

SUMMARY RATING RATIONALE

Moody's rates Jyske Bank A2/Prime-1/C. The C bank financial strength rating (BFSR) assigned to Jyske Bank, which translates into a baseline credit assessment (BCA) of A3, reflects the bank's good domestic franchise and relatively low risk profile. 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.

The A2 global local currency (GLC) rating incorporates the bank's A3 BCA, as well as one-notch uplift from systemic support.

Credit Strengths

- Good domestic franchise
- Adequate core profitability
- Satisfactory capitalisation

Credit Challenges

- Increasing core earnings in a low growth environment to offset deteriorating asset quality
- Expected pressure on funding following the implementation of Bank Package III
- Some credit concentration in the lending portfolio
- Preserving asset quality across the economic cycle in a continued challenging environment

Rating Outlook

Jyske Bank's ratings carry a stable outlook, being well positioned in their current rating category.

What Could Change the Rating - Up

A sustainable improvement in asset quality and earnings could exert upward pressure on the ratings. However, Moody's does not see this as likely in the short term.

What Could Change the Rating - Down

The BFSR could be downgraded in the event of further deterioration in the bank's asset quality, increased funding costs, increased levels of single-borrower exposure, or pressure on earnings.

Recent Results and Company Events

RECENT RESULTS

Jyske Bank Group reported for the first three months of 2011 a pre-provision profit of DKK 455 million, down 40% year-on-year. The lower pre-provision profitability was mainly driven by a decrease in mark-to-market value adjustment (DKK 21 million vs. DKK 276 million in Q1 2010). Net interest & fee income remained largely unchanged year-on-year. Loan loss provisions however decreased close to 60% compared to Q1 2010, leading to an overall increased pre-tax profitability (DKK 200 million vs. DKK 179 million in Q1 2010).

The Group's Tier 1 and total capital ratios were 14.4% and 16.2% respectively at Q1 2011, compared with an individual solvency requirement of 9.5%.

COMPANY EVENTS

In May 2011, Moody's Investors Service concluded the review initiated in February 2011 and downgraded Jyske Bank's long-term debt and deposit ratings to A2 from A1 and the stand alone BFSR to C from C+. The review

followed similar actions taken for other Danish banks and reflected a reduction of Moody's systemic support assumptions for the Danish banking market to low from high. The downgrade of Jyske Bank's BFSR to C from C+ and debt and deposit ratings to A2 from A1 reflects Moody's assessment that core profitability will remain weak going forward, in a low-growth environment with increasing funding costs. Increased deposit competition and market concerns related to Bank Package III also increase the vulnerability of Jyske Bank's funding and liquidity positions. Following the review, Jyske bank's debt and deposit ratings continue to include one notch of systemic support uplift.

DETAILED RATING CONSIDERATIONS

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

Bank Financial Strength Rating

Moody's assigns a C BFSR to Jyske Bank, reflecting the bank's good qualitative credentials and solid regulatory practices, but constrained by factors such as its loan portfolio concentration, particularly its single-loan exposure, and the less benign Danish economy. The assigned C BFSR is in line with the outcome of Moody's bank financial strength scorecard.

Qualitative Rating Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Jyske Bank enjoys a solid franchise as one of the leading banks in Denmark, with total assets of DKK244 billion (€33 billion) at YE 2010. A large proportion of mortgage loans originated by the bank are financed by Totalcredit, DLR Kredit and Nykredit Realkredit, and as such do not appear on the bank's balance sheet.

Jyske Bank had an approximate 7% market share of total deposits in Denmark at YE 2010. The bank has a nationwide presence, with its strongest franchise in Jutland, where the majority of its branches and its headquarters are located.

Furthermore, around 10% of its earnings in 2010 stem from its foreign operations, which primarily focus on private banking and asset management. In addition to its wholly owned subsidiaries and branches, Jyske Bank has asset management operations in the Netherlands via its 60% stake in asset management firm Berben's Effectenkantoor.

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

Moody's believes the overall score of C for franchise value adequately reflects these strengths and challenges.

Factor 2: Risk Positioning

Trend: Neutral

As of December 2010, the bank had around 238,000 shareholders. Each share carries one vote, with a maximum of 4,000 votes permitted for any one shareholder. As of YE 2010, the only two shareholders with more than 5% of total shares were Nykredit Realkredit (7.2%) and Baillie Gifford & Co. Ltd (5.1%). Given the high proportion of shareholders with a relatively low stake in Jyske Bank, and the restriction in voting rights, we consider a hostile takeover to be unlikely.

Jyske Bank largely complies with the corporate governance rules set by the Copenhagen Stock Exchange. However, those relating to voting rights are not considered to be in line with the bank's strategy and are duly not followed.

The bank's score for risk positioning is negatively influenced by high borrower concentration, as discussed in the "asset quality" section below.

The bank utilises a Value-at-Risk (VaR) model with a time frame of one day and with a 99% confidence level. Jyske's VaR for interest-rate, currency and stock-market risk amounted to DKK12 million in 2010, compared with DKK16 million in 2009. The main component of the VaR figure is interest-rate risk.

Jyske Bank scores C- for risk positioning.

Factor 3: Regulatory Environment

This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, whether they demonstrate enforcement power, and whether they adhere to global standards of best practice for risk control. Please refer to Moody's most recent Banking System Outlook on Denmark for a detailed discussion of the regulatory environment.

Factor 4: Operating Environment

Trend: Neutral

This factor is common to all Danish banks. Moody's assigns an A- score for the overall operating environment. Please refer to Moody's most recent Banking System Outlook on Denmark for a detailed discussion of the operating environment.

Quantitative Rating Factors (50%)

Factor 5: Profitability

Trend: Weakening

For the full year 2010, Jyske Bank reported a pre-tax profit of DKK1.0 billion, up from DKK0.6 billion in 2009, which was mainly attributable to a fall in loan impairments (DKK1.8 billion in 2010, compared with DKK2.7 billion in 2009).

Net interest income historically contributes the major component of operating income (close to 70%) and increased 5% year-on-year. A 15% increase in interest income from trading and investment was partly offset by a 7% drop in interest income from banking activities. Fee & commission income accounts for around 20% of operating income, and was up 4% year-on-year in 2010, mainly due to higher activity in securities trading and custody services.

The bank's operating expenses (excluding costs under banking package I) increased 17% following an 18% increase in employee expenses over the same period, largely as a result of non-recurring charges.

It will be important for Jyske Bank to improve its core top-line results going forward in order to mitigate any further deterioration of the loan portfolio.

Jyske Bank scores C for profitability, but with a weakening trend reflecting upward pressure on funding costs, although these are somewhat mitigated by the expiry of costs associated with banking package I (costing the bank DKK506 million in 2010). Given that the economic environment remains challenging and its potential impact on asset quality, we also 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.

Factor 6: Liquidity

Trend: Weakening

As of YE2010, deposits covered almost 85% of gross loans and accounted for approximately 45% of Jyske Bank's total funding, which was marginally changed compared with YE2009. However, interbank funding increased 40% during the period (now accounting for over 15% of the bank's total funding), with market funding making up the remainder.

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

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 DKK2.5 billion on a standalone basis during 2010. While the bank was able to raise a further DKK 500 million in May 2011, in Moody's opinion, funding pressure will increase going forward post Bank Package III.

At year-end 2010, the bank's liquid assets stood at around 30% of total assets, giving it a satisfactory liquidity profile, since a majority of these assets can be used for repos with the central bank.

Jyske Bank increased its asset-backed portfolio to DKK3.4 billion at the end of 2009 (DKK2.6 billion at the end of 2008).

We believe a score of C- is appropriate for the bank's liquidity, but adds a weakening trend reflecting expected deterioration of Danish funding markets post Bank Package III.

Factor 7: Capital Adequacy

Trend: Neutral

At year-end 2010, Jyske Bank's Tier 1 ratio stood at 13.6%, with a total capital adequacy ratio of 15.3%, as calculated under transitional rules towards full Basel II. The corresponding figures at YE2009 were 13.5% and 15.3%, respectively. The individual solvency requirement for the bank is 9.4%, which as of year-end 2010 meant the bank had a capital cushion exceeding its individual requirement of DKK 6.5 billion (equivalent to 3.1% of total credit exposures). Moody's notes that government hybrid capital accounts for close to 10% of total Tier 1 capital.

The bank scores A for capital adequacy.

Factor 8: Efficiency

Trend: Weakening

Jyske Bank's cost-to-income ratio weakened to 60% from 53% at YE2009, mainly due to the higher employee and administration costs.

In September 2010, the bank announced a strategic cooperation agreement with Bankdata, a provider of IT solutions. The bank expects that the cooperation will lead to efficiency savings for the bank's IT department of around DKK 200 million as of 2013.

We believe a score of C for efficiency is appropriate, but include a weakening trend signalling further pressure on cost management in the still challenging macroeconomic environment.

Factor 9: Asset Quality

Trend: Weakening

At year-end 2010, loan impairments accounted for around 65% of pre-provision income. Loans for which an objective indication for impairment occurred almost trebled from DKK2.7 billion (2.0% of gross loans) in 2008 to DKK7.5 billion (6.4% of gross loans) in 2010. Jyske Bank reports that, after haircuts, almost half of total credit exposure was unsecured as of year-end 2010.

Only around 35% of total lending and guarantees were to private individuals at YE2010, 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 20%, property administration & services at around 10%, and manufacturing, mining, electricity and gas at almost 10%. 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 high when compared with that of other European banks and placed in the "E" bucket, but this is in line with many Nordic banking peers.

Based on our expectations of a further decline in asset quality indicators, we have assigned a weakening trend to this factor, with Jyske Bank scoring D+ on 2008-10 average asset quality ratios.

Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local currency deposit rating of A2 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 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 of Jyske Bank are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa.