

Research Update:

Iceland-Based Landsbankinn hf. Upgraded To 'A-' On Additional Loss-Absorbing Capacity; Outlook Stable

April 28, 2025

Overview

- Over the second half of 2024 and early 2025, Landsbankinn hf. issued subordinated debt instruments that have bolstered its additional loss-absorbing capacity (ALAC), providing further protection to senior creditors in a resolution scenario.
- Landsbankinn's recent issuance of senior nonpreferred notes demonstrates its sound market access and we expect the bank will durably maintain an ALAC buffer above our adjusted threshold for a one-notch rating uplift.
- We therefore raised our long-term issuer credit rating on Landsbankinn to 'A-' from 'BBB+' and affirmed our 'A-2' short-term issuer credit rating. At the same time, we raised our long- and short-term resolution counterparty ratings (RCRs) to 'A/A-1' from 'A-/A-2'.
- The stable outlook reflects our view that Landsbankinn will maintain an ALAC buffer above 4% of our risk-weighted assets (RWAs) and a risk-adjusted capital (RAC) ratio above 15% over the next two years.

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Rating Action

On April 28, 2025, S&P Global Ratings raised its long-term issuer credit rating on Landsbankinn hf. to 'A-' from 'BBB+' and affirmed the short-term issuer credit rating at 'A-2'. The outlook is stable.

At the same time, we raised our long- and short-term RCRs on Landsbankinn to 'A/A-1' from 'A-/A-2'.

We also raised our issue ratings on Landsbankinn's senior unsecured instruments to 'A-' from 'BBB+'. We affirmed our 'BBB' rating on the bank's senior subordinated debt, reflecting that the additional expected ALAC buffers provide protection only to the bank's senior unsecured creditors.

Rationale

Build-up of ALAC led us to upgrade Landsbankinn. We now rate Landsbankinn one notch higher than our assessment of its stand-alone credit profile (SACP), on the back of its additional ALAC buffer. This reflects Landsbankinn's accumulation of a larger cushion of bail-inable instruments. In a resolution scenario, this buffer would be available to absorb losses and recapitalize the bank, thus further reducing the likelihood of authorities imposing losses on senior unsecured obligations.

Successful issuance of senior nonpreferred instruments demonstrates Landsbankinn's sound market access. On March 20 and March 26, 2025, respectively, Landsbankinn issued senior nonpreferred notes in two tranches: Swedish krona (SEK) 1.3 billion (€116 million) with a four-year tenor and Norwegian krone (NOK) 500 million (€42 million) with a five-year tenor. This followed a similar transaction in September 2024 that--alongside Icelandic Króna (ISK) 40.1 billion in tier 2 notes--brought the bank's ALAC buffer to 4.2% of S&P Global Ratings' RWAs at year-end 2024; we expect the bank will maintain a similar level through 2027. This is above our 4% threshold including a 100 basis-point adjustment above our standard threshold, reflecting Landsbankinn's concentration of ALAC in a small number of instruments outstanding. While this is consistent with several other midsize Nordic banks, we consider this implies higher refinancing risks.

We expect Landsbankinn will maintain a comfortable margin against its minimum requirement for own funds and eligible liabilities (MREL). As of Dec. 31, 2024, Landsbankinn's MREL buffer stood at 38.2% of the total risk exposure amount, against a minimum requirement of 30.9%. On the same date, Landsbankinn's own funds and subordinated debt instruments equaled 25.5% against the regulatory subordination requirement of 23.4%. To maintain a margin to the requirement while supporting its growth ambitions, we expect Landsbankinn will continue to issue debt and replace maturing instruments. Even so, given Landsbankinn fulfills a large part of its subordinated MREL requirement with tier 1 capital and the phase-in period for the subordination requirement ends first in September 2027, we expect the bank will have limited need for new issuance over the next two years.

Robust capitalization supported by sound earnings generation and hybrid issuance.

Landsbankinn acquired insurance company TM tryggingar hf. from Kvik Bank for ISK32.3 billion (€223 million) on Feb. 28, 2025. Ahead of the transaction, Landsbankinn issued additional tier 1 notes totaling ISK12.8 billion. We expect further hybrid issuance over the next two years to support the bank's growth ambitions. Moreover, we forecast net income of ISK32 billion-ISK36 billion (€220 million-€248 million) over 2025-2027, compared with ISK37.5 billion in 2024, resulting in a return on average equity of 10%-11% (11.9%). Altogether, we project this will support a robust RAC ratio of 15%-16% over the next two years, notwithstanding potential extraordinary capital distribution beyond ordinary dividends of 50% of annual net income.

Outlook

The stable outlook reflects our expectation that Landsbankinn will maintain a robust credit profile with strong income generation, ample capitalization, and sound asset quality comparable with its domestic peers. In particular, we expect Landsbankinn will sustain its ALAC ratio above 4% of S&P Global Ratings' RWAs and its RAC ratio above 15%, notwithstanding the potential for distribution of excess capital, over the next two years.

Downside scenario

We could lower the ratings if Landsbankinn failed to sustain its ALAC above our adjusted threshold or if its RAC ratio weakened sustainably below 15%. This could materialize, for example, if credit losses rose significantly above our base-case expectations, or if risk-weighted assets outgrew its capital position.

We could also take a negative rating action if we observed a material deterioration in Iceland's macroeconomic indicators, to which Landsbankinn would not be immune.

Upside scenario

Although unlikely at this stage, we could upgrade Landsbankinn if we considered that the risks in Icelandic banks' operating environment had materially lowered.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2
Stand-alone credit profile	bbb+	bbb+
Anchor	bbb	bbb
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Very strong (+2)	Very strong (+2)
Risk position	Moderate (-1)	Moderate (-1)
Funding and liquidity	Adequate and adequate (0)	Adequate and adequate (0)
Comparable ratings analysis	0	0
Support	+1	0
ALAC support	+1	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

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 | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, 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: March 2025, March 28, 2025
- Landsbankinn hf., Feb. 10, 2025
- The Top Trends Shaping European Bank Ratings In 2025: Solid Positions, Growing Ambitions, Jan. 27, 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
- Banking Industry Country Risk Assessment: Iceland, Sept. 17, 2024
- Bulletin: TM Acquisition Will Broaden Landsbankinn hf.'s Customer Offering And Will Have A Moderate Effect On Capital, June 5, 2024

Ratings List

Ratings Affirmed

Landsbankinn hf.

Senior Subordinated	BBB
Subordinated	BBB-
Junior Subordinated	BB

Upgraded

	To	From
Landsbankinn hf.		
Resolution Counterparty Rating	A/--/A-1	A/--/A-2

Landsbankinn hf.

Senior Unsecured	A-	BBB+
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Upgraded; CreditWatch/Outlook Action; Ratings Affirmed

	To	From
Landsbankinn hf.		
Issuer Credit Rating	A-/Stable/A-2	BBB+/Positive/A-2

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