

## **Glitnir Bank Ratings Affirmed On Acquisition of FIM; Outlook Stable**

**S&P Affirms Glitnir Bank Ratings On FIM Acquisition; Outlook Stable**

### **Contacts**

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### **Rationale**

On Feb. 7, 2007, Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' short-term counterparty credit ratings on Iceland-based Glitnir Bank. The outlook is stable.

The affirmation reflects the strategic rationale and conservative financing of Glitnir Bank's acquisition of FIM Group (FIM).

The transaction will give Glitnir Bank a foothold in the Finnish market for investment services and conforms with the bank's stated strategy of building an investment and corporate banking platform in the Nordic region. By acquiring FIM, Glitnir Bank will increase its assets under management by some €3 billion to €8.5 billion and strengthen its position in the Nordic equity brokerage market, becoming the third largest player by turnover. The combination of FIM with Glitnir Bank's brokerage businesses in Sweden and Norway should provide cost synergies as well as opportunities to develop a stronger Nordic franchise.

Glitnir Bank's acquisition-based strategy is aggressive and involves considerable execution risk. Furthermore, the rapid addition of new subsidiaries in new markets increases the risk for management overstretch and operational failure.

Individually, Glitnir Bank's acquisitions make sense, but taken together they present a major challenge in terms of managerial resources and will require significant effort and dedication from management. At the same time, the bank is showing very strong organic growth domestically and in the U.K. and will need to be alert to possibly less favorable conditions in the Icelandic market in the coming year. The current pace of expansion means that, over the near term, Standard & Poor's is likely to consider any further acquisitions or significant new growth initiatives as negative for the ratings.

## Outlook

The stable outlook reflects our expectation that Glitnir Bank will maintain comfortable profitability even with some likely increase in credit losses, and lower capital market income. We expect the bank to integrate its non-Icelandic operations successfully, thereby improving group revenue diversification. We also expect that risk management and control structures will continue to be strengthened in line with the size and scope of a larger group.

A positive rating action, although currently unlikely, could follow if Glitnir Bank were to prove the sustainability of its business model; integrate its recent acquisitions successfully; and reduce substantially its lending concentrations.

A negative rating action could follow if execution risk were to increase further as a result of continued rapid acquisition-driven expansion, or if the integration process were to run into difficulties. A more severe than expected macroeconomic downturn in Iceland could also put downward pressure on the ratings through a significant deterioration in asset quality.

## Ratings List

### Glitnir Bank

Counterparty credit rating    A-/Stable/A-2

NB: This list does not include all ratings affected.

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