

January 5, 2010

### Research Update:

## Republic of Iceland Foreign And Local Currency Ratings Placed On CreditWatch Negative Following Icesave Veto

#### Primary Credit Analyst:

Kai Stukenbrock, Frankfurt (49) 69-33-999-247;kai\_stukenbrock@standardandpoors.com

#### Secondary Credit Analyst:

Moritz Kraemer, Frankfurt (49) 69-33-99-9249;moritz\_kraemer@standardandpoors.com

### Table Of Contents

---

Overview

Rating Action

Rationale

CreditWatch

Related Research

Ratings List

## Research Update:

# Republic of Iceland Foreign And Local Currency Ratings Placed On CreditWatch Negative Following Icesave Veto

## Overview

- The Icesave veto could lead to delays to and revisions of the International Monetary Fund (IMF) program.
- As a result, we could lower our ratings on Iceland by one to two notches within a month.
- The local currency ratings are vulnerable due to continuing constraints to monetary flexibility.
- We are placing our 'BBB-/A-3' foreign currency and 'BBB+/A-2' local currency ratings on Iceland on CreditWatch with negative implications.

## Rating Action

On Jan. 5, 2010, Standard & Poor's Ratings Services placed its 'BBB-/A-3' foreign currency and 'BBB+/A-2' local currency sovereign credit ratings on the Republic of Iceland on CreditWatch with negative implications.

## Rationale

The CreditWatch placement indicates the likelihood of a downgrade if political uncertainty grows and external liquidity pressures persist in the wake of President Olafur Ragnar Grimsson's veto of the "Icesave Act," which parliament passed on Dec. 30, 2009.

The vetoed legislation would have extended a sovereign guarantee for a loan by the Dutch and U.K. governments to the Icelandic deposit guarantee fund. The proceeds of that loan, in turn, would have reimbursed the Dutch and U.K. governments for having compensated depositors in Icesave, a branch in The Netherlands and the U.K. of the failed Icelandic bank Landsbanki. Resolution of the Icesave issue is a condition for ancillary bilateral funding from Nordic nations that is part of Iceland's IMF agreement. As a result of the veto, we expect that disbursements on the remaining \$2.3 billion balance under the IMF program will be delayed and the parameters of the program might have to be reworked, possibly including raising the required primary surplus targets. The financing is key to bolster the central bank's foreign exchange reserves (currently about €2.5 billion) and to permit an eventual easing of capital controls put in place in late November 2008.

Following the veto, the government can now choose to put the legislation to a referendum, which we expect to be voted down, or it could retract the legislation. In either case, a prompt resolution to the dispute appears unlikely.

## CreditWatch

We expect to resolve the CreditWatch placement this month once there is greater clarity about the political will to enact other measures to restore investor confidence and about the availability of official external financing. Should a political impasse persist or should we deem that Iceland's access to official external financing has been affected, we could lower our ratings on Iceland by one or two notches.

## Related Research

- "Use Of CreditWatch And Outlooks," Sept. 14, 2009
- "Sovereign Credit Ratings: A Primer," May 29, 2008

## Ratings List

### CreditWatch/Outlook Action

	To	From
Iceland (Republic of)		
Sovereign Credit Rating		
Foreign Currency	BBB-/Watch Neg/A-3	BBB-/Stable/A-3
Local Currency	BBB+/Watch Neg/A-2	BBB+/Stable/A-2
Iceland (Republic of)		
Senior Unsecured	BBB+/Watch Neg	BBB+
Senior Unsecured	BBB-/Watch Neg	BBB-
Short-Term Debt	A-2/Watch Neg	A-2
Commercial Paper	A-3/Watch Neg	A-3

### Ratings Affirmed

Iceland (Republic of)	
Transfer & Convertibility Assessment	
Local Currency	BBB-

### Additional Contacts:

John Chambers, CFA, New York (1) 212-438-7344; john\_chambers@standardandpoors.com  
Sovereign Ratings; SovereignLondon@standardandpoors.com

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left

column. Alternatively, call one of the following Standard & Poor's numbers:  
Client Support Europe (44) 20-7176-7176; London Press Office (44)  
20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm  
(46) 8-440-5914; or Moscow (7) 495-783-4011.

Copyright © 2010 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved. No part of this information may be reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P. S&P, its affiliates, and/or their third-party providers have exclusive proprietary rights in the information, including ratings, credit-related analyses and data, provided herein. This information shall not be used for any unlawful or unauthorized purposes. Neither S&P, nor its affiliates, nor their third-party providers guarantee the accuracy, completeness, timeliness or availability of any information. S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents are not responsible for any errors or omissions, regardless of the cause, or for the results obtained from the use of such information. S&P, ITS AFFILIATES AND THEIR THIRD-PARTY PROVIDERS DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. In no event shall S&P, its affiliates or their third-party providers and their directors, officers, shareholders, employees or agents be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the information contained herein even if advised of the possibility of such damages.

The ratings and credit-related analyses of S&P and its affiliates and the observations contained herein are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or make any investment decisions. S&P assumes no obligation to update any information following publication. Users of the information contained herein should not rely on any of it in making any investment decision. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of each of these activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P's Ratings Services business may receive compensation for its ratings and credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge) and [www.ratingsdirect.com](http://www.ratingsdirect.com) (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

Any Passwords/user IDs issued by S&P to users are single user-dedicated and may ONLY be used by the individual to whom they have been assigned. No sharing of passwords/user IDs and no simultaneous access via the same password/user ID is permitted. To reprint, translate, or use the data or information other than as provided herein, contact Client Services, 55 Water Street, New York, NY 10041; (1)212.438.7280 or by e-mail to: [research\\_request@standardandpoors.com](mailto:research_request@standardandpoors.com).

Copyright © 1994-2010 by Standard & Poors Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. All Rights Reserved.