

Latest closing price	17.1
Market cap	ISK 177.1bn
Date of latest valuation	08.12.2005
Valuation updated*	Under review
Valuation share price	Under review
Price spread (+/- 50 bp disc. rate)	Under review

\*Particulars as provided for in the most recent valuation with an updated discount rate, exchange rates and securities holdings.

## Straumur-Burðarás Investment Bank

### Record profit

Straumur-Burðarás's 2006 first-quarter earnings amounted to ISK 19,080 million (m), up from ISK 12,615m in Q1 of 2005. This far exceeds our expectations, which were for a profit of ISK 16,690m. The deviation is mostly due to our underestimation of commission income and trading gains. The quarter saw a substantial turnaround in the Bank's interest income, with other income items also rising significantly. The cost-income ratio was 3.1%, down from 3.9% in Q4 of 2005. The Bank's capital ratio (CAD) is notably high at 38.3%.

### Targets achieved

At the 2005 results presentation, the Bank stated its intention to reduce its non-interest-bearing assets considerably to a level not exceeding its equity. The Bank also aims to diversify its income streams geographically, achieve a return on equity (ROE) of at least 16% and intends to derive half its earnings from interest income and fees and commissions before year-end 2008. It is safe to say that the Bank is on target: the ratio of non-interest-bearing assets to equity has dropped to 103% from 144% at year-end 2005, half of the Bank's assets are denominated in foreign currencies and 48% of its income originates overseas. ROE in Q1 of 2006 was 17.2%, which corresponds to 89% on an annualised basis.

Landsbanki Íslands has a holding of 6.6% in Straumur-Burðarás, in addition to its holding of 32.4% in the investment company Fjárfestingarfélagið Grettir, which owns 15.9% of Straumur-Burðarás.

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	Q1 05 Actual	Q1 06 Actual	Change	Q1 06 Forecast	2005 Actual	Change	2006 Forecast	Change
<b>mISK</b>								
Net interest income	-73	485	-	-222	-248	-	2,270	-
Other operating income	5,609	23,728	323%	21,123	34,119	332%	42,487	24.5%
Net operating income	5,536	24,213	337%	20,901	33,871	307%	44,757	32.1%
Other operating income	205	756	269%	517	1,306	164%	2,813	115%
Provision for credit losses	63	266	322%	384	385	408%	1,240	222%
Profit	4,577	19,080	317%	16,693	26,617	316%	33,352	25.3%
Int. rate margin/avg. balance sheet position	-	0.7%		-	-		0.8%	
Credit loss prov./avg. loans outstanding	0.8%	1.5%		0.6%	0.2%		1.5%	
Cost-income ratio	3.7%	3.1%		2.5%	3.9%		6.3%	
<b>Key ratios</b>								
12M Price/Earnings ratio (P/E)	6.8	4.3		4.6	6.4		5.3	
Price-to-book ratio (P/B)	1.7	1.4		1.4	1.5		1.4	
Return on equity (ROE)	72.0%	88.7%		58.5%	46.5%		29.2%	
Capital ratio (CAD)	19.6%	38.3%		-	19.8%		-	
Earnings per share (EPS)	ISK 0.9	ISK 1.9		ISK 1.6	ISK 3.5		ISK 3.3	

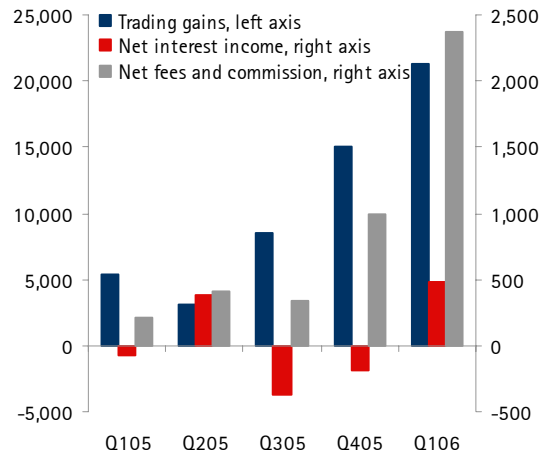
## Robust income growth

The Bank has improved its interest income in recent months. The merger with Burðarás last year brought with it considerable interest-bearing debt, which led to negative net interest income during Q3 and Q4 of 2005. Interest income is positive once more, up by ISK 670m between quarters. Fees and commissions jumped by 140% from Q4 to Q1 of 2006, and was higher in the latter quarter at ISK 2,367m than during the whole of 2005.

The Bank also achieved its declared goal of opening a branch in Denmark, whose commissions in Q1 amounted to approximately ISK 400m. Management stated at the Q1 presentation that the branch closed its first contracts during the quarter, and that a number of large projects will be added in Q2.

The quarter also saw major growth in trading gains, which amounted to ISK 21,352m, up by 41% over the previous quarter. Due to the Bank's positive foreign exchange balance, the drop in the ISK resulted in gains of ISK 3.5bn. Kaupthing Bank and Straumur-Burðarás report their foreign exchange balances somewhat differently. Kaupthing chooses to recognise its currency gains not through profit and loss but directly through equity. Straumur-Burðarás, on the other hand, recognises its currency gains through profit and loss. Because Kaupthing defined its foreign exchange balance as a hedge at the

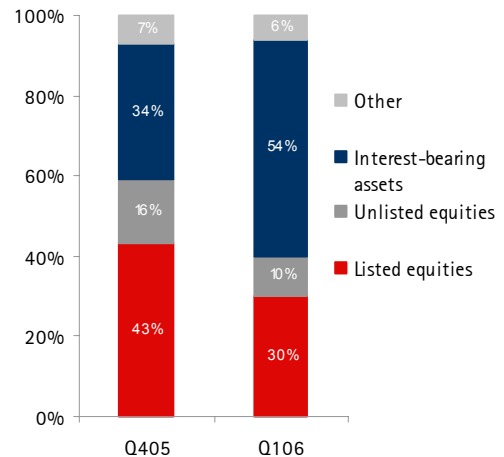
start of the year, it is consequently allowed, under IFRS, to recognise foreign exchange gains directly through equity. It is interesting to note the last few weeks' trend in the ratio between domestic trading gains and total trading gains. This ratio averaged 90% for 2005, but was 40% in Q1 of 2006. This is in line with the bank's strategy of diversifying its risk by increasing the proportion of foreign assets in its balance sheet.



## Strong balance sheet growth

*The bank's balance sheet grew 27% in Q1, mostly due to increased lending, which rose by ISK 70bn*

Straumur-Burðarás's total assets stood at ISK 330.6bn at the end of Q1 of 2006, rising by 27% in the quarter. This growth was almost entirely due to increased lending, which rose by nearly ISK 70bn. The composition of the bank's balance sheet has changed appreciably since year-end 2005, with interest-bearing assets now forming more than half of it, compared with a third at year-end. Listed and unlisted equities as a percentage of the balance sheet have dropped correspondingly from 59% to 40%.



## Financing costs fall

*Financing costs have dropped and, due to the bank's low financing need, almost all loan financing obtained is used for growth*

Tough conditions in international financial markets seem not to have affected Straumur-Burðarás's financing costs as yet, according to what was stated at the Q1 presentation. It was also disclosed that the bank's financing costs have fallen. In all probability, this is due to its credit rating by Fitch as well as the fact that the Bank was not associated with the active

media coverage and analyses of the Icelandic commercial banks during the quarter. The bank's refinancing need is very small, and nearly all of the loan financing it obtains is used for further growth. As stated above, Straumur-Burðarás's capital ratio is notably high, which gives the Bank added scope for growth. The Bank should be able to almost triple its current loan portfolio without falling below its capital ratio targets. Management also stated at the presentation that Straumur-Burðarás's dependence on the Icelandic banks for its financing has become negligible, which is a noteworthy change from previous years.

### Valuation under review

Research last issued a valuation of Straumur-Burðarás on 8 December 2005, the outcome of which was a valuation share price of ISK 11.8 per share and a sell recommendation. In view of recent changes at Straumur-Burðarás, including the increased role of banking in its activities, our valuation will be reviewed and no recommendation is made at this time.



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INSIGHT - company performance	Straumur-Burðarás – Q1 of 2006
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