

# Arion Bank Covered Bonds

Risk Report: July 2017



## Stress Test: Interest Rate Sensitivity

Description	Nominal	Base Case	Up 100 bp	Down 100 bp
Covered Bonds Issuance	81.239	88.391	82.797	94.507
Underlying Loan Pool	84.355	111.299	97.660	128.061
Bank Account	2.867	2.867	2.867	2.867
Over Collateralization	5.984	25.775	17.730	36.421
Over Collateralization %	7,4%	29,2%	21,4%	38,5%

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	Jul 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	Jan 2018	Feb 2018	Mar 2018	Apr 2018	May 2018	Jun 2018	Jul 2018
Bank Account	2.867,4												
Covered Bonds:				154,9		721,2	60,5	94,8	748,8	154,8		721,2	60,5
Loans in Default:		3,7	5,4	6,8	6,8	6,8	6,8	6,8	6,8	6,8	6,8	6,8	6,8
Performing Loans:		2,1	22,0	476,1	475,5	475,6	476,5	475,5	474,7	474,7	474,5	475,8	475,8
Cumulative Balance:	2.867,4	2.869,5	2.891,5	3.212,7	3.688,2	3.442,6	3.858,6	4.239,2	3.965,2	4.285,0	4.759,6	4.514,2	4.929,4

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=	3.515,2	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=	3.454,8	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	56.453	27.902	84.355
Covered Bonds Issuance	-55.026	-26.213	-81.239
Net	1.427	1.689	3.116

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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