

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Arion's A2 long-term deposit and A3 long-term issuer ratings; outlook stable

27 Apr 2026

London, April 27, 2026 -- Moody's Ratings (Moody's) has affirmed all the ratings and assessments of Arion banki hf. (Arion): the A2/P-1 deposit ratings, the A3 long-term issuer and senior unsecured ratings, the Ba2(hyb) preferred stock non-cumulative rating, the baa2 Baseline Credit Assessment (BCA) and Adjusted BCA, the (P)A3 senior unsecured MTN rating, the (P)Baa2 junior senior unsecured MTN rating, the (P)Baa3 subordinated MTN rating, the A2/P-1 Counterparty Risk Ratings, and the A2(cr)/P-1(cr) Counterparty Risk Assessments.

The outlook on Arion's long-term deposit, long-term issuer and senior unsecured debt ratings remains stable.

RATINGS RATIONALE

Today's rating action was triggered by the announcement by the Board of Directors of Arion and Kvika Banki hf. (Baa1/Baa2 stable, ba1), that the planned merger between the two banks will not proceed [1].

The affirmation of Arion's deposit and issuer ratings reflects the affirmation of the bank's BCA; unchanged extremely low loss-given-failure assumptions for junior depositors and very low loss-given-failure assumptions for senior unsecured bondholders, which continues to result in a three- and a two-notch uplift from the BCA, respectively; and unchanged assumptions of a low probability of government support, which continues to not provide any uplift to the ratings.

The affirmation of Arion's baa2 BCA is underpinned by strong profitability and solid capitalisation, with return on tangible banking assets of 1.9% in 2025 and a Common Equity Tier 1 (CET1) ratio of 18.4% at year-end, providing a buffer over the 15.3% regulatory requirement.

Arion's credit profile also benefits from a predominantly domestic retail deposit funding base, minimal reliance on short-term wholesale funding, and moderate liquidity buffers. These strengths are balanced against high geographic concentration of revenues and customers in Iceland, moderately high asset risk driven by sectoral loan concentrations, and a moderate exposure to confidence-sensitive international funding. Asset quality remains moderate, with non-performing loans rising to 2.5% of gross loans from 2.3% at end-December 2024, primarily reflecting the impact of elevated interest rates and inflation on the construction lending portfolio.

OUTLOOK

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

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

Arion's ratings could be upgraded following a strengthening in the macroeconomic conditions in Iceland, a further improvement in the bank's risk profile, for example following a reduction in single name and sector concentrations, a reduction in the use of market funds, while maintaining strong capitalisation and strong earnings generation capacity across the credit cycle.

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

Arion's ratings could be downgraded following a weakening in the macroeconomic conditions in Iceland, if

Arion's asset quality and risk profile was to deteriorate; higher non-credit related risks such as market risk and FX risk and/or increasing consumer price index (CPI) imbalance; a weakening of the bank's recurring profitability.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2025 and available at <https://ratings.moodys.com/rmc-documents/454566>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Arion banki hf.'s "Assigned BCA" score of baa2 is set two notches below the "Financial Profile" initial score of a3 to reflect the bank's concentration in Iceland, and its loan book's exposure to CPI-linked mortgages and small and medium-sized enterprises (SMEs).

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REFERENCES/CITATIONS

[1] <https://www.globenewswire.com/news-release/2026/04/15/3274818/0/en/Kvika-banki-hf-Merger-between-Kvika-banki-and-Arion-banki-will-not-take-place.html> 15-Apr-2026

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