

Ratings Raised On Landsbankinn hf And Arion Bank hf's Icelandic Covered Bond Programs On Effective Icelandic Resolution

May 27, 2022

Overview

- On May 17, 2022, we assigned resolution counterparty ratings to Landsbankinn hf. and Arion Bank hf., following our assessment of the Icelandic resolution regime as sufficiently effective after the country's progress in adopting legislation and developing its policy framework.
- As a result, we have raised to 'A' from 'A-' our ratings on Landsbankinn hf. and Arion Bank hf.'s covered bond programs and related issuances. Our outlooks on the ratings are stable.

FRANKFURT (S&P Global Ratings) May 27, 2022--S&P Global Ratings today raised to 'A' from 'A-' its credit ratings on the mortgage covered bonds issued by Landsbankinn hf. and Arion Bank hf. (both issuers rated BBB/Stable/A-2). Our outlook on the ratings is stable.

The rating action follows our assessment of the Icelandic resolution regime as sufficiently effective after the country's progress in adopting legislation and developing its policy framework (see "Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed," published on May 17, 2022). We consider that Iceland's resolution regime establishes a subset of liabilities that are protected from default in an effective resolution process through their statutory exclusion from bail-in--including covered bonds.

Our covered bonds criteria recognize that an effective resolution regime allows an issuer to service its covered bonds following a bail-in of its senior unsecured obligations. This means that a bank facing failure may continue to make payments on its covered bonds once resolved without accessing the cover pool. In jurisdictions where the systemic importance of covered bonds to the financial markets is greater, we expect that financial authorities will have a stronger incentive to resolve a failing bank and restore it as a going concern rather than liquidate it. Therefore, we add two notches above the issuer credit rating (ICR) where we assess systemic importance as strong or very strong (see "Covered Bonds Criteria," published on Dec. 9, 2014).

As a result, we have added two notches above the ICR on Landsbankinn and Arion Bank to reflect the increased probability that the issuer can service its covered bonds. Consequently, we have assessed the RRL as 'a-', two notches above the 'BBB' long-term ICR on the issuer.

Given our strong jurisdictional assessment of mortgage covered bonds in Iceland, under our global covered bonds criteria we can assign up to two notches of jurisdictional uplift above the reference

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rating level (RRL).

As our long-term sovereign rating on Iceland is 'A', there is a cap from the sovereign and we have assessed the jurisdiction-supported rating level (JRL) on the program at 'a' (previously 'a-').

The available credit enhancement in both programs is not sufficient for the rating to achieve collateral-based uplift.

There are no further rating constraints related to counterparty, legal, country, or administrative and operational risks.

As a result, we have raised to 'A' from 'A-' our ratings on the covered bond programs and related issuances. The stable outlook reflects a single unused notch of jurisdictional support, which means we would not lower our ratings on the covered bonds if we were to lower the rating of the issuer by one notch, all else being equal.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Structured Finance | General: Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- 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
- Criteria | Structured Finance | RMBS: Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 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

- Resolution Counterparty Ratings Jurisdiction Assessment For Iceland Completed, May 17, 2022
- Icelandic Bank Ratings Unaffected By Sufficiently Effective Resolution Regime; 'BBB+' RCRs Assigned; Outlooks Stable, May 17, 2022
- Iceland 'A/A-1' Ratings Affirmed; Outlook Stable, May 13, 2022
- Global Covered Bond Insights Q1 2022, March 17, 2022
- Banking Industry Country Risk Assessment: Iceland, Feb. 21, 2022
- Ratings On Icelandic D-SIBs Affirmed As Pandemic Recovery Risk Lingers; Outlooks Remain Stable, Jan. 25, 2022

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- New Issue: Arion Bank hf. Mortgage Covered Bond Program, Oct. 5, 2021
- New Issue: Landsbankinn hf. Covered Bond Programme, Jan. 21, 2021
- Icelandic Bank Resolution Act Completes The European Map, But Implementation And Effectiveness Remain Unclear, Sept. 1, 2020
- Glossary of Covered Bond Terms, April 27, 2018

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