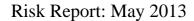
Arion Bank Covered Bonds





Stress Test: Interest Rate Sensitivity						
Description	Nominal	Base Case	Up 100 bp	Down 100 bp		
Covered Bonds Issuance	6.954	7.491	7.088	7.935		
Underlying Loan Pool	9.505	10.947	9.746	12.418		
Over Collateralization	2.551	3.457	2.658	4.483		
Over Collateralization %	36,7%	46,1%	37,5%	56,5%		

As is outlined in the prospectus, the Mark-To-Market (MTM) value of the underlying loan pool must exceed the MTM value of the Covered Bonds issuance. Furthermore, the program must withstand a parallel shift in the risk free interest curve with respect to net MTM value. The Base Case shows MTM values for the current environment, the next column shows an upward parallel shift of a 100 basis points and the third column similarly shows a parallel 100 bp downward shift.

Cashflow Projection													
Description	May 2013	Jun 2013	Jul 2013	Aug 2013	Sep 2013	Oct 2013	Nov 2013	Dec 2013	Jan 2014	Feb 2014	Mar 2014	Apr 2014	May 2014
Bank Account	3.231,9												
Covered Bonds:				88,0			141,1			88,0			141,1
Loans in Default:		1,3	1,2	1,2	1,2	1,2	1,3	1,3	1,3	1,3	1,3	1,3	1,3
Performing Loans:		53,8	58,7	58,6	58,5	58,5	58,5	58,5	58,5	58,4	58,4	58,4	58,4
Cumulative Balance:	3.231,9	3.285,7	3.344,4	3.315,0	3.373,5	3.432,0	3.349,5	3.408,0	3.466,4	3.436,8	3.495,2	3.553,6	3.470,9

The cashflow coverage measures the ability of the underlying loan pool to service the programs debt obligation on its own. Ignoring both infusion of cash and new loans it is a snapshot view of the debt servicing capability of the pool. Cashflow from mortgages in default (30 days or more) is ignored. The cumulative Balance shows how cash is accumulated or drained from the Covered Bond account.

Stress Test: Interest Coverage Test		
Parameters	Amount	Description
A=	427,2	Interest expected to be received in respect of the Cover Pool the next year.
B=	0	Amount standing to the credit of the Transaction Account
C=	0	Senior Expenses
D=	374,2	Interest due on Cover Bond
A + B - C > D	PASS	

The interest coverage test involves taking a haircut in the underlying loan pools' interest flow. The haircut is equal to each loans probability of default, based on the banks proprietary credit default model, but never less than 20 percent. The test measures how well the portfolio covers its liabilities in a stress scenario were borrowers are largely unable or unwilling to pay and Arion Bank is unable to supplement the Covered Bonds program with cash or new mortgages.

Indexation Balance							
Description	Indexed	Non-Indexed	Total				
Underlying Loans	4.724	4.781	9.505				
Covered Bonds Issuance	-2.579	-4.340	-6.919				
Net	2.145	441	2.586				

Arion Bank strives to keep a balance between indexed loans and liabilities and non-indexed loans and liabilities. A part of this effort is to keep the balance of loans higher than liabilities for both indexed and non-indexed products.

Planned frequency for updates of this summary: 12 times per year. Arion Bank is regulated by the Icelandic Financial Supervisory Authority (www.fme.is).
This report has been automatically generated by Arion Bank's Risk Management. The information within are obtained from different sources, not all of which are controlled by Arion Bank, but which Arion Bank deems to be reliable. Whilst reasonable care has been taken to ensure that the contents of this publication are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it. Arion Bank endeavours to ensure that the information is accurate and up-to-date, and reserves the right to make corrections to the content at any time, without prior notice. However, Arion Bank cannot guarantee that such information is complete or that it has not been modified by an outside party, by means of a virus or system intrusion, for example.
The report is prepared for general circulation and general information only, but it is not intended for any person in the United States. This publication may not be re-produced in whole or in part without permission.
The report shall under no circumstances be used or considered as an investment advice or investment research, or an offer to sell, or a solicitation of any offer to buy any securities. It does not have regard to the specific investment objectives, financial situation or the particular needs of any person who may receive the report. Arion Bank accepts no liability whatsoever for any direct or consequential loss arising from the use of this publication or its contents.