

**Rating Action: Landsbanki Islands hf**

**Moody's downgrades Landsbanki to Caa1/E/NP from A2/C-/P-1**

London, 08 October 2008 -- Moody's Investors Service has today downgraded the bank financial strength rating (BFSR) of Landsbanki Islands hf ("Landsbanki") to E from C-, its long-term deposit ratings to Caa1 from A2 and its senior unsecured ratings to Caa2 from A2. Consequently, the bank's Prime-1 short-term rating was downgraded to Not-Prime. In addition, the bank's subordinated, junior subordinated and preferred stock ratings were downgraded to C. The outlook on all ratings is developing.

"The rating action is in response to the announcement that the Icelandic supervisory authority (FME) has taken control of Landsbanki following the concerns about the bank's ability to continue its operations as a viable stand-alone entity," says Kimmo Rama, Moody's lead Analyst for Landsbanki. Moody's underlines that, although the FME now controls the bank, no financial support has so far been extended. The new legislation gives the FME enhanced powers such as limiting or prohibiting the disposal of the banks' capital and assets.

In downgrading the BFSR to E from C-, Moody's explains that Landsbanki's franchise and the overall credit profile have been significantly impaired in light of the bank's business model which became challenged due to rapidly weakening market conditions. Furthermore, the bank has stopped making payouts from its Icesave deposit scheme, which accounts for a large part of the bank's deposit base.

Commenting on notching between Landsbanki's deposit and debt ratings, Moody's notes that in accordance with the new legislation that was put in place on 6 October 2008, deposit balances in the Icelandic deposit fund are given priority in the event of insolvency proceedings. Therefore, Moody's has assigned lower ratings to senior unsecured debt, in order to reflect potentially higher default risk as well as greater severity of loss for those obligations. It should be noted that Moody's deposit ratings do not capture the deposits covered by deposit guarantee schemes.

The FME is currently investigating potential solutions as regards Landsbanki. The developing outlook on Landsbanki's ratings incorporates the high uncertainty in respect of the likelihood and extent of future governmental support as well as the future viability of the bank's franchise.

The downgrade of Landsbanki's subordinated debt, junior subordinated debt and preferred stock ratings reflects Moody's view that it is highly likely that the holders of these instruments will experience a substantial loss.

Moody's downgraded the following Landsbanki ratings today:

- Long Term Bank Deposits: to Caa1 from A2
- Short Term Bank Deposits: to Not-Prime from Prime-1
- Bank Financial Strength: to E from C-
- Senior Unsecured: to Caa2 from A2
- Subordinate: to C from A3
- Jr Subordinate: to C from Baa1
- Preferred Stock: to C from Baa1
- Commercial Paper: to Not-Prime from Prime-1
- Other Short Term: to Not-Prime from Prime-1

The previous rating action on Landsbanki was implemented on 30 September 2008, when Moody's placed all of Landsbanki's ratings on review for possible downgrade due to a weakening of its financial fundamentals.

Headquartered in Reykjavik, Iceland, Landsbanki reported total assets of ISK3,970 billion (EUR32 billion) at the end of June 2008.

London  
Reynold R. Leegerstee  
Managing Director  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

London  
Kimmo Rama  
Vice President - Senior Analyst  
Financial Institutions Group  
Moody's Investors Service Ltd.  
JOURNALISTS: 44 20 7772 5456  
SUBSCRIBERS: 44 20 7772 5454

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