

Landsbankinn hf.

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Landsbankinn hf.

SACP	bbb	+	Support	0	+	Additional Factors	0
Anchor	bbb-		ALAC Support	0		Issuer Credit Rating BBB/Stable/A-2	
Business Position	Adequate	0	GRE Support	0			
Capital and Earnings	Very Strong	+2	Group Support	0			
Risk Position	Moderate	-1	Sovereign Support	0			
Funding	Average	0					
Liquidity	Adequate						

Credit Highlights

Overview	
Key strengths	Key risks
Very high capital and leverage ratios.	Relatively high exposure to tourism and commercial real estate (CRE).
Stable and solid domestic franchise, with larger market shares.	Domestic economy limits opportunity to diversify risk.
Limited wholesale refinancing needs.	Tough operating environment and strong competition weighs on profitability prospects.

We expect the risk-adjusted capital (RAC) ratio to remain above 15% and on-going capital optimization. The RAC ratio stood at 18.9% as of year-end 2020, and we expect it to decline to about 16.5% by 2023 on the back of risk-weighted asset inflation and limited retained earnings as the bank optimizes its capital structure. The bank proposed dividend payout of 43% for 2020, with additional payout likely, given constructive 2021 performance in first-half 2021. We expect the bank to maintain a 50% payout ratio in the future and issue additional Tier 1 instruments when markets allow. Earnings will be supported by a combination of increasing cost efficiency gains, and strong lending growth and asset management and corporate finance activity as the economic recovery takes hold.

Landsbankinn's asset quality indicators are likely to remain vulnerable over the next 18-24 months as fiscal and monetary support is withdrawn, and international tourism displays an uneven recovery. The bank lacks geographic diversification and has meaningful exposure to volatile sectors, such as real estate and construction (16%) and tourism (7%), which are more stressed in the current economic environment. Unlike other domestic peers, Landsbankinn has not reclassified the exposure to tourism in the watchlist category (Stage 2). However, the bank took significant general provisions of Icelandic krona (ISK) 1.6 billion in second-quarter 2021 to build reserves for loans to the travel sector. The bank's ratio of nonperforming loans (NPL) stood at 3% as of June 2021 and we expect it to be within 3%-4% in the next few years with coverage of about 50%-55%, which we consider to be relatively low, albeit partially compensated by the sizable collateralization levels.

Landsbankinn maintains a solid business position in Iceland but remains closely comparable with the other two domestic commercial banks, Arion and Islandsbanki. Landsbankinn's business position reflects the bank's solid domestic franchise across most business lines in Iceland and advanced digital offering. Landsbankinn has a strong market share of about one-third of the Icelandic banking market and maintains a comparable market position in most business lines.

Outlook: Stable

The stable outlook indicates that although we expect a gradual economic recovery in Iceland over the next two years to be reflected in Landsbankinn's performance, residual risks from the pandemic and fiscal and monetary policy normalization remain. The recovery in international tourism remains vulnerable to set-backs that could impair the bank's profitability, causing return on equity (ROE) to remain around 7%-9% over the next two years. Furthermore, despite a constructive performance in first-half 2021, asset quality may yet deteriorate further, such that Landsbankinn's nonperforming assets (NPA) ratio is likely to rise to around 4%, from 3% as of June 2021.

We acknowledge that Landsbankinn has a higher market share and slightly better efficiency than domestic peers. During the next two years, we anticipate that its RAC ratio will remain above 15%, supported by moderate loan growth and resilient earnings. We also factor in our base case that the bank will improve its local currency liquidity metrics as planned, in line with its peers.

Downside scenario

We could lower the ratings on Landsbankinn if the economic environment in Iceland becomes even more difficult, causing profitability prospects for banks to weaken for a prolonged period, alongside declining capitalization, with RAC ratio falling below 15%, and worsening asset quality.

Upside scenario

We could raise our ratings on Landsbankinn if it proves able to significantly strengthen the performance of its returns, efficiency, and risk profile above domestic peers, with no further widening of the gap it has with foreign peers.

Key Metrics

Landsbankinn hf. -- Key Ratios And Forecasts

	--Fiscal year ended Dec. 31 --				
(%)	2019a	2020a	2021f	2022f	2023f
Growth in operating revenue	12.7	(10.7)	(0.2)-(0.2)	8.5-10.4	5.8-7.1
Growth in customer loans	6.8	12.4	4.5-5.5	4.5-5.5	4.5-5.5
Growth in total assets	7.6	9.7	4.4-5.3	4.1-5.0	4.1-5.0
Net interest income/average earning assets (NIM)	3.1	2.7	2.5-2.7	2.5-2.8	2.6-2.8
Cost to income ratio	41.8	47.5	47.1-49.5	43.5-45.7	41.3-43.4
Return on average common equity	7.5	4.2	4.9-5.5	6.1-6.7	6.6-7.3
Return on assets	1.3	0.7	0.8-0.9	0.9-1.1	1.0-1.2
New loan loss provisions/average customer loans	0.4	1.0	0.4-0.4	0.3-0.3	0.3-0.3
Gross nonperforming assets/customer loans	3.1	3.2	3.5-3.8	3.5-3.9	3.5-3.8

Landsbankinn hf. -- Key Ratios And Forecasts (cont.)

	--Fiscal year ended Dec. 31 --				
(%)	2019a	2020a	2021f	2022f	2023f
Net charge-offs/average customer loans	0.3	0.2	0.2-0.2	0.2-0.2	0.2-0.2
Risk-adjusted capital ratio	17.6	18.9	17.2-18.1	17.0-17.9	16.9-17.7

All figures are S&P Global Ratings-adjusted. a--Actual. e--Estimate. f--Forecast.

Anchor:'bbb-' For Banks Operating Primarily In Iceland

We use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Iceland is 'bbb-', based on an economic risk score of '4' and an industry risk score of '6'.

Our view of the economic risk trend that Icelandic banks face is negative. Banks faced a sharp economic recession in 2020, with GDP declining by 6.6% in real terms. Although we expect the economy will continue to recover from the pandemic through 2021, enabling GDP to recover by around 3%, and almost 5% in 2022. We do not expect tourism figures will reach pre-pandemic levels before 2023. The pace of economic recovery will determine the extent to which Icelandic banks face deteriorating asset quality, increased credit losses, reduced business and revenue generation, and potentially capital erosion. Banks' structural exposures to local small and midsize enterprises (SMEs), including tourism, which we view as a more vulnerable sectors in the current context, and CRE and construction (about 20% of the loan book) increase the risks.

We observe a stable trend for industry risk in the Icelandic banking sector. Although we expect banks' lending will remain based on sound commercial practices, overall profitability will stabilize at moderate levels (projected at about 7%-9% ROE) in the absence of the substantial one-off items reported over the past few years and in light of economic recession challenges.

Banks' wholesale funding needs in the next two years are sizable but manageable, with no pressure on liquidity owing to strong customer deposit inflows, additional central bank liquidity facilities, and dividend payment cancellations.

On Oct. 27, 2020, The Financial Action task Force (FATF) removed Iceland from its "gray list" of monitored jurisdictions. This is in line with our expectations and reflects the improvements made in multiple areas to strengthen its anti-money laundering and financial crime framework.

Business Position: Largest Universal Bank In Iceland

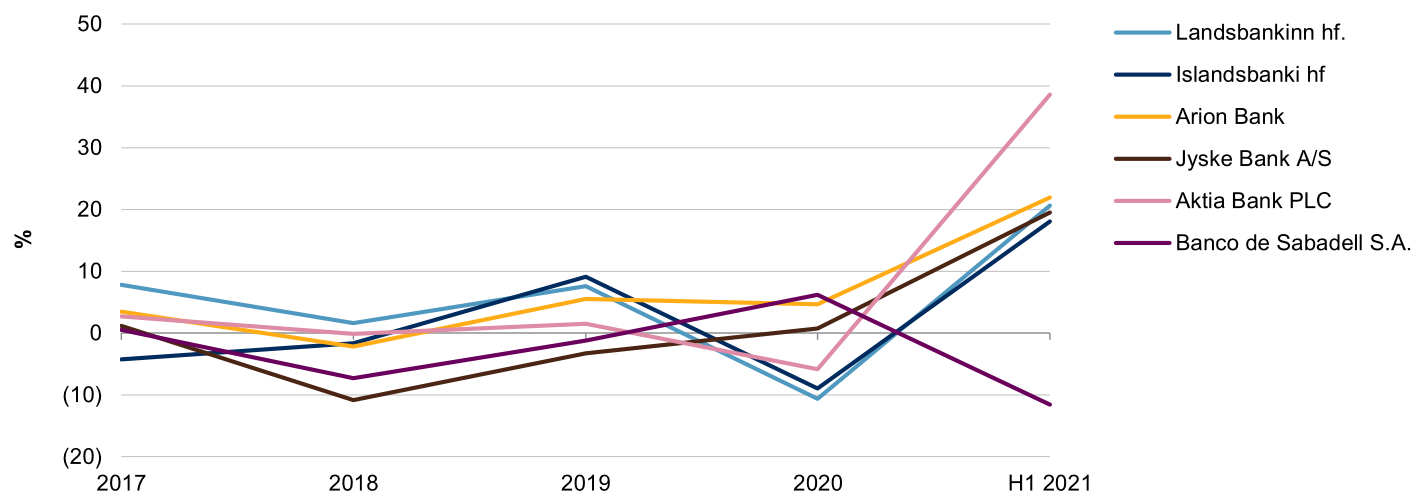
Our view of Landsbankinn's business position reflects its leading market share in primary business lines such as corporate and retail banking, asset management, and corporate finance. Landsbankinn has traditionally been the leading corporate bank in Iceland, and it has gradually gained a dominant role in the domestic retail mortgage space, too, mainly by taking shares from the state-owned Housing Financing Fund. As such, we calculate that Landsbankinn has reached a share of about 27% of the Icelandic mortgage market, the highest in the country. This has translated into

a steady increase in operating revenue year on year in comparison with peers (see chart 1).

Chart 1

Landsbankinn Has Experienced A Steady Increase In Operating Revenue

Year-on-year growth in operating revenue



Source: S&P Global Ratings.

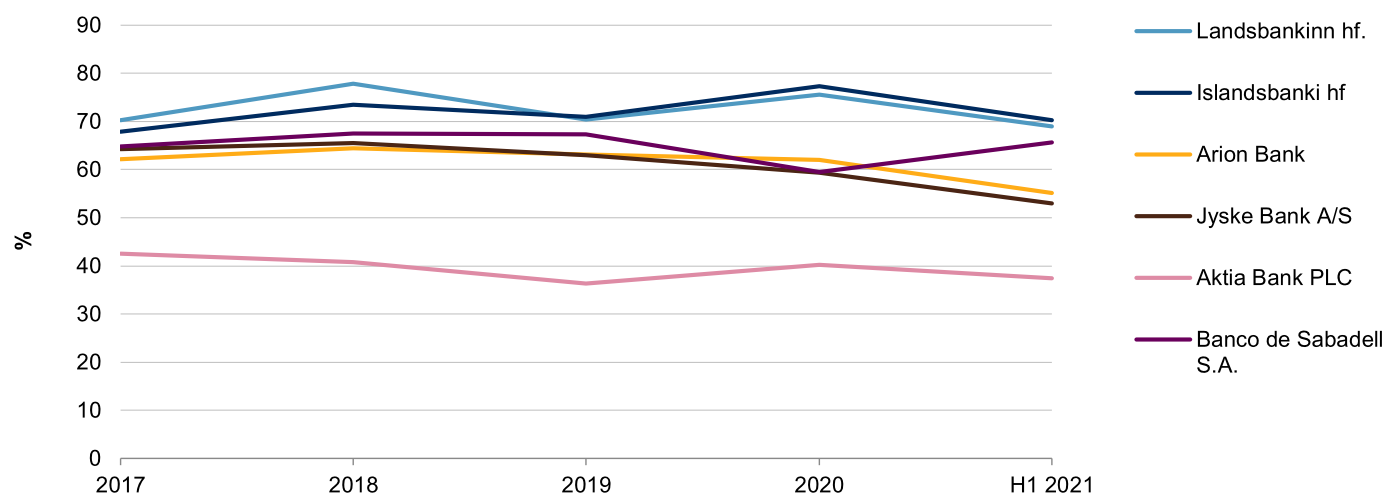
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The bank has diverse revenue from retail banking, including consumer finance, midsize and large corporate activities, wealth management, and trading activities. However, the small domestic economy limits diversification prospects, in our view, which translates in a high dependency on net interest income over operating revenue versus international peers (see chart 2).

Chart 2

Landsbankinn Relies Heavily On Net Interest Income

Net interest income/operating revenue



Source: S&P Global Ratings.

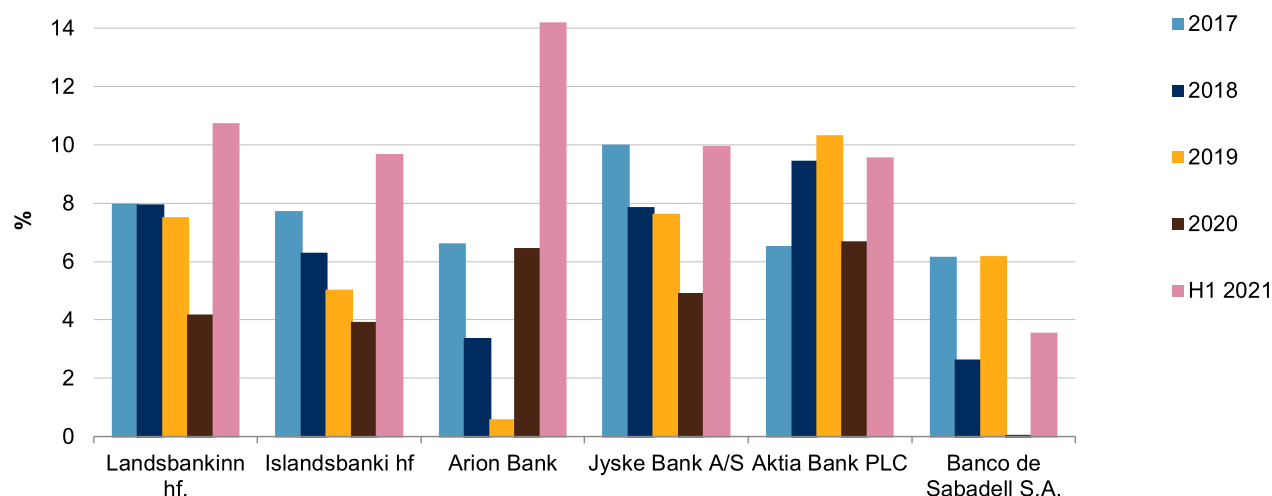
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Although Landsbankinn's leading market position has translated in stronger profitability compared with domestic peers, the management targets of ROE above 10% and cost to income below 45% will be challenging to consistently achieve in the medium term. Relative to peers, Landsbankinn has experienced a reversal in its ROE trend, as seen in chart 3.

Chart 3

Landsbankinn Experienced A Reversal In Its ROE Trend

Return on average common equity



Source: S&P Global Ratings. ROE--Return on equity.

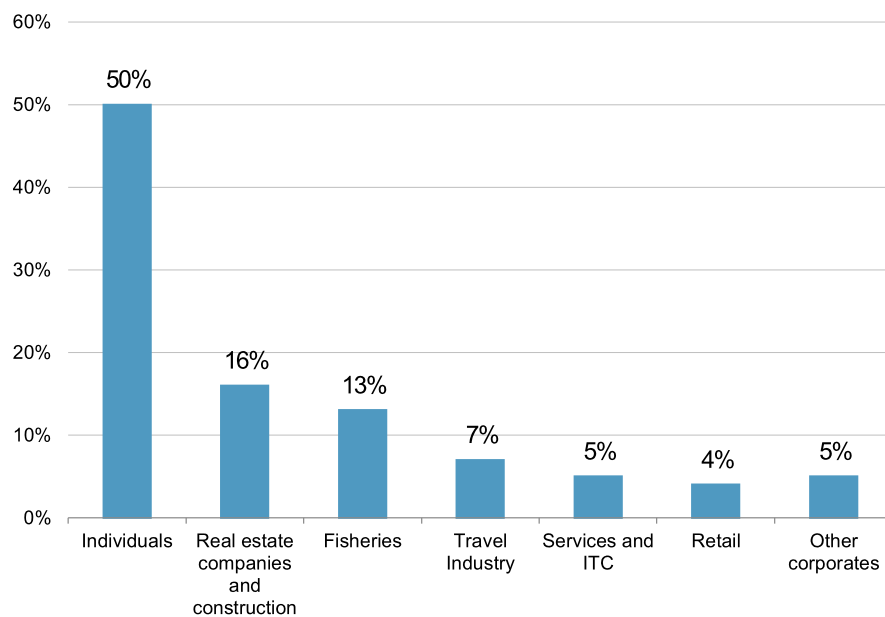
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In our view, the bank is well prepared to weather technological disruption in the banking sector. Although the bank operates the largest network in the country by number of branches and employees, it continues focusing on its digital key performance indicators. These include digital client onboarding, savings product, and loan offerings. In our view, Landsbankinn is creating an advanced digitalized bank and is well placed to reap the benefits of open banking, although Europe's regulation for electronic payment services, Payment Services Directive 2 (PSD2), has been implemented into Icelandic Law and will come into effect on Nov. 1, 2021.

The bank has no public policy role and the government is not involved in its management or strategy, despite the 98.2% ownership by the Icelandic government. The government plans to reduce its stake in the bank to 34%-40% over time, although no official timeline has been disclosed, we do not expect any material divestments over our two-year outlook horizon. We think the government will withdraw its ownership from Landsbankinn in stages, and we assume that the government does not intend to hold a majority stake in the bank over the longer term.

Chart 4**Landsbankinn hf. -- Concentration On Real Estate And Tourism**

Loan portfolio composition

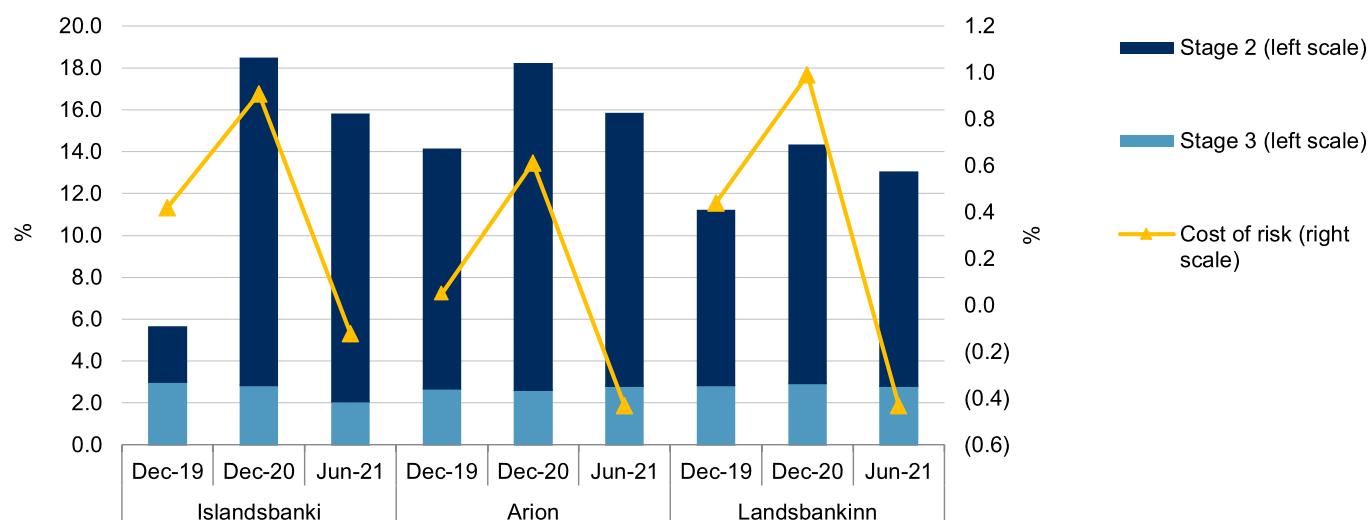


Source: Landsbankinn, as of June 30, 2021.

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Chart 5

Impaired Loans Breakdown Shows A Sharp Increase In NPLs Watchlist NPLs (Stage 3) and watchlist (Stage 2)



NPLs--Nonperforming loans. Source: S&P Global Ratings.

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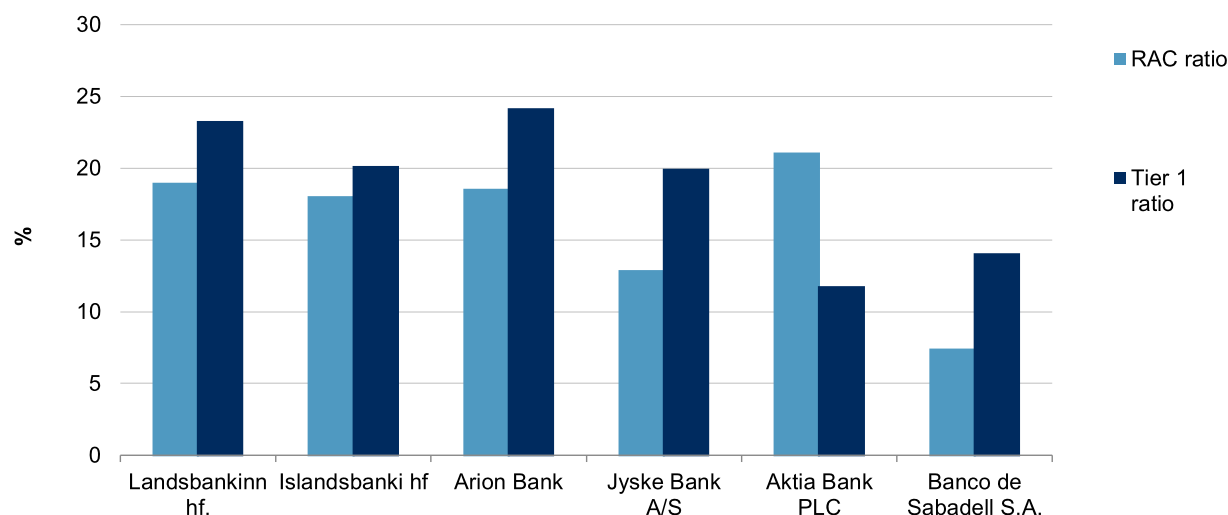
Capital And Earnings: High Capital Ratio Is A Supportive Factor In Challenging Times

We view Landsbankinn's capital level as a positive rating factor. The RAC ratio improved to 18.9% as of year-end 2020, the highest amongst its peers (see chart 6), from 17.6% as of year-end 2019, due to restrictions on dividend payout in light of economic uncertainty in 2020. We expect the RAC ratio to decline to about 16.5% by 2023, on the back of an increasing loan book and normalization of dividend payouts along with special dividends or share buybacks as the bank optimizes its capital structure. Although there is great uncertainty regarding credit loss levels for the coming two years, we expect the cost of risk to average about 30-35 basis points(bps) in 2021-2023, from 99bps at year-end 2020.

Chart 6

Landsbankinn Has A Strong RAC Ratio Amongst Peers

S&P Global Ratings risk-adjusted capital versus Tier 1 ratios



RAC--Risk-adjusted capital. Source: S&P Global Ratings. 2020 annual figures.
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We base our capital forecasts on the state's ownership of the bank and regulatory capital requirements. Specifically, we expect the government will remain Landsbankinn's majority shareholder and keep a cautious stance on capital. Moreover, the regulatory capital requirements in Iceland remain high relative to those in other European countries, mostly due to the concentrated and volatile nature of the Icelandic economy. We note that Landsbankinn's 25.1% total capital ratio as of June 30, 2021 (common equity Tier 1 ratio of 23.3%) remains well above the requirement of 18.9%. Furthermore, the bank has an outstanding leverage ratio of about 14.4% as of June 30, 2021, compared with its 6%-7% at its European peers.

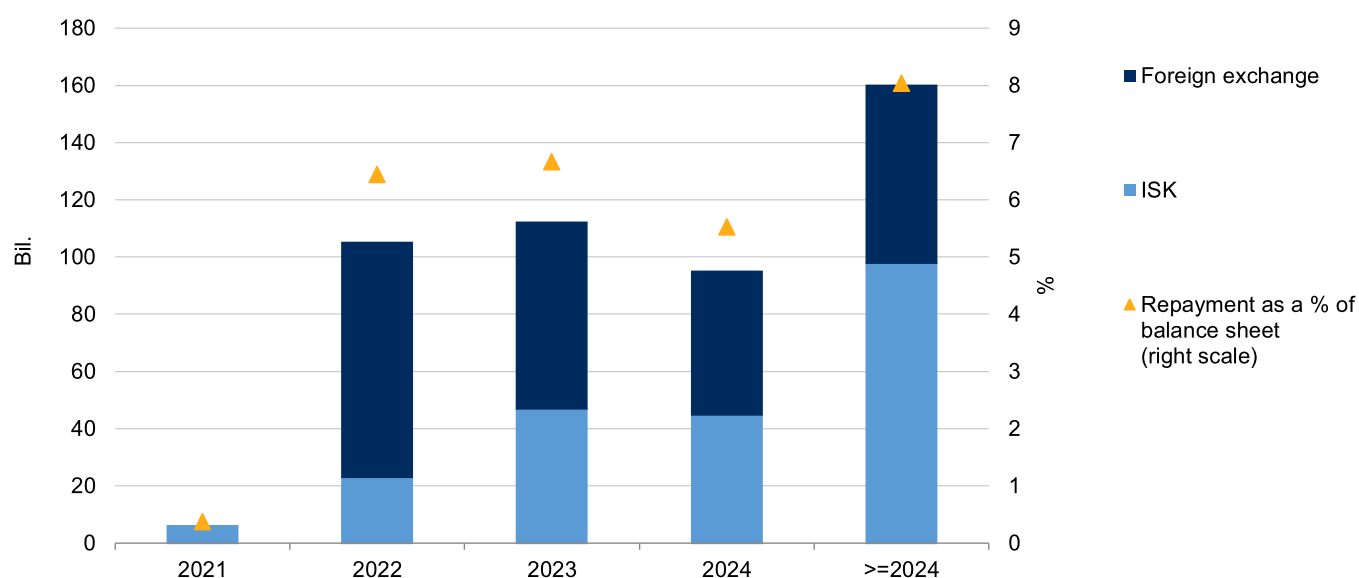
Specifically, we still expect Landsbankinn to issue capital instruments in the coming years to optimize its capital base. Landsbankinn has historically issued Tier 2 subordinated bonds and we expect it to tap the market for an additional Tier 1 instrument, in the next two years, the market permitting.

We expect Landsbankinn's profitability will gradually improve over the two-year forecast horizon, with ROE of about 7%-9% over the next two years. The central bank raised its policy rate by 0.25% to 1.5% in October 2021. This may help offset prior loan margin compression and declining net interest income in 2020 that resulted from declining volume growth and intense competition. We expect the key sensitivity in the bottom line will be from loan impairments. Landsbankinn reported a net income of ISK14.1 billion in the first half of 2021, compared with a loss of ISK3.3 billion in first half of 2020, due to loan impairment reversal of ISK2.8 billion versus a charge of ISK13.4 billion in first-half 2020. We note positively the relatively strong efficiency ratio of 43.7% in first-half 2021, and we expect the bank to maintain a flat cost base, which will partly offset the pressure on revenue.

Landsbankinn's earnings buffer, which measures the capacity for a bank's earnings to cover normalized losses, was recorded at 137bps at year-end 2020. We expect this to improve to 140-160bps in the coming two years as a result of gradually recovering performance outlook.

Chart 7

Landsbankinn hf. -- Maturity Profile Of Long-Term Debt



ISK--Icelandic krona. Source: Landsbankinn, as of June 30, 2021. Repayment as % of balance sheet is defined as maturing debt divided by total assets as of June 2021.

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Risk Position: Concentration Risks Remain And Could Escalate Asset Quality Deterioration

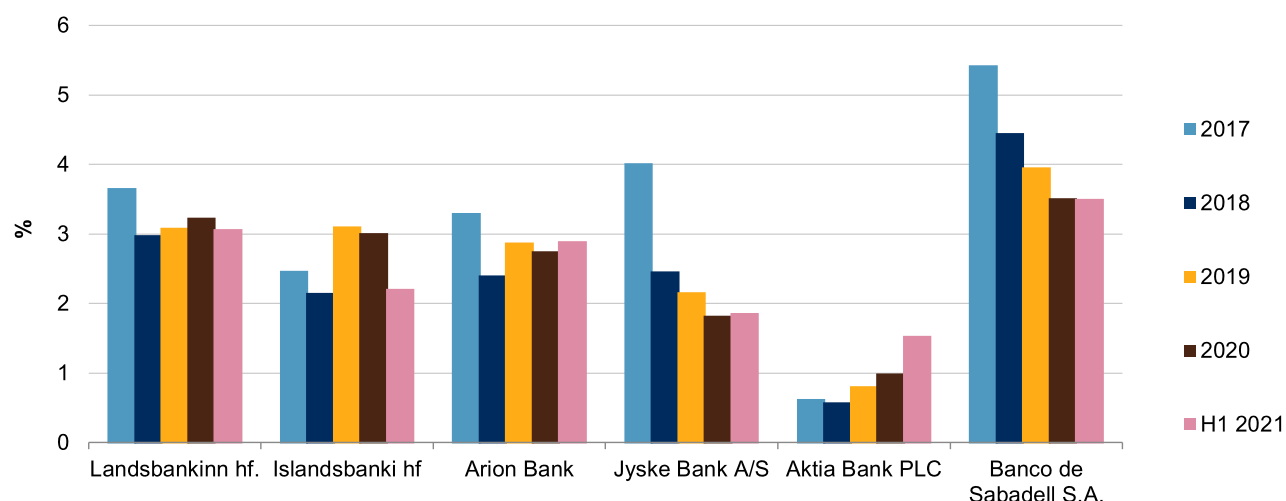
Our view of Landsbankinn's risk position mainly reflects its geographic concentration in a relatively volatile economy. This is a weakness compared with international peer banks of similar economic risk and anchor and is not fully captured by our standardized capital calculation.

In line with other Icelandic banks, Landsbankinn's NPL ratio has remained relatively stable through the recent crises and stood at 3% as of June 30, 2021, supported by the various government COVID-19 relief measure in place (see chart 8). As these measures phase out, we expect the NPL ratio to remain within 3%-4% in the next few years with coverage of about 55%. Specifically, we consider the total NPL coverage ratio to be relatively low, albeit partially compensated by the sizable collateralization levels.

Chart 8

Landsbankinn Performed In Line With Peers

Nonperforming assets



Source: S&P Global Ratings.

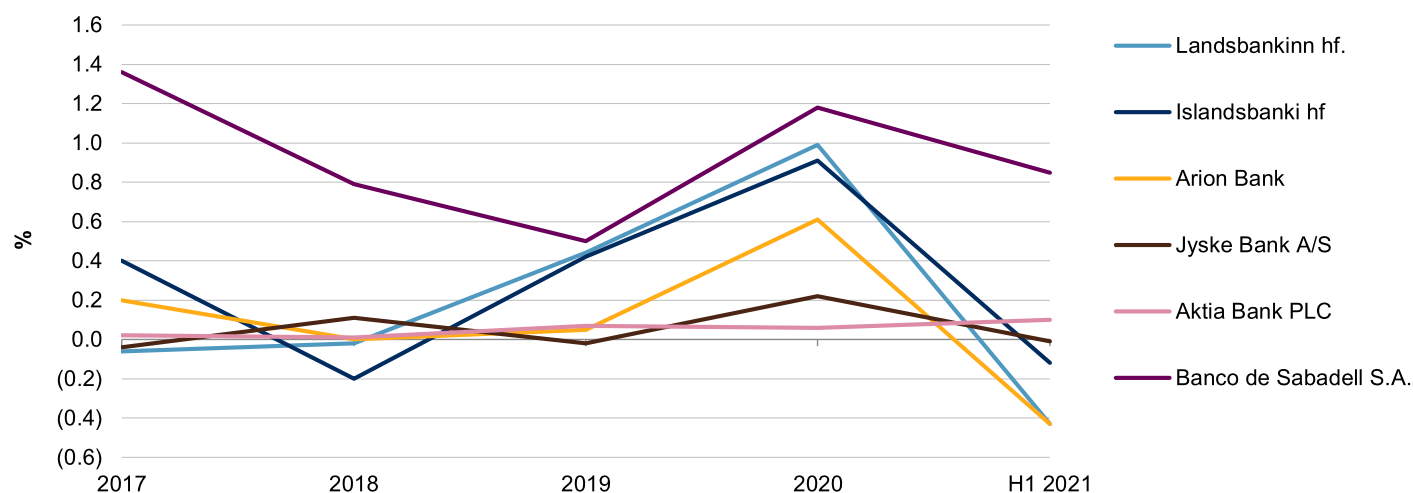
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Given Landsbankinn's large market shares in retail and SME lending, we think the bank's risk profile remains highly correlated to the domestic economy. Landsbankinn's loan book is primarily focused on retail loans (50% of total loans, of which 42% mortgages), real estate and construction (16%), and fishing/seafood (14%). Exposure to tourism accounts for about 7% of total loans. This includes hotels, transportation, and other services. Tourism is prone to volatility and is especially vulnerable at this time amid global travel restrictions. The sector has experienced strong wage inflation and investments in recent years, with little consolidation. Hence, the pre-COVID-19 vulnerability triggers asset quality concerns. Unlike other domestic peers, Landsbankinn has not reclassified its exposure to tourism into the watchlist category (Stage 2). However, it has taken large general provisions of ISK1.6 billion in second-quarter 2021 to build up reserves for loans to the travel sector. Like peers, Landsbankinn has experienced a substantial increase in credit losses over the pandemic.

Chart 9

Credit Losses At Icelandic Banks Spiked During The Pandemic

New loan loss provisions/average customer loans



Source: S&P Global Ratings.

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At the same time, the bank has a higher share of lending to construction companies than to the tourism sector. These loans are generally more sensitive to swings in economic development than other industries in Landsbankinn's portfolio.

Landsbankinn has large exposure concentrations relative to domestic peers, and we note that the Pillar 2 regulatory requirement set by the Icelandic FSA is also higher than domestic peers'. We consider that this is due to the higher exposure to real estate, equity holdings (12% of total adjusted capital), and larger consumer price index imbalances.

Following the recent depreciation of the Icelandic krona, foreign currency lending represents 35.6% of the corporate loan book as of June 30, 2021. However, the bank mitigates this risk by granting credit to customers with income or assets in foreign currency. This mainly includes the fishing and transportation industry and modest exposure to foreign companies.

Funding And Liquidity: Limited Wholesale Debt Maturities And Normalizing Liquidity Metrics

Our assessment reflects that Landsbankinn is predominantly funded by customer deposits, which constitute about 62% of total funding as of June 30, 2021, and represent a stable source of funding. Although the loan-to-deposit ratio (155% as of June 30, 2021) remains high compared with international peers', the bank relies on stable sources of wholesale financing, primarily covered bonds and senior unsecured issues. Landsbankinn's stable funding ratio was at 106% on

June 30, 2021, a marginal decline from 107% on Dec. 31, 2020. Although there are relatively higher debt maturities in foreign currency in the near term, we view the potential pressure on funding and liquidity metrics for Landsbankinn to be contained.

Landsbankinn's liquidity is set to remain comfortable supported by high liquid assets on the balance sheet. Our measure of liquidity, broad liquid assets to short-term wholesale funding, decreased modestly to 1.94x in June 2021 from 2.21x in December 2020, due to high upcoming maturities. However, we expect this to normalize in the medium term as the maturity profile normalizes. Although the bank's regulatory liquidity coverage ratio in Icelandic krona improved to 112% as at end-June 2021 from 105% at year-end 2020, this is still somewhat lower than the ratios for Islandsbanki and Arion bank.

In September 2021, the central bank of Iceland announced an increase in the counter-cyclical buffer from 0% to 2%. This will take effect from September 2022.

Support: Government Support For Icelandic Banks Is Uncertain

We expect the government will gradually decrease its ownership in Landsbankinn from its current level of 98.2%. According to its ownership policy, the government plans to retain a minority stake of 34%-40% over the long term. As such, we do not consider Landsbankinn to be a strategic government-related entity for Iceland. Although we regard the bank as having high systemic importance, we add no uplift to the stand-alone credit profile (SACP) because we think future extraordinary government support is uncertain. This reflects the Icelandic government's track record of not providing support for senior creditors and its improved, but still limited, capacity to support the country's new, smaller banking system in the event of severe financial stress.

At present, we do not regard the banking resolution framework as effective. Therefore, we do not consider additional loss-absorbing capacity in our ratings on Icelandic banks. We regard the current framework as open ended but, in our view, the authorities' method of dealing with failing banks so far indicates a tendency to safeguard depositors rather than senior unsecured creditors.

In June 2018, the Icelandic parliament passed a bill that incorporates into local legislation part of the EU's Banking Recovery And Resolution Directive provisions, including recovery plans, early interventions, and intra-group support. In June 2020, the parliament approved the "Act on the Resolution of Credit Institutions and Financial Undertakings" (No. 70/2020), which entered into force on Sept. 1, 2020. Implementation is therefore in its very early stages. The newly established resolution authority will eventually oversee resolution and related matters. For now, the Financial Stability Committee is expected to wield powers of resolution and will be in control of the earliest intervention measures. A full implementation of the Icelandic resolution framework, including bail-in powers, could open the door for additional rating support if the three largest banks--Landsbankinn, Islandsbanki, and Arion Bank--are required to build additional subordinated loss-absorbing buffers, and we consider that this could offer a bank's senior creditors extra protection if the bank fails.

Additional Rating Factors: None

No additional factors affect this rating.

Environmental, Social, And Governance

We view Landsbankinn's ESG credit factors as being broadly in line with domestic and European peers. The bank's corporate governance is consistent with industry norms.

Landsbankinn has made progress in 2021 introducing responsible investment funds, sustainable finance framework for green, sustainable and social project funding, quantified internal emissions, and issued green bonds. The bank is particularly focused on three sustainable development goals of gender equality, decent work and economic growth, and responsible consumption and production.

We see Landsbankinn's governance standards as consistent with domestic norms.

Hybrid Ratings

We rate Landsbankinn's subordinated debt 'BB+', two notches below the bank's 'bbb' SACP. We deduct one notch due to the instruments' subordination to senior creditors' claims, and another notch because the instruments are available to absorb losses at the point of nonviability of the bank via statutory loss absorption. Given the lack of going-concern loss absorption, we are not including the instruments in our calculation of the total adjusted capital.

Key Statistics

Table 1

Landsbankinn hf. -- Key Figures					
	--Year ended Dec. 31--				
Mil. ISK	2021*	2020	2019	2018	2017
Adjusted assets	1,675,453	1,562,481	1,424,032	1,323,419	1,189,826
Customer loans (gross)	1,327,044	1,281,386	1,140,388	1,067,667	941,826
Adjusted common equity	248,425	242,479	230,363	227,066	230,011
Operating revenues	27,485	50,384	56,391	50,037	51,605
Noninterest expenses	12,010	23,944	23,581	23,453	23,850
Core earnings	14,105	10,520	18,677	17,399	18,813

*Data as of June 30, 2021. ISK--Icelandic krona.

Table 2

Landsbankinn hf. -- Business Position					
	--Year ended Dec. 31--				
%	2021*	2020	2019	2018	2017
Loan market share in country of domicile	N/A	N/A	28.0	26.8	25.7
Deposit market share in country of domicile	N/A	N/A	35.2	36.6	34.1
Total revenues from business line (mil. ISK)	27,485	50,386	56,394	53,687	52,947
Commercial banking/total revenues from business line	37.25	35.37	34.66	36.44	33.20
Retail banking/total revenues from business line	35.14	42.31	38.29	34.07	35.84
Commercial and retail banking/total revenues from business line	72.39	77.68	72.95	70.51	69.04
Trading and sales income/total revenues from business line	15.96	11.97	19.35	15.93	15.81
Other revenues/total revenues from business line	0.64	10.34	7.70	13.56	15.15
Return on average common equity	10.72	4.16	7.48	7.93	7.95

*Data as of June 30, 2021. ISK--Icelandic krona.

Table 3

Landsbankinn hf. -- Capital And Earnings					
	--Year ended Dec. 31--				
%	2021*	2020	2019	2018	2017
Tier 1 capital ratio	23.30	23.20	23.90	23.60	26.30
S&P Global Ratings' RAC ratio before diversification	N/A	18.92	17.61	18.03	19.39
S&P Global Ratings' RAC ratio after diversification	N/A	13.31	12.13	12.49	13.88
Adjusted common equity/total adjusted capital	100.00	100.00	100.00	100.00	100.00
Net interest income/operating revenues	68.98	75.57	70.35	81.57	70.29
Fee income/operating revenues	15.89	15.16	14.58	16.30	16.34
Market-sensitive income/operating revenues	13.04	6.84	10.57	0.31	8.58
Noninterest expenses/operating revenues	43.70	47.52	41.82	46.87	46.22
Preprovision operating income/average assets	1.91	1.77	2.38	2.11	2.41
Core earnings/average managed assets	1.74	0.70	1.36	1.38	1.63

*Data as of June 30, 2021. ISK--Icelandic krona. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Landsbankinn hf. -- Risk-Adjusted Capital Framework					
(Mil. ISK)	Exposure*	Basel III RWA	Average Basel III RW(%)	S&P Global RWA	Average S&P Global RW (%)
Credit risk					
Government & central banks	156,444	3,650	2	6,251	4
Of which regional governments and local authorities	9,423	1,888	20	1,060	11
Institutions and CCPs	47,703	8,675	18	21,236	45
Corporate	657,742	643,388	98	679,148	103
Retail	650,724	272,813	42	310,902	48
Of which mortgage	513,883	190,213	37	187,433	36
Securitization§	0	0	0	0	0
Other assets†	58,788	55,050	94	71,590	122

Table 4

Landsbankinn hf. -- Risk-Adjusted Capital Framework (cont.)					
Total credit risk	1,571,401	983,575	63	1,089,128	69
Credit valuation adjustment					
Total credit valuation adjustment	--	175	--	0	--
Market Risk					
Equity in the banking book	18,913	27,900	148	59,627	315
Trading book market risk	--	11,526	--	17,289	--
Total market risk	--	39,426	--	76,916	--
Operational risk					
Total operational risk	--	99,485	--	115,640	--
(Mil. ISK)	Exposure	Basel III RWA	Average Basel II RW (%)	S&P Global RWA	% of S&P Global RWA
Diversification adjustments					
RWA before diversification	--	1,122,661	--	1,281,683	100
Total Diversification/ Concentration Adjustments	--	--	--	540,478	42
RWA after diversification	--	1,122,661	--	1,822,161	142
(Mil. ISK)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	260,246	23	242,479	19	
Capital ratio after adjustments†	260,246	23	242,479	13	

Table 5

Landsbankinn hf. -- Risk Position					
--Year ended Dec. 31--					
%	2021*	2020	2019	2018	2017
Growth in customer loans	7.13	12.36	6.81	13.36	7.72
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	18.92	45.16	44.41	39.73
Total managed assets/adjusted common equity (x)	6.75	6.45	6.19	5.84	5.19
New loan loss provisions/average customer loans	(0.43)	0.99	0.44	(0.02)	(0.06)
Net charge-offs/average customer loans	0.43	0.17	0.26	0.38	0.49
Gross nonperforming assets/customer loans + other real estate owned	3.05	3.22	3.07	2.97	3.64
Loan loss reserves/gross nonperforming assets	46.37	59.23	42.49	40.38	47.03

*Data as of June 30, 2021. ISK--Icelandic krona.N/A--Not applicable. RWA--Risk-weighted assets.

Table 6

Landsbankinn hf. -- Funding And Liquidity					
--Year ended Dec. 31--					
%	2021*	2020	2019	2018	2017
Core deposits/funding base	61.79	61.66	61.40	65.36	65.81
Customer loans (net)/customer deposits	155.26	158.42	159.01	152.21	152.96
Long-term funding ratio	90.92	93.62	92.57	88.91	94.46

Table 6

Landsbankinn hf. -- Funding And Liquidity (cont.)					
%	--Year ended Dec. 31--				
	2021*	2020	2019	2018	2017
Stable funding ratio	106.07	106.98	107.28	102.67	111.23
Short-term wholesale funding/funding base	10.85	7.65	9.01	13.57	7.01
Broad liquid assets/short-term wholesale funding (x)	1.94	2.21	2.16	1.45	3.27
Net broad liquid assets/short-term customer deposits	17.05	15.44	17.45	9.55	24.86
Short-term wholesale funding/total wholesale funding	28.41	19.95	23.34	39.18	20.50
Narrow liquid assets/three-month wholesale funding (x)	6.59	2.58	2.10	2.10	5.28

*Data as of June 30, 2021. ISK--Icelandic krona.

Related Criteria

- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017
- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Research Update: Iceland 'A/A-1' Ratings Affirmed; Outlook Stable, May 15, 2021
- Leading Nordic Banks Keep Calm And Carry On Despite COVID-19 Stress, Feb 23, 2021
- Banking Industry Country Risk Assessment: Iceland, Dec. 18, 2020
- Bulletin: Iceland's Removal From FATF's Gray List Underlines Its Fast Anti-Money Laundering Response, Oct. 27, 2020
- Nordic Banks' Strong Capital Deflects COVID-19 Impact, Sep 08, 2020
- Bulletin: Icelandic Bank Resolution Act Completes The European Map, But Implementation And Effectiveness Remain Unclear, Sep. 01, 2020

- Full Analysis: Landsbankinn hf., May 26, 2020

Anchor Matrix										
Industry Risk	Economic Risk									
	1	2	3	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of October 18, 2021)*

Landsbankinn hf.

Issuer Credit Rating	BBB/Stable/A-2
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
25-Oct-2016	BBB/Positive/A-2

Sovereign Rating

Iceland	A/Stable/A-1
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*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.

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