

Fitch Affirms Straumur-Burdaras on Acquisition of Finnish eQ  
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Fitch Ratings-London/Frankfurt-23 May 2007: Fitch Ratings has today affirmed Iceland-based Straumur-Burdaras Investment Bank's ("Straumur") ratings at Issuer Default 'BBB-' (BBB minus), Short-term 'F3', Individual 'C/D' and Support '3'. The Support Rating Floor is unchanged at 'BB-' (BB minus). The Outlook on the Issuer Default rating is Stable.

The affirmation follows the announcement that Straumur has acquired a 62% stake in Finnish bank eQ Corporation ("eQ"). eQ is active in brokerage, asset management and corporate finance businesses. A mandatory tender offer will be launched in June 2007 for all the remaining shares and option rights in eQ.

This acquisition is in line with Straumur's ambition to become a leading Nordic investment bank. eQ's business is entirely Finnish, but complements well Straumur's corporate finance and brokerage coverage in the Nordic region, given that the latter already has operations in Iceland, Denmark and Sweden, as well as the UK and the Netherlands. Straumur plans to utilize its balance sheet to expand eQ's product offering into areas such as debt financing and to support its corporate finance business. The transaction also provides Straumur with asset management operations, an area the bank was planning to expand into. eQ's businesses are essentially fee-driven activities, with very limited proprietary trading activities. This will help develop and diversify more sustainable income streams.

The acquisition price of around EUR260m for 100% of the shares represents about 15.5x eQ's 2006 net income and will be paid in cash. This will generate a significant goodwill of nearly EUR200m. As a result of the acquisition, Straumur's Tier 1 ratio is expected to decrease to around 25% from 36% at end-2006, but its Fitch eligible capital base should remain in excess of EUR1.1bn. Given the still large financial gains in Straumur's profit, the impact of eQ is relatively limited at the bottom-line level. However, eQ represents a noticeable add-on to net fee and commission income. eQ's cost base is around half of Straumur's; however, being involved in staff-intensive businesses, the Finnish bank has around 170 employees while Straumur's staff totalled 150 at end-March 2007.

At end-March 2007, Straumur was the fourth-largest bank in Iceland by total assets, although its equity base is broadly comparable in size to Landsbanki Islands' and Glitnir Banki's. It received its investment banking license in January 2004, and has since pursued its strategy to become a leading specialised investment bank in the Nordic region.

Contact: Gordon Scott, London, Tel: + 44 (0)20 7417 4307; Alexandre Birry, +44 (0)20 7862 4150; Olivia Perney Guillot, Frankfurt, +49 69 7680 76243.