

## CREDIT OPINION

26 September 2023

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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## Arion Bank hf.

Update to credit analysis following rating action

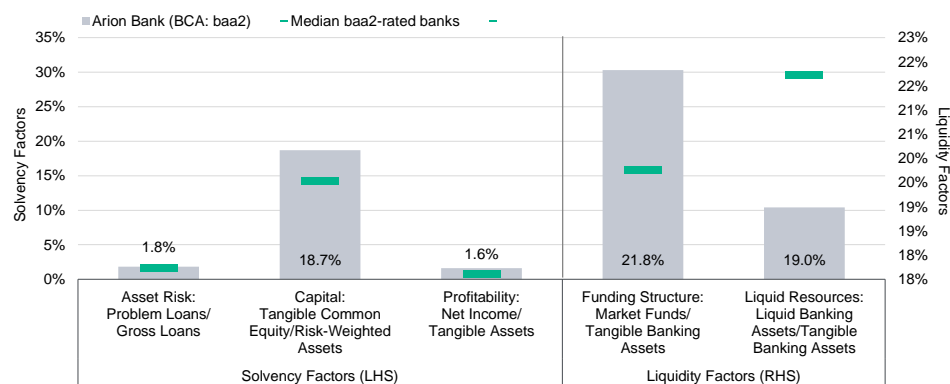
### Summary

Arion Bank's (Arion) foreign and local currency banks deposit ratings of A2/Prime-1 and issuer ratings of A3 are driven by the bank's baa2 baseline credit assessment (BCA); and three notches and two notches of rating uplift, respectively, under our forward-looking Advanced Loss Given Failure (LGF) analysis, which takes into account the risks faced by the bank's different liabilities should Arion enter into resolution.

Arion's BCA of baa2 reflects its robust capitalisation coupled with satisfactory core profitability and adequate liquidity balanced against single name and high geographical concentration, and reliance on market funding.

Exhibit 1

### Rating Scorecard - Key Financial Ratios as of end-June 2023



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 Investors Service

## Credit strengths

- » Low levels of non-performing loans which have improved in recent years and compare favorably to global peers
- » Strong capitalisation supported high capital requirements and improving profitability
- » Diversified revenue stream compared to domestic peers
- » Adequate liquidity buffers

## Credit challenges

- » Geographical and single-name concentration result in significant tail risks in the loan book
- » Non-credit related risks driven by market making operations
- » Reliance on market funding, with an increasing amount of FX-debt, exposes the bank to changes in investor sentiment

## Outlook

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

## Factors that could lead to an upgrade

Arion's BCA could be upgraded if the bank 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. An upgrade of the BCA would likely result in an upgrade of most of Arion's ratings.

Arion's issuer ratings could also be upgraded if the bank increases the cushion of loss absorbing obligations protecting creditors in case of failure.

## Factors that could lead to a downgrade

Arion's BCA could be downgraded if the bank's (1) asset quality and risk profile was to deteriorate, for example as a result of increased exposures to more volatile sectors and/or increased single name concentrations; (2) risk profile increases driven by non-credit related risks such as market risk and FX risk (3) the bank's recurring profitability weakens significantly limiting its internal capital generation (4) financing conditions were to become more difficult or (5) the macroeconomic environment deteriorates significantly leading to a lower Macro Profile. A downgrade of the BCA would likely result in a downgrade of most of Arion's ratings.

Furthermore, a reduction in the rating uplift as a result of Moody's 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.moody.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Arion Bank hf. (Consolidated Financials) [1]

	06-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	12-19 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (ISK Billion)	1,518.2	1,469.6	1,313.9	1,172.7	1,081.9	10.2 <sup>4</sup>
Total Assets (USD Million)	11,138.9	10,352.3	10,085.3	9,192.3	8,941.7	6.5 <sup>4</sup>
Tangible Common Equity (ISK Billion)	176.1	178.0	175.9	180.0	174.3	0.3 <sup>4</sup>
Tangible Common Equity (USD Million)	1,292.3	1,253.9	1,350.1	1,411.0	1,440.8	(3.1) <sup>4</sup>
Problem Loans / Gross Loans (%)	1.6	1.2	1.9	2.6	2.7	2.0 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	18.7	19.7	21.0	23.3	23.9	21.3 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.6	7.1	9.8	11.4	11.4	9.8 <sup>5</sup>
Net Interest Margin (%)	3.1	3.0	2.7	2.8	2.9	2.9 <sup>5</sup>
PPI / Average RWA (%)	3.9	3.2	3.9	3.4	2.3	3.3 <sup>6</sup>
Net Income / Tangible Assets (%)	1.6	1.4	2.2	1.1	0.1	1.3 <sup>5</sup>
Cost / Income Ratio (%)	43.1	50.3	47.1	50.7	63.2	50.9 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	21.8	21.8	21.6	21.1	22.4	21.8 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	18.0	19.0	18.0	18.9	15.8	17.9 <sup>5</sup>
Gross Loans / Due to Customers (%)	146.2	144.5	144.0	146.9	158.9	148.1 <sup>5</sup>

[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 Investors Service and company filings

## Profile

Arion bank was founded following the default of its predecessor Kaupthing, which had roots tracing back to 1930. 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 Banki and in 2018 the government sold its final stake prior to a double-listing of the bank on Nasdaq Iceland and Nasdaq Stockholm.

Arion is a full-service commercial bank in Iceland that provides retail, corporate, investment and private banking services, asset management services through its Stefmir subsidiary, as well as insurance offerings through its Vördur subsidiary. It operates through a network of 13 branches in Iceland.

Arion is the third largest bank in Iceland with total assets of around ISK1,518 billion as of end-June 2023 and had market shares of around 28% for both loans and deposits in the Icelandic banking system. The bank is listed on Nasdaq Iceland and is privately owned.

## Recent developments

On 30 June 2023 Arion's Pillar II capital requirement was revised downwards by the Financial Supervisory Authority of the Central Bank of Iceland following the Supervisory Review and Evaluation Process (SREP). The review concluded that Arion should, from 30 June 2023, be required to hold additional regulatory capital that amounts to 2.1% of Risk Exposure Amount (REA), which is a decrease of 1.4 percentage points from previous review. Arion's total capital requirement, taking into account all capital buffers, was therefore reduced from 20.8% to 19.3%.

## Detailed credit considerations

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

Arion operates mostly in Iceland, with a small international exposure in the Arctic region amounting to less than 5% of the group's assets. This is reflected in Arion's assigned Weighted Macro Profile of 'Strong -'. 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 remain robust in 2023 at 4%, supported by strong tourism demand. Real GDP grew at a very strong annual rate of 7% in the first quarter of 2023 but we expect growth to slow in the remainder of the year because of tighter monetary and fiscal policies. Domestic payment card turnover suggests that domestic demand has started to soften as high inflation weighs on household purchasing power. However, elevated nominal wage growth and a strong labor market will support consumption.

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.

### Asset quality has been improving but geographical and single name concentration risk weigh on the bank's risk profile

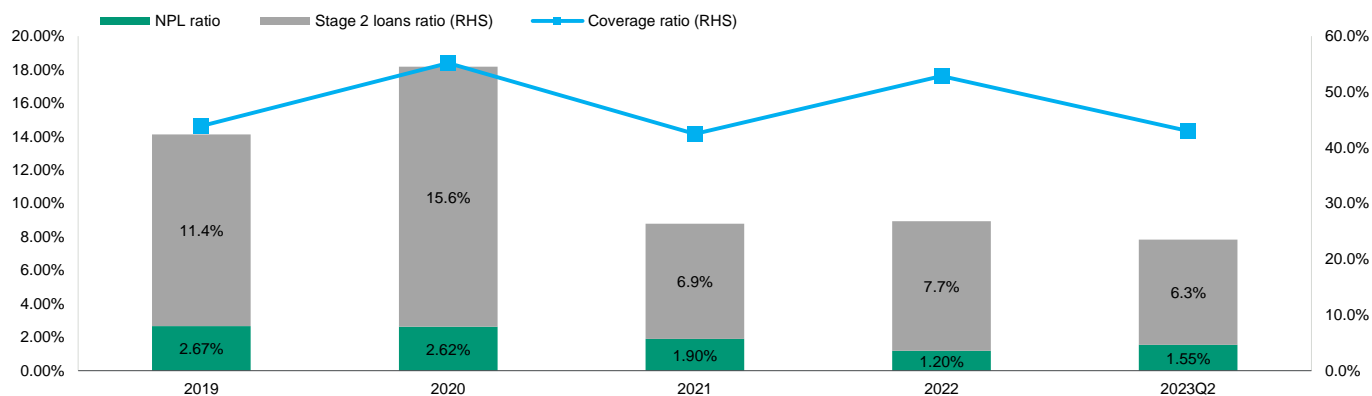
Arion bank's asset quality has improved with a reported non-performing loans (NPL) ratio (stage 3 loans to gross loans) of 1.6% at end-June 2023, from its peak of 2.7% in 2019, while the ratio remained broadly unchanged at 2.6% during 2020 despite the coronavirus outbreak. Arion's declining NPL ratio is reflective of the market as a whole, where overall NPL ratios have improved in recent years reflective of the recoveries in the tourism sector.

Stage 2 loans have also improved significantly. Arion bank 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 following the bankruptcy of Wow Air. As of Q2 2023, Stage 2 loans account for 6.3% of gross loans relating mostly to exposures to the service and tourism sector, down from 16.7% at its peak during Q2 2020.

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, outweighing continued recoveries on loans related to the tourism sector.

Exhibit 3

### Arion's NPL ratio has been decreasing in recent years along with stage 2 loans

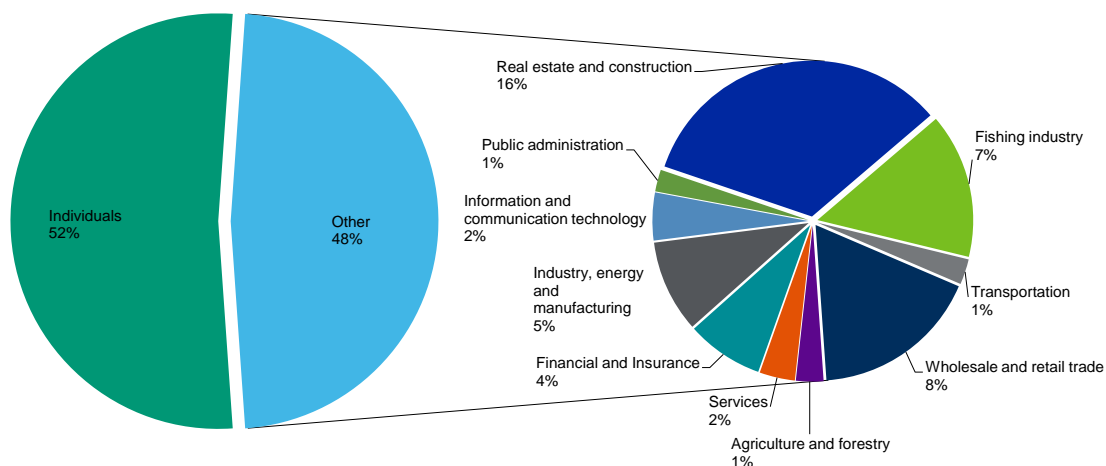


Source: Company reports, MIS

The bank's loan portfolio is evenly split between corporate and retail exposures, with retail exposures currently accounting for around 52% of the loan book as of end-June 2023 compared to 47.5% in 2019. The retail portfolio consists mostly of retail mortgages, of which 43% were in the form of CPI-linked products at end June 2023 compared to 36% at end 2021 as rate increases increased the appetite for inflation linked products.

The mortgage book has had a strong performance in the past two years, despite the 8.5% cumulative increase in the Central bank's key rate since May 2021. This is mostly explained by the limited share of non-CPI floating rate mortgages, which represent only 28% of total mortgages at end June 2023 as well as the low loan to value of (LTV), with more than 87% of the bank's mortgage portfolio having an LTV below 55%. We expect the performance of the retail book to remain strong supported by Iceland's strong employment and real wage growth coupled as well as the household's ability to refinance their non-CPI linked mortgages to CPI linked products where monthly payments are significantly lower.

Exhibit 4

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

Source: Company reports, MIS

Arion's corporate book is focused on real estate and construction, fishing and the wholesale and trade sector. The corporate loan book contains some client concentrations which in the past have led to higher loan losses than peers and foreclosures of businesses. However, in the past years the bank has revised its risk framework limiting large exposures and sector concentrations, in addition a new KYC health risk appetite and statement metric was introduced and made part of the variable remuneration system which had a very positive impact.

The lending book also exhibits geographical concentrations, in line with the rest of the market, with contagion risks between various sectors given the small size of the economy. However it is worth noting that the bank is actively trying to increase its presence in the Arctic region 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. Nevertheless, these operations remain small as a share of the whole portfolio.

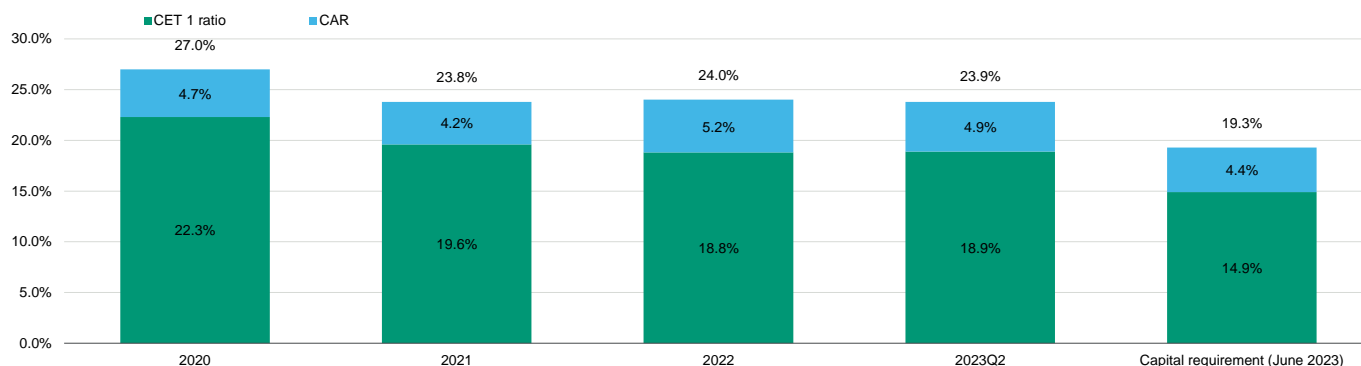
Our assigned score takes into consideration the bank's improved underwriting policies which are balanced against its geographical and sector concentrations as well non credit related risks. The bank still has equity exposures which are used for hedging forward contracts, however, equity risk in the banking book has somewhat decreased. Furthermore, there is still counterparty credit risks related to clients' margin positions despite positions being hedged using the equity positions.

**Capitalisation is expected to remain strong**

Arion enjoys a strong capital position as well as a very strong leverage ratio, reflective of the use of the standardised method for the calculation of capital requirements. The bank's reported common equity Tier 1 (CET1) ratio was 18.9% as of end-June 2023, compared to a capital requirement of 14.9%. The bank further had a total capital adequacy ratio (CAR) of 23.9% in end-June 2023 (24.0% in end-2022) compared to a minimum requirement of 19.3%.

The CET1 requirement is expected to increase to 15.4% in March 2024, when the countercyclical buffer increases to 2.5% from 2% currently, combined with the bank's new Pillar 2 (P2R) requirement of 2.1% (3.5% previously) as communicated by the FSA in the latest Supervisory Review and Evaluation Process (SREP) report. Arion's reduction in the P2R is mostly reflective of decreased interest rate and indexation risk as well as the reduced equity risk in the banking book, while the overall requirement is currently the lowest amongst the DSIBs.

Exhibit 5

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

Source: Company reports, MIS

The strong capitalization is further supported by a strong leverage ratio of 11.7% as of end-June 2023, which is significantly above the European average leverage ratio of around 5%. The bank has raised its management buffer to 400-500bps above its regulatory minimum of 14.9% in the near term leading to a CET1 ratio of 18.9%-19.9%. However, Arion expects capital thresholds to converge to a buffer of 150-250bps over the medium-term.

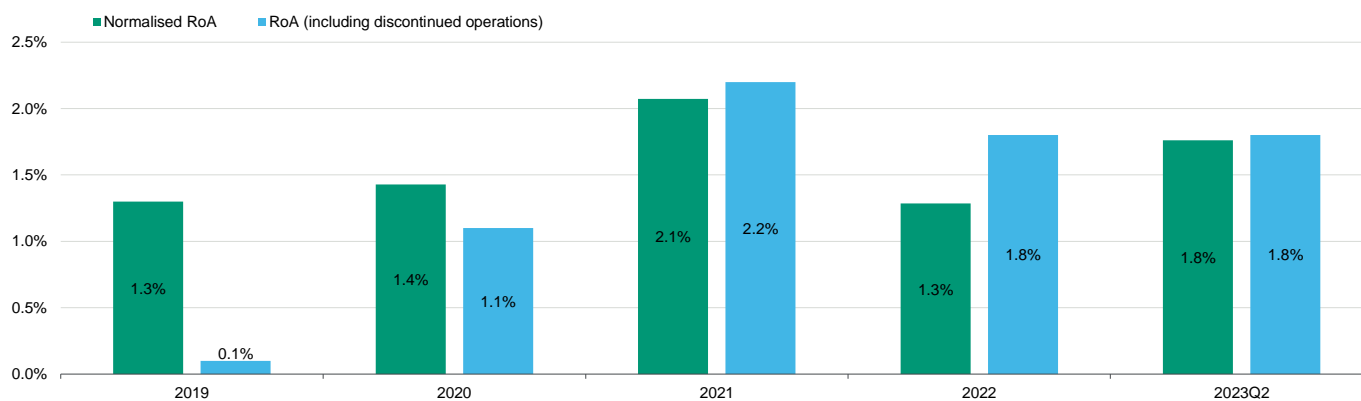
Arion bank also benefits from access to equity capital markets on the Nasdaq Iceland stock exchange and a stable shareholder base consisting to a large degree of Icelandic pension funds with a long-term and stable investing horizon.

Our assigned capital score reflects Arion's strong capital metrics, strong leverage ratio and its access to equity capital markets combined with a stable ownership structure as well as our expectation that it will maintain sufficient buffers above its regulatory requirements in the next 12-18 months.

**Profitability has been improving, supported by higher rates and focus on profitable growth**

Arion's core profitability is strong and has been improving. The bank reported return on assets (RoA) of 1.8% at end-June 2023 and end-December 2022. This is a material improvement from the 0.1% and 1.1% recorded in 2019 and 2020 which was primarily driven by the negative impact from discontinued operations that were held for sale. Nevertheless, the bank has taken active steps to dispose the operations in the past years, with Valitor's sale finalised in the end of June 2022, which accounted for approximately 80% of the discontinued operations and should result in lower earnings volatility going forward.

Exhibit 6

**Arion's profitability has been improving supported by the balance sheet clear out**

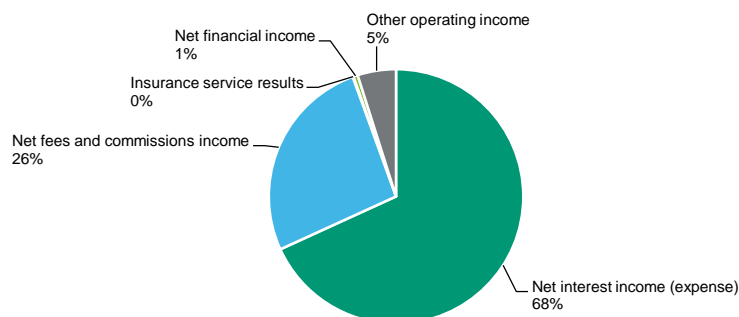
Note: The normalised RoA excludes one-off costs and revenue arising from discontinued operations

Source: Company reports, MIS

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 (see Exhibit below). 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 digitalization to enable cross-selling and cost efficiencies. Arion bank also benefits from good cost control with a cost-to-income of 43.1% in the first half of 2023, compared to 50.3% in 2022, reflective of a cost-conscious strategy in terms of digitalization and branch management.

Exhibit 7

#### Arion benefits from a diverse range of income streams



Arion's income mix as of 30 June 2023  
Source: Company reports, MIS

Net interest income accounted for 68% of Arion's income at end-June 2023, and grew by 16.7% yoy supported by good credit growth and higher rates, as the central bank increased the policy rate by 6% since June 2022. Net interest margin (NIM) stood at 3.2%, almost unchanged from year-end 2022 supported by good deposit margins. We expect the net interest margin to remain broadly stable as further benefits from interest rate increases will be offset by increasing funding costs and lower credit growth.

Net fee and commission income (NFCI) constituted 26% of Arion's earnings base during the first six months of 2023 and is primarily driven by lending and guarantees as the bank builds on its strategy of capital velocity mainly focused on sale and syndication of corporate loans and income from its asset management business. In 1H 2023, NFCI increased by 6.1% year-on-year driven by continued strong and stable income from asset management despite challenging market conditions.

Vördur's operations is a general insurance company offering both life and non-life products. Net insurance income had a positive contribution in the second quarter of 2022 as claims frequency normalised following two quarters of unusually adverse weather. Overall strong growth of 14.4% in premiums written yoy and 12.6% insurance revenue supported by cross selling opportunities within Arion's CIB division. In the first half of 2023 the combined ratio was 96.7% compared to 94.4% in 1H22.

Our assigned score incorporates our expectation that the bank's core profitability will remain strong but moderate slightly due to increased funding costs and normalisation of cost of risk.

#### Reliance on market funding balanced against adequate liquidity

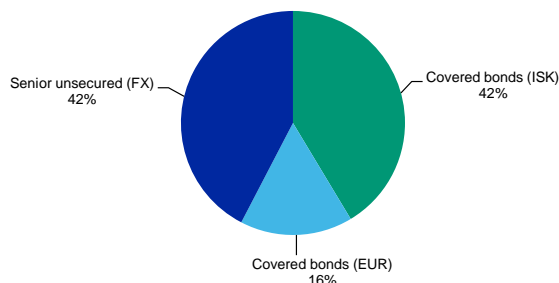
Arion's liability structure consisted of approximately 59% deposits in Q2 2023, in line with the ratio recorded in 2022 and 2021, following a year-on-year growth in deposits of 7.5%. Despite only 42% of total deposits being covered by the deposit guarantee scheme, we consider Arion's deposit base stable due to the closed nature of the Icelandic banking sector with no international banks offering banking services in ISK.

The bank's funding mix is balanced between senior unsecured and covered bond, as well as between FX and domestic issuances (see Exhibit below). Senior debt accounts for 42% of debt outstanding and all issued in foreign currency which provides access to a wider investor base. However, high reliance on foreign investors also exposes the bank to changes in investor sentiment in times of market stress.

Covered bonds account for around 58% of market funding, which we consider to be a more stable source of funding, and is primarily issued in local currency. During 2022 and 2023 the bank started also issuing in the international markets, which although it provides diversification in its investor base it also increases somewhat the FX risk due to the absence of international counterparties to provide currency swaps for these issuances. FX debt issuances broadly match FX lending needs as well as the bank's FX assets held in the liquidity portfolio, and the net position is closely monitored and managed to zero.

Exhibit 8

#### Arion's funding mix contains a diverse range of currency exposures



Source: Company reports, MIS

Our assigned market funding score reflects our view that Arion's use of market funds will remain broadly unchanged in the coming years. The score also incorporates our view that the bank's stable deposit base combined with the bank's refinancing strategy and good market access in the vast domestic market somewhat offsets risks related to changes in investor sentiments particularly in the international capital markets.

Arion benefits from adequate liquidity, with liquid assets accounting for 18.0% tangible banking assets in June 2023. The bank further benefits from a very strong Basel III LCR ratio of 163% as of Q2 2023, (158% in 2022 and 203% in 2021), 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.

#### Source of facts and figures cited in this report

Unless noted otherwise, the bank specific figures originate from bank's reports and Moody's Banking Financial Metrics. All figures are based on our own chart of accounts and may be adjusted for analytical purposes. Please refer to the document [Financial Statement Adjustments in the Analysis of Financial Institutions](#), published on 9 August 2018.

## ESG considerations

### Arion Bank hf.'s ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 9

#### ESG Credit Impact Score

# CIS-2

## Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

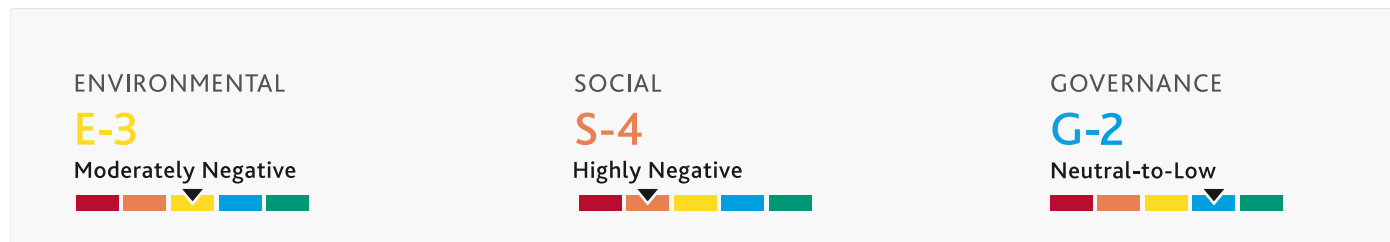
Source: Moody's Investors Service



Arion Bank's **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 Investors Service

#### Environmental

Arion Bank 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 Bank is exposed to high industrywide social risks particularly related to customer relations and associated regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by technology solutions and organisational measures to prevent data breaches. Arion Bank benefits from Iceland's more favourable demographic profile, relative to many other countries, which affords business opportunities for the bank.

#### Governance

Arion Bank 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 bank 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

The European Union's BRRD has been transposed into Icelandic law, applicable from 1 September 2020, which confirmed our current assumptions regarding the LGF analysis. 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.

The Icelandic legislation has established full depositor preference over senior unsecured creditors. Therefore, we assign a 100% probability to deposits being preferred to senior unsecured debt.

For Arion's short-term and long-term deposit ratings and issuer ratings we have considered the likely impact on loss given failure from the combination of their own volume and the amount of debt subordinated to them. This results:

- » for the deposit ratings in a Preliminary Rating Assessment of A2/Prime-1, three notches above the BCA, reflecting an extremely low loss given failure.
- » for the issuer ratings in a Preliminary Rating Assessment of A3, two notches above the BCA, reflecting a very low loss given failure.

### Government support

Despite Arion's significant deposit market share of 27% and its systemically important status, we assume a low probability of government support for its deposit, CRA, and CRR ratings reflecting Iceland's implementation of the EU's Bank Recovery and Resolution Directive (BRRD) and the country's past track record on providing no support to the financial sector during the 2008 financial crisis.

### Counterparty Risk (CR) Assessment

#### Arion's CR Assessment is A2(cr)/Prime-1(cr)

For Arion, the preliminary CR Assessment is three notches above the entity's baa2 Adjusted BCA, reflecting the buffer against default provided to more junior obligations represented by the CR Assessment. To determine the CR Assessment, we focus purely on subordination, taking no account of the volume of the instrument class. Finally, the bank's CR Assessment does not benefit from any government support uplift.

### Counterparty Risk Ratings (CRR)

#### Arion's CRR is A2/Prime-1

The CRR, before government support, is three notches above the Adjusted BCA of baa2, reflecting a moderate loss given failure from the volume of instruments that will be subordinated to CRR liabilities. Further, Arion's CRR does not benefit from any rating uplift based on government support, in line with our support assumptions on senior debt.

### About Moody's bank scorecard

Our Scorecard is designed to capture, express and explain in summary form our Rating Committee's judgment. When read in conjunction with our research, a fulsome presentation of our judgment 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

Arion Bank hf.

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>		<b>Strong - 100%</b>					
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	1.8%	a3	↔	ba2	Single name concentration	Geographical concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	18.7%	aa3	↔	aa3	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	21.8%	baa3	↔	ba1	Market funding quality		
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	19.0%	ba1	↔	ba1	Stock of liquid assets		
Combined Liquidity Score		baa3		ba1			
Financial Profile							
Qualitative Adjustments				Adjustment			
Business Diversification				0			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				0			
Sovereign or Affiliate constraint							
BCA Scorecard-indicated Outcome - Range				baa1 - baa3			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			
<b>Instrument Class</b>	<b>Loss Given Failure notching</b>	<b>Additional notching</b>	<b>Preliminary Rating Assessment</b>	<b>Government Support notching</b>	<b>Local Currency Rating</b>	<b>Foreign Currency Rating</b>	
Counterparty Risk Rating	3	0	a2	0	A2	A2	
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)		
Deposits	3	0	a2	0	A2	A2	
Senior unsecured bank debt	2	0	a3	0	(P)A3	A3	
Junior senior unsecured bank debt	0	0	baa2	0	(P)Baa2	(P)Baa2	
Dated subordinated bank debt	-1	0	baa3	0	(P)Baa3	(P)Baa3	

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

Source: Moody's Investors Service

## Ratings

Exhibit 12

Category	Moody's Rating
<b>ARION BANK HF.</b>	
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

Source: Moody's Investors Service

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