

APPLICABLE FINAL TERMS

16 December 2014

ARION BANK HF

Issue of ISK 5,320,000,000 Inflation Linked Non-Amortising Covered Bonds due December 2029 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 5 December 2014 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: | 5 |
| | (b) | Tranche Number: | 1 |
| | (c) | Series which Covered Bonds will be consolidated and form a single Series with: | Not Applicable |
| | (d) | 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: | 5,320,000,000 |
| | – | Series: | 5,320,000,000 |
| 4. | | Issue Price: | 100,350% of the Aggregate Nominal Amount |
| 5. | (a) | Specified Denominations: | ISK 20,000,000 |
| | (b) | Calculation Amount | ISK 20,000,000 |
| 6. | (a) | Issue Date: | 16 December 2014 |
| | (b) | Interest Rate: | Inflation Linked Interest |

	(c) Interest Commencement Date:	Issue Date
7.	Maturity Date:	16 December 2029
8.	Extended Final Maturity Date:	16 December 2032
		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 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 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
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PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

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	Applicable

Bond Provisions

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| (a) | Rate(s) of Interest: | 3.50 per cent. per annum payable semi-annually in arrear |
| (b) | Interest Payment Date(s): | 16 June and 16 December in each year up to and including the Final Maturity Date |
| (c) | Base Index: | 422.1, being the value of the CPI on 16 December 2014 |
| (d) | Day Count Fraction: | 30/360 |

PROVISIONS RELATING TO REDEMPTION

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| 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, 19.2 per cent. |

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

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| 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
- (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 the NASDAQ OMX Iceland hf. (the Icelandic Stock Exchange) and listing on the Regulated Market of the NASDAQ Iceland hf. with effect from or prior to the first Interest Payment Date.

Estimate of total expenses related to admission to trading: ISK 465,000

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

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| (i) Reasons for the offer | As set out in "Use of Proceeds" in the Prospectus |
| (ii) Estimated net proceeds: | ISK 5,338,155,000 |
| (iii) Estimated total expenses: | ISK 465,000 |

5. YIELD (FIXED RATE COVERED BONDS ONLY)

Indication of yield: 3.5 % 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.

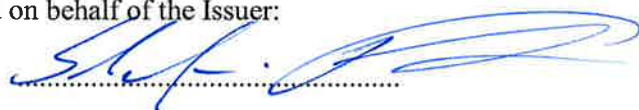
7. OPERATIONAL INFORMATION

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| (i) ISIN Code: | IS0000025385 |
| (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 Reykjavík, Iceland.
- (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.
- (vii) Intended to be held in a manner which would allow Eurosystem eligibility: No.

Signed on behalf of the Issuer:

By:



Einkar m. Jónsson

Duly authorised signatory