

Rating Action: Glitnir banki hf

Moody's downgrades Glitnir banki hf to A2/C-

London, 28 February 2008 -- Moody's Investors Service has today downgraded the bank financial strength rating ("BFSR") of Glitnir Banki hf ("Glitnir") to C- from C and its long-term foreign and local currency deposit ratings to A2 from Aa3. The bank's Prime-1 short-term rating was affirmed. The outlook on all ratings is stable. These rating actions conclude the review for possible downgrade initiated on 30 January 2008.

Moody's review focused on: (i) the sustainability of the bank's earnings in light of the more challenging credit environment, both in Iceland and in the other countries where Glitnir has sizeable operations; (ii) the prospects for asset quality given the slowdown in the Icelandic economy, the current volatility in the Icelandic stock market and the seasoning of the loan portfolio after several years of torrid growth; (iii) the development of the bank's liquidity profile given the current market conditions, (iv) ongoing changes in the composition of Glitnir's ownership; and (v) challenges relating to the integration and strategy of its Nordic operations.

"After carrying out comprehensive stress tests, Moody's has concluded that Glitnir's liquidity profile is sound. Although the bank has large repayments due in 2008, its alternative liquidity, both on balance sheet and in the form of committed back-up lines, should cover these," said Kimmo Rama, lead analyst for Glitnir at Moody's.

The rating agency also noted that the integration of Glitnir's Nordic operations will provide increased initiative as well as oversight. "However, an increased focus on corporate and investment banking in its overseas Nordic operations may raise Glitnir's overall risk profile as compared to when these operations mainly consisted of mortgage lending via BNbank in Norway," Mr Rama added.

In recent years, Icelandic banks have experienced substantially stronger asset growth than their Nordic peers -- both within Iceland and overseas. Moody's believes that the current turmoil in the global financial markets is likely to curtail this growth and poses greater challenges for the asset quality of Icelandic banks.

Moody's downgrade reflects its concern over Glitnir's asset quality, namely its high single-name exposures and related-party lending, despite the bank's 2007 results showing good asset quality performance. Although the bank's related-party exposure fell to 21% of Tier 1 capital at end-June 2007, it increased again to 35% by end-2007 because of shareholder changes.

"Although Glitnir has historically reported high related-party exposures, the weakened Icelandic credit environment has recently increased the risk profile of such lending. Moody's believes that the bank's ability to withstand a deterioration in asset quality would be impaired should it experience problems with its largest exposures, reducing its financial strength to a level more consistent with a BFSR of C-," Mr Rama explained.

Moody's conducted stress tests on Glitnir's loan portfolio subjecting it to different default, asset growth and revenue assumptions as well as scenarios in which problem loans increased sharply. These tests showed that Glitnir can withstand significant downward pressure. However, Glitnir's business model also remains to some extent dependent on investment banking and capital market activities, both of which Moody's expects to prove challenging over the coming years. This could create volatility in recurring earnings power and may add pressure on the bank's capital adequacy assuming moderate asset growth.

Glitnir is the third largest bank in Iceland in terms of total assets and has a market share of loans and deposits of more than 25%. In Moody's opinion, a default of Glitnir would pose a substantial risk to the Icelandic payment system and it therefore assesses the probability of systemic support for the bank in the event of a stress situation as very high. Moody's therefore imputes a three-notch uplift from Glitnir's baseline credit assessment of Baa2 (which maps from the new BFSR of C-), bringing the long-term deposit rating to A2.

Commenting on the future rating drivers, Moody's notes that, as the ratings have just been downgraded, an upgrade is unlikely in the medium term. However, the ratings could enjoy upward pressure if related-party lending is reduced combined with a reduction in single-name exposures and an improved liquidity profile, together with stabilisation of earnings in the more volatile market environment.

Conversely, downward pressure on the ratings could emerge if the bank were to further increase related-party lending or to make meaningful acquisitions that placed pressure on its management, systems or

controls. A significant weakening in Glitnir's financial performance, asset quality and/or liquidity profile could also exert pressure on its ratings.

The following ratings were downgraded:

Bank Deposits: to A2 from Aa3

Bank Financial Strength: to C- from C

Senior Unsecured: to A2 from Aa3

Subordinate: to A3 from A1

Preferred Stock: to Baa1 from A2

The following ratings were affirmed:

Commercial Paper: P-1

Other Short-Term: P-1

Headquartered in Reykjavik, Iceland, Glitnir banki reported total assets of ISK2,949 billion (EUR32.2 billion) at the end of December 2007.

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