

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.

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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

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