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Research Update:

Jyske Bank 'A-/A-2' Ratings Affirmed On Offer To Buy Nordjyske Bank

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Overview

- Denmark-based Jyske Bank A/S has announced its intention to acquire all outstanding shares in Nordjyske Bank.
- Although this would temporarily reduce Jyske Bank's risk-adjusted capital (RAC) ratio, we expect the bank will be able to return the ratio to above 10% and sustain it at this level.
- We are affirming our 'A-/A-2' ratings on Jyske Bank and its core subsidiary BRFkredit.
- The stable outlook reflects our expectation that Jyske Bank will restore its RAC ratio to a level sustainably above 10%, and that the bank's funding and liquidity profile and asset quality will not deteriorate materially over our two-year rating horizon.

Rating Action

On March 16, 2018, S&P Global Ratings affirmed its 'A-' long-term and 'A-2' short-term issuer credit ratings on Denmark-based Jyske Bank A/S and its core subsidiary BRFkredit A/S. The outlooks on both entities remain stable.

We also affirmed our 'K-1' short-term Nordic regional scale rating on Jyske Bank.

Rationale

On March 13, 2018, Jyske Bank announced its intention to increase its current 38.5% ownership in Nordjyske Bank by acquiring all outstanding shares. The affirmation reflects that, although the acquisition may temporarily reduce Jyske Bank's risk-adjusted capital (RAC) ratio, we expect that the bank will be able to return its RAC ratio above 10% and then maintain it at this level. We also believe that, even if it acquires Nordjyske Bank, Jyske Bank's overall asset quality will continue to improve as it increases the share of retail mortgage lending, primarily targeting existing clients.

Nordjyske Bank is a regional lender from the North Jutland region engaging in retail (46% of loan book) and corporate lending (54%) mostly to small and midsize companies and agricultural clients. Its total assets are Danish krone (DKK) 20.5 billion (about €2.7 billion), equivalent to 3.4% of Jyske Bank's DKK597 billion assets. We note that discussions are currently ongoing between

Jyske Bank and Nordjyske Bank, and that the offer will depend on: termination of restrictions regarding ownership and voting rights in Nordjyske Bank's Articles of Association; acceptance of the offer by at least two-thirds of Nordjyske Bank's share capital and voting rights after the completion of the offer; and approval from the Danish public authorities.

Jyske Bank's offer, if it continues to pursue it, will be published in an offer document within four weeks, and we expect the document will outline a cash payment of DKK170 per share, totaling an investment of DKK1.921 billion for the remaining 61.5% of the shares.

We believe that an acquisition realized in these terms, followed by a full consolidation of Nordjyske Bank's assets and capital within the Jyske Bank Group, would lead Jyske Bank's RAC ratio to decrease to about 9.5%, from 10.3% at year-end 2017. We, however, expect that the bank would seek to increase it above 10% again within 12 months, and that it would remain sustainably above this level through 2020. Overall, we continue to expect that Jyske Bank's capital and earnings performance will remain strong as it increases cost efficiency and scale, and that improvements in its asset quality will track developments in the Danish economy.

Furthermore, we expect that such an acquisition would be neutral to the other components of Jyske Bank's rating. In particular, we do not expect that it would materially affect the bank's business position, although we note that it would strengthen its footing in the Jutland region while offering operational synergies. We note that 13% of Nordjyske Bank's lending and guarantee is in farming, with about one-third of this in milk and pork production (with over 46% and 35% accumulated provisions, respectively). These exposures represent, however, about 20 basis points of Jyske current loan book, and we expect a consolidation of Nordjyske Bank to fit within our current assessment of Jyske Bank's risk position overall.

We currently include no uplift for additional loss-absorption capacity (ALAC) in our ratings on Jyske Bank. We anticipate that the Danish regulator will require Jyske Bank to hold a large share of bail-in-able liabilities, as it outlines its minimum requirements for own funds and eligible liabilities (MREL), but we will wait for further clarity on this matter before anticipating a ramp-up of such instruments and factoring them into our ratings on the bank.

Outlook

The stable outlook reflects our view that Jyske Bank will be able to largely maintain a RAC ratio sustainably above 10% in the next two years, even if it acquires Nordjyske Bank. We also factor in our assessment that an acquisition of Nordjyske Bank wouldn't lead to material deterioration of Jyske Bank's asset quality, or represent a shift toward a more aggressive growth strategy.

We could consider a downgrade of Jyske Bank if the acquisition of Nordjyske

Bank, capital distributions, or volume growth weakened the bank's capital adequacy more than we currently expect, resulting in our RAC ratio remaining below 10%. We could also lower the ratings if Jyske Bank's asset-quality metrics were to weaken, leading us to take a negative view of the bank's combined risk and capital positions, or if Jyske Bank's funding and liquidity profile were to deteriorate significantly.

We could consider an upgrade of Jyske Bank if we gain greater confidence that it will build a material ALAC buffer that would protect senior unsecured creditors in a resolution scenario.

Ratings Score Snapshot

Issuer Credit Rating	A-/Stable/A-2
SACP	a-
Anchor	bbb+
Business Position	Adequate (0)
Capital and Earnings	Strong (+1)
Risk Position	Adequate (0)
Funding and Liquidity	Average and (0)
Support	(0)
ALAC Support	(0)
GRE Support	(0)
Group Support	(0)
Sovereign Support	(0)
Additional Factors	(0)

SACP--Stand-alone credit profile. ALAC--Additional loss-absorption capacity.

Related Criteria

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables, Aug. 14, 2017
- Criteria - Financial Institutions - General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings , April 7, 2017
- Criteria - Financial Institutions - Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria - Financial Institutions - Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015

- General Criteria: National And Regional Scale Credit Ratings, Sept. 22, 2014
- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks, March 23, 2004

Ratings List

Ratings Affirmed

Jyske Bank A/S

Counterparty Credit Rating	A-/Stable/A-2
Nordic Regional Scale	--/--/K-1
Senior Unsecured	A-
Subordinated	BBB
Junior Subordinated	BB+
Commercial Paper	A-2

BRFkredit A/S

Counterparty Credit Rating	A-/Stable/A-2
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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