



NEWS RELEASE

No.2008-C-885
Oct 9, 2008

R&I Downgrades to (BBB-): Republic of Iceland

Rating and Investment Information, Inc. (R&I) has announced the following:

ISSUER: **Republic of Iceland**
Foreign Currency Issuer Rating

R&I RATING: (BBB-); Downgraded from (A+)
Remains on the Rating Monitor with a view to downgrading

RATIONALE:

On October 9, Iceland government has decided to place Kaupthing Bank hf., the country's largest bank under its control after placing under administration the third-largest Glitnir banki hf and the second-largest Landsbanki Islands hf. Iceland's financial system has been severely damaged. Volatile market has pushed down Iceland Krona further and the real economy continues to deteriorate. R&I downgraded Iceland's Foreign Currency Issuer Rating to A+ on October 7, pointing out that the repayment risk of private debt could be transferred to the government once all commercial banks are nationalized. Now the concern has become a reality. Total assets of 3 largest banks exceeded more than 9 times of GDP at the end of 2007 and Iceland government has no other choice but to seek financial assistance from the third party to manage its massive current account deficit and stabilize exchange rates. Considering these factors, R&I has downgraded the rating to BBB-. Since the rating could be changed further depending on the future financial assistance from the third party and the restructuring of financial sector, R&I has retained the rating on the Rating Monitor with a view to downgrading.

R&I RATINGS:

ISSUER: **Republic of Iceland**
Foreign Currency Issuer Rating: (BBB-); Downgraded from (A+)
Remains on the Rating Monitor with a view to downgrading

Issuer Rating is R&I's opinion regarding an issuer's overall capacity to repay its entire financial obligation, and it will be assigned to all issuers. The rating of individual obligations (i.e. bonds and loans etc.) includes the prospect of recovery and reflects the terms and conditions of the agreement and it may be lower or higher than Issuer Rating.

Rating and Investment Information, Inc. Nihonbashi 1-chome Bldg., 1-4-1, Nihonbashi, Chuo-ku, Tokyo 103-0027, Japan
International Department TEL.03-3276-3426 FAX.03-3276-3427 <http://www.r-i.co.jp>

Ratings are statements of R&I's opinion shown in certain symbols regarding an Issuer's general capacity (credit quality) to repay its financial obligation and individual debts (bonds and loans, etc.) and it is not a statement of recommendations to buy, hold, or sell any securities. Information has been obtained by R&I from sources believed to be reliable, however, its accuracy, adequacy, or completeness is not guaranteed. Therefore, R&I is not responsible for any errors or omissions or the result obtained from the use of the rating. As a general rule, R&I provides the rating services for a rating fee paid by the Issuer.

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