



Fitch Downgrades Iceland's Straumur Burdaras to 'B'

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Fitch Ratings-London/Paris-05 November 2008: Fitch Ratings has today downgraded Iceland-based Straumur-Burdaras Investment Bank's (Straumur) Long-term Issuer Default rating (IDR) to 'B' from 'BB-' (BB minus) and changed the Rating Watch to Negative from Evolving. The agency has simultaneously downgraded the Individual rating to 'D/E' from 'D' and changed the Rating Watch to Negative from Evolving.

The rating action reflects the refinancing risk facing Straumur when its EUR200m syndicated loan matures in mid-December 2008. Repayment in full of this loan represents a significant cash consideration for Straumur, which has been subject to severe liquidity stress for the past two months, exacerbated by the Icelandic banking crisis in early October and the challenging international wholesale funding markets. Management is confident that Straumur has sufficient liquidity to meet its obligations at least up to mid-December, and Fitch acknowledges management's actions so far to preserve its cash position.

The amount of cash needed for the repayment will depend on the bank's ability to negotiate a roll-over of at least part of the loan with the banks involved in the syndication. In addition, the repayment capacity of Straumur is contingent on the bank disposing of certain assets. While support from shareholders and/or the Icelandic authorities is possible, it cannot, in Fitch's view, be relied upon for timely payment of the bank's obligations.

The Rating Watch Negative on the bank's IDR and Individual ratings reflects the near-term risk that lending banks may decide not to refinance the syndicated loan and/or asset sales cannot be realised in sufficient time to meet any shortfall. In Fitch's opinion, should either, or both, of these circumstances occur, default is probable, in the absence of external support, and the agency would expect to downgrade the IDR to 'CC' and the individual rating to 'E'.

Success in rolling over a material part of the syndicated loan would take pressure off Straumur's funding needs and give the bank more time to implement further liquidity contingency plans if needed. This would materially reduce downward pressure on the ratings. Nevertheless, Fitch believes Straumur continues to face the risk of a liquidity shortfall, until the bank has successfully refinanced part of the syndicated loan and disposed of further assets. Fitch has been informed by management that Straumur is on track to dispose of the targeted assets in order to meet the mid-December repayment although the agency believes this may be challenged by current difficult conditions in the financial markets. Success in obtaining external liquidity support may benefit the bank's ratings.

Even if Straumur is successful in navigating its way through the next two months, Fitch believes that the bank has a limited margin of safety and will remain dependent upon continued reductions in its balance sheet assisted by a sustained improvement in the market environment and sentiment. Fitch expects to comment further within the next week.

Straumur's ratings are as follows:

- Long-term IDR: downgraded to 'B' from 'BB-' (BB minus); Rating Watch changed to Negative from Evolving
- Short-term IDR: affirmed at 'B'; Rating Watch changed to Negative from Evolving
- Support rating: affirmed at '5'
- Support Rating Floor: affirmed at 'No Floor'
- Individual rating: downgraded to 'D/E' from 'D'; Rating Watch changed to Negative from Evolving
- Senior debt: downgraded to 'B' from 'BB-' (BB minus); Rating Watch changed to Negative from Evolving; Recovery Rating of 'RR4' assigned
- Subordinated debt: downgraded to 'CCC+' from 'B'; Rating Watch changed to Negative from Evolving; Recovery Rating of 'RR6' assigned

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Fitch's Recovery Ratings (RR), introduced in 2005, are a relative indicator of creditor recovery on a given obligation in the event of a default. A broad overview of Fitch's RR methodology as it relates to specific sectors, including a Case Study webcast, can be found at www.fitchratings.com/recovery.

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