Islandsbanki hf

December 19, 2025

This report does not constitute a rating action.

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

Research Contributor

Alluru S Monica
CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Pune

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

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

Credit Highlights

Overview

Key strengths	Key risks
Robust capitalization, backed by solid earnings capacity.	Concentration in Iceland's small and comparatively cyclical economy.
One of three large incumbents in an oligopolistic and profitable banking sector.	Exposure to domestic property markets, where overvaluation remains despite narrowing imbalances.
Advanced digital agenda combined with optimized branch network, supporting highly efficient operations.	Dependence on wholesale funding, including on foreign capital markets.

Islandsbanki hf's established franchise, robust capitalization, and sound profitability counterbalance its concentration in Iceland. With total assets of Icelandic krona (ISK) 1.73 trillion (€11.8 billion), Islandsbanki retains a solid market position, with a 31% share in retail, 38% among small and midsize enterprises (SMEs), and 34% among large corporates in Iceland. Complementing this is a leading position in domestic asset management, with a 28% market share in domestic retail funds. The universal business model provides the bank with diversified revenue streams, with the personal banking, business banking, and corporate and investment banking segments contributing fairly evenly to earnings. The bank's partnership with VIS tryggingar hf has broadened Islandsbanki's insurance products and increases cross-selling opportunities for the bank.

Islandsbanki's potential merger with financial services group Skagi hf could create a strong financial entity in Iceland. In October 2025, Islandsbanki announced merger talks with Skagi (the parent company of VIS) aiming to merge the latter into Islandsbanki. The merger is anticipated to enhance operational efficiency and services in banking and insurance, while also using both companies' robust asset management capabilities to foster growth and profitability. Given that a merger would be subject to regulatory approvals, we do not include the merger in our base-case scenario at this stage. However, we think the merger with Skagi would not alter our view of Islandsbanki's capital strength, which additional capital measures could support.

Very strong capitalization remains a key rating strength. We project Islandsbanki's risk-adjusted capital (RAC) ratio will be 16.0%-17.0% by year-end 2027 compared with 17.1% as of year-end 2024. More generally, we anticipate the bank's solid earnings will support its growth ambitions and further capital buildup through 2027, allowing for increased shareholder distributions. Following net profit of ISK24.2 billion in 2024, we forecast that annual net profit will remain robust at ISK23 billion-ISK24 billion over 2025-2027, reflecting a return on equity (ROE) of 9.5%-11.0%, compared with 11.3% in the first nine months of 2025. We therefore expect the bank will have a strong capital buffer to absorb potentially higher-than-anticipated credit losses, which could materialize if the economy proves weaker than we expect.

We expect asset quality remain intact, despite the economic softness. Muted economic activity, high borrowing costs, and moderately rising unemployment could exert moderate downward pressure on Icelandic banks' asset quality over the next two years, in our view. We forecast Islandsbanki's nonperforming loans (NPLs) will remain at 1.7%-1.8% of total loans through 2027. Following the release of loan loss reserves in the first nine months 2025 (4 basis points [bps]), we project marginal loan loss provisions in 2025 and normalizing at 10-20 bps in 2026-2027, a level we consider manageable and below Islandsbanki's guidance of through-the-cycle impairments.

Islandsbanki enjoys a stable and granular deposit franchise. Core customer deposits make up about 69% of the bank's funding base. As of Sept. 30, 2025, about 51% of total deposits were from individuals and 43% of all deposits were covered by the Icelandic deposit guarantee scheme. With a loan-to-deposit ratio of 132% as of Sept. 30, Islandsbanki has a structural funding gap that is mostly filled with domestic covered bonds and offshore senior instruments. While we view the franchise's sensitivity to investor confidence as an inherent risk, we consider the bank's maturity profile reasonably spread and its liquidity buffers ample to support the funding profile amid temporary episodes of market stress.

We expect Islandsbanki will build material bail-inable buffers through 2027. We anticipate that senior non-preferred debt issuance could bolster the bank's additional loss-absorbing capacity buffers, improving protection for more senior bondholders. The resolution plan, including a minimum requirement for own funds and eligible liabilities (MREL) with a binding subordination requirement, has increased clarity on the size of subordinated liabilities (including own funds) that Islandsbanki will be required to hold by October 2027. We therefore see an increased likelihood of the bank building up additional loss absorption capacity (ALAC)-eligible debt buffers exceeding our adjusted 4% threshold over the next two years (this was estimate of 1.7% as of year-end 2025).

Outlook

The positive outlook reflects our expectation that Islandsbanki will build significant buffers of ALAC to meet the subordinated MREL requirement by 2027.

Downside scenario

We could revise the outlook to stable if Islandsbanki failed to reach our adjusted ALAC threshold. We could also take a negative rating action if the bank's RAC ratio were to fall below 15%, a level we consider very strong (for example, due to significant shareholder distributions) or if we observed a material deterioration in 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 risk-weighted assets (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

	--Fiscal year ended Dec. 31 --				
(%)	2023a	2024a	2025f	2026f	2027f
Growth in operating revenue	12.2	-1.8	4.7-5.8	2.5-3.0	(0.3)-(0.4)
Growth in customer loans	3.1	5.5	3.6-4.4	5.4-6.6	5.4-6.6
Growth in total assets	1.1	1.6	6.4-7.8	4.3-5.2	4.3-5.3
Net interest income/average earning assets (NIM)	3.3	3.1	3.2-3.5	3.0-3.4	2.9-3.2
Cost-to-income ratio	41.8	43.9	41.5-43.6	41.6-43.7	43.0-45.2
Return on average common equity	11.1	10.7	10.4-11.5	10.0-11.1	9.1-10.1
Return on assets	1.6	1.5	1.3-1.6	1.2-1.5	1.1-1.4
New loan loss provisions/average customer loans	0.1	-0.1	0.0-0.1	0.1-0.2	0.1-0.2
Gross nonperforming assets/customer loans	1.9	1.8	1.6-1.8	1.6-1.8	1.7-1.9
Net charge-offs/average customer loans	0.1	0.0	0.1-0.2	0.1-0.2	0.1-0.2
Risk-adjusted capital ratio	15.8	17.1	16.0-17.0	16.0-17.0	16.0-17.0

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

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

Under our bank criteria, we use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine the anchor, the starting point for our bank rating. The anchor for Islandsbanki is 'bbb', in line with that for commercial banks based in Iceland. We classify Iceland's banking sector as being in group '4' under our BICRA. Both the economic risk trend and the industry risk trend are stable.

Our economic risk assessment considers Iceland's relatively wealthy economy, high income levels, and sound lending standards against volatility and external vulnerabilities of the small open economy. After contraction in 2024, economic output grew by a mere 0.3% in the first half of 2025, affected by weaker exports. Still, growth prospects for the Icelandic economy remain relatively solid, and we project GDP growth will average 2.45% in 2026-2027. While unexpected shifts to key export sectors could alter our outlook on Iceland’s small and concentrated economy, our base-case scenario assumes no sustained adverse impact from disruptive volcanic activity, trade tensions, or broader geopolitical instability.

Risks emanating from economic imbalances have decreased thanks to lower private sector leverage and a stabilized housing market. While overvaluation remains, prices compared with underlying fundamentals such as wages and rents have consequently narrowed. Slower population growth and increased housing supply have resulted in a better market balance, in our view.

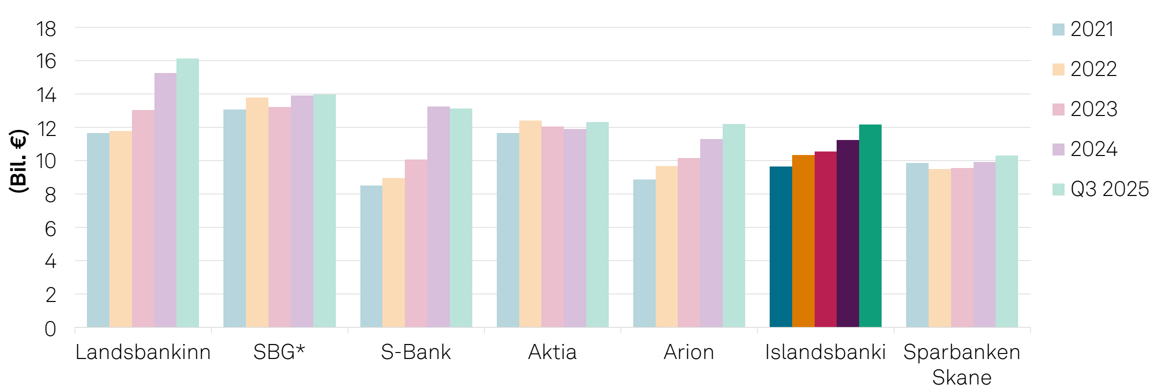
The industry risk trend for the Icelandic banking sector is stable. In our view, Iceland's institutional framework and banking supervision are broadly consistent with those of other European jurisdictions. The banking system is dominated by three incumbents--Islandsbanki, Landsbankinn hf, and Arion. Given limited foreign competition and the sector's close collaboration with emerging tech firms, we expect banks will maintain their dominant positions in the market, despite mortgage market competition from domestic pension funds.

We expect sound loan growth and manageable cost inflation including cost of risk will support strong profitability and capitalization despite earnings pressures from lower interest rates. Growing deposits have lowered the domestic systemically important banks' (D-SIBs') reliance on wholesale funding, and the bank’s ample liquidity buffers and well-spread maturities further mitigate the refinancing risks through 2028-2029.

Chart 1

Islandsbanki is a leading bank in Iceland and compares with midsize Nordic banks

Total assets compared with selected Nordic peers



*As of June 30, 2025. SBG--Savings Banks Group Finland. Q3--Third quarter. Source: S&P Global Ratings.

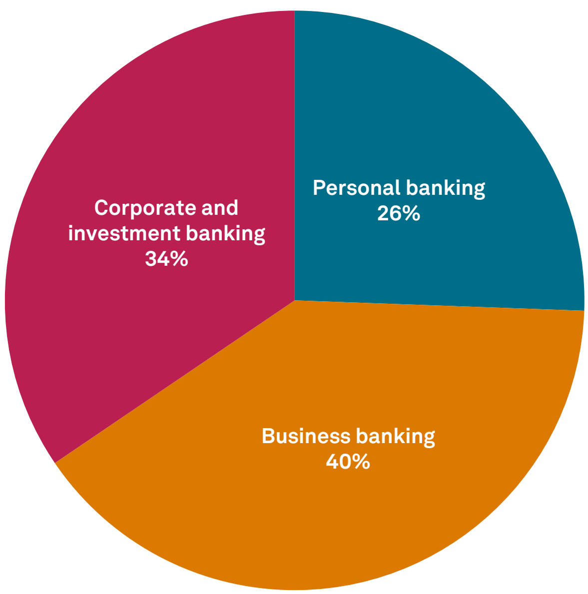
Business Position: One Of Three Large Incumbents In Iceland

With assets of about ISK1.73 trillion as of Sept. 30, 2025, Islandsbanki is one of the three D-SIBs that dominate the Icelandic banking sector. As a universal bank in Iceland, Islandsbanki has a presence across retail, business customers, corporate and investment banking, and asset management. In the first nine months of 2025, net interest income accounted for close to 81% of revenue and mostly stemmed from corporate and household loans and deposits. Diversified fee and commission income, primarily from payments, asset management, and investment banking, is likely to remain at about one-fifth of revenue (it was 20% for the first nine months of 2025).

Chart 2

Islandsbanki's earnings are diversified across business segments

Profit from continuing operations by segment, Sept. 30, 2025

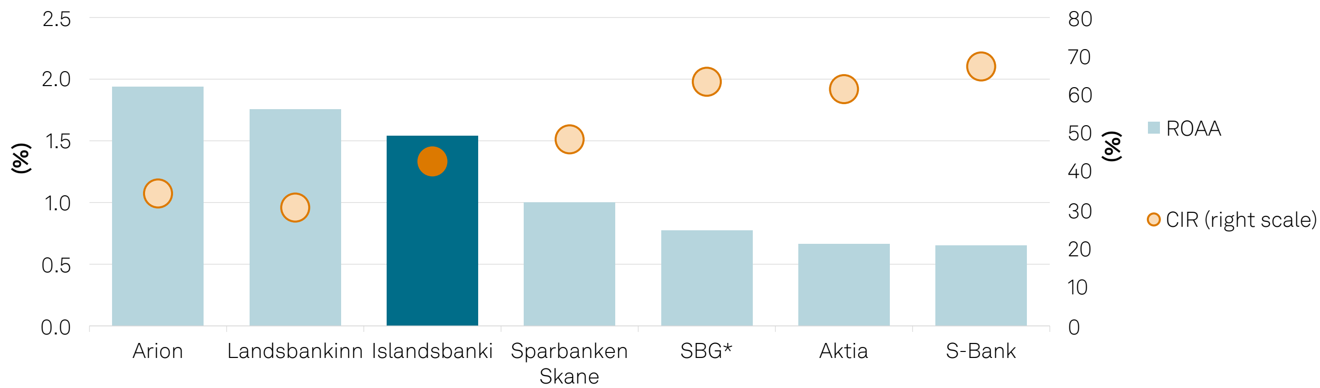


Source: S&P Global Ratings.

Chart 3

Operating efficicency and profitability compare favorably with Nordic peers'

ROAA and CIR compared with selected Nordic peers, third-quarter 2025



*As of June 30, 2025. SBG--Savings Banks Group Finland. ROAA--Return on average assets. CIR--Cost-to-income ratio.
Source: S&P Global Ratings.

Islandsbanki's digital services have been successful, which helps to underpin the bank's efficiency. Given their tech-savvy customer base, Icelandic banks have strong online offerings. Islandsbanki has optimized its branch network over the past decade, with its 12 branches focusing on delivering lending and advisory services. As a result, the bank has good capacity to reinvest in continually improving products and processes. At 42.7% as of Sep. 30, 2025, and consistently at or below 45%, the bank's cost-to-income ratio is among the most efficient in Europe.

The full privatization of Islandsbanki was completed on May 15, 2025. The Icelandic government divested its entire holdings in response to strong demand from Icelandic retail investors and following this, the bank's major shareholders' stakes have remained stable. As of Sept. 30, 2025, Islandsbanki's ownership structure includes an over 40% holding by domestic pension funds and an approximately 30% holding by a group of retail investors, contributing to enhanced stability and supporting the long-term growth strategy. An entirely independent board further strengthens the bank's governance structure.

Capital And Earnings: Very Strong Going-Concern Capitalization

We project that Islandsbanki's capitalization will remain very strong, in line with an estimated RAC ratio of 16.0%-17.0% over the next two years, following a ratio of 17.1% in 2024. Ongoing credit growth and capital optimization measures influence our projections.

Our projections for 2025-2027 incorporate the following assumptions:

- Annual lending growth of 4% in 2025 and 6% in 2026-2027, translating to a similar increase in S&P Global Ratings risk-weighted assets (compared with 5.5% in 2024);
- Net interest income of ISK50 million-ISK52 million on gradually declining net interest margins as policy rates decline and a steady 3% growth in net fee and commission income, coming from lending, payment, and asset management fees. This leads to annual revenue of ISK66 billion-ISK68 billion from 2025-2027;

- Operating expense moving in tandem with inflation, translating into a cost-to-income ratio of 43%-45%;
- Normalized cost of risk of 10--20 bps after net impairment reversals in first nine months 2025 (at negative 5 bps in 2024);
- We therefore expect ROE of 9.5%-10.5%, broadly in line with the bank's current target of 10%, which is set for revision in the upcoming fourth-quarter results; and
- A dividend payout ratio of 50% of net profit and share buybacks in line with the bank's guidance. Islandsbanki has bought back about ISK10 billion under the ongoing share buyback program of ISK15 billion so far. In line with the regulatory treatment, we deduct the authorized amount from the total adjusted capital (TAC).

Despite the recent announcement of formal merger discussions with Skagi--proposing the integration of the latter's operations into Islandsbanki with Skagi shareholders receiving new shares--we expect the RAC ratio would remain above the 15% threshold underpinned by potential capital measures.

We consider the quality of capital good, with less than 5% of TAC consisting of hybrid capital instruments as of Sept. 2025. Islandsbanki recently bought back part of its Swedish krona 750 million additional Tier 1 (AT1) instrument in a tender offer and subsequently issued a new dual issuance of AT1 in both krona and Norwegian krone (SEK 700 million and NOK 200 million). This transaction is part of the bank’s capital optimization measures and supports growth ambitions.

In line with peers, Islandsbanki comfortably meets regulatory capital requirements, with its common equity Tier 1 (CET1) ratio of 18.5% and total capital ratio of 21.5% as of Sept. 30, 2025. This presents a buffer of 340 bps, above the regulatory CET1 requirements and somewhat over the bank's target of 100-300 bps above the regulatory requirement. The regulatory leverage ratio of 11.7% remains very robust in a European context.

Risk Position: Exposure To The Small, Concentrated, And Volatile Icelandic Economy

Our risk position assessment balances the bank's loan book composition, which is spread proportionally between private and corporate customers, its high level of collateralization (94% of loans), against the inherent concentration risks related to Iceland's small economy and key export sectors. Similar to the country's other two D-SIBs, close to 95% of Islandsbanki's exposures are domestic.

As of Sept. 30, 2025, household mortgages made up 44% of the bank's total loans, of which 64% were indexed to the consumer price index (CPI) compared with 61% as of Sept. 30. 2024. While CPI-linked loans typically carry lower interest rates, which supports short-term serviceability, the principal is adjusted for inflation. This can lead to an erosion of borrowers’ equity and a decline in collateral values in a period of slow growth and high inflation. Still, we consider the average 57% loan to value (LTV) of Islandsbanki's mortgage portfolio reflective of the Icelandic mortgage market's sound and flexible nature. The mortgage's quality portfolio remains sound, with 1.0% considered nonperforming (stage 3) loans.

The corporate loan portfolio, including business banking, accounted for about 53% of loans as of Sept. 30, 2025, and we consider it well diversified across corporate sectors, with some concentration in real estate and construction (18% of total loans) and Iceland's key export sectors such as seafood (5%) and the tourism industry (8%). The growth in the exposure to the construction sector has slowed to 2.5% so far in 2025. While the bank's overall exposure to the sector is manageable and underwriting criteria appears sound, we still think the sector remains a potential pocket of risk. Overall, nonperforming loans accounted for 2.0% of the corporate portfolio, but with stage 2 loans hovering near 6%, we might see asset quality pressure over the next two years.

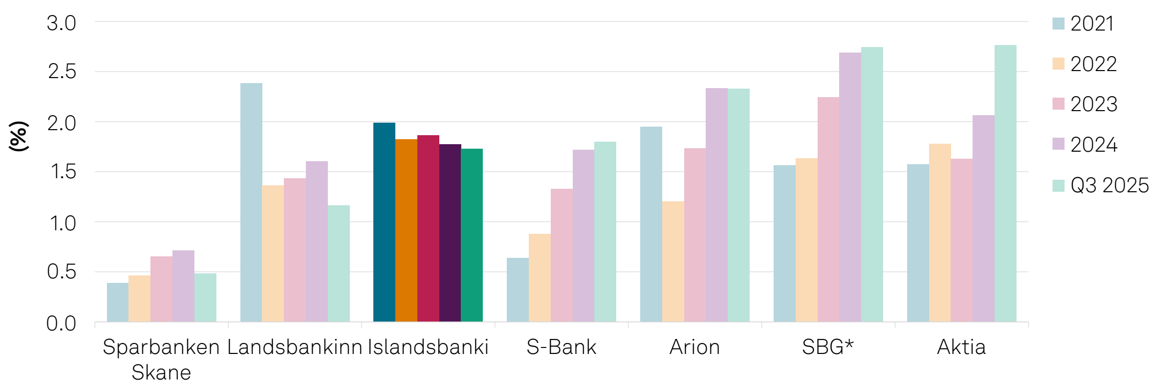
Islandsbanki's 20 largest corporate exposures are close to 100% of its total adjusted capital base. The loans are mostly to export-oriented corporates, with a large share secured by fishing vessels and commercial real estate. Foreign-currency lending accounts for 10% of total customer loans.

Overall, Islandsbanki's asset quality has improved materially over the past four years, but some asset quality pressure has come from single names. As of Sept. 30, 2025, the bank's stage 2 and 3 loans accounted for 5.2% of total loans. In our base-case scenario, we forecast nonperforming assets (stage 3 loans) will remain at 1.7%-1.8% of total assets over 2025-2027, with loan loss provisions to increase toward 10-20 bps in the next two years, a level we consider manageable. For the first nine months 2025, Islandsbanki reported a reversal of loan loss provisions (by 4 bps) from recalibrating its model.

Chart 4

Islandsbanki's asset quality compares with similarly rated Nordic peers'

Nonperforming assets ratios, 2021-Q3 2025



*As of June 30, 2025. SBG--Savings Banks Group Finland. Q3--Third quarter. Source: S&P Global Ratings.

We consider Islandsbanki's market risk exposure manageable, mainly driven by interest rates, foreign exchange, and CPI indexation. The bank has a relatively balanced asset liability structure and uses derivatives to hedge residual interest rate risk, which results in a limited repricing gap. Foreign-currency exposure is limited at 1.5% of the capital base. Because of strong demand for CPI-indexed loans, Islandsbanki's inflation imbalance grew materially in 2024. However, as of Sept. 30, 2025, the CPI imbalance remains broadly flat and closed off, with a net long inflation imbalance equivalent to 78% of the capital base, compared with 80% at year-end 2024. CPI sensitivity remains manageable, with a 1% increase or decrease resulting in an ISK1.82 billion change in pre-tax profit. We anticipate the imbalance will gradually decline over the next two years, in tandem with falling interest rates and customers switching back to nonindexed loans.

We think Islandsbanki has adequately addressed the anti-money-laundering (AML) deficiencies identified by the Financial Supervisory Authority during its 2022 onsite inspections, and remains committed to enhancing its AML framework and monitoring processes. Also, in response to a

Supreme Court ruling in October 2025 concerning variable interest rates on non-index linked mortgages, the bank has recognized a provision of ISK550 million for potential customer claims and is assessing the implications for CPI-linked mortgages, which could result in an impact of ISK2 billion-ISK5 billion before tax. Consequently, the bank has temporarily halted the issuance of CPI-linked variable rate mortgages.

Funding And Liquidity: Offshore Senior Debt And Domestic Covered Bonds Complement A Large Domestic Deposit Base

Islandsbanki's funding profile is similar to that of domestic peers, with deposits representing 69% of the funding base. Close to 51% of total deposits are from individuals, a stable funding source for Islandsbanki, with about 43% of all deposits covered by the deposit guarantee scheme.

The structural funding gap, represented by a loan-to-deposit ratio of 132%, is predominantly filled by issuance of ISK-denominated covered bonds (37% of borrowings) and senior bonds (43%) issued largely in euros (46% of the total). There is also a small portion of euro-denominated covered bonds (10% of borrowings) and other bonds (10%). The bank has increasingly shifted its wholesale borrowings to domestic currency (52% of borrowings), reducing the reliance on foreign investors.

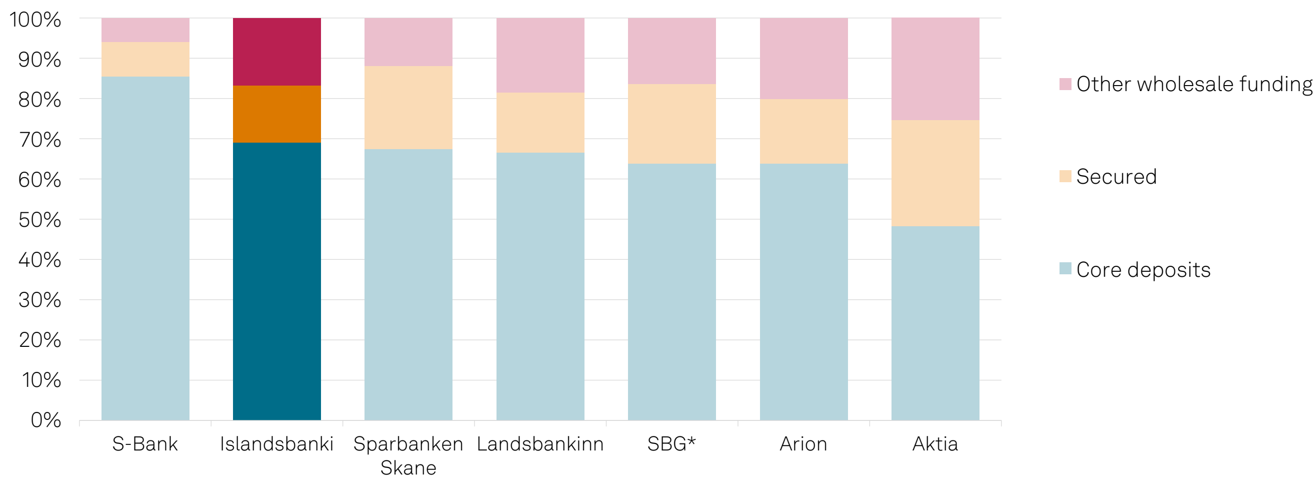
Stable deposits make up the most of the bank's funding base, so we expect our stable funding ratio for Islandsbanki to remain close to 113%, in line with domestic peers. Similarly, at 129% as of Sept. 30, 2025, the bank's regulatory net stable funding ratio is in line with that of peers, with a buffer above the 100% minimum requirement routinely maintained.

Domestic pension funds remain large investors in Icelandic banks' covered bonds, including Islandsbanki's. The pension funds, acting independently of each other, own more than half of the systemwide covered bond stock. While this presents a concentration risk, we view the funds' capital as long-term and stable, with ample capacity to fund banks. This further supports our view that Islandsbanki's market access is reasonably predictable. The bank's senior funding, which accounts for about 40% of wholesale debt, provides access to investors in regions outside Iceland. Upcoming maturities and moderate balance-sheet growth imply annual wholesale refinancing needs for the bank in 2026-2027 of ISK57 billion-ISK108 billion, which will likely be evenly split between covered bonds and senior debt.

Chart 5

Core customer deposits are the primary source of Islandsbanki's funding

Percentage of funding base, third-quarter 2025



*As of June 30, 2025. SBG--Savings Banks Group Finland. Source: S&P Global Ratings.

Islandsbanki's liquidity position remains comfortable, with broad liquid assets (after haircuts) of ISK327 billion covering maturing wholesale debt by 3.1x as of Sept. 30, 2025. As of the same date, net broad liquid assets (liquidity portfolio adjusted with haircuts and maturing wholesale debt) covered about 23% of short-term customer deposits. As of Sept. 30, 2025, the bank reported a liquidity coverage ratio (LCR) ratio of 207%, reflecting an ample surplus of high-quality liquid assets above the 100% regulatory requirement. Importantly, the LCR metrics assume a 100% outflow of pension fund deposits, typically Icelandic banks' largest individual depositors, a scenario we consider highly unlikely.

Support: Systemically Important Banks In Iceland Are Eligible For ALAC Uplift

We do not apply any rating uplift for ALAC to Islandsbanki, although we regard the Icelandic resolution regime as sufficiently effective.

However, the updated resolution plans for Iceland's D-SIBs have increased clarity on the size of subordinated liabilities that Islandsbanki will be required to hold. Given the subordination requirement of 23.4% of the total risk exposure amount (including the combined buffer requirement), we expect the bank to issue a substantial amount of senior nonpreferred instruments during the phase-in period until October 2027. For further information, see "Two Icelandic Bank Outlooks Revised To Positive On Potential ALAC Uplift," Nov. 12, 2024.

Islandsbanki's Tier 2 capital securities and potential senior nonpreferred debt issues are ALAC-eligible instruments for Icelandic banks. As of Sept. 30, 2025, Islandsbanki held ISK22.9 billion

(€156 million) worth of Tier 2 securities, representing 1.7% of our projected RWAs at year-end 2025. This is below our adjusted 4% threshold for one notch of ALAC rating uplift. The adjusted threshold is consistent with our treatment of other banks with relatively few ALAC-eligible debt issues or short weighted-average maturities.

Resolution Counterparty Ratings

The 'A-' long-term resolution counterparty rating is one notch above our issuer credit rating on Islandsbanki. 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 covered bonds outstanding. 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 factors do not have a material bearing on the Islandsbanki's creditworthiness.

The bank launched its sustainable financing framework in 2020 with the aim of directing capital at sustainable projects, and it is regarded as the sustainability leader in banking in Iceland. Islandsbanki's assets under sustainable funding framework reached ISK126 billion at year-end 2024. The amount of green bonds and sustainable bonds issued by Islandsbanki totaled ISK63 billion in 2024. Transition risk is very limited, and almost all electricity in Iceland comes from renewable energy sources.

We view governance as in line with the best practice in Iceland and, even before the full privatization, did not see Icelandic government as having an impact on the bank's governance or day-to-day operations.

Hybrid Ratings

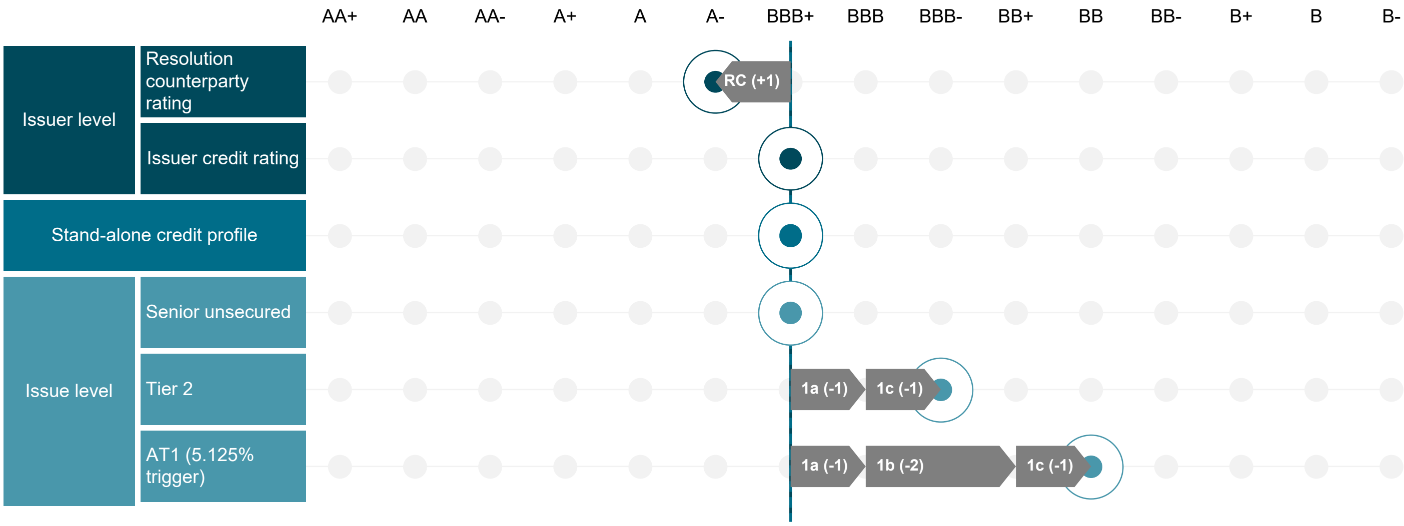
Tier 2 hybrids

The 'BBB-' rating on Islandsbanki's subordinated debt (Tier 2) is two notches below the 'bbb+' stand-alone credit profile (SACP) on the bank, to reflect the contractual subordination to senior creditors' claims, and the instruments' ability to 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 this 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 without triggering default.

Islandsbanki hf: Notching



Key to notching

--- Issuer credit rating

--- Stand-alone credit profile

RC Resolution counterparty liabilities (senior secured debt)

1a Contractual subordination

1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital

1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 2 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on Feb. 10, 2025.
AT1--Additional Tier 1.

Key Statistics

Islandsbanki hf Key Figures

Mil. ISK	2025*	2024	2023	2022	2021
Adjusted assets	1,731,424	1,605,123	1,579,764	1,562,956	1,425,470
Customer loans (gross)	1,339,846	1,303,208	1,235,154	1,197,771	1,099,892
Adjusted common equity	206,719	208,882	208,478	186,426	189,456
Operating revenues	49,532	62,876	64,018	57,078	50,094
Noninterest expenses	21,136	27,628	26,743	23,783	23,884
Core earnings	19,217	24,465	25,003	24,530	22,715

*2025 data is for the 9 months to end-September. ISK--Icelandic krona.

Islandsbanki hf Business Position

(%)	2025*	2024	2023	2022	2021
Loan market share in country of domicile	31.0	31.0	31.0	31.0	32.0
Total revenues from business line (currency in millions)	49,665	63,025	64,272	57,395	51,523
Commercial banking/total revenues from business line	63.0	63.9	62.2	58.8	53.3
Retail banking/total revenues from business line	31.9	31.4	33.9	34.4	31.2

Islandsbanki hf Business Position

(%)	2025*	2024	2023	2022	2021
Commercial & retail banking/total revenues from business line	94.9	95.4	96.2	93.2	84.5
Trading and sales income/total revenues from business line	(2.1)	(3.4)	(4.3)	(0.2)	3.1
Brokerage/total revenues from business line	4.5	4.4	4.4	5.5	6.0
Other revenues/total revenues from business line	2.6	3.6	3.7	1.6	6.5
Investment banking/total revenues from business line	(2.1)	(3.4)	(4.3)	(0.2)	3.1
Return on average common equity	11.3	10.7	11.1	11.6	12.2

*2025 data is for the 9 months to end-September.

Islandsbanki hf Capital And Earnings

(%)	2025*	2024	2023	2022	2021
Tier 1 capital ratio	19.4	21.0	22.5	19.8	22.5
S&P Global Ratings' RAC ratio before diversification	N/A	17.1	15.8	14.5	19.5
S&P Global Ratings' RAC ratio after diversification	N/A	12.6	11.3	10.3	13.6
Adjusted common equity/total adjusted capital	95.6	95.7	95.4	94.9	94.7
Net interest income/operating revenues	80.9	75.2	75.9	75.6	68.0
Fee income/operating revenues	20.0	20.9	22.2	24.6	25.7
Market-sensitive income/operating revenues	(2.1)	0.4	1.3	(0.7)	5.9
Cost to income ratio	42.7	43.9	41.8	41.7	47.7
Preprovision operating income/average assets	2.3	2.2	2.4	2.2	1.9
Core earnings/average managed assets	1.5	1.5	1.6	1.6	1.6

*2025 data is for the 9 months to end-September. N.M.--Not meaningful.

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	189,063,972	5,741,810	3	6,212,004	3
Of which regional governments and local authorities	19,580,637	4,175,558	21	1,174,838	6
Institutions and CCPs	80,904,502	16,887,238	21	16,246,396	20
Corporate	607,948,940	556,397,731	92	630,427,785	104
Retail	711,025,048	297,262,638	42	346,151,567	49
Of which mortgage	558,416,986	200,114,297	36	203,989,725	37
Securitization§	0	0	0	0	0
Other assets†	31,715,248	36,814,579	116	41,074,171	130
Total credit risk	1,620,657,710	913,103,996	56	1,040,111,923	64
Credit valuation adjustment					
Total credit valuation adjustment	--	714,046	--	0	--
Market Risk					
Equity in the banking book	8,737,544	9,428,858	108	87,460,999	1,001
Trading book market risk	--	10,605,785	--	15,908,677	--

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 (%)
Total market risk	--	20,034,642	--	103,369,675	--
Operational risk					
Total operational risk	--	107,119,292	--	135,914,390	--
(ISK 000s)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	1,040,971,976	--	1,279,395,989	100
Total Diversification/ Concentration Adjustments	--	--	--	454,727,507	36
RWA after diversification	--	1,040,971,976	--	1,734,123,495	136

(ISK 000s)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	218,849,348	21.0	218,253,000	17.1
Capital ratio after adjustments‡	218,849,348	21.0	218,253,000	12.6

*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 -- Iceland Krona. Sources: Company data as of 'Dec. 31 2024', S&P Global Ratings.

Islandsbanki hf Risk Position

(%)	2025*	2024	2023	2022	2021
Growth in customer loans	3.7	5.5	3.1	8.9	7.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	35.5	39.4	40.7	43.4
Total managed assets/adjusted common equity (x)	8.4	7.7	7.6	8.4	7.5
New loan loss provisions/average customer loans	(0.0)	(0.1)	0.1	(0.1)	(0.3)
Net charge-offs/average customer loans	0.1	0.0	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.7	1.8	1.9	1.8	2.0
Loan loss reserves/gross nonperforming assets	28.6	33.8	50.9	50.9	62.1

*2025 data is for the 9 months to end-September.

Islandsbanki hf Funding And Liquidity

(%)	2025*	2024	2023	2022	2021
Core deposits/funding base	69.1	69.5	64.6	60.7	62.5
Customer loans (net)/customer deposits	132.1	139.8	143.8	150.2	146.0
Long-term funding ratio	93.8	94.5	95.2	90.9	91.9
Stable funding ratio	112.7	108.2	115.2	112.5	113.2
Short-term wholesale funding/funding base	7.2	6.5	5.6	10.7	9.6
Regulatory net stable funding ratio	129.0	125.0	124.0	118.0	122.0
Broad liquid assets/short-term wholesale funding (x)	3.1	2.8	4.1	2.4	2.6
Broad liquid assets/total assets	18.9	15.0	19.2	21.2	20.6

Islandsbanki hf Funding And Liquidity

Broad liquid assets/customer deposits	32.4	26.0	35.7	42.0	39.5
Net broad liquid assets/short-term customer deposits	22.6	17.1	28.7	24.5	24.7
Regulatory liquidity coverage ratio (LCR) (x)	207.0	168.0	195.0	205.0	1.6
Short-term wholesale funding/total wholesale funding	22.8	20.9	15.5	26.6	24.9
Narrow liquid assets/3-month wholesale funding (x)	8.2	5.2	8.6	15.7	8.5
*2025 data is for the 9 months to end-September.					

Rating Component Scores

Issuer Credit Rating	BBB+/Positive/A-2
SACP	bbb+
Anchor	bbb
Business position	Adequate (0)
Capital and earnings	Very Strong (2)
Risk position	Moderate (-1)
Funding and liquidity	Adequate and Adequate (0)
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0
SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.	

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Oct. 13, 2025
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment: Iceland, Dec. 19, 2025
- Resilient Nordic Banks Poised For Earnings Stability And Loan Rebound In 2026, Dec. 3, 2025
- Banking Industry Country Risk Assessment Update: November 2025, Nov. 20, 2025
- Banking Brief: Icelandic Banks Reposition For Scale And Efficiency, July 3, 2025
- Stress Test Highlights European Banks' Resilience To Potential Trade Escalations, June 24, 2025
- Islandsbanki's Full Privatization Supports Its Long-Term Ownership Profile And Strategy, May 26, 2025
- Islandsbanki hf, Feb. 24, 2025
- Nordic Banking Outlook 2025: Ample Resilience Amid Lingering Uncertainty, Jan. 24, 2025
- Two Icelandic Bank Outlooks Revised To Positive On Potential ALAC Uplift, Nov. 12, 2024

Ratings Detail (as of December 19, 2025)*	
Islandsbanki hf	
Issuer Credit Rating	BBB+/Positive/A-2
Resolution Counterparty Rating	A-/--/A-2
Junior Subordinated	BB
Senior Secured	A+/Stable
Senior Unsecured	BBB+
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+/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 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.