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Ratings

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Arion Bank

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Arion Bank

SACP	bbb
Anchor	bbb-	
Business Position	Adequate	0
Capital and Earnings	Very Strong	+2
Risk Position	Moderate	-1
Funding	Average	0
Liquidity	Adequate	

+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating

BBB/Stable/A-2

Credit Highlights

Overview

Key strengths	Key risks
High level of capitalization and strong leverage ratios.	Relatively high exposure to tourism and commercial real estate.
Stable and solid domestic franchise equally split between retail and corporates.	Domestic economy limits opportunities to diversify risk.
Limited wholesale financing needs.	Tough operating environment and strong competition weighs on profitability prospects.

We project Arion Bank's capital to remain a rating strength. The risk-adjusted capital (RAC) ratio stood at 18.5% as of end-2020 and we expect it to moderate toward 17.5% in the next 18-24 months as capital distribution policy normalizes. In H1 2021, Arion proposed a dividend of Icelandic krona (ISK) 2.9 billion and a planned buyback of ISK 14.9 billion. Our RAC forecast incorporates these adjustments and assumes a 50% dividend payout ratio in the next 18-24 months. On a positive note, earnings will be supported by increasing cost efficiencies, management of funding costs, strong lending growth on the back of increased demand for mortgages, and solid corporate and investment banking and capital market activity levels.

Despite the ISK 812 million impairment release in Q2 2021, Arion Bank's asset quality indicators remain dependent on the recovery of international tourism. The bank has material exposure to sectors heavily exposed to the pandemic and concentrated in a small and volatile country which will weigh negatively on its asset quality metrics. In 2020, the bank reclassified all of its tourism exposure to stage 2, increasing the proportion of stage 2 loans to 15.6% as a percentage of total loans from 11.4% as of end-2019. The nonperforming asset (NPA) ratio fell to 2.9% as of June 30, 2021 (from 3.6% as of June 2020), but we expect it to increase above 3.5% in the next 18-24 months, which is broadly in line our expectation for domestic peers.

Arion Bank maintains a solid business position in Iceland but remains closely comparable to the other two domestic commercial banks. Arion's business position captures its universal banking model and advanced digital offer with the inherent volatility of revenues in Iceland. Arion's revenue base is rather diversified among its different domestic business lines, with approximately 50%-60% of revenues from net interest income split evenly between corporate and retail customers. It is the second largest provider of mortgages in Iceland, with a market share of 21.2% as of December 2020.

No likely support in the medium term. At present, we do not regard the bank resolution framework as effective. In June 2020, the parliament approved the "Act on the Resolution of Credit Institutions and Financial Undertakings" (No. 70/2020), which entered into force on Sept. 1, 2020. Implementation is therefore in its very early stages.

Outlook: Stable

The stable outlook indicates that while we see Arion as well placed to benefit from a gradual economic recovery in Iceland over the next two years, residual risks relating to the pandemic and the withdrawal of fiscal and monetary policy remain. Asset quality may yet deteriorate such that the bank's NPA ratio is likely to rise above 3.5% from 2.9% as of June 2021.

We expect Arion's risk-adjusted capital (RAC) ratio to remain above 15%, supported by steady loan growth and capital distribution flexibility. Moreover, we expect the sale of Valitor to be executed as planned, with a modest positive financial impact.

Downside scenario

We could lower the ratings on Arion if the economic environment in Iceland were to become more difficult, causing profitability prospects for banks to weaken for a prolonged period, with declining capitalization and deteriorating asset quality.

Upside scenario

We could raise our ratings on Arion if the bank proves able to significantly strengthen the performance of its returns, its efficiency, and its risk profile above domestic peers, with no further widening of the gap it has with foreign peers.

Key Metrics

Arion Bank Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Growth in operating revenue	5.6	4.6	6.2-7.6	3.8-4.6	4.1-5.1
Growth in customer loans	(7.2)	6.6	5.4-6.6	4.5-5.5	3.1-3.8
Growth in total assets	(7.5)	8.4	6.0-7.3	4.2-5.1	2.9-3.5
Net interest income/average earning assets (NIM)	3.2	3.2	2.9-3.3	3.0-3.3	3.0-3.4
Cost to income ratio	54.3	48.6	42.1-44.3	40.8-42.9	39.4-41.5
Return on average common equity	7.2	8.7	10.1-11.2	9.6-10.6	10.3-11.4
Return on assets	1.3	1.5	1.6-1.9	1.4-1.7	1.4-1.7
New loan loss provisions/average customer loans	0.0	0.6	0.3-0.3	0.3-0.3	0.3-0.3
Gross nonperforming assets/customer loans	2.9	2.7	3.5-3.9	3.6-4.0	3.0-3.3
Net charge-offs/average customer loans	0.4	0.4	0.3-0.3	0.4-0.4	0.2-0.2

Arion Bank Key Ratios And Forecasts (cont.)

	--Fiscal year ended Dec. 31 --				
(%)	**2019a**	**2020a**	**2021f**	**2022f**	**2023f**
Risk-adjusted capital ratio	16.5	18.5	18.0-19.0	16.5-17.5	17.0-18.0

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast.

Anchor: 'bbb-' For Banks Operating Primarily In Iceland

We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Iceland is 'bbb-', based on an economic risk score of '4' and an industry risk score of '6'.

Our view of the economic risk trend that Icelandic banks face is negative. Banks faced a sharp economic recession in 2020, with GDP declining by 6.6% in real terms. While we expect the economy will continue to recover from the pandemic, enabling GDP to recover by around 3% in 2021 and by close to 5% in 2022, we do not expect tourism figures will reach prepandemic levels before 2023. The pace of economic recovery will determine the extent to which Icelandic banks face deteriorating asset quality, increased credit losses, reduced business and revenue generation, and potentially capital erosion. Banks' structural exposures to local small and midsize enterprises (SMEs)--including tourism, which we view as a more vulnerable sector in the current context--and commercial real estate and construction (about 20% of the loan book) increase the risks.

We view the trend for industry risk in the Icelandic banking sector as stable. Although we expect banks' lending will remain based on sound commercial practices, overall profitability will stabilize at moderate levels (projected at mid-single-digit return on equity), in absence of the substantial one-off items reported over the past few years and in light of economic recession challenges.

Banks' wholesale funding needs in the next two years are sizeable but manageable, with no pressure on liquidity owing to strong customer deposit inflows, additional central bank liquidity facilities, and dividend payment cancellations.

On Oct. 27, 2020, The Financial Action task Force (FATF) removed Iceland from its "gray list" of monitored jurisdictions. This is in line with our expectations and reflects the improvements made in multiple areas to strengthen its anti-money laundering and financial crime framework.

Business Position: Diversified Revenues Within The Limitations Of The Icelandic Economy

Our view of Arion's business position captures its universal banking model and advanced digital offer with the inherent volatility of revenues in Iceland.

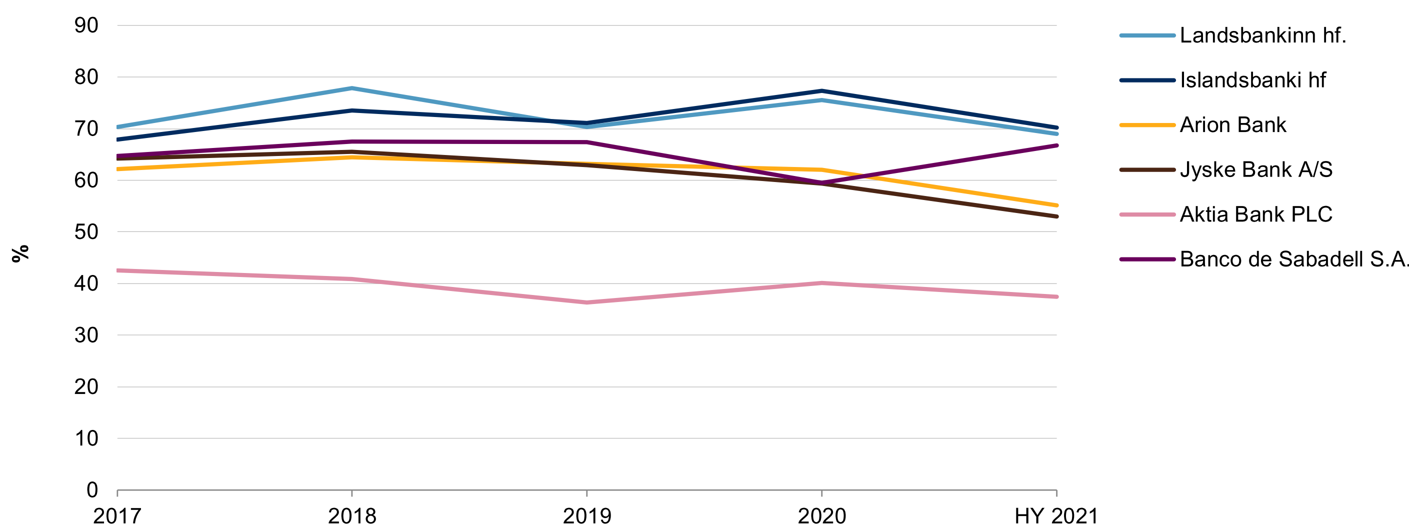
The bank has a broad presence in most business lines (retail and corporate banking, asset management, insurance, payment services, and investment banking) in Iceland. Since its creation, Arion has expanded its historic corporate footprint into the household segment, and its current franchise is equally split between corporate and retail. Arion is the second largest provider of mortgages in Iceland, with a market share of 21.2% as of December 2020.

Arion's revenue base is rather diversified among its different domestic business lines, with approximately 50%-60% of revenues from net interest income split evenly between corporate and retail customers. Fee and commission income, 20%-25% of revenues, includes fees on assets under management. Its net interest income as a proportion of operating revenue ranks well amongst Icelandic peers (see chart 1). Unlike domestic peers, Arion operates the largest life insurer in the country through its subsidiary Vordur. Moreover, the other sizeable subsidiary Valitor, one of the largest payment companies in Iceland, has been up for sale and classified accordingly in a separate line in the profit and loss account. During 2020, Valitor's business in Denmark and some operations in U.K. were successfully sold, reducing the assets by 61% to ISK11.9 billion. Arion completed the sale of the remaining assets in July 2021 for USD100 million and expects to achieve net profit of ISK3.5 billion, subject to successful completion.

Chart 1

Arion Bank Is Well Diversified Compared With Peers

Net interest income/operating revenue



Source: S&P Global Ratings.

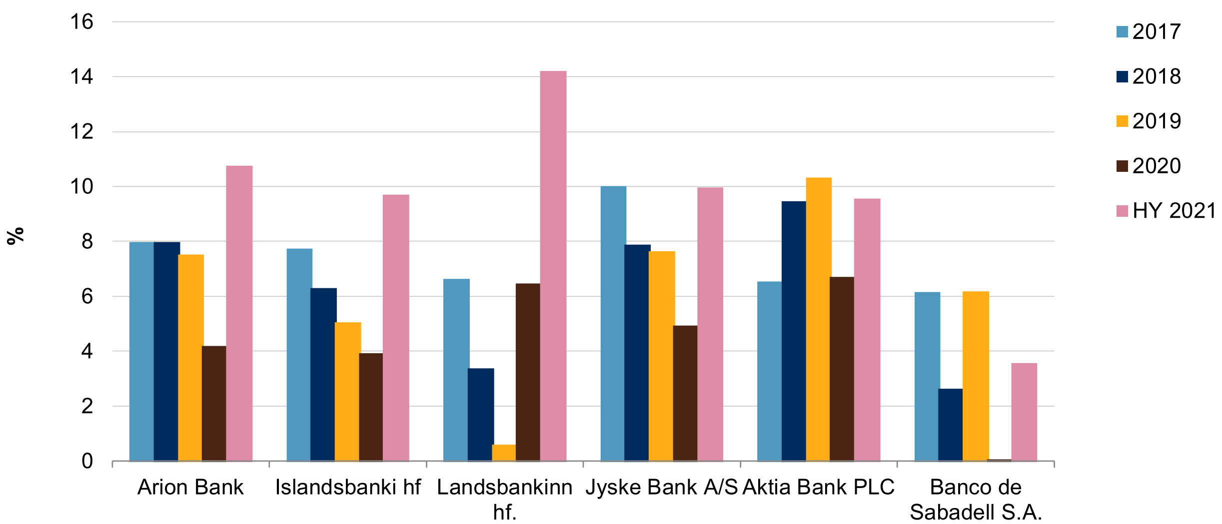
In 2018, Arion was the first Icelandic bank since the financial collapse in 2008 to be listed on Nasdaq Iceland and Nasdaq Stockholm. Arion's shareholding has become more diverse through the years as major international shareholders have divested their share in the bank. Taconic Capital Advisors, the hedge fund that held a majority stake of 23.2% in the bank, sold its shareholdings during the first quarter of 2021. In general, pension funds (comprising about 50% of the shareholder base) and domestic investors have been increasing their presence, while hedge funds and private equity have reduced. We consider the ownership base to be supportive of the bank's strategic focus and risk appetite.

During the year, the management team--including the new CEO appointed in 2019--continued their focus on the bank's revamped strategy to reach a return on equity (ROE) target of 10% by reducing low-yielding non-core assets, sales of equity stake, efficiency improvements through digitalization, and workforce reduction. The bank's profitability metrics in 2020 were impacted by COVID-19 and it reported an ROE of 6.5%, below its target. However, we expect a robust recovery in 2021 and believe that the bank will be able to meet its ROE target in the medium term as seen by the reported ROE of 14.3% as of end-June 2021 which is the highest among its peers (see chart 2). Similarly, the bank has seen constant increases in operating revenue growth, which distinguishes it from its competitors (see chart 3).

Chart 2

Arion Bank Has A Strong ROE Trend

Return on average common equity

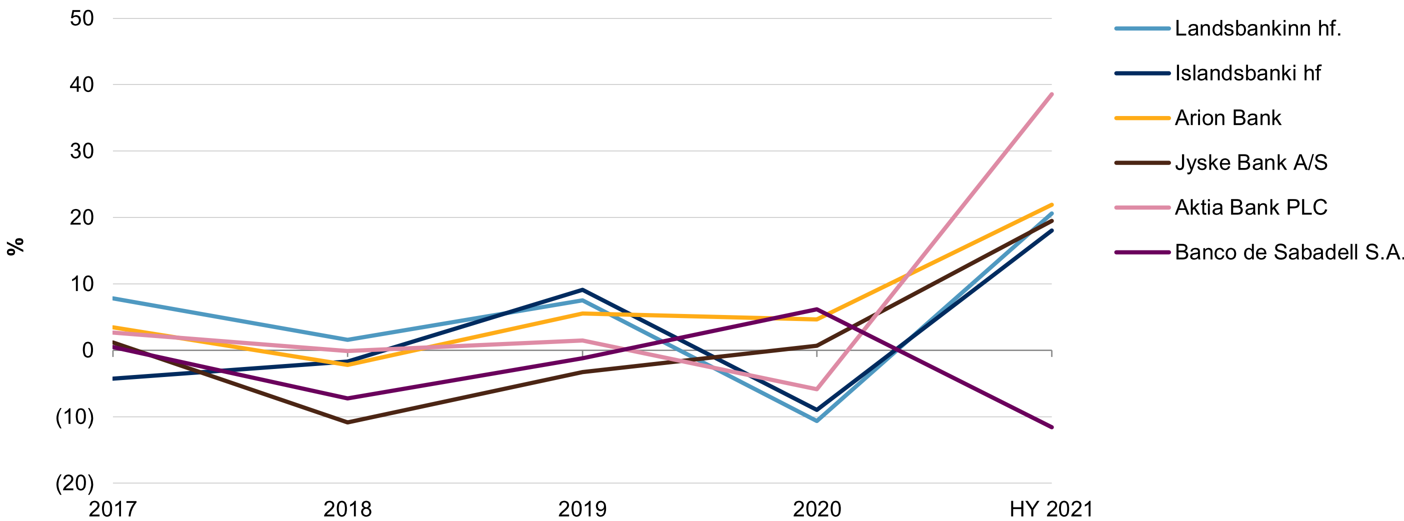


Source: S&P Global Ratings.

Chart 3

Arion Bank Has Experienced Strong Growth In Operating Revenues

YOY growth in operating revenues

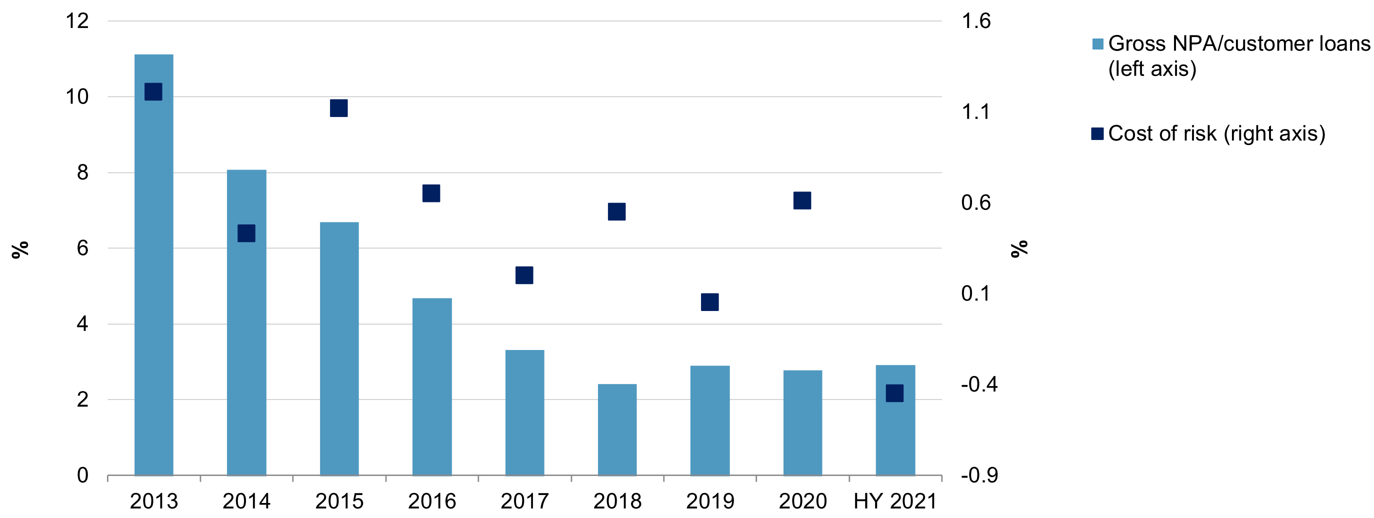


Source: S&P Global Ratings. HY Data not available for Banco de Sabadell S.A. therefore Q1 figures were used.

In our view, Arion runs a relatively advanced digitalized banking platform, and we consider the bank to be well ahead of many other European banks in their preparation for technological disruption. Arion's digital sales increased to 73% of the total in 2020 from 59% in 2019, and its new core banking system became operational in April 2021. In one of the least densely populated countries, Arion's banking offer is leveraging 15 branches--almost halved since 2014--and fully digitalized products such as mortgages and car loans. Arion's IT costs represent about 20% of total costs. The bank aims to further increase the level of digitalization, including focusing on an open banking strategy and dedicated digital offer to SMEs.

Chart 4

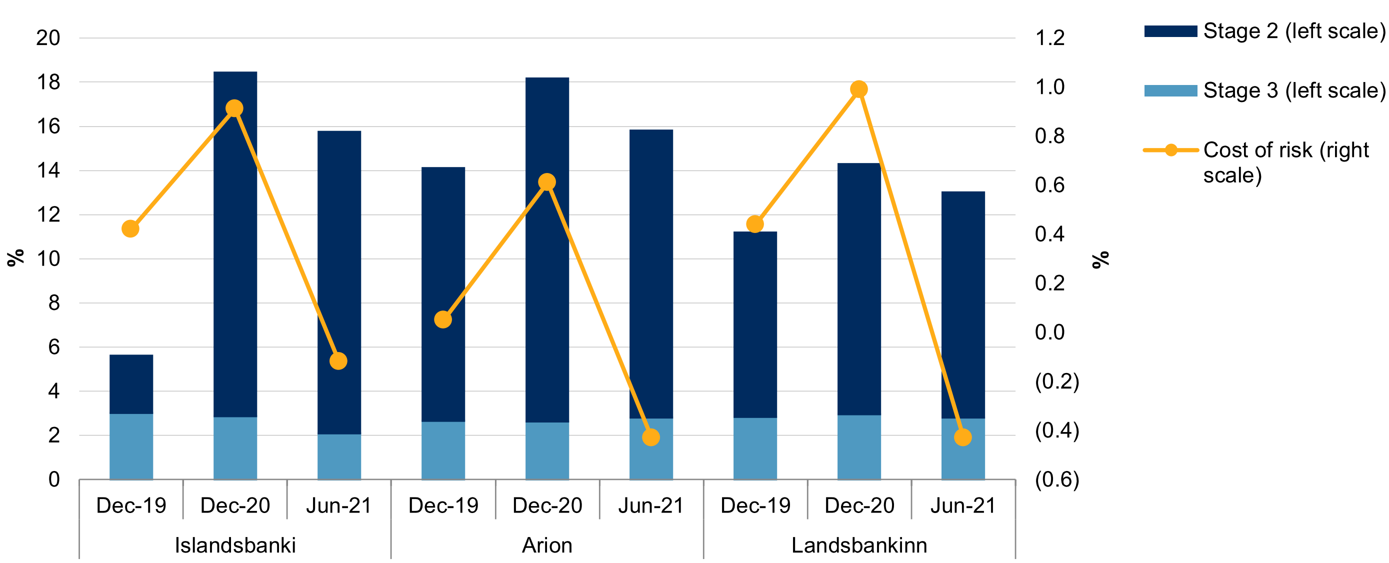
Arion Bank's NPA Ratio And Provisions Are Expected To Grow



NPA--Nonperforming exposures. Source: S&P Global Ratings.

Chart 5

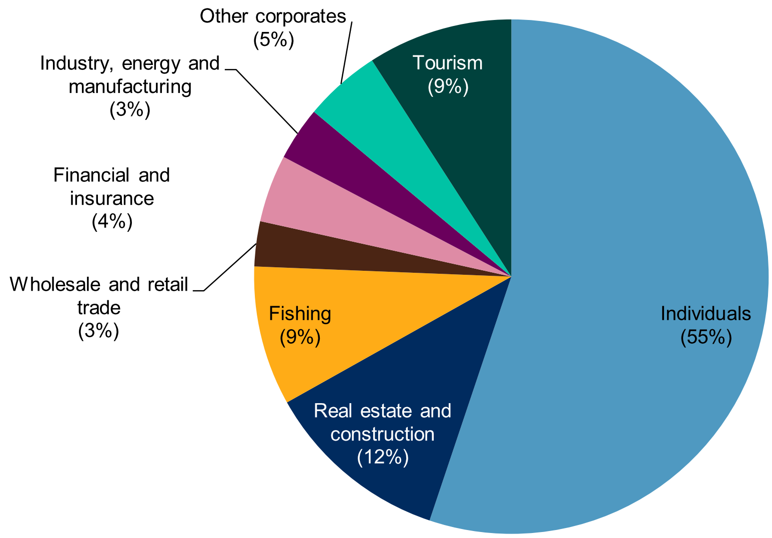
Impaired Loans Breakdown Shows Increase In Stage 2 Loans And Then Recovery In 2021
NPLs (Stage 3) and Watchlist (Stage 2)



NPLS--Nonperforming loans. Source: S&P Global Ratings.

Chart 6

Material Corporate Portfolio Exposures To Tourism And Real Estate Activities
Portfolio breakdown



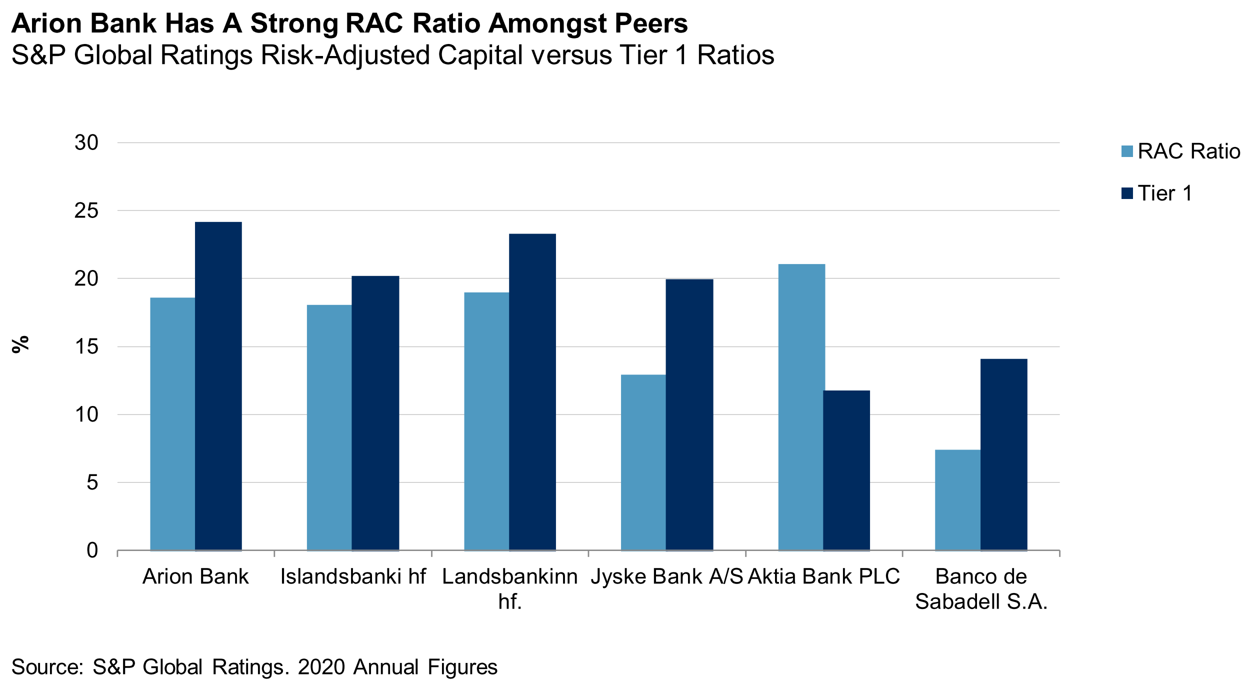
Source: Source: Arion Bank and S&P Global Ratings Estimates. Data as of June 2021

Capital And Earnings: Above Average Capital Metrics To Be Maintained Despite Recent Economic Downturn

We project Arion's capital to remain a rating strength, despite expectations of recalibration of equity and hybrid capital levels in the coming years. Arion issued its inaugural Additional Tier 1 (AT1) issuance of USD100 million in February 2020, which has offset the negative impact of the pandemic on the capital ratio. The RAC ratio increased to 18.5% as of end-2020 compared to 16.5% as of end-2019 and we expect it to moderate toward 17.5% in the next 18-24 months as the bank executes its capital distribution policies. In 2020, Arion proposed a dividend of ISK2.9 billion and planned buyback of ISK14.9 billion, which has been approved by the FSA. The bank's dividend policy of a payout ratio of 50% of net earnings is likely to be supplemented by additional dividend payments or share buybacks in the coming years--the bank expects at least ISK50 billion in the short term. Our RAC ratio for 2020 and forecasts incorporates these adjustments.

The bank's common equity tier 1 (CET1) ratio remained stable at 22.7% as of June 2021 compared to 22.3% as of December 2020, up from 21.2% as of December 2019 and well above Arion's long-term capital target of 17%. The increase in the ratio in 2020 was attributed to issuance of AT1 capital and change in the approach for Vordur, which is no longer deducted from the capital. Furthermore, the bank has a strong leverage ratio of about 14.6% as of June 2021, compared with its European peers' ratios of 5%-7% (see chart 7).

Chart 7

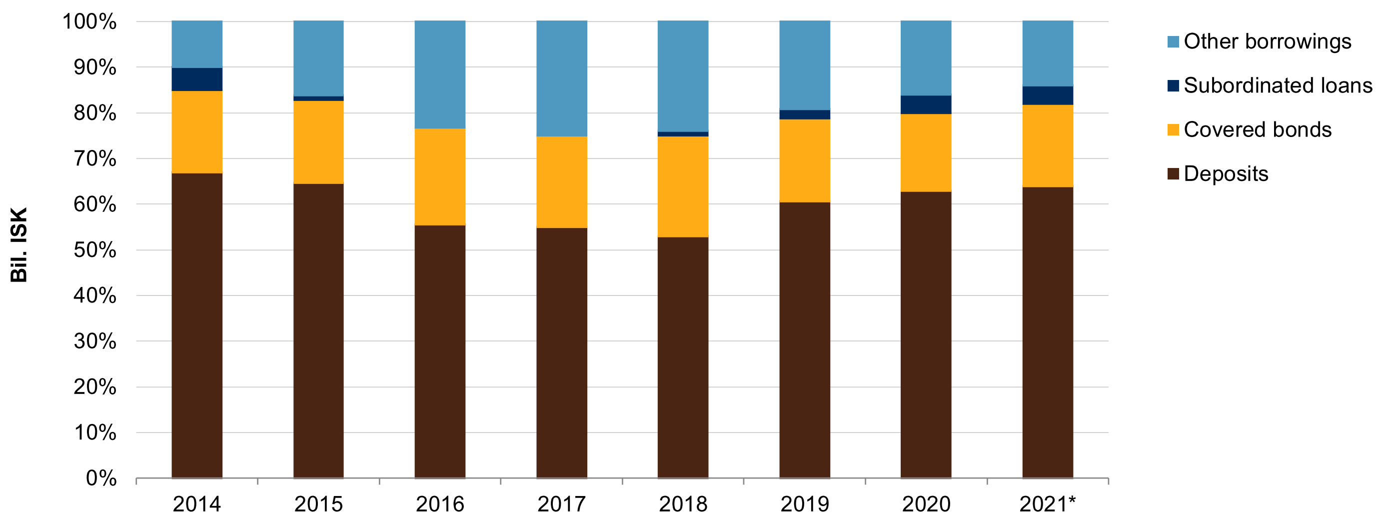


The bank's efforts to improve profitability by increasing efficiency and disposing of noncore, low-yielding assets yielded results in 2020. Despite reporting a higher cost of risk of 61 basis points (bps) in 2020, the pretax profit increased by 2.5%. The earnings were also supported by lower funding costs, strong fee income, and 6% growth in the loan portfolio. We expect the bank to maintain this momentum and report high-single-digit ROE in the next 2 years. The cost of risk is expected to decline to 30–35 bps and the operating efficiency is expected to improve at the back of continued digitalization efforts.

We forecast that Arion's earnings buffer, which measures the ability to meet our normalized losses, will improve to around 250 bps in 2021. This indicates our revised expectations on earnings capacity in the coming years, as it compares with reported earnings buffer of 214 bps at year-end 2020.

Chart 8

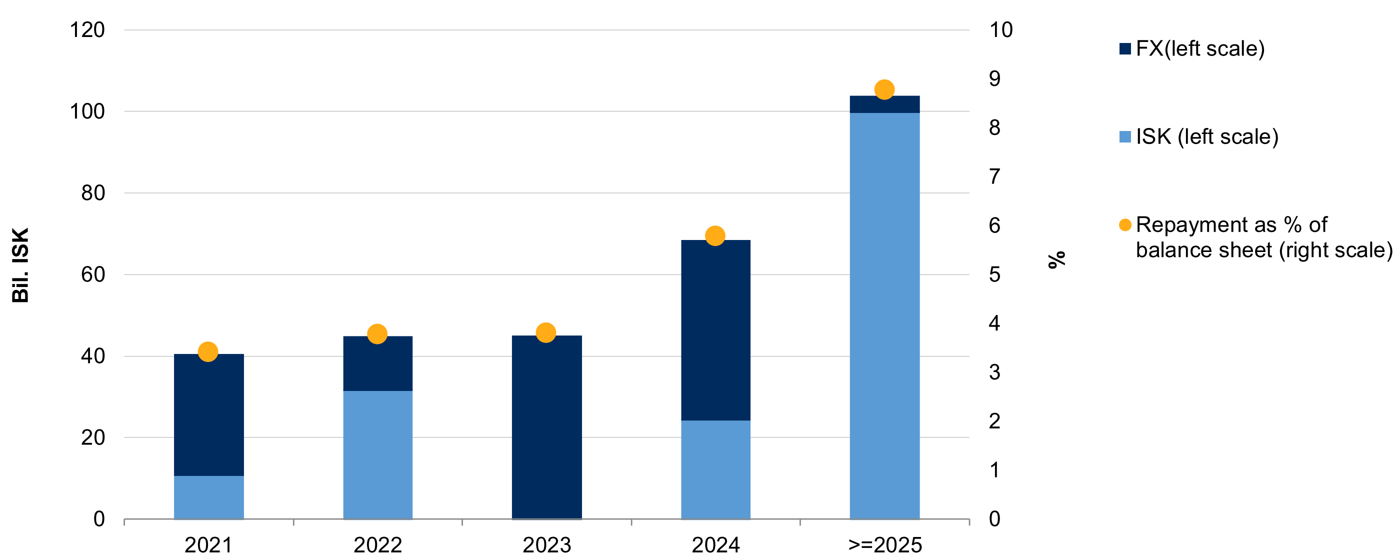
Arion Bank's Funding Structure



ISK--Icelandic krona.* Data as of June 2021

Chart 9

Arion Bank's Maturity Profile Of Long-Term Debt



ISK--Icelandic krona. FX--Foreign currency. Source: Arion Bank, as of June 30, 2021. Repayment as % of balance sheet is defined as maturing debt divided by total assets.

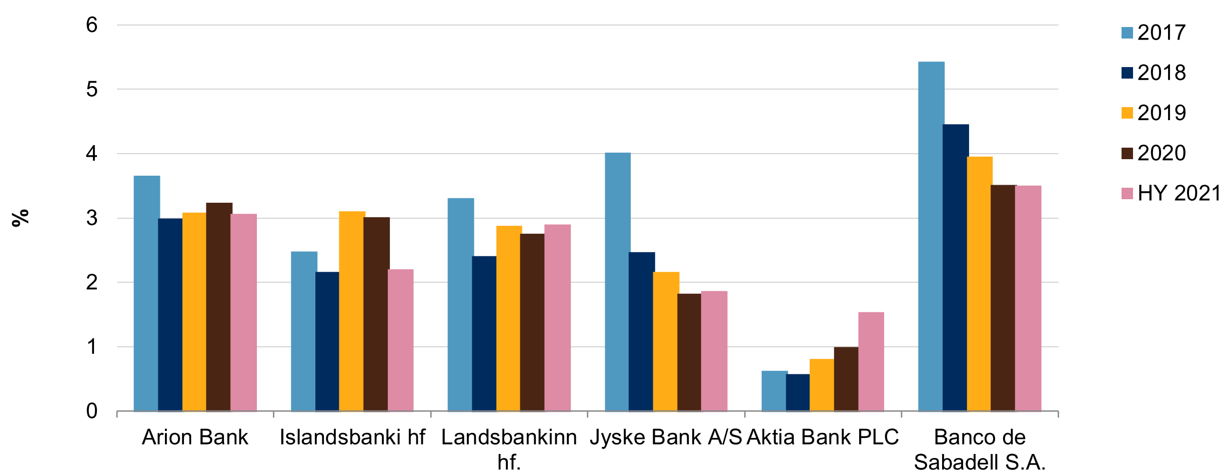
Risk Position: Asset Quality Remains Vulnerable To Economic Deterioration Given Concentration Risks

Our assessment reflects that Arion's portfolio lacks geographic diversification, given its presence in a concentrated market, and it is inherently exposed to the domestic volatile economy. This risk is not captured by our standardized capital calculation.

In line with other Icelandic banks, Arion's NPL ratio has remained relatively stable through the recent crises and stood at 2.9% as of June 2021, supported by the various government COVID-relief measures (see chart 10). As these measures phase out, we expect the NPL ratio to increase slightly to 3.5%-4.0% in the next two years with coverage of about 35%-40%. While we consider the total NPL coverage ratio to be relatively low, this is partially compensated by the sizeable collateralization levels.

Chart 10

Arion Bank Performed In Line With Peers
Nonperforming assets* (%)



Source: S&P Global Ratings.

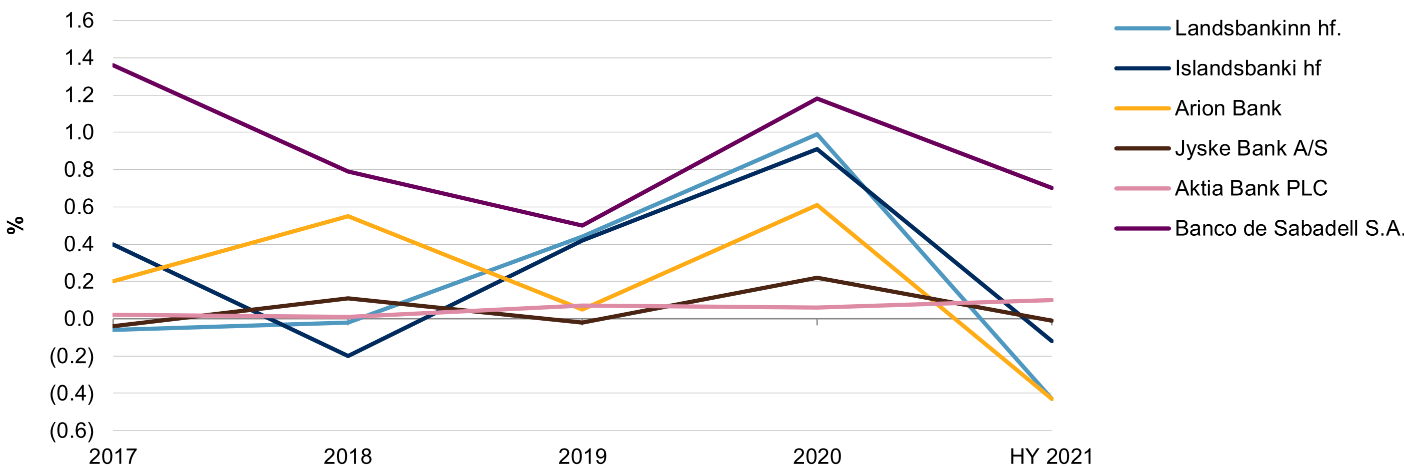
Corporate loans represent about 48% of Arion's loan book, mainly focused on real estate and construction (12%), fishing (10%), and tourism (9%), broadly matching Iceland's industrial sector breakdown. We estimate that the 20 largest corporate exposures represent about 80% of the bank's equity base.

Specifically, Arion's exposure to the tourism segment, including hotels, transportation, and other services, is the most exposed to the pandemic, being a sector prone to volatility and vulnerable at this point amid global travel restrictions. The sector has experienced strong wage inflation and investments in recent years, while there are still a number of small players. Due to the COVID-19 vulnerability, the bank has increased provisions to these exposed sectors and reclassified the portfolio into Stage 2, recognizing potential asset quality concerns.

We also note that provisions have been volatile, increasing to 61 bps in 2020 and then reporting reversals of 43 bps in the first six months of 2021, in line with Icelandic peers (see chart 11). However, we expect cost of risk to normalize in the 30–35 bps range in the next 18-24 months.

Chart 11

Credit Losses At Icelandic Banks Spiked During The Pandemic
New loan loss provisions/average customer loans



Source: S&P Global Ratings.

As of June 2021, mortgage loans (which constitute 53% of total customer loans) increased by 27% year on year, mainly driven by the low interest rate environment. We consider the residential mortgage portfolio to maintain a decent quality, with a weighted average loan-to-value ratio of around 52% and a nonperforming loan (NPL) ratio of 1.7% in June 2021.

The total NPL coverage ratio reduced from 53% as of December 2020 to 38% as of June 2021. This is relatively low compared with peer banks, albeit partially compensated by the sizeable collateralization (92% of face value).

Arion does provide foreign currency lending (about 18% of total loans), but only to foreign borrowers or Icelandic corporations with strong foreign currency cash flows, such as fisheries or other exporters.

We acknowledge that about 27% of Arion's credit portfolio is inflation-linked (CPI) at June 2021 (down from 36% year-on-year). This is a common feature of the Icelandic banking market, in particular residential mortgages. We note that the CPI-loan portfolio has been performing better in terms of expected losses than non-CPI loans.

Funding And Liquidity: Limited Wholesale Debt Maturities And Normalizing Liquidity Position

Arion relies mostly on customer deposits for its funding needs. As of June 2021, customer deposits formed about 65% of the funding base, with the rest being wholesale funding, primarily comprising covered bonds and senior unsecured debt. The stable funding ratio by our measures was 113% at June 30, 2021, broadly in line with 115% at year-end 2020. At end-June 2021, Arion's loan-to-core customer deposits ratio was about 140%, above that of European peers.

To mitigate the structural funding gap, Arion has demonstrated proven access to capital markets through the issuance of hybrid instruments, such as Tier 2, and more recently AT1--the first of this type issued by an Icelandic bank. At the same time, we anticipate that Arion will continue issuing in the domestic covered bond market while it focuses on deposit gathering.

Moreover, we consider potential pressure on the funding profile of the bank to be limited, mainly due to its limited wholesale funding maturities coming due in 2021 and 2022. In addition to conventional euro-denominated refinancing in November 2020, Arion also issued its inaugural green bond in July 2021 with a €300 million four-year maturity offering using its newly established green financing framework.

Arion's liquidity position is set to remain comfortable given the low upcoming maturities. The bank shows solid liquidity ratios by our measures, with broad liquid assets to short-term wholesale funding at 3.1x as of June 30, 2021, compared with 3.2x at year-end 2020 and 3.6x at year-end 2019.

In September 2021, the central bank of Iceland announced an increase in the counter-cyclical buffer from 0% to 2%. This will take effect from September 2022.

Support: Government Support For Icelandic Banks Is Uncertain

In our view, the likelihood of government support for Icelandic banks remains uncertain given the authorities' poor track record and still-limited, albeit improved, capacity to support the now-smaller banking system in a severe stress scenario.

At present, we do not regard the banking resolution framework as effective. As such, for our ratings on Icelandic banks, we do not consider additional loss-absorbing capacity. We regard the current framework as open-ended but, in our view, the authorities' method of dealing with failing banks so far indicates a tendency to safeguard depositors rather than senior unsecured creditors.

In June 2018, the Icelandic parliament passed a bill that incorporated into the local legislation part of the EU's Banking Recovery And Resolution Directive (BRRD) provisions, including recovery plans, early interventions and intra-group support. In June 2020, the parliament approved the "Act on the Resolution of Credit Institutions and Financial Undertakings" (No. 70/2020), which entered into force on Sept. 1, 2020. Implementation is therefore in its very early stages. A soon-to-be established resolution authority will eventually oversee resolution and related matters. For now, the Financial Stability Committee is expected to wield powers of resolution and will be in control of the earliest intervention measures. A full implementation of the Icelandic resolution framework, including bail-in powers, could open the door for additional rating support if the three largest banks--Landsbankinn, Islandsbanki, and Arion Bank--are required to build additional subordinated loss-absorbing buffers, and we consider that this could offer a bank's senior creditors extra protection if the bank fails.

Environmental, Social, And Governance

We view ESG credit factors as broadly in line with industry and domestic peers, and the group's corporate governance as consistent with industry norms.

As with peers, in recent years the bank has better articulated its sustainability policy and focus on sustainable development and green infrastructure financing. In 2021, Arion published a green financing framework and issued its inaugural green bond in euros. Further work is required to complete loan portfolio evaluation against green criteria and set additional goals to supplement the 40% emissions reduction target by 2030 (with complete carbon offset).

We view Arion's governance standards as consistent with domestic norms.

Group Structure, Rated Subsidiaries, And Hybrids

Subordinated debt

We rate Arion's subordinated debt at 'BB+', two notches below the bank's 'bbb' stand-alone credit profile. We deduct one notch due to the instruments' subordination to senior creditors' claims, and another notch because the instruments are available to absorb losses at the point of nonviability of the bank via statutory loss absorption. Given the lack of going-concern loss absorption, we are not including the instruments in our calculation of Arion's total adjusted capital.

Additional Tier I

We also rate Arion's additional Tier 1 instruments at 'BB-', four notches below the issuer credit rating. We deduct:

- One notch to reflect subordination risk;
- Two notches to factor in the risk of nonpayment at the full discretion of the issuer and the hybrid's expected inclusion in Tier 1 regulatory capital; and
- One additional notch to reflect the proposed issue's mandatory contingent capital clause leading to equity conversion. According to this clause, the conversion would occur if Arion Bank's common equity Tier 1 ratio fell below 5.125%. We see this as a gone-concern trigger that does not pose additional default risk.

Key Statistics

Table 1

Arion Bank Key Figures

	--Year-ended Dec. 31--				
(Mil. ISK)	**2021**	**2020**	**2019**	**2018**	**2017**
Adjusted assets	1,206,766.0	1,161,876.0	1,072,480.0	1,151,342.0	1,133,906.0
Customer loans (gross)	853,416.0	834,998.0	783,126.0	843,717.0	778,583.0
Adjusted common equity	159,571.0	159,143.0	154,974.0	169,027.0	177,894.4
Operating revenues	27,853.0	50,245.0	48,021.0	45,491.0	46,512.0
Noninterest expenses	12,420.0	24,441.0	26,083.0	25,513.0	22,169.0
Core earnings	13,421.9	16,338.5	14,850.6	8,296.0	14,034.5

*Data as of June 30. ISK--Icelandic krona.

Table 2

Arion Bank Business Position

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Total revenues from business line (mil. ISK)	28,101.0	51,464.0	48,403.0	47,131.0	49,646.0
Commercial & retail banking/total revenues from business line	66.9	65.6	68.9	62.9	59.8
Trading and sales income/total revenues from business line	15.2	11.9	8.7	14.6	3.0
Asset management/total revenues from business line	10.5	9.9	11.5	8.8	9.4
Other revenues/total revenues from business line	7.4	12.6	10.9	13.7	27.8
Investment banking/total revenues from business line	15.2	11.9	8.7	14.6	3.0
Return on average common equity	14.2	6.4	0.6	3.3	6.6

*Data as of June 30. ISK--Icelandic krona.

Table 3

Arion Bank Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Tier 1 capital ratio	24.4	24.1	21.2	21.2	23.6
S&P Global Ratings' RAC ratio before diversification		18.5	16.5	18.1	19.7
S&P Global Ratings' RAC ratio after diversification		14.1	12.7	13.1	15.0
Adjusted common equity/total adjusted capital	92.5	92.2	100.0	100.0	100.0
Net interest income/operating revenues	55.1	62.0	63.1	64.5	62.2
Fee income/operating revenues	24.6	23.2	20.7	22.8	22.0
Market-sensitive income/operating revenues	13.3	6.9	7.5	5.1	8.0
Cost to income ratio	44.6	48.6	54.3	56.1	47.7
Preprovision operating income/average assets	2.6	2.3	2.0	1.7	2.2
Core earnings/average managed assets	2.2	1.4	1.3	0.7	1.3

*Data as of June 30.

Table 4

Arion Bank Risk Position

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Growth in customer loans	4.4	6.6	(7.2)	8.4	5.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification			29.9	38.0	31.5
Total managed assets/adjusted common equity (x)	7.6	7.4	7.0	6.9	6.5
New loan loss provisions/average customer loans	(0.4)	0.6	0.0	0.5	0.2
Net charge-offs/average customer loans	0.3	0.4	0.4	1.0	1.1
Gross nonperforming assets/customer loans + other real estate owned	2.9	2.7	2.9	2.4	3.3
Loan loss reserves/gross nonperforming assets	38.4	52.7	40.9	49.0	52.1

*Data as of June 30.

Table 5

Arion Bank Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2021***	**2020**	**2019**	**2018**	**2017**
Core deposits/funding base	64.6	62.9	59.7	51.8	54.0
Customer loans (net)/customer deposits	139.6	144.8	157.0	178.9	165.5
Long-term funding ratio	93.5	93.8	95.3	93.4	93.5
Stable funding ratio	113.1	115.0	109.0	107.5	118.2
Short-term wholesale funding/funding base	7.8	7.6	5.7	8.0	8.1
Broad liquid assets/short-term wholesale funding (x)	3.1	3.1	3.6	2.7	4.0
Net broad liquid assets/short-term customer deposits	25.6	26.7	25.7	27.4	45.8
Short-term wholesale funding/total wholesale funding	21.3	19.7	14.1	16.6	17.5
Narrow liquid assets/three-month wholesale funding (x)	19.9	12.6	11.8	6.7	6.0

*Data as of June 30.

Related Criteria

- S&P Global Ratings Definitions, Jan. 5, 2021
- Hybrid Capital: Methodology And Assumptions, July 1, 2019
- Group Rating Methodology, July 1, 2019
- Risk-Adjusted Capital Framework Methodology, July 20, 2017
- Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011

Related Research

- Research Update: Iceland 'A/A-1' Ratings Affirmed; Outlook Stable, May 14, 2021
- Leading Nordic Banks Keep Calm And Carry On Despite COVID-19 Stress, Feb 23, 2021
- Bulletin: Islandsbanki's Planned IPO Will Test Investor Appetite For Icelandic Banks, Feb. 02, 2021
- Banking Industry Country Risk Assessment: Iceland, Dec. 18, 2020
- Bulletin: Iceland's Removal From FATF's Gray List Underlines Its Fast Anti-Money Laundering Response, Oct. 27, 2020
- Nordic Banks' Strong Capital Deflects COVID-19 Impact, Sep 08, 2020
- Bulletin: Icelandic Bank Resolution Act Completes The European Map, But Implementation And Effectiveness Remain Unclear, Sep. 01, 2020
- Full Analysis: Arion Bank, May 26, 2020

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	**bbb-**	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 18, 2021)*	
Arion Bank	
Issuer Credit Rating	BBB/Stable/A-2
Junior Subordinated	BB-
Senior Unsecured	A-2
Senior Unsecured	BBB
Subordinated	BB+
Issuer Credit Ratings History	
24-Apr-2020	BBB/Stable/A-2
23-Jul-2019	BBB+/Negative/A-2
25-Oct-2017	BBB+/Stable/A-2
25-Oct-2016	BBB/Positive/A-2

Ratings Detail (As Of October 18, 2021)*(cont.)	
Sovereign Rating	
Iceland	A/Stable/A-1

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.