

Jyske Bank A/S

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Jyske Bank A/S

Major Rating Factors

Strengths:

- Strong domestic franchise in retail and commercial banking.
- Comfortable liquidity and funding profile.
- Adequate capitalization.

Weaknesses:

- Current pressure on asset quality.
- Limited geographic diversity.
- High and inflexible cost base.

Counterparty Credit Rating

A/Negative/A-1

Rationale

The ratings on Jyske Bank A/S reflect its strong domestic franchise, comfortable liquidity position, sound funding profile, and adequate capitalization. Standard & Poor's Ratings Services considers the ratings to be constrained by the bank's currently pressured asset quality, limited geographic diversity, and inefficient cost base.

With consolidated assets of Danish krone (DKK) 235.5 billion (€31.6 billion at DKK7.46 to €1), as of June 30, 2011, 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 small and midsize enterprises (SMEs), and providing other, value-added services such as asset management to mainly retail clients. The ratings on Jyske Bank reflect the bank's stand-alone creditworthiness and do not include any uplift for extraordinary external support. In our view, Jyske Bank has moderate systemic importance.

Jyske Bank's asset quality demonstrated a positive trend in 2010 and the first six months of 2011, after significant deterioration in 2008 and 2009. New loan-loss provisions in the first six months in 2011 decreased to 1.04% of the total lending portfolio, compared with 2.17% in 2009. However, we noted an uptick in loan-loss provisions and nonperforming loans in the second quarter of 2011 as a result of the slow recovery in the Danish economy, and especially in the agricultural sector, which accounts for 7% of Jyske Banks' loans but 16% of reserves. Although improving, we expect loan losses to remain above the bank's historic average in 2011 and we estimate they could reach about DKK1.3 billion, down 30% from 2010.

Various Danish government rescue packages for ailing banks in which the bank sector and senior creditors share the burden have cost Jyske Bank a significant DKK1.6 billion since 2008. We note that so far in 2011, Jyske Bank has incurred costs of DKK256 million, mostly in the expense line, as a result of the failure of Amagerbanken (not rated) and Fjordbank Mors (not rated). We believe further bank failures are likely (see "Further Bank Failures Likely In Denmark", published July 28, 2011 on Ratings Direct) under the current resolution regime and that such failures will lead to additional costs for Jyske Bank. However, we believe such costs to be manageable within the current rating level.

On Aug. 25, 2011, the Danish government presented a proposal to improve the strength of the Danish banking

industry. The proposal, known as "Bankpakke IV" is likely to reduce the number of further bank failures and hence the cost for Jyske Bank.

Jyske Bank's liquidity and funding profile is sound, in our view. Deposits fund most of the bank's loans and advances, and the bank reported a 116% loan-to-deposit ratio, as of June 30, 2011. In addition, the bank is active in the European capital markets, and has access to longer-term market funding through a euro medium-term note program. Moreover, Jyske Bank's strong liquidity reserve could provide funds for 24 months if the bank were unable to access the capital markets, assuming a 5% deposit outflow and a stable asset base with new loans covering the maturing part of the loan portfolio.

Following a gradual decline in capital ratios up to year-end 2007, Jyske Bank discontinued a share buyback program and reverted to stronger capitalization with the launch of a rights issue of DKK1.2 billion in November 2009. The bank's regulatory Tier 1 ratio stood at 14.5% as of June 30, 2011, and its risk-adjusted capital ratio was 7.9% after adjustments by Standard & Poor's as of year-end 2010. The exclusion of hybrids accepted by the regulator in our calculation of the bank's total adjusted capital and the higher risk weights we assign for corporate exposure explains the main difference between our calculation of the ratio and the regulatory ratio. While waiting for the Danish authorities to announce which banks they consider systematically important, Jyske Bank has declared that it will follow the capital requirements that the Swedish authorities impose on systematically important Swedish banks, a level that Jyske Bank is currently compliant with. We believe the bank's risk adjusted capital ratio before diversification adjustments will increase by up to 150 basis points in the next two years driven by profit retention and slow growth in risk-weighted assets.

We consider the ratings to be constrained by Jyske Bank's limited geographic diversity. With almost 90% of its lending and guarantees to Danish customers, the bank's performance is closely linked to that of the Danish economy. A further constraining rating factor is the bank's comparatively high cost-to-income ratio. This rose sharply to 70.3% in the first six months in 2011 following fees paid to the Danish deposit guarantee fund to cover bank failures, decreasing value adjustments in the bank's bond and currency holdings, and higher information technology costs relating to transformation to a new IT-platform shared by a group of midsize and small Danish banks. The ratio was 59.4% in 2010 and in the past three years has averaged 58%, which is higher than the average cost-to-income ratio of most of the bank's Nordic peers.

Outlook

The negative outlook reflects our opinion that Jyske Bank's financial performance is vulnerable to renewed deterioration in asset quality, notably because of its exposure to troubled agricultural sector SMEs and further bank failures in Denmark where the bank is responsible for 7% of estimated losses based on its deposit share within the Danish banking system. Factored into the outlook is our base-case expectation that loan losses will remain elevated but decrease and reach a level 30% lower than the amount in 2010.

We could revise the outlook to stable if Jyske Bank were to demonstrate stronger-than-expected resilience, in terms of asset quality and profitability, over the next few quarters.

A negative rating action could follow if the bank's revenue generation or asset quality were to deteriorate further than we currently expect.

We will carefully review any further government action in terms of defining "systemic importance" or providing additional extraordinary support to banks.

Table 1

Jyske Bank A/S Risk-Adjusted Capital Framework Data					
(Mil. DKK)	Exposure*	Basel II RWA	Average Basel II RW (%)	Standard & Poor's RWA	Average Standard & Poor's RW (%)
Credit risk					
Government and central banks	11,813	13	0	354	3
Institutions	34,838	3,338	10	6,174	18
Corporate	95,485	48,275	51	69,494	73
Retail	63,045	17,950	28	36,372	58
Of which mortgage	18,806	2,863	15	4,529	24
Securitization	3,595	3,188	89	3,548	99
Other assets	3,423	3,425	100	3,386	99
Total credit risk	212,199	76,188	36	119,328	56
Market risk					
Equity in the banking book¶	761	713	94	5,085	668
Trading book market risk	--	14,013	--	21,019	--
Total market risk	--	14,725	--	26,104	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	10,663	--	13,149	--
(Mil. DKK)	Basel II RWA		Standard & Poor's RWA	% of Standard & Poor's RWA	
Diversification adjustments					
RWA before diversification	101,575		158,581	100	
Total adjustments to RWA	--		5,145	3	
RWA after diversification	101,575		163,726	103	
(Mil. DKK)	Tier 1 capital	Tier 1 ratio (%)	Total adjusted capital	Standard & Poor's RAC ratio (%)	
Capital ratio					
Capital ratio before adjustments	14,307	14.1	12,905	8.1	
Capital ratio after adjustments§	14,307	14.1	12,905	7.9	

*Exposure at default. €Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. ¶Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. §Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. DKK--Danisk krone. Sources: Company data as of Dec. 31, 2010, Standard & Poor's.

Table 2

Jyske Bank A/S Asset Quality, Funding, And Liquidity Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Gross nonperforming assets/customer loans + other real estate owned (%)	6.6	6.8	6.6	3.0	1.7

Table 2

Jyske Bank A/S Asset Quality, Funding, And Liquidity Ratios (cont.)					
Net nonperforming assets/customer loans plus other real estate owned	3.5	3.2	3.7	1.8	1.0
Loan loss reserves/gross nonperforming assets (%)	48.1	55.1	45.4	39.6	39.4
Loan loss reserves/customer loans	3.2	3.7	3.0	1.2	0.7
New loan loss provisions/average customer loans (%)	1.0	1.5	2.2	0.8	0.1
Net charge-offs/average customer loans (%)	1.9	0.7	0.7	0.4	0.0
Customer deposits/funding base	56.2	53.9	54.7	58.9	58.1
Total loans/customer deposits	116.1	120.8	119.6	123.7	138.2
Total loans/customer deposits plus long-term funds	100.0	89.5	87.9	93.9	100.8
Customer loans (net)/assets (adjusted)	49.1	46.8	49.3	54.6	62.6

*Data as of June 30.

Table 3

Jyske Bank A/S Profitability Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Net interest income/average earning assets	2.26	2.39	2.32	1.90	1.97
Net interest income/operating revenues (%)	72.6	68.5	64.3	59.0	57.4
Fee income/operating revenues (%)	19.5	19.1	18.1	24.5	32.4
Market-sensitive income/operating revenues (%)	1.1	6.3	12.5	11.1	6.3
Personnel expense/revenues	39.9	35.0	30.6	37.5	38.2
Noninterest expenses/revenues	70.3	59.4	53.1	61.5	59.3
New loan loss provisions/revenues	19.6	26.1	37.9	17.5	1.3
Provision operating income/LLP (%)	151.3	155.8	123.7	219.3	3,056.4
Operating income after loss provisions/revenues (%)	10.1	14.5	9.0	20.9	39.4
Pretax profit/revenues	10.1	14.5	9.0	20.9	41.0
Tax/pretax profit	26.4	24.5	25.1	23.5	23.7
Core earnings/revenues	7.4	11.0	6.7	16.0	30.1
Core earnings/average adjusted assets	0.20	0.32	0.20	0.44	0.89
Noninterest expenses/average adjusted assets	1.9	1.8	1.6	1.7	1.8
Core earnings/average risk-weighted assets	0.46	0.75	0.46	0.94	2.99
Core earnings/average adjusted common equity	3.6	6.1	4.3	10.2	18.2
Pretax profit/average common equity (%)	4.7	7.8	5.4	12.7	23.6

*Data as of June 30.

Table 4

Jyske Bank A/S Capital Ratios					
	--Year-ended Dec. 31--				
(%)	2011*	2010	2009	2008	2007
Adjusted common equity/risk assets (%)	13.0	12.6	11.9	9.6	N.M.
Tier 1 capital ratio (%)	14.5	14.1	13.5	11.0	8.1
Adjusted total equity/adjusted assets	5.5	5.2	5.3	5.0	5.0
Adjusted total equity/managed assets	5.5	5.2	5.3	5.0	5.0
Adjusted total equity plus loan loss reserves (specific)/customer loans (gross)	14.0	14.5	13.4	10.2	8.6

Table 4

Jyske Bank A/S Capital Ratios (cont.)

*Data as of June 30. N.M.--Not meaningful.

Table 5

Jyske Bank A/S Summary Balance Sheet

(Mil. DKK)	--Year-ended Dec. 31--				
	2011*	2010	2009	2008	2007
Assets					
Cash and money market instruments	19,347.0	17,782.8	19,675.0	31,397.3	31,774.9
Securities	65,632.0	68,326.1	58,865.2	36,169.5	20,337.9
Nontrading securities	65,632.0	68,326.1	58,865.2	36,169.5	20,337.9
Mortgage-backed securities included above	N/A	N/A	N/A	0.0	11,409.2
Customer loans (gross)	119,358.0	118,430.9	114,003.2	130,653.9	134,843.1
Loan loss reserves	3,801.0	4,408.0	3,411.5	1,537.3	877.6
Customer loans (net)	115,557.0	114,023.0	110,591.7	129,116.6	133,965.5
Earning assets	203,111.0	203,002.3	191,526.8	197,290.4	185,502.2
Equity interests/participations (nonfinancial)	710.0	521.4	8.1	8.3	9.1
Intangibles (nonservicing)	233.0	239.9	262.0	284.0	291.4
Fixed assets	2,674.0	2,624.8	2,598.1	2,597.3	2,402.2
Derivatives credit amount	16,346.0	21,666.0	16,277.5	23,938.3	9,602.2
Accrued receivables	225.0	183.2	229.2	219.6	161.7
All other assets	14,759.0	18,746.9	16,087.0	13,115.8	15,733.8
Total assets	235,483.0	244,114.2	224,593.8	236,847.7	214,278.7
Intangibles (nonservicing)	233.0	239.9	262.0	284.0	291.4
Adjusted assets	235,250.0	243,874.3	224,331.8	236,563.7	213,987.4
Liabilities					
Total deposits	136,342.0	130,495.1	115,719.9	138,110.2	129,120.5
Noncore deposits	33,530.0	32,475.3	20,396.2	32,500.4	31,561.8
Core/customer deposits	102,812.0	98,019.8	95,323.7	105,609.8	97,558.7
Acceptances	N/A	N/A	N/A	0.0	0.0
Repurchase agreements	3,412.0	2,778.3	4,897.3	2,748.6	2,166.7
Other borrowings	43,279.0	48,639.7	53,553.0	38,563.9	36,514.4
Other other borrowings	40,219.0	N/A	N/A	0.0	0.0
Other liabilities	38,911.0	48,849.5	37,901.0	45,059.7	35,096.1
Total liabilities	221,944.0	230,762.6	212,071.2	224,482.5	202,897.6
Total equity	13,539.0	13,351.7	12,522.6	12,365.2	11,381.3
Preferred stock and other capital	N/A	N/A	N/A	1,642.9	1,677.7
Minority interest-equity	32.0	31.5	36.9	44.9	49.4
Common shareholders' equity	13,507.0	13,320.1	12,485.7	10,677.5	9,654.2
Share capital and surplus	648.0	648.0	648.0	540.0	560.0
Revaluation reserve	299.0	299.2	281.6	278.5	271.7
Retained profits	12,561.0	12,372.9	11,555.7	9,863.9	8,822.4
Total liabilities and equity	235,483.0	244,114.2	224,593.8	236,847.7	214,279.0

*Data as of June 30. DKK--Danish krone. N/A--Not applicable.

Table 6

Jyske Bank A/S Equity Reconciliation Table					
	--Year-ended Dec. 31--				
(Mil. DKK)	2011*	2010	2009	2008	2007
Common shareholders' equity	13,507.0	13,320.1	12,485.7	10,677.5	9,654.2
Plus minority interest (equity)	32.0	31.5	36.9	44.9	49.4
Minus revaluation reserves	(299.0)	(299.2)	(281.6)	(278.5)	(271.7)
Minus nonservicing intangibles	(233.0)	(239.9)	(262.0)	(284.0)	(291.4)
Adjusted common equity	13,007.0	12,812.6	11,979.0	10,159.9	9,140.5
Plus admissible preferred and hybrids	0.0	0.0	0.0	1,642.9	1,677.7
Total Adjusted Capital	13,007.0	12,812.6	11,979.0	11,802.8	10,818.2
Minus adjustment for securitized assets	(70.0)	(93.1)	(57.5)	(54.5)	(92.8)
Adjusted total equity	12,937.0	12,719.4	11,921.4	11,748.3	10,725.4

*Data as of June 30. DKK--Danish krone.

Table 7

Jyske Bank A/S Profit And Loss					
	--Year-ended Dec. 31--				
(Mil. DKK)	2011*	2010	2009	2008	2007
Net interest income	2,294.0	4,723.3	4,508.2	3,638.1	3,184.4
Interest income	3,257.0	6,281.6	7,720.4	10,960.9	8,513.1
Interest expense	963.0	1,558.3	3,212.2	7,322.8	5,328.7
Operating noninterest income	866.0	2,176.5	2,505.1	2,530.9	2,364.3
Fees and commissions	615.0	1,320.0	1,266.0	1,513.1	1,796.7
Trading gains	13.0	426.0	722.1	658.0	288.4
Other market-sensitive income	23.0	5.3	156.4	27.3	63.3
Equity in earnings of unconsolidated subsidiaries	(7.0)	21.9	(1.7)	4.5	0.8
Other noninterest income	222.0	403.2	362.3	328.0	215.1
Operating revenues	3,160.0	6,899.8	7,013.3	6,169.0	5,548.8
Noninterest expenses	2,222.0	4,098.5	3,726.4	3,795.7	3,290.0
Personnel expenses	1,262.0	2,417.1	2,144.6	2,314.3	2,119.4
Other general and administrative expense	865.0	1,497.3	1,264.8	1,195.9	953.7
Provision operating income	938.0	2,801.3	3,286.9	2,373.3	2,258.8
Credit loss provisions (net new)	620.0	1,797.8	2,657.8	1,082.2	73.9
Operating income after loss provisions	318.0	1,003.4	629.1	1,291.1	2,184.9
Nonrecurring/special income	N/A	N/A	N/A	0.0	87.9
Pretax profit	318.0	1,003.4	629.1	1,291.1	2,272.8
Tax expense/credit	84.0	246.3	158.1	303.2	537.8
Net income (before minority interest)	234.0	757.1	471.0	987.9	1,735.0
Minority interest in consolidated subsidiaries	2.0	(0.1)	7.1	15.1	19.6
Net income before extraordinaries	232.0	757.2	463.9	972.9	1,715.4
Net income after extraordinaries	232.0	757.2	463.9	972.9	1,715.4

*Data as of June 30. DKK--Danish krone. N/A--Not applicable.

Table 8

Jyske Bank A/S Core Earnings Reconciliation Table					
	--Year-ended Dec. 31--				
(Mil. DKK)	2011*	2010	2009	2008	2007
Net income (before minority interest)	234.0	757.1	471.0	987.9	1,735.0
Minus nonrecurring/special income	0.0	0.0	0.0	0.0	(87.9)
Plus or minus tax impact of adjustments	N/A	N/A	N/A	0.0	20.8
Core earnings	234.0	757.1	471.0	987.9	1,667.9

*Data as of June 30. DKK--Danish krone. N/A--Not applicable.

Ratings Detail (As Of August 31, 2011)*

Jyske Bank A/S

Counterparty Credit Rating	A/Negative/A-1
Certificate Of Deposit	A/A-1
Commercial Paper	
<i>Foreign Currency</i>	A-1
Senior Unsecured (10 Issues)	A
Short-Term Debt (1 Issue)	A-1
Subordinated (1 Issue)	BBB+

Counterparty Credit Ratings History

20-Feb-2009	A/Negative/A-1
30-Sep-2008	A+/Negative/A-1
04-Jun-2007	A+/Stable/A-1

Sovereign Rating

Kingdom of Denmark	AAA/Stable/A-1+
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*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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