

# Arion Bank Covered Bonds

Risk Report: July 2020



## Stress Test: Interest Rate Sensitivity

Description	Nominal	Base Case	Up 100 bp	Down 100 bp
Covered Bonds Issuance	162.468	189.296	179.628	199.850
Underlying Loan Pool	176.667	249.828	215.279	293.093
Bank Account	9.249	9.249	9.249	9.249
Over Collateralization	23.448	69.782	44.901	102.492
Over Collateralization %	14,4%	36,9%	25,0%	51,3%

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	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Dec 2020	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021
Bank Account	9.249,5												
Covered Bonds:			933,4	1.408,6		709,3	300,3		933,4	1.408,6		709,3	300,3
Loans in Default:		8,4	10,6	10,6	10,6	10,6	10,6	10,6	10,6	10,6	10,6	10,6	10,5
Performing Loans:		10,5	857,5	859,8	860,2	859,2	859,5	858,1	857,7	857,7	857,6	858,2	856,7
Cumulative Balance:	9.249,5	9.259,9	9.184,0	8.635,3	9.495,5	9.645,4	10.204,7	11.062,8	10.987,0	10.436,2	11.293,7	11.442,7	11.999,1

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	111.083	65.584	176.667
Covered Bonds Issuance	-112.437	-50.031	-162.468
Net	-1.355	15.554	14.199

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.