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Research Update:

Jyske Bank A/S Ratings Lowered To 'A-/A-2' On Bank Criteria Change; Outlook Stable

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Overview

- Following a review under Standard & Poor's revised bank criteria (published Nov. 9, 2011), we have lowered our long-term counterparty credit ratings on Denmark-based Jyske Bank A/S to 'A-' from 'A' and our short-term counterparty credit ratings to 'A-2' from 'A-1'. The outlook is stable.
- The ratings reflect Jyske Bank's adequate business position, adequate capital and earnings, adequate risk position, above-average funding, and adequate liquidity.
- We consider Jyske Bank to have moderate systemic importance in Denmark, which we classify as supportive.
- The stable outlook reflects our view that Jyske Bank will maintain its market share and its adequate capitalization.

Rating Action

As we previously announced on Dec. 1, 2011, Standard & Poor's Ratings Services has lowered its long-term counterparty credit ratings on Denmark-based Jyske Bank A/S to 'A-' from 'A' and its short-term counterparty credit ratings to 'A-2' from 'A-1'. The outlook is stable.

We also lowered our issue rating on Jyske Bank's deferrable subordinated debt to 'BBB-' from 'BBB+'.

Rationale

Standard & Poor's bases its ratings on Jyske Bank on the bank's "adequate" business position, "adequate" capital and earnings, "adequate" risk position, "above-average" funding, and "adequate" liquidity, as our criteria define those terms. The bank's stand-alone credit profile (SACP) is 'bbb+'. We see Jyske Bank as having "moderate" systemic importance in Denmark, which lifts the long-term rating one notch above the SACP.

Our bank criteria use our Bank Industry Country Risk Assessment economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for a commercial bank 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) 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.

We assess Jyske Bank's business position as "adequate"; the bank is the third-largest commercial bank in Denmark and has 7% market shares in terms of both loans and deposits. However, these market shares might change over the next few years, given that we expect the industry to consolidate and that Jyske Bank will participate in the process in view of the very limited organic growth opportunities in Denmark. Jyske Bank focuses on the retail and small and midsize enterprise (SME) segments and its franchise is built on long-term client relations, which we expect to provide ongoing top-line revenue stability. Recurring revenues adequately balance more volatile capital market income, which is expected to remain well below 15% of operating revenues.

We assess Jyske Bank's capital and earnings as "adequate". Over the next one to two years, we expect the bank's risk-adjusted capital (RAC) ratio to rise to 8.5%-9%, a level that compares favorably with the RAC ratios of its domestic peers. In addition, we believe its capital quality will be strong, as our total adjusted capital measure for the bank consists entirely of common equity. We assess core earnings to be relatively stable, coming mainly from a mix of interest and fee income with some elements of more volatile market-linked income. Negatively, Jyske Bank's cost-to-income ratio, at about 60% over the past five years, is higher than the Nordic average, and we do not expect it to improve significantly over the next two years.

We assess Jyske Bank's risk position as "adequate". This reflects our view that the RAC ratio adequately captures the bank's different risk levels. We expect little change in the risk position as future loan growth is likely to be modest in view of subdued domestic demand. The bank experienced elevated credit losses in 2009 and 2010 as a result of its SME exposure. Nevertheless, its losses are in line with those of its peers and the normalized losses calculated under our RAC framework. We expect Jyske Bank's provisioning requirements to gradually decline over the next three years, given its extensive provisioning efforts over the past four.

Jyske Bank's funding is "above average" in our view, reflecting the bank's strong deposit base, which covered 86% of its loans at midyear 2011. This is a relative strength compared with the wider Danish banking system, which is

generally more reliant on wholesale funding. 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. The bank's liquidity portfolio is sized in accordance with the amount of short-term debt issued.

In accordance with our revised criteria for hybrid capital instruments, we have lowered our issue rating on Jyske Bank's deferrable subordinated debt to 'BBB-' from 'BBB+'. Such ratings will in future be two notches below the SACP, instead of two notches below the counterparty credit rating as previously.

Outlook

The stable outlook on Jyske Bank reflects our expectation that the bank will maintain its current market shares and that declining losses will underpin capital generation, resulting in a 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 significant change in its risk profile, due to acquisitions or new lines of business.

We could take a positive rating action if the business position were to strengthen significantly through a broadening of the bank's franchise or if the bank were to demonstrate significantly stronger capital generation than we currently expect.

Ratings Score Snapshot

Issuer Credit Rating	A-
SACP	bbb+
Anchor	bbb+
Business Position	Adequate (0)
Capital and Earnings	Adequate (0)
Risk Position	Adequate (0)
Funding and Liquidity	Above average and Adequate (0)
Support	1
GRE Support	0
Group Support	0
Sovereign Support	1
Additional Factors	0

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal.

- 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

Ratings List

Downgraded; Outlook Action

	To	From
Jyske Bank A/S		
Counterparty Credit Rating	A-/Stable/A-2	A/Negative/A-1
Certificate Of Deposit	A-/A-2	A/A-1
Senior Unsecured	A-	A
Commercial Paper	A-2	A-1
Subordinate Debt	BBB-	BBB+

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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