

## **FITCH TAKES FURTHER RATING ACTIONS ON ICELANDIC BANKS**

Fitch Ratings-London-07 October 2008: Fitch Ratings has today downgraded the Long-term Issuer Default ratings (IDRs) of Glitnir Banki hf. (Glitnir) and Landsbanki Islands (Landsbanki) to 'B' from 'BBB-'(BBB minus) and 'BBB' respectively, and that of Straumur Burduras Investment Bank (Straumur) to 'BB-'(BB minus) from 'BB+'. The ratings of Kaupthing Bank hf. (Kaupthing) are under review and the outcome of the review will be published tomorrow.

This rating action follows the announcement of legislative measures providing for broad authority to Icelandic authorities to intervene in the Icelandic financial system and the statement that Landsbanki has been placed in receivership, and reflects Fitch's view that both the ability and propensity of the Icelandic authorities to support the Icelandic banking system are becoming increasingly compromised. The support rating floor for the major Icelandic banks is now 'B'. Both Glitnir, following the acquisition by the Icelandic authorities last month of a 75% stake, and Landsbanki, which was placed in receivership, are now at their support rating floor. Glitnir's Individual rating of 'F' is affirmed and Landsbanki's Individual rating has been downgraded to 'F' from 'C' to reflect the receivership arrangement. Fitch notes that under the receivership arrangement, Landsbanki could be subjected to 'temporary protection from payments of debts and obligations as they fall due'. It is not clear that such a moratorium will be enacted but Fitch would view it as a default.

The Rating Watch Evolving on the ratings of Glitnir and Landsbanki reflects Fitch's view that uncertainty surrounding the availability of resources to support the banks could drive the ratings in either direction.

Straumur's ratings reflect a different risk profile from the three major Icelandic banks. The bank has not been involved so far in negotiations with Icelandic authorities, but Fitch's view is that, despite low leverage and the relative liquidity of its balance sheet, some contagion risk is likely to continue to affect the bank and that support cannot be relied upon in the current environment given its limited Icelandic business.

The rating actions detailed below of Landsbanki's UK subsidiary Heritable Bank Ltd (Heritable) are based on Fitch's view that, while support from the Icelandic authorities is unlikely to extend to overseas subsidiaries, Heritable's fundamentals, and its requirement to abide by local prudential requirements, offer some moderately greater flexibility, although exposure to and/or reliance on the parent means the risk of contagion is high.

The ratings of the three banks and those of Heritable are as follows:

### Glitnir Banki:

- Long-term IDR and senior debt: downgraded to 'B' from 'BBB-'(BBB minus); on Rating Watch Evolving
- Short-term IDR: downgraded to 'B' from 'F3'; on Rating Watch Evolving
- Support rating: changed to '4' from '2'; on Rating Watch Evolving
- Support Rating Floor: revised to 'B' from 'BBB-'(BBB minus) on Rating Watch Evolving
- Individual rating: affirmed at 'F'
- Subordinated debt: downgraded to 'CCC+' from 'BB'; on Rating Watch Evolving; recovery rating of 'RR5' assigned
- Hybrid capital instruments: downgraded to 'C' from 'B'; on Rating Watch Evolving; recovery rating of 'RR6' assigned

### Landsbanki Islands:

- Long-term IDR and senior debt: downgraded to 'B' from 'BBB'; on Rating Watch Evolving
- Short-term IDR: downgraded to 'B' from 'F3'; on Rating Watch Evolving

- Support rating: changed to '4' from '2'; on Rating Watch Evolving
- Support Rating Floor: revised to 'B' from 'BBB-'(BBB minus); on Rating Watch Evolving
- Individual rating: downgraded to 'F' from 'C'
- Subordinated debt: downgraded to 'CCC+' from 'BBB-'(BBB minus); on Rating Watch Evolving; recovery rating of 'RR5' assigned
- Hybrid capital instruments: downgraded to 'C' from 'BB+'; on Rating Watch Evolving; recovery rating of 'RR6' assigned

Heritable Bank Ltd:

- Long-term IDR downgraded to 'BB' from 'BBB'; on Rating Watch Evolving
- Short-term IDR downgraded to 'B' from 'F3'; on Rating Watch Evolving
- Support rating: downgraded at '4' from '2' ; on Rating Watch Evolving
- Individual rating: downgraded to 'D' from 'C'; on Rating Watch Evolving

Straumur Burdaras Investment Bank:

- Long-term IDR and senior debt downgraded to 'BB-' (BB minus) from 'BB+'; on Rating Watch Evolving
- Short-term IDR affirmed at 'B'; revised to Rating Watch Evolving
- Support rating: changed to '5' from '3';
- Support Rating Floor: revised to 'No Floor'
- Individual rating: downgraded to 'D' from 'C/D'; on Rating Watch Evolving
- Subordinated debt: downgraded to 'B' from 'BB'; on Rating Watch Evolving

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