011 and 11 October 2011
15. Method of distribution: Syndicated
16. Name and address of the Calculation Agent: Arion Bank hf.
Borgartún 19, 105 Reykjavík, Iceland

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: Not Applicable
(Applicable to Covered Bonds in definitive form.)
- (d) Broken Amount(s): Not Applicable
(Applicable to Covered Bonds in definitive form.)
- (e) Day Count Fraction: 30/360
- (f) Determination Date(s): Not Applicable
- (g) Other terms relating to the method of calculating interest for Fixed Rate Covered Bonds: None

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| 18. | Floating Rate Covered Bond Provisions | Not Applicable |
| 19. | Zero Coupon Covered Bond Provisions | Not Applicable |
| 20. | Index Linked Interest Covered Bond Provisions | Not Applicable |
| 21. | Dual Currency Interest Covered Bond Provisions | Not Applicable |

PROVISIONS RELATING TO REDEMPTION

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| 22. | Issuer Call | Not Applicable |
| 23. | Investor Put: | Not Applicable |
| 24. | Final Redemption Amount of each Covered Bond: | ISK 20,000,000 per Covered Bond of ISK 20,000,000 |
| 25. | Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons and/or the method of calculating the same (if required or if different from that set out in Condition 8.5): | As set out in Condition 8.5 (b) |
| 26. | Relevant Percentage: | Not Applicable |

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

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| 27. | 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. |
| 28. | New Global Covered Bond: | No |
| 29. | Additional Financial Centre(s) or other special provisions relating to Payment Dates: | Not Applicable |
| 30. | Talons for future Coupons or Receipts to be attached to definitive Covered Bonds in bearer form (and dates on which such Talons mature): | No |
| 31. | 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 |
| 32. | Details relating to Instalment Covered Bonds; amount of each instalment, date on | Not Applicable |

which each payment is to be made:

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| 33. | Redenomination: | Redenomination not applicable |
| 34. | (a) Swap Provider | Not Applicable |
| | (b) Nature of Swap | Not Applicable |
| 35. | Other final terms: | Not Applicable |

DISTRIBUTION

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| 36. | (a) If syndicated, names of Managers: | Arion Bank hf.
Barclays Bank PLC |
| | (b) Date of Subscription Agreement: | 15 May 2012 |
| | (c) Stabilising Manager(s) (if any): | Not Applicable |
| 37. | If non-syndicated, name of Dealer: | Not Applicable |
| 38. | U.S. Selling Restrictions: | Not applicable |
| 39. | Additional selling restrictions: | Not Applicable |

PURPOSE OF FINAL TERMS

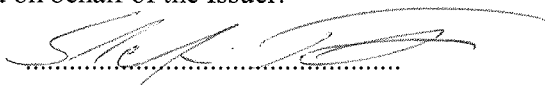
These Final Terms comprise the final terms required for listing on the official list of the Luxembourg Stock Exchange, and admission to trading on the Regulated Market of the Luxembourg Stock Exchange of the Covered Bonds described herein pursuant to the €1,000,000,000 Covered Bond Programme of Arion Bank hf.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms.

Signed on behalf of the Issuer:

By:



Duly authorised signatory

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 21 May 2012

Estimate of total expenses related to admission to trading: ISK 2,200,000
- 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 Prospectus
(ii)	Estimated net proceeds:	ISK 1,314,566,000
(iii)	Estimated total expenses:	ISK 2,200,000
- 5. YIELD (FIXED RATE COVERED BONDS ONLY)**

Indication of yield: 6.70%

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	Icelandic Securities Depository Ltd. Laugavegur 182, 105 Reykjavik, Iceland

anonyme (together with the address of each such clearing system) and the relevant identification number(s): 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) Intended to be held in a manner which would allow Eurosystem eligibility: No
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