

Research Update:

Denmark-Based Jyske Bank A/S 'A/A-1' Ratings Affirmed Following Rights Issue; Outlook Negative

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Overview

- We expect a Danish krone 1.2 billion rights issue announced on Nov. 9, 2009 by Denmark-based Jyske Bank A/S to provide an additional cushion for the bank's continued loan loss provisions.
- We are affirming our 'A/A-1' long- and short-term counterparty credit ratings on Jyske Bank.
- The negative outlook reflects the possibility that the continued recession and correction of housing prices in Denmark could further weaken Jyske Bank's financial profile.

Rating Action

On Nov. 10, 2009, Standard & Poor's Ratings Services affirmed its 'A' long-term and 'A-1' short-term counterparty credit ratings on Denmark-based Jyske Bank A/S. The outlook is negative.

Rationale

The affirmation follows an announcement that the bank plans to raise a total of Danish krone (DKK) 1.2 billion (€160 million at DKK7.44 per €1) through a new issue of ordinary shares. The issue is 100% underwritten by current and new shareholders of the bank, including Kirk Kapital, LD, Nykredit Bank, PFA Pensions, and J.P. Morgan.

While we recognize that the rights issue will further enhance Jyske Bank's capital ratios (Tier 1 under full Basel II would increase from 12.6% in the third quarter of 2009 to pro forma 13.8%), the Danish economy is currently undergoing a sharp recession and housing prices are still in the process of correcting after a bubble. Accordingly, we expect loan loss provisions at Jyske Bank with its exposure to small and midsize enterprises (SMEs), property companies, and the agricultural sector to remain at a relatively high level.

New loan loss provisions (DKK 1647 million) amounted to 1.83% annualized of the loan portfolio in the third quarter of 2009, up from 0.82% at year-end 2008 and 0.06% at year-end 2007. Non-performing assets soared to 5.4% of the portfolio in the third quarter of 2009, up from 3% at year-end 2008 and 1.6% at year-end 2007. We expect the loan loss ratio to remain at around the current level during the remainder of 2009 as well as in 2010. Jyske Bank, however, recorded important trading and valuation gains in the first three quarters of 2009, and these gains will mitigate part of the negative impact of the loan loss provisioning on the overall pretax operating profit.

Jyske Bank's liquidity and funding profile is sound. Loans and advances are to a very large extent funded by deposits. In addition, the bank is active in the European capital markets, and has access to longer-term funding through a euro medium-term note program. Moreover, Jyske Bank's liquidity reserve, currently about DKK47 billion including undrawn credit lines, could provide funds for 24 months if the bank were unable to access the capital markets.

The ratings on Jyske Bank reflect its strong domestic franchise, comfortable liquidity position, sound funding profile, and strong capitalization. They are constrained by the current pressures on the bank's asset quality, limited geographic diversity, and inefficient cost base.

With consolidated assets of DKK214.5 billion (€28.8 billion at DKK7.44 to €1) on Sept. 31, 2009, Jyske Bank is the third-largest commercial bank in Denmark. The bank enjoys a strong domestic banking franchise, in particular in its home region of Jutland in the middle of Denmark. For many years, Jyske Bank has pursued a strategy of remaining independent, focusing on commercial banking for households and SMEs, and providing other, more value-added services such as asset management.

Outlook

The negative outlook reflects our opinion that Jyske Bank's financial performance is vulnerable to further deterioration in asset quality, notably because of its exposure to SMEs, property companies, and agricultural companies in a contracting economy. The base expectation factored into the outlook is that the loan loss ratio will remain at around the current level both during the remainder of 2009 and in 2010.

The outlook could be revised to stable if Jyske Bank were to demonstrate significantly stronger resilience in its asset quality and profitability over the coming quarters.

A negative rating action could follow if the bank's revenue generation or its asset quality were to deteriorate further than currently expected, thereby lowering our expectations about its future earnings capacity.

Related Research

FI Criteria: Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings List

Ratings Affirmed

Jyske Bank A/S

Counterparty Credit Rating	A/Negative/A-1
Certificate Of Deposit	A/A-1
Senior Unsecured	A
Commercial Paper	A-1

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