

Outlooks On Two Icelandic Covered Bond Programs Revised To Positive Following Action On Iceland; Ratings Affirmed

March 23, 2026

Overview

- On March 6, 2026, we revised the outlook on our long-term rating on Iceland to positive from stable and affirmed our 'A+/A-1' long- and short-term sovereign ratings.
- Following these rating actions and the application of our criteria, we revised the outlooks on Islandsbanki hf and Landsbankinn hf's mortgage covered bonds to positive from stable. At the same time, we affirmed our 'A+' ratings on these programs and related issuances.
- Our outlooks on these ratings reflect the positive outlook on our long-term sovereign rating on Iceland.

FRANKFURT (S&P Global Ratings) March 23, 2026--S&P Global Ratings today revised to positive from stable its outlooks on Islandsbanki hf (BBB+/Positive/A-2) and Landsbankinn hf's (A-/Stable/A-2) mortgage covered bond programs and related issuances. We also affirmed our 'A+' ratings on these two programs and related issuances.

Today's rating actions follow our March 6, 2026 rating actions on Iceland (see "[Iceland Outlook Revised To Positive On Strengthening Fiscal Position; 'A+/A-1' Ratings Affirmed](#)"). Our ratings on these two mortgage covered bond programs reflect the application of our covered bonds criteria, our structured finance sovereign risk criteria, and the remaining criteria referenced in "Related Criteria" below.

Under our covered bonds criteria, in determining the reference rating level (RRL), we add two notches above the long-term issuer credit ratings (ICRs) on Islandsbanki hf and Landsbankinn hf to reflect the increased probability that the issuer can service its covered bonds even following a default on its senior unsecured obligations. Consequently, we assessed the RRL for Islandsbanki hf at 'a', two notches above the 'BBB+' long-term ICR on the issuer and at 'a+' for Landsbankinn hf, two notches above the 'A-' long-term ICR.

Given our very strong jurisdictional assessment of mortgage covered bonds in Iceland, under these criteria, we can assign up to three notches of jurisdictional uplift above the RRL. Applying our criteria, our long-term 'A+' sovereign rating on Iceland caps the assigned uplift, and, therefore, Islandsbanki hf receives only one notch of jurisdictional support uplift, which results in a jurisdiction-supported rating level (JRL) of 'a+'. As a result, Islandsbanki hf has two unused

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notches of jurisdictional support that would protect the covered bond ratings in the event of an issuer downgrade by up to two notches, all else being equal.

Because Landsbankinn hf's RRL is already 'a+'--the same level of the sovereign rating--we assign no jurisdictional support uplift. This results in a JRL of 'a+' and three unused notches of jurisdictional support that would protect the covered bond ratings if the issuer is downgraded by up to three notches, all else being equal.

We have not assigned collateral-based uplift above the JRL 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, including currency risk from the euro issuances outstanding. In our continuous surveillance of the programs, we will monitor any changes in our assessment.

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 structural mitigants for T&C risk are in place. Our T&C assessment for Iceland is 'AA-'.

Furthermore, we consider the covered bond ratings not constrained by counterparty, legal, and operational risks.

Following the long-term sovereign rating outlook revision to positive from stable, we revised the outlooks to positive from stable and affirmed our 'A+' ratings on the covered bonds of these two programs. The positive outlooks on the two covered bond programs reflect that on the sovereign. Because the ratings are capped at the JRL level any rating action on the sovereign will result in a similar rating action on the covered bonds, all else being equal. The positive outlook on the ICR on Islandsbanki hf does not affect the outlook on its covered bonds, because only a combination of a positive rating action on the issuer and a positive rating action on the sovereign will result in a rating action on the covered bonds. This is because an upgrade of the issuer would not lead in itself to an upgrade of the covered bonds.

Related Criteria

- [Criteria | Structured Finance | Covered Bonds: Methodology For Rating Covered Bonds](#), July 25, 2025
- [Criteria | Structured Finance | General: Counterparty Risk Methodology](#), July 25, 2025
- [Criteria | Structured Finance | Legal: Asset Isolation And Special-Purpose Entity Methodology](#), May 29, 2025
- [General Criteria: Environmental, Social, And Governance Principles In Credit Ratings](#), Oct. 10, 2021
- [Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions](#), Jan. 30, 2019
- [General Criteria: Principles Of Credit Ratings](#), Feb. 16, 2011

Related Research

- [Iceland Outlook Revised To Positive On Strengthening Fiscal Position; 'A+/A-1' Ratings](#), March 6, 2026
- [Islandsbanki hf](#), Dec. 19, 2025

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- [S&P Global Ratings Definitions](#), Dec. 16, 2025
- [Global Covered Bond Insights Q1 2026](#), Dec. 11, 2025
- [Ratings Raised On Three Icelandic Covered Bond Programs Following Similar Action On Iceland; Outlooks Revised To Stable](#), Nov. 27, 2023
- [Iceland Ratings Raised To 'A+' On Strong Growth and Fiscal Consolidation; Outlook Stable](#), Nov. 10, 2023
- [Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed](#), May 17, 2022
- [Glossary Of Covered Bond Terms](#), April 27, 2018

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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