

Arion Bank Covered Bonds

Risk Report: February 2020



Stress Test: Interest Rate Sensitivity

Description	Nominal	Base Case	Up 100 bp	Down 100 bp
Covered Bonds Issuance	157.728	182.107	172.346	192.772
Underlying Loan Pool	168.391	249.681	215.867	291.854
Bank Account	6.029	6.029	6.029	6.029
Over Collateralization	16.693	73.603	49.550	105.111
Over Collateralization %	10,6%	40,4%	28,8%	54,5%

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	Feb 2020	Mar 2020	Apr 2020	May 2020	Jun 2020	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021
Bank Account	6.029,3												
Covered Bonds:			1.364,5		696,9	295,1		933,4	1.369,3		696,9	295,1	
Loans in Default:		7,5	7,7	7,8	7,8	7,8	7,8	7,8	7,8	7,8	7,8	7,8	7,8
Performing Loans:		11,0	59,4	868,1	871,2	869,1	867,3	867,0	866,5	866,5	865,4	865,9	864,1
Cumulative Balance:	6.029,3	6.040,3	4.735,2	5.603,2	5.777,6	6.351,6	7.218,9	7.152,5	6.649,8	7.516,2	7.684,7	8.255,5	9.119,6

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	108.474	59.918	168.391
Covered Bonds Issuance	-107.450	-50.279	-157.728
Net	1.024	9.639	10.663

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).

This report has been automatically generated by Arion Bank's Risk Management. The information within are obtained from different sources, not all of which are controlled by Arion Bank, but which Arion Bank deems to be reliable. Whilst reasonable care has been taken to ensure that the contents of this publication are not untrue or misleading, no representation is made as to its accuracy or completeness and no liability is accepted for any loss arising from reliance on it. Arion Bank endeavours to ensure that the information is accurate and up-to-date, and reserves the right to make corrections to the content at any time, without prior notice. However, Arion Bank cannot guarantee that such information is complete or that it has not been modified by an outside party, by means of a virus or system intrusion, for example.

The report is prepared for general circulation and general information only, but it is not intended for any person in the United States. This publication may not be re-produced in whole or in part without permission.

The report shall under no circumstances be used or considered as an investment advice or investment research, or an offer to sell, or a solicitation of any offer to buy any securities. It does not have regard to the specific investment objectives, financial situation or the particular needs of any person who may receive the report. Arion Bank accepts no liability whatsoever for any direct or consequential loss arising from the use of this publication or its contents.

Contact:
Investor Relations: samskiptasvidj@arionbanki.is
Head of Funding: EirikurMagnusJensson@arionbanki.is