MOODY'S INVESTORS SERVICE

Credit Opinion: Jyske Bank A/S

Global Credit Research - 24 Apr 2012

Silkeborg, Denmark

Ratings

Category	Moody's Rating
Outlook	Rating(s) Under Review
Bank Deposits	*A2/*P-1
Bank Financial Strength	*C
Senior Unsecured	*A2
Subordinate MTN	*(P)Baa2
Jr Subordinate	*Baa2 (hyb)
Pref. Stock	*Baa3 (hyb)
Other Short Term	*(P)P-1

* Placed under review for possible downgrade on February 15, 2012

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Key Indicators

Jyske Bank A/S (Consolidated Financials)[1]

	[2]**12-11**	[2]**12-10**	[2]**12-09**	[2]**12-08**	[3]**12-07**	**Avg.**
Total Assets (DKK million)	**270,210.0**	**244,108.0**	**224,510.0**	**236,301.7**	**214,278.7**	[4]**6.0**
Total Assets (EUR million)	**36,356.0**	**32,757.1**	**30,172.3**	**31,747.3**	**28,737.0**	[4]**6.1**
Total Assets (USD million)	**47,195.4**	**43,945.0**	**43,289.5**	**44,130.2**	**42,015.0**	[4]**2.9**
Tangible Common Equity (DKK million)	**14,477.1**	**14,012.1**	**12,362.9**	**10,116.2**	**9,501.8**	[4]**11.1**
Tangible Common Equity (EUR million)	**1,947.9**	**1,880.3**	**1,661.5**	**1,359.1**	**1,274.3**	[4]**11.2**
Tangible Common Equity (USD million)	**2,528.6**	**2,522.5**	**2,383.8**	**1,889.2**	**1,863.1**	[4]**7.9**
Net Interest Margin (%)	**2.0**	**2.0**	**2.0**	**1.6**	**1.8**	[5]**1.9**
PPI / Avg RWA (%)	**2.1**	**2.8**	**3.3**	**1.5**	**1.9**	[6]**2.4**
Net Income / Avg RWA (%)	**0.5**	**0.8**	**0.5**	**0.5**	**1.4**	[6]**0.6**
(Market Funds - Liquid Assets) / Total Assets (%)	**3.0**	**3.7**	**7.6**	**9.0**	**9.0**	[5]**6.5**
Core Deposits / Average Gross Loans (%)	**98.6**	**85.0**	**79.6**	**77.7**	**80.4**	[5]**84.3**
Tier 1 Ratio (%)	**13.3**	**14.1**	**13.5**	**9.9**	**8.1**	[6]**12.7**
Tangible Common Equity / RWA (%)	**13.2**	**13.3**	**12.3**	**8.6**	**7.2**	[6]**11.9**
Cost / Income Ratio (%)	**67.6**	**58.7**	**51.0**	**67.6**	**59.2**	[5]**60.8**
Problem Loans / Gross Loans (%)	**5.4**	**6.4**	**5.8**	**2.0**	**0.8**	[5]**4.1**
Problem Loans / (Equity + Loan Loss Reserves) (%)	**37.4**	**41.5**	**41.6**	**22.1**	**9.7**	[5]**30.5**

Source: Moody's

[1] All ratios are adjusted using Moody's standard adjustments [2] Basel II; IFRS [3] Basel I; IFRS [4] Compound

Annual Growth Rate based on IFRS reporting periods [5] IFRS reporting periods have been used for average calculation [6] Basel II & IFRS reporting periods have been used for average calculation

Opinion

RECENT CREDIT DEVELOPMENTS

On 15 February 2012, Moody's placed on review for downgrade Jyske Bank's C Financial Strength Rating and its A2 and Prime-1 long-term and short-term ratings. This follows Moody's announcement on the same day to place a number of European banks on review for downgrade, reflecting the multiple challenges we consider these banks face, notably (1) a weakening macroeconomic environment; (2) costly and constrained market funding; and (3) pressure on profits. These challenges may lead us to reduce our assessment of several important rating factors, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital. Our current expectation is that the bank's senior debt rating may be lowered by up to three notches.

In particular, we expect that Danish sector performance will continue to be negatively affected by the country's operating environment through sluggish economic activity, stagnating credit growth and falling property prices. Danish financial institutions are also subject to funding pressure as a result of needing to refinance their government-guaranteed debt maturing in 2012-13 and weakened asset quality, which continues to lead to elevated loan impairments and depressed net profits. Given this operating environment, we remain concerned about asset quality in the coming year, specifically in real estate, lending to small- and medium-sized enterprises, agriculture, and potentially household lending. Sector efficiency has weakened, and profitability has been hit by the lack of credit turnover and higher provisioning.

As a consequence, like other European banks, Danish banks face immediate pressures centred on their ability to retain the confidence of investors. For more details please see our reports "Why Global Bank Ratings Are Likely To Decline In 2012", "Euro Area Debt Crisis Weakens Bank Credit Profiles" and "European Banks: How Moody's Approach Reflects Evolving Challenges", published on January 19, 2012.

SUMMARY RATING RATIONALE

Moody's rates Jyske Bank A2/Prime-1/C (on review for downgrade). The C standalone bank financial strength rating (BFSR) assigned to Jyske Bank, which maps to a3 on the long-term scale, reflects the bank's good domestic franchise. However, the rating is constrained by the bank's limited net profit and volatile earnings (due to mark-to-market adjustments), as well as the ongoing need to focus on its managing asset quality, particularly that of large single-name exposures, through the economic downturn.

Moody's considers Denmark as a low support country, primarily reflecting the government's willingness to impose losses on senior creditors and depositors in accordance with the bail-in legislation implemented in October 2010 (Bank Package III) and as evidenced by the bail-in of Amagerbanken in February 2011. In view of Jyske Bank's position in Denmark and strength in Jutland and despite its only moderate nationwide coverage, Moody's takes into account a one-notch systemic support uplift for Jyske Bank's A2 long-term GLC deposit rating from its a3 standalone financial strength.

Rating Drivers

- Good domestic franchise

- Adequate core profitability, but weakened due to operating environment factors

- Adequate funding and liquidity profile, but continued pressure following implementation of Bank Package III

- Asset quality deterioration, and some credit concentration in the lending portfolio

Rating Outlook

The BFSR, long-term and short-term deposit ratings are on review for downgrade. During the review we will consider the impact on the bank's standalone creditworthiness of weakening fundamentals, notably economic stability, franchise value, risk positioning, liquidity, profitability and capital, in the context of the current environment.

What Could Change the Rating - Up

The bank's BFSR and long-term ratings are on review for downgrade. At present and over the immediate rating horizon, we therefore do not see any meaningful upwards rating pressure on the bank's standalone rating, and also on the bank's deposit ratings.

What Could Change the Rating - Down

The BFSR and deposit rating could be downgraded following our review which will re-assess the impact of a further deteriorating of the Danish operating environment on profits, as well as considering the bank's economic stability, franchise value and risk positioning in the current environment.

DETAILED RATING CONSIDERATIONS

Detailed considerations for Jyske Bank's currently assigned ratings are as follows:

Bank Financial Strength Rating

Moody's assigns a C standalone BFSR to Jyske Bank. During the review period Moody's will reassess the bank's strengths and weaknesses under the BFSR scorecard, in line with the recently published reports referenced under "Recent Credit Developments".

Good Domestic Franchise

Jyske Bank enjoys a solid franchise as one of the leading banks in Denmark, with total assets of DKK 270.2billion (EUR 36 billion) at YE 2011. A large proportion of mortgage loans originated by the bank are financed by Totalkredit, DLR Kredit and Nykredit Realkredit, and as such do not appear on the bank's balance sheet. Additionally, a smaller part of the bank's home loan products are expected to be financed through covered bonds issued by BRFKredit.

Jyske Bank is the third largest bank for both deposits and lending with market shares, based on Moody's estimates, of approximately 8% and 9%, respectively. The bank has a nationwide presence, with its strongest franchise in Jutland, where the majority of its branches and its headquarters are located.

In September 2011, Jyske Bank acquired part of the leasing arm of Spar Nord, Easy Fleet and Finans Nord. Moody's expect that this will further strengthen Jyske Bank's growth strategy and increase lending potential for the group.

Additionally, in October 2011, the bank took over deposits of DKK 3.5 billion and total lending of DKK 2.3 billion through the acquisition of parts of Fjorbank Mors from the Financial Stability Company. Moody's positively notes that this has given Jyske Bank a key presence in the Mors region in Jutland. Moody's expect further consolidation of the Danish banking sector throughout 2012 which will give more opportunities to gain market share in a market where organic growth is limited.

Jyske Bank has cooperation agreements with mortgage and life insurance providers, which enable it to maintain cost efficiency while maintaining market share.

The bank's franchise value may be undermined by pressures on asset quality and profitability coupled with a deteriorating macroeconomic environment as explained above. Franchise value will be one of the factors on which we will focus over the review period, particularly with a view to the longer-term sustainability of the franchise and of core earnings stability.

Adequate Core Profitability, But Weakened Due To Operating Environment

Based on three year average data, Jyske Bank's risk weighted profitability of 2.72% indicates an adequate profitability, with the 2011 full year number of 1.97% revealing a relative weakening. Despite an increase in net interest income and a 10% increase in retail and corporate customers, results were negatively affected by negative value adjustments and an increase in operating costs. Moody's positively note that the bank has taken measures to reduce its cost base by streamlining the workforce which resulted in a one off cost of DKK 80 million in 2011.

For the full year 2011, Jyske Bank reported a pre-tax profit of DKK 601 million, down 40% from DKK 1 billion at year-end 2010, which was attributable to a number of one-off items adversely affecting core earning by a total of DKK497 million. More substantially, due to the worsening of the European debt crisis, Jyske Bank's portfolio of Greek bonds was negatively adjusted to reflect market value, resulting in total expenses of DKK 299 million.

Loan loss provisions decreased from approximately DKK 1.6 billion in 2010 to DKK 1.5 billion in 2011, and accumulated loan loss provisions amounted to DKK 3.9 billion of which 84% was related to corporate customers, primarily from agriculture, real estate and construction.

It will be important for Jyske Bank to improve its core top-line results going forward in order to mitigate any deterioration of the loan portfolio where Moody's expect customers to face increased challenges due to, amongst others, the effects of a slow growth environment and falling asset prices in real estate and agriculture. Jyske Bank has raised margins multiple times in 2011.

Given that the economic environment remains challenging and its potential impact on asset quality, we expect that the need for loan loss provisions will remain elevated in the near future and thereby maintain pressure on the bank's net earnings. This, as well as the positive effect of margin increases, will be assessed further during the review.

Adequate Funding Profile, But Continued Pressure Following Implementation Of Bank Package III

Jyske Bank's deposit funding profile is improving. As year-end 2011, deposits covered 95% of loans and accounted for approximately 47% of Jyske Bank's total funding. Interbank funding increased to 12.75% of total funding at year-end 2011, up from 10.22% at year-end 2010, with market funding making up the remainder.

In addition, the bank continues to place its mortgage loans with Nykredit Realkredit / Totalkredit and DLR.

Jyske Bank announced in January 2012 a new funding tool allowing the bank to fund part of its new origination of private client home loans through covered bonds issued by BRFKredit (unrated). This provides Jyske Bank with a flexible long-term funding alternative at a time when access to unsecured markets remains expensive.

Moody's notes that Jyske Bank has not participated in the Danish government's funding support scheme (banking package II) and that the bank was able to issue a benchmark issue of DKK 3.7 billion (EUR 500 million) on a standalone basis during 2011. In Moody's opinion, funding pressure will increase going forward post Bank Package III, as funding costs remain at elevated levels, in particular senior unsecured markets, therefore the new agreement with BRFKredit offers some relief, although this will only represent a smaller part of the banks funding need. The political agreement "Bank Package IV", announced in August 2011 and proposed in law in December, supports banks that have liquidity problems during a takeover process. Although the package was successfully used in the resolution of Max Bank in October 2011, it remains to be seen to what extent willing acquirers can be found so that this mitigating tool can be used.

Jyske Bank also completed a new share issue through a private placement to existing international and domestic shareholders in Q1 2012, resulting in gross proceeds of nearly DKK 1.2 billion.

At year-end 2011, the bank's liquid assets stood at nearly 40% of total assets, giving it a satisfactory liquidity profile, since a majority of these assets can be used for repos with the central bank. The bank's bond portfolio consists mainly of mortgage bonds from Denmark and Europe, as well as government bonds.The review will assess the impact of the additional pressures that the bank may face as a result of the persistent fragility of investor confidence.

Asset Quality Deterioration

At end-December 2011, loan impairments accounted for around 78% of pre-provision income. Loans for which an objective indication for impairment occurred almost tripled from DKK2.7 billion (2.0% of gross loans) in 2008 to DKK8.7 billion (7% of gross loans) in 2011.

Only around 33% of total lending and guarantees were to private individuals at YE2011, as the mortgage loans financed via Totalkredit, Nykredit and DLR do not appear on Jyske Bank's balance sheet.

Jyske Bank's largest industry exposures include credit, finance and insurance at around 29%, property administration & services at around 8%, manufacturing, mining, and energy at almost 8%, and agriculture exposures to corporates represent 6% of lending. The loan book is mainly focused on Denmark (almost 90%).

When looking at top 20 limits for single-name exposures, not taking collateral into consideration, in relation to Tier 1 capital, Jyske Bank's borrower concentration is relatively high when compared with that of other European banks, but this is in line with many Nordic banking peers. The bank had eight exposures accounting for between 5%-7.5%, and three exposures accounting for between 7.5%-10% of the total capital base.

Jyske Bank reports strong capitalisation ratios. At end-2011, Jyske Bank's Tier 1 ratio stood at 13.3%, with a total capital adequacy ratio of 14.7%, as calculated under transitional rules towards full Basel II. The corresponding figures at end- 2010 were 14.1% and 15.8%, respectively. The individual solvency requirement for the bank is 10%, which as of end-December 2011 meant the bank had a capital cushion exceeding its individual requirement of DKK 5.1 billion (equivalent to 4.1% of total loans to customers). Jyske Bank raised DKK 65 million further capital in March 2012.

Moody's expect the weaker macro-economic environment in Denmark will put further pressure on the bank's profitability and ultimately on capital adequacy. Given the continued challenges in Jyske Bank's operating environment it remains crucial for the bank to sustain a high capital buffer to mitigate any future asset deterioration. In particular, we remain concerned about exposures to sectors such as agriculture, commercial real estate and SMEs.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local currency deposit rating of A2 (on review for downgrade) to Jyske Bank. In view of the bank's position in Denmark and strength in its local area of Jutland and despite its only moderate nationwide coverage, the A2 global local currency deposit rating receives a one-notch uplift from the a3 BCA.

Notching Considerations

The ratings for the Bank's hybrid obligations are notched off the BCA according to "Moody's Guidelines for Rating Bank Hybrid Securities and Subordinated Debt" released on 17 November 2009.

Foreign Currency Deposit Rating

The A2 foreign currency deposit ratings (on review for downgrade) of Jyske Bank are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa.

Foreign Currency Debt Rating

The A2 foreign currency debt ratings (on review for downgrade) of Jyske Bank are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa.

ABOUT MOODY'S BANK RATINGS

Bank Financial Strength Rating

Moody's Bank Financial Strength Ratings (BFSRs) represent Moody's opinion of a bank's intrinsic safety and soundness and, as such, exclude certain external credit risks and credit support elements that are addressed by Moody's Bank Deposit Ratings. Bank Financial Strength Ratings do not take into account the probability that the bank will receive such external support, nor do they address risks arising from sovereign actions that may interfere with a bank's ability to honor its domestic or foreign currency obligations. Factors considered in the assignment of Bank Financial Strength Ratings include bank-specific elements such as financial fundamentals, franchise value, and business and asset diversification. Although Bank Financial Strength Ratings exclude the external factors specified above, they do take into account other risk factors in the bank's operating environment, including the strength and prospective performance of the economy, as well as the structure and relative fragility of the financial system, and the quality of banking regulation and supervision.

Moody's uses the Baseline Credit Assessment (BCA) to map BFSRs onto the 21-point aaa-c rating scale and like the BFSR, it reflects a bank stand- alone default risk. Each point on the aaa-c scale represents a specific probability of default and therefore allows Moody's to use the BCA as an input to Moody's Joint Default Analysis (JDA), described below. The baseline credit assessment reflects what the local currency deposit rating of the bank with the given BFSR would be without any assumed external support from a government or third party

Global Local Currency Deposit Rating

A deposit rating, as an opinion of relative credit risk, incorporates the Bank Financial Strength Rating as well as Moody's opinion of any external support. Specifically, Moody's Bank Deposit Ratings are opinions of a bank's ability to repay punctually its deposit obligations. As such, Moody's Bank Deposit Ratings are intended to incorporate those aspects of credit risk relevant to the prospective payment performance of rated banks with respect to deposit obligations, and includes: intrinsic financial strength, sovereign transfer risk (in the case of foreign currency deposit ratings), and both implicit and explicit external support elements. Moody's Bank Deposit Ratings do not take into account the benefit of deposit insurance schemes which make payments to depositors, but they do recognize the potential support from schemes that may provide assistance to banks directly.

According to Moody's joint default analysis (JDA) methodology, the global local currency deposit rating of a bank is determined by the incorporation of any external elements of support into the bank's Baseline Credit Assessment. In assigning the local currency deposit rating to a bank, the JDA methodology also factors in the rating of the various potential support providers (parent company, cooperative group, regional or national governments), as well as the degree of dependence that may exist between each one of them and the bank. Moody's assessment of the probability of systemic support (by a national government) is derived from the analysis of the capacity of a government and its central bank to provide support on a system-wide basis. The systemic support indicator is determined for a particular country and serves as an input for all bank ratings in that country. The support indicator can be set at, above or, in rare cases, below the government's local currency bond rating for that country.

Foreign Currency Deposit Rating

Moody's ratings on foreign currency bank obligations derive from the bank's local currency rating for the same class of obligation. The implementation of JDA for banks can lead to high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be noted that foreign currency deposit ratings are in all cases constrained by the country ceiling for foreign currency bank deposits. This may result in the assignment of a different, and typically lower, rating for the foreign currency deposits relative to the bank's rating for local currency obligations.

Foreign Currency Debt Rating

Foreign currency debt ratings are derived from the bank's local currency debt rating. In a similar way to foreign currency deposit ratings, foreign currency debt ratings may also be constrained by the country ceiling for foreign currency bonds and notes; however, in some cases the ratings on foreign currency debt obligations may be allowed to pierce the foreign currency ceiling. A particular mix of rating factors are taken into consideration in order to assess whether a foreign currency bond rating pierces the country ceiling. They include the issuer's global local currency rating, the foreign currency government bond rating, the country ceiling for bonds and the debt's eligibility to pierce that ceiling.

About Moody's bank financial strength scorecard

Moody's bank financial strength model (see scorecard below) is a strategic input in the assessment of the financial strength of a bank, used as a key tool by Moody's analysts to ensure consistency of approach across banks and regions. The model output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating Factors

Jyske Bank A/S

Rating Factors [1]	**A**	**B**	**C**	**D**	**E**	**Total Score**	**Trend**
Qualitative Factors (50%)						**C+**	
Factor: Franchise Value						**C**	**Neutral**
Market Share and Sustainability		x					
Geographical Diversification			x				
Earnings Stability				x			
Earnings Diversification [2]							
Factor: Risk Positioning						**C-**	**Neutral**
Corporate Governance [2]							

- Ownership and Organizational Complexity							
- Key Man Risk							
- Insider and Related-Party Risks							
Controls and Risk Management		**x**					
- Risk Management			x				
- Controls	x						
Financial Reporting Transparency		**x**					
- Global Comparability	x						
- Frequency and Timeliness	x						
- Quality of Financial Information		x					
Credit Risk Concentration	**--**	**--**	**--**	**--**	**--**		
- Borrower Concentration	--	--	--	--	--		
- Industry Concentration		x					
Liquidity Management			**x**				
Market Risk Appetite	**x**						
Factor: Operating Environment						**A-**	**Neutral**
Economic Stability		**x**					
Integrity and Corruption	**x**						
Legal System	**x**						
Financial Factors (50%)						**C**	
Factor: Profitability						**C**	**Weakening**
PPI / Average RWA - Basel II		2.72%					
Net Income / Average RWA - Basel II				0.60%			
Factor: Liquidity						**C**	**Neutral**
(Mkt funds-Liquid Assets) / Total Assets			4.77%				
Liquidity Management			x				
Factor: Capital Adequacy						**A**	**Neutral**
Tier 1 Ratio - Basel II	13.63%						
Tangible Common Equity / RWA - Basel II	12.95%						
Factor: Efficiency						**C**	**Weakening**
Cost / Income Ratio			59.12%				
Factor: Asset Quality						**D**	**Weakening**
Problem Loans / Gross Loans				5.88%			
Problem Loans / (Equity + LLR)				40.16%			
Lowest Combined Score (15%)						**D**	
Economic Insolvency Override						**Neutral**	
Aggregate Score						**C**	
Assigned BFSR						**C**	

[1] - Where dashes are shown for a particular factor (or sub-factor), the score is based on non public information [2] - A blank score under Earnings diversification or Corporate Governance indicates the risk is neutral

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