

APPLICABLE FINAL TERMS

5 September 2013

ARION BANK HF

Issue of ISK 3,000,000,000 Inflation Linked Non-Amortising Covered Bonds due July 2019 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 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: | 3 |
| | (a) | Tranche Number: | 1 |
| | (b) | Series which Covered Bonds will be consolidated and form a single Series with: | Not Applicable |
| | (c) | Date on which the Covered Bonds 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: | 3,000,000,000 |
| | | Series: | 3,000,000,000 |
| 4. | | Issue Price: | 98.244% of the Aggregate Nominal Amount |
| 5. | (a) | Specified Denominations: | ISK 20,000,000 |
| | (a) | Calculation Amount | ISK 20,000,000 |

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| 6. | (a) Issue Date: | 12 July 2013 |
| | (a) Interest Rate: | Inflation Linked |
| | (b) Interest Commencement Date: | Issue Date |
| 7. | Maturity Date: | 12 July 2019 |
| 8. | Extended Final Maturity Date: | 12 July 2022 |

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

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| 9. | Interest Basis: | See paragraph 20 below |
| 10. | Redemption/Payment Basis: | Subject to any purchase or cancellation or early redemption. Inflation linked redemption in accordance with Condition 8.4 |
| 11. | Change of Interest 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

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| 16. | Inflation Linked Covered Bond Provisions | Not Applicable |
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PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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

(a)	Rate(s) of Interest:	2.50 per cent. per annum payable semi-annually in arrear
(b)	Interest Payment Date(s):	12 January and 12 June in each year up to and including the Final Maturity Date
(c)	Base Index:	412.10667, being the value of the CPI on 12 July 2013
(d)	Day Count Fraction:	30/360

PROVISIONS RELATING TO REDEMPTION

21.	Issuer Call	Not Applicable
22.	Investor Put:	Not Applicable
23.	Final Redemption Amount of each Covered Bond	In accordance with Condition 8.4 per Covered Bond of ISK 20,000,000 Specified Denomination
24.	Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons:	As set out in Condition 8.7(b)
25.	Relevant Percentage:	As at the Issue Date, 30.7 per cent.

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 7 of Part B below.
27.	New Global Covered Bond:	No
28.	Additional Financial Centre(s):	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 Instalment Covered Bonds; amount of each instalment, date on which each payment is to be made:	Not Applicable
31.	Redenomination:	Redenomination not applicable

DISTRIBUTION

32. (a) If syndicated, names of Managers: Not Applicable
- (a) Date of Subscription Agreement: Not Applicable
- (b) 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 is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the NASDAQ OMX Iceland hf. (the Icelandic Stock Exchange) and listing on the Regulated Market of NASDAQ Iceland hf. with effect from the 9 September 2013.

Estimate of total expenses related to admission to trading: ISK 680,000

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. 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

(i) Reasons for the offer As set out in "Use of Proceeds" in the Prospectus

(ii) Estimated net proceeds: ISK 2,943,100,000

(iii) Estimated total expenses: ISK 980,000

5. YIELD (FIXED RATE COVERED BONDS ONLY)

Indication of yield: 2.84% per annum

6. PERFORMANCE OF FORMULA/CPI, EXPLANATION OF EFFECT ON VALUE OF INVESTMENT AND ASSOCIATED RISKS AND OTHER INFORMATION CONCERNING THE UNDERLYING (*INFLATION LINKED COVERED BONDS AND INFLATION LINKED NON AMORTISING COVERED BONDS ONLY*)

The Covered Bonds 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 <http://www.statice.is/Statistics/Prices-and-consumption/Indices-overview>

The Issuer does not intend to provide post-issuance information

7. OPERATIONAL INFORMATION

(i) ISIN Code: IS0000023646

(ii) Common Code: Not Applicable

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| (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., Iceland.

The Issuer shall be entitled to obtain certain information from the register maintained by the ISD for the purpose of performing its obligations under the issue of ISD Covered Bonds. The ISD Agent shall be entitled to obtain such information as is required to perform its duties under the Terms and Conditions of the Covered Bonds 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 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 (<i>Notices</i>): | 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. |
| (vii) | Intended to be held in a manner which would allow Eurosystem eligibility: | No. |

Signed on behalf of the Issuer:

By:

 Einikur M. Jensen

Duly authorised signatory