

ISSUE DESCRIPTION

ISSUE OF BONDS IN THE ICELANDIC SECURITIES DEPOSITORY SYSTEM

Section 1

General Information regarding the Issuer:

- 1.1 *The name of the issuer, its ID number, authorisation for issue, date of foundation, registered address and main office, if not located at the registered address.*

Arion Bank hf., ID-No. 581008-0150
Borgartún 19
105 Reykjavík

The bonds are issued in accordance with the decision taken by the board of Arion Bank hf. (previously New Kaupthing Bank hf.) on 2 April 2009.

- 1.2 *The names and ID numbers of the issuers' representatives.*

Erna Bjarnadóttir	ID No.	260562-5849	Chairman
Drífa Jóna Sigfúsdóttir	ID No.	080754-3969	Board member
Helga Jónsdóttir	ID No..	220353-3979	Board member
Jóhannes Rúnar Jóhannsson	ID No.	251264-4819	Board member
Jónína A. Sanders	ID No.	231255-2499	Board member
Theodór Siemsen Sigurbergsson	ID No.	060459-3049	Board member
Finnur Sveinbjörnsson	ID No.	310158-2329	CEO

- 1.3 *Acts and regulations under which the issuer operates if the operations of the issuer are subject to special legislation.*

The issuer operates in accordance with the Financial Institutions Act, No. 161/2002, and is licensed as a commercial bank, according to sub-paragraph 1, paragraph 1, article 4 of the same Act. The bank is subject to the official supervision of the Financial Supervisory Authority in accordance with the Official Supervision of Financial Operations Act, No. 87/1998. The issuer is a public limited company and is governed by the Public Limited Companies Act, No. 2/1995.

Section 2

Information regarding the Issue:

- 2.1 *The issuer's recipient of payments and other information regarding the issue, name/s, ID No., and e-mail address.*

Arion Bank hf., ID No. 581008-0150. Treasury and Capital Markets, Interbank Desk
cash@arionbanki.is, telefax No. +354 444 7119.

- 2.2 *The issue code, nominal value and other conditions regarding the issue which are binding on the issuer.*

Code:	ARION 10 01
ISIN:	IS0000019784
Bond type:	Instalment bonds.
Total authorised issue:	EUR 20,865,241
Issued:	EUR 20,865,241
Per nominal value unit:	One unit is one Euro
Issue date:	21 January 2010.
Final due date:	15 December 2018
Indexation:	Not applicable
Nominal interest rate:	The interest rate is a variable 6-month EURIBOR (interest on the inter bank market in the member states of the European Monetary Union as advertised at 11:00 local time in Brussels on Reuter's EURIBOR01 site) rate plus a 1% premium. The interest rate shall be determined at the beginning of each interest-rate period, as current two business days prior to the

	beginning of each interest period. The interest rule is Actual/360/Modified following.
Interest commencement date:	15 December 2009.
First due date on interest:	15 June 2010 and then every six months.
Amount of due dates:	There are two due dates a year. The first due date is 15 June 2012, and after that every six months, always on 15 June and 15 December every year.
Currency:	EUROS
Default:	<p>Should the issuer fail to make payment on the due date, and the bond owner has previously provided in a verifiable manner confirmation that he/she has a VS account with an account operator, the bond owner is authorised to charge penalty interest which shall be 3% higher than the interest rate (EURIBOR plus premium) valid during the period of default.</p> <p>If the due date falls on a day which is not open for business, the due date shall be the next business day, unless that day falls in the next month, in which case the due date shall be brought forward to the next business day preceding the original due date.</p> <p>If payment has not been made within 12 months of the date from which it is permitted to calculate a penalty surcharge, such a surcharge shall be added to the principal amount of the debt in accordance with article 12 of the Act No. 38/2001.</p> <p>Should payment fail to have been made 14 days after the due date, and the bond owner has previously provided, in a verifiable manner, confirmation that he/she has a VS account with an account operator, as well as a bank account connected to the said VS account, the bond owner is permitted call in the debt, without prior notice and with immediate effect. If the bond owner does not have a VS account at an account operator, or does not have a bank account connected to a VS account which has been opened and payment has not been made 14 days after the date upon which payment is verifiably requested at the issuer's office at Borgartún 19, Reykjavík, the bond owner may call in the entire debt without prior notice and with immediate effect. The same shall apply if the debtor seeks composition with creditors or if the debtor's estate is received for bankruptcy proceedings.</p> <p>If the debt is called in as specified above, the collection of</p>

	<p>the debt may be enforced by execution without a prior court judgment or court settlement in accordance with sub-paragraph 7, paragraph 1, article 1 of the Attachment Act No. 90/1989, in accordance with article 7 of the same Act. In addition to the debt principal, this authorisation for execution shall include interest, penalty interest and all costs of collection and further enforcement measures, cf. paragraph 2, article 1 of the Act No. 90/1989.</p> <p>The issuer is authorised to make full payments for the bonds without a pre-payment fee on their due interest dates.</p>
Transfer:	<p>Bonds may only be transferred to a named party. These bonds are issued as de-materialised securities by the Icelandic Securities Depository and only account operators, as defined by the Electronic Registration of Title to Securities Act, No. 131/1997, may handle the transfer of the bonds. The recording of the right to title to de-materialised securities by the Icelandic Securities Depository gives the registered owner legal authority to the rights to which he/she is registered as owner. There are no other restrictions on the transfer of these bonds.</p>
Settlement:	<p>Settlement with the Icelandic Securities Depository as an intermediary via the Central Bank of Iceland will not be in Euros for the time being, and the Icelandic Securities Depository will inform the company of this as quickly as possible. However, this does not stop the account operators from settling transactions in Euros provided that this is done off-exchange.</p>
Stamp duty:	<p>The bond issue is not subject to stamp duty, cf. article 115 of the Financial Institutions Act, No. 161/2002.</p>
Disputes:	<p>Any disputes arising from this bond issue may be brought before the Reykjavik District Court in accordance with the rules of Chapter XVII of the Code of Civil Procedure, No. 91/1991.</p>
Authorisation:	<p>The bonds are issued in accordance with the decision of the board of Arion Bank hf. (previously New Kaupthing hf.), 2 April 2009 so as to make full payment under the composition for Sparisjódur Mýrasýslu which was upheld by a ruling of the District Court of Vesturland, dated 15 December 2009.</p>
Change to Terms:	<p>The issuer shall notify the Icelandic Securities Depository of any changes made to the terms of the issued bonds.</p>

Delisting:	The bonds will be delisted seven days after the final due date, unless otherwise notified by the issuer. The issuer must notify the Icelandic Securities Depository of any failure to pay for the bonds, and shall in such case notify the Icelandic Securities Depository when payment has been made.
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Other:

2.3 *Fringe benefits associated with the bonds, their calculation and utilization.*

No benefits are associated with the issued bonds.

2.4 *Taxes on revenue from the bonds withheld in the country of origin and/or the country of registration. It shall be stated whether the issuer guarantees that taxes are withheld or not.*

The account operators serving as custodians of the bonds are responsible for calculating and withholding tax on financial income under the current law.

2.5 *The issuer specifies into which VS-account the issued amount should be deposited.*

VS account No. 563981

2.6 *Other information regarding the prospective issue or the issuer which the Icelandic Securities Depository deems necessary.*

Section 3.

Information about parties responsible for the issue description and the audit of the annual accounts:

3.1 *The names, ID numbers, telephone numbers and e-mail addresses of the parties responsible for the issue description.*

Treasury and Capital Markets, Arion Bank hf., fi@arionbanki.is

3.2 *The names, ID numbers, telephone numbers and e-mail addresses of the issuer's chartered accountants for the past three years.*

Ernst & Young hf., ID-No. 520902-2010, Borgartún 30, 105 Reykjavík. On their behalf:

Margrét Pétursdóttir, Chartered Accountant, ID-No. 010168-3769,
margret.petursdottir@is.ey.com, tel. +354 595 2500

Jóhann Unnsteinsson, Chartered Accountant, ID-No. 120259-3269,
johann.unnsteinsson@is.ey.com, tel. +354 595 2500

Section 4

Documents enclosed with the Issue Description:

4.1 *Confirmation from an official register of the issuer's existence.*

Not applicable.

4.2 *Confirmation that the issuer has made a formal decision regarding the prospective electronic issue, or other data to that effect, such as a confirmed copy of minutes, or a reference to the legislation and rules the issue is subject to.*

Enclosed is a document confirming the decision of the board of Arion Bank hf. on 9 June 2009.

4.3 *A confirmed copy of a receipt from the county magistrate stating that applicable stamp duties have been paid, when appropriate.*

Not applicable.

4.4 *Name of one or more primary broker (Account Operator) in the event of a new issue or an additional issue as well as a copy of the issuer's contract with the broker.*

Not applicable.

4.5 *Upon request from the Icelandic Securities Depository, a written statement from a district judge stating that the company is not undergoing bankruptcy proceedings shall be submitted.*

Not applicable.

4.6 *Other documentation regarding the prospective issue which the Icelandic Securities Depository deems necessary.*

1. The ruling of the District Court of Vesturland, 15 December 2009, upholding the composition agreement with Sparisjódur Mýrasýslu, ID-No. 610269-5409, Digranesgata 2, Borgarnes.

Reykjavík, 21 January 2010.

On behalf of Arion Bank hf.

Finnur Sveinbjörnsson (sign.)

Witnesses to the correct date and signatures:

Áslaug Gudjónsdóttir (sign.)
District Court Attorney
280163-2529
Name and ID No.

Gunnhildur Sveinsdóttir (sign.)
280176-5169
Name and ID No.