



Fitch Downgrades 4 Icelandic Banks

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Fitch Ratings-London-30 September 2008: Fitch Ratings has today downgraded Glitnir Banki hf. (Glitnir), Kaupthing Bank hf. (Kaupthing), Landsbanki Islands (Landsbanki) and Straumur Burduras Investment Bank (Straumur). This follows yesterday's announcement that the Government of Iceland, through the intermediation of the Central Bank of Iceland, will provide Glitnir with new equity amounting to EUR600m, taking a 75% stake in the bank.

The Icelandic government intervention followed concerns within Iceland's regulatory bodies that current difficult operating conditions in global financial markets were placing liquidity pressures on Glitnir. Although the Icelandic government considered these pressures to be temporary, Fitch views the government's purchase of a 75% stake in Glitnir as explicit support and has downgraded the bank's Individual rating to 'F' from 'B/C'. While the Icelandic government has stated that it does not plan to hold its stake in Glitnir for an extended period, Fitch does not believe it will be easy to exit in the near-term. Fitch has downgraded Glitnir's IDR to its Support Rating Floor of 'BBB-' (BBB minus) and placed them, together with the bank's Support '2' rating, on Rating Watch Negative. This is to reflect challenges affecting the Icelandic financial system and potential constraints on the availability of substantial liquidity support for a system reliant on market sentiment.

The Icelandic banks have been vulnerable to market pressure for some considerable time but had, so far, demonstrated resilience to difficult market conditions and taken measures to offer protection against a weakening economic backdrop and market dislocation. However, historical reliance, albeit declining in the case of Landsbanki and Kaupthing, on wholesale funding, the risks of a hard landing for the Icelandic economy and rapid overseas expansion into markets showing increasing sign of deterioration have continued to weigh on market sentiment.

The purpose of yesterday's action by the Icelandic authorities is to maintain stability within the Icelandic financial system and it remains to be seen whether this will have the desired effect. Fitch has downgraded the IDRs of Landsbanki, Kaupthing and Straumur and the Individual ratings of Landsbanki and Kaupthing to reflect the anticipated weakening of their financial condition against an increasingly challenging backdrop that appears unlikely to improve over the near-term. In assigning Negative Rating Watches to Icelandic banks' IDRs and Individual ratings (except for Straumur) Fitch is signalling the risk of contagion following the support measures implemented for Glitnir and the potential for further downgrades should a reasonable measure of stability not be achieved. Straumur's Individual and Support ratings and Support Rating Floor have been affirmed reflecting their greater tolerance to potential stress at their existing rating levels.

The capital injection by the Icelandic government is subject to formal vote by the shareholder assembly; the largest shareholders have already agreed.

The ratings of the three banks and two subsidiaries are as follows:

Glitnir Banki

Long-term IDR and senior debt: downgraded to 'BBB-' (BBB minus) from 'A-' (A minus); on Rating Watch Negative
 Short-term IDR: downgraded to 'F3' from 'F2'; on Rating Watch Negative
 Support rating: '2'; on Rating Watch Negative
 Support Rating Floor: revised to 'BBB-' (BBB minus) from 'BBB'; on Rating Watch Negative
 Individual rating: downgraded to 'F' from 'B/C'
 Subordinated debt: downgraded to 'BB' from 'BBB+'; on Rating Watch Negative
 Hybrid capital instruments: downgraded to 'B' from 'BBB+'; on Rating Watch Negative

Kaupthing Bank hf.:

Long-term IDR and senior debt: downgraded to 'BBB' from 'A-' (A minus); on Rating Watch Negative
 Short-term IDR: downgraded to 'F3' from 'F2'; on Rating Watch Negative
 Support rating: '2'; on Rating Watch Negative
 Support Rating Floor: revised to 'BBB-' (BBB minus) from 'BBB'; on Rating Watch Negative
 Individual rating: downgraded to 'C' from 'B/C'; on Rating Watch Negative
 Subordinated debt: downgraded to 'BBB-' (BBB minus) from 'BBB+'; on Rating Watch Negative
 Hybrid capital instruments: downgraded to 'BB+' from 'BBB+'; on Rating Watch Negative

Kaupthing Singer & Friedlander Ltd:

Long-term IDR: downgraded to 'BBB' from 'A-' (A minus); on Rating Watch Negative
Short-term IDR: downgraded to 'F3' from 'F2'; on Rating Watch Negative
Support rating: '2'; on Rating Watch Negative
Individual rating: downgraded to 'C' from 'B/C'; on Rating Watch Negative

Landsbanki Islands:

Long-term IDR and senior debt: downgraded to 'BBB' from 'A'; on Rating Watch Negative
Short-term IDR: downgraded to 'F3' from 'F1'; on Rating Watch Negative
Support rating: '2'; on Rating Watch Negative
Support Rating Floor: revised to 'BBB-' (BBB minus) from 'BBB'; on Rating Watch Negative
Individual rating: downgraded to 'C' from 'B/C'; on Rating Watch Negative
Subordinated debt: downgraded to 'BBB-' (BBB minus) from 'A-' (A minus); on Rating Watch Negative
Hybrid capital instruments: downgraded to 'BB+' from 'A-' (A minus); on Rating Watch Negative

Heritable Bank Ltd:

Long-term IDR downgraded to 'BBB' from 'A'; on Rating Watch Negative
Short-term IDR downgraded to 'F3' from 'F1'; on Rating Watch Negative
Support rating: downgraded to '2' from '1'
Individual rating: 'C'; on Rating Watch Negative

Straumur Burdaras Investment Bank:

Long-term IDR downgraded to 'BB+' from 'BBB+'; on Rating Watch Negative
Short-term IDR downgraded to 'B' from 'F3'; on Rating Watch Negative
Support rating: affirmed at '3'
Support Rating Floor: affirmed at 'BB-' (BB minus)
Individual rating: affirmed at 'C/D'
Subordinated debt: downgraded to 'BB' from 'BB+'; on Rating Watch Negative

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