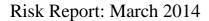
## **Arion Bank Covered Bonds**





Stress Test: Interest Rate Sensitivity						
Description	Nominal	Base Case	<b>Up 100 bp</b>	Down 100 bp		
Covered Bonds Issuance	11.589	11.693	11.206	12.222		
Underlying Loan Pool	13.936	15.233	13.642	17.178		
Over Collateralization	2.347	3.540	2.436	4.956		
Over Collateralization %	20,2%	30,3%	21,7%	40,6%		

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	Mar 2014	Apr 2014	May 2014	Jun 2014	Jul 2014	Aug 2014	Sep 2014	Oct 2014	Nov 2014	Dec 2014	Jan 2015	Feb 2015	Mar 2015
Bank Account	5.565,5												
Covered Bonds:			141,1		57,2	89,6			141,1		57,2	89,6	
Loans in Default:		2,4	2,7	2,7	2,7	2,7	2,7	2,7	2,7	2,7	2,7	2,7	2,7
Performing Loans:		5,3	77,7	77,6	78,4	77,8	77,7	77,7	77,7	77,7	77,6	77,6	77,6
Cumulative Balance:	5.565,5	5.570,7	5.507,4	5.585,0	5.606,2	5.594,3	5.672,1	5.749,7	5.686,4	5.764,0	5.784,5	5.772,4	5.850,0

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=	582,4	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=	487,0	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	8.786	5.150	13.936				
Covered Bonds Issuance	-7.144	-4.445	-11.589				
Net	1.642	705	2.347				

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).
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