STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Jyske Bank A/S

Primary Credit Analyst:
Sean Cotten, Stockholm (46) 8-440-5928; sean.cotten@standardandpoors.com

Secondary Contact:
Alexander Ekbom, Stockholm (46) 8-440-5911; alexander.ekbom@standardandpoors.com

Table Of Contents

Major Rating Factors

Outlook

Rationale

Related Criteria And Research

1552091 | 301539251

Jyske Bank A/S

SACP	a-
Anchor	bbb+	
Business Position	Adequate	0
Capital and Earnings	Strong	+1
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

\+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

\+

Additional Factors	0

Issuer Credit Rating

A-/Stable/A-2

Major Rating Factors

Strengths:	Weaknesses:
• A strong domestic franchise in retail and commercial banking. • Strong capitalization.	• Relatively weak, but improving, asset quality metrics. • Use of short-term wholesale funding for mortgage loans. • Limited geographic diversity.

Outlook: Stable

The stable outlook on Jyske Bank A/S reflects Standard & Poor's Ratings Services' view that Jyske will maintain a risk-adjusted capital (RAC) ratio sustainably above 10% in light of the removal of implicit government support following the June 2015 implementation of the bail-in provisions of the Banking Resolution and Recovery Directive (BRRD) in Denmark. Our view of capital considers the bank's planned buy-back activity and resumption of dividend payments. It is also supported by stronger and more stable earnings, resulting from improved efficiency as the bank begins to benefit from available synergies following the April 2014 merger with BRFkredit.

While presently unlikely, we could consider an upgrade if bail-in risks for senior unsecured creditors were reduced by the development of a significant additional loss-absorbing capacity (ALAC) buffer, which is not otherwise recognized in our "strong" capital assessment.

We could consider a downgrade if the bank is unable to maintain progress in terms of asset quality metrics. In particular, a reversal of the recent improvements in loan impairments could lead us to reassess the group's risk position or change our capital projections. We continue to monitor the improvements in refinancing risk for Denmark's mortgage institutions, including Jyske's subsidiary, BRFkredit. We could lower the ratings if the trend of improvement in the funding and liquidity profile were to reverse.

Rationale

We base the ratings on Jyske on its 'a-' anchor, and our view of the group's "adequate" business position as Denmark's fourth largest banking group. Jyske's capital and earnings position is "strong" in our view. We believe the bank will achieve a RAC ratio of 10.5%-11% by year-end 2016.

We assess Jyske's risk position as "adequate," reflecting improved diversification following the merger, in combination with declining risks of further provisions as the Danish economy improves. Our view of Jyske's funding as "average" and liquidity as "adequate" reflects continued measures to improve the maturity profile of BRFkredit's covered bond funding.

Anchor: 'bbb+' for banks operating predominantly in Denmark

Our bank criteria use our Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores to determine a bank's anchor, the starting point in assigning an issuer credit rating. Our anchor for Jyske is 'bbb+', reflecting its Danish regulatory headquarters and its credit and deposit exposure, both to a very large extent to the Danish economy. The anchor is derived from the economic risk score of '3' and the industry risk score of '4'.

We view Denmark as a politically stable, wealthy, and high-income country, which has suffered since the global financial market crisis. Overinvestments before 2007 and high growth in private individual leverage have dampened domestic consumption, but we expect that much of the deleveraging process has already taken place. Consequently, we expect an improvement in the Danish economy. We think the Danish government has balanced fiscal policy flexibility and a strong external position manifested through sizable current account surpluses in the past decade.

We believe the fallout from the crisis will continue to spur consolidation in Denmark's banking industry, and that further failures among smaller banks cannot be ruled out. The industry shows a relatively low share of core customer deposits. It also has a fairly high share of net external funding, which, however, relates to 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 market turmoil.

Table 1

Jyske Bank A/S Key Figures

		--Year-ended Dec. 31--			
(Mil. DKK)	**2015***	**2014**	**2013**	**2012**	**2011**
Adjusted assets	530,969	541,566	261,933	258,207	269,959
Customer loans (gross)	358,549	345,089	115,364	110,071	112,030
Adjusted common equity	28,759	27,068	17,047	15,258	13,275
Operating revenues	7,413	8,518	8,239	7,516	6,673
Noninterest expenses	4,199	5,533	4,791	4,825	4,592
Core earnings	1,639	445	1,808	596	493

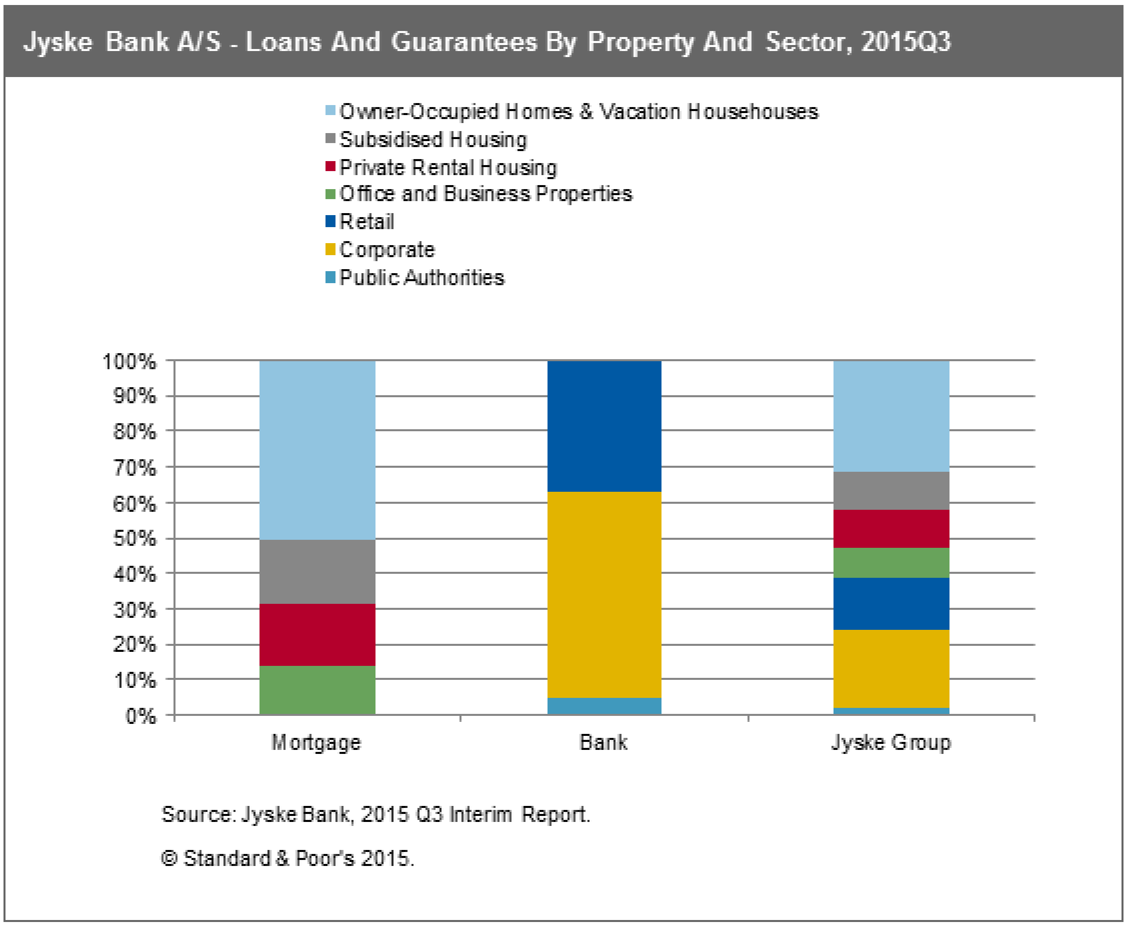
*Data as of Sept. 30. DKK--Danish krone. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Business position: Diversified revenues by segment and nationwide business coverage

We assess Jyske's business position as "adequate." At September 2015, Jyske's consolidated assets were Danish krone (DKK) 531 billion (€71 billion at DKK7.46 to €1), placing it just outside of Europe's top 50 banks by size. Jyske is the fourth-largest lender in Denmark after the 2014 merger with BRFkredit and has about 14% market share in loans and 7% of deposits.

The combination of Jyske's retail banking profile and BRF's mortgage book provides revenue and nationwide coverage, resulting in a business risk profile which in our view reflects the risks associated with the Danish economy. Jyske has historically been particularly strong in small and medium enterprise (SME) lending and deposit gathering in the Jutland region, while the acquisition of BRF added exposure to residential and commercial real estate customer base more in the Copenhagen and Aarhus regions.

Chart 1



The merger with BRFkredit severed Jyske Bank's cooperation with Nykredit Realkredit and its subsidiary, Totalkredit. The cancellation relieved Jyske of its guarantees on DKK92 billion of transferred residential mortgage loans. In February 2015, Nykredit paid Jyske DKK83.6 million to resolve a dispute over commission payments for these loans. Jyske continues to repatriate some of these loans and grow its retail mortgage profile, adding about DKK55 billion in new home loans since the onset of 2014. This growth has offset the continued decline in corporate lending across

Denmark.

We anticipate that Jyske's strategy of focusing on relationship-based commercial banking for households and SMEs will remain its focus. We also expect BRF to continue to use external distribution channels. Jyske also provides other value-added services such as asset management, mainly to retail clients, and develops cost-sharing structures with other smaller Danish banks to improve its IT efficiency.

Since the Danish banking crisis began in 2008, Jyske has also been active in market consolidation, acquiring the assets of two smaller banks, Fjordbank Mors and Spar Lolland. Jyske is also the largest shareholder in agricultural mortgage lender DLR Kredit where it owns 12.6%.

We believe Jyske has a strong and stable management team and a prudent corporate strategy that has helped it to weather the Danish banking crisis without needing extraordinary capital or liquidity support from the state. Return on equity is expected to reach a long-term level of 8%-9%, excluding one-off and restructuring costs.

Table 2

Jyske Bank A/S Business Position

		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Loan market share in country of domicile	N/A	N/A	7.0	7.0	6.0
Deposit market share in country of domicile	N/A	N/A	6.0	7.0	7.0
Total revenues from business line (currency in millions)	7,413.0	11,174.0	8,239.0	7,516.0	6,673.0
Commercial & retail banking/total revenues from business line	78.2	63.6	86.6	85.8	87.7
Trading and sales income/total revenues from business line	N/A	N/A	6.0	8.1	5.2
Other revenues/total revenues from business line	21.8	36.4	7.4	6.1	7.1
Investment banking/total revenues from business line	N/A	N/A	6.0	8.1	5.2
Return on equity	7.7	13.7	10.9	4.0	3.6

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Capital and earnings: Continued strengthening of capital ratios expected, mainly driven by retained earnings

We assess Jyske's capital and earnings as "strong." We project the RAC ratio to stabilize at 10.5%-11% over the next two years, from its June 2015 level of 10.5%. Our forecast takes into account the announced buy-back of shares of up to DKK500 million from November 2015 to June 2016 and proposed dividend distributions of DKK500 million in 2016, which we have included in our RAC forecast. We believe that Jyske will improve earnings via diversified revenues and increased cross-selling opportunities. This results in expected annual net profits exceeding DKK2 billion by 2016, as the bank focuses on reducing costs.

As the bank increases its efficiency, our earnings buffer metric is expected to improve to over 100 basis points (bps), indicating that the bank's earnings generation provides a meaningful cushion against decreasing revenues and deteriorating asset quality.

Table 3

Jyske Bank A/S Capital And Earnings

(%)	2015*	--Year-ended Dec. 31-- 2014	2013	2012	2011
Tier 1 capital ratio	16.3	15.8	15.9	15.3	13.3
S&P RAC ratio before diversification	N.M.	10.0	9.8	9.4	7.9
S&P RAC ratio after diversification	N.M.	9.4	9.7	9.0	7.5
Adjusted common equity/total adjusted capital	100.0	100.0	100.0	100.0	100.0
Net interest income/operating revenues	76.2	77.7	60.9	64.9	71.1
Fee income/operating revenues	18.0	20.7	21.0	22.0	19.6
Market-sensitive income/operating revenues	(0.3)	(6.7)	7.2	4.0	(0.5)
Noninterest expenses/operating revenues	56.6	65.0	58.2	64.2	68.8
Preprovision operating income/average assets	0.8	0.7	1.3	1.0	0.8
Core earnings/average managed assets	0.4	0.1	0.7	0.2	0.2

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Table 4

Jyske Bank A/S RACF [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	19,899	0	0	520	3
Institutions	57,999	6,038	10	5,270	9
Corporate	183,956	76,700	42	106,722	58
Retail	246,332	41,638	17	83,102	34
Of which mortgage	206,243	28,513	14	56,316	27
Securitization§	0	0	0	0	0
Other assets	5,809	5,900	102	6,565	113
Total credit risk	513,995	130,275	25	202,179	39
Market risk					
Equity in the banking book†	2,535	0	0	19,671	776
Trading book market risk	--	21,800	--	27,043	--
Total market risk	--	21,800	--	46,714	--
Insurance risk					
Total insurance risk	--	--	--	0	--
Operational risk					
Total operational risk	--	16,813	--	21,569	--

(Mil. DKK)	Basel II RWA	Standard & Poor's RWA	% of Standard & Poor's RWA
Diversification adjustments			
RWA before diversification	168,888	270,463	100
Total Diversification/Concentration Adjustments	--	13,370	5

Table 4

Jyske Bank A/S RACF [Risk-Adjusted Capital Framework] Data (cont.)				
RWA after diversification	168,888		283,833	105
(Mil. DKK)	**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**Standard & Poor's RAC ratio (%)**
Capital ratio				
Capital ratio before adjustments	0	0.0	28,516	10.5
Capital ratio after adjustments‡	0	0.0	28,516	10.0

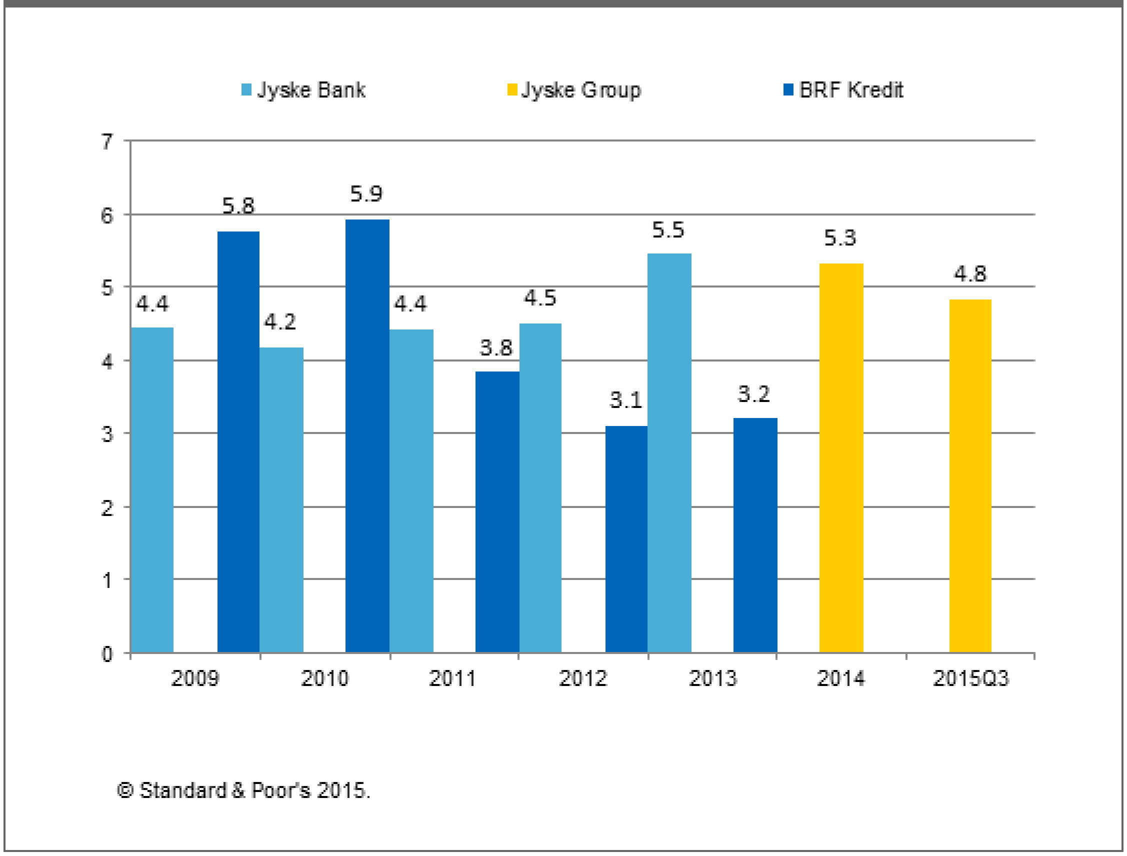
*Exposure at default. §Securitisation Exposure includes the securitisation tranches deducted from capital in the regulatory framework. †Exposure and Standard & Poor's risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 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--Danish krone. Sources: Company data as of June 30, 2015, Standard & Poor's.

Risk position: Asset quality metrics improving as Denmark's economy strengthens

Jyske's risk position is "adequate" in our view. The quality of the bank's domestic loan book is in line with our assessment of industry risk for the Danish banking system based on our BICRA methodology. BRFkredit's collateralized loan book provides regional and product diversification to the Jyske's SME-focused loan book, and we expect asset quality metrics to continue to show steady improvement.

Jyske and BRF have experienced elevated credit losses since 2009, but while Jyske, as a result of its SME exposure, showed a clear negative trend from 2011 to 2013, BRFkredit's portfolio improved. Jyske reported a considerable reduction in loan impairment charges through the first three quarters of 2015 (DKK381 million compared to DKK1,236 million) in large part due to reduced one-off provisions when compared to 2014. Given general improvements in the Danish economy and continued pressure on the agriculture sector we expect losses to be stable or increase slightly in 2016.

Chart 2



Jyske Bank A/S--Net NonPerforming Assets/Customer Loans And Repossed Assets,

After the large one-off adjustments to net nonperforming loans (NPLs) in 2014, the figures show considerable improvement in 2015 (see chart 2). Note that we adjust the bank's reported figures for objective evidence of impairment (OEI) loans by removing unimpaired OEI loans and including additional collective provisions and loans 90 days past due, but not showing objective evidence of impairment. Some of the increase for Jyske in 2013 reflected the loan books taken over from Spar Lolland and Fjordbank Mors, which are now integrated into the banks' loan portfolio.

We anticipate that NPLs will gradually decline as the Danish economy finds its footing (see "Banking Industry Country Risk Assessment: Denmark," published on Dec. 10, 2014, on RatingsDirect). Danish borrowers have suffered in recent years from the downturn in commercial and residential property markets and weak economic conditions with subdued consumption. This has put substantial pressure on the domestic SME and agricultural sector, which caused the majority of Jyske's losses. For BRF, the NPLs are largely concentrated on the commercial real estate sector, which suffered significant price declines and resulted in large credit losses in the Danish banking sector after 2008.

While the Danish economy continues to improve, high risk segments remain related to agriculture. Milk producers and pig farming (0.08% of total lending) are the most affected segments, but are already well provisioned. At September 2015, the individual balance of loan impairment charges and provisions for guarantees relating to milk producers amounted to 47% of loans, advances and guarantees, and 25% related to pig farming. At September 2015, the total impairment ratio for milk producers and pig farming, inclusive of collective impairment charges, came to 42% of lending for these segments.

Table 5

Jyske Bank A/S Risk Position					
		--Year-ended Dec. 31--			
(%)	**2015***	**2014**	**2013**	**2012**	**2011**
Growth in customer loans	5.20	199.13	4.81	(1.75)	2.43
Total diversification adjustment / S&P RWA before diversification	N.M.	5.91	1.54	3.73	4.91
Total managed assets/adjusted common equity (x)	18.47	20.01	15.37	16.93	20.36
New loan loss provisions/average customer loans	0.41	1.10	1.02	1.66	1.34
Net charge-offs/average customer loans	0.30	0.45	1.07	1.05	1.88
Gross nonperforming assets/customer loans + other real estate owned	6.49	6.91	8.93	8.09	7.40
Loan loss reserves/gross nonperforming assets	26.97	24.32	41.23	46.31	42.04

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

Funding and liquidity: Funding profile now similar to larger Danish peers

Following the addition of BRFkredit's entirely wholesale funded portfolio, Jyske as a whole has a profile similar to that of domestic peers. At the conclusion of the merger, the group's stable funding ratio was 99.5% at September 2015, compared to 86% at mid-year 2014. We view the improvement as evidence of continued marketwide efforts to reduce one- and two-year interest rate fixings (F1 and F2 loans, respectively) in the Danish mortgage market (see article "Credit FAQ: The Danish Covered Bond Market Explained", July 15, 2014). We note the considerable efforts to extend funding maturities in BRFkredit and other Danish mortgage banks, and expect the process to continue in order to comply with regulatory requirements limiting annual and quarterly refinancing volumes.

Despite the substantial contribution of corporate deposits in Jyske's deposit book, we believe the majority to be granular and stable, providing the bank with a steady source of funding for its non-mortgage lending.

We view Jyske's liquidity as "adequate", and note the structural support of the Danish covered bond market, as well as the soft bullet nature of Danish covered bonds since the passage of the Danish law enacted on all new covered bonds since April 2014 (see "Credit FAQ: Why Denmark's Proposed Covered Bond Law Doesn't Fully Eradicate Refinancing Risks," Feb. 4, 2014). As with the stable funding ratio, the reduction in debt maturing within one year resulted in significant improvements in Jyske's liquidity situation. Our one-year liquidity ratio (broad liquid assets to short-term wholesale funding) was 1.1x at September 2015, from the mid-year 2014 level of 0.8x, following the merger.

As BRF reduces its structural mismatch of asset and liability maturities, we expect a direct positive impact on our core measures of funding and liquidity for the group. In our view, the implementation of the supervisory diamond for mortgage institutions and the future regulatory funding and liquidity requirements will encourage BRF and other mortgage institutions to incentivize longer-term funding structures. We expect that the higher pricing introduced on the one- and two-year adjustable rate mortgages will improve the group's overall funding and liquidity profile.

Table 6

Jyske Bank A/S Funding And Liquidity					
		--Year-ended Dec. 31--			
(%)	2015*	2014	2013	2012	2011
Core deposits/funding base	27.6	29.0	58.0	51.5	51.1
Customer loans (net)/customer deposits	280.7	254.7	91.6	102.8	98.5
Long term funding ratio	79.8	81.9	66.9	64.3	62.5
Stable funding ratio	99.5	107.5	110.5	107.1	107.7
Short-term wholesale funding/funding base	21.5	19.2	35.8	38.5	39.8
Broad liquid assets/short-term wholesale funding (x)	1.1	1.5	1.3	1.3	1.2
Net broad liquid assets/short-term customer deposits	14.0	44.8	24.4	22.1	18.0
Short-term wholesale funding/total wholesale funding	29.6	27.0	85.4	79.4	81.4
Narrow liquid assets/3-month wholesale funding (x)	1.7	1.7	1.7	1.5	1.9

*Data as of Sept. 30. N.A.--Not available. N/A--Not applicable. N.M.--Not meaningful.

External support: The implementation of bail-in provision of BRRD decreases the likelihood of extraordinary government support, ALAC buffers remain small

We consider that Jyske has "moderate" systemic importance in Denmark. However, following the implementation of the bail-in provisions in BRRD in June 2015, we view government support as "uncertain" for senior unsecured creditors. As such, we no longer add any notches to the issuer credit rating for government support.

We view Denmark's resolution regime as "effective" under our ALAC criteria because, among other factors, we believe it contains a well-defined bail-in process under which authorities would permit non-viable systemically important banks to continue critical functions as going concerns following a bail-in of eligible liabilities. We provide no notches of ALAC uplift to the rating and project that ALAC buffers will remain below 2% of Standard & Poor's risk-weighted assets, well below the 5% threshold for notching, through the end of 2016.

Key Subsidiary: BRFkredit

Although the merger was only completed in April 2014, we view BRFkredit as a "core" subsidiary and align the rating and outlook with those on the Jyske Group. We believe that BRFkredit is highly unlikely to be sold, given its status as a vital part of the combined entity's future funding strategy for Danish residential and commercial mortgages. This is in line with how we see other banking group structures and covered bond-issuing subsidiaries in Denmark and the Nordics. Our assessment of BRFkredit's core status remains underpinned by our expectation that the integration of the two entities will continue to run smoothly. We note that the two entities have cooperated for more than a decade and have worked closely in the year before the merger on a joint funding structure and linked information technology platforms for Jyske's Prioritet loans.

Additional rating factors: None

No additional factors affect this rating.

Related Criteria And Research

Related criteria

- Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015
- Group Rating Methodology, Nov 19, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

Related research

- Nordic Banks Extend Their Capital Advantage Despite Lower Revenues, Nov. 27, 2015
- Various Rating Actions On Four Danish Banks After Review Of Government Support And Additional Loss-Absorbing Capacity, July 13, 2015.
- Various Rating Actions On Danish Banks On EU Bank Recovery And Resolution Directive To Be Implemented In Denmark, May 12, 2015.
- Denmark's Proposed Regulatory Changes Could Lower Covered Bonds' Credit Risk, Sept. 16, 2014
- Credit FAQ: The Danish Covered Bond Market Explained, July 15, 2014
- Credit FAQ: Why Denmark's Proposed Covered Bond Law Doesn't Fully Eradicate Refinancing Risks, Feb. 4, 2014
- Banking Industry Country Risk Assessment: Denmark, Dec 10, 2014

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	**3**	4	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	**bbb+**	bbb	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of December 15, 2015)

Jyske Bank A/S	
Counterparty Credit Rating	A-/Stable/A-2
Nordic Regional Scale	--/--/K-1
Certificate Of Deposit	
Foreign Currency	A-2
Senior Unsecured	A-
Short-Term Debt	A-2
Subordinated	BBB
Counterparty Credit Ratings History	
01-Dec-2011	A-/Stable/A-2
20-Feb-2009	A/Negative/A-1

Ratings Detail (As Of December 15, 2015) (cont.)		
30-Sep-2008		A+/Negative/A-1
10-Feb-2012	*Nordic Regional Scale*	--/--/K-1
Sovereign Rating		
Denmark (Kingdom of)		AAA/Stable/A-1+
Related Entities		
BRFkredit A/S		
Issuer Credit Rating		A-/Stable/A-2
Senior Secured		AAA
Senior Secured		AAA/Stable
Senior Unsecured		A-
Short-Term Debt		A-2
Short-Term Secured Debt		A-1+

*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. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

Additional Contact:
Financial Institutions Ratings Europe; FIG_Europe@standardandpoors.com