



Fitch: Further Downgrades of Icelandic Banks Following High Financial Instability

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Fitch Ratings-London-08 October 2008: Fitch Ratings has today downgraded the Long-term Issuer Default rating (IDR) of Kaupthing Bank hf. (Kaupthing) to 'CCC' from 'BBB' and revised the Rating Watch to Evolving from Negative. It has also downgraded the Long-term IDRs of Glitnir Banki hf. (Glitnir) and Landsbanki Islands (Landsbanki) to 'D' from 'B' and removed the Rating Watch Evolving on the ratings.

The rating action on Kaupthing follows the increasing instability of the Icelandic financial system and the announcement that UK subsidiary Kaupthing Singer & Friedlander (KSF) has been placed in administration. Despite initiatives to support the short-term liquidity position of the parent company, and the fact that among the three major banks, Kaupthing is the only institution having so far maintained its operational independence, Fitch's view is that exceptional tensions in the market increase the possibility that Kaupthing may require some intervention from the Icelandic authorities, supporting the downgrade of the Individual rating to 'E' from 'C'.

The Rating Watch Evolving on the Long-term IDR reflects uncertainty surrounding the availability of and need for support to the bank, which could result in either positive or negative pressure on the rating. Fitch notes in this respect the importance of Kaupthing to the Icelandic banking system in light of the receivership arrangements for Glitnir and Landsbanki, which could result in some potentially greater focus of system support toward Kaupthing. Fitch will continue to monitor future developments and assess related rating implications.

In light of the events of the past days, both the ability and propensity of the Icelandic authorities to support the Icelandic banking system remain increasingly compromised. The downgrade of the Support rating to '5' for all three banks is predicated on Fitch's view that support from the authorities cannot be relied upon for a timely payment of the banks' obligations as they fall due. This view in the case of Glitnir is also supported by the announcement that the Icelandic government was no longer acquiring a 75% share in the bank but instead placing it in receivership. The agency considers that timely payment of Landsbanki and Glitnir's obligations is compromised, resulting in the downgrades of senior unsecured debt ratings to 'CC'.

The rating actions detailed below on the overseas subsidiaries of Kaupthing and Landsbanki, including the downgrades to 'D' of the Long-term IDRs, are based on the announcement that both KSF and Heritable Bank Plc have been placed in administration, and are not supported by their parent companies.

The ratings of the three banks and two subsidiaries are as follows:

Glitnir Banki

- Long-term IDR: downgraded to 'D' from 'B'; Rating Watch Evolving removed
- Short-term IDR: downgraded to 'D' from 'B'; Rating Watch Evolving removed
- Support rating: downgraded to '5' from '4'; Rating Watch Evolving removed
- Support Rating Floor: revised to 'No Floor' from 'B'; Rating Watch Evolving removed
- Individual rating: affirmed at 'F'
- Senior debt: downgraded to 'CC' from 'B'; recovery rating of 'RR4' assigned
- Subordinated debt: downgraded to 'C' from 'CCC+'; recovery rating revised to 'RR6' from 'RR5'; Rating Watch Evolving removed
- Hybrid capital instruments: affirmed at 'C'; recovery rating of 'RR6' affirmed; Rating Watch Evolving removed

Kaupthing Bank hf.:

- Long-term IDR: downgraded to 'CCC' from 'BBB'; Rating Watch revised to Evolving from Negative
- Short-term IDR: downgraded to 'C' from 'F3'; Rating Watch revised to Evolving from Negative
- Support rating: downgraded to '5' from '2'; Rating Watch Negative removed
- Support Rating Floor: revised to 'No Floor' from 'BBB-' (BBB minus); Rating Watch Negative removed
- Individual rating: downgraded to 'E' from 'C'; Rating Watch Negative removed
- Senior debt: downgraded to 'CCC' from 'BBB'; recovery rating of 'RR4' assigned; Rating Watch revised to Evolving from Negative
- Subordinated debt: downgraded to 'C' from 'BBB-' (BBB minus); recovery rating of 'RR6' assigned; Rating Watch Evolving removed
- Hybrid capital instruments: downgraded to 'C' from 'BB+'; recovery rating of 'RR6' assigned; Rating Watch Evolving

removed

Kaupthing Singer & Friedlander Ltd:

- Long-term IDR downgraded to 'D' from 'BBB'; Rating Watch Negative removed
- Short-term IDR downgraded to 'D' from 'F3'; Rating Watch Negative removed
- Support rating: downgraded to '5' from '2'; Rating Watch Negative removed
- Support Rating Floor of 'No Floor' assigned
- Individual rating: downgraded to 'F' from 'C'; Rating Watch Negative removed

Landsbanki Islands:

- Long-term IDR: downgraded to 'D' from 'B'; Rating Watch Evolving removed
- Short-term IDR: downgraded to 'D' from 'B'; Rating Watch Evolving removed
- Support rating: downgraded to '5' from '4'; Rating Watch Evolving removed
- Support Rating Floor: revised to 'No Floor' from 'B'; Rating Watch Evolving removed
- Individual rating: affirmed at 'F'
- Senior debt: downgraded to 'CC' from 'B'; recovery rating of 'RR4' assigned
- Subordinated debt: downgraded to 'C' from 'CCC+'; recovery rating changed to 'RR6' from 'RR5'; Rating Watch Evolving removed
- Hybrid capital instruments: affirmed at 'C'; recovery rating of 'RR6' affirmed; Rating Watch Evolving removed

Heritable Bank Plc:

- Long-term IDR downgraded to 'D' from 'BB'; Rating Watch Evolving removed
- Short-term IDR downgraded to 'D' from 'B'; Rating Watch Evolving removed
- Support rating: downgraded to '5' from '4'; Rating Watch Evolving removed
- Support Rating Floor of 'No Floor' assigned
- Individual rating: downgraded to 'F' from 'D'; Rating Watch Evolving removed

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