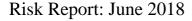
## **Arion Bank Covered Bonds**





Stress Test: Interest Rate Sensitivity						
Description	Nominal	Base Case	<b>Up 100 bp</b>	Down 100 bp		
Covered Bonds Issuance	110.086	118.216	111.205	125.886		
Underlying Loan Pool	118.118	149.239	130.734	172.080		
Bank Account	4.087	4.087	4.087	4.087		
Over Collateralization	12.120	35.110	23.616	50.281		
Over Collateralization %	11,0%	29,7%	21,2%	39,9%		

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	Jun 2018	Jul 2018	Aug 2018	Sep 2018	Oct 2018	Nov 2018	Dec 2018	Jan 2019	Feb 2019	Mar 2019	Apr 2019	May 2019	Jun 2019
Bank Account	4.087,3												
Covered Bonds:				876,2	472,1		741,5	61,9		876,2	472,1		741,5
Loans in Default:		3,6	3,7	3,7	3,7	3,7	3,7	3,7	3,7	3,7	3,7	3,7	3,7
Performing Loans:		15,1	666,0	669,1	664,1	666,8	664,1	665,1	663,9	663,8	663,5	665,9	663,1
Cumulative Balance:	4.087,3	4.102,4	4.768,4	4.561,2	4.753,3	5.420,1	5.342,7	5.945,9	6.609,8	6.397,4	6.588,8	7.254,7	7.176,3

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.

Indexation Balance						
Description	Indexed	Non-Indexed	Total			
Underlying Loans	82.835	35.283	118.118			
Covered Bonds Issuance	-79.806	-30.280	-110.086			
Net	3.029	5.003	8.032			

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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