

Rating Action: Iceland

Moody's Downgrades Iceland's Ratings to Aa1

New York, May 20, 2008 -- Moody's Investors Service has downgraded Iceland's government bond ratings to Aa1 from Aaa (negative), and has also lowered the foreign currency country ceiling for bank deposits to Aa1 from Aaa. All other ratings -- including the foreign currency country ceiling for debt, the local currency bank deposit ceiling, and the local currency ceiling for bonds -- are affirmed at Aaa, and all ratings now carry a stable outlook.

Moody's published a special comment in January, "Iceland's Aaa Ratings at a Crossroads," that explained why, despite its considerable credit strengths, Iceland displayed characteristics that seemed increasingly at odds with a Aaa-rated country. That report described the challenges confronting the Icelandic authorities because of the massive internationalization of its banks, whose assets, mostly in foreign currency, now measure about nine-times GDP. In light of the conclusions reached, Moody's changed the outlook on the government's ratings to negative in early March.

"The evaluation of Iceland prompted an intense internal discussion aimed at precisely defining the attributes of a Aaa in the sovereign universe," said Pierre Cailleteau, Managing Director of the Moody's Sovereign Risk Unit. "This led to the publication today of a report titled "What Does it Mean to be a Triple-A Sovereign?" This report highlights "unquestioned access to finance" as one key characteristic of a triple-A sovereign.

"Moody's downgrade reflects the country's potential liquidity constraints given the scale of possible, although highly unlikely, foreign currency needs because of its banking system contingent liabilities," said the analyst for Iceland, Joan Feldbaum-Vidra. Moody's does not believe that any other Aaa sovereign possesses this foreign currency liquidity risk.

She further explained, "This risk should not be overstated. The liquidity package provided by the Nordic community is a prime example that Iceland does have access to finance to handle any problem in its economy, even in its outsized internationalized banks." The analyst made reference to the EUR1.5 billion swap line arranged with Nordic central banks announced last Friday that could backstop the Icelandic government should the need arise. "Iceland's liquidity risks are marginal."

She also said, Iceland's proactive effort to secure finance in advance of a very low probability event that it would need to support its banks in foreign currency is the mark of a very high rating that can withstand shocks. "Even if a systemic banking crisis were to materialize, Iceland would be capable of managing the problem in the spirit of a very highly rated country, as indicated by its solid Aa1 rating."

These unusual circumstances and testing times for Iceland have revealed that the country faces challenges not common to any other Aaa country, and justify notching away from Aaa. Moreover, if faced with a severe stress test scenario emanating from the banking system, the authorities would find themselves much more highly exposed to exchange rate risk than would be acceptable for a Aaa rated country.

Feldbaum-Vidra described the many strong credit features that substantiate Iceland's very high rating, including low direct government debt, highly advanced economic development, economic vibrancy, favorable demographics, and a fully funded pension system, not to mention its remarkable flexibility to handle shocks. These characteristics differentiate it very positively from other Aa and even many Aaa rated governments.

For more information on Moody's credit analysis of Iceland, see "Iceland's Aaa Ratings at a Crossroads," released in January, and "Credit Analysis: Iceland," published in April.

Any rating actions affecting other entities in Iceland will be announced in separate press releases.

London

Pierre Cailleteau

Managing Director

Sovereign Risk Unit

Moody's Investors Service

JOURNALISTS: 44-20-7772-5566

SUBSCRIBERS: 44-20-7772-5454

New York
Kristin Lindow
Senior Vice President
Sovereign Risk Unit
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
Joan Feldbaum-Vidra
Asst Vice President - Analyst
Sovereign Risk Unit
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

© Copyright 2008, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT. All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, such information is provided "as is" without warranty of any kind and MOODY'S, in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any such information. Under no circumstances shall MOODY'S have any liability to any person or entity for (a) any loss or damage in whole or in part caused by, resulting from, or relating to, any error (negligent or otherwise) or other circumstance or contingency within or outside the control of MOODY'S or any of its directors, officers, employees or agents in connection with the procurement, collection, compilation, analysis, interpretation, communication, publication or delivery of any such information, or (b) any direct, indirect, special, consequential, compensatory or incidental damages whatsoever (including without limitation, lost profits), even if MOODY'S is advised in advance of the possibility of such damages, resulting from the use of or inability to use, any such information. The credit ratings and financial reporting analysis observations, if any, constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moody.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."