

Ratings Raised On Three Icelandic Covered Bond Programs Following Similar Action On Iceland; Outlooks Revised To Stable

November 27, 2023

Overview

- On Nov. 10, 2023, we raised to 'A+' from 'A' our long-term sovereign credit ratings on Iceland, and revised the outlook on the ratings to stable from positive.
- As a result, we raised to 'A+' from 'A' our ratings on Islandsbanki hf, Landsbankinn hf, and Arion Bank hf's mortgage covered bonds. We also revised the outlooks on the ratings to stable from positive, reflecting the stable outlook on Iceland.

MADRID (S&P Global Ratings) Nov. 27, 2023--S&P Global Ratings today raised to 'A+' from 'A' our credit ratings on Islandsbanki hf., Landsbankinn hf., and Arion Bank hf.'s mortgage covered bond programs and related issuances. We also revised to stable from positive the outlooks on these three programs.

Today's rating actions follow our Nov. 10, 2023 action on Iceland (see Iceland Ratings Raised To 'A+' On Strong Growth and Fiscal Consolidation; Outlook Stable").

In accordance with our covered bonds criteria, we uplifted the ratings on the covered bonds from the issuer credit ratings (ICR) on the respective banks, considering that the issuers are based in a country with an effective resolution regime, and the potential jurisdictional support and the portfolio of assets backing the bonds.

In determining the reference rating levels (RRL), we added two notches of uplift above the ICRs on Islandsbanki, Landsbankinn, and Arion Bank to reflect the probability that the issuers can service their respective covered bonds. Consequently, we assessed the RRLs as 'a-', two notches above the 'BBB' long-term ICRs on each issuer.

Given our strong jurisdictional assessment of mortgage covered bonds in Iceland, we can assign up to two notches of jurisdictional uplift above the RRL, capped at the sovereign rating. As our long-term sovereign rating on Iceland is 'A+' we assign two notches of jurisdictional support uplift, which results in jurisdiction-supported rating levels (JRL) of 'a+'.

We have not assigned collateral-based uplift for these programs, as we assess that overcollateralization is currently insufficient to cover the various credit and cash flow risks that we consider in our analysis. In our continuous surveillance of the programs, we will monitor any changes in our assessment.

PRIMARY CREDIT ANALYSTS

Ana Galdo
Madrid
+ 34 91 389 6947
ana.galdo
@spglobal.com

Andreas M Hofmann
Frankfurt
+ 49 693 399 9314
andreas.hofmann
@spglobal.com

Ratings Raised On Three Icelandic Covered Bond Programs Following Similar Action On Iceland; Outlooks Revised To Stable

Under our structured finance sovereign risk criteria, the rating on a foreign-currency obligation backed by assets denominated in a local currency is capped at the transfer and convertibility (T&C) assessment for that jurisdiction, unless there are structural mitigants for T&C risk. Our T&C assessment for Iceland as of Nov. 10, 2023, is 'AA-'.

Further, the ratings on the covered bonds are not constrained by counterparty, legal, and operational risks, in our view.

Consequently, following the upgrade to our sovereign rating on Iceland, we raised the ratings on the three mortgage covered bond programs and related issuances to 'A+' from 'A'. We also revised to stable from positive the outlooks on the ratings on the covered bonds.

The stable outlooks on the three covered bond programs reflect that on the sovereign, because the ratings on these programs are at a JRL level, and any rating action on the sovereign will result in a similar rating action on the covered bonds, all else being equal. The positive outlooks on the ICRs on Islandsbanki and Landsbankinn do not impact the outlooks on their respective covered bonds, given that a positive rating action on the issuer will not necessarily result in a rating action on the covered bonds. The outlook on the ICR on Arion Bank is stable.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- 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

- Outlooks Revised On Three Icelandic Banks On Receding Economic Imbalances; Ratings Affirmed, Nov. 17, 2023
- Iceland Ratings Raised To 'A+' On Strong Growth and Fiscal Consolidation; Outlook Stable, Nov. 10, 2023
- Global Covered Bond Insights Q4 2023, Oct. 20, 2023
- Covered Bonds Outlook Midyear 2023: Rising Interest Rate Will Test Asset Performance, July 19, 2023
- S&P Global Ratings Definitions, June 9, 2023
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019

- Glossary Of Covered Bond Terms, April 27, 2018

Copyright © 2023 Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.