

7 May 2018

**ARION BANK HF**

**Issue of 300,000,000 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 5 January 2018 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](http://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:   | 9  |
|    | (b) | Tranche Number:  | 5  |
|    | (c) | Series which Covered Bonds will be consolidated and form a single Series with:                                 | ISK 2,280,000,000 Inflation Linked Covered Bonds issued on 17 January 2018 |
|    | (d) | Date on which the Covered Bonds will be consolidated and form a single Series with the Series specified above: | Issue Date   |
| 2. |     | Specified Currency or Currencies:  | ISK  |
| 3. |     | Aggregate Nominal Amount:  |  |
|    |     | Tranche:   | 300,000,000  |
|    |     | Series:  | 4,860,000,000  |
| 4. |     | Issue Price:   | 96.8025 % 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:   | 17 January 2048  |
| 8.  |     | Extended Final Maturity Date:                          | Not Applicable   |
| 9.  |     | Interest Basis:  | See paragraph 16   |
| 10. |     | Redemption/Payment Basis:                              | Inflation linked redemption in accordance with item 16 below, and Conditions 6.3 and 8.3 |
| 11. |     | Change of Interest Basis:                              | Not applicable   |
| 12. |     | Put/Call Options:                                      | Issuer Call  |
|     |     |  |  |
| 13. |     | 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.<br>Borgartún 19, 105 Reykjavík, Iceland                                   |

#### **PROVISIONS RELATING TO INFLATION LINKED COVERED BONDS**

- |     |     |   |   |
|-----|-----|---|---|
| 16. |     | Inflation Linked 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):                                       | The 17th day of January and July 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: | 60  |
|     | (e) | Base Index:   | 446.64, being the value of the CPI on 17 January 2018                                   |

(f) Day Count Fraction: 30/360

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

- |     |  |                |
|-----|--|----------------|
| 17. | <b>Fixed Rate Covered Bond Provisions</b>                      | Not Applicable |
| 18. | <b>Floating Rate Covered Bond Provisions</b>                   | Not Applicable |
| 19. | <b>Zero Coupon Covered Bond Provisions</b>                     | Not Applicable |
| 20. | <b>Inflation Linked Non-Amortising Covered Bond Provisions</b> | Not Applicable |

**PROVISIONS RELATING TO REDEMPTION**

- |      |   |  |
|------|---|--|
| 21.  | <b>Issuer Call</b>  | Applicable   |
| (a)  | Optional Redemption Date(s):  | On the Interest Payment Date falling on 17 January 2023 and on each Interest Payment Date thereafter.  |
| (b)  | Optional Redemption Amount of each Covered Bond:  | ISK 1,000,000 per Covered Bond of ISK 20,000,000 Specified Denomination  |
| (c)  | If redeemable in part:  |  |
| (i)  | Minimum Redemption Amount:  | ISK 1,000,000 per Specified Denomination   |
| (ii) | Maximum Redemption Amount:  | ISK 20,000,000 per Specified Denomination  |
| (d)  | Notice period (if other than as set out in the Conditions):                                     | Not Applicable   |
| 22.  | <b>Investor Put:</b>  | Not Applicable   |
| 23.  | <b>Final Redemption Amount of each Covered Bond</b>   | An amount equal to $N \times IR$ (where $N =$ ISK 20,000,000 per Specified Denomination less any amount per Specified Denomination previously purchased, cancelled or redeemed as calculated in accordance with Condition 8.3. IR has the meaning given in Condition 7.1 (b)) for the Inflation Linked Covered Bonds |
| 24.  | <b>Early Redemption Amount of each Covered Bond payable on redemption for taxation reasons:</b> | An amount calculated in accordance with paragraph 23 above   |
| 25.  | <b>Relevant Percentage:</b>   | As at the Issue Date, 2.4 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) 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

## 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 the NASDAQ Iceland hf. the Icelandic Stock Exchange and listing on the Regulated Market of the NASAQ Iceland hf. with effect from or prior to the first Interest 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 290,292,500                                   |
| (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://statice.is/statistics/economy/prices/consumer-price-index/>. The Issuer does not intend to provide post-issuance information

7. OPERATIONAL INFORMATION

- (i) ISIN Code: IS0000029577
- (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): Nasdaq CSD Iceland  
Laugavegur 182, 105 Reykjavík
- (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
- (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: Eirkur M. Jónsson

Duly authorised signatory

