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Arion Bank

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Arion Bank

SACP	bbb-

+

Support	0

+

Additional Factors	0

Anchor	bb+	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Strong	

GRE Support	0
Group Support	0
Sovereign Support	0

Issuer Credit Rating
BBB-/Stable/A-3

Major Rating Factors

Strengths:	Weaknesses:
• Strong capital with high leverage ratios. • Stable franchise equally split between retail and corporates. • Ample liquidity buffers apt to meet expected deposit outflows.	• Uncertainty associated with capital controls in Iceland. • Domestic economy that offers few diversification opportunities. • Still sizable nonrecurring items leading to volatile profitability.

Outlook: Stable

The stable outlook on Iceland-based Arion Bank reflects Standard & Poor's Ratings Services' view that Arion's stand-alone credit profile (SACP) is likely to remain intact through Iceland's partial liberalization of capital controls, expected in the near term. We anticipate deposit outflows of approximately Icelandic krona (ISK) 100 billion (€700 million at ISK142 to €1), that would be partially covered by bond issues. As a result, we expect our funding and liquidity metrics for Arion to deteriorate, albeit remaining at the current assessment. In the longer term, we expect the bank will increase its activity in the bond market, potentially heightening the pressure on liquidity from more sizable funding maturities.

In addition, we expect strengthening in the bank's capital position, with Standard & Poor's risk-adjusted capital (RAC) ratio increasing to 13%-14% within the next 18-24 months, from 11.5% on June 30, 2015 (pro forma; including the lower risk weights for Icelandic credit exposures effective since July this year). We think the main contributor to this improvement will be the bank's partial execution of its plan to divest legacy assets (equity exposures that it took over as a part of debt restructurings). We expect that restructuring of the loan portfolio will be completed soon and further impairments will be limited.

A positive rating action on Arion would most likely follow an improvement in economic conditions in Iceland, potentially illustrated by stronger resilience following clarity on the capital controls, or a sustained, material reduction in corporate and household debt. We consider improvement in Arion's bank-specific factors to be remote at present.

A negative rating action on Arion could be triggered by a substantial increase in provisions, which could result in the RAC ratio falling below 10%.

Rationale

The rating on Arion reflects our 'bb+' anchor that we assign to banks operating in Iceland and our view of the bank's "adequate" business position, "strong" capital and earnings, "adequate" risk position, "average" funding, and "strong" liquidity.

Anchor: 'bb+' for banks with Icelandic focus

Under our bank criteria we use our Banking Industry Country Risk Assessment's economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a commercial bank operating only in Iceland is 'bb+', based on an economic risk score of '6' and an industry risk score of '6'.

Economic risk for Icelandic banks has, in our view, continued to decline. Imbalances have further reduced, and we expect that the future impact of the ongoing correction will be limited. We anticipate that the country's prosperous but concentrated economy will achieve annual real GDP growth of about 3% for the next two years, and we have recently raised our sovereign ratings on Iceland as partial capital controls liberalization is likely in the near-term (see "Iceland Ratings Raised To 'BBB/A-2' On Proposals Toward Lifting Capital Controls; Outlook Stable," published July 17, 2015, on RatingsDirect). The banks have all undergone significant restructuring efforts and the vast majority of corporates have been restructured. The Icelandic economy is steadily reducing its debt burden and the banks their stock of nonperforming loans. The banks have recovered with the protection of capital controls. In our view, the largest risk for the banking sector is a shock to the economy as a result of a non-controlled removal of capital controls, which could derail the growth trend and lead to deteriorating economic conditions. However, given recent announcements on how to reduce the non-resident currency overhang, we think the risk has decreased meaningfully and the authorities will continue forward prudently, without meaningful weakening of the Icelandic krona and the economy.

We think industry risk has subsided following a move to a stronger regulatory system and a funding model based on domestic deposits and significant equity levels, in contrast to the external wholesale and deposit funding model used prior to the 2008 banking crisis. That said, we expect the banks to gradually increase the share of foreign wholesale funding and domestic covered bonds as market access improves. Potential outflows of deposits linked to the partial lifting of capital controls are, in our view, covered by liquid assets or will be replaced by long-term bonds and should not have any meaningful impact on the banking sector. There will be some changes in the industry because the state mortgage lender Housing Financing Fund (HFF) will basically be put in run-off mode and the trend of the commercial banks gaining significant market share of new mortgage lending will continue. We expect returns will be based on what we believe to be sound commercial practices, although continuing to be inflated by significant onetime items in 2015 that should lessen in 2016.

Table 1

Arion Bank Key Figures

		--Year-ended Dec. 31--			
(Mil. ISK)	**2015***	**2014**	**2013**	**2012**	**2011**
Adjusted assets	965,458.0	924,140.0	933,467.0	895,734.0	887,356.0
Customer loans (gross)	694,318.0	674,189.0	665,000.0	626,391.0	617,839.0
Adjusted common equity	149,443.5	139,484.8	131,431.0	125,178.0	109,405.0
Operating revenues	22,939.0	41,398.0	39,442.0	49,106.0	41,632.0
Noninterest expenses	12,797.0	26,464.0	25,395.0	24,668.0	22,016.0
Core earnings	4,658.8	8,782.8	3,318.0	8,644.8	4,448.0

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

Business position: Diversified lender within the limitations of the Icelandic economy

We view Arion Bank's business position as "adequate," reflecting its broad presence in most business lines in Iceland. Arion was created in October 2008 with the transfer of the domestic assets and liabilities from what was previously the corporate-focused Kaupthing Bank. Since then, Arion has expanded its footprint in the household segment, and its current franchise is equally split between corporates and retail. Arion remains the largest provider of mortgages besides government-owned HFF. However, it remains a small bank in an international comparison. It reported total assets of ISK975 billion (€6.8 billion) on June 30, 2015.

The concentration in Iceland, with only 320 thousand inhabitants, is evident in Arion profile as the bank depends on the economic prospects of a country with a few key industries. Despite this, Arion's revenue base is rather diversified among its different business lines, with approximately 60% of revenues from net interest income split evenly between corporate and retail customers, 25% from fee income driven by card transaction fees and assets under management, and the remainder from market-related revenues. We expect the current business mix will remain stable and consider the bank to have been well managed since its creation in 2008, through a difficult economic environment.

We believe that Arion, with its current liquidity and capital buffers, is prepared for the planned liberalization of capital controls. The largest impact will likely be on the balance sheet, because all deposits classified as financial entities being wound up are likely to be withdrawn in 2016. We do not expect this to have any substantial impact on the bank's long-term business position of the bank (for details on the impact, see Funding and Liquidity below).

Table 2

Arion Bank Business Position					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Loan market share in country of domicile	N/A	22.8	23	20.2	19.9
Deposit market share in country of domicile	N/A	28.2	30.4	30.1	31.9
Total revenues from business line (mil. ISK)	39,346.0	65,893.0	53,846.0	63,933.0	83,085.0
Commercial banking/total revenues from business line	8.5	14.4	17.3	17.5	28.0
Retail banking/total revenues from business line	21.3	23.2	27.0	13.7	(1.9)
Commercial & retail banking/total revenues from business line	29.8	37.6	44.3	31.2	26.2
Trading and sales income/total revenues from business line	24.0	11.6	8.2	8.8	1.1
Asset management/total revenues from business line	5.8	6.3	6.9	6.5	4.5
Other revenues/total revenues from business line	40.5	44.5	40.6	53.5	68.3
Investment banking/total revenues from business line	24.0	11.6	8.2	8.8	1.1
Return on equity	23.6	18.9	9.7	14.0	9.7

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

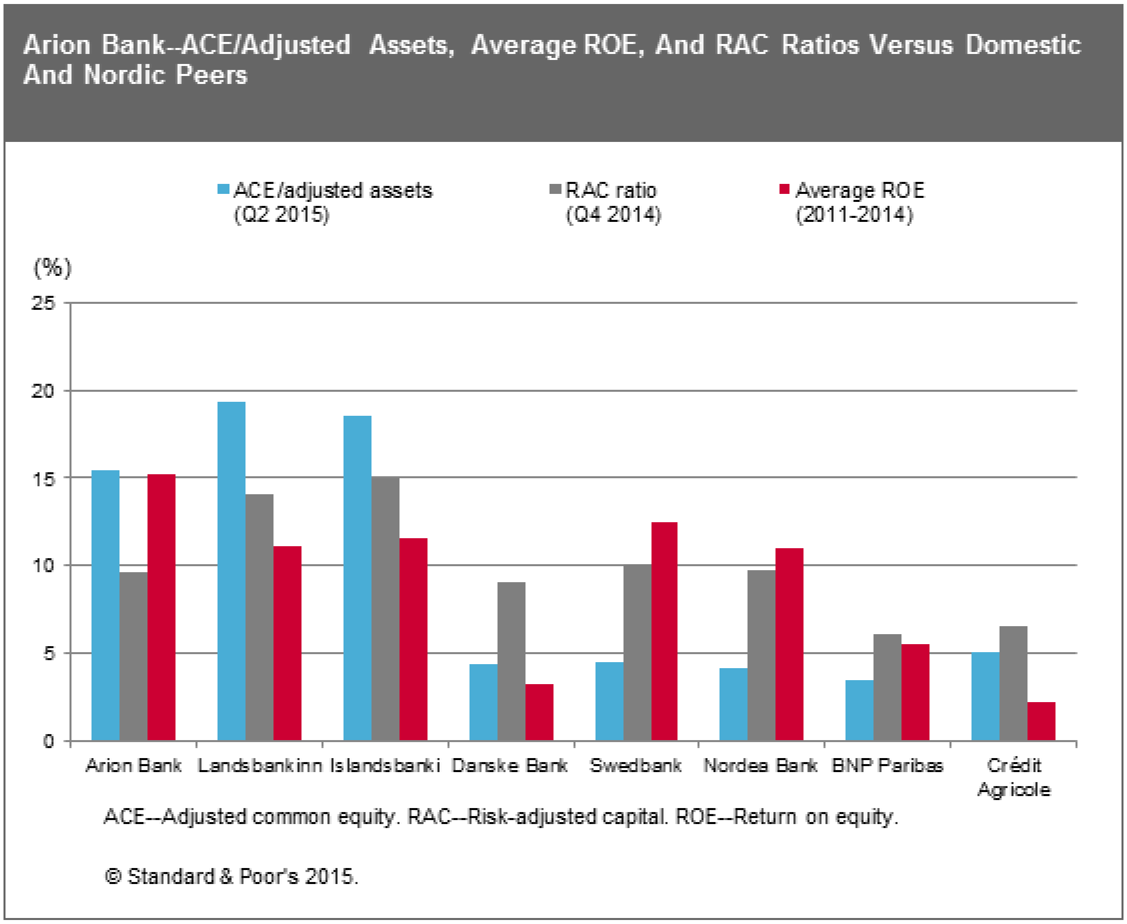
Capital and earnings: Strong capital strong and stabilizing earnings

We assess Arion's capital and earnings as "strong," based on our projected RAC ratio which we expect will approach 13%-14% over the next 18-24 months. The bank had a RAC ratio of 10.3% as of June 30, 2015. However, our July 2015 upgrade of Iceland and improvement in our economic risk assessment for the Icelandic banking sector results in a pro forma mid-year RAC ratio of 11.5%. Our expectation of further improvements is mainly based on the bank's continued execution of its plan to divest legacy equity positions.

We do not expect capital build to be as strong as in recent years, given Arion's lower earnings as a result of lower onetime gains and our expectation that dividends will remain at 60% of net profits.

We believe that the new Basel III capital requirements that will be implemented by Jan. 1, 2016, reduce the possibility of any significant extraordinary dividends, despite Arion's relatively high regulatory tier 1 ratio (21.8% at June 30, 2015). We note that the bank's strong leverage ratio, measured as adjusted common equity as a share of adjusted assets, was 15.7% at end-June 2015, and despite being somewhat lower than domestic peers, is considerably higher than its primary Nordic peers and most global commercial banks (see chart 1).

Chart 1



The Icelandic banks are reporting high average return on equity (ROE) despite their much higher capital bases, primarily driven by significant onetime gains. Adjusted for these gains, Arion's after-tax ROE amounted to 5.8% in 2014, and we expect a similar return in 2015.

We expect Arion's net interest margin will fall somewhat from its current 3% as part of funding is likely to shift toward long-term bonds following deposit outflows when the capital controls are lifted. This will likely result in somewhat higher interest expenses. We expect an increase of about 15% in the bank's fees and commissions over the coming years, driven by higher card transaction volumes and initiatives to diversify fee-based revenues. We anticipate a relatively stable cost development, impairments slightly above the 2014 numbers, and the bank tax levy to be discontinued from 2017. We estimate net earnings from the core business of just below ISK billion in 2015, increasing toward ISK13 billion in 2017. However, the significant improvement is largely explained by the expected discontinuation of the bank tax levy.

The bank continues to report gains from the revaluation of loan assets acquired at deep discount and sales of noncore assets as well as dividends, totaling more than ISK16 billion in the first half of 2015. This compares with core earnings of ISK4.7 billion in the same period. However, we expect nonrecurring income will drop sharply, to about ISK5 billion in 2016. We expect the further impact from revaluations of loans to be minimal. This is because Arion is close to completing the restructuring of the loan portfolio. In addition, the contribution from positive market valuation of the bank's legacy equity position is likely to be much smaller than in 2015.

Arion's earnings buffer, which measures the ability to meet our normalized losses, will likely improve markedly, approaching 100 basis points in our forecast. In addition, our forecast losses for the next two years are significantly below the model loss assumption of ISK9 billion-ISK10 billion.

Table 3

Arion Bank Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Tier 1 capital ratio	21.8	21.8	19.2	19.1	16.4
S&P RAC ratio before diversification	10.3	9.6	N.M.	N.M.	N.M.
S&P RAC ratio after diversification	7.8	7.2	N.M.	N.M.	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	57.4	58.5	60.3	55.3	56.2
Fee income/operating revenues	32.4	32.1	28.5	21.9	25.7
Market-sensitive income/operating revenues	3.5	1.6	(3.3)	4.1	5.6
Noninterest expenses/operating revenues	55.8	63.9	64.4	50.2	52.9
Preprovision operating income/average assets	2.1	1.6	1.5	2.7	2.3
Core earnings/average managed assets	1.0	0.9	0.4	1.0	0.5

*Data as of June 30. RAC--Risk-adjusted capital. N.M.--Not meaningful.

Table 4

Arion Bank Risk-Adjusted Capital Framework Data

(ISK 000s)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	97,218,695	1,686,350	2	41,396,852	43
Institutions	116,971,183	36,781,718	31	47,371,014	40
Corporate	323,200,576	313,658,507	97	454,905,690	141
Retail	360,851,076	186,982,420	52	314,800,067	87
Of which mortgage	246,349,304	100,424,384	41	157,367,074	64
Securitization§	0	0	0	0	0
Other assets	55,191,635	44,775,957	81	116,312,008	211
Total credit risk	953,433,165	583,884,953	61	974,785,632	102
Market risk					
Equity in the banking book†	38,706,888	45,889,119	119	352,650,110	911
Trading book market risk	--	7,298,550	--	10,947,825	--
Total market risk	--	53,187,669	--	363,597,935	--
Insurance risk					
Total insurance risk	--	--	--	24,300,000	--
Operational risk					
Total operational risk	--	82,210,716	--	86,471,917	--

Table 4

Arion Bank Risk-Adjusted Capital Framework Data (cont.)

(ISK 000s)	Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments				
RWA before diversification	725,864,851		1,449,155,484	100
Total diversification/concentration adjustments	--		472,970,924	33
RWA after diversification	725,864,851		1,922,126,408	133
(ISK 000s)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	0	0.0	149,443,500	10.3
Capital ratio after adjustments‡	0	0.0	149,443,500	7.8

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's 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. Sources: Company data as of June. 30, 2015, Standard & Poor's.

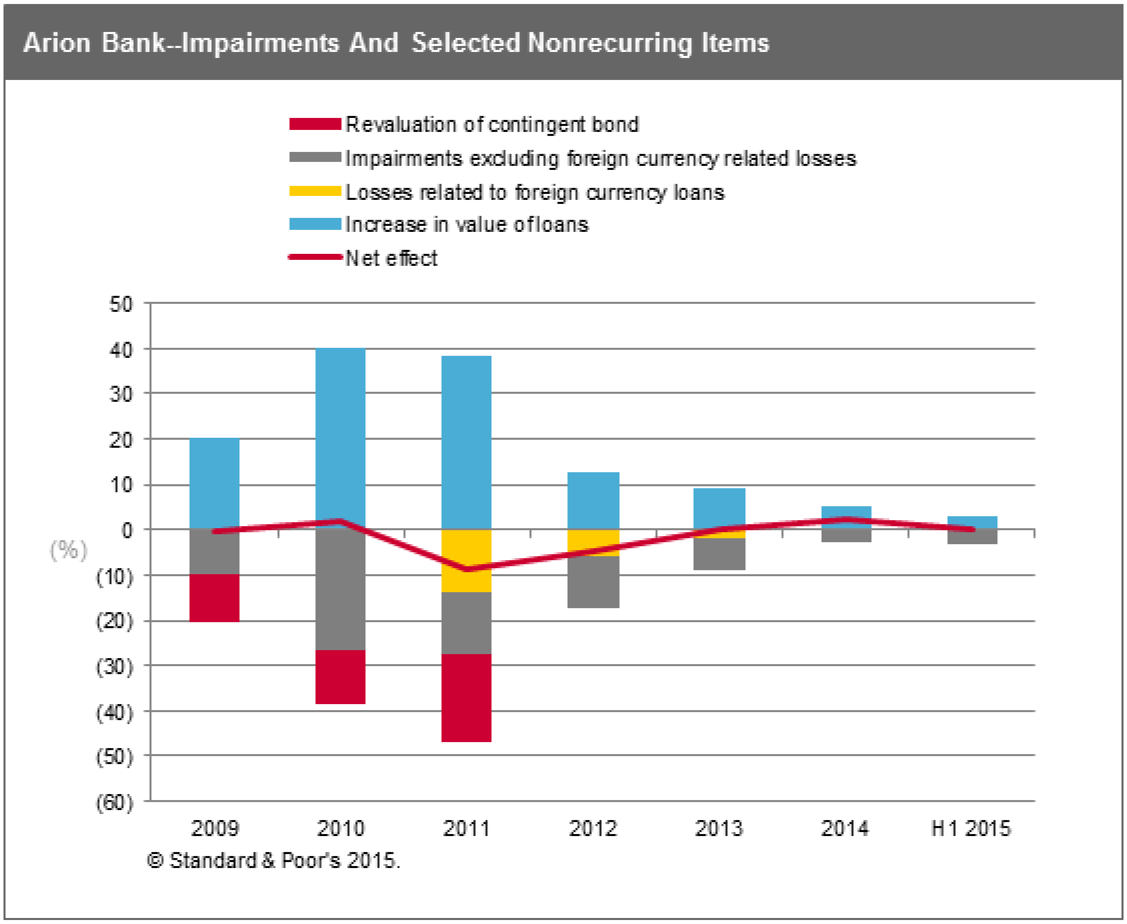
Risk position: In line with systemic risks in Iceland's banking industry

We assess Arion's risk position as "adequate," reflecting our view that the majority of the restructurings of its loan portfolio have been carried out and that the remaining impact on the bank will likely be limited. Our assessment further incorporates our view that the bank's risk profile and loan portfolio largely reflects the risks in the market where it operates. In addition, we believe that Arion's progress in restructuring is about the average of Icelandic commercial banks, including Landsbankinn and Islandsbanki.

We think the lifting of capital controls will have only a limited impact on the bank's asset quality. We expect the removal of controls will be duly managed by the authorities and not result in pronounced depreciation of the krona, which could affect corporate and individual borrowers' creditworthiness. Furthermore, Icelandic corporations borrowing in foreign currency typically have matching hard currency revenues.

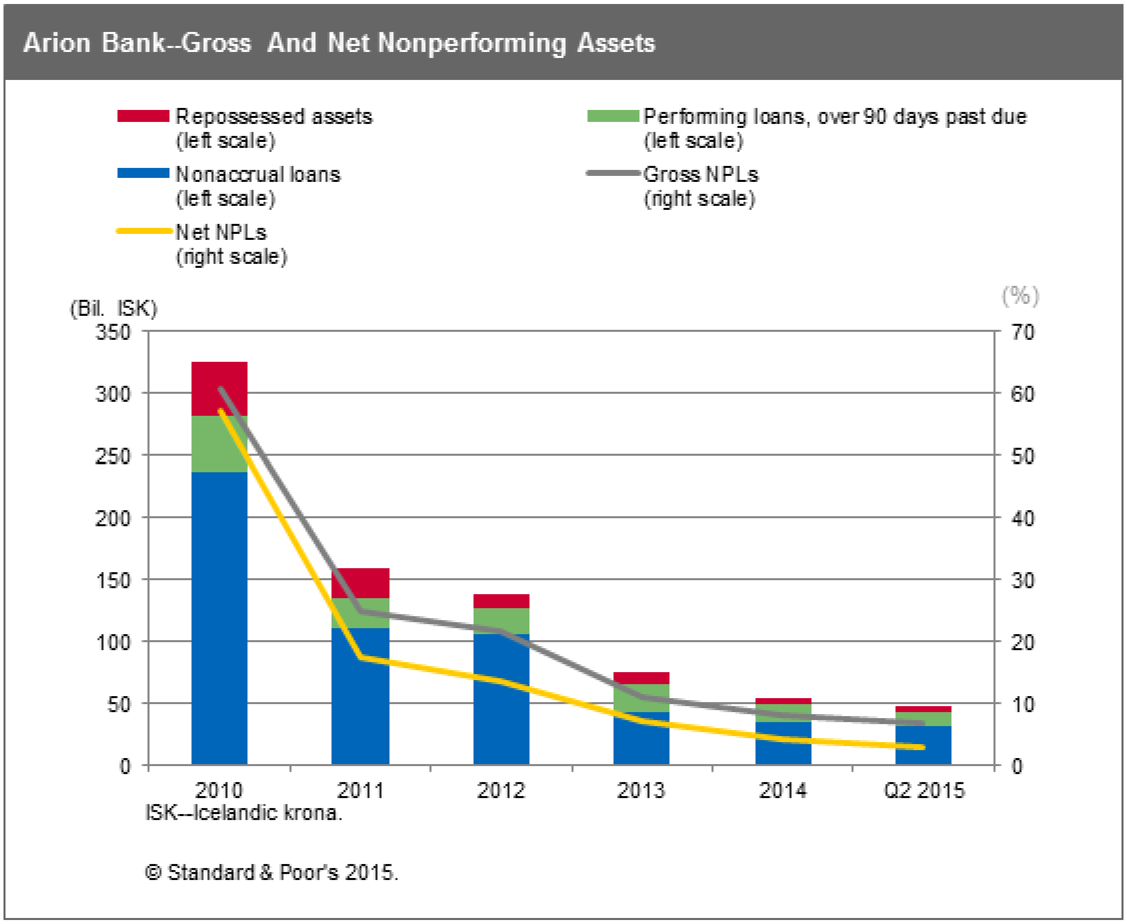
The positive revaluation of assets transferred to Arion from Kaupthing at significant discount to book value has been relatively well matched with subsequent impairment needs since Arion's inception (see chart 2). We note that there are a few large loss reserves tied up in the court system and expect provisions will be somewhat volatile over the next two years. However, we anticipate that loan loss provisions will reduce toward 50 basis points annually on average for the next two years. Likewise, we believe any remaining positive revaluations of the loan book will be more limited, with the potential exception of a few larger counterparties.

Chart 2



Arion, along with the other major banks in the market, is showing significant improvement in its gross non-performing loan stock, by our measures, which stood at 6.74% (including foreclosed assets) as of June 30, 2015, compared with 60% at year-end 2010 (see chart 3). We expect the improvement will continue as the economy continues its recovery and last year's debt relief to the household sector improves households' balance sheets.

Chart 3



Aside from Arion's domestic focus, we do not believe there are meaningful concentrations in the loan portfolio. The 20 largest gross exposures account for roughly 137% of the capital base. In addition to its credit risk, the bank has a meaningful portion (24% as of June 2015) of its Standard & Poor's risk-weighted assets associated with equities in the banking book as a result of various debt restructurings. We expect the bank will continue significantly reducing its portfolio of legacy equity (as was the case with the recent IPO of Siminn, one of Iceland's main telephone operators), decreasing our risk-weighted assets for market risk by more than one-half by the end of June 2016.

Arion's loan book is geographically concentrated in Iceland, representing 94%. Loans to corporates comprise 53% of the portfolio and are concentrated in real estate, construction, and fishing, matching the country's industrial sector breakdown. However, we expect the bank will increase its mortgage lending by taking market share from the state-owned HFF. The volume reduction in recent quarters is due in part to the impact of the government's household debt relief measures on the existing stock of loans.

Table 5

Arion Bank Risk Position					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	6.0	1.4	6.2	1.4	25.3
Total diversification adjustment/S&P RWA before diversification	N.M.	34.2	N.M.	N.M.	N.M.
Total managed assets/adjusted common equity (x)	6.5	6.7	7.1	7.2	8.2
New loan loss provisions/average customer loans	0.9	0.4	1.2	1.9	2.4
Net charge-offs/average customer loans	0.7	0.8	5.5	1.5	2.3
Gross nonperforming assets/customer loans + other real estate owned	6.7	8.0	11.1	21.8	24.8
Loan loss reserves/gross nonperforming assets	57.8	48.9	39.0	43.0	35.3

*Data as of June 30. RWA--Risk-weighted assets. N.M.--Not meaningful.

Funding and liquidity: Strong liquidity, even considering potential outflows of foreign currency deposits

We consider Arion's funding as "average," balancing the bank's relatively strong funding metrics compared with domestic and European peers with the risk of deposit outflows.

Following the composition of the Kaupthing estate, we expect roughly ISK100 billion of deposit outflows from Arion, of which ISK44 billion is likely to be converted into long-term bonds. The remaining estimated ISK56 billion will likely flow out from Kaupthing's bankruptcy estates. We expect these outflows will be partly covered by issuance of new debt in domestic currency, primarily covered bonds, to limit the impact on stable funding and liquidity. These expectations are in line with the bank's own estimates, which we consider realistic. In addition, the maturity profile for capital market funding looks strong, in our view, with no meaningful redemptions until 2018.

We believe Arion will increase its wholesale market funding partly through covered bonds in the domestic market, taking market shares from the state-owned HFF, while also issuing senior unsecured bonds in the international markets.

We estimate an ISK60 billion total increase in long-term bonds, a 2% increase in customer loans, and a net ISK93 billion outflow from core deposits. The net impact on Arion's stable funding ratio will be a slight decrease to about 113% at year-end 2016 from 115% at end-June 2015.

We assess the bank's liquidity as "strong," given its very solid ratios by our measures and taking its potential deposit outflows into account. Since the expected bond issuance and increased borrowing do not fully cover the expected deposit outflows, we expect a negative impact on Arion's liquidity.

The deposit outflows not expected to be covered by increased liabilities--approximately ISK30 billion--are likely to be partially covered by Arion's usage of its relatively large cash with other financial institutions and/or a continued reduction of its legacy equity holdings. The bank estimates that it will continue to sell legacy equity holdings in late 2015 and first-half 2016.

We forecast Arion's broad liquid assets to short-term wholesale funding at about 6.5x at year-end 2016, down from 7.8x at end-June 2015. Despite the drop, the ratio is substantially above European peers', indicating high coverage of upcoming maturities of capital market funding within one year. In addition, liquid securities and cash fully cover all potential outflows of foreign deposits. In such an outflow scenario, without considering any new stable funding, our liquidity coverage would still stand at almost 4x short-term wholesale funding, indicating an almost quadruple coverage of maturing wholesale liabilities within a 12-month horizon. In the longer term, we expect the bank will increase its activity in the bond market, potentially accentuating the pressure on liquidity from larger funding maturities.

Table 6

Arion Bank Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	2015*	2014	2013	2012	2011
Core deposits/funding base	63.7	63.3	63.4	62.0	67.2
Customer loans (net)/customer deposits	141.2	142.3	134.7	126.3	114.6
Long-term funding ratio	97.2	93.9	95.4	93.3	96.0
Stable funding ratio	115.2	111.9	114.3	117.3	120.0
Short-term wholesale funding/funding base	3.4	7.4	5.4	7.9	4.6
Broad liquid assets/short-term wholesale funding (x)	7.8	3.6	4.8	3.9	6.5
Net broad liquid assets/short-term customer deposits	38.1	33.3	34.2	38.9	39.7
Short-term wholesale funding/total wholesale funding	9.4	20.1	14.8	20.7	13.9
Narrow liquid assets/3-month wholesale funding (x)	11.5	7.3	6.2	N/A	N/A

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

External support: Government support and additional loss absorbing capacity

In our view, the likelihood of government support for Icelandic banks remains "uncertain." We base this assessment on the authorities' poor track record and, in our view, still-limited, albeit improved, capacity to support the now smaller banking system in a severe stress scenario.

At present, we do not regard Icelandic bank resolution framework as effective and, as such, for our ratings on Icelandic banks we do not factor in additional loss-absorbing capacity (see "Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity," published April 27, 2015). We believe the current framework to be open ended but, in our view, the authorities' method of dealing with failing banks so far indicates a tendency to safeguard depositors rather than senior unsecured creditors. We expect Iceland will implement a framework similar to the EU's Banking Recovery And Resolution Directive and, with it, bail-in powers that could cause us to change our view. This is, however, contingent on whether the authorities establish measures and indicate willingness to protect senior bondholders and provide banks with the necessary funding and liquidity during a resolution, a period typically with restricted market access.

Additional rating factors:None

No additional factors affect the ratings.

Related Criteria And Research

Related Criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Revised Market Risk Charges For Banks In Our Risk-Adjusted Capital Framework, June 22, 2012
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Methodology For Mapping Short- And Long-Term Issuer Credit Ratings For Banks, May 4, 2010
- Use Of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- Iceland's Commercial Banks Upgraded To 'BBB-/A-3' On Receding Economic Risks; Two Outlooks Stable, One Positive, July 21, 2015
- Iceland Ratings Raised To 'BBB/A-2' On Proposals Toward Lifting Capital Controls; Outlook Stable, July 17, 2015
- Banking Industry Country Risk Assessment Update: June 2015, June 12, 2015
- Banking Industry Country Risk Assessment: Iceland, Dec. 10, 2014

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	4	5	**6**	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	**bb+**	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 9, 2015)	
Arion Bank	
Counterparty Credit Rating	BBB-/Stable/A-3
Senior Unsecured	A-3
Senior Unsecured	BBB-
Counterparty Credit Ratings History	
21-Jul-2015	BBB-/Stable/A-3
14-Oct-2014	BB+/Positive/B
10-Jan-2014	BB+/Stable/B

1477191 | 301539251

Ratings Detail (As Of November 9, 2015) (cont.)	
Sovereign Rating	
Iceland (Republic of)	BBB/Stable/A-2

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's 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.

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