

Fitch Affirms Iceland's Straumur-Burdaras Investment Bank at 'BBB-'; Outlook Stable

Fitch Ratings-London/Frankfurt-20 December 2007: Fitch Ratings has today affirmed Straumur-Burdaras Investment Bank's (Straumur) ratings at Long-term Issuer Default (IDR) 'BBB-' (BBB minus), Short-term IDR 'F3', Individual 'C/D', Support '3' and Support Rating Floor 'BB-' (BB minus). The Outlook for the Long-term IDR is Stable.

The ratings reflect Straumur's strong capital base, the rapid growth of its more sustainable revenue streams, the growing geographic diversification of its assets and revenue, and strengthened risk management. They also mirror the bank's relatively short track record in its current form, still large equity exposures, concentration in its balance sheet and integration risk arising from overseas expansion. Fitch acknowledges improvements in the bank's franchise and risk profile. These improvements still have to translate into a stronger balance sheet and underlying performance. The agency considers that further progress would support a positive rating action, but will monitor the impact of the current difficult market environment, including in the wholesale funding markets, on the bank.

Straumur's strategy is to become a leading specialised investment bank in northern and central Europe, with a particular focus on large Icelandic corporates and mid-sized corporates in the rest of northern and central Europe. The emphasis is on developing fee and net interest income from its corporate finance, debt finance, capital markets/brokerage and asset management businesses and to reduce its reliance on proprietary trading revenues; continued progress has been made in this area. Despite the potential volatility in some of the bank's activities, the better geographic distribution of these revenues should improve income sustainability. The growing geographic diversification of activities was supported by the 2007 acquisitions of Finnish brokerage/asset management/corporate finance specialist eQ Corporation and Czech Republic-based securities trading firm Wood & Company. Reported profit remains boosted by equity-related trading gains, although these decreased in 2007 on the back of more difficult markets and a continued reduction in appetite for equity exposure.

Straumur's risk management infrastructure and reporting has been significantly strengthened recently. The main risks arise in large, albeit rapidly decreasing, equity holdings and the integration of recently acquired businesses. Liquidity is sound and Straumur's large capital base gives the bank significant flexibility for future planned growth.

At end-September 2007, Straumur employed around 440 people (of which only around a quarter were located in Iceland). It received an investment banking licence in January 2004 and a commercial banking licence in August 2007. The bank's main foreign operations are in Denmark (Copenhagen branch opened in March 2006), the UK (50% stake in UK corporate finance boutique acquired in October 2006 and London branch opened in January 2007), Finland and the Czech Republic.

Contact: Alexandre Birry, London, Tel: +44 (0)20 7862 4150; Olivia Perney Guillot, Frankfurt, +49 69 7680 76243.

Media Relations: Hannah Warrington, London, Tel: +44 (0) 207 417 6298.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, www.fitchratings.com. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.