S&P Global Ratings

RatingsDirect®

Tear Sheet:

Islandsbanki hf

September 8, 2026

Primary Contact

Salla von Steinaecker
Frankfurt
49-69-33999-164
salla.vonsteinaecker
@spglobal.com

Secondary Contact

Niklas Dahlstrom
Stockholm
46-84405358
niklas.dahlstrom
@spglobal.com

This report does not constitute a rating action.

What's new: Challenges in the construction sector are testing Islandsbanki's asset quality. Islandsbanki's nonperforming loan (NPL) ratio has deteriorated, with reported stage 3 loans rising to 2.6% in second-quarter 2026 from 1.5% at year-end 2025. This is because of a few exposures related to borrow specific circumstances. It includes exposure in the construction sector (7% of the loan book), which faces increased stress amid generally muted housing market activity, leading to a higher amount of unsold apartments and reduced liquidity. The shift in NPLs reflects the migration of specific exposures from stage 2 to stage 3, translating into annualized cost of risk of 24 basis points (bps) compared to a low 5bps in 2025.

Meanwhile, Islandsbanki's profitability remains resilient, with the return on equity (ROE) reaching 13.3% for the second quarter. The ROE was 13.4% in the first half of 2026, when net interest income reached Icelandic krona (ISK) 32.4 billion (about €224 million), driven by 7% (annualized) credit growth and an increased net interest margin of 3.4%, supported by inflation pass-through. Conversely, fee and commission income faced headwinds, dropping by 2.4% during the period due to subdued capital market activity and higher expenses related to loyalty schemes in the cards and payment processing segments.

Although the bank maintains comparably strong operating efficiency, the cost-to-income ratio rose to 43.1% in the second quarter of 2026 due to increased staff costs including one-time expenses related to organizational changes (40.1% in the first half year). We believe the bank's strong loss-absorbing capacity and high collateralization (94% of total lending and 52% loan to value on mortgage lending) provide a critical safeguard against further asset-quality volatility.

Why it matters: We anticipate that rising credit losses from lending in the construction, real estate, and small and midsize enterprise sectors could hamper earnings. In our base case, we expect Islandsbanki's asset-quality metrics to stabilize and impairments to normalize to through-the-cycle levels of 20bps-25bps in the next 12-24 months, after a period of low loan losses. Yet this risk is significantly cushioned by the bank's sound earnings and robust capital buffers. The common equity tier 1 ratio of 19.1% and total capital ratio of 23.0% remain comfortably above regulatory requirements of 15.2% and 19.5% respectively, considering the increased Pillar 2 requirements driven by its international lending expansion (5% of total lending). Still, considering the continued lending growth and elevated shareholder distributions, the bank's risk-adjusted capital (RAC) ratio of 16.6% as of Dec. 31, 2025, could decrease to 15.5%-16.0% in 2026-2028, moderately exceeding our 15% threshold for very strong capitalization.

In our view, the bank's upward revision of its full-year 2026 ROE guidance to more than 12.5% underscores management's confidence in core profitability, despite macroeconomic uncertainty and softer growth expectations. However, the trajectory of inflation and potential changes to financial institution taxation remain lingering risks that could constrain future profitability and Islandsbanki's aim of achieving its medium-term financial targets of an ROE higher than 13% and cost to income lower than 43%.

Ratings Score Snapshot

SACP: bbb+

Anchor	bbb	
Business position	Adequate	0
Capital and earnings	Very strong	2
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

Support: 0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Additional factors: 0

Issuer credit rating
BBB+/Positive/A-2
Resolution counterparty rating
A-/--/A-2

Recent Research

- Banking Industry Country Risk Assessment Update: August 2026, Aug. 27, 2026
- Nordic Banking Outlook 2026: Strong Banks Are Poised For Growth, Jan. 22, 2026
- Banking Industry Country Risk Assessment: Iceland, Dec. 19, 2025
- Islandsbanki hf, Dec. 19, 2025
- Banking Brief: Icelandic Banks Reposition For Scale And Efficiency, July 3, 2025
- Banking Brief: Costs And Growth Drive Nordic Simplification, Jan. 2, 2025

Outlook

The positive outlook reflects our expectation that Islandsbanki will build significant additional loss-absorbing capacity (ALAC) buffers to meet the subordinated minimum requirement for own funds and eligible liabilities by 2027.

Downside scenario

We could revise the outlook to stable if Islandsbanki failed to reach our adjusted ALAC threshold of 4% of S&P Global Ratings' risk-weighted assets (RWAs). We could also take a negative rating action if the bank's RAC ratio were to fall below the very strong level of 15%, for example, due to significant shareholder distributions; or if we observed a material deterioration of Iceland's economic indicators.

Upside scenario

We could take a positive rating action if Islandsbanki's subordinated buffer exceeded our adjusted threshold of 4% of S&P Global Ratings' RWAs in the next 24 months. This would reduce the default risk for senior preferred debtholders.

Furthermore, we expect the bank to maintain a sound financial position over the next two years, underpinned by strong profitability and operating efficiency in line with its financial targets and robust risk-adjusted capitalization, notwithstanding the potential for the distribution of excess capital.

Key Metrics

Islandsbanki hf--Key ratios and forecasts

(%)	2024a	2025a	2026f	2027f	2028f
Growth in operating revenue	-1.8	6.7	14.1-17.3	0.0-2.0	0.0-2.0
Growth in customer loans	5.5	5.5	5.5-6.5	6.0-7.0	6.0-7.0
Growth in total assets	1.6	7.5	4.2-5.2	5.0-6.1	5.1-6.2
Net interest income/average earning assets (NIM)	3.1	3.3	3.6-3.9	3.3-3.7	3.1-3.4
Cost-to-income ratio	43.9	43.9	38.1-40.1	39.3-41.3	40.6-42.6
Return on average common equity	10.7	11.2	12.5-13.5	12.5-13.5	12.5-13.5
Return on assets	1.5	1.5	1.6-1.8	1.4-1.8	1.4-1.8
New loan loss provisions/average customer loans	-0.1	0.1	0.2-0.3	0.2-0.3	0.2-0.3
Gross nonperforming assets/customer loans	1.8	1.6	2.6-3.0	2.3-2.8	2.0-2.5
Net charge-offs/average customer loans	0.0	0.1	0.1-0.1	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	17.1	16.6	15.3-16.1	15.6-16.4	15.7-16.5

All figures include S&P Global Ratings' adjustments. a--Actual. f--Forecast. NIM--Net interest margin.

Key Statistics

Islandsbanki hf Key Figures

Mil. ISK	2026*	2025	2024	2023	2022
Adjusted assets	1,785,572	1,725,465	1,605,123	1,579,764	1,562,956
Customer loans (gross)	1,423,725	1,374,752	1,303,208	1,235,154	1,197,771
Adjusted common equity	198,232	206,357	208,882	208,478	186,426
Operating revenues	39,035	67,104	62,876	64,018	57,078
Noninterest expenses	15,890	29,480	27,628	26,743	23,783
Core earnings	14,522	25,156	24,465	25,003	24,530

*2026 data is for the 6 months to end-June. ISK--Icelandic krona.

Islandsbanki hf Business Position

(%)	2026*	2025	2024	2023	2022
Loan market share in country of domicile	32.0	31.0	31.0	31.0	31.0
Total revenues from business line (currency in millions)	39,039	67,240	63,025	64,272	57,395
Commercial & retail banking/total revenues from business line	88.1	95.5	95.4	96.2	93.2

Islandsbanki hf Business Position

(%)	2026*	2025	2024	2023	2022
Trading and sales income/total revenues from business line	8.0	(3.4)	(3.4)	(4.3)	(0.2)
Brokerage/total revenues from business line	3.6	4.9	4.4	4.4	5.5
Other revenues/total revenues from business line	0.3	3.1	3.6	3.7	1.6
Investment banking/total revenues from business line	8.0	(3.4)	(3.4)	(4.3)	(0.2)
Return on average common equity	13.3	11.2	10.7	11.1	11.6
*2026 data is for the 6 months to end-June.					

Islandsbanki hf Capital And Earnings

(%)	2026*	2025	2024	2023	2022
Tier 1 capital ratio	20.7	21.7	21.0	22.5	19.8
S&P Global Ratings’ RAC ratio before diversification	N/A	16.6	17.1	15.8	14.5
S&P Global Ratings’ RAC ratio after diversification	N/A	12.0	12.2	11.3	10.3
Adjusted common equity/total adjusted capital	92.3	92.3	95.7	95.4	94.9
Net interest income/operating revenues	83.0	78.2	75.2	75.9	75.6
Fee income/operating revenues	16.7	21.0	20.9	22.2	24.6
Market-sensitive income/operating revenues	0.3	(0.7)	0.4	1.3	(0.7)
Cost to income ratio	40.7	43.9	43.9	41.8	41.7
Preprovision operating income/average assets	2.6	2.3	2.2	2.4	2.2
Core earnings/average managed assets	1.7	1.5	1.5	1.6	1.6
*2026 data is for the 6 months to end-June. N.M.--Not meaningful.					

Islandsbanki hf -- Risk-Adjusted Capital Framework Data

(ISK 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government & central banks	192,105,898	5,529,906	3	5,336,056	3
Of which regional governments and local authorities	14,761,130	3,760,070	25	885,668	6
Institutions and CCPs	128,211,325	24,680,731	19	25,472,724	20
Corporate	675,316,659	627,789,990	93	692,804,876	103
Retail	726,678,374	238,356,134	33	343,617,094	47
Of which mortgage	579,007,462	149,609,188	26	211,511,426	37
Securitization§	0	0	0	0	0
Other assets†	30,713,401	33,830,292	110	40,146,803	131
Total credit risk	1,753,025,657	930,187,053	53	1,107,377,553	63
Credit valuation adjustment					
Total credit valuation adjustment	'--	1,375,465	'--	0	'--
Market Risk					
Equity in the banking book	9,708,675	9,162,601	94	94,637,525	975
Trading book market risk	'--	4,092,761	'--	4,911,313	'--
Total market risk	'--	13,255,362	'--	99,548,838	'--

Islandsbanki hf -- Risk-Adjusted Capital Framework Data

(ISK 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Operational risk					
Total operational risk	'--	88,551,360	'--	140,719,803	'--
(ISK 000s)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	'--	1,033,369,240	'--	1,347,646,194	100
Total Diversification/ Concentration Adjustments	'--	'--	'--	514,794,156	38
RWA after diversification	'--	1,033,369,240	'--	1,862,440,350	138
(ISK 000s)		Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)
Capital ratio before adjustments		224,791,877	21.7	223,573,000	16.6
Capital ratio after adjustments‡		224,791,877	21.7	223,573,000	12.0

*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital.ISK -- Iceland Krona. Sources: Company data as of 'Dec. 31 2025', S&P Global Ratings.

Islandsbanki hf Risk Position

(%)	2026*	2025	2024	2023	2022
Growth in customer loans	7.1	5.5	5.5	3.1	8.9
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	38.2	39.8	39.4	40.7
Total managed assets/adjusted common equity (x)	9.0	8.4	7.7	7.6	8.4
New loan loss provisions/average customer loans	0.2	0.1	(0.1)	0.1	(0.1)
Net charge-offs/average customer loans	0.0	0.1	0.0	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	3.1	1.6	1.8	1.9	1.8
Loan loss reserves/gross nonperforming assets	17.6	34.5	33.9	50.9	51.0
*2026 data is for the 6 months to end-June.					

Islandsbanki hf Funding And Liquidity

(%)	2026*	2025	2024	2023	2022
Core deposits/funding base	68.1	66.6	69.54	64.6	60.7
Customer loans (net)/customer deposits	136.4	141.1	139.8	143.8	150.2
Long-term funding ratio	98.4	94.3	94.5	95.2	90.9
Stable funding ratio	114.4	110.7	108.2	115.3	112.5
Short-term wholesale funding/funding base	1.8	6.6	6.5	5.6	10.7
Regulatory net stable funding ratio	126.0	127.0	125.0	124.0	118.0
Broad liquid assets/short-term wholesale funding (x)	10.6	3.0	2.8	4.1	2.4
Broad liquid assets/total assets	16.2	16.7	15.0	19.2	21.2
Broad liquid assets/customer deposits	27.8	29.7	26.0	35.7	42.0
Net broad liquid assets/short-term customer deposits	25.8	20.3	17.1	28.7	24.5

Islandsbanki hf Funding And Liquidity					
Regulatory liquidity coverage ratio (LCR) (x)	188.0	203.0	168.0	195.0	205.0
Short-term wholesale funding/total wholesale funding	5.4	19.2	20.9	15.5	26.6
Narrow liquid assets/3-month wholesale funding (x)	16.4	11.3	5.2	8.7	15.7
*2026 data is for the 6 months to end-June.					

Related Criteria

- Risk-Adjusted Capital Methodology, April 30, 2026
- General Criteria: Hybrid Capital: Methodology And Assumptions, Oct. 13, 2025
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of September 08, 2026)*	
Islandsbanki hf	
Issuer Credit Rating	BBB+/Positive/A-2
Resolution Counterparty Rating	A-/--/A-2
Junior Subordinated	BB
Senior Secured	A+/Positive
Subordinated	BBB-
Issuer Credit Ratings History	
12-Nov-2024	BBB+/Positive/A-2
04-Apr-2024	BBB+/Stable/A-2
17-Nov-2023	BBB/Positive/A-2
Sovereign Rating	
Iceland	A+/Positive/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.	