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Research

Jyske Bank And BRFkredit Affirmed At 'A-/A-2' On Merger Announcement; Outlook On Both Institutions Now Stable

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- Jyske Bank A/S and BRFkredit A/S announced on Feb. 24, 2014, their intention to merge, subject to regulatory and shareholder approval.
- Despite our forecast of some improvement in the banks' risk and business diversity, we believe that the existing ratings adequately reflect the risk of the combined entity and reflect our views on the Danish banking sector.
- We are therefore revising our outlook on BRFkredit to stable from negative and affirming our 'A-/A-2' ratings on both entities.
- The stable outlook on Jyske Bank reflects our view that the bank's business and risk positions will remain "adequate."
- The stable outlook on BRFkredit reflects that we expect it will become a "core" entity following the merger.

STOCKHOLM (Standard & Poor's) Feb. 24, 2014--Standard & Poor's Ratings Services said today it had revised its outlook on Denmark-based BRFkredit A/S to stable from negative. At the same time, we affirmed the 'A-/A-2' long- and short-term counterparty credit ratings on both BRFkredit and Denmark-based Jyske Bank A/S. The outlook on Jyske Bank remains stable.

The rating actions follow Jyske Bank's and BRFkredit's announcement on Feb. 24, 2014, that the two entities intend to merge, subject to regulatory and shareholder approval.

The affirmation of the ratings on both institutions reflects our view that they will form a bank with business and risk profiles that largely reflect the risks associated with the Danish economy. While we consider the merger to have a sound strategic rationale and relatively low transaction risks, our assessment of the combined entity is in line with our assessment of the economic and industry risks for banks operating in Denmark.

We understand that Jyske Bank would acquire BRFkredit from the sole owner BRF Holding in exchange for 23.76 million new Jyske Bank shares and Danish krone (DKK) 100 million in cash. The acquisition price of DKK7.2 billion (€966 million at DKK7.45 to €1) represents 0.7x of BRFkredit's current book value. BRF Holding would receive 25% ownership in Jyske Bank, making it the largest shareholder in the combined entity by a large margin.

As of June 30, 2013, our risk-adjusted capital (RAC) ratios for Jyske Bank and BRFkredit were both 9.7%. We expect the combined entity to have similar ratios initially, given that the transaction is capital-neutral and requires no additional financing. We see potential for the combined entity to improve capital over time via retained earnings, diversified revenues, and cross-selling opportunities. However, we remain uncertain as to whether the combined entity can achieve a stable RAC ratio in excess of 10% over the next 18-24 months.

The uncertainty in our forecasts derives from three considerations:

- First, we see potential for steep growth in residential mortgage loans. We expect the new bank to price its mortgage products to attract new customers and take large efforts to refinance the loans of its current retail customers in BRFkredit in the future. At present, a dominant part of the residential mortgage loans have been transferred to Totalkredit A/S.
- Second, we believe that the group will continue to explore acquisition opportunities and will continue to participate in the consolidation of the Danish banking market.
- Finally, we take a conservative approach with respect to transaction costs as well as revenue and cost synergies.

The stable outlook on Jyske Bank reflects our belief that improvements in the business and risk positions of the combined entity will likely remain commensurate with our "adequate" assessments, rather than lead to an upward reevaluation of these factors. This reflects our belief that the combined entity will have business and risk positions that largely reflect the industry and economic risks associated with the Danish economy.

Upon approval of the merger, we expect to consider BRFkredit as a core subsidiary of Jyske Bank and have therefore aligned our rating and outlook on BRFkredit with those on Jyske Bank. We would likely revise the outlook on BRFkredit to negative if the transaction was annulled.

RELATED CRITERIA AND RESEARCH

Related criteria

- Group Rating Methodology, Nov 19, 2013

- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011

Related research

- Credit FAQ: Why Denmark's Proposed Covered Bond Law Doesn't Fully Eradicate Refinancing Risks, Feb. 4, 2014
- BRFkredit A/S, Jan. 23, 2014
- Jyske Bank A/S, Nov. 29, 2013
- Banking Industry Country Risk Assessment: Denmark, Oct. 24, 2013
- Various Outlook Actions On Five Danish Banks Due To Funding Reassessment; All Ratings Affirmed, July 19, 2013
- Research Update: Denmark's BRFkredit Outlook Revised To Negative On Funding Reassessment; 'A-/A-2' Ratings Affirmed, July 19, 2013

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