



Tagging Info

**Fitch Publishes Islandsbanki's 'BBB-' IDR; Outlook Stable** Ratings Endorsement Policy  
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Fitch Ratings-London-30 April 2015: Fitch Ratings has published Islandsbanki hf's (Islandsbanki) Long-term Issuer Default Rating (IDR) of 'BBB-' and Viability Rating (VR) of 'bbb-'. The Outlook on the Long-term IDR is Stable. A full list of rating actions is at the end of this rating action commentary.

**KEY RATING DRIVERS - IDR AND VR**

Islandsbanki's ratings reflect its position as a leading domestic universal bank in Iceland and good capitalisation. They also factor in its limited geographical diversification and operations in a small economy, combined with uncertainties relating to capital controls.

The Icelandic operating environment constrains Islandsbanki's ratings. The small economy and ongoing resolution of the 2008 banking collapse and related capital controls directly and indirectly affect Fitch's assessment of other sub-factors driving the ratings, such as management's ability to execute on its strategy and the need to maintain strong capitalisation. Potentially significant foreign currency outflows when capital controls are lifted are a risk for the whole banking system, although Fitch believes foreign currency mismatches are well managed by Islandsbanki; nevertheless, this will remain a key sensitivity for the bank.

The restructuring of a significant part of the loan book since 2008 has largely been completed, and Fitch believes the bank has made conservative assessments of its customers' abilities to service written-down loans. The assets were acquired at a deep discount from failed Glitnir Bank and have performed well post restructuring; however, the seasoning of the loan book remains relatively limited.

Islandsbanki's reported capital ratios are solid and leverage is low. Fitch expects that the bank will need to remain highly capitalised to mitigate the risk in the restructured loans portfolio, and to keep investor confidence. The latter should also be viewed in the context of investor perception of Islandsbanki's connection with Glitnir.

**RATING SENSITIVITIES - IDR AND VR**

The ratings are sensitive to the development of the loan book. Deteriorating asset quality, particularly if a material proportion of previously restructured loans become impaired, would be ratings negative. Higher risk appetite, for example looser underwriting standards or significant expansion of foreign banking operations, could also lead to a downgrade.

The impact of lifting capital controls on Islandsbanki's funding and business model is a key rating sensitivity. While the ratings already factor in that the funds "trapped" in Iceland would largely leave the bank when the controls are lifted, the ratings would be sensitive to a significant larger-than-expected outflow. Similarly, reduced focus on liquidity and/or building up of foreign currency mismatches would likely be ratings negative.

A rating upgrade is not likely given Islandsbanki's concentration on a small economy and moderate size compared to more highly rated peers. The ratings already reflect a continued expected improvement in the Icelandic operating environment.

**KEY RATING DRIVERS AND SENSITIVITIES - SUPPORT RATING AND SUPPORT RATING FLOOR**

The Icelandic sovereign's track record of imposing losses on bank creditors and public statements of burden sharing, particularly following the banking sector collapse, are the main drivers for Islandsbanki's Support Rating of '5' and Support Rating Floor of "No Floor". While state support is possible, Fitch does not believe that support from the Icelandic authorities can be relied upon. The Support Rating could be upgraded and the Support Rating Floor could be revised upwards if Fitch changed its assessment of the Icelandic authorities'

propensity to support, although this is unlikely.

The rating actions are as follows:

Long-term IDR: published at 'BBB-'; Outlook Stable

Short-term IDR: published at 'F3'

Viability Rating: published at 'bbb-'

Support Rating: published at '5'

Support Rating Floor: published at 'No Floor'

Fitch will shortly publish a Ratings Navigator and a Full Rating Report for Islandsbanki.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria, 'Global Bank Rating Criteria', dated 20 March 2015, are available at [www.fitchratings.com](http://www.fitchratings.com).

The following issuer(s) did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure: Islandsbanki hf

**Applicable Criteria and Related Research:**

Global Bank Rating Criteria

Additional Disclosure

Solicitation Status

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