S&P Global Ratings

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Islandsbanki hf

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Islandsbanki hf

Rating Score Snapshot

Global Scale Ratings
Issuer Credit Rating
BBB/Stable/A-2
Resolution Counterparty Rating
BBB+/--/A-2

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/Stable/A-2

ALAC--Additional loss-absorbing capacity. CRA--Comparable ratings analysis. GRE--Government-related entity. ICR--Issuer credit rating. SACP--Stand-alone credit profile.

Credit Highlights

Key strengths	Key risks
Very strong capitalization and robust earning capacity.	Geographic concentration reflecting the bank's domestic focus on Iceland's small, cyclical economy.
One of three large incumbents in a stable and profitable banking sector.	Elevated risk of a housing correction and its potential adverse consequences.

Our ratings on Islandsbanki balance the bank's established franchise, high capitalization, and robust profitability against its concentration in Iceland's small economy alongside an elevated risk of a housing correction. Islandsbanki's capital and earnings strength provides a buffer to absorb higher-than-anticipated credit losses. These losses could materialize in the event of a housing correction, which we see as a prominent risk given lofty valuations, rising interest rates, and the recent build-up in household debt.

Capitalization is set to fall but remain very strong. We project the risk-adjusted capital (RAC) ratio to be stable at close to 16.0% over our two-year forecast horizon. This is a decline from 19.5% as of Dec. 31, 2021, resulting from two factors: first, distribution of excess capital built up during the pandemic; and second, the higher risk weights we now apply to the bank's household and corporate credit exposures. This reflects the higher risk we see from the sharp build-up in domestic housing imbalances. Nevertheless, this is a level we continue to view as very strong and is an important support for the rating.

The tourism-led economic recovery has improved corporate asset quality, alleviating downside pressure on the rating. Islandsbanki's underperforming and impaired corporate exposures have more than halved from their pandemic peak. This allowed the bank to release credit provisions amounting to 30 basis points (bps) of gross loans throughout 2021 without weakening coverage metrics. That said, asset quality risks have shifted, and we now see elevated risk in the bank's exposure to the Icelandic housing market.

Islandsbanki's structural profitability is improving. The bank's margin should continue to increase with rising rates. Alongside contained costs, this should lead to an improvement in the bank's structural earning capacity toward the 10% return-on-equity target. We view this as providing important headroom to offset the prospect of higher credit losses from a housing downturn, should it materialize.

We now see the Icelandic resolution regime as sufficiently effective. This makes the Icelandic domestic systemically important banks (D-SIBs), including Islandsbanki, eligible for additional loss-absorbing capacity (ALAC) rating uplift. However, we do not expect the bank to build additional subordinated, gone-concern buffers sufficient to meaningfully lower default risk on senior preferred debt, at least in the near term.

Outlook

The stable outlook reflects our expectation that the RAC ratio will remain very strong, notwithstanding the bank's ongoing privatization and the potential for distribution of excess capital as the economy emerges from the pandemic. In our base case, we anticipate that profitability will remain high in the coming two years, as margins rebound from pandemic-induced lows and credit losses revert to about 30 bps of gross loans. In addition, we expect costs to remain contained amid high inflation as the bank continues to scale its digital presence. The stable outlook also reflects our view that Islandsbanki should be able to absorb the effects of a moderate correction in the housing market, should it materialize.

Downside scenario

The most likely downside scenario in the next two years is a rapid and severe disorderly correction in the housing market. This could cause a self-reinforcing cycle of economic slowdown, pressure on household debt-servicing capacity, and falling asset prices. This is likely to be consistent with bank credit losses significantly above the long-term average amid deteriorating earning capacity. We could also lower the rating if we expect capitalization to fall below the level we consider to be very strong. This could occur if the bank undertakes significant excess shareholder distributions resulting in a sustainably lower RAC ratio.

Upside scenario

The prospect of a higher rating in the next two years is remote but could materialize if housing market imbalances and correction risk ease significantly, alongside still robust sector profitability and stability.

We could also raise the rating if the bank plans to build significant additional buffers of gone-concern loss-absorbing capital, in the process meaningfully reducing default risk for senior preferred debt holders, in addition to maintaining a very strong going-concern RAC ratio.

Key Metrics

Islandsbanki hf--Key Ratios And Forecasts*

	--Fiscal year ended Dec. 31--				
	2020a	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue (%)	(9.0)	16.0	2.0	8.0	5.0
Growth in customer loans (%)	13.0	7.0	7.0	5.0	5.0
Net interest income/average earning assets (NIM) (%)	2.9	2.7	2.8	2.9	3.0
Cost to income (%)	54.0	48.0	46-48	43-45	42-44
Return on equity (%)^	3.9	12.2	8.0-10.0	9.0-11.0	9.0-11.0
Credit losses (bps of average customer loans)	91.0	(28.0)	15.0	30.0	30.0
Gross nonperforming assets/customer loans (%)	3.0	2.0	2.0	2.0	2.1

Islandsbanki hf--Key Ratios And Forecasts* (cont.)					
	--Fiscal year ended Dec. 31--				
	2020a	2021a	2022f	2023f	2024f
Risk-adjusted capital ratio (%)	18.0	19.5	15.5-16.0	15.7-16.2	16.0-16.5

^Return on average common equity. *All figures adjusted by S&P Global Ratings. a--Actual. f--Forecast. NIM--Net interest margin. Actual risk-adjusted capital ratios are those under economic risk '4'. Forecast reflect economic risk '5'.

Anchor: 'bbb-' For A Bank Operating Primarily In Iceland

The trend for economic risk in Iceland, as it affects the domestic banking sector, is stable. Real economy recovery continues to gather pace. We project 4.5% real GDP growth in 2022 after a similar rate of rebound in 2021. Risk to the banks emanating from the tourism sector has significantly diminished, and we expect it will continue to fade. That said, we see the ebullient housing market and high risk of correction projecting elevated risk on the banks. Nevertheless, the banks' improving profitability provides a solid buffer against the prospect of capital erosion, and loan-to-value restrictions first introduced in 2017 have bolstered the banks' resilience to a modest drawdown in prices. We expect systemwide credit losses to remain 30 bps of gross loans, but this could rise well above our base case if house prices were to unwind in a disorderly manner.

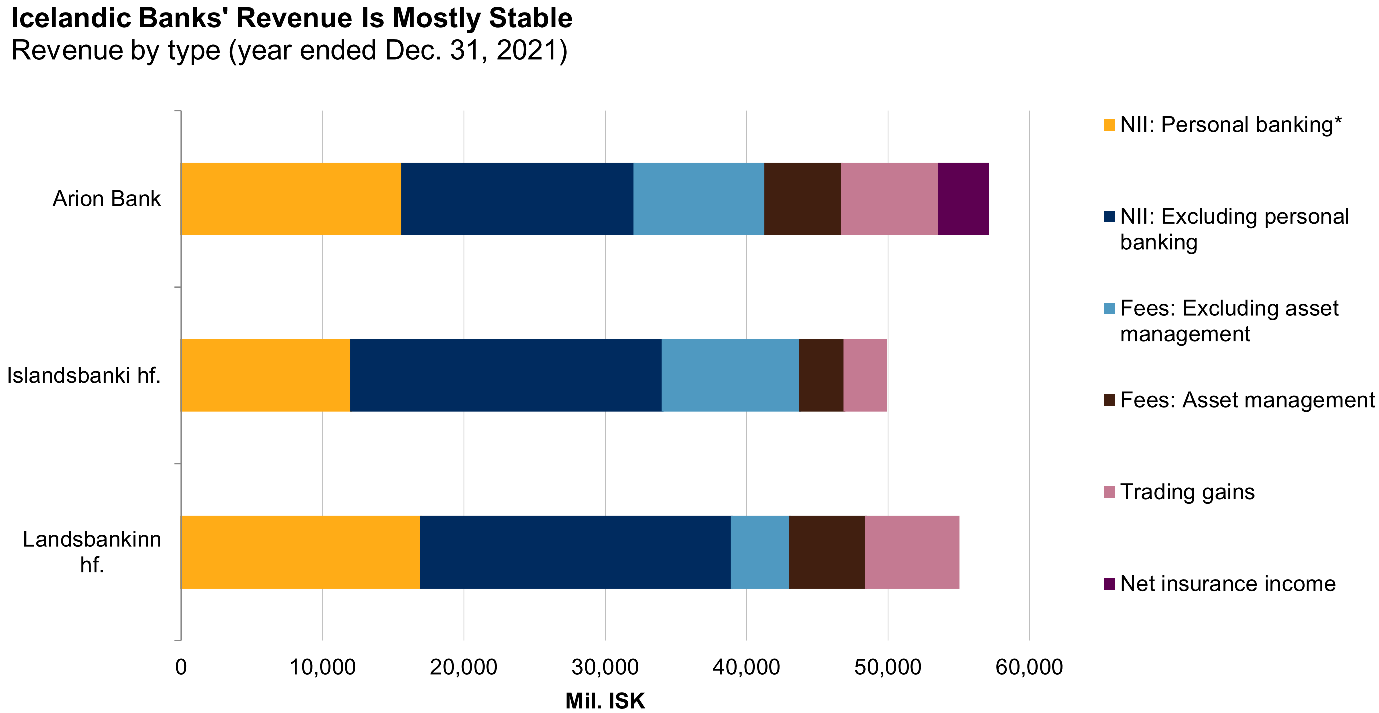
We view the trend for industry risk in the Icelandic banking sector as stable. Risk-adjusted earnings have been resilient throughout the pandemic, and we expect further improvement. Strengthening margins amid strong efficiency metrics should improve sector-wide returns on equity toward 10% in the coming two years, a level we view as high in international comparison. Our base case also considers that the market share and competitive pressure applied by the pension funds will remain significantly diminished, although we expect that the banks can absorb a modest rise in their re-entry into the mortgage market, should it occur. In 2022 and 2023, domestic systemically important banks' (D-SIBs') annual foreign maturities are close to 5% of their funding base. We consider this well spread and manageable.

Business Position: One Of Three Large Incumbent Banks Dominating Icelandic Banking

Islandsbanki has a significant and stable market position in Iceland's small but profitable banking sector. It is one of the three domestically systemically important banks (D-SIBs) that dominate Icelandic banking. Its market share of more than 20% in mortgages and above 35% in large and midsize corporate lending is broadly similar to those of the other two D-SIBs, Arion Bank and Landsbankinn. Iceland's banking sector is concentrated and profitable, which supports business stability for the incumbents, as does the low risk of a material rekindling of price competition from the pension funds in the mortgage market.

The bank has a diversified franchise and revenue base in a small market. Islandsbanki has a presence across several business lines in Iceland, including retail, corporate, and investment banking, as well as asset management. Net interest income is close to 70% of revenue (see chart 1), mostly stemming from corporate and household loans and deposits, which we expect to be a stable revenue source even as economic and market conditions vary. Diversified fee income, less stable than most interest income, is likely to remain at 30% of revenue.

Chart 1



*NII from loans to individuals, including mortgages and personal loans. ISK--Icelandic krona. NII--Net interest income. Source: S&P Global Ratings.

Islandsbanki's digital offering is effective in servicing customers and helps to underpin the bank's efficiency. A strong digital offering is necessary for Icelandic banks given the high online banking take-up among the population. At close to 100%, uptake is among the highest in Europe. We consider that Islandsbanki's efficiency benefits as a result and reinforces the bank's capacity to reinvest in improving products and processes. At close to 45%, consistent with D-SIB peers, the bank's cost-to-income ratio is among the leaders in Europe.

Strategy and risk profile are unaffected as privatization continues. In March 2022, the Icelandic government sold an additional 22.5% stake in Islandsbanki following the initial sale and listing of a 35% stake in June 2021. Consequently, the government's remaining stake, held through the Icelandic State Financial Investments (ISFI), is now 42.5%. Domestic pension funds have taken up significant ownership, and combined they now hold close to 25% of the bank's equity. The government's intention is to sell its remaining shares by end-2023, and we do not expect this would be a credit-material event. Although the ISFI currently nominates candidates for the board of Islandsbanki, all board members are independent, promoting stability in governance and strategy.

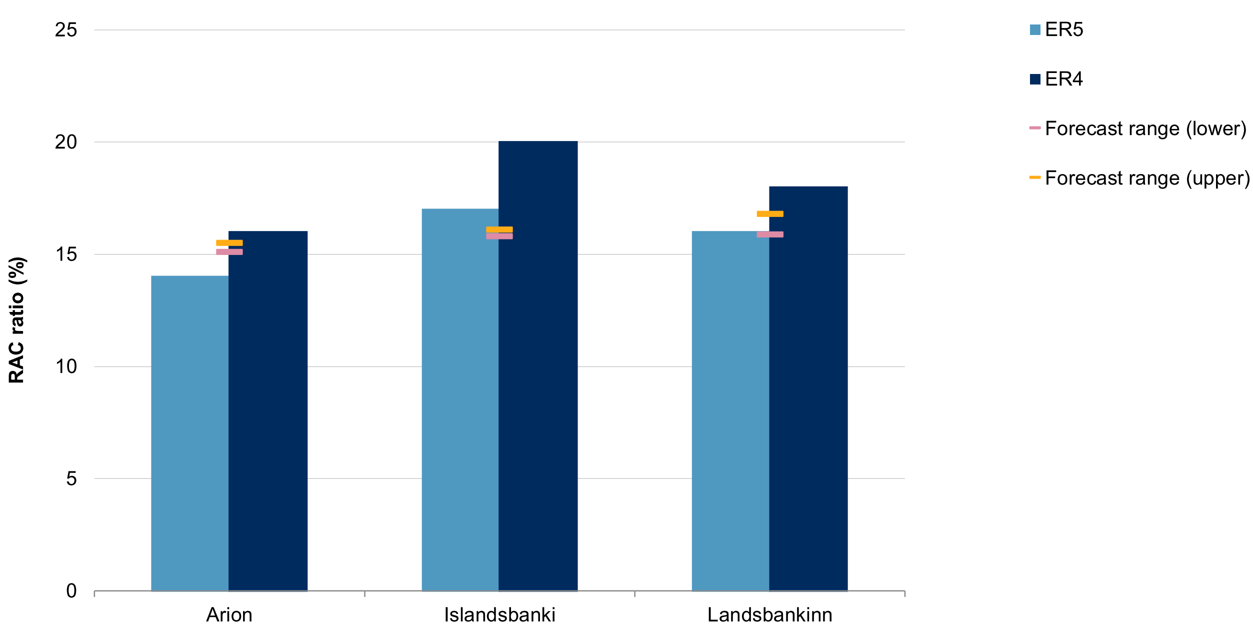
Capital And Earnings: Very Strong Going-Concern Capitalization

We expect the RAC ratio to remain very strong, notwithstanding optimization and higher economic risk. We project that the RAC ratio will settle close to 16% in the next two years. This is a level we consider very strong, although it is a decline from 19.5% as of Dec. 31, 2021 (see chart 2). This reflects two key factors with broadly equal effect: first, special distributions in 2022 of excess capital built up during the pandemic; and second, the higher risk weights we now apply to the bank's household and corporate credit exposures in the calculation of the RAC ratio, reflecting the higher risk we see from the sharp build-up in domestic housing imbalances.

Regulatory capital ratios will retain a buffer over minimum requirements. Islandsbanki comfortably meets regulatory capital requirements (see chart 3). The bank aims to maintain a 50 bps–200 bps management buffer above the total requirement of 17.9%. This total requirement will rise on reinstatement of the 2.0% countercyclical capital buffer (CCyB), effective September 2022. Nevertheless, Islandsbanki is likely to optimize its regulatory capital stack in the coming two years toward its common equity tier 1 (CET1) ratio target of close to 16.5%. This would reflect a decline from the CET1 ratio of 18.2% as of June 30, 2022. We nevertheless expect the RAC ratio to remain above our 15% threshold. The RAC ratio is lower than regulatory ratios, mostly because of our higher capital charges on mortgages and to a lesser extent corporates.

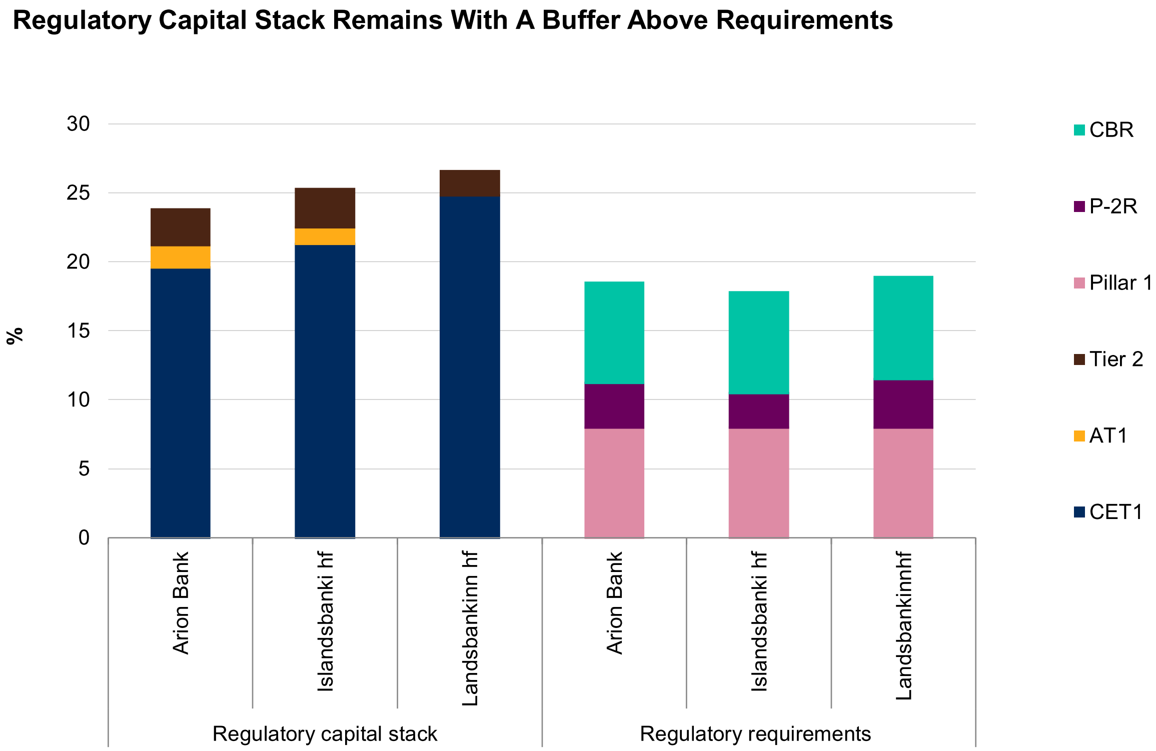
Chart 2

S&P Global Ratings Risk-Adjusted Capitalization To Remain Very Strong



Projected RAC ratio reflects ER5 risk weights and takes into account our current economic risk assessment. Actual RAC ratios as of Dec. 31, 2021. ER--Economic risk score. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

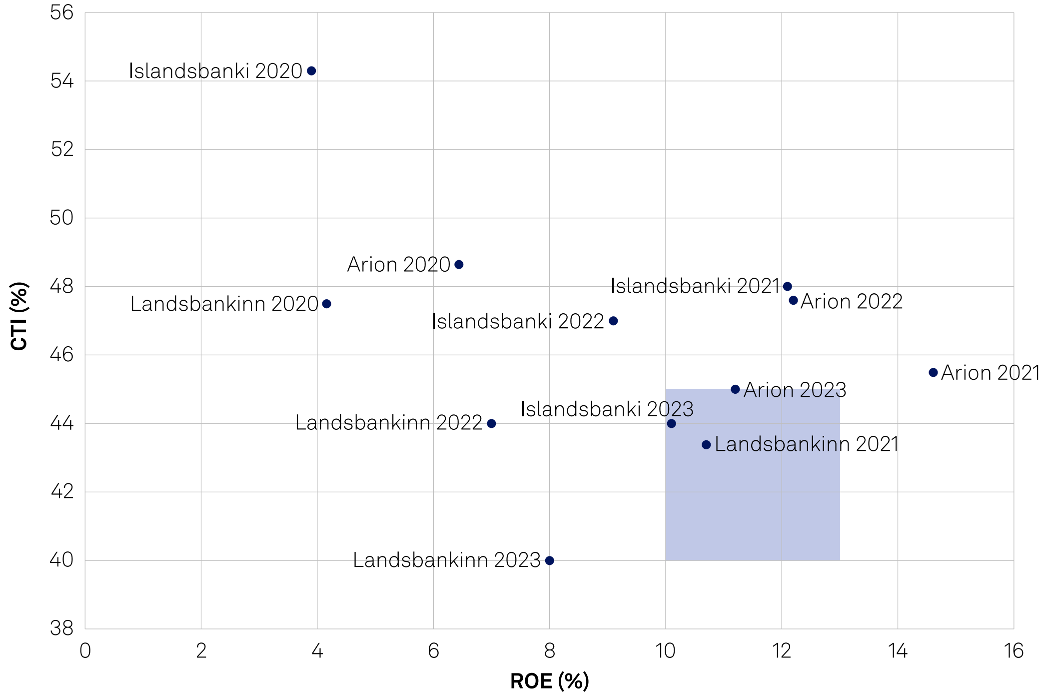
Chart 3



Note: CBR reflects the sum of systemic risk buffer, buffer for systemically important institutions, countercyclical capital buffer, and capital conservation buffer. All figures as of Dec. 31, 2021. Islandsbanki's P-2R and total capital requirement increased by 10 basis points (bps) to 2.6% from 2.5% in June 2022. Arion's P-2R rose by 30 bps to 3.5%. AT1--Additional Tier 1 capital. CBR--Combined buffer requirements. CET1--Common equity tier 1. ER--Economic risk score. P2-R--Pillar 2 requirements. Source: S&P Global Ratings.

Strong profitability provides a buffer to absorb higher credit losses. We expect Islandsbanki's earnings metrics to edge toward their targets and remain broadly consistent with D-SIB peers (see chart 4), which we see as strong within a European context. We project that the net interest margin will benefit from rising interest rates, while costs should be contained as the bank continues to scale existing resources, notwithstanding higher inflation. This provides Islandsbanki headroom to absorb losses above the long-term average we expect for Icelandic banks, which we believe is close to 85 bps of gross loans.

Improving Margins And Contained Costs Edge D-SIBs Toward Targets



Note: Shaded area reflects D-SIB profitability targets (<45% CTI, >10% ROE, excluding Arion, which has a target of 13%). CTI--Cost to income. D-SIB--Domestic systemically important bank. ROE--Return on average common equity. Source: S&P Global Ratings.

Risk Position: Exposed To The Concentrated And Volatile Icelandic Economy

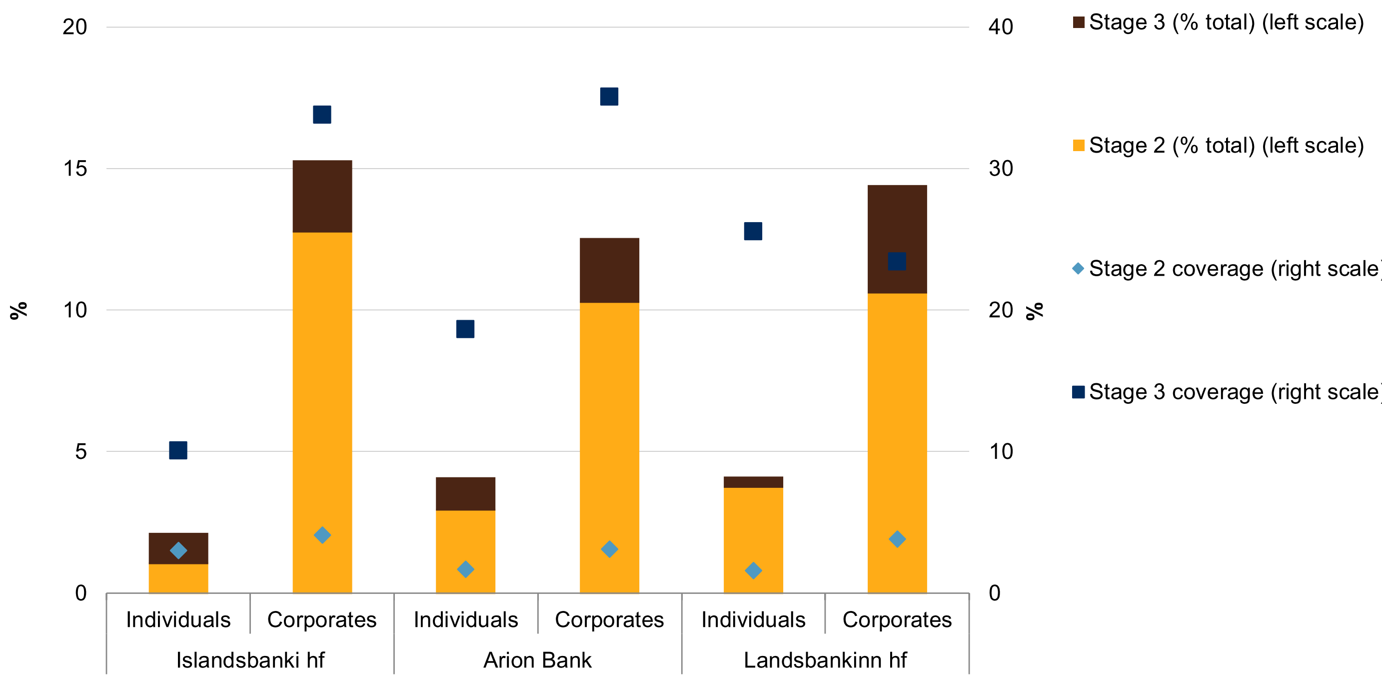
Islandsbanki has a strong domestic focus on Iceland's concentrated economy. Similar to the other two D-SIBs, close to 95% of Islandsbanki's exposures are domestic. Iceland is heavily dependent on tourism, which directly and indirectly contributes more than 20% to GDP. This creates sensitivity to volatility in the real exchange rate, a shift in travel preferences, or another external shock. As a bank with broad exposure across the economy, Islandsbanki is also vulnerable to these shocks. This is a factor that is not fully captured in our RAC ratio, and we therefore reflect it in our risk position assessment. While Islandsbanki has broad exposure across Icelandic households and corporates, we generally view diversity across geographies or within more diverse jurisdictions to be a better risk mitigant.

Islandsbanki has little exposure to slowing global growth and the consequences of the Russia-Ukraine conflict. Iceland's economy and banks have very limited direct trade or banking sector exposure to Russia or Ukraine. Risks to the Icelandic economy, and therefore the banking sector, are limited, but mostly stem from lower economic activity and higher inflation in European trading partners.

Tourism-led economic recovery improves corporate asset quality toward the pre-pandemic level. Improvements in the performance of the bank's corporate exposures is consistent with peers and has alleviated downside pressure on the rating. In first-quarter 2022, stage 2 corporate balances halved to 12.5% of the total corporate portfolio, reflecting migration to stage 1. Each of the Icelandic banks' stage 2 corporate exposures settled at close to 10% at the end of first-quarter 2022 (see chart 5), with the improving trend continuing into the second quarter. Combined with a slight decline in overall stage 3 exposures, this allowed the bank to release credit provisions of 30 bps of gross loans in 2021 while maintaining solid coverage metrics. Importantly, the bank has also maintained coverage of close to 40% on stage 3 forborne corporate exposures.

Chart 5

D-SIB Asset Quality, Coverage Metrics Broadly Consistent Across Peers
As of March 31, 2022



Note: Stage 2: Significant increase in credit risk since origination. Stage 3: Credit impaired exposure. D-SIB--Domestic systemically important bank. Source: S&P Global Ratings, Bank disclosures.

We see a heightened risk of a housing correction and higher credit losses. Mortgages are close to 40% of Islandsbanki's total loans, directly exposing the bank to the effects of a housing downturn, a risk we currently see as elevated. That said, macroprudential measures in the build-up phase have limited the Icelandic D-SIBs' exposure to a modest correction. Less than 5% of the bank's mortgages have a loan-to-value (LTV) ratio of above 80%. At the same time, about 25% of the bank's mortgages have principal linked to the consumer price index (CPI). This exposes the bank to rising dynamic LTV ratios in the event of a real (rather than nominal) price correction. This is a sector-wide risk that we capture at the industry level, and we see Islandsbanki's exposure as consistent with peers.

The corporate loan book reflects broad, if correlated, exposure to different sectors in Iceland's concentrated economy. Islandsbanki's direct exposure to tourism operators remains close to 10% of gross loans, consistent with D-SIB peers. Islandsbanki's 20 largest corporate exposures are close to the size of the bank's total adjusted capital base, which is broadly consistent with the other D-SIBs. The loans are mostly to export-oriented corporates, with a large share secured by fishing vessels and commercial real estate.

We see no significant risks that are not captured in our capital model. Foreign-currency lending consistently represents between 10% and 15% of total loans, but the bank matches this with foreign-denominated funding, or else hedges this with currency swaps. In addition, the bank had almost no CPI imbalance at year-end 2021, limiting the risk of earnings volatility from inflation. That said, it does not mitigate the risk of credit loss on inflation-linked loans, a risk we see as more important in the context of high inflation, lofty asset prices, and rapidly rising interest rates.

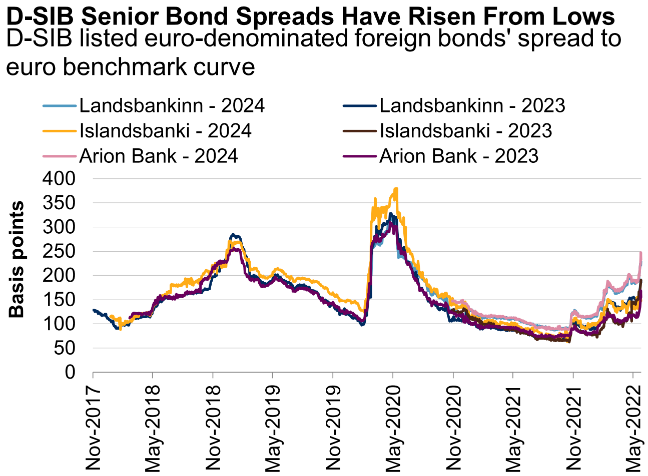
Funding And Liquidity: Offshore Senior Debt And Domestic Covered Bonds Support The Large Domestic Deposit Base

The domestic deposit franchise is key to the bank's funding stability. Islandsbanki's profile is consistent with domestic peers, with deposits consistently representing 60% of the funding base. Close to half are deposits from households, a cheap source of funding for the Icelandic banks that we view as stable. The residual is evenly split between domestic currency covered bonds and senior bonds issued mostly in euros. About 25% of the bank's wholesale instruments will mature each year through to 2024, a profile we see as reasonably spread. Taken together with the bank's majority use of stable deposits, our stable funding ratio for Islandsbanki should remain close to 110%, a level consistent with domestic peers. At 118% as of June 30, 2022, the bank's regulatory net stable funding ratio is also consistent with peers, and the bank consistently maintains a buffer above the 100% minimum requirement.

The bank has stable access to domestically issued covered bonds. The domestic pension funds are large investors in Icelandic banks' covered bonds, including those of Islandsbanki, together owning more than half of the systemwide stock. This presents concentration risk, but the funds' capital is long-term and stable, with ample capacity to fund the banks. This supports our view that Islandsbanki's access is reasonably predictable.

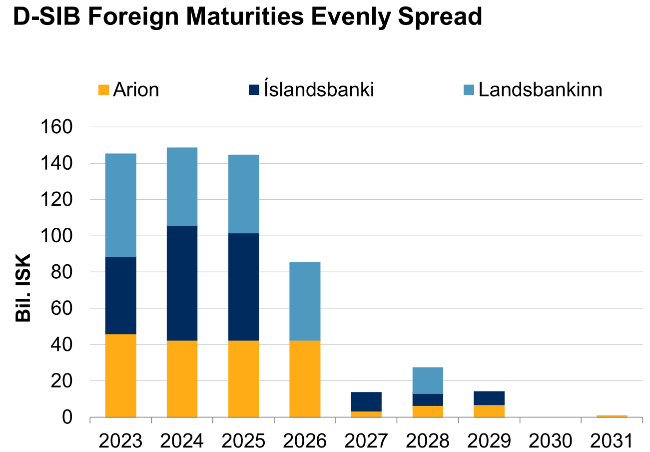
Senior funding diversifies the wholesale franchise. Islandsbanki's senior funding profile provides additional diversity. Of Islandsbanki's outstanding senior bonds, 70% are in euros, providing access to a broader range of investors. That said, access is likely to remain more confidence sensitive than for covered bonds. Spreads have risen from previous low levels (see chart 6), as global financial conditions have tightened. Funding conditions could become more difficult as European banks' targeted longer-term refinancing operations (TLTRO) repayments accelerate through the first half of 2023. This will remove a significant amount of liquidity from Europe, but we think Islandsbanki can manage this. Upcoming maturities and modest balance sheet growth imply wholesale funding needs for the bank in 2023 of close to Icelandic krona (ISK) 100 billion (€700 million), likely to be evenly split between covered bonds and foreign currency senior debt. The bank's foreign maturity profile is consistent with that of peers (see chart 7).

Chart 6



D-SIB--Domestic systemically important bank. Source: Refinitiv Datastream, Central Bank of Iceland, S&P Global Ratings.

Chart 7



Note: There are no remaining maturities in 2022. Currency translated as of May 31, 2022. Excludes Additional tier 1 capital instruments. D-SIB--Domestic systemically important bank. ISK--Icelandic krona. Source: Nasdaq Iceland, S&P Global Ratings.

Quantitative metrics and qualitative considerations underpin the adequate liquidity assessment. Islandsbanki's overall spot liquidity coverage ratio (LCR) is consistently above 130%, providing a buffer ahead of the 100% regulatory requirement. As of June 30, 2022, this was 147%, reflecting ISK53 billion (€375 million) of surplus high-quality liquid assets. The foreign currency LCR at the same date was 240%. Its higher volatility warrants it being consistently well ahead of its 100% minimum requirement. In addition, Islandsbanki manages the local currency LCR above 100%, despite its minimum requirement rising only to 50% in 2023 from 40% in 2022. Importantly, the LCR metrics assume 100% outflow of pension fund deposits, typically Icelandic banks' largest individual depositors. In addition to the LCR's 30-day horizon, our measure of the bank's liquid assets consistently covers 12-month forward maturities at least twice, which we view as a prudent buffer.

Support: Systemically Important In Iceland But No ALAC Uplift

We do not apply ALAC rating uplift above the stand-alone credit profile (SACP) on Islandsbanki. This is notwithstanding our view that the Icelandic resolution regime is sufficiently effective (see "Icelandic Bank Ratings Unaffected By Sufficiently Effective Resolution Regime; 'BBB+' RCRs Assigned; Outlooks Stable," published May 17, 2022).

Tier 2 capital securities and potential senior nonpreferred debt issues are ALAC-eligible instruments for the Icelandic banks. Islandsbanki has a small amount of Tier 2 capital outstanding, close to 2% of risk-weighted assets (RWAs) under our RAC framework (S&P Global Ratings' RWAs). This is below our typical 3% threshold for one notch of ALAC rating uplift. We expect the bank's ALAC buffer to remain close to 2% of S&P Global Ratings RWAs over our two-year rating outlook horizon. This is because Islandsbanki's existing regulatory capital and senior preferred debt instruments meet its bank-specific minimum requirements for own funds and eligible liabilities (MREL) requirements, binding in

2024. This factors our expectation that senior preferred debt will remain an eligible liability class, not least because of its ranking below all customer deposits in the creditor hierarchy. Consequently, we do not expect Islandsbanki's buffer of ALAC-eligible instruments to rise, at least in the near term.

While our standard threshold for one notch of uplift is 3%, we are likely to adjust this by up to 100 bps, reflecting the bank's instrument maturity concentration. This is consistent with our treatment of other banks with relatively few ALAC-eligible debt issues or relatively short weighted-average maturities. Islandsbanki had just three ALAC-eligible instruments outstanding at June 2022, and each had effective (first-call date) residual maturities that fall within three years. Their weighted maturity of close to two years is consistent with peers, but a horizon we view as short.

Resolution Counterparty Ratings

The 'BBB+' long-term resolution counterparty rating (RCR) is one notch above our issuer credit rating on Islandsbanki. This is because we consider that Iceland's resolution regime establishes a subset of liabilities that are protected from default in an effective resolution process through their statutory exclusion from bail-in, including the bank's outstanding covered bonds (for more details and a list of the liabilities excluded from bail-in, see "Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed," published May 17, 2022). We expect these liabilities would be more likely to continue performing on a complete and timely basis in a resolution scenario relative to other senior liabilities, whose default risk is addressed by the issuer credit rating.

Environmental, Social, And Governance (ESG)

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

ESG factors are a neutral consideration in our credit rating analysis of Islandsbanki. This reflects our view that ESG considerations do not have a material bearing on the bank's creditworthiness. In the first quarter of 2022, Islandsbanki issued its second international sustainable bond, a €300 million senior instrument. Positively, this allowed the bank to broaden its European investor base. Transition risk is very limited and almost all electricity in Iceland is produced using renewable energy sources.

Hybrid Ratings

Tier-2 hybrids

The 'BB+' rating on Islandsbanki's subordinated debt (Tier 2) is two notches below the 'bbb' SACP. Because the instruments do not absorb losses while the issuer is a going concern, we do not include the instruments in our calculation of total adjusted capital. We deduct:

- One notch due to contractual subordination to senior creditors' claims; and
- One notch because the instruments can absorb losses at the point of nonviability via statutory loss absorption.

Additional Tier 1 hybrid

The 'BB-' rating on Islandsbanki's junior subordinated notes (contingent additional Tier 1 capital) is four notches below the 'bbb' SACP. We include the instrument in our measure of going-concern capital because we view the capital as permanent, and the instrument can absorb losses on a going-concern basis through coupon nonpayment or conversion into common equity without triggering default. We deduct:

- One notch because the notes are contractually subordinated;
- Two notches to reflect the notes' discretionary and noncumulative coupon payments (risk of partial or untimely payment); and
- One notch because the notes contain a nonviability contingent capital clause that would require mandatory write-down or conversion of the notes into common equity.

Key Statistics

Table 1

Islandsbanki hf Key Figures

		--Year-ended Dec. 31--			
(Mil. ISK)	**2022***	**2021**	**2020**	**2019**	**2018**
Adjusted assets	1,433,949	1,425,470	1,340,713	1,195,160	1,125,401
Customer loans (gross)	1,165,635	1,099,892	1,024,231	909,930	854,644
Adjusted common equity	179,684	189,456	178,733	169,232	165,421
Operating revenues	26,481	50,094	43,153	47,408	43,460
Noninterest expenses	12,834	23,884	23,425	29,043	28,823
Core earnings	10,951	22,715	6,816	7,935	9,254

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

Table 2

Islandsbanki hf Business Position

		--Year-ended Dec. 31--			
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (mil. ISK)	26,639.0	51,523.0	43,617.0	48,585.0	45,899.0
Commercial banking/total revenues from business line	59.8	53.3	59.7	51.5	49.4
Retail banking/total revenues from business line	34.2	31.2	32.3	31.2	31.6
Commercial & retail banking/total revenues from business line	94.0	84.5	92.0	82.7	81.0
Trading and sales income/total revenues from business line	0.0	3.1	(0.3)	(0.0)	(4.4)
Brokerage/total revenues from business line	5.8	6.0	4.9	4.3	4.4
Other revenues/total revenues from business line	0.2	6.5	3.4	13.0	19.0

Table 2

Islandsbanki hf Business Position (cont.)

		--Year-ended Dec. 31--			
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Investment banking/total revenues from business line	0.0	3.1	(0.3)	(0.0)	(4.4)
Return on average common equity	10.9	12.2	3.9	5.0	6.3

*Data as of June 30. N/A--Not applicable.

Table 3

Islandsbanki hf Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	19.2	22.5	20.1	19.9	20.3
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	N/A	17.0	18.6
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	N/A	12.1	13.0
Adjusted common equity/total adjusted capital	94.9	94.7	100.0	100.0	100.0
Net interest income/operating revenues	73.5	68.0	77.3	71.0	73.5
Fee income/operating revenues	24.5	25.6	24.4	28.2	28.1
Market-sensitive income/operating revenues	1.3	5.9	(2.2)	(1.4)	(2.3)
Cost to income ratio	48.5	47.7	54.3	61.3	66.3
Preprovision operating income/average assets	1.9	1.9	1.6	1.6	1.4
Core earnings/average managed assets	1.5	1.6	0.5	0.7	0.9

*Data as of June 30. N.M.--Not meaningful.

Table 4

Islandsbanki hf--Risk-Adjusted Capital Framework Data

(ISK 000s)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	125,841,446.6	2,196,356.5	1.7	1,229,162.4	1.0
Of which regional governments and local authorities	9,752,468.1	1,914,735.7	19.6	1,097,152.7	11.3
Institutions and CCPs	55,881,896.1	13,854,508.3	24.8	13,203,301.8	23.6
Corporate	524,048,994.9	474,586,734.9	90.6	461,734,239.2	88.1
Retail	593,970,900.8	268,531,849.0	45.2	294,212,755.6	49.5
Of which mortgage	452,964,925.6	177,401,868.1	39.2	165,468,087.3	36.5
Securitization§	0.0	0.0	0.0	0.0	0.0
Other assets†	30,049,714.6	34,252,680.7	114.0	38,629,596.5	128.6
Total credit risk	1,329,792,953.0	793,422,129.2	59.7	809,009,055.5	60.8
Credit valuation adjustment					
Total credit valuation adjustment	--	1,829,629.5	--	0.0	--

Table 4

Islandsbanki hf--Risk-Adjusted Capital Framework Data (cont.)

Market Risk					
Equity in the banking book	6,982,155.1	8,725,116.7	125.0	62,099,967.0	889.4
Trading book market risk	--	17,099,735.4	--	25,649,603.1	--
Total market risk	--	25,824,852.0	--	87,749,570.1	--
Operational risk					
Total operational risk	--	80,569,670.1	--	131,360,614.6	--

	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	901,646,280.8	--	1,028,119,240.1	100.0
Total Diversification/ Concentration Adjustments	--	--	--	446,624,841.3	43.4
RWA after diversification	--	901,646,280.8	--	1,474,744,081.5	143.4

	Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	202,848,500.0	22.5	200,082,000.0	19.5
Capital ratio after adjustments‡	202,848,500.0	22.5	200,082,000.0	13.6

*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--Icelandic krona. CCPs--Central counterparty clearing house. Sources: Company data as of Dec. 31, 2021, S&P Global Ratings.

Table 5

Islandsbanki hf Risk Position

		--Year-ended Dec. 31--			
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	12.0	7.4	12.6	6.5	11.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	N/A	39.9	42.8
Total managed assets/adjusted common equity (x)	8.0	7.5	7.5	7.1	6.8
New loan loss provisions/average customer loans	(0.2)	(0.3)	0.9	0.4	(0.2)
Net charge-offs/average customer loans	0.0	0.1	0.1	0.2	0.6
Gross nonperforming assets/customer loans + other real estate owned	1.8	2.0	3.0	3.1	2.1
Loan loss reserves/gross nonperforming assets	56.2	62.1	56.9	36.7	43.9

*Data as of June 30. N/A--Not applicable.

Table 6

Islandsbanki hf Funding And Liquidity

		--Year-ended Dec. 31--			
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	63.7	62.5	59.7	62.9	63.5

Table 6

Islandsbanki hf Funding And Liquidity (cont.)					
		--Year-ended Dec. 31--			
(%)	2022*	2021	2020	2019	2018
Customer loans (net)/customer deposits	152.4	146.0	148.2	145.5	146.2
Long-term funding ratio	96.8	91.9	93.8	94.9	94.6
Stable funding ratio	N/A	112.9	117.1	114.5	113.8
Short-term wholesale funding/funding base	3.8	9.6	7.2	6.0	6.5
Regulatory net stable funding ratio	118.0	122.0	123.0	119.0	114.0
Broad liquid assets/short-term wholesale funding (x)	N/A	2.6	3.5	4.0	3.9
Broad liquid assets/total assets	N/A	20.3	21.2	19.7	20.2
Broad liquid assets/customer deposits	N/A	39.0	41.9	38.2	39.5
Net broad liquid assets/short-term customer deposits	N/A	24.3	30.6	30.2	31.4
Regulatory liquidity coverage ratio (LCR) (x)	147.0	1.6	2.0	1.6	1.7
Short-term wholesale funding/total wholesale funding	10.2	24.9	17.8	16.3	17.7
Narrow liquid assets/3-month wholesale funding (x)	N/A	8.4	7.3	9.3	7.0

*Data as of June 30. N/A--Not applicable.

Table 7

Islandsbanki hf--Rating Component Scores	
Issuer credit rating	**BBB/Stable/A-2**
SACP	bbb
Anchor	bbb-
Economic risk	5
Industry risk	5
Business position	Adequate
Capital and earnings	Very strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Icelandic Bank Ratings Affirmed As Risks Shift Amid High House Prices And Rising Rates; Outlooks Stable, July 13, 2022
- Ratings On Icelandic D-SIBs Affirmed As Pandemic Recovery Risk Lingers; Outlooks Remain Stable, Jan. 25, 2022
- Banking Industry Country Risk Assessment: Iceland, Feb. 21, 2022
- Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed, May 17, 2022
- Icelandic Bank Ratings Unaffected By Sufficiently Effective Resolution Regime; 'BBB+' RCRs Assigned; Outlooks Stable, May 17, 2022
- Iceland's MREL Requirements Result In Ratings Uplift For Icelandic Covered Bonds, May 27, 2022,
- Islandsbanki hf's Icelandic Mortgage Covered Bond Program And Related Issuances Assigned 'A' Ratings; Outlook Stable, June 1, 2022
- Iceland-Based Islandsbanki's Proposed Low-Trigger Additional Tier 1 Perpetual Capital Notes Rated 'BB-', Sept. 27, 2021

Ratings Detail (As Of August 19, 2022)*	
Islandsbanki hf	
Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2
Junior Subordinated	BB-
Senior Secured	A/Stable
Senior Unsecured	BBB
Short-Term Debt	A-2
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
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

Ratings Detail (As Of August 19, 2022)*(cont.)

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.