

FITCH AFFIRMS ICELAND AT 'BBB-/'A-'; OFF RWN; OUTLOOK NEGATIVE

Fitch Ratings-London-23 December 2009: Fitch Ratings has today affirmed Iceland's Long-term foreign and local currency Issuer Default Ratings (IDR) at 'BBB-' and 'A-' respectively and removed them from Rating Watch Negative. The Outlook is Negative. The Short-term foreign currency IDR is affirmed at 'F3' and the Country Ceiling at 'BBB-'.

"The removal of the Rating Watch Negative reflects Iceland's progress with financial sector restructuring, satisfactory performance under its IMF programme and the country's much strengthened external financial position," says Paul Rawkins, Senior Director in Fitch's Sovereigns team in London.

Recent disbursements under the IMF programme, supplemented by a first disbursement of EUR300m from a Nordic bilateral loan facility, should raise international reserves to some USD3.7bn by end-2009. In addition, a further USD3.3bn of undrawn loans remain under the IMF-brokered financial rescue package. Sovereign external debt service, in contrast, will be negligible until the latter months of 2011 when EUR1.3bn of sovereign debt repayments fall due.

The Negative Outlook implies a continuing risk of a downgrade, primarily due to the slow progress Iceland is making towards normalising financial relations with the rest of the world. An essential component of this process remains the resolution of 'Icesave', a bilateral deal with the UK and Dutch governments to finance the compensation of 'Icesave' depositors. Fitch acknowledges that Icelandic parliamentary approval of 'Icesave' now appears close at hand. However, continuing slow progress towards liberalising capital controls and stabilising the exchange rate could further undermine sovereign creditworthiness.

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