NEWS RELEASE

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Sep 30, 2008

R&I Downgrades Republic of Iceland to AA, on Monitor

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

ISSUER: Republic of Iceland
Foreign Currency Issuer Rating

R&I RATING: (AA); Downgraded from AA+
Placed on the Rating Monitor with a view to downgrading

RATIONALE:

Iceland's government announced on September 29 it will nationalize Glitnir Bank, Iceland's third largest bank, which has faced difficulty procuring funds as the financial turmoil spilling out of the United States and roiling global financial markets has continued. In return for a capital injection corresponding to 600 million euro (84.0 billion Iceland krona (ISK)) from Iceland's central bank, the government will acquire 75% of Glitnir Bank's stock. Following the capital increase, Glitnir's capital adequacy ratio will be 14.5%, and the bank is continuing normal banking activities. While R&I can evaluate this measure positively for limiting the shocks to Iceland's financial markets and contributing to stable macroeconomic management, based on the increase in Iceland's public debt burden from the injection of public funds, and the rapid deterioration in Iceland's economic fundamentals primarily because of external factors, R&I has downgraded Iceland's Foreign Currency Issuer Rating from AA+ to AA. Because the possibility of other actions targeting the entire financial sector in the future, including additional capital injections or subrogation of debt, cannot be dismissed, R&I has also placed the rating on the Rating Monitor with a view of downgrading.

This capital injection of ISK84.0 billion is equivalent to 6.5% of Iceland's gross domestic product (GDP). Central government debt at the end of 2007 was 23.8% of GDP, and this indicator will not deteriorate significantly as a result of this measure. Considering the fact the total assets of Iceland's three largest banks at the end of 2007 exceeded 9.0 times Iceland's GDP, however, there is a concern the burden placed on the government might be substantial if additional capital injections, debt guarantees or other measures are implemented.

The real economy is also deteriorating rapidly. There is a possibility Iceland could register zero growth or negative growth in 2008 as well. On top of the slump in personal consumption following the collapse of the asset bubble and depreciation of the ISK by over 30% since the start of the year, fixed capital formation has dropped greatly compared with the prior year because aluminum smelter construction, which had accounted for a large share of private sector capital investment, has been completed. Although the April-June 2008 trade deficit was sharply reduced by the full-scale export of aluminum products, this was offset by deterioration in the income account balance, and the current account deficit hovered in the range of 15% of GDP. The government is currently preparing its fiscal budget for fiscal 2009, and considering the fact Iceland’s fiscal revenues and expenditures in the past have been easily affected by fluctuations in the economy, it probably will be necessary to closely watch the possibility of the fiscal 2009 balance producing a substantial deficit.

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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 the Issuer Rating.

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