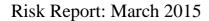
## **Arion Bank Covered Bonds**





Stress Test: Interest Rate Sensitivity					
Description	Nominal	Base Case	<b>Up 100 bp</b>	Down 100 bp	
Covered Bonds Issuance	31.826	33.212	31.707	34.897	
Underlying Loan Pool	33.703	38.430	34.607	43.101	
Bank Account	654	654	654	654	
Over Collateralization	2.532	5.873	3.555	8.858	
Over Collateralization %	8,0%	17,7%	11,2%	25,4%	

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 2015	Apr 2015	May 2015	Jun 2015	Jul 2015	Aug 2015	Sep 2015	Oct 2015	Nov 2015	Dec 2015	Jan 2016	Feb 2016	Mar 2016
Bank Account	654,3												
Covered Bonds:			14.806,1	175,2	57,9	90,8				175,2	57,9	90,8	
Loans in Default:		2,4	3,2	3,2	3,2	3,2	3,2	3,2	3,2	3,2	3,2	3,2	3,2
Performing Loans:		5,7	197,3	197,5	198,1	199,4	197,7	198,3	197,6	197,5	198,2	197,4	197,4
Cumulative Balance:	654,3	660,1	13.948,7	13.926,4	13.786,1	13.677,5	13.479,8	13.281,5	13.083,9	13.061,6	12.921,3	12.814,7	12.617,3

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=	1.478,7	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=	984,6	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	18.161	15.543	33.703		
Covered Bonds Issuance	-17.139	-14.687	-31.826		
Net	1.022	856	1.878		

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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