

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

RATIONALE:

On October 6, Iceland's government decided to extend full protection to domestic bank deposits at all commercial banks in Iceland, which have faced difficulties procuring funds from the market because of the prolonged financial turmoil that began in the U.S. and is rolling through the world's financial markets. The action can be deemed a measure that takes one step further the nationalization of Glitnir Bank, the country's third largest bank, on September 29. While R&I can evaluate this decision positively for limiting the shocks to Iceland's financial markets and contributing to stable macroeconomic management, these moves to inject public funds and guarantee liabilities have imputed the repayment risk on private sector liabilities to the government. Based on the rapid deterioration of Iceland's real economy and the possibility the government's funding burden for certain banks will grow, on September 30 R&I downgraded the Foreign Currency Issuer Rating to AA. Given that the instability of Europe's entire financial system is continuing to spread rapidly, however, R&I judges the probability of additional capital injection into Iceland's financial sector as a whole and subrogation of debts has increased significantly. Based on these circumstances, R&I has downgraded the Issuer Rating to A+, and the rating remains on the Rating Monitor with a view to downgrading.

The total domestic deposit amount eligible for the guarantee is equivalent to 1.5-2.0x Iceland's gross domestic product (GDP). The Icelandic government's debt at the end of 2007 was 23.8% of GDP, and this indicator will deteriorate substantially as a result of the latest government measure. Considering the fact the total assets of Iceland's three largest banks at the end of 2007 exceeded 9.0x Iceland's GDP, there is a possibility assets such as foreign deposits that currently are excluded from the guarantee will be converted into quasi-external debt of the government should all financial institutions be nationalized in the future. While it does not expect such a situation to develop any time soon, if the possibility is likely to be actualized in the near future, R&I will reflect such a change in the rating.

R&I RATINGS:

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Issuer Rating is an 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.