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Research Update:

Denmark's Jyske Bank 'A-/A-2' Ratings Affirmed On Funding Reassessment; Outlook Stable

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Overview

- We have reviewed the funding strategies of various Danish banks against the backdrop of expected regulatory changes.
- In our view, Jyske Bank A/S, unlike most Danish banks, shows a lower asset-liability mismatch than banks in comparable developed markets.
- We are therefore affirming our 'A-/A-2' ratings on Jyske Bank.
- The stable outlook reflects our view that the bank will maintain its current market shares, funding, and liquidity.

Rating Action

On July 19, 2013, Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' short-term counterparty credit ratings Denmark-based Jyske Bank A/S. The outlook is stable.

Rationale

The rating actions follow our review of Danish banks' strategies in light of expected regulatory changes. We are increasing our efforts to differentiate banks on the basis of their funding and liquidity profiles and provide further insight into our rationale for rating Danish banks. In our view, Danish banks generally show a greater asset-liability maturity mismatch than banks in comparable developed markets.

However, Jyske Bank's funding and liquidity profile compares favorably with that of international and domestic peers. In our view, Jyske Bank is less reliant on short-term funding, and has a smaller maturity mismatch between assets and liabilities than international peers'. At year-end 2012, Jyske Bank's broad liquid assets represented 1.16x its short-term wholesale funding, and the funding ratio was stable at 102.2%. Both ratios have been steadily improving over the past three years and compare favorably with those of domestic and international peers. We believe they reflect that the bank has sufficient short-term funds to meet payments due over the subsequent 12 months and stable funding resources beyond that time frame.

Because we expect that the Danish government will provide ongoing support to systemically important financial institutions, we continue to assess Jyske Bank's liquidity position as neutral to the ratings, according to our criteria. At the same time, we consider Jyske Bank's funding and liquidity ratios stronger than most Danish peers'. However, we note the ongoing debate

in the Danish government about funding imbalances and the proposal by the committee on the regulation of systemically important financial institutions to introduce measures that reduce the maturity mismatches in the sector. We believe that changes to the regulatory framework for Danish banks will serve to reduce the banking sector's reliance on short-term refinancing.

The weak funding and liquidity ratios among most Danish banks mainly reflect the Danish mortgage market, which is characterized by a widespread preference for one-year fixed rate refinancing of 30-year loan commitments. This is further exacerbated by the "balance principle" regulation in Denmark, which requires domestic mortgage banks to refinance loans and bonds simultaneously, resulting in minimal balance sheet liquidity. This makes Danish mortgage banks stand out among their Norwegian and Swedish peers, whose liability maturity profiles tend to be marginally longer than their asset profiles. Since Jyske Bank cedes most of its mortgage loans to one of its cooperation partners, its balance sheet reflects stronger funding and liquidity ratios compared with its Danish peers'.

Outlook

The stable outlook reflects our view that the bank will maintain its current market shares and that declining credit losses will underpin its capital generation, resulting in a risk-adjusted capital (RAC) ratio comfortably within the 7%-10% range. It furthermore reflects our expectation that Jyske Bank will maintain its comparably better funding and liquidity profile.

We could take a negative rating action if the bank's operating performance were to deteriorate and a significant increase in loan loss provisions were to bring the RAC ratio below 7%. In addition, we could lower the ratings if we were to negatively reassess the bank's risk position as a result of a change in its risk profile due to acquisitions or persistently higher credit losses.

A positive rating action is currently unlikely, in our view, but could stem from a reassessment of our economic risk score for Denmark, which would have an impact on the anchor for our ratings of the bank, the starting point in our ratings assessment.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A-/Stable/A-2	A-/Stable/A-2
SACP	bbb+	bbb+
Anchor	bbb+	bbb+
Business Position	Adequate (0)	Adequate (0)
Capital and Earnings	Adequate (0)	Adequate (0)
Risk Position	Adequate (0)	Adequate (0)

Funding and Liquidity	Above Average and Adequate (0)	Above Average and Adequate (0)
Support	+1	+1
GRE Support	0	0
Group Support	0	0
Sovereign Support	+1	+1
Additional Factors	0	0

Related Criteria And Research

Related criteria

- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 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

- Banking Industry Country Risk Assessment: Denmark, May 7, 2013
- Various Outlook Actions On Five Danish Banks Due To Funding Reassessment; All Ratings Affirmed, July 19, 2013

Ratings List

Ratings Affirmed

Jyske Bank A/S

Counterparty Credit Rating	A-/Stable/A-2
Nordic Regional Scale	--/--/K-1

Senior Unsecured	A-
Commercial Paper	A-2

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Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44)

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