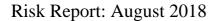
## **Arion Bank Covered Bonds**





| Stress Test: Interest Rate Sensitivity |         |           |           |             |  |  |  |
|--|---------|-----------|-----------|-------------|--|--|--|
| Description                            | Nominal | Base Case | Up 100 bp | Down 100 bp |  |  |  |
| Covered Bonds Issuance                 | 114.564 | 124.442   | 117.122   | 132.453     |  |  |  |
| Underlying Loan Pool                   | 126.091 | 157.420   | 138.236   | 180.994     |  |  |  |
| Bank Account                           | 3.500   | 3.500     | 3.500     | 3.500       |  |  |  |
| Over Collateralization                 | 15.027  | 36.478    | 24.614    | 52.041      |  |  |  |
| Over Collateralization %               | 13,1%   | 29,3%     | 21,0%     | 39,3%       |  |  |  |

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            | Aug<br>2018 | Sep<br>2018 | Oct<br>2018 | Nov<br>2018 | Dec<br>2018 | Jan<br>2019 | Feb<br>2019 | Mar<br>2019 | Apr<br>2019 | May<br>2019 | Jun<br>2019 | Jul<br>2019 | Aug<br>2019 |
| Bank Account           | 3.499,8     |             |             |             |             |             |             |             |             |             |             |             |             |
| Covered Bonds:         |             |             | 509,6       |             | 743,8       | 210,9       |             | 876,2       | 509,6       |             | 743,8       | 5.178,4     |             |
| Loans in Default:      |             | 11,3        | 11,7        | 11,7        | 11,7        | 11,7        | 11,7        | 11,7        | 11,7        | 11,7        | 11,7        | 11,7        | 11,7        |
| Performing Loans:      |             | 66,9        | 699,3       | 702,0       | 699,3       | 700,3       | 699,1       | 699,0       | 698,7       | 701,1       | 698,3       | 699,4       | 698,1       |
| Cumulative<br>Balance: | 3.499,8     | 3.566,6     | 3.756,3     | 4.458,2     | 4.413,8     | 4.903,3     | 5.602,3     | 5.425,2     | 5.614,2     | 6.315,3     | 6.269,8     | 1.790,9     | 2.489,0     |

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.

| Indexation Balance     |         |             |          |  |  |  |  |
|------------------------|---------|-------------|----------|--|--|--|--|
| Description            | Indexed | Non-Indexed | Total    |  |  |  |  |
| Underlying Loans       | 90.795  | 35.296      | 126.091  |  |  |  |  |
| Covered Bonds Issuance | -83.966 | -30.597     | -114.564 |  |  |  |  |
| Net                    | 6.829   | 4.699       | 11.528   |  |  |  |  |

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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