

FITCH AFFIRMS ICELAND'S LANDSBANKI AT 'A'; OUTLOOK STABLE

Fitch Ratings-London/Frankfurt-22 November 2007: Fitch Ratings has today affirmed Iceland-based Landsbanki Islands' (Landsbanki) ratings at Long-term Issuer Default (IDR) 'A', Short-term IDR 'F1', Individual 'B/C', Support '2' and Support Rating Floor 'BBB'. The Outlook for the Long-term IDR is Stable.

The ratings reflect Landsbanki's leading position in its domestic market, the growing diversification of its earnings, its prudent provisioning policies, comfortable capitalisation and marked improvement in its funding profile. They also take into account its still large equity portfolio, and the potential volatility in its domestic market and capital-market-related activities.

The bank's funding profile has markedly improved over the past year. Of all Icelandic banks, Landsbanki has been the most successful in raising customer deposits. At end-September 2007, customer deposits funded a comfortable 76% of customer loans, a staggering increase from a relatively low 34% at end-2005. "Taking into account also the bank's large liquidity portfolio, Landsbanki is well placed to absorb the present prolonged market turmoil," says Alexandre Birry, Associate Director in Fitch's Financial Institutions group.

Performance in 9M07 was good and little affected by market conditions in the third quarter. Underlying performance in overseas business benefited from the strong increase in fee income, supported by the recent expansion in brokerage and investment banking activities in the UK and the rest of Europe. Its home market, where the bank acts as a universal retail and corporate bank, still generates almost half of total net interest and commission income. Although conditions in its domestic market are likely to be less favourable than over the past three years, Landsbanki has been building a buffer in its loan impairment to cover for any increase in problem loans. This buffer is also viewed favourably in light of the higher risk acquisition and leverage finance book, which represents around 15% of total lending and may be affected by a more difficult market environment.

Landsbanki's high capital ratios support its ratings in the current context of volatile markets and the expected slowdown in Iceland. Landsbanki's expansion strategy has so far been more focused on buying brokerage/investment banking boutiques rather than lending businesses. The bank has recently expanded its overseas lending activities mostly through organic growth and the hiring of new teams. Further acquisitions, in particular to strengthen its European lending franchise, can not be excluded. The bank also has to continue to strengthen the integration of recently acquired overseas operations.

Landsbanki is Iceland's second-largest bank by total assets but the largest in its domestic market, with strong market shares. Overseas, it has rapidly developed its UK and European corporate and investment banking franchise (mostly through acquisitions). It has recently bought four brokerage houses.

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