CREDIT OPINION
15 July 2025

Update

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RATINGS

Islandsbanki 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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Islandsbanki hf.

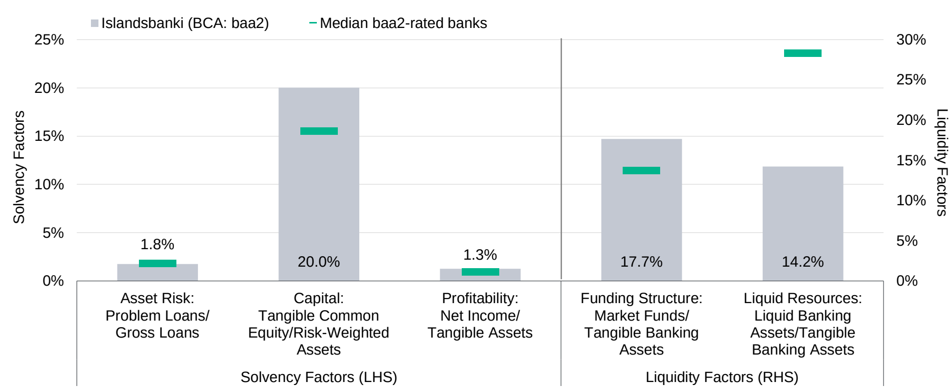
Update following ratings affirmation

Summary

Islandsbanki hf.'s (ISB) A2 long-term deposit ratings and (P)A3 senior unsecured MTN ratings reflect the bank's standalone creditworthiness, as expressed 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.

ISB's BCA of baa2 reflects its robust capitalisation coupled with good core profitability and sound liquidity, balanced against moderately high asset risk constrained by high single name and geographical concentration despite a low level of problem loans and moderate reliance on market funding.

Exhibit 1
Rating Scorecard - Key Financial Factors



These represent our Banks Methodology scorecard ratios. Asset risk and profitability ratios reflect the weaker of either the latest reported or three-year average ratios. The capital ratio is the latest reported figure. Funding structure and liquid resources ratios reflect 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 single-name concentration

» Moderate reliance on wholesale funding

Rating outlook

The stable outlook on ISB's long-term deposit, long-term issuer and senior unsecured debt ratings reflects the our expectation that the bank will continue its strong performance in the next 12-18 months, while managing asset risk prudently and optimizing its capital base and the potential integration of Kvika will be orderly.

Factors that could lead to an upgrade

Upward rating pressure could develop if ISB improves 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 and program ratings, upward rating pressure could also develop because of a larger cushion of loss absorbing obligations protecting creditors and depositors in case of failure.

Factors that could lead to a downgrade

Downward pressure could emerge if ISB's (1) asset quality and risk profile was to deteriorate, for example as a result of increased concentration risk emanating from its exposures to more volatile sectors, increased single name concentrations within Iceland's small and interlinked operating environment and/or or changes in strategy driven by inorganic growth; (2) risk profile increases more than the agency anticipates, driven by non-credit related risks such as market risk, foreign exchange risk and/or increasing consumer price index (CPI) imbalance or potential integration of Kvika is with material costs or time overruns; (3) profitability was to deteriorate due to increased asset risk; (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 triggered by structural funding changes to the bank's balance sheet could lead to downward rating pressure.

Key Indicators

Exhibit 2

Islandsbanki (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)	1,667.4	1,607.8	1,582.7	1,566.2	1,428.8	4.9[4]
Total Assets (USD Million)	12,620.6	11,570.3	11,648.6	11,033.3	10,967.7	4.4[4]
Tangible Common Equity (ISK Billion)	212.5	224.8	223.6	213.8	201.4	1.7[4]
Tangible Common Equity (USD Million)	1,608.4	1,617.8	1,645.6	1,506.2	1,546.1	1.2[4]
Problem Loans / Gross Loans (%)	1.8	1.6	1.8	1.8	2.0	1.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	20.0	21.6	22.9	21.4	22.3	21.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	10.4	9.2	9.5	9.4	10.0	9.7[5]
Net Interest Margin (%)	3.2	3.0	3.1	2.9	2.4	2.9[5]

PPI / Average RWA (%)	2.8	3.2	3.5	3.2	2.6	3.1[6]
Net Income / Tangible Assets (%)	1.3	1.5	1.6	1.6	1.7	1.5[5]
Cost / Income Ratio (%)	51.3	48.1	45.0	45.4	51.0	48.2[5]
Market Funds / Tangible Banking Assets (%)	19.6	17.7	21.4	23.8	23.2	21.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	16.0	14.2	10.2	13.1	11.1	12.9[5]
Gross Loans / Due to Customers (%)	139.5	140.6	145.2	151.6	147.8	144.9[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

Islandsbanki hf. is an Icelandic bank offering retail, private banking, asset management, corporate and investment banking services. The bank has around 30% market share in Iceland as December 2024, and operates through 12 branches, as well as a full-service digital and mobile app offering. Furthermore, ISB owns 100% of the share capital of Allianz Iceland which is in a strategic partnership with Allianz Global.

The bank (then under the name Glitnir) defaulted in 2008, following which the bank was reorganized as ISB with the Icelandic government assuming a position as the largest owner. The government's remaining 45.2% ownership stake was sold in May 2025, leading to the full privatization of the bank.

Recent developments

» **July 2025**, ISB's offer for merger discussions with Kvika Banki (Baa1[1], Ratings under Review), was rejected by the Board of Kvika. ISB stated in the past that it is interested in exploring opportunities to use its excess capital for either internal and external growth. ISB's initial offer for Kvika was mate in May 2025, which we expressed that a merger between the two banks would not result in a materially different financial performance, given the significantly larger size of ISB, our expectation that the potential integration would be orderly, and the franchise enhancement potential would be over long-term.

» **June 2025**, the Financial Supervisory Authority of the Central Bank of Iceland (FSA) concluded its annual Supervisory Review and Evaluation Process (SREP) for Islandsbanki. The banks additional capital requirement was decreased to 1.4% of risk-weighted assets, which is 0.4 percentage points lower than under the previous assessment. This resulted the Bank's total capital requirement decreasing from 19.7% to 19.3%.

» **May 2025,** The Government of Iceland completed the sale of its remaining 45.2% stake in Islandsbanki for ISK 90.58 billion ($702.66 million).

» **January 2025**, ISB announced a strategic partnership with insurance provider VÍS tryggingar hf., which aims to increase cross-selling opportunities between the two parties.

Detailed credit considerations

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

ISB operates mostly in Iceland, with Strong- Macro Profile. The bank has a small international exposure in the Arctic region amounting to less than 1% of the group's assets. This is results in ISB's assigned Weighted Macro Profile to be in line with that of Iceland's. Iceland's 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 relatively robust in 2025 at 1.8%, supported by strong export and tourism demand. Real GDP grew mildly rate of 0.5% in 2024. 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. Annualized inflation fell to moderate 3.8% in May 2025, down from a high of 10.2% as of February 2023.

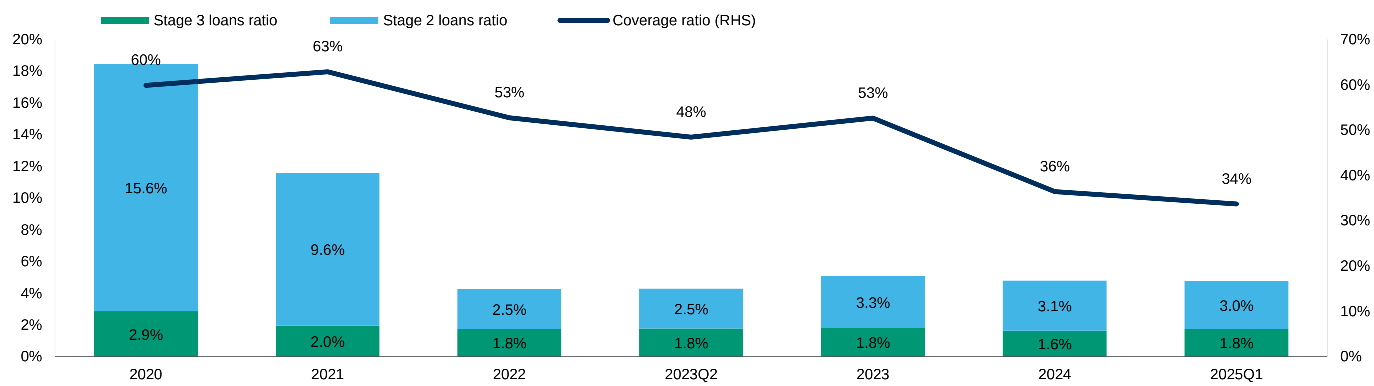
The main risks to the banking sector stem from the country's small size and limited economic diversification, which could create a risk of contagion in the event of sector specific shocks. Icelandic banks also make extensive use of market funding.

Moderately high asset risk constrained by geographical and single name concentrations despite low levels of problem loans

We view ISB's Asset Risk as moderate reflected by the assigned score of ba2 versus the Macro Adjusted score of a3. The score takes into consideration ISB's geographical and sector concentrations and its high share of corporate lending and client concentrations, despite its track record of strong underwriting, and low levels of problem loans.

ISB's asset quality has remained strong, despite the high policy rates. The bank a reported non-performing loans (NPL) ratio, measured as stage 3 loans to gross loans, of 1.76% at end-March 2025, increased only slightly from 1.65% at the end of 2024 while stage 2 loans also remained stable at 3.0% of gross loans as of March 2025. 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.

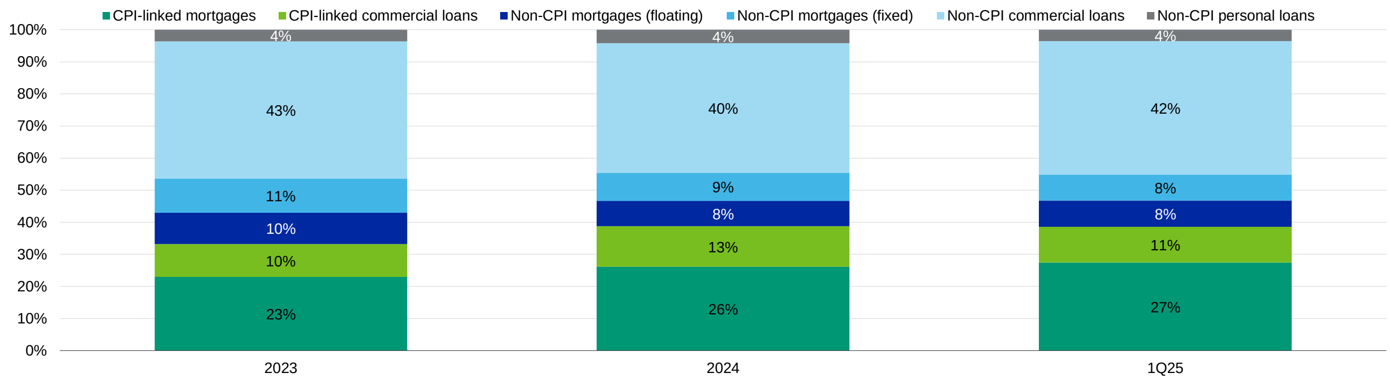
Exhibit 3
Islandsbanki's asset quality has normalised in recent years
Loan staging and coverage ratio



Note: coverage ratio measured as loan loss reserves / non-performing loans.
Source: Company reports, Moody's Ratings

ISB's loan portfolio is evenly split between corporate and retail, where 38% of gross loans are CPI linked (2022: 19%). Majority of retail loans are mortgages where 59% is CPI linked, while only 21% of commercial loans are CPI linked as of end-March 2025(see Exhibit 4). The bank is working to limit further growth in CPI-linked products, account 90% of total CET1 capital at end-March 2025, which the bank is aiming to contain its further growth by reducing the tenor and adjusting the pricing.

Exhibit 4
The majority of ISB's loans are still non-indexed
Loan book breakdown



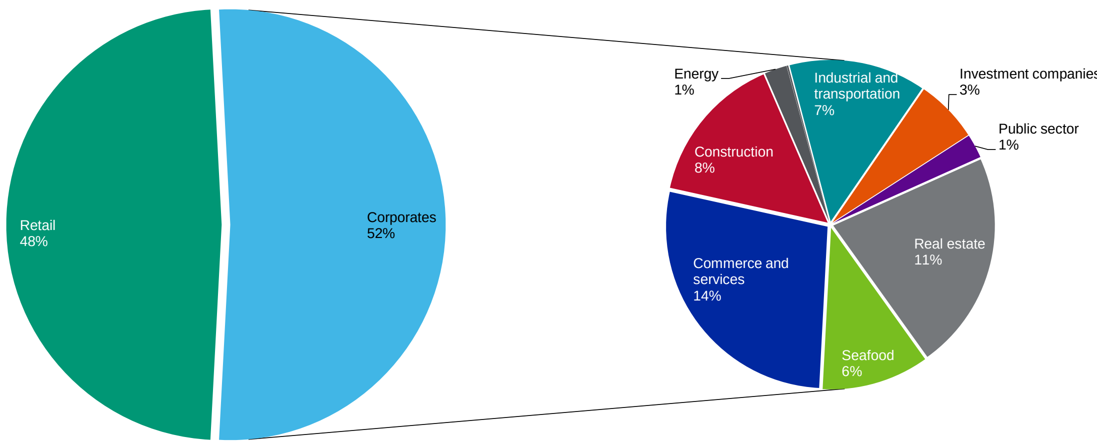
Values have been rounded and may not sum to 100%
Source: Company reports, Moody's Ratings

» **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 performance of retail loans has been strong, despite the 6.5% cumulative increase in the Central bank's key benchmark rate since Q2 2021 in an aim to control inflation. The high share of CPI loans contained the interest rate risk to the borrowers. Iceland benefits from strong employment, real wage growth, and high household savings which we expect to continue to support the performance of the retail book even as interest rates are reset at higher levels.

The historically volatile real estate and construction sectors accounted for 19% of gross loans as of March 2025 (See Exhibit 5). We view corporate book concentrated with a high degree of interconnectedness due to the small size of the economy. This was evidenced during the Covid-19 pandemic when severe impacts in the tourism sector resulted in issues in the broader economy. The bank's appetite for market risk is low, with small market making and proprietary trading activities, while equity holdings in the banking book have remained stable and are comparable to peers.

Exhibit 5
ISB's corporate book benefits from a diverge mix across different sectors
Loan book split as of March 2025.



Source: Company reports, Moody's Ratings

Strong capitalisation

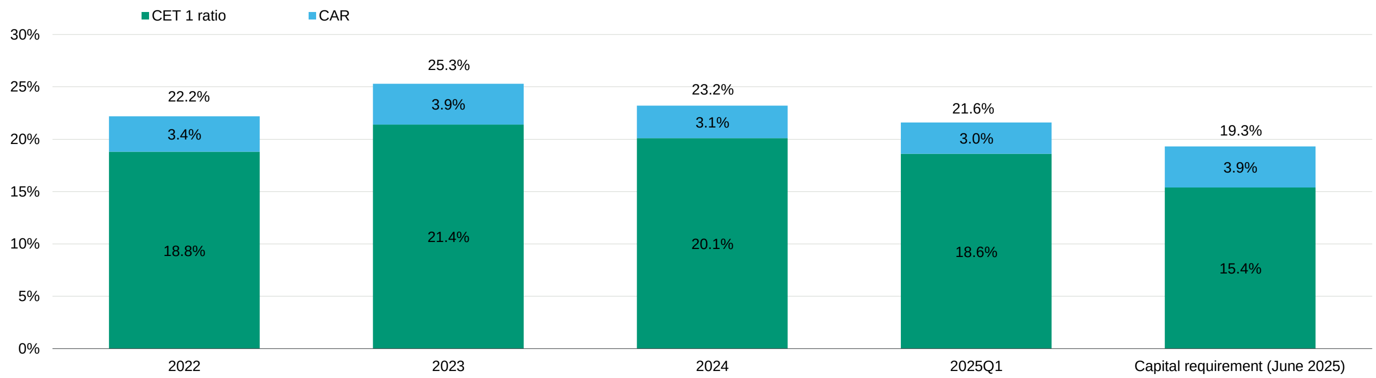
We view ISB's capital position as strong reflected by an assigned score of a1 versus historic ratio of aa3 benefiting from strong risk weighted capitalization levels and a very strong leverage ratio. The assigned score reflects our expectation that the bank will continue to optimize its capital base by gradually increasing its leverage.

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 20.0%, versus 21.6% as of year-end 2024. The Moody's adjusted leverage ratio was Tangible Common Equity / Tangible Banking Assets was a solid 12.8% (2024: 14.0%).

ISB reported common equity Tier 1 (CET1) ratio of 18.6% at end of March 2025 (2024: 20.1%), compared to a capital requirement of 15.4%. The bank further had a total capital adequacy ratio (CAR) of 21.6% at end-March 2025 (2024: 23.20%), compared to a minimum required CAR of 19.7% during the period[2]. The strong capitalisation is further supported by a strong leverage ratio of 12.1% as of end-March 2025 (2024: 13.2%), which is significantly above the European average ratio of around 5.9%.

The bank's Pillar 2 (P2R) requirement is 1.4% (1.8% previously) as communicated by the FSA in the latest Supervisory Review and Evaluation Process (SREP) report in June 2025. ISB has historically been benefiting from the lower P2R requirement compared to its peers mainly driven by a lower add-on for market risk, reflective of the banks limited appetite for market making activities. However, following the 2025 SREP report, the Pillar 2 requirements are expected to be comparable amongst the large Icelandic banks as although ISB's market making activities are limited.

Exhibit 6
ISB benefits from a strong capital position
Capital ratios



Source: Company reports, Moody's Ratings

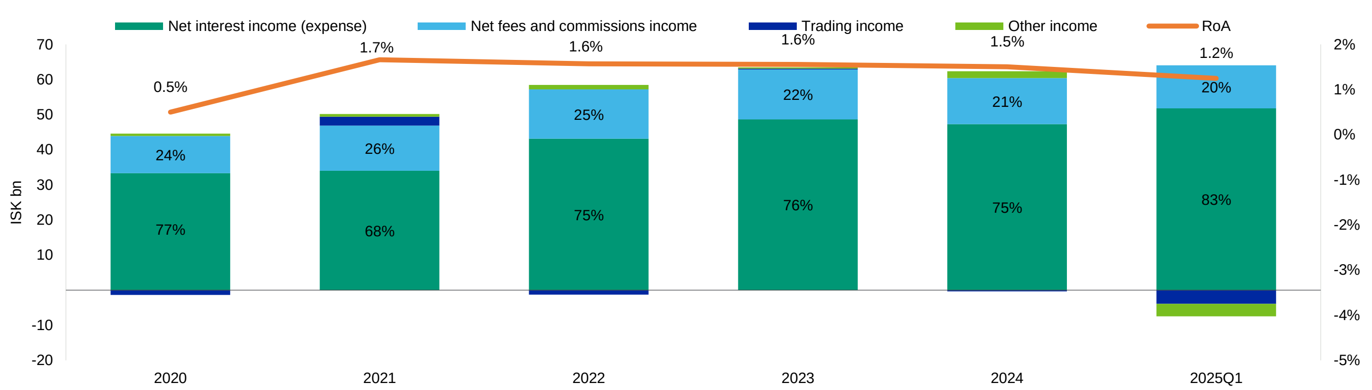
The bank is targeting a buffer of 100bps-300bps above regulatory requirements, and considers an optimal CET1 capital at 17.4% and a total capital ratio between 20.7% and 22.7%. We expect the bank's ISK15 billion share buyback plan, combined with its 50% dividend payout ratio, to contribute to a decline in capitalization levels in the coming 12-18 months following the successful divestment of all outstanding shares owned by the Icelandic Government.

Strong profitability

ISB's core profitability is strong, as reflected by our assigned score of baa1 versus initial Macro Adusted score of a3. We expect the bank's strong core profitability to decline modestly as assets reprice and interest margins remain high higher for longer which will be partly mitigated by a higher cost of risk.

ISB has strong profitability benefiting from high interest rates environment, good recurring fee income and cost controls. The bank reported return on assets (RoA) of 1.3% at end March 2025 and 1.5% in 2024 and 2023, significantly improved from 0.9% in 2018 and 0.7% in 2019 as the bank increased its focus on pricing and cost control as well as rise in the base rates. The decrease in the first quarter of 2025, was mainly due to lower net financial income on the back of fair value changes[3].

Exhibit 7
ISB has maintained strong recurring profitability supported by higher rates
Income breakdown



Source: Company reports, Moody's Ratings

ISB's net interest income (main source of revenues see Exhibit 7) decreased by 2.8% in 2024, due to a gradual decrease in interest rates. The key interest rate has been 7.5% since May 2025 down from its peak of 9.25% August-October 2023, following thirteen consecutive rate hikes since the ultralow rate level of 0.75% seen in the first half of 2021. The net interest margin was 3.2% in the first three months of 2025, (2024: 3.0%) as rates on liabilities repriced lower at a faster rate than assets. Additionally, we still expect interest income to be supported by the repricing of fixed rate non-CPI linked mortgages, 36% of which will re-price by the end of 2025.

ISB has a moderate level of net fee and commission income (NFCI) which benefits from a good degree of diversification. Payment and processing fees remain the dominate income driver approximately 40% followed by asset management, brokerage and corporate investment banking, and other fee and commission income (through insurance services via partnership with Allianz) contributing largely at similar levels at 15% while remaining are fees from loans and guarantees.

ISB benefits from good cost control which compares favorably to domestic peers. The bank targets a cost-to-income (C/I) of 45% versus 48% reported as of March 2025. Total operating expenses increased to ISK7.9 billion in the first three months of 2025, compared to ISK7.8 billion for the same period in 2024, largely due to wage increases in response to the high level of inflation, as well as investments in IT and strategic projects. We expect the bank's C/I ratio remain within target going forward, despite wage inflation, as investment in the business are expected to result in increased revenues and long-term efficiency gains.

Moderate reliance on wholesale funding

Our assigned baa3 market funding score, one notch below the initial Macro Adjusted score of baa2 reflects our view that the bank’s use of market funds will modestly increase to a more normalised historic average levels.

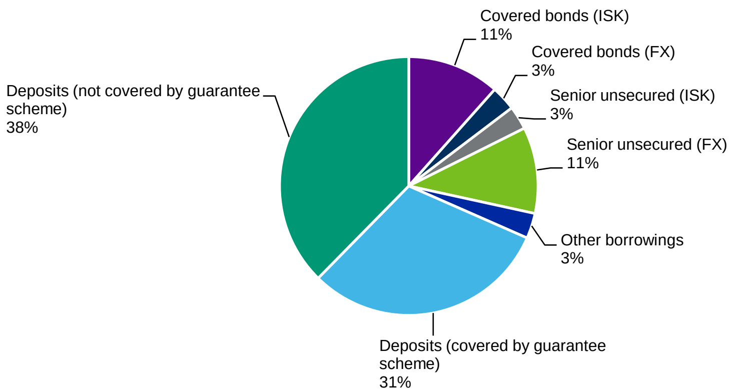
As of Q1 2025, ISB's Market Funds / Tangible Banking Assets was 19.57% up from 17.66% reported as of year-end 2024. We expect the ratio to continue to stabilize at a historic average level of 20%.

ISB’s has a diversified funding structure (see Exhibit 8) where 67% is deposits as of end of March 2025, out of which 45% are covered by the deposit guarantee scheme. Despite only 11% of deposits being term deposits with 3 months or more until maturity, we consider ISB’s deposit base as stable due to the closed nature of the Icelandic banking sector, with no international banks offering banking services in ISK. The bank funding mix additionally benefits from senior unsecured and covered bonds, as well as between foreign currency (FX) and domestic issuances

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 unsecured 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, the bank started also issuing covered bonds 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
ISB has a diverse mix of funding
Breakdown of funding as of March 2025



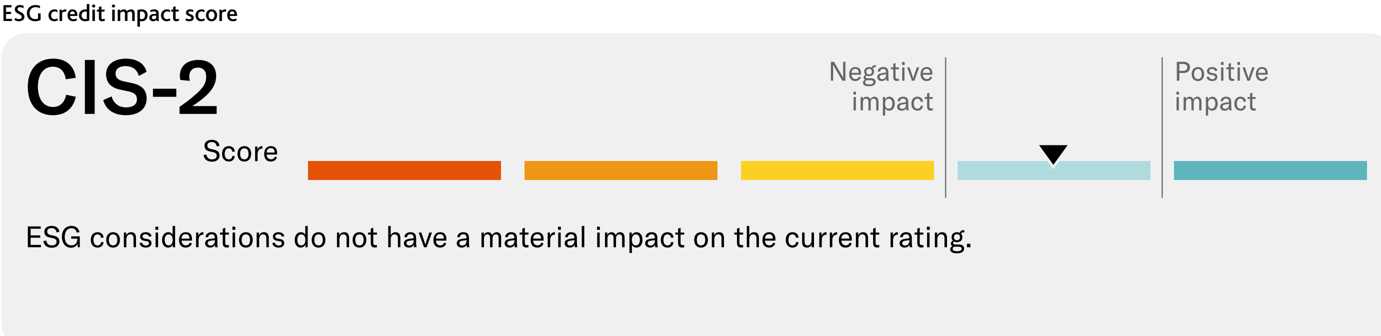
Source: Company reports, Moody's Ratings

We assess ISB's liquid resources score at ba1, one notch higher than the initial Macro Adjusted Score, reflecting the increasing trend. ISB benefits from sound liquidity, with liquid assets, consisting of mostly of cash and deposits with the central bank and government bonds, accounting for 16% of tangible banking assets as of March 2025 (2024: 14%). The bank reported a strong Basel III LCR ratio of 202% in March 2025, consisting of a Euro LCR of 736% and a Icelandic Króna LCR of 110%, well above the regulator's minimum requirements of a total LCR of 100%, a Euro LCR of 80%, and a minimum Icelandic Króna LCR of 50%.

ESG considerations

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

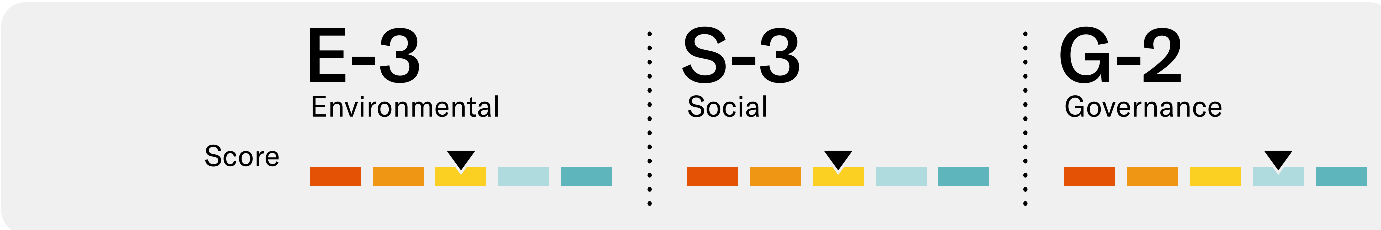
Exhibit 9
ESG credit impact score



Source: Moody's Ratings

Islandsbanki hf. (ISB)'s **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 10
ESG issuer profile scores



Source: Moody's Ratings

Environmental
ISB 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, ISB is actively engaging in optimizing its loan portfolio longer-term toward less carbon intensive assets.

Social
ISB faces moderate social risks mainly related to customer relations . 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. ISB benefits from Iceland's more favourable demographic profile with growing young population, relative to many other countries, which supports business opportunities for the bank.

Governance
ISB faces low governance risks, with its risk management framework in line with industry practices. The bank has taken necessary actions to address a number of compliance shortcomings that were identified by the Central Bank's financial supervision authority during the partial government share sale in March 2022, which led to senior management turnover. The bank has currently a sound organizational structure with a capable new management team since 2022, and a competent and independent board of directors. ISB is fully listed, with no relevant ownership concentration following the full divestment of the Government's stake in May 2025.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.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
Islandsbanki 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 ISB'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 ISB 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.

Methodology and scorecard

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	**Strong -**	**100%**

Factor	**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.8%	a3	↔	ba2	Single name concentration	Sector concentration
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.0%	aa3	↓	a1	Expected trend	
Profitability						
Net Income / Tangible Assets	1.3%	a3	↓	baa1	Expected trend	
Combined Solvency Score		a2		baa1		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	17.7%	baa2	↓	baa3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	14.2%	ba2	↑	ba1	Expected trend	
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	461,849	27.7%	557,400	33.5%
Deposits	936,779	56.3%	841,228	50.5%
Preferred deposits	693,216	41.6%	658,556	39.6%
Junior deposits	243,563	14.6%	182,672	11.0%
Senior unsecured bank debt	186,237	11.2%	186,237	11.2%
Dated subordinated bank debt	20,120	1.2%	20,120	1.2%
Preference shares (bank)	9,865	0.6%	9,865	0.6%
Equity	49,944	3.0%	49,944	3.0%
Total Tangible Banking Assets	1,664,793	100.0%	1,664,793	100.0%

Debt Class	**De Jure waterfall**		**De Facto waterfall**		**Notching**		**LGF Notching Guidance vs. Adjusted BCA**	**Assigned LGF notching**	**Additional Notching**	**Preliminary Rating Assessment**
	Instrument volume + subordination	**Sub-ordination**	**Instrument volume + subordination**	**Sub-ordination**	**De Jure**	**De Facto**				
Counterparty Risk Rating	27.0%	27.0%	27.0%	27.0%	3	3	3	3	0	a2
Counterparty Risk Assessment	27.0%	27.0%	27.0%	27.0%	3	3	3	3	0	a2 (cr)
Deposits	27.0%	4.8%	27.0%	16.0%	2	3	3	3	0	a2
Senior unsecured bank debt	27.0%	4.8%	16.0%	4.8%	2	2	2	2	0	a3
Junior senior unsecured bank debt	4.8%	4.8%	4.8%	4.8%	0	0	0	0	0	baa2

Dated subordinated bank debt	4.8%	3.6%	4.8%	3.6%	-1	-1	-1	-1	0	baa3

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	-1	0	baa3	-	(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 Ratings

Ratings

Exhibit 12

Category	Moody's Rating
ISLANDSBANKI 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

Source: Moody's Ratings

Endnotes

1 Long-term Bank Deposit Rating (Foreign and Domestic)

2 The minimum required CAR fell to 19.3% following the annual SREP review in June 2025

3 Net financial expense of ISK 986m in the first quarter relates to market making operations, losses related to economic hedging, and the Group's own market positions

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