



Fitch Places Iceland's Short-Term Ratings Under Criteria Observation

Link to Fitch Ratings' Report(s):

Iceland - Rating Action Report

Fitch Ratings - London - 03 May 2019:

Fitch Ratings has placed Iceland's Short-Term (ST) ratings Under Criteria Observation (UCO) following the publication of its revised criteria for assigning ST ratings . The expected direction of any potential rating action is outlined at the end of this rating action commentary.

The ST ratings affected by the UCO designation include both issuer and issue ratings. Issuer ratings in this context are ST Foreign- and Local-Currency (LC) Issuer Default Ratings (IDR) . ST issue ratings are assigned to obligations whose initial maturity is viewed as "short term" based on market convention. Typically, this means up to 13 months.

Fitch will review all the ratings designated as UCO as soon as practical but no later than six months from the date of the criteria release.

Fitch's approach to assigning ST ratings for sovereign issuers is well established and consequently the impact of the revised criteria is less material than for some of Fitch's other rating groups.

More information on our new criteria approach is available at <https://your.fitchratings.com/short-term-credit-2019>.

Under EU credit rating agency (CRA) regulation, the publication of sovereign reviews is subject to restrictions and must take place according to a published schedule, except where it is necessary for CRAs to deviate from this in order to comply with their legal obligations. Fitch interprets this provision as allowing us to publish a rating review in situations where there is a material change in issuer creditworthiness or other relevant circumstances (in this case, a change to our short-term ratings criteria) that we believe makes it inappropriate for us to wait until the next scheduled review date to update the rating or Outlook/Watch status. The next scheduled review date for Fitch's sovereign rating on Iceland is 24 May 2019, but Fitch believes that the updated rating criteria warrants such a deviation from the calendar and our rationale for this is laid out below.

Key Rating Drivers

Change In Scale Design: Higher ST ratings have been introduced at two new cusp points, 'A' and 'BBB+' on the long-term (LT) scale. Previously, ST ratings were limited to a single ST option at 'A' and 'BBB+' LT ratings. This structural change is expected to contribute to positive rating action on the ST ratings of a number of sovereign issuers including Iceland.

Application Of Existing Sovereign Short-Term Rating Criteria: The guidance in our existing sovereign ST rating criteria sets out our approach to determining which ST rating option should be assigned at individual cusp points via the LT correspondence table. This approach is unchanged for sovereign issuers and will be extended to the two new cusp points at 'A' and 'BBB+', as set out below.

Mapping for Local-Currency Ratings

Fitch will choose the higher of the two options for all ST LC ratings. ST ratings for investment-grade entities are inherently about liquidity and financing flexibility. A sovereign's powers of money creation and capacity to ensure preferential market access (for example through regulation and "financial repression") mean its financing flexibility and short-term creditworthiness will typically be high relative to other entities (such as banks and corporates) at similar LT LC IDRs.

Mapping for Foreign-Currency Ratings

Fitch will choose the higher of the two options, if:

- The sovereign has a Reserve Currency Flexibility (RCF) score greater than zero. Countries with reserve currencies enjoy comparatively strong financial and policy flexibility and the authorities would be able to exchange LC for other major currencies to meet any FX debt service due; or
- Fitch assesses that the sovereign has a robust international liquidity position. The main indicator that we will use to make that assessment is the Fitch International Liquidity Ratio (ILR). We will typically assess the liquidity position as sufficiently robust if the ratio is at least 100% for the current year. This implies that the stock of liquid external assets exceeds the stock of short-term external liabilities, providing confidence about the sovereign's ability to meet its external payment obligations even in the event of a temporary closure of international capital markets.

Otherwise, we will choose the lower of the two options. Fitch calculates that Iceland's ILR has been well above 100% since 2017 and hence fulfils the second test.

Fitch may also take into account other indicators in its assessment of the robustness of a country's international liquidity position. This would particularly be the case if the liquidity ratio was close to 100% or there were gaps in the data. For example, Fitch might decide to affirm a country's ST FC IDR if its liquidity ratio moved just above or just below the 100% mark from one rating review to the next (rather than upgrade or downgrade it), particularly if the change was expected to be temporary, for example owing to an unusually heavy/light amortisation schedule that year or to valuation effects related, for example, to official foreign exchange reserves (the liquidity ratio is calculated in US dollars). Given that the ILR is a variable that on occasion can be estimated based on certain assumptions and/or subject to fluctuations from year to year, it is possible that the use of this guidance could result in a somewhat higher level of volatility into ST sovereign ratings. In view of the nature of ST ratings, the agency feels that this is not an unreasonable outcome.

Potential Rating Changes: The rating changes that may result from the resolution of the UCO assignment are:

Upgrade of ST FC IDR, ST LC IDR, and all FC and LC issue ratings to 'F1+'

Derivation Summary

Key Assumptions

RATING SENSITIVITIES

The key rating sensitivities with respect to the resolution of the UCO status will be the completion of Fitch's analysis reviewing Iceland's international liquidity positions. For Iceland, the existing Rating Sensitivities defined in previously published rating action commentaries continue to apply to the senior LT ratings, which remain a primary driver of the options on the ST rating scale.

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Iceland	ST IDR F1 Under Criteria Observation	F1
	LC ST IDR F1 Under Criteria Observation	F1
senior unsecured	ST F1 Under Criteria Observation	F1

Additional information is available on www.fitchratings.com

Applicable Criteria

Sovereign Rating Criteria (pub. 19 Jul 2018)
Short-Term Ratings Criteria (pub. 02 May 2019)

Additional Disclosures

Solicitation Status
Endorsement Policy

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

COPYRIGHT

Copyright © 2018 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular

jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

Endorsement Policy

Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

Fitch Updates Terms of Use & Privacy Policy

We have updated our Terms of Use and Privacy Policies which cover all of Fitch Group's websites. [Learn more.](#)