

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings affirms Islandsbanki's A2 long-term deposit and A3 long-term issuer ratings, outlook stable**

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03 Jul 2024

London, July 03, 2024 -- Moody's Ratings (Moody's) has affirmed Islandsbanki's (ISB) A2 long-term and P-1 short-term foreign and local currency deposit ratings, the A3 long-term foreign and local currency issuer ratings and A3 senior unsecured ratings, the baa2 Baseline Credit Assessment (BCA) and Adjusted BCA.

We have also affirmed, the senior unsecured, junior senior unsecured and subordinated local and foreign currency medium term note (MTN) program ratings at (P)A3, (P)Baa2 and (P)Baa3 respectively. The long- and short-term Counterparty Risk Ratings (CRR) of A2/P-1 and long- and short-term Counterparty Risk Assessments (CR Assessment) of A2(cr)/P-1(cr) were also affirmed.

The outlook on the long-term deposit, long-term issuer and senior unsecured ratings remains stable.

#### RATINGS RATIONALE

The affirmation of ISB's baa2 BCA and Adjusted BCA reflects the bank's strong capitalization coupled with good recurring profitability, a low level of problem loans and adequate liquidity balanced against elevated single name and geographical concentrations and a reliance on market funding. The bank's reported CET1 reached 19.9% at end March 2024 well above the minimum requirement of 15.7% supported by the bank's strong profitability. Return on tangible assets was 1.3% at the end of the first quarter, as the bank continued to benefit from the higher interest rate environment, while problem loans to gross loans increased only marginally to 1.9% from 1.8% at end 2023.

ISB's long-term ratings are underpinned by the bank's Adjusted BCA of baa2 and Moody's Advanced LGF analysis which takes into account the severity of loss faced by the different liability classes in the event of a failure. Our analysis for ISB indicates an extremely low loss-given-failure for depositors and a very low loss-given-failure for

senior debt holders, leading to three notches and two notches, respectively, of rating uplift from the bank's baa2 Adjusted BCA to A2 for the long-term deposit ratings and A3 for the long-term issuer ratings.

## STABLE OUTLOOK

The stable outlook on ISB's long-term deposit and issuer ratings reflects the agency's expectation that the bank will continue its strong performance in the next 12-18 months, while managing asset risk prudently and optimizing its capital base.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward rating pressure could develop if ISB improves its risk profile by reducing single name and sector concentrations in combination with a reduction in the use of market funds while maintaining strong capitalisation and strong earnings' generation capacity across the credit cycle.

For the issuer and program ratings, upward rating pressure could also develop because of a larger cushion of loss absorbing obligations protecting creditors and depositors in case of failure.

Downward pressure could emerge if ISB's (1) asset quality and risk profile was to deteriorate, for example as a result of increased concentration risk emanating from its exposures to more volatile sectors and/or increased single name concentrations within Iceland's small and interlinked operating environment; (2) risk profile increases more than the agency anticipates, driven by non-credit related risks such as market risk, foreign exchange risk and/or increasing CPI imbalance (3) profitability was to deteriorate due to increased asset risk; (4) financing conditions were to become more difficult; or (5) the macroeconomic environment deteriorates significantly leading to a lower Macro Profile.

Furthermore, a reduction in the rating uplift triggered by structural funding changes to the bank's balance sheet could lead to downward rating pressure.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at <https://ratings.moodys.com/rmc-documents/409852>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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