

FINAL TERMS

14 January 2019

ARION BANK HF

Legal Entity Identifier (LEI): RIL4VBPDB0M7Z3KXSF19

**Issue of ISK 3,820,000,000 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 set forth in the Offering Circular dated 8 January 2019 which constitute 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: | 11 |
| | (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: | 3,820,000,000 |
| | | Series: | 3,820,000,000 |
| 4. | | Issue Price: | 98.6681% 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 January 2019

(b) Interest Rate: Inflation Linked

(c) Interest Commencement Date: Issue Date

7. Maturity Date: 15 October 2026

8. Extended Final Maturity Date: 15 October 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 paragraphs 16 below

10. Redemption/Payment Basis:
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: 5 December 2018

14. Method of distribution: Non-syndicated

15. Name and address of the Calculation Agent Arion Bank hf.
Borgartún 19, 105 Reykjavík

PROVISIONS RELATING TO INFLATION LINKED COVERED BONDS

16. Inflation Linked Covered Bond Provisions Applicable
- (a) Rate(s) of Interest: 2 per cent. per annum payable semi-annually in arrear
- (b) Interest Payment Date(s): The 15th day of April and October in each year up to and including the Final Maturity Date
- (c) Number of Interest payments in a year: 2
- (d) Total number of annuity payments on the relevant Covered Bonds: 16
- (e) Base Index: 462.2, being the value of the CPI on 16 January 2019
- (f) Day Count Fraction: 30/360

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 Provisions¹** Not Applicable
20. **Inflation Linked Non-Amortising Covered Bond Provisions** Not Applicable

PROVISIONS RELATING TO REDEMPTION

21. **Issuer Call** Not Applicable
22. **Investor Put:** Not Applicable

¹ Zero Coupon Covered Bonds not to be issued with an Extended Final Maturity Date unless otherwise agreed with the Dealers.

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| 23. | Final Redemption Amount of each Covered Bond | ISK 20,000,000 per Covered Bond of ISK 20,000,000 Specified Denomination |
| 24. | Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons: | Not Applicable |
| 25. | Relevant Percentage: | As at the Issue Date, 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

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| 32. | (a) If syndicated, names of Managers: | Not Applicable |
| | (b) Date of Subscription Agreement: | Not Applicable |
| | (c) Stabilisation 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
35. Prohibition of Sales to Belgian Consumers: Applicable
36. Relevant Benchmark: Not Applicable

PART B – OTHER INFORMATION

1. 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 Iceland hf. (the Icelandic Stock Exchange) with effect from the issue date.

Estimate of total expenses related to admission to trading: ISK 710,000

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 Dealers, 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:	3,768,411,420
(iii)	Estimated total expenses:	710,000

5. YIELD (FIXED RATE COVERED BONDS ONLY)

Indication of yield: 6% 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

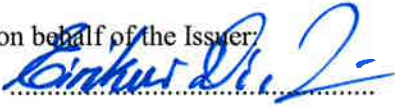
7. OPERATIONAL INFORMATION

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| (i) | ISIN Code: | IS0000030898 |
| (ii) | Common Code: | Not Applicable |
| (iii) | CFI: | D-B-F-S-G-R |
| (iv) | FISN: | Not Applicable |
| (v) | 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): | Nasdaq CSD Iceland Ltd., Laugarvegur 182, 105 Reykjavík Iceland. |
| (vi) | Delivery: | Delivery free of payment |
| (vii) | 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 |
| (viii) | 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. |
| (ix) | 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:


Eiríkur Dór Jónsson
Duly authorised signatory
Head of Treasury
Arion Bank

Kristín Erla Jónsdóttir