

**Rating Action: [Kaupthing Bank hf](#)**

**Moody's downgrades HFF to Aa1 following the sovereign downgrade; affirms Kaupthing, Glitnir and Landsbanki with stable outlook**

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**The ratings of Kaupthing Bank hf, Glitnir Banki hf and Landsbanki Islands hf were not affected**

London, 20 May 2008 -- Moody's Investors Service today downgraded the Aaa issuer rating and local currency ratings of Iceland's Housing Financing Fund ("HFF") to Aa1 from Aaa. The outlook is stable. The rating actions follow today's downgrade of Iceland's Aaa government bond and foreign currency country ceiling for bank deposits to Aa1. Moody's said that the long-term foreign and local currency deposit ratings of Kaupthing Bank hf (A1/P-1/Stable), Glitnir Banki hf and Landsbanki Islands hf (both rated A2/P-1/Stable) were not affected.

The Aa1 rating of HFF continues to reflect the application of Moody's rating methodology for government-related issuers ("GRIs") and is based on (i) the intrinsic strength of HFF, which is represented by a Baseline Credit Assessment, (ii) the Aaa local currency deposit ceiling of the Republic of Iceland, (iii) high default dependence between HFF and the Icelandic government, and (iv) a high probability of systemic support for HFF.

Although Iceland's local currency deposit ceiling was unaffected by today's sovereign rating action, HFF's special status as a Treasury Part C institution means that HFF's owner, the Icelandic government, has unlimited liability for it. This closeness to the government is the rationale for Moody's downgrade for HFF's ratings.

The affirmation of the deposit ratings of Kaupthing Bank hf, Glitnir Banki hf and Landsbanki Islands hf -- and their stable outlook -- reflects Moody's view that the probability of systemic support for these banks in the event of a stress situation remains very high.

Headquartered in Reykjavik, HFF is a 100% government-owned Icelandic residential mortgage lender with a mission to support the government's housing policy.

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