

Bulletin:

TM Acquisition Will Broaden Landsbankinn hf.'s Customer Offering And Will Have A Moderate Effect On Capital

June 5, 2024

STOCKHOLM (S&P Global Ratings) June 5, 2024--S&P Global Ratings today said that Landsbankinn hf.'s acquisition of TM tryggingar hf. (TM) from Kvika banki hf. has the potential to develop into a solid foothold in the Icelandic insurance business, widen the customer offering, and diversify the bank's revenue base over the long term. Furthermore, we think that Landsbankinn has ample capital buffers to absorb the financial effect of the acquisition. We forecast that TM will contribute about 5% to operating income, but profit contribution from the insurance business will gradually materialize over 2025-2026.

TM is the third largest insurance company in Iceland, it provides both nonlife and life insurance, and holds a market share of 21%. In 2023, the company reported insurance revenues of Icelandic krona (ISK) 19.6 billion (€131 million) and after-tax income of ISK1.7 billion.

The purchase price is set at ISK28.6 billion (€191 million), paid in cash and subject to closing adjustments. We estimate that the transaction will have a moderate effect of around 150 basis points on Landsbankinn's risk-adjusted capital ratio (RAC) ratio. However, we anticipate that the bank will partly bridge the gap with hybrid capital issuance in 2024-2025. We forecast Landsbankinn's RAC ratio will be in the range of 15%-16% over 2024-2025. The RAC ratio equaled 14.2% as of year-end 2023, somewhat below our expectation due to higher corporate loan growth and higher market risk. Considering our recent revision of Iceland's economic risk, which translates to lower S&P Global Ratings' risk weights on domestic exposures, the pro forma RAC ratio was 16.5% in 2023. Furthermore, we project the bank's strong earnings generation, with net income projected at ISK29 billion-ISK32 billion (€194 million-€214 million) in 2024-2025, will continue support robust capitalization.

On June 3, 2024, Landsbankinn announced that the parties have now finalized the purchase contract following a completion of the due diligence process. The formal authority by the Board of Directors to extend an offer to TM has been confirmed by a legal opinion. The transaction is still subject to approval by the Icelandic Competition Authority and Financial supervisory Authority and is expected to close by the end of 2024.

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