

APPLICABLE FINAL TERMS

7 May 2018

ARION BANK HF

Issue of ISK 3,660,000,000 Inflation Linked Covered Bonds under the €1,500,000,000 Covered Bond Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the **Conditions**) set forth in the Offering Circular dated 23 December 2016 which is incorporated by reference in the Offering Circular dated 5 January 2018. This document constitutes the Final Terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) and must be read in conjunction with the Offering Circular dated 23 December 2016 which constitutes a base prospectus for the purposes of the Prospectus Directive, including the Conditions incorporated by reference in 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 dated 5 January 2018. Copies of such Offering Circulars and Final Terms are available for viewing at Borgartúni 19, 105 Reykjavík, Iceland and on the Luxembourg Stock Exchange's website at www.bourse.lu and copies may be obtained 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: | 8 |
| | (b) | Tranche Number: | 11 |
| | (c) | Series which Covered Bonds will be consolidated and form a single Series with: | Inflation linked Covered Bonds due April 2025 issued on 12 April 2017 |
| | (d) | Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above: | 9 May 2018 |
| 2. | | Specified Currency or Currencies: | ISK |
| 3. | | Aggregate Nominal Amount: | |
| | – | Tranche: | 3,660,000,000 |
| | – | Series: | 29,480,000,000 |
| 4. | | Issue Price: | 101.8709 % of the Aggregate Nominal Amount |
| 5. | (a) | Specified Denominations: | ISK 20,000,000 |
| | (b) | Calculation Amount | ISK 20,000,000 |
| 6. | (a) | Issue Date: | 9 May 2018 |

(b)	Interest Rate:	Inflation Linked
(c)	Interest Commencement Date:	Issue Date
7.	Maturity Date:	12 April 2025
8.	Extended Final Maturity Date:	12 April 2028
		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:	Inflation linked redemption in accordance with item 20 below, and Conditions 6.3 and 8.3
11.	Change of Interest Basis:	Not applicable
12.	Put/Call Options:	Not Applicable
13.	Date Board approval for issuance of Covered Bonds obtained:	6 December 2017
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 Bond Provisions	Applicable
(a) Rate(s) of Interest:	3.00 per cent. per annum payable semi-annually in arrear
(b) Interest Payment Date(s):	12 April and 12 October in each year up to and including the Final Maturity Date
(c) Base Index:	439.71, being the value of the CPI on 12 April 2017
(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 3.0 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
- (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 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 115,000
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 3,728,359,940
 - (iii) Estimated total expenses: ISK 115,000
5. **YIELD (FIXED RATE COVERED BONDS ONLY)**

Indication of yield: Not applicable
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: IS0000028660
 - (ii) Common Code: Not Applicable

- (iii) Any clearing system(s) other than Nasdaq CSD Iceland Ltd. Laugavegur 182, 105 Reykjavík, Iceland. 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):
- (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. Whilst designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Covered Bonds are capable of meeting them the Covered Bonds may then be deposited with one of the ICSDs as common safekeeper (and registered in the name of a nominee of one of the ICSDs acting as common Safekeeper). Note that this does not necessarily mean that the Covered Bonds will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.

Signed on behalf of the Issuer:

By:

Einkunn Jónsson

Duly authorised signatory

Einkunn Jónsson