

CREDIT OPINION

1 July 2025

Update

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RATINGS

Arion Bank hf.

| | |
|-------------------|--|
| Domicile | Iceland |
| Long Term CRR | A2 |
| Type | LT Counterparty Risk Rating - Fgn Curr |
| Outlook | Not Assigned |
| Long Term Debt | A3 |
| Type | Senior Unsecured - Fgn Curr |
| Outlook | Stable |
| Long Term Deposit | A2 |
| Type | LT Bank Deposits - Fgn Curr |
| Outlook | Stable |

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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CLIENT SERVICES

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| Americas | 1-212-553-1653 |
| Asia Pacific | 852-3551-3077 |
| Japan | 81-3-5408-4100 |

Arion Bank hf.

Update following ratings affirmation

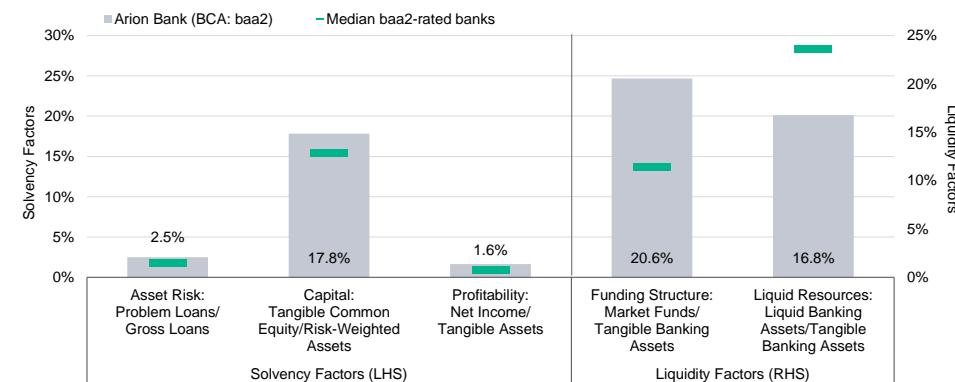
Summary

Arion Bank hf.'s (Arion) A2 long-term deposit rating and A3 senior unsecured debt rating reflect the bank's standalone creditworthiness, are underpinned by a baa2 Baseline Credit Assessment (BCA), and extremely low and very low loss-given-failure respectively, which results in a three-notch uplift for the long-term deposit rating and a two-notch uplift for the senior unsecured debt rating. Low probability of support from the [Government of Iceland](#) (A1, outlook stable) does not result in any further uplift.

Arion's BCA of baa2 reflects its strong capitalisation and profitability, balanced against high geographical and sectoral concentration and high reliance on foreign wholesale funding.

Exhibit 1

Rating Scorecard - Key Financial Ratios



These represent our [Banks methodology](#) scorecard ratios, whereby asset risk and profitability reflect the weaker of either the three year average and the latest annual figure. Capital ratio is the latest reported figure. Funding structure and liquid resource ratios reflect the latest fiscal year-end figures.

Source: Moody's Ratings

Credit strengths

- » Low level of problem loans
- » Strong capitalisation
- » Good profitability

Credit challenges

- » High geographical and sector concentration
- » High reliance on foreign wholesale funding

Outlook

The outlook on Arion's long-term deposit, long-term issuer and senior unsecured debt ratings is stable, reflecting our expectation that the bank's profitability will continue to benefit from its diversification in a wide range of activities, supporting its capital generation capacity in the next 12-18 months and the potential integration of Kvika will be orderly.

Factors that could lead to an upgrade

Upward pressure could develop if Arion improves further its risk profile by reducing single name and sector concentrations in combination with a reduction in the use of market funds while maintaining strong capitalisation and strong earnings' generation capacity across the credit cycle.

For the issuer ratings, upward rating pressure could also develop because of a larger cushion of loss absorbing obligations protecting creditors in case of failure.

Factors that could lead to a downgrade

Downward pressure could emerge if Arion's (1) asset quality and risk profile was to deteriorate, for example as a result of increased exposures to more volatile sectors, increased single name concentrations or changes in strategy driven by inorganic growth; (2) risk profile increases driven by non-credit related risks such as market risk and foreign exchange risk and/or increasing consumer price index (CPI) imbalance or potential integration of Kvika is with material costs or time overruns; (3) recurring profitability weakens significantly limiting the bank's internal capital generation; (4) financing conditions were to become more difficult or (5) the macroeconomic environment deteriorates significantly leading to a lower Macro Profile.

Furthermore, a reduction in the rating uplift as a result of our Advanced Loss Given Failure (LGF) analysis triggered by structural funding changes to the bank's balance sheet could lead to downward rating pressure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moodys.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Arion Bank hf. (Consolidated Financials) [1]

| | 03-25 ² | 12-24 ² | 12-23 ² | 12-22 ² | 12-21 ² | CAGR/Avg. ³ |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|------------------------|
| Total Assets (ISK Billion) | 1,686.7 | 1,618.3 | 1,525.7 | 1,465.6 | 1,313.9 | 8.0 ⁴ |
| Total Assets (USD Million) | 12,766.1 | 11,645.6 | 11,228.9 | 10,324.5 | 10,085.3 | 7.5 ⁴ |
| Tangible Common Equity (ISK Billion) | 186.3 | 198.3 | 189.6 | 177.6 | 175.9 | 1.8 ⁴ |
| Tangible Common Equity (USD Million) | 1,409.8 | 1,427.0 | 1,395.3 | 1,251.3 | 1,350.1 | 1.3 ⁴ |
| Problem Loans / Gross Loans (%) | 2.5 | 2.3 | 1.7 | 1.2 | 1.9 | 1.9 ⁵ |
| Tangible Common Equity / Risk Weighted Assets (%) | 17.8 | 19.5 | 20.2 | 19.6 | 21.0 | 19.6 ⁶ |
| Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%) | 15.8 | 13.9 | 10.1 | 7.1 | 9.8 | 11.3 ⁵ |
| Net Interest Margin (%) | 3.1 | 3.0 | 3.0 | 3.0 | 2.7 | 3.0 ⁵ |
| PPI / Average RWA (%) | 4.6 | 3.7 | 3.8 | 3.3 | 3.9 | 3.8 ⁶ |
| Net Income / Tangible Assets (%) | 1.9 | 1.6 | 1.6 | 1.4 | 2.2 | 1.7 ⁵ |
| Cost / Income Ratio (%) | 37.4 | 45.7 | 43.9 | 47.4 | 47.1 | 44.3 ⁵ |
| Market Funds / Tangible Banking Assets (%) | 22.8 | 20.6 | 21.0 | 21.9 | 21.6 | 21.6 ⁵ |
| Liquid Banking Assets / Tangible Banking Assets (%) | 19.1 | 16.8 | 17.1 | 19.0 | 18.0 | 18.0 ⁵ |
| Gross Loans / Due to Customers (%) | 140.4 | 144.3 | 146.5 | 144.5 | 144.0 | 143.9 ⁵ |

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

Arion is a full-service commercial bank in Iceland that provides retail, corporate, investment and private banking services, asset management services through its Stefnir subsidiary, as well as insurance offerings through its Vördur subsidiary. It operates through a network of 12 branches in Iceland.

Arion is the second largest bank in Iceland with total assets of around ISK1,687 billion as of end-March 2025 and a market share of around 28% of assets in the Icelandic banking system. The bank is listed on Nasdaq Iceland and is privately owned.

Following the collapse of Kaupthing in 2009, a new, state-owned entity named New Kaupthing was established and assumed control of the bank's domestic assets and liabilities. The entity later changed its name to Arion Bank and in 2018 the government sold its final stake prior to a double-listing of the bank on Nasdaq Iceland and Nasdaq Stockholm.

Recent developments

On 27 May 2025, Arion [proposed](#) the initiation of merger talks with [Kvika Banki hf.](#) (Kvika, Baa1/Baa1 on review for upgrade, ba1 on review for upgrade¹). Discussions are ongoing, but we believe that the entity resulting from a merger between Arion and Kvika would not result in a materially different financial performance, given the significantly larger size of Arion. Furthermore, our credit view balances the eventual integration risks, which we expect to be orderly, against the long-term potential for franchise enhancement.

Detailed credit considerations

Arion's operations are supported by its Strong- weighted macro profile

We assign a Macro Profile of Strong- to Arion, which is in line with Iceland's Macro Profile, reflecting the bank's large presence in its home country. Arion has only small international exposures, all in areas with Strong+ Macro Profiles.

Iceland's [Strong-](#) Macro Profile balances the country's small size and associated history of economic boom and bust episodes with relatively high wealth levels, competitiveness and favorable demographics. Iceland further benefits from high institutional and government strength, combined with a low susceptibility to political event risk.

Iceland's growth is volatile, reflecting the economy's limited diversification and relative openness, which increases its vulnerability to sector-specific and external shocks. The economy has weathered the twin shocks of the pandemic and the war in Ukraine, helped by a

strong policy response and Iceland's energy independence. Diversification efforts are showing the first signs of success in some sectors, which should strengthen the economy's resilience to shocks.

We expect real GDP growth to slow down but remain robust in 2025 at 1.8%, supported by increasing consumption and foreign trade as inflation decelerates. Recently negotiated long-term private market wage agreements will result in further slowdowns in inflation, while monetary easing anticipated in the second half of the year will act to reinvigorate the labour market.

The main risks to the banking sector stem from the country's small size and limited economic diversification, which could create a risk of contagion in the event of sector specific shocks. Icelandic banks also make extensive use of market funding.

Low level of problem loans but high geographical and sector concentration

Our ba2 Asset Risk score reflects Arion's high geographical and sector concentrations despite the bank's low level of problem loans, improved underwriting policies, and low borrower concentration.

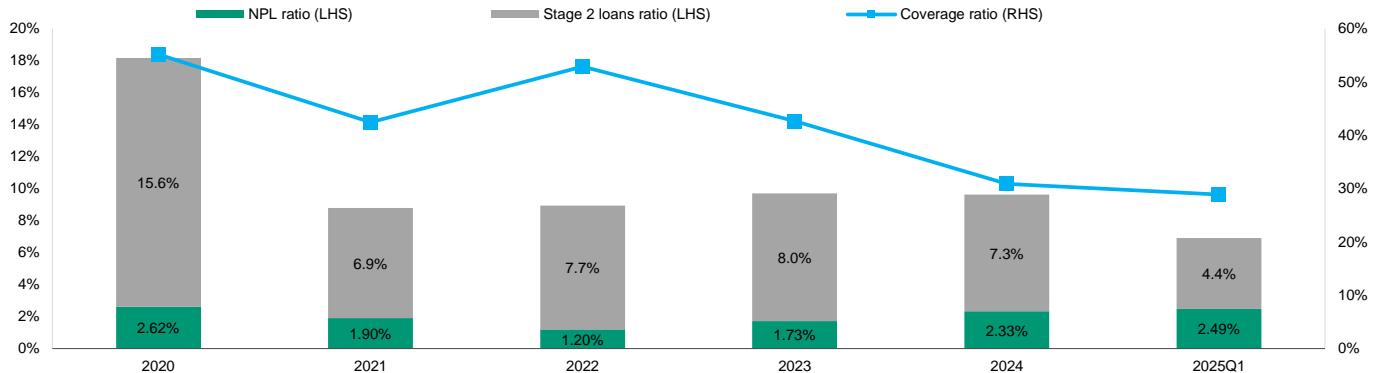
Bank's lending book exhibits geographical and sector concentrations, in line with the rest of the market, with contagion risks between various sectors given the small size of the economy. The bank is actively trying to increase its presence in the Arctic region (including the Faeroe Islands and Greenland) as a facilitator to local companies operating in sectors that the bank has long standing expertise, rather than focusing on lending activities in the region. However, these operations remain small as a share of the whole portfolio.

Arion has a relatively good loan book performance where the asset quality deteriorated only to a moderate level in the past 24 months, despite significant increases in interest rates from the central bank. Non-performing loans (NPL) ratio (stage 3 loans to gross loans) was 2.5% at end-March 2025 versus 2.3% as of year-end 2024. (2023: 1.7%). The increasing trend reflects the persistently high interest rate environment. As of May 2025, the interest rate stands at 7.50%, following a sharp tightening cycle that saw the key policy rate rise from 0.75% in May 2021 to a peak of 9.25% in September 2024. Looking ahead, we expect the bank's asset quality metrics to deteriorate only marginally from current levels, as more small and medium enterprises (SMEs) experience payment difficulties at current levels of interest rates in combination with lower economic activity.

On a positive note Stage 2 loans have improved significantly. As of Q1 2025, Stage 2 loans account for a moderate 4.4% (2024: 7.3%) of gross loans relating mostly to exposures corporate sector, namely services, construction and real estate sectors, down from 16.7% at its peak during Q2 2020. Arion had a higher level of Stage 2 loans entering the pandemic, compared to its other two domestic peers, owing to its exposures to the travel industry and the turbulence in the travel sector during 2018/2019. The improvement in Q1 was due to a decrease in the numerator following stage 2 loan amortisation and write-offs.

Exhibit 3

Arion's NPL ratio has remained relatively stable in recent years along with stage 2 loans



Source: Company reports, Moody's Ratings

The bank's loan portfolio consists of 52% retail and 48% corporate as of end-March 2025. The retail portfolio consists mostly of retail mortgages, of which 63% were in the form of CPI-linked products at end March 2025 compared to 36% at end 2021, as interest rate rises increased the appetite for inflation-linked products. The corporate loans in FX is 17% and largely for clients with FX revenues. Retail loan book has no FX exposure.

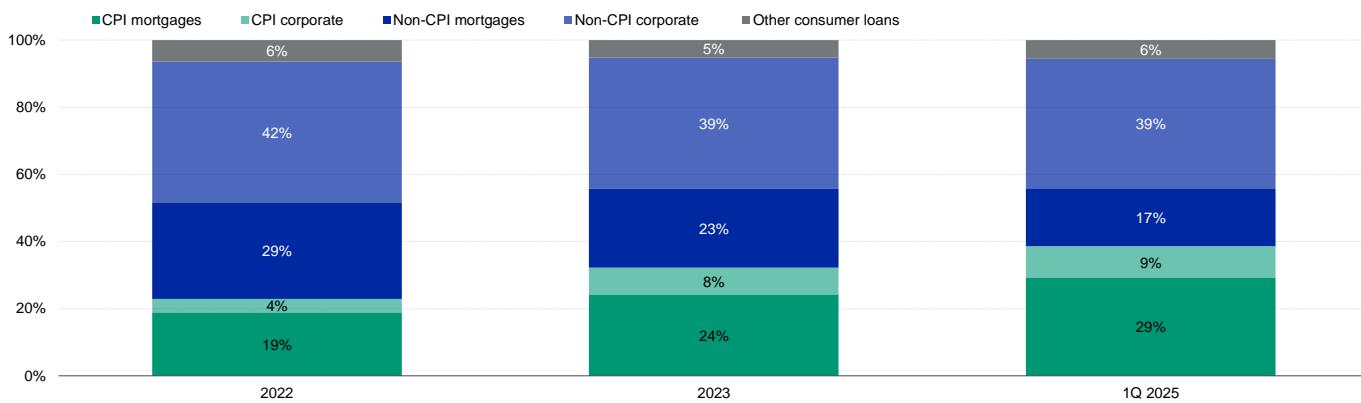
» **Consumer Price Index (CPI) linked loans** are home and corporate loans where the outstanding principal is adjusted monthly based on the Consumer Price Index (CPI), effectively tying the debt to inflation. While these loans typically offer lower initial interest rates and monthly payments compared to non-indexed loans, the principal increases over time if inflation rises, potentially leading to higher long-term costs. This structure allows borrowers to access larger loans initially, but the increasing interest payments slow down equity accumulation and can even result in negative amortization during periods of high inflation. The risk is mitigated by the borrowers' ability to switch between CPI linked and non-CPI linked loans at the time of refinancing.

The bank has taken actions to limit the growth in CPI linked products, through dynamic pricing and shortening of the tenor of the loan, particularly for CPI linked floating rate loans, which were 111% of total common equity tier 1 capital as of 2024 year-end. Annualised inflation was a moderate 3.8% in May 2025, down from a high of 10.2% as of February 2023.

Exhibit 4

CPI loans has been on the rise and now equates approx. third of gross loans

Loan book composition

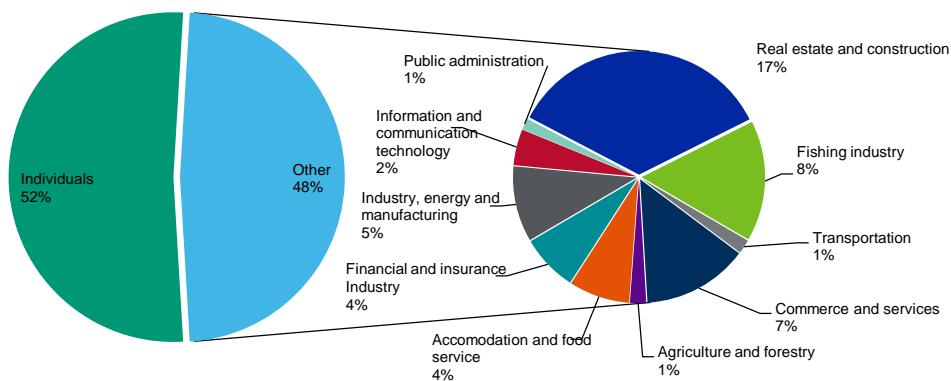


Source: Company reports, Moody's Ratings

The mortgage book, where 54% carry floating interest rates, has had a relatively strong performance in the past two years, with problem loans representing 1.5% of the mortgage portfolio, despite the 6.75% cumulative increase in the Central bank's key rate since May 2021. The 90% of the bank's mortgage portfolio have a loan to value (LTV) below 55% (using a loan-splitting approach). We expect the performance of the retail book to remain strong supported by Iceland's strong employment and real wage growth.

Exhibit 5

Arion has a diverse asset mix, with a large share of corporate loans



Source: Company reports, Moody's Ratings

Arion's corporate book is focused on real estate and construction, fishing and the wholesale and retail trade sector.

The bank still has some equity exposures which are used for hedging forward contracts; however, equity risk in the banking book has decreased markedly in recent years and we expect it to reduce further.

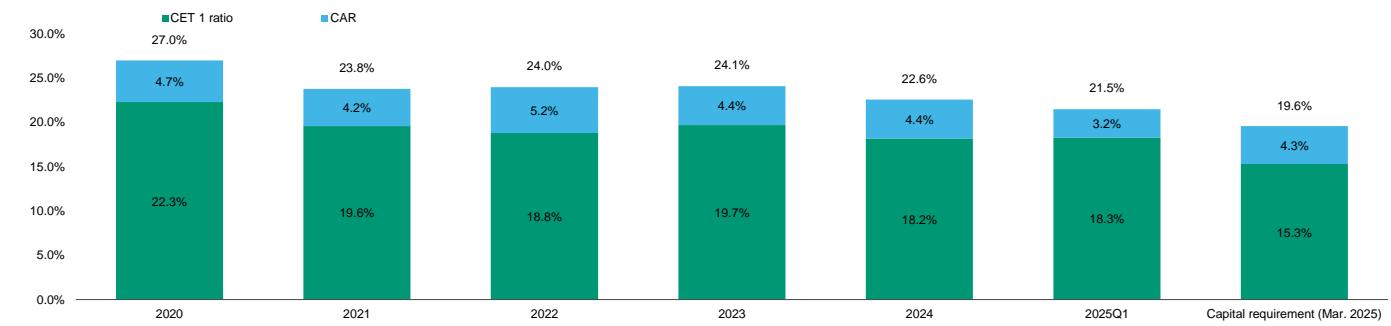
Strong capitalisation

We view Arion's capitalization as strong reflected by an assigned score of a1, in line with the initial Macro Adjusted score, reflecting strong risk-adjusted capital levels and very strong leverage ratio. The score also reflects our expectation that the bank will maintain ample buffers above its regulatory requirements in the next 12-18 months.

The bank uses the standardised method for calculation of capital requirements and as of end-March 2025 the (Moody's Adjusted) Bank's Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in) was 17.85%, versus 19.50% as of year-end 2024. The Moody's adjusted leverage ratio was Tangible Common Equity / Tangible Banking Assets was a solid 11.1% (2024: 12.6%). The bank has access to equity capital markets on the Nasdaq Iceland stock exchange and a stable shareholder base consisting to a large degree of Icelandic pension funds with a long-term and stable investing horizon.

Exhibit 6

Arion's capital buffer is on a declining trend but remains substantial



Source: Company reports, Moody's Ratings

The bank's reported common equity Tier 1 (CET1) ratio was 18.3% as of end-March 2025, compared to a capital requirement of 15.3%. The bank is targeting a management buffer between 150-250 basis points above its regulatory minimum of 15.3% in the medium term leading to a CET1 ratio of 16.8%-17.8%. On 28 June 2024, Arion's Pillar 2 capital requirement was revised to 1.8% from 2.1% of the Risk Exposure Amount (REA) by the Financial Supervisory Authority of the Central Bank of Iceland.

The bank also had a total capital adequacy ratio (CAR), which includes interim profits, of 21.5% in end-March 2025 (22.6% in end-2024) compared to a minimum requirement of 19.6%.

The bank's strong CET1 leverage ratio of 11.4% as of end-March 2025 is significantly above the European average leverage ratio of 5.9% (source: EBA risk dashboard or 2024).

Good profitability

We view Arion's profitability as good, as indicated by our assigned score of baa1. The assigned score is one notch below our initial Macro Adjusted score to reflect our expectation that the bank's core profitability will remain strong supported by the repricing of the bank's fixed rate mortgages in the next 12 months, but will be offset by higher of cost of risk.

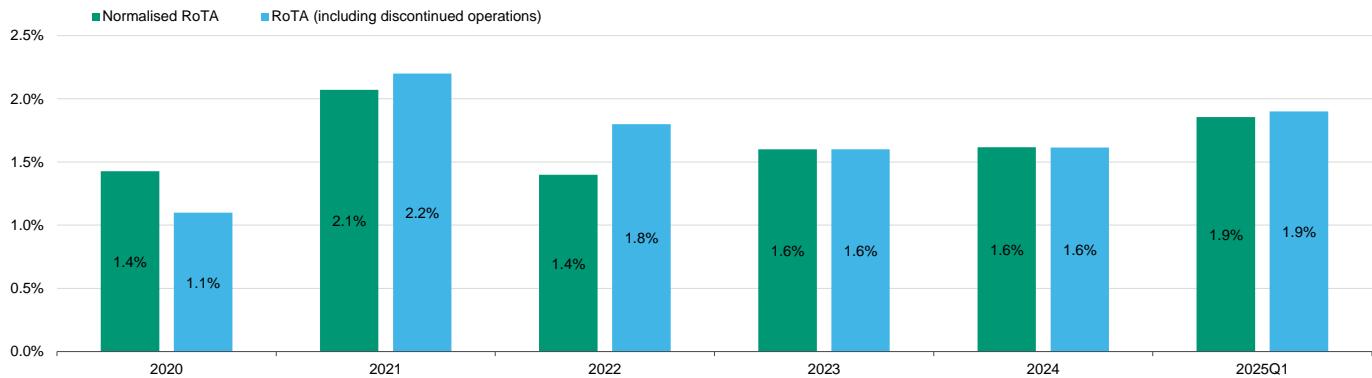
Arion's core profitability has been improving in recent years, driven by the successful transition towards the bankassurance model and the disposal of discontinued operations that have been impacting net profits. The bank reported return on tangible assets (RoTA) of 1.6% at end-December 2024, similar to 1.6% in 2023, while RoTA in the first quarter of 2025 was 1.8%. The strong increase in profitability in Q1 2025 was primarily driven by a significant rise in core income, particularly from net commission income and net interest income, which grew by 34.8% and 8.2% respectively.

Arion's earnings benefit from a diverse revenue stream in the form of, net interest income from both retail and corporates, investment banking operations, asset management fees, and insurance and financial income through its Vördur subsidiary. The bank has actively diversified revenue stream recently through pursuing a bancassurance model with increased focus on the Vördur product offering, as

well as increased digitalisation to enable cross-selling and cost efficiencies. Arion also benefits from good cost control with a cost-to-income of 37.4% in the first quarter of 2025, compared to 46.5% in YE 2024, reflective of a cost-conscious strategy in terms of digitalisation and branch management. The improvement was driven by the strong performance of the insurance business, an increase in the fair value of investment properties (Arnarlund), as well as the cost savings from muted operational expense growth.

Exhibit 7

Arion's profitability has been normalising following strong performance in recent years



Note: The normalised RoA excludes one-off costs and revenue arising from discontinued operations

Source: Company reports, Moody's Ratings

Net interest income accounted for 64% of Arion's income at end-March 2025, and grew by 8.2% YoY supported by good credit growth and higher rates, as the central bank increased the policy rate by 2.75% since June 2022. Net interest margin (NIM) stood at 3.2%, similar to 3.1% from year-end 2024 supported by good deposit margins. We expect the net interest margin to remain broadly stable as the repricing of loans will be offset by increasing funding costs and lower credit growth. However, the higher share of CPI-linked loans will increase volatility on net interest income.

The level of net fee and commission income (NFCI) was good in Q1 2025, and primarily driven by lending and guarantees as the bank builds on its strategy of capital deployment mainly focused on sale and syndication of corporate loans and income from its asset management business. In Q1 2025, NFCI increased by 34.8% year-on-year due to increased activity in asset management, capital markets, and lending-related services.

Vördur's operations as a general insurance company offer both life and non-life products. Net insurance income had a negative contribution in the first quarter of 2025 which was expected due to the cyclical nature of claims, however losses on insurance service results were 86% lower compared to the same quarter the previous year. Insurance revenue grew 5.2% year-on-year, supported by cross selling opportunities within Arion's CIB division. In the first quarter of 2025 the combined ratio was 99.7% compared to 103.9% in Q1 2024.

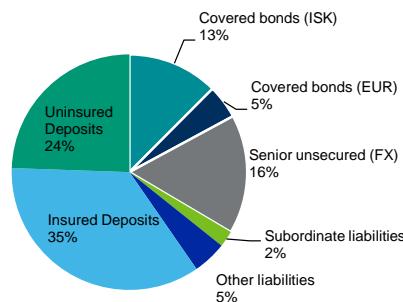
High reliance on foreign wholesale funding

Our assigned baa3 funding score, which is in line with the initial Macro Adjusted score, reflects the bank's high reliance on foreign wholesale funding, and our expectation that such reliance will remain broadly stable.

We view Arion's funding as diversified with deposits approximately at 59% in Q1 2025 where 41% are covered by the deposit guarantee scheme. We view the deposit base to be stable due to the closed nature of the Icelandic banking sector with no international banks offering banking services. The bank funding mix additionally benefits from senior unsecured and covered bonds, as well as between FX and domestic issuances (see Exhibit below).

Exhibit 8

Arion's funding mix contains a diverse range of exposures



Source: Company reports, Moody's Ratings

Even though senior debt (which is mainly in foreign currency), provides access to a wider investor base, it also exposes the bank to changes in investor sentiment in times of market stress. The domestic debt markets has been growing; if the trend continues, a higher share of domestic investors will, with time, reduce this risk. Furthermore, the bank also has a Covered Bond program, which we view as a more stable source of funding, and is primarily issued in local currency. In 2022 and 2023 the bank also expanded its international market issuances, diversifying its investor base, but also modestly increasing its FX risk due to the absence of international counterparties to provide currency swaps for these issuances. The net FX position is closely monitored and managed to zero through FX assets held in the liquidity portfolio, and FX senior debt issuances broadly match FX lending needs of corporates with FX revenues.

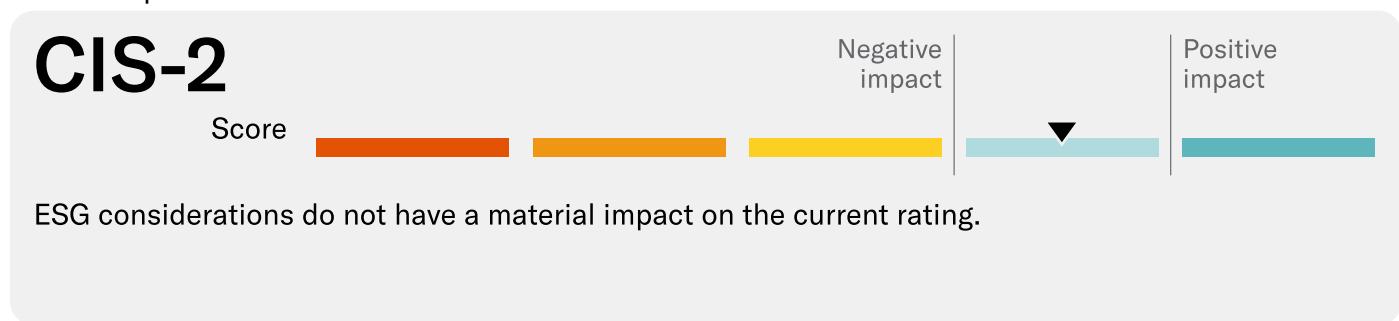
Arion benefits from sound liquidity, with highly liquid assets accounting for 19.1% tangible banking assets in March 2025. The bank further benefits from a very strong Basel III LCR ratio of 186% as of Q1 2025, (181% in 2024 and 192% in 2023), well above the regulator's minimum requirements of a total LCR and LCR in FX of 100%, and for a minimum LCR ISK of 50%. The liquid pool of assets consists mostly of cash and deposits with the central bank and government bonds. Our assigned liquidity score is in line with the Macro Adjusted score reflects our expectation that Arion's liquidity will remain at current levels going forward.

ESG considerations

Arion Bank hf.'s ESG credit impact score is CIS-2

Exhibit 9

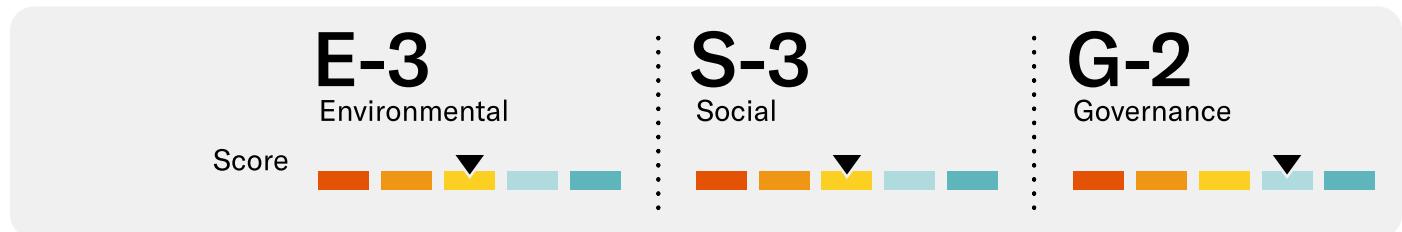
ESG credit impact score



Source: Moody's Ratings

Arion Bank hf.'s (Arion) **CIS-2** indicates that ESG consideration do not have a material impact on the current ratings.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Arion faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is exposed to mounting business risks and stakeholder pressure to meet broader carbon transition goals. Consequently, Arion is actively engaging in optimizing its loan portfolio longer-term toward less carbon intensive assets.

Social

Arion faces moderate social risks mainly related to customer relations as well as to societal trends. The bank's developed policies and procedures mitigate conduct risk associated with the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Arion benefits from Iceland's more favourable demographic profile, relative to many other countries, which affords business opportunities for the bank.

Governance

Arion faces low governance risks. The firm has improved its risk management framework and benefits from a relatively conservative financial policy as well as its balance sheet clean-up of legacy assets that have resulted in higher loan losses in the past. The bank has a sound organizational structure with a capable management team, and a competent and independent board of directors. Arion is fully listed, with no relevant ownership concentration.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Arion operates in Iceland, which we consider an operational resolution regime. We thus apply our advanced Loss Given Failure (LGF) analysis, in which we assume a residual tangible common equity of 3% and post-failure losses of 8% of tangible banking assets, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits, in line with our standard assumptions.

Our analysis also considers full depositor preference over senior unsecured creditors, in line with the Icelandic legislation. We classify 26% of deposits in Iceland as junior based on our liability waterfall.

Our LGF analysis indicates that Arion's deposits and senior unsecured debt are likely to face extremely low loss given failure because of the loss absorption provided by subordinated debt, and the volume of deposits and senior debt themselves. This results in a three-notch uplift for the long-term deposit and a two-notch uplift for the senior unsecured debt ratings from the bank's adjusted BCA.

Subordinated debt issued by Arion is likely to face high loss given failure, resulting in a rating one notch below with the adjusted BCA, reflecting the low volume of more junior debt and the residual equity that we expect in a resolution scenario. For non-cumulative bank preference shares (the Additional Tier 1 notes) we also include two additional negative notching to reflect the instruments' features, resulting in a rating that is three-notches below the bank's adjusted BCA.

Government support considerations

We assign a low probability of support coming from the Government of Iceland, which does not result in any uplift to the ratings. Our assumption reflects the lack of government support to the financial sector during the 2008 financial crisis.

About Moody's bank scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our Scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The Scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 11

Rating Factors

| Macro Factors | | Weighted Macro Profile | | | | | |
|--|-------|-------------------------------|-------------------|---------------------------------|---------------------|-----------------------------------|---------------|
| Factor | | Historic Ratio | Initial Score | Expected Trend | Assigned Score | Key driver #1 | Key driver #2 |
| Solvency | | | | | | | |
| Asset Risk | | | | | | | |
| Problem Loans / Gross Loans | 2.5% | a3 | ↔ | | ba2 | Sector concentration | |
| Capital | | | | | | | |
| Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded) | 17.8% | a1 | ↔ | | a1 | Risk-weighted capitalisation | |
| Profitability | | | | | | | |
| Net Income / Tangible Assets | 1.6% | a3 | ↓ | | baa1 | Expected trend | |
| Combined Solvency Score | | a2 | | | baa1 | | |
| Liquidity | | | | | | | |
| Funding Structure | | | | | | | |
| Market Funds / Tangible Banking Assets | 20.6% | baa3 | ↔ | | baa3 | Extent of market funding reliance | |
| Liquid Resources | | | | | | | |
| Liquid Banking Assets / Tangible Banking Assets | 16.8% | ba1 | ↔ | | ba1 | Stock of liquid assets | |
| Combined Liquidity Score | | baa3 | | | baa3 | | |
| Financial Profile | | a3 | | | baa2 | | |
| Qualitative Adjustments | | | | | Adjustment | | |
| Business Diversification | | | | | 0 | | |
| Opacity and Complexity | | | | | 0 | | |
| Corporate Behavior | | | | | 0 | | |
| Total Qualitative Adjustments | | | | | 0 | | |
| Sovereign or Affiliate constraint | | | | | A1 | | |
| BCA Scorecard-indicated Outcome - Range | | | | | baa1 - baa3 | | |
| Assigned BCA | | | | | baa2 | | |
| Affiliate Support notching | | | | | 0 | | |
| Adjusted BCA | | | | | baa2 | | |
| Balance Sheet | | in-scope (ISK Million) | % in-scope | at-failure (ISK Million) | % at-failure | | |
| Other liabilities | | 440,302 | 26.8% | 530,532 | 32.3% | | |
| Deposits | | 884,606 | 53.8% | 794,376 | 48.3% | | |
| Preferred deposits | | 654,608 | 39.8% | 621,878 | 37.8% | | |
| Junior deposits | | 229,998 | 14.0% | 172,498 | 10.5% | | |
| Senior unsecured bank debt | | 237,811 | 14.5% | 237,811 | 14.5% | | |
| Dated subordinated bank debt | | 15,773 | 1.0% | 15,773 | 1.0% | | |
| Preference shares (bank) | | 16,515 | 1.0% | 16,515 | 1.0% | | |
| Equity | | 49,330 | 3.0% | 49,330 | 3.0% | | |
| Total Tangible Banking Assets | | 1,644,337 | 100.0% | 1,644,337 | 100.0% | | |

| Debt Class | De Jure waterfall | | De Facto waterfall | | Notching | | LGF Notching Guidance vs. Adjusted BCA | Assigned LGF notching | Additional Notching | Preliminary Rating |
|---------------------------------------|-------------------|--|--------------------|--|----------|----------|---|-----------------------------|------------------------|-----------------------|
| | Instrument | Sub- volume + ordination subordination | Instrument | Sub- volume + ordination subordination | De Jure | De Facto | | | | |
| | | | | | | | | | | |
| Counterparty Risk Rating | 29.9% | 29.9% | 29.9% | 29.9% | 3 | 3 | 3 | 3 | 0 | a2 |
| Counterparty Risk Assessment | 29.9% | 29.9% | 29.9% | 29.9% | 3 | 3 | 3 | 3 | 0 | a2 (cr) |
| Deposits | 29.9% | 5.0% | 29.9% | 19.4% | 2 | 3 | 3 | 3 | 0 | a2 |
| Senior unsecured bank debt | 29.9% | 5.0% | 19.4% | 5.0% | 2 | 2 | 2 | 2 | 0 | a3 |
| Junior senior unsecured bank debt | 5.0% | 5.0% | 5.0% | 5.0% | 0 | 0 | 0 | 0 | 0 | baa2 |
| Dated subordinated bank debt | 5.0% | 4.0% | 5.0% | 4.0% | 0 | 0 | 0 | 0 | -1 | baa3 |
| Non-cumulative bank preference shares | 4.0% | 3.0% | 4.0% | 3.0% | -1 | -1 | -1 | -1 | -2 | ba2 |

| Instrument Class | Loss Given Failure notching | Additional notching | Preliminary Rating Assessment | Government Support notching | Local Currency Rating | Foreign Currency Rating |
|---------------------------------------|--------------------------------|------------------------|----------------------------------|--------------------------------|--------------------------|-------------------------------|
| Counterparty Risk Rating | 3 | 0 | a2 | - | A2 | A2 |
| Counterparty Risk Assessment | 3 | 0 | a2 (cr) | - | A2(cr) | |
| Deposits | 3 | 0 | a2 | - | A2 | A2 |
| Senior unsecured bank debt | 2 | 0 | a3 | - | (P)A3 | A3 |
| Junior senior unsecured bank debt | 0 | 0 | baa2 | - | (P)Baa2 | (P)Baa2 |
| Dated subordinated bank debt | 0 | -1 | baa3 | - | (P)Baa3 | (P)Baa3 |
| Non-cumulative bank preference shares | -1 | -2 | ba2 | - | Ba2 (hyb) | |

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 12

| Category | Moody's Rating |
|-------------------------------------|----------------|
| ARION BANK HF. | |
| Outlook | Stable |
| Counterparty Risk Rating | A2/P-1 |
| Bank Deposits | A2/P-1 |
| Baseline Credit Assessment | baa2 |
| Adjusted Baseline Credit Assessment | baa2 |
| Counterparty Risk Assessment | A2(cr)/P-1(cr) |
| Issuer Rating | A3 |
| Senior Unsecured | A3 |
| Junior Senior Unsecured MTN | (P)Baa2 |
| Subordinate MTN | (P)Baa3 |
| Pref. Stock Non-cumulative | Ba2 (hyb) |

Source: Moody's Ratings

Endnotes

1 The bank ratings indicated in this report are the long-term deposit and senior unsecured debt ratings, and the BCA.

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