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Jyske Bank A/S

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Jyske Bank A/S

SACP	bbb+

+

Support	+1

+

Additional Factors	0

Anchor	bbb+	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Above Average	0
Liquidity	Adequate	

GRE Support	0
Group Support	0
Sovereign Support	+1

Issuer Credit Rating
A-/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• A strong domestic franchise in retail and commercial banking. • Adequate capitalization. • A comfortable liquidity and funding profile.	• Current pressure on asset quality. • Limited geographic diversity.

Outlook: Stable

The stable outlook on Jyske Bank reflects Standard & Poor's Ratings Services' view that the bank will maintain its current market shares and that declining losses will underpin capital generation, resulting in a risk-adjusted capital (RAC) ratio comfortably within the 7%-10% range.

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 new lines of business that would significantly increase the bank's risks, or if the loan book deteriorated significantly.

We could take a positive rating action if Jyske Bank's business position were to strengthen substantially, for example through broadening of the bank's franchise, or if the bank were to demonstrate significantly stronger capital generation than we currently anticipate.

Rationale

The ratings reflect our view of Jyske Bank's "adequate" business position as defined in our criteria, given the bank's entrenched franchise among Danish small and midsize enterprises (SMEs) and its 7% market share in Denmark overall. The bank's capital and earnings position is "adequate," in our view. We believe the bank will achieve a RAC ratio of about 9.0%-9.5% by year-end 2013 supported by increasing earnings generation.

We assess Jyske Bank's risk position as "adequate," reflecting our view that the quality of the bank's domestic loan book, despite pressure over the past three years, is in line with the system average. Our view of Jyske Bank's funding as "above average," and its liquidity as "adequate" reflects the bank's high share of deposits compared with domestic peers', limited dependence on capital market funding, and conservative approach to managing liquidity.

We see Jyske Bank as having "moderate" systemic importance in Denmark, which lifts the long-term rating one notch above the SACP due to the likelihood of extraordinary government support.

Anchor: 'bbb+' for banks operating predominantly in Denmark

The anchor reflects Jyske Bank's Danish regulatory headquarters and its credit and deposit exposure, both to a very large extent to the Danish economy.

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. The anchor for a financial institution operating only in Denmark is 'bbb+'.

Our economic risk assessment reflects our view that Denmark is a politically stable, wealthy, and high-income country, which has suffered since the 2008 financial crisis. Consequently, we expect economic growth to be weak over the short to medium term. However, this is balanced by fiscal policy flexibility. On the external side, Denmark has posted sizable current account surpluses for more than a decade, and we expect this to continue.

We expect the fallout from the financial crisis to lead to increased consolidation as weak institutions are either taken over by stronger competitors or eliminated from the market. Further bank failures are a possibility. The Danish banking system has a relatively low share of core customer deposits (20% of total loans including mortgages) and a relatively high share of net external funding (18%). The latter is, however, related to the structure of the Nordic banking sector, with considerable cross-border activity. These higher-risk characteristics are partly offset by a well-developed domestic bond market that remained open and functioning throughout the financial crisis.

Table 1

Jyske Bank A/S Key Figures

		--Year-ended Dec. 31--			
(Mil. DKK)	**2012***	**2011**	**2010**	**2009**	**2008**
Adjusted assets	247,365.0	269,959.0	243,874.3	224,331.8	236,563.7
Customer loans (gross)	109,961.0	112,417.0	110,149.9	107,693.3	120,621.8
Adjusted common equity	14,782.0	13,275.0	12,812.6	11,979.0	10,159.9
Operating revenues	5,430.0	6,673.0	6,899.8	7,013.3	6,169.0

Table 1

Jyske Bank A/S Key Figures (cont.)					
Noninterest expenses	3,461.0	4,592.0	4,098.5	3,726.4	3,795.7
Core earnings	314.0	493.0	757.1	471.0	987.9

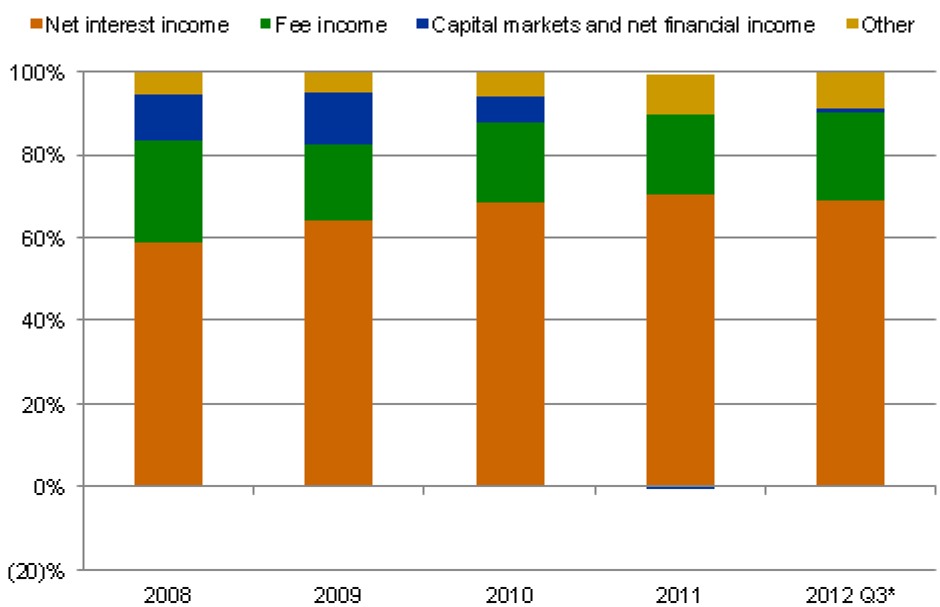
*Data as of Sept. 30. DKK--Danish krone.

Business position: A domestic full service bank focused on SMEs

We assess Jyske Bank's business position as "adequate". With consolidated assets of Danish krone (DKK) 247.6 billion (€33.2 billion at DKK7.46 to €1), as of Sept. 30, 2012, Jyske Bank is the third largest commercial bank in Denmark and has an overall 7% market share in loans and deposits, with a stronger franchise in the SME sector. The bank enjoys a strong and stable domestic banking position, particularly in its home region of Jutland, which has provided continuously increasing interest and fee-linked earnings of 80%-90% of total revenues (see chart 1). This has also allowed the bank to avoid substantial deleveraging of its unsecured corporate loan portfolio and retain its deposits and client base since 2007.

Chart 1

Jyske Bank A/S Earnings Breakdown



*Annualized. DKK--Danish krone.

For many years, Jyske Bank has pursued a strategy of remaining independent, focusing on relationship-based commercial banking for households and SMEs. It also provides other value-added services such as asset management, mainly to retail clients, and develops cost-sharing structures with other smaller Danish banks to improve the efficiency of its information technology. Since the Danish banking crisis began Jyske Bank has also been active in market consolidation, acquiring the assets of two smaller banks. We anticipate it will consider additional transactions due to the currently limited opportunities for organic growth in Denmark, but on a relatively small scale.

We believe Jyske Bank has a strong and stable management team and a prudent corporate strategy that has helped it to weather the Danish banking crisis without needing extraordinary capital or liquidity support from the state.

Table 2

Jyske Bank A/S Business Position					
		--Year-ended Dec. 31--			
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Loan market share in country of domicile	6.0	6.0	6.0	5.0	5.0
Deposit market share in country of domicile	7.0	7.0	7.0	7.0	7.0
Total revenues from business line (currency in millions)	5,430.0	6,673.0	6,899.8	7,013.3	6,169.0
Commercial & retail banking/total revenues from business line	92.4	87.7	88.3	90.9	91.7
Trading and sales income/total revenues from business line	7.6	5.2	6.5	7.1	(0.3)
Other revenues/total revenues from business line	N/A	7.1	5.2	2.0	8.6
Investment banking/total revenues from business line	7.6	5.2	6.5	7.1	(0.3)
Return on equity	2.8	3.6	5.9	4.0	9.6

*Data as of Sept. 30. N/A--Not applicable.

Capital and earnings: Adequate and increasing capital ratios, supported by a high quality equity base

We assess Jyske Bank's capital and earnings as "adequate". Over the next one to two years, we expect the bank's RAC ratio to rise to 9.0%-9.5%, supported by a DKK1.1 billion rights issue in February 2012 and increasing earnings generation. We expect Jyske Bank to post annual pretax profits of DKK1.5 billion-DKK1.8 billion for the next two years. The absence of dividends and share buybacks, coupled with a moderate increase in risk-weighted assets, supports the buildup of capital. Further, we believe the bank's capital quality will remain strong because total adjusted capital, from our calculations, consists entirely of common equity.

We believe Jyske Bank's core earnings to be relatively stable and the revenue mix is dominated by interest and fee income from the retail and SME franchises. Income from capital market activity and custody services is mainly fueled by client transactions (approximately 50% of total fee income). However, the investment portfolio generates portions of more volatile net financial income. Jyske Bank is running off high-yield assets, which will likely decrease volatility in the future.

Lending growth will likely remain subdued, in line with the Danish market, but margin increases over the past two years have boosted net interest income, more than compensating for lower new lending volumes. A new funding agreement for the bank's second-lien mortgage loan product "Jyske Prioritet" with BRFkredit A/S (A-/Stable/A-2) is likely to reduce funding costs for certain mortgage loans to private individuals and further increase net interest margins.

Our earnings buffer metric was in the range of 60 basis points (bps) to 80bps, indicating that the bank's earnings generation provides a meaningful cushion against decreasing revenues and deteriorating asset quality.

Table 3

Jyske Bank A/S Capital And Earnings

		--Year-ended Dec. 31--			
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Tier 1 capital ratio	15.0	13.3	14.1	13.5	11.0
S&P RAC ratio before diversification	N.M.	8.1	8.3	9.0	N.M.
S&P RAC ratio after diversification	N.M.	7.7	8.0	8.6	N.M.
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	86.1
Net interest income/operating revenues	68.1	71.1	68.5	64.3	59.0
Fee income/operating revenues	21.1	19.6	19.1	18.1	24.5
Market-sensitive income/operating revenues	2.0	(0.5)	6.3	12.5	11.1
Noninterest expenses/operating revenues	63.7	68.8	59.4	53.1	61.5
Preprovision operating income/average assets	1.0	0.8	1.2	1.4	1.1
Core earnings/average managed assets	0.2	0.2	0.3	0.2	0.4

*Data as of Sept. 30. N.M.--Not meaningful.

Table 4

Jyske Bank A/S RACF [Risk-Adjusted Capital Framework] Data

(Mil. DKK)	**Exposure***	**Basel II RWA**	**Average Basel II RW (%)**	**Standard & Poor's RWA**	**Average Standard & Poor's RW (%)**
Credit risk					
Government and central banks	12,298	25	0	369	3
Institutions	51,725	4,250	8	6,494	13
Corporate	124,882	54,575	44	75,676	61
Retail	61,437	17,838	29	34,381	56
Of which mortgage	16,807	2,438	15	5,055	30
Securitization§	2,423	1,313	54	1,771	73
Other assets	4,089	4,088	100	4,603	113
Total credit risk	256,854	82,088	32	123,293	48
Market risk					
Equity in the banking book†	842	850	101	5,789	688
Trading book market risk	--	14,088	--	21,131	--
Total market risk	--	14,938	--	26,920	--
Operational risk					
Total operational risk	--	1,161	--	14,037	--
(Mil. DKK)		**Basel II RWA**		**Standard & Poor's RWA**	**% of Standard & Poor's RWA**
Diversification adjustments					
RWA before diversification		98,186		164,250	100
Total Diversification/Concentration Adjustments		--		7,569	5
RWA after diversification		98,186		171,819	105

Table 4

Jyske Bank A/S RACF [Risk-Adjusted Capital Framework] Data (cont.)				
(Mil. DKK)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	14,409	14.7	13,275	8.1
Capital ratio after adjustments‡	14,409	13.3	13,275	7.7

*Exposure at default. §Securitisation exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. DKK--Danish krone. Sources: Company data as of Dec. 31, 2011, Standard & Poor's.

Risk position: Adequate, reflecting lending exposure to SMEs

Jyske Bank's risk position is "adequate" in our view, primarily because the quality of the bank's domestic loan book is in line with our assessment of industry risk for the Danish banking system using our BICRA methodology. The bank experienced elevated credit losses in 2009 and 2010 as a result of its SME exposure. Nevertheless, its losses have been in line with those of its domestic peers and the normalized losses we calculated under our RAC framework.

The bank's nonperforming loans (NPLs) totaled DKK9.1 billion, 8.3% of the loan book--adjusted for reverse sale-and-repurchase transactions (repos)--as of Sept. 30, 2012, remaining relatively stable for the past three years after a spike in 2009. We expect NPLs to decline in 2013, in line with the trend in the third quarter of 2012, as we believe the majority of the problems in the Danish banking sector have been recognized. Loan loss provisions have, however, recently increased substantially. This was largely the result of new rules introduced by the Danish financial supervisory authority. We believe the bank's half-year 2012 figures already reflect the full increase (a one-time additional provision charge of DKK900 million) due to this new standard.

The domestic loan book has suffered in recent years from the downturn in commercial and residential property markets and weak economic conditions with subdued consumption. This in turn has put substantial pressure on the less resistant domestically focused SME sector, which has caused the majority of Jyske Bank's losses. Declining land and product prices in the heavily indebted agricultural sector have also contributed to the increase in provisions (see chart 2). However, we expect the bank to have worked through most of the problem loans in the various sectors (see "Deleveraging Denmark--How Much Further Is There To Go?" published on May 7, 2012, on RatingsDirect on the Global Credit Portal). We also believe Jyske Bank's provisions and NPLs will likely decrease over the next two years.

Chart 2

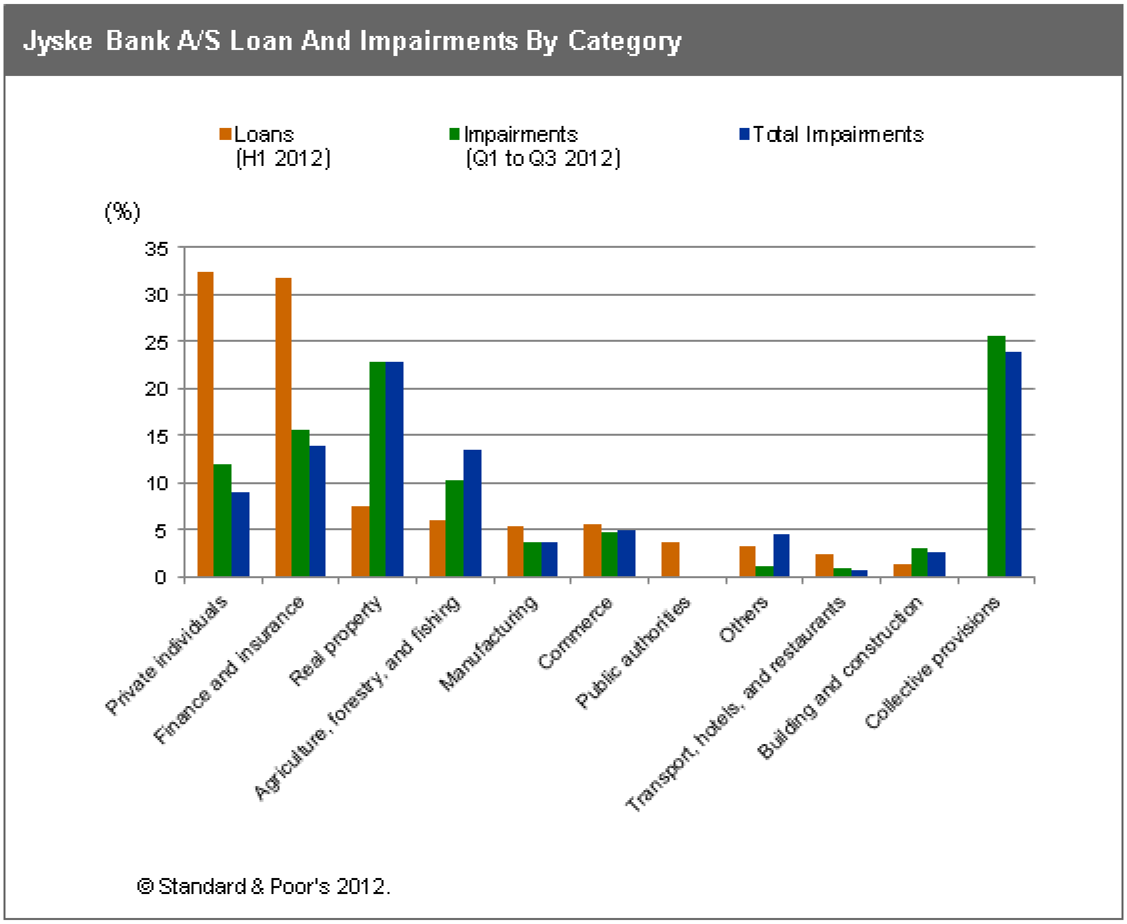


Table 5

Jyske Bank A/S Risk Position

	--Year-ended Dec. 31--				
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Growth in customer loans	(2.9)	2.1	2.3	(10.7)	(10.5)
Total diversification adjustment / S&P RWA before diversification	N.M.	4.9	4.0	5.0	N.M.
Total managed assets/adjusted common equity (x)	16.8	20.4	19.1	18.7	23.3
New loan loss provisions/average customer loans	1.9	1.3	1.7	2.3	0.8
Net charge-offs/average customer loans	0.8	1.9	0.8	0.7	0.4
Gross nonperforming assets/customer loans + other real estate owned	8.3	7.7	8.0	7.5	2.9
Loan loss reserves/gross nonperforming assets	49.7	44.6	50.0	42.4	44.4

*Data as of Sept. 30. N.M.--Not meaningful.

Funding and liquidity: Above-average funding profile supported by a stable deposit base

Jyske Bank's funding is "above average" in our view, with its relatively large deposit base covering 91% of its loans as of Sept. 30, 2012. This is a strength relative to the wider Danish banking system, which is generally more reliant on wholesale funding, but is in line with other system averages in Europe. Despite the important contribution of corporate funds, we believe the majority of deposits to be granular and stable, providing the bank with a steady source of funding.

However, we observe a small deterioration in Jyske Bank's long-term funding ratio, 67.8% as of Sept. 30, 2012, compared with 70.3% in 2009. This was owing to a substantial increase in repos, which have primarily replaced short-term funding in the French commercial paper market, but also longer-dated European medium-term notes and a limited amount of corporate deposits. We consider the Jyske Prioritet loans, financed by BRFkredit and totaling approximately DKK3.6 million, that Jyske Bank reports as liabilities "due to credit institutions", to be long-term funding and therefore include them in our long-term funding ratio. We believe that Jyske Bank's liquidity is "adequate". In our view, Jyske Bank has established conservative liquidity stress scenarios under which it can continue operations for an extensive period, without access to the wholesale markets. Our measure of broad liquid assets almost covers short-term wholesale funding, which as of Sept. 30, 2012, represented close to 80% of total wholesale funding. Our measure reflects the bank's policy to size its liquidity portfolio in accordance with the amount of short-term debt.

Table 6

Jyske Bank A/S Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	**2012***	**2011**	**2010**	**2009**	**2008**
Core deposits/funding base	52.9	49.5	52.2	55.3	59.7
Customer loans (net)/customer deposits	109.1	107.3	113.2	111.4	112.8
Long term funding ratio	67.9	69.1	66.3	70.3	73.5
Broad liquid assets/short-term wholesale funding (x)	1.0	1.1	1.1	1.1	0.7
Net broad liquid assets/short-term customer deposits	(0.5)	10.2	7.8	6.5	(24.7)
Narrow liquid assets/3-month wholesale funding (x)	1.2	1.3	1.6	1.9	N/A
Net short-term interbank funding/total wholesale funding	23.2	13.7	14.6	1.3	7.1
Short-term wholesale funding/total wholesale funding	73.9	65.3	75.6	71.2	77.7

*Data as of Sept. 30. N/A--Not applicable.

External support: One notch of uplift for the likelihood of extraordinary government support

The long-term rating on Jyske Bank is one notch higher than the SACP, reflecting our view that it has "moderate" systemic importance in Denmark, due to its substantial share of deposits of about 7% and its nationwide franchise. In addition, we consider the Danish government to be supportive toward the domestic banking sector. These factors lead to our view of a "moderately high" likelihood of extraordinary government support for Jyske Bank if needed.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Banking Industry Country Risk Assessment: Denmark, July 17, 2012
- Deleveraging Denmark--How Much Further Is There To Go?, May 7, 2012

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

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	**bbb+**	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of November 8, 2012)

Jyske Bank A/S	
Counterparty Credit Rating	A-/Stable/A-2
Nordic Rating Scale	--/--/K-1
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB-
Counterparty Credit Ratings History	
01-Dec-2011	A-/Stable/A-2
20-Feb-2009	A/Negative/A-1
30-Sep-2008	A+/Negative/A-1
10-Feb-2012 *Nordic Rating Scale*	--/--/K-1
Sovereign Rating	
Denmark (Kingdom of)	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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