S&P Global Ratings

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Landsbankinn hf.

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Rating Score Snapshot

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

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

Anchor	bbb-	
Business position	Adequate	0
Capital and earnings	Very strong	+2
Risk position	Moderate	-1
Funding	Adequate	0
Liquidity	Adequate	
CRA adjustment		0

ALAC support	0
GRE support	0
Group support	0
Sovereign support	0

Issuer credit rating
BBB/Stable/A-2

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

Credit Highlights

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

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

Capitalization is set to fall but remain very strong. We project the risk-adjusted capital (RAC) ratio to be stable at close to 16.5% over our two-year forecast horizon. This is a decline from 18.4% as of Dec. 31, 2021, resulting from two factors: first, the distribution of excess capital built up during the pandemic; and second, the application of higher risk weights on household and corporate exposures in the calculation of our RAC ratio, in view of higher economic risk from the housing market. Despite the decline, this is a level we continue to view as very strong and is an important support for the rating.

The tourism-led economic recovery has improved corporate asset quality, alleviating downside pressure on the rating. Landsbankinn's underperforming and impaired corporate exposures have almost halved from their pandemic peak. This allowed the bank to release credit provisions amounting to 53 basis points (bps) of gross loans throughout 2021 without weakening coverage metrics. That said, asset quality risks have shifted, and we now see elevated risk in the bank's exposure to the Icelandic housing market.

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

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

Outlook

The stable outlook reflects our expectation that the RAC ratio will remain very strong, notwithstanding the potential for distribution of excess capital as the economy emerges from the pandemic. In our base case, we anticipate that profitability will continue to be robust in the next two years, if slightly below peers, as margins rebound from pandemic-induced lows and credit losses revert to about 30 bps of gross loans. In addition, we expect the bank to maintain its leading market position and continue to service most customers digitally, allowing for cost containment notwithstanding high inflation. The stable outlook also reflects our view that Landsbankinn should be able to absorb the effects of a moderate correction in the housing market, should it materialize.

Downside scenario:

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

Upside scenario:

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

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

Key Metrics

Landsbankinn hf. Key Ratios and Forecasts*

	--Fiscal year ended Dec. 31--				
	2020a	**2021a**	**2022f**	**2023f**	**2024f**
Growth in operating revenue (%)	(11.0)	9.0	(1.0)	11.0	4.0
Growth in customer loans (%)	12.0	8.0	6.0	5.0	5.0
Net interest income/average earning assets (NIM) (%)	2.7	2.5	2.7	2.8	2.8
Cost to income (%)	48.0	43.0	43-45	40-42	40-42
Return on equity (%)^	4.2	10.7	6.0-8.0	6.0-8.0	7.0-9.0
Credit losses (bps of average customer loans)	99.0	(53.0)	20.0	30.0	30.0
Gross nonperforming assets/customer loans (%)	3.2	2.4	2.1	2.1	2.2

Landsbankinn hf. Key Ratios and Forecasts* (cont.)					
	--Fiscal year ended Dec. 31--				
	2020a	**2021a**	**2022f**	**2023f**	**2024f**
Risk-adjusted capital ratio (%)	18.9	18.4	16.3-16.8	16.3-16.8	16.3-16.8

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

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

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

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

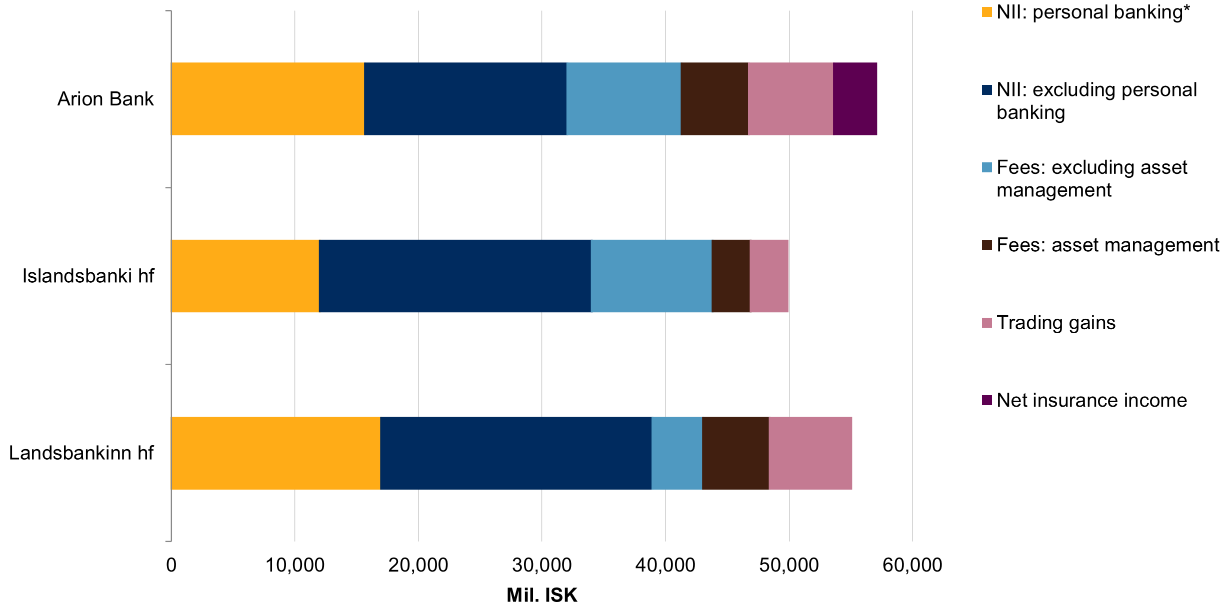
Business Position: The Largest Of The Three Incumbent Banks Dominating Icelandic Banking

Landsbankinn has a significant and stable market position in Iceland's small but profitable banking sector. The largest of the three D-SIBs that dominate Icelandic banking, Landsbankinn's market share of more than 25% in mortgages and close to 40% in corporate lending is higher than, but not significantly different from, the other two D-SIBs: Islandsbanki and Arion Bank. Iceland's banking sector is concentrated and profitable, which supports business stability for the incumbents, as does the low risk of a material rekindling of price competition from the pension funds in the mortgage market.

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

Chart 1

Icelandic Banks' Revenue Is Mostly Stable
Revenue by type (year ended Dec. 31, 2021)



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

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

We expect government ownership to continue over the next two years, although partial privatization is likely in the medium term. The Icelandic government could gradually sell at least part of its 98% stake in the bank in the medium term, but full privatization of peer bank Islandsbanki is a condition precedent. Despite being a state-owned lender, the bank has no public policy role, and it prices on full commercial terms with return targets similar to the other D-SIBs. Consequently, any privatization in the medium term is unlikely to spur change in the bank's strategy, or competitive dynamics in the sector.

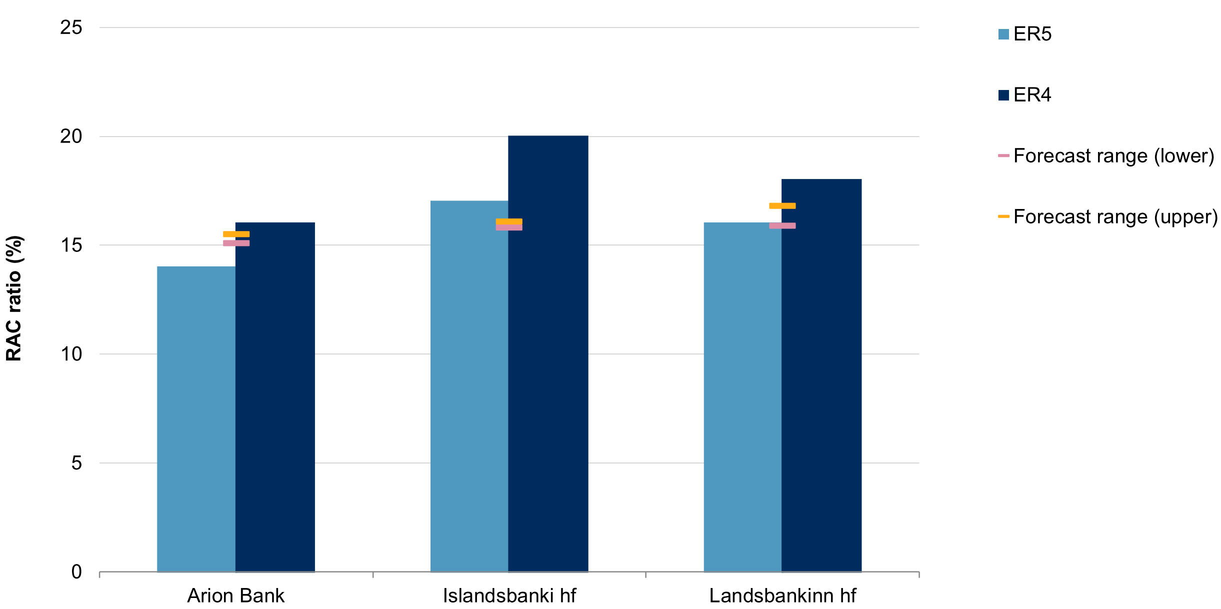
Capital And Earnings: Very Strong Going-Concern Capitalization

We expect the RAC ratio to remain very strong, notwithstanding optimization and higher economic risk. We project that the RAC ratio will settle close to 16.5% in the coming two years. This is a level we consider very strong, although it is a decline from 18.4% as of Dec. 31, 2021 (see chart 2). This reflects two key factors with broadly equal effect: first, special distributions in 2022 of excess capital built up during the pandemic; and second, the higher risk weights we now apply to the bank's household and corporate credit exposures, reflecting the higher risk we see from the sharp build-up in domestic housing imbalances.

Regulatory capital ratios will retain a buffer over minimum requirements. Landsbankinn comfortably meets regulatory capital requirements (see chart 3). The bank targets a total regulatory capital ratio of above 22%. This is a buffer above the total regulatory capital requirement of 18.9% as of Dec. 31, 2021. This will rise on reinstatement of the 2.0% countercyclical capital buffer (CCyB), effective September 2022. Nevertheless, the bank is likely to optimize its regulatory capital stack in the coming two years toward its common equity tier 1 (CET1) ratio target of closer to, but above, 18.0%. This would reflect a decline from the bank's CET1 ratio of 23.1% as of June 30, 2022. We nevertheless expect the RAC ratio to remain above our 15% threshold. The RAC ratio is lower than regulatory ratios mostly because of our higher capital charges on mortgages and corporate exposures.

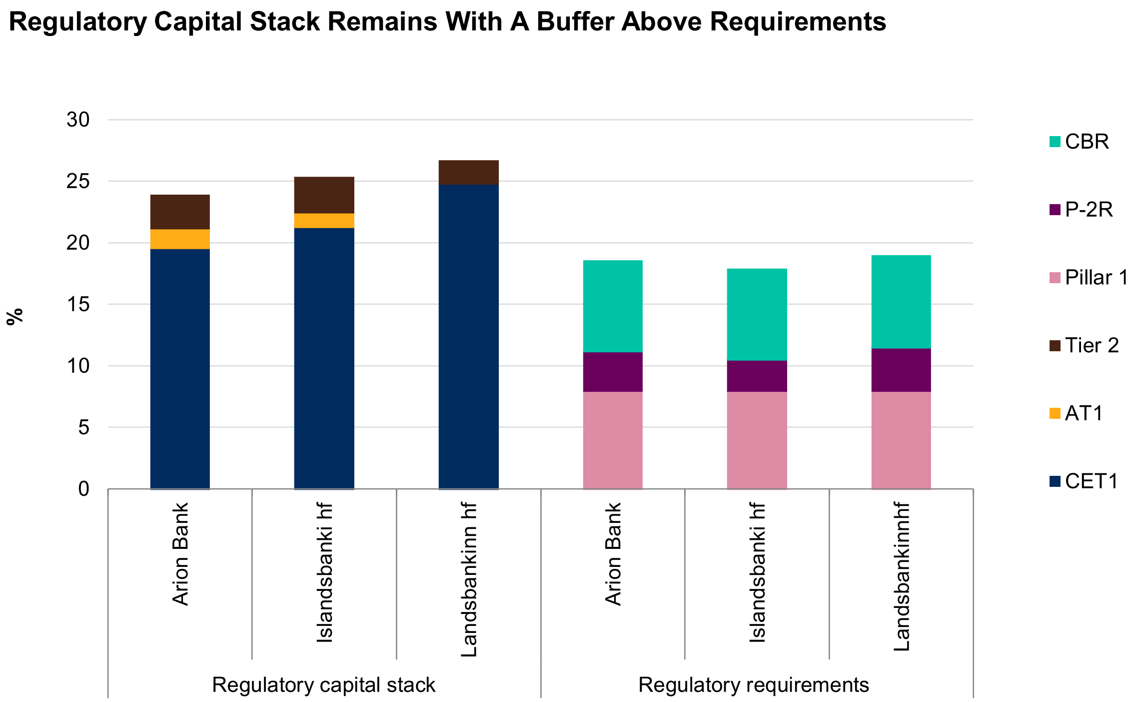
Chart 2

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



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

Chart 3

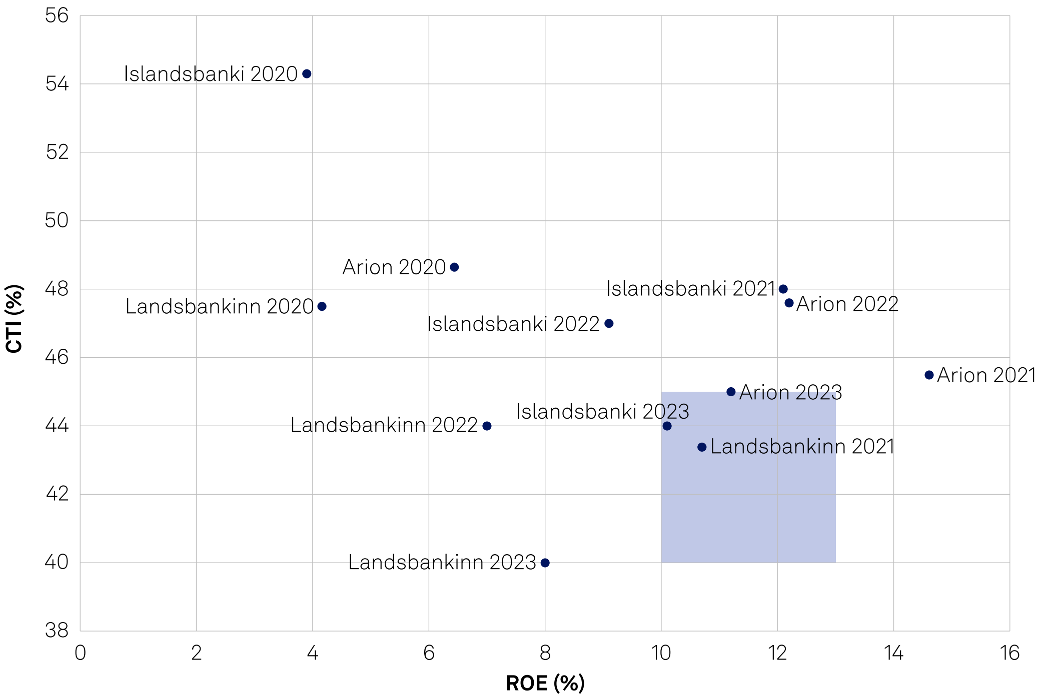


Note: CBR reflects the sum of systemic risk buffer, buffer for systemically important institutions, countercyclical capital buffer, and capital conservation buffer. All figures as of Dec. 31, 2021. Islandsbanki's P-2R and total capital requirement increased by 10 basis points (bps) to 2.6% from 2.5%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

Strong profitability provides a buffer to absorb higher credit losses. We expect Landsbankinn to make progress toward its earnings metrics targets. Profitability is likely to remain marginally below other D-SIBs (see chart 4), if reasonably strong when considered against most European bank peers. We project that the net interest margin will benefit from rising interest rates, while costs should be contained as the bank continues to scale existing resources, notwithstanding higher inflation. This provides Landsbankinn with headroom to absorb losses above the long-term average we expect for Icelandic banks, which we believe is close to 85 bps of gross loans. While the bank booked a loss of close to Icelandic krona (ISK) 5 billion on fair value financial assets in the first half of 2022, we also looked through the similarly sized gains booked in 2021. Our view of profitability places more focus on long-term earning capacity. Our projections for a return on equity of close to 7%-8% in the coming two years reflect this.

Chart 4

Improving Margins And Contained Costs Edge D-SIBs Toward Targets



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

Risk Position: Exposed To The Concentrated And Volatile Icelandic Economy

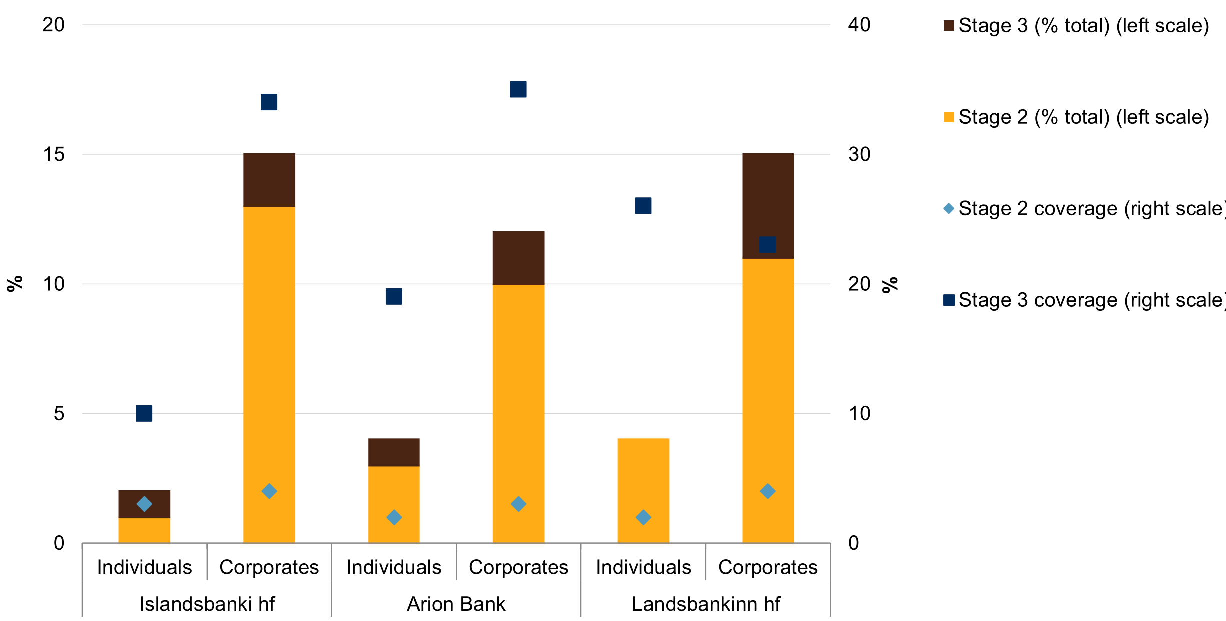
Landsbankinn has a strong domestic focus on Iceland's concentrated economy. Similar to the other two D-SIBs, close to 95% of Landsbankinn's exposures are domestic. Iceland is heavily dependent on tourism, which directly and indirectly contributes more than 20% to GDP. This introduces sensitivity to volatility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

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

Tourism-led economic recovery improves corporate asset quality toward the pre-pandemic level. Improvements in the performance of the bank's corporate exposures toward pre-pandemic levels is consistent with peers and has alleviated downside pressure on the rating. In first-quarter 2022, the sum of stage 2 and 3 corporate balances declined from almost 25% of total corporate exposures to less than 15% of the total corporate portfolio, which is consistent with peers (see chart 5). This mostly reflects migration stage 1 and is a trend that continued into second-quarter 2022. The improvement in corporate asset quality allowed the bank to release credit provisions of 53 basis points (bps) of gross loans in 2021, without a notable weakening in coverage ratios. Importantly, the bank has also maintained coverage of above 30% on stage 3 forborne corporate exposures.

Chart 5

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



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

We see a heightened risk of housing correction and higher credit losses. Mortgages are close to 50% of Landsbankinn's total loans, directly exposing the bank to the effects of a housing downturn, a risk we currently see as elevated. That said, macroprudential measures in the build-up phase have limited the Icelandic D-SIBs' exposure to a modest correction. Close to 5% of the bank's mortgages have a loan-to-value (LTV) ratio above 80%, a level that we consider to be low and is broadly consistent with peers. At the same time, more than one-quarter of the bank's mortgages have principal linked to the consumer price index (CPI). This exposes the bank to rising dynamic LTV ratios in the event of a real (rather than nominal) price correction. This is a sector-wide risk we capture at the industry level, and we see Landsbankinn's exposure as consistent with peers.

The corporate loan book reflects broad, if correlated, sector exposure to Iceland's concentrated economy. Landsbankinn's direct exposure to the tourism operators is close to 10% of gross loans, consistent with D-SIB peers. Landsbankinn faces no significant additional risks not captured in our capital model. Landsbankinn's share of construction exposures, at 5% of total loans, is greater than that of peers. That said, we adequately capture this with higher risk weights on these exposures in the calculation of the RAC ratio. The bank's 20 largest corporate exposures are close to the size of the bank's total adjusted capital base, which is broadly consistent with the other D-SIBs. The bank had almost no CPI imbalance at year-end 2021, limiting the risk of earnings volatility from inflation. That said, it does not mitigate the risk of credit loss on inflation-linked loans, a risk we see as more important in the context of high inflation, lofty asset prices, and rapidly rising interest rates.

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

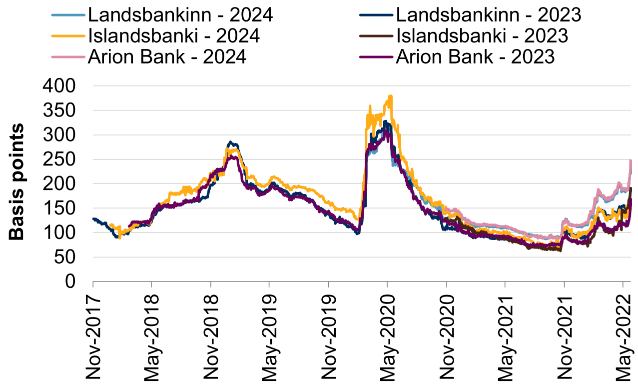
The domestic deposit franchise is key to the bank's funding stability. Landsbankinn's funding profile is consistent with domestic peers, with deposits consistently close to 60% of the funding base. Close to half are deposits from households, a cheap source of funding for the Icelandic banks that we view as stable. The residual is evenly split between domestic currency covered bonds and senior bonds issued mostly in euros. About 25% of the bank's wholesale instruments will mature each year through to 2024, a profile we see as reasonably spread. Taken together with the bank's majority use of stable deposits, our stable funding ratio for Landsbankinn should remain close to 110%, a level consistent with domestic peers. At 122% as of June 30, 2022, the bank's regulatory net stable funding ratio is also consistent with peers, and the bank consistently maintains a buffer above the 100% minimum requirement.

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

Senior funding diversifies the wholesale franchise. Landsbankinn's senior funding profile provides additional diversity. Of Landsbankinn's outstanding senior bonds, 75% are in euros, providing access to a broader range of investors. That said, access is likely to remain more confidence sensitive than for covered bonds. Spreads have risen from previous low levels (see chart 6) as global financial conditions have tightened. Funding conditions could become more difficult as European banks' targeted longer-term refinancing operations (TLTRO) repayments accelerate through the first half of 2023. This will remove a significant amount of liquidity from Europe, but we think Landsbankinn can manage this. Upcoming maturities and modest balance sheet growth imply wholesale funding needs for the bank in 2023 of close to ISK110 billion–ISK120 billion (about €800 million), with maturing foreign currency senior debt outweighing covered bond requirements. The bank's foreign maturity profile is consistent with that of peers (see chart 7).

Chart 6

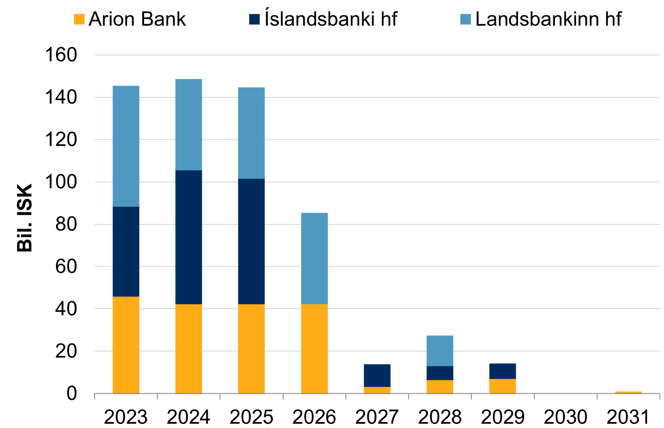
D-SIB Senior Bond Spreads Have Risen From Lows
D-SIB listed euro-denominated foreign bonds' spread to euro benchmark curve



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

Chart 7

D-SIB Foreign Maturities Evenly Spread



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

Quantitative metrics and qualitative considerations underpin the adequate liquidity assessment. Landsbankinn's overall spot liquidity coverage ratio (LCR) has consistently been above 140% in the past five years, which is a buffer ahead of the 100% regulatory requirement. As of June 30, 2022, this was 144%, reflecting ISK52 billion (€375 million) of surplus high quality liquid assets. The foreign currency LCR at the same date was 184%. Its higher volatility warrants it being consistently well ahead of its 100% minimum requirement. In addition, Landsbankinn manages the local currency LCR above 100%, despite its minimum requirement rising only to 50% in 2023 from 40% in 2022. Importantly, the LCR metrics assume 100% outflow of pension fund deposits, typically Icelandic banks' largest individual depositors. In addition to the LCR's 30-day horizon, our measure of the bank's liquid assets covers 12-month forward maturities at least twice, which we view as a prudent buffer.

Support: Systemically Important In Iceland But No ALAC Uplift

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

Tier 2 capital securities and potential senior non-preferred debt issues are ALAC-eligible instruments for the Icelandic banks. Landsbankinn has a small amount of Tier 2 capital outstanding, close to 2% of risk-weighted assets (RWAs) under our RAC framework (S&P Global Ratings' RWAs). This is below our typical 3% threshold for one notch of ALAC rating uplift. We expect the bank's ALAC buffer to remain close to 2% of S&P Global Ratings RWAs over our two-year rating outlook horizon. This is because Landsbankinn's existing regulatory capital and senior preferred debt instruments meet its bank-specific minimum requirements for own funds and eligible liabilities (MREL) requirements, binding in 2024. This factors our expectation that senior preferred debt will remain an eligible liability class, not least because of its ranking below all customer deposits in the creditor hierarchy. Consequently, we do not expect Landsbankinn's buffer of ALAC-eligible instruments to rise, at least in the near term.

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

Resolution Counterparty Ratings

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

Environmental, Social, And Governance (ESG)

ESG Credit Indicators

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

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

ESG factors are a neutral consideration in our credit rating analysis of Landsbankinn. This reflects our view that ESG considerations do not have a material bearing on the bank's creditworthiness. In the fourth quarter of 2021, Landsbankinn issued its second international sustainable bond, a €300 million senior instrument. Positively, this allowed the bank to broaden its European investor base. Transition risk is very limited and almost all electricity in Iceland is produced using renewable energy sources.

Hybrid Ratings

Tier-2 Hybrids

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

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

Key Statistics

Table 1

Landsbankinn hf.--Key Figures

	--Year ended Dec. 31--				
(Mil. ISK)	**2022***	**2021**	**2020**	**2019**	**2018**
Adjusted assets	1,726,392	1,728,017	1,562,481	1,424,032	1,323,419
Customer loans (gross)	1,438,753	1,379,144	1,281,386	1,140,388	1,067,667
Adjusted common equity	255,702	253,378	242,479	230,363	227,066
Operating revenues	22,789	55,006	50,384	56,391	52,429
Noninterest expenses	11,856	23,864	23,944	23,631	23,453
Core earnings	5,557	28,703	10,520	18,644	18,936

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

Table 2

Landsbankinn hf.--Business Position

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Total revenues from business line (currency in millions)	22,789.0	55,293.0	50,386.0	56,394.0	53,687.0
Commercial banking/total revenues from business line	45.6	37.0	35.4	34.7	36.4
Retail banking/total revenues from business line	42.8	36.7	42.3	38.3	34.1
Commercial & retail banking/total revenues from business line	88.4	73.7	77.7	73.0	70.5
Trading and sales income/total revenues from business line	(4.8)	14.3	12.0	19.3	15.9
Asset management/total revenues from business line	13.5	11.6	N/A	N/A	N/A
Other revenues/total revenues from business line	2.9	0.4	10.3	7.7	13.6
Investment banking/total revenues from business line	(4.8)	14.3	12.0	19.3	15.9
Return on average common equity	4.0	10.7	4.2	7.5	7.9

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

Table 3

Landsbankinn hf.--Capital And Earnings

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Tier 1 capital ratio	23.1	24.8	23.2	23.9	23.6
S&P Global Ratings' RAC ratio before diversification	N/A	N/A	N/A	17.6	18.0

Table 3

Landsbankinn hf.--Capital And Earnings (cont.)

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
S&P Global Ratings' RAC ratio after diversification	N/A	N/A	N/A	12.1	12.5
Net interest income/operating revenues	94.0	70.8	75.6	70.3	77.8
Fee income/operating revenues	23.8	17.2	15.2	14.6	15.6
Market-sensitive income/operating revenues	(20.9)	10.3	6.8	10.6	0.3
Cost to income ratio	52.0	43.4	47.5	41.9	44.7
Preprovision operating income/average assets	1.3	1.9	1.8	2.4	2.3
Core earnings/average managed assets	0.6	1.7	0.7	1.4	1.5

*Data as of June 30. N/A--Not applicable. RAC--Risk-adjusted capital.

Table 4

Landsbankinn hf.--Risk-Adjusted Capital Framework Data

(Mil. ISK)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	190,229	2,838	1	5,761	3
Of which regional governments and local authorities	3,582	1,050	29	403	11
Institutions and CCPs	45,615	9,150	20	20,017	44
Corporate	640,749	610,113	95	706,058	110
Retail	789,818	324,988	41	371,020	47
Of which mortgage	642,756	234,425	36	234,526	36
Securitization§	0	0	0	0	0
Other assets†	55,192	52,300	95	64,517	117
Total credit risk	1,721,603	999,388	58	1,167,373	68
Credit valuation adjustment					
Total credit valuation adjustment	--	250	--	0	--
Market Risk					
Equity in the banking book	23,328	33,525	144	68,376	293
Trading book market risk	--	9,663	--	14,494	--
Total market risk	--	43,188	--	82,870	--
Operational risk					
Total operational risk	--	101,194	--	124,896	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	1,144,019	--	1,375,139	100
Total diversification/ concentration adjustments	--	--	--	531,297	39
RWA after diversification	--	1,144,019	--	1,906,436	139

Table 4

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

	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	S&P Global Ratings RAC ratio (%)
Capital ratio				
Capital ratio before adjustments	283,532	24.8	253,378	18.4
Capital ratio after adjustments‡	283,532	24.8	253,378	13.3

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

Table 5

Landsbankinn hf.--Risk Position

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Growth in customer loans	8.6	7.6	12.4	6.8	13.4
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	N/A	N/A	45.2	44.4
Total managed assets/adjusted common equity (x)	6.8	6.8	6.5	6.2	5.8
New loan loss provisions/average customer loans	(0.0)	(0.5)	1.0	0.4	(0.0)
Net charge-offs/average customer loans	0.1	0.3	0.2	0.3	0.4
Gross nonperforming assets/customer loans + other real estate owned	2.1	2.4	3.2	3.1	3.0
Loan loss reserves/gross nonperforming assets	42.7	42.0	59.2	42.5	40.4

*Data as of June 30. N/A--Not applicable. RWA--Risk-weihghted assets.

Table 6

Landsbankinn hf.--Funding And Liquidity

	--Year ended Dec. 31--				
(%)	**2022***	**2021**	**2020**	**2019**	**2018**
Core deposits/funding base	66.1	63.3	61.7	61.4	65.4
Customer loans (net)/customer deposits	152.5	151.7	158.4	159.0	152.2
Long-term funding ratio	95.7	93.7	93.6	92.6	88.9
Stable funding ratio	105.1	107.9	107.0	107.3	102.7
Short-term wholesale funding/funding base	5.1	7.6	7.6	9.0	13.6
Regulatory net stable funding ratio	122.0	121.0	116.0	117.0	120.0
Broad liquid assets/short-term wholesale funding (x)	2.8	2.4	2.2	2.2	1.4
Broad liquid assets/total assets	11.9	15.1	13.9	15.7	15.7
Broad liquid assets/customer deposits	22.0	28.9	27.5	31.6	30.1
Net broad liquid assets/short-term customer deposits	14.7	17.3	15.4	17.4	9.6
Regulatory liquidity coverage ratio (LCR) (x)	144.0	1.8	1.5	1.6	1.6
Short-term wholesale funding/total wholesale funding	15.1	20.7	19.9	23.3	39.2
Narrow liquid assets/3-month wholesale funding (x)	8.7	4.4	2.6	2.1	2.1

*Data as of June 30.

Table 7

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

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

Related Criteria

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

Related Research

- Icelandic Bank Ratings Affirmed As Risks Shift Amid High House Prices And Rising Rates; Outlooks Stable; July 13, 2022
- Ratings On Icelandic D-SIBs Affirmed As Pandemic Recovery Risk Lingers; Outlooks Remain Stable; Jan. 25, 2022
- Banking Industry Country Risk Assessment: Iceland; Feb. 21, 2022

- Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed; May 17, 2022
- Icelandic Bank Ratings Unaffected By Sufficiently Effective Resolution Regime; 'BBB+' RCRs Assigned; Outlooks Stabl e; May 17, 2022
- Iceland's MREL Requirements Result In Ratings Uplift For Icelandic Covered Bonds ; May 27, 2022

Ratings Detail (As Of August 19, 2022)*	
Landsbankinn hf.	
Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB+/--/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
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.