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Research Update:

Jyske Bank A/S Downgraded To 'A/A-1' On Heightened Asset Quality Concerns; Outlook Negative

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Rationale

On Feb. 20, 2009, Standard & Poor's Ratings Services lowered its long-term counterparty credit ratings on Denmark-based Jyske Bank A/S to 'A' from 'A+' and affirmed its short-term counterparty credit rating at 'A-1'. The outlook is negative.

The downgrade reflects our expectation that Jyske Bank's asset quality will continue to be significantly affected by the protracted recession in the Danish economy as well as the sustained fall in housing prices. The ongoing deterioration in asset quality is likely to have a material impact on the bank's earnings capacity in 2009 and 2010.

Jyske Bank's overall asset quality worsened significantly in the fourth quarter of 2008. As a result, the ratio of non-performing loans to total loans rose to 3% at year-end 2008 from 1.7% a year earlier. Loan impairment charges and provisions for guarantees soared to Danish krone (DKK) 1.1 billion in 2008 from just DKK70 million in 2007. Given the macroeconomic outlook in Denmark and the composition of Jyske Bank's loan portfolio, through which the bank is heavily exposed to the small and midsize Danish corporate sector, we expect the bank's reported loan losses and provisioning needs to be even higher than the 2008 level in 2009 and 2010.

The increased loan loss provisions lowered profitability significantly in 2008. The bank reported pretax profits of DKK1.3 billion in 2008 compared with DKK2.3 billion in 2007. Like many other banks, Jyske Bank used an IFRS accounting option that allowed it to reclassify parts of its trading portfolio as held-to-maturity assets, which are recognized at amortized cost rather than market value. Had this reclassification not taken place, earnings would have been DKK546 million lower.

We consider the bank's capital ratios (11.0% Tier 1 under full Basel II and 9.04% adjusted total equity to risk-weighted assets at year-end 2008) to be a key factor underpinning the ratings on the bank. Jyske Bank has the option to apply for recapitalization under a package passed by the Danish government (see "Danish Government Support For Banking Sector Likely To Increase Flow Of Credit To Real Economy" published Jan. 21, 2009 on RatingsDirect), which could increase the Tier 1 ratio by three percentage points, and is currently considering whether to exercise this option or not.

We consider Jyske Bank, which has a market share of about 6%-7% of bank lending and virtually no presence in the mortgage lending market, to be of moderate systemic importance within the Danish banking system. On Oct. 10, 2008, the Danish parliament passed The Act on Financial Stability to support the banking system (see "S&P Expects To Rate Bank Debt Guaranteed By Danish State Scheme 'AAA/A-1+'", published Jan. 6, 2009 on RatingsDirect). Since

October 2008, conditions in both Denmark and the global economy have deteriorated sharply and confidence has slumped. Moreover, the guarantee scheme has not succeeded in channeling credit to the Danish corporate sector. As a result, the Danish government on Jan. 18, 2009 reached a wide political agreement with the aim of enhancing the flow of credit into the domestic economy from the banking system. The expected measures will result in the Danish state offering banks and mortgage credit institutions state-funded capital injections by means of Tier 1 hybrid capital so that all participating institutions achieve a Tier 1 capital ratio of at least 12%.

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 small and midsize companies in a contracting economy. Our base expectation factored into the outlook is that credit losses will increase significantly from the reported level in 2008 and as a result the bank will remain barely profitable in 2009.

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 further 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.

Ratings List

Downgraded

	To	From
Jyske Bank A/S		
LT Counterparty Credit Rating	A/Negative	A+/Negative
Certificate Of Deposit	A/A-1	A+/A-1
Senior Unsecured	A	A+
Subordinated	BBB+	A-

Ratings Affirmed

ST Counterparty Credit Rating	A-1
Commercial Paper	A-1
Senior Unsecured Guaranteed*	AAA

*Guaranteed by the Kingdom of Denmark

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