

**Credit Opinion: Jyske Bank A/S**

**Jyske Bank A/S**

*Silkeborg, Denmark*

**Ratings**

Category	Moody's Rating
Outlook	Stable
Bank Deposits	Aa2/P-1
Bank Financial Strength	B-
Senior Unsecured	Aa2
Subordinate	Aa3
Jr Subordinate	A1
Other Short Term	P-1

**Contacts**

Analyst	Phone
Janne Thomsen/London	44.20.7772.5454
Lynn Valkenaar/London	
Adel Satel/London	

**Key Indicators**

Jyske Bank A/S	[1]2006	2005	2004	2003	2002	5-Year Avg.
Total assets (DKK billion)	160.66	141.33	125.17	116.43	153.17	[2]3.83
Total assets (EUR billion)	21.55	18.95	16.83	15.64	20.62	--
Total capital (DKK billion)	12.95	11.78	10.60	9.68	9.26	[2]7.86
Return on average assets	1.41	1.29	1.16	0.95	0.36	1.04
Recurring earnings power [3]	1.62	1.66	1.73	1.48	1.14	1.53
Net interest margin	2.27	2.35	2.71	2.33	2.14	2.36
Cost/income ratio (%)	60.65	60.11	59.21	57.57	61.32	59.77
Problem loans % gross loans	0.40	0.69	1.11	0.50	0.36	0.61
Tier 1 ratio (%)	9.70	10.60	10.00	10.20	8.20	9.74

[1] As of December 31. [2] Compound annual growth rate. [3] Preprovision income % average assets

**Opinion**

**SUMMARY RATING RATIONALE**

Jyske Bank A/S B- Bank Financial Strength Rating (BFSR) reflect its relatively low risk profile and its tightly focused domestic strategy in an increasingly competitive Danish banking environment.

Jyske Bank has a stable national retail market share of about 6% and aims at organic rather than acquisition-based growth. Jyske Bank concentrates on its core retail and small- to medium-sized corporate customer base and provides a full range of banking services either in-house or through distribution of third-party products, such as mortgage and insurance products. The bank is still strongest in Jutland where its corporate headquarters are also based.

The Aa2 deposit and debt ratings of Jyske Bank's incorporates three elements: (1) the bank's Baseline Risk Assessment of A1, (2) Denmark's local currency deposit ceiling (LCDC) of Aaa, (3) Moody's assessment of high probability of government support for the bank in case a stress situation occurs(a component of joint default analysis, referred to as JDA).

## Credit Strengths

Following are the banks strengths:

Good domestic franchise with an emphasis on organic growth rather than acquisitions

Link with Nykredit has potential to benefit Jyske in the medium to long term

Adequate core profitability, generally solid financial fundamentals

Solid asset quality

## Credit Challenges

Following are the banks challenges:

Offsetting margin decline via increasing the emphasis on fee generating income

Efficiency remains an ongoing challenge

## Rating Outlook

The stable outlook on all of Jyske Bank's ratings reflects their good positioning within their current categories, underpinned by solid asset quality and good financial fundamentals.

## What Could Change the Rating - Up

The BFSR fits well in the current rating category. However, continuing improvements in the financials, particularly profitability and liquidity, may put upward pressure on the bank's financial strength rating in the longer term.

## What Could Change the Rating - Down

The BFSR could be adversely affected by any deterioration in liquidity or worsening credit quality of the bank's large customers, although this remains unlikely given the current strategy and economic conditions in the region. An erosion of the bank's core regional franchise might also exert downward pressure on the BFSR, as would a decline in its currently strong asset quality.

## Recent Results and Developments

In April 2007, the bank's long-term deposit ratings were upgraded to Aa2 from A1 due to the implementation of joint-default analysis. Jyske Bank's revenue base remains relatively diversified and pre-tax profit for 2006 totalled DKK2.810 billion, up from DKK2.174 billion for 2005, thanks notably to the sale of the bank's Totalkredit shares in October 2006. The capital adequacy and Tier 1 ratios were 11.3% and 9.7% for 2006, respectively, vs. 11.7% and 10.9% for 2005.

## DETAILED RATING CONSIDERATIONS

Detailed rating considerations for Jyske Bank A/S currently assigned ratings, as follows:

### Bank Financial Strength Rating

Moody's assigns a B- BFSR to Jyske Bank A/S, one notch lower than the B outcome generated by Moody's bank financial strength rating scorecard. We believe that B- is an appropriate measure of the bank's current financial strength, given the trends of the past three years and the current challenges facing the bank in terms of its profitability and franchise. The scorecard outcome is positively influenced by the qualitative factors, particularly the high scores that describe Denmark's benign economic environment and good regulatory practices

Qualitative Rating Factors (50%)

Factor 1: Franchise Value

Trend: Neutral

Jyske Bank enjoys a solid franchise as the third-largest commercial bank in Denmark after Danske Bank and

Nordea Bank Denmark, with total assets of DKK160.6 billion at the end of 2006. Jyske has a 6.5% share of total deposits and 6.7% of total loans in Denmark at the end of 2006. The bank has a nationwide presence, with its strongest franchise in Jutland, where the majority of its 119 branches and its headquarters are located. In light of the sizeable concentration in a single area, we award the bank a D score for geographical diversification.

Moody's recognises that the bank's foreign operations - a number of subsidiaries and branches outside Denmark, primarily to support its private banking operations and to follow existing customers overseas - are key to the Jyske Bank Group, contributing around 15% of the group's pre-tax results in 2006. Taking into account the strong track record in these businesses, with no significant problems having arisen, we are confident about the operations.

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

## Factor 2: Risk Positioning

Trend: Improving

Jyske Bank does not appear to have any corporate governance issues and has sound risk management processes, although some borrower and industry concentration exists. Jyske Bank largely complies with the corporate governance rules set by the Copenhagen Stock Exchange. However, the bank has about 62 million shares (63.1 million shares at year-end 2005), each one carrying one vote, with a maximum of 4,000 votes permitted for any one shareholder. Given the high proportion of shareholders with a relatively low stake in Jyske, a hostile takeover would be highly unlikely, or extremely expensive. Positively, we note that the comfort of shareholder protection has not led to relaxation on the part of management, who has continuously delivered satisfactory financial results to date.

Jyske's market share has remained stable for a number of years as its focus is on maintaining steady profitability in conjunction with a suitable risk profile. Since 2001 the bank has invested extensively in development of tools for identification of various sources of risks.

Jyske's liquidity positions are monitored on a daily basis, and the bank has sufficient liquidity to last close to 12 months without access to the markets.

In day-to-day risk management, various methods are used for calculations. The bank utilises a VaR model with a holding period of one day and 99% confidence level, defined as approximately 99% Daily Earnings at Risk. Jyske's VaR for interest rate, currency and stock market risk amounted to DKK14 million at the end of 2006 compared to DKK11 million at the end of 2005. The increase in VaR reflects the bank's higher level of activity in the financial markets, as well as the rise in interest rate volatility which occurred in the second quarter of 2006, thereby compounding market-related uncertainties. However, considering the extent of Jyske's activities, market risk is currently at an acceptable level. Jyske Bank A/S risk positioning is rated C.

## Factor 3: Regulatory Environment

Trend: Neutral

All Danish banks are subject to the same score on regulatory environment. This factor does not address bank-specific issues; instead, it evaluates whether regulatory bodies are independent and credible, demonstrate enforcement powers and adhere to global standards of best practices for risk control. Moody's analysis of Denmark's regulatory environment leads to very high score.

## Factor 4: Operating Environment

Trend: Neutral

The unadjusted score for Denmark's operating environment is A, which applies to all of the banks in Denmark.

## Quantitative Rating Factors (50%)

### Factor 5: Profitability

Trend: Neutral

Jyske Bank's figures remained satisfactory despite the profitability pressure and the higher costs that materialised during 2006. Core profitability decreased in 2006. This reflects net interest margin pressure that is not fully mitigated by the loan growth. A non-recurring boost in the profits took place in the third quarter of 2006 due to the sale of the remaining 22% of shares of Totalkredit to Nykredit. This led to an extra profit of DKK215 million (EUR 29 million) in this quarter, taking the overall pre-tax profit for 2006 to DKK2.810 billion, up from DKK2.202 billion in

the same period in 2005.

Jyske Bank's profitability compares satisfactorily with that of its peers. While the competitive environment in Denmark places pressure on net interest income and the margins are becoming narrower, Jyske offsets shrinking net interest income by successfully generating alternative sources of revenue from selling fee- and commission-generating products. This is reflected in scores of B (2.51%) for pre-provision income risk-weighted profitability and B (1.74%) for net income risk-weighted profitability. Jyske Bank scores a B for profitability.

#### Factor 6: Liquidity

Trend: Weakening

The bank's primary source of funding is retail deposits, which accounted for 58.28% of total funding for 2006; this is down from 62% at the end of 2005 but remains satisfactory, in our view. Market funding is diversified. In addition, Jyske Bank continues to fund its mortgage loans via Nykredit Realkredit, Totalkredit and DLR. We believe a score of B is appropriate for liquidity.

#### Factor 7: Capital Adequacy

Trend: Neutral

For 2006, the Tier 1 capital ratio was 9.7% and the total capital ratio was 11.3% compared to 9.3% and 10.4%, respectively, for 2005. In addition, Jyske Bank is continuing its programme of share buybacks. These figures confirm that the ratio remains well above the bank's internal equity-based Tier 1 target minimum of 7%. Considering Jyske's strong risk profile, we continue to view its economic capital as strong.

We thus believe a score of A is appropriate for capital adequacy.

#### Factor 8: Efficiency

Trend: Weakening

Jyske's cost-to-income ratio deteriorated slightly over the past three years mainly due to increasing levels of activity, investments in IT and a rise in the number of employees (to 4,111 at end-2006 from 4,026 at end-2005).

Also, the relaunch programme undertaken by the bank in the domestic market has affected the costs. Operating expenses remained at 2.50% of average assets at the end of 2006 similar to the end-2005 levels.

Currently, Jyske's cost-to-income ratio is higher than that of many of its Danish and European peers, due to the above mentioned investments. We believe the score of C for efficiency is appropriate.

#### Factor 9: Asset Quality

Trend: Neutral

Jyske continues to demonstrate strong asset quality, hence its high score of A. Problem loans as a percentage of gross loans reverted to their pre-2004 levels (0.40% at end-2006, vs. 0.69% at end-2005). As is typical for Danish banks, reserves more than adequately covered problem loans by almost 1.8 times at the end of 2006. Jyske compares satisfactorily to its peer group and we believe that it will continue to display strong asset quality.

#### Global Local Currency Deposit Rating (Joint Default Analysis)

Moody's assigns a global local currency deposit rating of Aa2 for Jyske Bank A/S. The rating is supported by the bank's Baseline Risk Assessment of A1, by Denmark's local currency deposit ceiling (LCDC) of Aaa. In view of Jyske Bank's position in Denmark and its strength in its local area of Jutland however with its moderate nationwide cover, Moody's assigns high probability of systemic support for the bank in case a stress situation occurs.

#### Notching Considerations

The ratings for Jyske Bank's junior obligations are notched off the fully supported rating.

#### Foreign Currency Deposit Rating

The Foreign Currency Deposit ratings of Jyske Bank A/S are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa. The Foreign Currency Deposit ratings of Jyske Bank A/S are Aa2.

## Foreign Currency Debt Rating

The Foreign Currency Debt Rating's ratings of Jyske Bank A/S are unconstrained given that Denmark, in common with other EU members, has a country ceiling of Aaa. The Foreign Currency Debt Rating's ratings of Jyske Bank A/S are Aa2.

## 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.

### Global Local Currency Deposit Ratings

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 external elements of support into the bank's Baseline Risk Assessment. In calculating the GLC rating for a bank, the JDA methodology also factors in the rating of the support provider, in the form of the local currency deposit ceiling for a country, Moody's assessment of the probability of government support for the bank in case a stress situation occurs and the degree of dependence between the issuer rating and the LCDC.

### Foreign Currency Deposit Ratings

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 a high local currency ratings for certain banks, which could also produce high foreign currency ratings. Nevertheless, it should be reminded 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 Ratings

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 obligations 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



- [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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