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**Research Update:**

# Jyske Bank A/S Outlook Negative On Concerns About Asset Quality, Earnings; Ratings Affirmed

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## Rationale

On Sept. 30, 2008, Standard & Poor's Ratings Services revised its outlook on Denmark-based Jyske Bank A/S to negative from stable. At the same time, the 'A+' long-term and 'A-1' short-term counterparty credit ratings were affirmed.

The outlook revision reflects our expectations that given the bank's predominantly domestic loan book, its asset quality is likely to be affected by the slowing Danish economy and a continued fall in real estate prices. It also reflects our uncertainty about the resilience of the bank's earnings over the short to medium term.

Jyske Bank's asset quality has remained good up to now, with only a slight increase in the bank's ratio of non-performing loans to total loans in the second quarter of 2008 (to 1.22% from 1.14% at year-end 2007). However, the Danish economy has just emerged from a technical recession, and any economic growth is expected to be modest. Although the bank's lending is well diversified across industries, it is mainly exposed to Danish small and midsize enterprises, which are typically more vulnerable during an economic slowdown. In addition, the continued fall in real estate prices, which is particularly pronounced in the Copenhagen area, is likely to put pressure on the bank's asset quality. If Jyske Bank experiences sizeable loan losses during the current economic downturn, they will significantly impair the bank's profitability.

Jyske Bank's core profitability fell significantly in the first half of 2008. Fees and commission income declined due to an overall reduction in capital market activity and mark-to-market losses in the bank's securities portfolio. Given the important proportion of lower rated collateralized debt obligations in the bank's treasury portfolio, further mark-to-market losses are likely to have a negative impact on profitability.

The affirmation of the ratings reflects Jyske Bank's strong domestic retail and commercial banking franchise, current good asset quality, strong capitalization, and strong risk management. The ratings are constrained by the bank's limited geographic diversity, large proportion of volatile capital market related income, and relatively inefficient cost base.

We classify Jyske Bank as moderately systemically important within the Danish financial system. We do not currently factor external support into the ratings on Jyske Bank.

## Outlook

The negative outlook reflects our opinion that Jyske Bank's asset quality may be impaired by the current slowdown in the Danish economy. In addition, it factors in the possibility that Jyske Bank's earnings may not be resilient to the current downturn and market turbulence.

The outlook could be revised to stable if Jyske Bank can weather the current downturn without any material impact on its asset quality and profitability, and if its capital gradually strengthens, as expected.

A negative rating action could follow if the bank's capitalization is not gradually rebuilt, if its asset quality materially deteriorates, if its profitability falls significantly, or if its strategy changes and results in a higher risk profile.

## Ratings List

	To	From
Jyske Bank A/S		
Counterparty Credit Rating	A+/Negative/A-1	A+/Stable/A-1

NB: This list does not include all ratings affected

### Additional Contact:

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