

Research Update:

Jyske Bank And Jyske Realkredit Upgraded To 'A+' From 'A' On Sustainably Higher Bail-Inable Debt Buffer; Outlook Stable

July 21, 2023

Overview

- We expect Jyske Bank's (Jyske's) sizable and sustainable amounts of additional loss-absorbing capacity (ALAC) to provide further protection to senior creditors in a resolution scenario.
- We now expect higher issuance volumes in bail-inable instruments supporting Jyske's ALAC buffer to stay above 6% S&P Global Ratings risk-weighted assets. At the same time, we expect the bank's improving profitability and strong capitalization will bolster its resilience to a more difficult economy, despite its high mortgage concentration risk, particularly in commercial real estate.
- We therefore raised our long-term issuer credit rating on Jyske and its core subsidiary Jyske Realkredit to 'A+' from 'A', and affirmed our 'A-1' short-term issuer credit ratings on both entities. We also raised our resolution counterparty ratings on both to 'AA-/A-1+' from 'A+/A-1'.
- Our stable outlook reflects our expectation that Jyske will maintain high buffers in capital and bail-inable debt instruments, improves its risk adjusted profitability and report relatively resilient asset quality metrics.

Rating Action

On July 21, 2023, S&P Global Ratings raised its long-term issuer credit rating on Jyske Bank A/S (Jyske) and its core subsidiary Jyske Realkredit A/S to 'A+' from 'A'. At the same time, we affirmed our 'A-1' short-term issuer credit ratings on both entities. The outlook on both entities is stable. As well, we raised our resolution counterparty ratings on both to 'AA-/A-1+' from 'A+/A-1' and affirmed our 'K-1' short-term Nordic regional scale ratings on Jyske.

Finally, we raised our issue ratings on Jyske's long-term senior unsecured instrument to 'A+' from 'A' and affirmed our ratings on all other instruments, including senior subordinated and other hybrid issue ratings.

PRIMARY CREDIT ANALYST

Harm Semder
Frankfurt
+ 49 693 399 9158
harm.semder
@spglobal.com

SECONDARY CONTACT

Salla von Steinaecker
Frankfurt
+ 49 693 399 9164
salla.vonsteinaecker
@spglobal.com

ADDITIONAL CONTACT

Niklas Dahlstrom
Stockholm
+46 84405358
niklas.dahlstrom
@spglobal.com

Rationale

The upgrade reflects our expectation that Jyske's materially and sustainably increased its buffer of bail-inable debt instruments, providing additional protection to senior preferred creditors. Specifically, the higher issuer credit rating follows our revised expectation that the bank will sustainably and comfortably exceed our 6% threshold required for a two-notch rating uplift for ALAC support. We forecast Jyske will maintain its ALAC ratio at 7.7%-8.4% from 2023-2026, up from 7.1% year-end 2022. We expect these buffers to protect senior creditors in the event of a resolution. We also consider the bank's commitment to maintain an ALAC buffer above 6% and its corresponding updated funding plan with higher planned issuances from 2023-2026. The bank's updated funding plan also indicates higher issuances to meet new regulatory requirement as per Basel IV. Based on the expected increase in risk exposure amount from organic growth and changed regulation, Jyske anticipates a requirement for minimum requirement for own funds and eligible liabilities debt instruments in an amount of Danish krone (DKK) 25 billion-DKK27 billion (€3.4 billion-€3.6 billion) by end-2023, including about DKK6 billion (€0.8 billion) of preferred senior debt and DKK19 billion-DKK21 billion (€2.6 billion-€2.8 billion) of nonpreferred senior debt.

Jyske maintains capital as a strength, supported by its improved 2023 financial targets on widened interest margins and additional tier 1 issuances. We project the bank will restore its risk-adjusted capital (RAC) ratio to 12%-13% in 2023-2025, after acquiring Svenska Handelsbanken activities in Denmark temporarily weakened its RAC ratio to 11.6% as of year-end 2022 from 12.3% as of year-end 2021. We expect Jyske will improve earnings from higher margins at higher interest rates owing to higher lending volumes, manageable increase in risk cost, and smooth integration of its acquisition. We also view positively that the bank is committed to a minimum 11% RAC when deciding on capital distributions. Based on preliminary midyear 2023 results, on July 11, 2023, Jyske announced higher expectations for full-year net profit, to DKK 4.7 billion-DKK5.3 billion, or DKK70-DKK80 per share. We expect pre-tax profit of DKK6.2 billion-DKK7.1 billion in 2023. This includes one-off costs of DKK0.3 billion concerning the acquisition of Handelsbanken Denmark and that loan impairment charges are anticipated to result in an expense this year against an income of DKK0.6 billion in 2022. Previously, Jyske expected earnings per share of DKK65-DKK75, corresponding to a net profit of DKK4.3 billion-DKK4.9 billion in 2023. Jyske announced its preliminary expectation of more than DKK3.3 billion pre-tax and DKK2.4 billion after-tax profit by midyear 2023 (compared with DKK2.1 billion and DKK1.7 billion, respectively, in first-half 2022), reflecting the acquisition of Handelsbanken Danmark, the impact from higher interest rates, and a low requirement for loan impairment charges.

We anticipate Jyske will maintain relatively resilient asset quality against headwinds in economy, helped by high collateralization, and prudent lending and provisioning results. We believe the bank will continue to demonstrate sound asset quality metrics, despite its high concentration in domestic mortgage and mortgage-like bank loans, at a very-high 73% of loan portfolio, of which 48% is for residential loans, and the remaining in commercial real estate (CRE) markets. About one-third of Jyske's CRE exposure includes social, subsidized, and cooperative housing backed by state or municipality guarantees that we assess much as less vulnerable than more volatile CRE exposure like offices, which make up about 19% of the bank's total CRE exposure. The risk is also balanced by the very high average loan collateralization of 46% as of

end-March 2023, the high product diversification, de-risking of the mortgage book, and increased fixed-interest-rate lending in recent years. Regarding the Handelsbanken acquisition, we believe inherent execution risks remain, but this is somewhat offset by good asset quality and the bank's track record of managing smaller acquisitions. Similarly, we forecast manageable an annual credit cost increase of about 13 basis points (bps) of customer loans from 2023-2025, up from risk cost profits from loan loss provision reversals of 8 bps in 2022 and 13 bps in 2021, accounting for Jyske's diversified and generally robust asset quality, along with Denmark's resilient economy.

Outlook

The stable outlook reflects our expectation that Jyske will maintain high buffers in capital and bail-inable debt instruments, represented by our projection of RAC ratio and ALAC buffer remaining sustainably above 10% and 6% of S&P Global Ratings' risk-weighted assets, respectively, over the next two years. We also expect the bank will reach targeted improvements in its risk-adjusted profitability while credit loss provisions will remain contained, and Jyske will continue to report sound asset quality metrics in its expanded portfolio by operating with sound risk management broadly in line with those of domestic peers.

Downside scenario

We could take a negative rating action if the bank fails to generate better risk-adjusted profitability, or unexpectedly substantial asset quality problems were to emerge from its high mortgage loan concentration, particularly CRE. This could materialize, for example, if higher risk costs from concentrations or single customers and lower earnings result in a significant decrease in the bank's RAC to below 10%.

We could also lower the rating if, contrary to our expectations, long-term trends in lending growth and margins highlight a weaker business franchise, or if the bank's risk-adjusted profitability materially underperforms that of peers in the coming 12-24 months. Similarly, we could lower the rating if ALAC declines materially, which is also contrary to our expectations.

Upside scenario

We consider it a remote scenario that, in the next two years, we would raise the issuer credit rating on Jyske, to which the senior preferred issue ratings are linked.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
SACP	a-	a-
Anchor	bbb+	bbb+
Business position	Adequate	Adequate
Capital and earnings	Strong	Strong
Risk position	Adequate	Adequate
Funding and liquidity	Adequate and Adequate	Adequate and Adequate

	To	From
Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
Comparable ratings analysis	0	0
Support		
ALAC support	+2	+1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile.

ESG credit indicators: E-2, S-2, G-2

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology , June 8, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions , March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions , Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology , Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings , Oct. 10, 2021
- General Criteria: Group Rating Methodology , July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology , July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- General Criteria: Principles Of Credit Ratings , Feb. 16, 2011

Related Research

- Banking Industry Country Risk Assessment Update: June 2023, June 30, 2023
- European Banks' Asset Quality: Tougher Times Ahead Require Extra Caution, April 20, 2023
- Credit Conditions Europe Q2 2023: Costs Rising To Cure Inflation, March 28, 2023
- Nordic Banks In 2023: Robust Fundamentals And Strong Performance Despite Economic Slowdown, March 6, 2023
- Denmark, Feb. 13, 2023

Ratings List

Ratings Affirmed

Jyske Bank A/S

Issuer Credit Rating	
Nordic Regional Scale	--/--/K-1
Certificate Of Deposit	A-1

Jyske Bank A/S

Senior Subordinated	BBB+
Subordinated	BBB
Junior Subordinated	BB+
Commercial Paper	A-1

Upgraded

	To	From
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Jyske Bank A/S

Jyske Realkredit A/S

Resolution Counterparty Rating	AA/--/A-1+	A+/--/A-1
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Jyske Bank A/S

Senior Unsecured	A+	A
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Upgraded; Ratings Affirmed

	To	From
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Jyske Bank A/S

Jyske Realkredit A/S

Issuer Credit Rating	A+/Stable/A-1	A/Stable/A-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914

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