Fitch Assigns Issuer Default and Recovery Ratings for Sovereigns

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Fitch Assigns Issuer Default and Recovery Ratings for Sovereigns Ratings 14 Dec 2005 9:55 AM (EST) - --- Fitch Ratings-London/New York/Hong Kong-14 December 2005: Fitch Ratings today assigned Issuer Default Ratings ("IDRs") to each of the 96 sovereign governments it currently rates. The IDR solely reflects an issuer's ability to honour its obligations on a timely basis; it is thus a benchmark "probability of default" rating and does not reflect any assessment of potential loss in the event of default. All of the new Foreign and Local Currency IDRs are the same as the Long-term Foreign and Local Currency credit ratings previously assigned by Fitch, with one exception. Argentina's Long-term Foreign Currency rating was previously "DDD" and is now changed to Restricted Default ("RD"). In Fitch's opinion Argentina remains in default on a material portion of its debt obligations despite honouring the new debt instruments created from the exchange of defaulted debt at the beginning of the year. The credit ratings assigned to specific debt instruments issued by sovereigns are in nearly all instances the same as the relevant IDR reflecting Fitch's assessment that in the event of default, the recovery rate is likely to be in line with the historical average of between 31% and 50%. However, explicit Recovery Ratings ("RR") are assigned to rated debt securities issued by sovereigns with an IDR of 'B+' or below. Recovery Ratings are used to indicate relative recovery prospects across different classes of debt (for example, secured versus unsecured or subordinated debt claims). In the case of sovereigns, however, virtually all debt is unsecured and thus in most cases a single RR will apply to all debt issues. "Only if a sovereign debt issue has structural credit enhancement or there is good reason to believe it would be treated less/more favourably in a distress and/or default situation, will specific classes of debt or issues be assigned differing recovery and hence credit ratings," said David Riley, Managing Director in Fitch's Sovereign Group in London. Recovery Ratings of 'RR3' and 'RR2' reflecting "good" and "superior" recovery prospects in the event of default have been assigned to twenty-seven so-called "Brady" bonds with an aggregate value of USD12.7 billion range. The higher than average expected recovery rate in the event of default reflects collateral attached to these bonds in the form of specially created zero-coupon US Treasury bonds usually deposited with the New York Federal Reserve. The experience of defaults and exchanges involving Brady bonds is that investors receive the value of the collateral and subsequently receive similar treatment as holders of unsecured bonds with respect to their residual claim on the defaulting sovereign. Consequently, the implicit recovery rate on secured Brady bonds is materially higher than for unsecured bonds and for the first time Fitch is able to reflect this reality with the assignment of Recovery Ratings and in the ratings assigned to specific debt instruments, which are between 1 and 2 notches above the sovereign IDRs. A full listing of the Recovery Ratings and credit ratings of the affected Brady bonds is provided in the Rating Action Commentary, "Fitch Upgrades USD12.7bn in Collateralized Brady Bonds" also released today and the associated Special Report, "Collateralised Brady Bonds Upgraded", both of which are freely available on www.fitchratings.com. Feedback on the implementation of IDR and RRs for sovereigns has revealed strong demand from market participants for RRs to be published for the obligations of all rated sovereigns. Additionally it has indicated an interest in more precise point estimates of recovery prospects in the event of default than those that will in future be provided by the RR scale. Initially, Recovery Ratings will only be published for the obligations of sovereigns with IDRs of 'B+' and below, and according to the Fitch-wide RR scale and definitions. Nonetheless, as sovereigns become financially distressed and the risk of default becomes a real possibility in the short term, Fitch will publish bespoke recovery analysis in support of its RRs and as an aid for market participants seeking to estimate expected loss. The Criteria report, "Sovereign Issuer Default and Recovery Ratings" is freely available from www.fitchratings.com. Contact: David Riley, London, Tel: +44 207 417 6338; Roger

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