

# Arion Bank Covered Bonds

Risk Report: October 2016



## Stress Test: Interest Rate Sensitivity

Description	Nominal	Base Case	Up 100 bp	Down 100 bp
Covered Bonds Issuance	57.859	61.304	57.161	65.862
Underlying Loan Pool	64.877	78.209	69.213	89.179
Bank Account	1.326	1.326	1.326	1.326
Over Collateralization	8.343	18.230	13.378	24.643
Over Collateralization %	14,4%	29,7%	23,4%	37,4%

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	Oct 2016	Nov 2016	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Apr 2017	May 2017	Jun 2017	Jul 2017	Aug 2017	Sep 2017	Oct 2017
Bank Account	1.325,7												
Covered Bonds:			589,0	59,9		609,7			589,0	59,9		609,7	
Loans in Default:		7,2	7,1	7,1	7,1	7,1	7,1	7,1	7,1	7,1	7,1	7,1	7,1
Performing Loans:		364,0	386,9	386,7	386,6	386,5	386,5	386,4	386,3	386,2	386,0	385,8	385,7
Cumulative Balance:	1.325,7	1.689,7	1.487,5	1.814,4	2.201,0	1.977,9	2.364,3	2.750,7	2.548,0	2.874,3	3.260,3	3.036,5	3.422,2

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=	2.784,8	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=	2.517,2	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	37.180	27.697	64.877
Covered Bonds Issuance	-38.903	-18.956	-57.859
Net	-1.723	8.741	7.018

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.

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Planned frequency for updates of this summary: 12 times per year.  
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