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Research Update:

Glitnir Bank 'A-' Ratings Placed On Watch Negative On Uncertainty Of Earnings Sustainability

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Table Of Contents

Rationale

Ratings List

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Rationale

On March 20, 2008, Standard & Poor's Ratings Services placed its 'A-' long-term counterparty credit rating on Iceland-based Glitnir Bank on CreditWatch with negative implications. At the same time, the 'A-2' short-term ratings on the bank were affirmed.

The CreditWatch placement reflects the heightened pressure on Glitnir's earnings capacity stemming from the turbulence in capital markets and investment banking (which together account for a significant part of the bank's revenue base). It also reflects more difficult funding and liquidity conditions across markets, and the potential effect on asset quality of slowing economic activity in several of the bank's markets.

In each of the past three years, the very high level of profitability has been driven partly by large trading gains and capital market-related revenue, which are not sustainable over the long term. In the less favorable capital market conditions of the last quarter of 2007, Glitnir's profitability dropped significantly, particularly in the investment banking and markets divisions. This severely hindered 2007 profitability, which almost halved to 1.25% of risk assets and resulted in the cost-to-income ratio soaring to 57%. We expect Glitnir's profitability to remain very volatile in 2008 and subject to the negative conditions that prevail in investment banking and the capital markets. The strong franchises in retail banking in Iceland and Norway may partially offset this volatility, however.

In addition, earnings could be further pressured by increased funding costs. Although Glitnir has been successful in attracting new deposits during 2007 and follows prudent liquidity policies, its heavy reliance on wholesale foreign currency funding makes the cost of its funding extremely sensitive to foreign investor confidence, not only in the bank itself, but also in the relatively volatile Icelandic economy.

Glitnir's nonperforming assets are still stable. However, the negative outlook for the Icelandic economy and the volatility of its currency could lead to a deterioration of household and corporate creditworthiness. The economic outlook has also weakened in several other countries where the bank has lending exposures. These trends may lead to increased loan losses that could further impair Glitnir's future earnings capacity.

The ratings on Glitnir reflect the group's strong domestic franchise in Iceland and its geographic diversification in Northern Europe, particularly in Norway. They also recognize the bank's track record of high profitability and good asset quality. The ratings are constrained by the bank's relatively high volatility of earnings, dependence on capital market-related revenues, its high risk appetite that has led to a rapid and aggressive acquisition-led

growth strategy, and heavy reliance on wholesale foreign currency funding.

Ratings List

| | To | From |
|--------------------------------------|--------------|-----------|
| Long-term counterparty credit rating | | |
| | A-/Watch Neg | A-/Stable |

| | |
|---------------------------------------|-----|
| Short-term counterparty credit rating | |
| | A-2 |

| | |
|------------------------|-----|
| Certificate of deposit | |
| | A-2 |

NB: This list does not include all ratings affected.

Additional Contact:

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