

MOODY'S

RATINGS

Rating Action: Moody's Ratings places Kvika Banki hf.'s ratings on review for upgrade

10 Jun 2025

London, June 10, 2025 -- Moody's Ratings (Moody's) has today placed Kvika Banki hf.'s (Kvika) long-term and short-term deposit ratings of Baa1/P-2, the senior unsecured and long-term issuer ratings of Baa2, and the Baseline Credit Assessment (BCA) and Adjusted BCA of ba1 on review for upgrade. Previously, the outlook on the long-term deposit, long-term issuer and senior unsecured debt ratings was stable. The (P)Baa2 senior unsecured Euro Medium Term Notes (EMTN) program ratings, the (P)Ba2 subordinated EMTN, and the junior senior unsecured EMTN program ratings of (P)Ba1 were also placed on review for upgrade.

Kvika's long-term and short-term Counterparty Risk Ratings (CRR) of Baa1/P-2 and the long-term and short-term Counterparty Risk Assessments (CR Assessment) of Baa1(cr)/P-2(cr), were also placed on review for upgrade.

The rating action follows the separate announcements from Arion Banki hf. (Arion) and Islandsbanki that their respective board of directors have proposed opening merger talks with the board of directors of Kvika.

RATINGS RATIONALE / FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

On 27 May 2025, Arion announced its intention to initiate merger discussions with Kvika [1]. On 28 May 2025, Islandsbanki also expressed an interest to merge with Kvika [2]. For a transaction to proceed, the shareholders of Kvika alongside those of the acquiring bank would need to endorse the terms of the potential merger. The board of Kvika has yet to substantively respond to either of the indicative offers.

Any transaction would be subject to a range of approvals from the Icelandic Competition Authority and the Central Bank of Iceland. The review for upgrade will focus on the extent to which Kvika's BCA and ratings would benefit from becoming part of a much larger banking group and likely be aligned with those of its acquirer mitigating current considerations related to the complexity of its legal structure, and operational risks.

Kvika's BCA currently includes one negative notch for opacity and complexity reflecting the increased operational complexity given its relative size. This is driven by the investment banking operations of the group as well as the mergers and acquisitions in the recent years which pose a significant operational risk. These considerations represent key governance risks under our ESG framework.

At the conclusion of the review period Kvika's ratings could be upgraded subject to successful receiving all necessary regulatory approvals of the merger with either Islandsbanki or Arion.

Given the review for upgrade, we are unlikely to downgrade Kvika's ratings during the review period. However, failure to proceed with the merger would result into Kvika's ratings to be confirmed at current levels provided that the bank continues to exhibit resilient financial performance.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at <https://ratings.moodys.com/rmc-documents/435880>.

The Global Scale Credit Rating(s) discussed in this Credit Rating Announcement was(were) issued by one of Moody's affiliates outside the EU and is(are) endorsed for use in the EU in accordance with the EU CRA Regulation.

REFERENCES/CITATIONS

[1] <https://www.arionbanki.is/english/about-us/investor-relations/press-releases/single-press-release/?id=590c90f6-2c34-4c80-b848-3653bca9ff0e>

[2] <https://view.news.eu.nasdaq.com/view?id=bfd293a857fa1ce6c4140cb6f6e617f77&lang=en&src=micro>

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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