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+/Positive/A-2
Resolution Counterparty Rating
A-/--/A-2

SACP: bbb+ → **Support: 0** → **Additional factors: 0**

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.	Geographic concentration on 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 imbalances remain significant.
Advanced digital agenda combined with optimized branch network, supporting highly efficient operations.	Dependence on wholesale funding, including on foreign capital markets.

Islandsbanki's established franchise, robust capitalization, and sound profitability counterbalance its concentration in Iceland. With total assets of Icelandic krona (ISK) 1,608 billion (€10.9 billion), Islandsbanki retains a solid market position, with 31% market share in retail, 37% among small and midsize enterprises (SMEs), and 34% among large corporates in Iceland. This is complemented by a leading position in domestic asset management, with assets under management of ISK364 billion and 28% market share in domestic retail funds. The universal business model provides the bank with diversified revenue streams, with the three business segments of personal banking, business banking and corporate and investment banking contributing fairly evenly to earnings. The recently announced partnership with VIS tryggingar hf. aims to broaden Islandsbanki's customer offering of insurance products and increase cross-selling opportunities for the bank.

Arion Bank hf. recently approached Islandsbanki's board of directors about merger talks. A potential merger between the two D-SIBs would create a leading bank in Iceland with significant benefits of scale in operating efficiency, innovation capacity, and customer offering. Given that no formal discussions have been initiated and a merger would be subject to several regulatory approvals, we do not include the merger in our base-case scenario at this stage.

Very strong capitalization remains a key rating strength. We project Islandsbanki's risk-adjusted capital (RAC) ratio will be 16.5%-17.5% by year-end 2026. As of year-end 2023, the bank's RAC ratio was 15.8%, and pro forma RAC adjusted for risk weights under economic risk of 4 was 18.2%. More generally, we anticipate Islandsbanki's solid earnings generation will support the bank's growth ambitions and further capital buildup through 2026, allowing for increased shareholder distributions. Following net profit of ISK24.2 billion in 2024, we forecast that annual net profit will remain robust at about ISK21 billion-ISK24 billion over 2025-2026, reflecting a return on equity (ROE) of 9.5%-10.5% over the same period, compared with 10.9% in 2024. We therefore expect the bank will have a strong capital buffer to absorb potentially higher than anticipated credit losses, which could materialize if the macroeconomic environment proves weaker than we expect.

We expect asset quality pressure to be manageable, despite the soft economic environment. 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 about 1.8%-2.0% of total loans through 2026. Following the release of loan loss reserves in 2024 (-5 basis points (bp)), we project loan loss provisions increasing toward 15-20 bps in 2025-2026, a level we consider manageable and below Islandsbanki's guidance of through-the-cycle impairments. While any potential downside from the recent volcanic activity on Iceland's Reykjanes Peninsula appears contained for now, we continue to see tail risk from further volcanic activity, which could prove more damaging than previous episodes.

The bank enjoys a stable and granular deposit franchise. Core customer deposits make up almost 70% of Islandsbanki's funding base. As of Dec. 31, 2024, about 71% of deposits were from individuals and 46% were covered by the Icelandic deposit guarantee scheme. With a loan-to-deposit ratio of 140% as of Dec. 31, 2024, the bank has a structural funding gap that is mostly filled with domestic covered bonds and offshore senior instruments. While we view the sensitivity of the franchise to consumer confidence as an inherent downside risk, we consider Islandsbanki's maturity profile to be reasonably spread and its liquidity buffers ample to support the funding profile amid temporary episodes of market stress.

We expect Islandsbanki will build up material bail-inable buffers through 2027. We anticipate that senior non-preferred debt issuance could bolster Islandsbanki's additional loss-absorbing capacity buffers, improving protection for more senior bondholders. Recently approved resolution plans, including a minimum requirement for own funds and eligible liabilities (MREL) with a binding subordination requirement, have increased clarity on the size of subordinated liabilities (including own funds) that Islandsbanki will be required to hold by 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 (estimate of 1.8% as of Dec. 31, 2024).

Outlook

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

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 debt holders.

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 bank's ongoing privatization and the potential for the distribution of excess capital.

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 its RAC ratio were to fall below 15%, the level we consider to be very strong (for example, due to significant shareholder distributions) or if we observed a material deterioration in Iceland's macroeconomic indicators.

Key Metrics

Islandsbanki hf--Key ratios and forecasts

	--Fiscal year ended--				
(%)	**2022a**	**2023a**	**2024a**	**2025f**	**2026f**
Growth in operating revenue	13.9	12.2	(1.8)	(-2.8)-(3.4)	1.6-2.0
Growth in customer loans	8.9	3.1	5.5	5.0-6.1	5.4-6.6
Growth in total assets	9.6	1.1	1.6	3.9-4.7	4.3-5.2
Net interest income/average earning assets (NIM)	3.1	3.3	3.1	2.8-3.1	2.7-3.0
Cost-to-income ratio	42.2	41.8	43.9	44.5-47.5	45.0-48.0
Return on average common equity	11.6	11.1	10.7	9.5-10.5	9.5-10.5
Return on assets	1.6	1.6	1.5	1.2-1.4	1.1-1.4
New loan loss provisions/average customer loans	(0.1)	0.1	(0.1)	0.1-0.2	0.2-0.2
Gross nonperforming assets/customer loans	1.8	1.9	1.8	1.7-1.9	1.8-2.0
Net charge-offs/average customer loans	0.1	0.1	0.0	0.1-0.1	0.1-0.1
Risk-adjusted capital ratio	14.5	18.2	17.5-18.0e	16.75-17.75	16.5-17.5

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

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 economic volatility and external vulnerabilities. After growing strongly in 2022-2023, economic output contracted by 1.9% in the first half of 2024, and we forecast that Iceland's economy grew by a mere 0.1% for the full year. Supported by improving private consumption and exports, we project growth will rebound and average 2.35% over 2025-2026.

Risks to banks emanating from economic imbalances have moderated, in our view, in tandem with a stabilization of the housing market and lower private sector leverage. However, residential property prices remain overvalued by most measures. We project balanced property price growth of 3%-4% per year in 2025-2026, compared with 2.7% in 2024. Inflation has started to edge down and stood at 4.8% in November 2024, and since the start of the fourth quarter of 2024 Iceland's central bank has cut the key interest rate by 125 bps to 8.0% in February 2025. However, real interest rates have not fallen and continue to pose downside risk to economic activity and banks' asset quality. At the same time, we still see tail risk from further volcanic activity in Iceland.

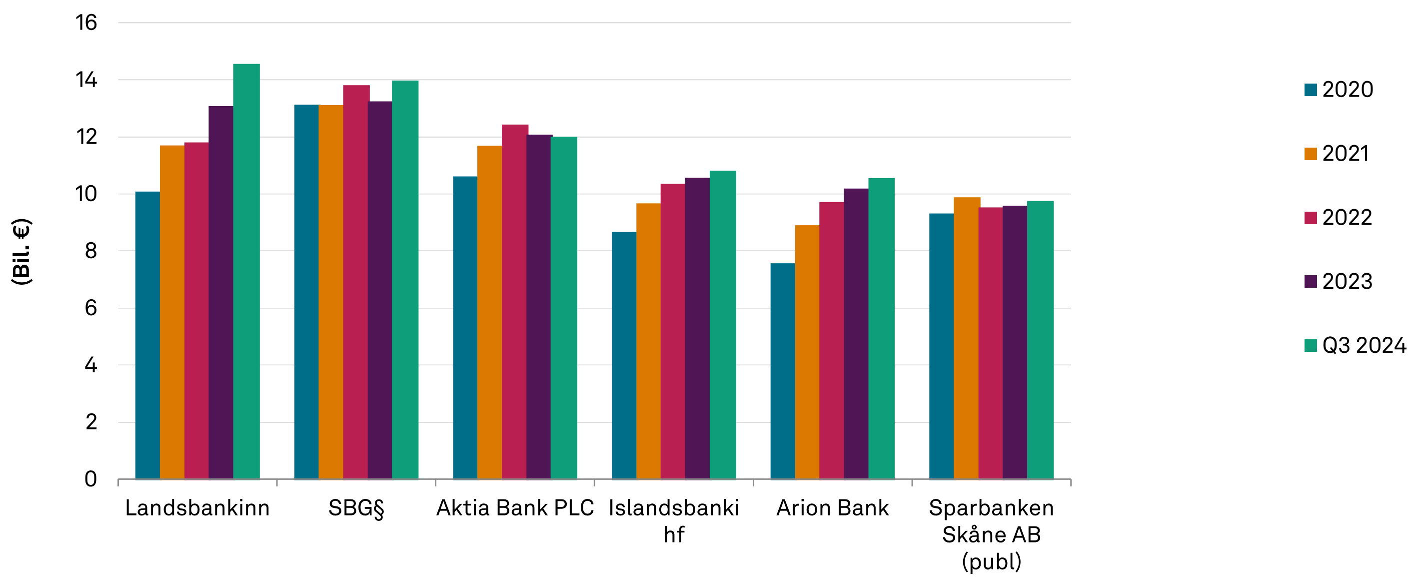
In our view, Iceland's institutional framework and banking supervision are broadly consistent with that of other European jurisdictions. The banking system is dominated by three incumbents--Arion, Islandsbanki, and Landsbankinn hf. Given limited foreign competition and the sector's close collaboration 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 banks' profitability will remain sound but edge down with moderating margins and cost inflation, including normalizing cost of risk. We forecast a sector-wide return on average assets of 1.3%-1.4% per year in 2024-2026, compared with 1.7% in 2023. Nevertheless, we anticipate growing lending volumes and healthy fee and commission income alongside market-leading operating efficiency will partly ease pressure on revenue. The domestic systemically important banks' (D-SIBs) foreign funding maturities are well distributed through 2028, and refinancing risk is further mitigated by banks' ample liquidity buffers.

Chart 1

Islandsbanki is one of the leading banks in Iceland and compares with mid-sized Nordic banks

Total assets compared with selected Nordic peers



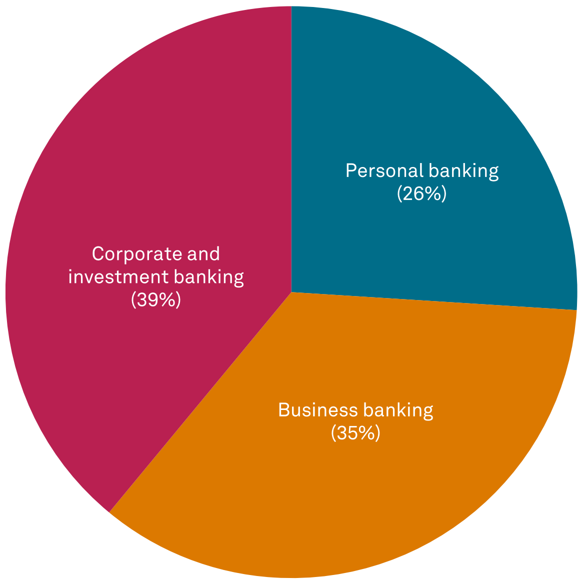
*As of June 30, 2024. § Savings Banks Group Finland. YTD--Year to date. Source: S&P Global Ratings.

Business Position: One Of Three Large Incumbents Dominating Icelandic Banking

With assets of about ISK1,608 billion as of Dec. 31, 2024, Islandsbanki is one of the three D-SIBs that dominate the Icelandic banking sector. As a universal bank, Islandsbanki has a presence across several business lines in Iceland, including retail, business customers, corporate and investment banking, as well as asset management. In 2024, net interest income accounted for close to 75% of revenue and mostly stemmed from corporate and household loans and deposits, which we expect to be a relatively stable revenue source over the next two years. Diversified fee and commission income, derived primarily from payments, asset management and investment banking, is likely to remain at about one-fifth of revenue (21% in 2024).

Chart 2

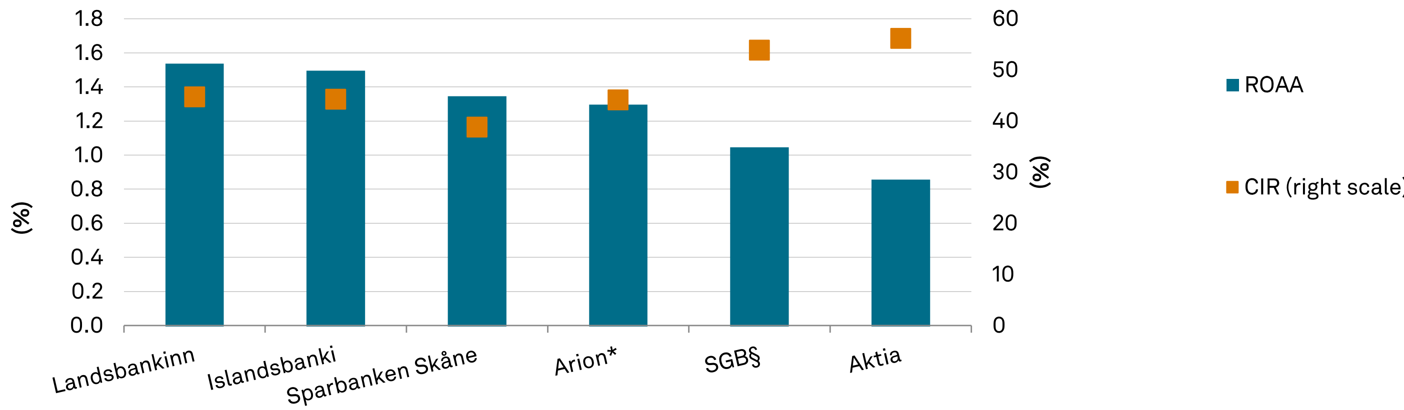
Islandsbanki's earnings are diversified across business segments
Profit from continuing operations by segment, Dec. 31, 2024



Source: S&P Global Ratings.

Chart 3

Operating efficiency and profitability compare favorably with Nordic peers'
ROAA and CIR compared with selected Nordic peers, 2024



*As of June 30, 2024. § Savings Banks Group Finland. ROAA--Return on average assets. CIR--Cost-to-income ratio. Source: S&P Global Ratings.

Islandsbanki's digital offering is successful in servicing customers and 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 43.9% as of Dec. 31, 2024 and consistently at or below 45%, the bank's cost-to-income ratio is among the most efficient in Europe.

The Icelandic government holds a 45.2% stake in Islandsbanki. The government had announced its aim to divest its stake over 2024 and 2025, but the process has been delayed due to market conditions and for political reasons. Domestic pension funds have established significant stakes in the bank, and we consider them supportive of the bank's strategy. Despite the significant government ownership, all board members are independent, which promotes stability in governance and strategy as the bank continues to privatize.

Capital And Earnings: Very Strong Going-Concern Capitalization

We project that Islandsbanki's capitalization will remain very strong, in line with an RAC ratio estimated at 16.5%-17.5% over the next two years. While our projections are affected by continual credit growth and capital optimization measures, the RAC ratio will benefit from our revision of Iceland's economic risk in March 2024, which lowered the risk weights we apply to domestic exposures. In 2023, the RAC ratio was 15.8%, while on a pro forma basis it was 18.2%, applying revised risk weights under economic risk of 4.

Our projections for 2025-2026 incorporate the following assumptions:

- Annual lending growth of 5%-6% annually, translating to a similar increase in S&P Global Ratings risk-weighted assets (compared with 5.5% in 2024).
- Net interest income of ISK45 million–ISK47 million on the back of gradually waning net interest margins as policy rates decline.
- Steady 3% growth in net fee and commission income driven by lending, payment, and asset management fees, leading to stable annual revenue of about ISK60 billion-ISK62 billion over the next two years.
- Operating expenses moving in tandem with inflation, translating into a cost-to-income ratio of about 44%-46%.
- Normalized cost of risk in the range of 15 bps-25 bps after net impairment reversals in 2024 (-5 bps in 2024).
- We therefore expect ROE of 9.5%-10.5%, broadly in line with the bank's target of 10%.
- Our figures incorporate a dividend payout ratio of 50% of net profit and share buybacks in line with the bank's guidance (ISK15 billion of share buybacks planned through 2025 on top of the ongoing program).

We consider the quality of capital to be good, with less than 5% of total adjusted capital consisting of hybrid capital instruments.

In line with peers, Islandsbanki comfortably meets regulatory capital requirements, with its common equity Tier 1 (CET1) ratio of 20.1% and total capital ratio of 23.2% as of Dec. 31, 2024. This presents a buffer of 470 bps, above the regulatory CET1 requirements and well over the bank's target of a 100 bps–300 bps management buffer above the regulatory requirement. The regulatory leverage ratio of 13.05% remains robust.

Risk Position: Exposed 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, against the inherent concentration risks related to Iceland's small economy and its key export sectors. Similar to the country's other two D-SIBs, close to 95% of Islandsbanki's exposures are domestic.

As of Dec. 31, 2024, household mortgages made up 44% of Islandsbanki's total loans, of which 62% were indexed to the consumer price index (CPI) compared with 53% at the year-end 2023. While CPI-linked loans typically carry lower interest rates, which supports short-term serviceability, the principal is adjusted for inflation. As a result, this can lead to an erosion of borrower equity and a decline in collateral values in a period of slow growth and high inflation. That said, we consider the average 54% loan to value (LTV) of Islandsbanki's mortgage portfolio to be reflective of the sound and flexible nature of the Icelandic mortgage market. The quality of the mortgage portfolio remains sound, with 0.9% considered nonperforming (stage 3 loans).

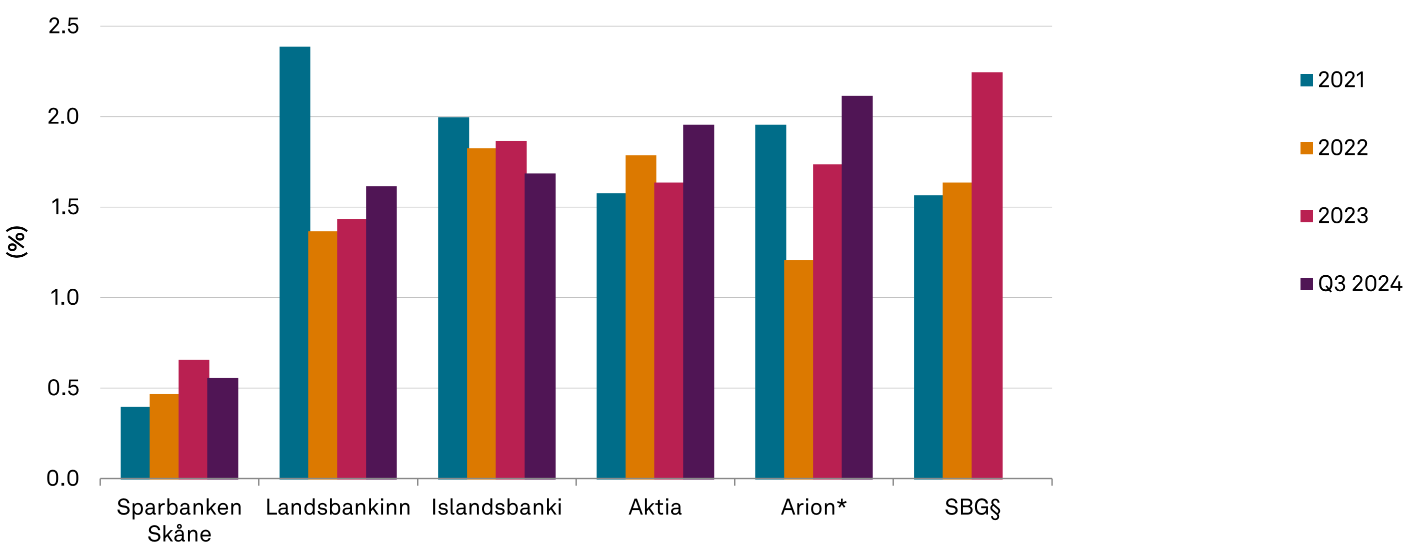
The corporate loan portfolio, including business banking, accounted for 53% of loans as of Dec. 31, 2024, and we consider it well diversified across corporate sectors, with some concentration in real estate and construction (19% of total loans) and Iceland's key export sectors such as seafood (6%) and the tourism industry (8%). While exposures to the construction sector grew by 19% in 2024, in line with peers, the bank's overall exposure to the sector is manageable and underwriting criteria appears sound. Still, we believe that the sector remains a potential pocket of risk. In the fourth quarter of 2024, we observed an increase in NPLs to 3.5% in the real estate portfolio related to an owner-occupied construction project. Overall, nonperforming loans accounted for 2.1% of the corporate portfolio, but with stage 2 loans hovering around 5% we might see some asset quality pressure over the next two years.

Islandsbanki's 20 largest corporate exposures are close to 100% of the bank's 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, and Islandsbanki aims to match this with foreign-denominated funding, or seeks to hedge this exposure via currency swaps.

Overall, Islandsbanki's asset quality has shown a material improvement over the past four years, but we observe some asset quality pressure driven by single names. As of Dec. 31, 2024, Islandsbanki's stage 2 and 3 loans accounted for 4.8% of total loans. In our base case, we forecast nonperforming assets (stage 3 loans) will remain at about 1.8%-2.0% of total assets over 2025-2026, with loan loss provisions to increase toward 15 bps-25 bps, a level we consider manageable. In 2024, Islandsbanki reported a reversal of loan loss provisions (-5 bps) as a result of recalibrating its model.

Chart 4

Islandsbanki's asset quality compares with similarly rated Nordic peers'
Nonperforming asset ratios, 2021-Q3 2024



*As of June 30, 2024. §Savings Banks Group Finland. YTD--Year to date. Source: S&P Global Ratings.

We consider Islandsbanki's market risk exposure to be manageable and is 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 1.0% of the capital base. Because of strong demand for CPI-indexed loans, Islandsbanki's inflation imbalance grew materially in 2024. As of Dec. 31, 2024, the bank had a net long inflation imbalance equivalent to 80% of the capital base, up from 52% at year-end 2023. However, CPI sensitivity remains manageable, with a 1% increase or decrease resulting in an ISK 1,934 million 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 non-indexed loans.

We believe that Islandsbanki remains committed to taking the necessary steps to address the shortcomings in anti-money laundering (AML) identified by the Financial Supervisory Authority during onsite inspections in 2022 and aims to continually improve its AML framework and monitoring. Under the settlement agreement, Islandsbanki agreed to pay a fine of ISK 570 million in the second quarter of 2024.

Funding And Liquidity: Large Domestic Deposit Base Complemented By Offshore Senior Debt And Domestic Covered Bonds

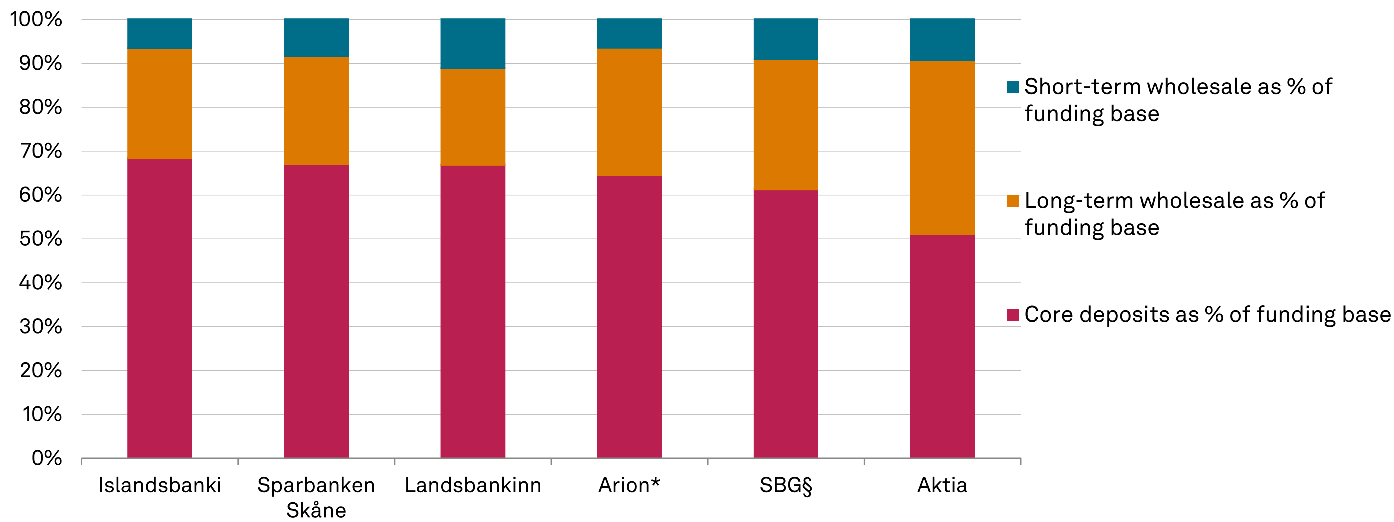
Islandsbanki's funding profile is similar to that of domestic peers, with deposits representing 70% of the funding base. Close to 71% of deposits are from individuals, a stable funding source for Islandsbanki, with almost half of all deposits covered by the deposit guarantee scheme. The structural funding gap, represented by a loan-to-deposit ratio of 140%, is predominantly filled by issuance of ISK-denominated covered bonds (41% of borrowings) and senior bonds (37% of borrowings) issued mostly in euros (45%). There is also a small portion of euro-denominated covered bonds (11%) and other bonds (11%). The bank has increasingly shifted its wholesale borrowings to domestic currency (55% of total borrowings), reducing the reliance on foreign investors.

About one-third of the bank's wholesale instruments will mature each year through 2026, a profile we regard as reasonably well spread. As stable deposits make up the most of the bank's funding base, we expect our stable funding ratio for Islandsbanki to remain close to 110%, in line with domestic peers. Similarly, at 125% as of Dec. 31, 2024, 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 the banks. This further supports our view that Islandsbanki's market access is reasonably predictable. The bank's senior funding, which accounts for 40% of wholesale debt, provides access to a broader range of investors in various regions outside Iceland. Upcoming maturities and moderate balance sheet growth imply wholesale funding needs for the bank in 2025-2026 of ISK54 billion-ISK64 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, Q3 2024



*As of June 30, 2024. § Savings Banks Group Finland. Source: S&P Global Ratings.

Islandsbanki's liquidity position remains comfortable, with broad liquid assets (after haircuts) of ISK241 billion covering maturing wholesale debt by 2.8x as of Dec. 31, 2024. As of the same date, net broad liquid assets (liquidity portfolio adjusted with haircuts and maturing wholesale debt) covered about 26% of short-term customer deposits. As of Dec. 31, 2024, the bank reported an LCR ratio of 168%, reflecting an ample surplus of high-quality liquid assets above the 100% regulatory requirement. Importantly, the LCR metrics assume 100% outflow of pension fund deposits, typically Icelandic banks' largest individual depositors, a scenario we consider highly unlikely.

Support: Systemically Important Banks In Iceland Eligible For ALAC Uplift

We do not currently apply any rating uplift for ALAC to Islandsbanki, even though 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 Islandsbanki to issue a substantial amount of senior nonpreferred instruments during the phase-in period until October 2027. For further information, please see "Two Icelandic Bank Outlooks Revised To Positive On Potential ALAC Uplift," published Nov. 12, 2024.

Islandsbanki's Tier 2 capital securities and potential senior nonpreferred debt issues are ALAC-eligible instruments for Icelandic banks. As of Dec. 31, 2024, Islandsbanki held ISK22.2 billion (€152 million) worth of Tier 2 securities, representing 1.8% of our projected RWAs at year-end 2024. 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. 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. 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 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.

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 ISK120 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 is produced using renewable energy sources.

We view the governance factor as in line with the best practice in Iceland and do not consider the significant shareholding by the Icelandic government to have 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.

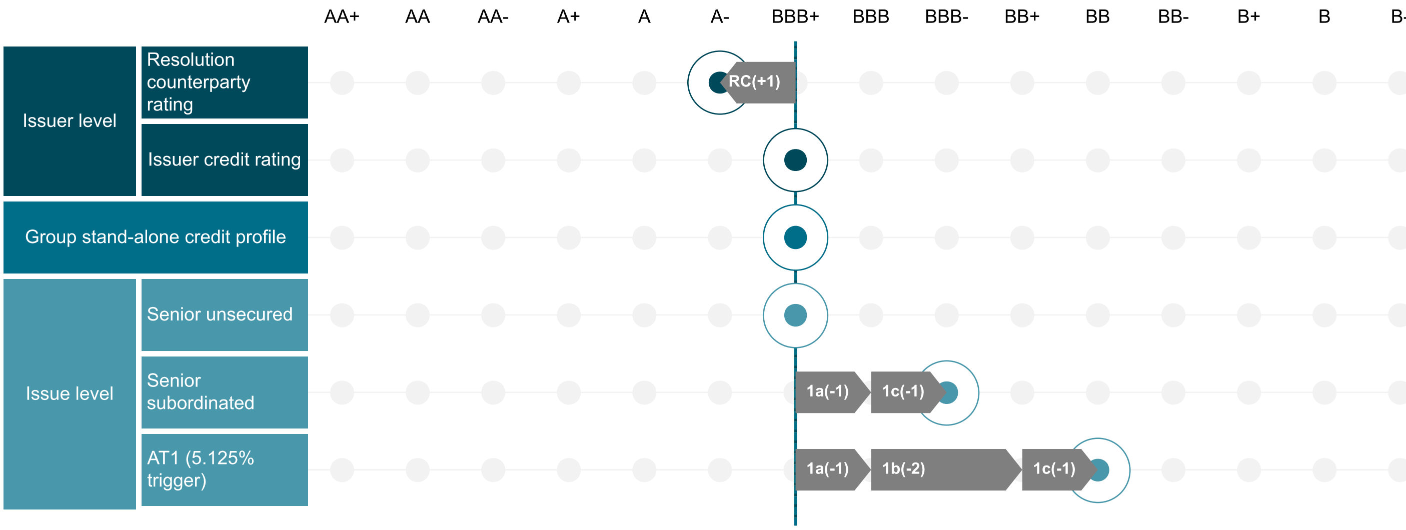
Additional Tier 1 hybrid

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 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 writedown or conversion of the notes into common equity.

Islandsbanki hf: Notching



Key to notching

----	Issuer credit rating
-----	Group 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 March 2, 2022.
The nonoperating holding company (NOHC) issuer credit rating and senior unsecured debt ratings are notched from the group stand-alone credit profile (SACP) under our criteria. Since ALAC notching does not benefit NOHCs, for simplicity the diagram above is stylized to show the positioning of these ratings with reference to the group SACP.
AT1--Additional Tier 1.

Key Statistics

Table 1

Islandsbanki hf Key Figures

	--Year-ended Dec. 31--				
(Mil. ISK)	**2024**	**2023**	**2022**	**2021**	**2020**
Adjusted assets	1,605,123.0	1,579,764.0	1,562,956.0	1,425,470.0	1,340,713.0
Customer loans (gross)	1,303,208.0	1,235,154.0	1,197,771.0	1,099,892.0	1,024,231.0
Adjusted common equity	208,882.0	208,478.0	186,426.0	189,456.0	178,733.0
Operating revenues	62,876.0	64,018.0	57,078.0	50,094.0	43,153.0
Noninterest expenses	27,628.0	26,743.0	23,783.0	23,884.0	23,425.0

Table 1

Islandsbanki hf Key Figures (cont.)

	--Year-ended Dec. 31--				
(Mil. ISK)	**2024**	**2023**	**2022**	**2021**	**2020**
Core earnings	24,464.8	25,002.9	24,530.1	22,715.4	6,815.6

ISK--ISK-Iceland krona. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 2

Islandsbanki hf Business Position

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Loan market share in country of domicile	31.0	31.0	31.0	32.0	32.0
Total revenues from business line (currency in millions)	63,025.0	64,272.0	57,395.0	51,523.0	43,617.0
Commercial banking/total revenues from business line	63.9	62.2	58.8	53.3	59.7
Retail banking/total revenues from business line	31.4	33.9	34.4	31.2	32.3
Commercial & retail banking/total revenues from business line	95.4	96.2	93.2	84.5	92.0
Trading and sales income/total revenues from business line	(3.4)	(4.3)	(0.2)	3.1	(0.3)
Brokerage/total revenues from business line	4.4	4.4	5.5	6.0	4.9
Other revenues/total revenues from business line	3.6	3.7	1.6	6.5	3.4
Investment banking/total revenues from business line	(3.4)	(4.3)	(0.2)	3.1	(0.3)
Return on average common equity	10.7	11.1	11.6	12.2	3.9

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 3

Islandsbanki hf Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Tier 1 capital ratio	21.0	22.5	19.8	22.5	20.1
S&P Global Ratings' RAC ratio before diversification	N/A	15.8	14.5	19.5	18.0
S&P Global Ratings' RAC ratio after diversification	N/A	11.3	10.3	13.6	12.8
Adjusted common equity/total adjusted capital	95.7	95.4	94.9	94.7	100.0
Net interest income/operating revenues	75.2	75.9	75.6	68.0	77.3
Fee income/operating revenues	20.9	22.2	24.6	25.6	24.4
Market-sensitive income/operating revenues	0.4	1.3	(0.7)	5.9	(2.2)
Cost to income ratio	43.9	41.8	41.7	47.7	54.3
Preprovision operating income/average assets	2.2	2.4	2.2	1.9	1.6
Core earnings/average managed assets	1.5	1.6	1.6	1.6	0.5

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Islandsbanki hf--Risk-adjusted capital framework data

(ISK 000s)	Exposure*	Basel III RWA	Average Basel III RW(%)	Standard & Poor's Global Ratings' RWA	Average Standard & Poor's Global Ratings' RW (%)
Credit risk					
Government and central banks	262,632,069	3,818,662	1	7,163,126	3
Of which regional governments and local authorities	17,738,622	3,818,662	22	1,064,317	6
Institutions and CCPs	79,219,982	16,964,024	21	15,752,061	20
Corporate	559,864,219	518,457,423	93	672,848,296	120
Retail	683,463,475	285,764,348	42	412,956,273	60
Of which mortgage	525,664,602	188,654,637	36	246,326,433	47
Securitization§	0	0	0	0	0
Other assets†	29,149,935	32,735,171	112	43,419,562	149
Total credit risk	1,614,329,680	857,739,629	53	1,152,139,319	71
Credit valuation adjustment					
Total credit valuation adjustment	'--	677,043	'--	0	'--
Market risk					
Equity in the banking book	7,635,623	8,018,815	105	73,534,605	963
Trading book market risk	'--	10,360,243	'--	15,540,364	'--
Total market risk	'--	18,379,058	'--	89,074,968	'--
Operational risk					
Total operational risk	'--	100,236,594	'--	140,695,723	'--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings' RWA**	**% of S&P Global Ratings' RWA**
Diversification adjustments					
RWA before diversification	'--	977,032,323	'--	1,381,910,010	100
Total diversification/ Concentration adjustments	'--	'--	'--	544,314,457	39
RWA after diversification	'--	977,032,323	'--	1,926,224,467	139
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings' RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		219,502,002	22.5	218,497,000	15.8
Capital ratio after adjustments‡		219,502,002	22.5	218,497,000	11.3

*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, 2023, S&P Global Ratings.

Table 5

Islandsbanki hf Risk Position

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Growth in customer loans	5.5	3.1	8.9	7.4	12.6
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	39.4	40.7	43.4	40.3
Total managed assets/adjusted common equity (x)	7.7	7.6	8.4	7.5	7.5
New loan loss provisions/average customer loans	(0.1)	0.1	(0.1)	(0.3)	0.9
Net charge-offs/average customer loans	0.0	0.1	0.1	0.1	0.1
Gross nonperforming assets/customer loans + other real estate owned	1.8	1.9	1.8	2.0	3.0
Loan loss reserves/gross nonperforming assets	33.8	50.9	50.9	62.1	56.9

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 6

Islandsbanki hf Funding And Liquidity

	--Year-ended Dec. 31--				
(%)	**2024**	**2023**	**2022**	**2021**	**2020**
Core deposits/funding base	69.5	64.6	60.7	62.5	59.7
Customer loans (net)/customer deposits	139.8	143.8	150.2	146.0	148.2
Long-term funding ratio	94.5	95.2	90.9	91.9	93.8
Stable funding ratio	108.2	115.2	112.5	113.2	117.1
Short-term wholesale funding/funding base	6.5	5.6	10.7	9.6	7.2
Regulatory net stable funding ratio	125.0	124.0	118.0	122.0	123.0
Broad liquid assets/short-term wholesale funding (x)	2.8	4.1	2.4	2.6	3.5
Broad liquid assets/total assets	15.0	19.2	21.2	20.6	21.2
Broad liquid assets/customer deposits	26.0	35.7	42.0	39.5	41.9
Net broad liquid assets/short-term customer deposits	17.1	28.6	24.4	24.7	30.6
Regulatory liquidity coverage ratio (LCR) (%)	168.0	195.0	205.0	1.6	2.0
Short-term wholesale funding/total wholesale funding	20.9	15.5	26.7	24.9	17.8
Narrow liquid assets/3-month wholesale funding (x)	5.2	9.0	15.5	8.5	7.3

N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Islandsbanki hf--Rating component scores

Issuer credit rating	**BBB+/Positive/A-2**
SACP	bbb+
Anchor	bbb
Economic risk	4
Industry risk	5
Business position	Adequate
Capital and earnings	Very strong
Risk position	Moderate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	0

Islandsbanki hf--Rating component scores (cont.)	
Issuer credit rating	**BBB+/Positive/A-2**
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, Feb. 10, 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 Update: January 2025, Jan. 30, 2025
- Nordic Banking Outlook 2025: Ample Resilience Amid Lingering Uncertainty, Jan. 24, 2025
- Banking Brief: Costs And Growth Drive Nordic Simplification, Jan. 2, 2025
- Resilient Profitability And Ample Capitalization Continue To Support Nordic Banks´Financial Performance, Nov. 27, 2024
- European Banks Will Pull Multiple Levers To Protect Operating Performance in 2025-2026, Nov. 25, 2024
- Two Icelandic Bank Outlooks Revised To Positive On Potential ALAC Uplift, Nov. 12, 2024
- Banking Industry Country Risk Assessment: Iceland, Sep. 17, 2024
- Three Icelandic Banks Upgraded On Receding Economic Imbalances; Outlooks Stable, April 4, 2024
- Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed, May 17, 2022

Ratings Detail (As Of February 24, 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
24-Apr-2020	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 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.