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## Jyske Bank A/S

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# Jyske Bank A/S

|                             |                 |           |   |                          |           |   |                                       |          |
|-----------------------------|-----------------|-----------|---|--------------------------|-----------|---|---------------------------------------|----------|
| <b>SACP</b>                 | <b>a-</b>       |           | + | <b>Support</b>           | <b>+1</b> | + | <b>Additional Factors</b>             | <b>0</b> |
| <b>Anchor</b>               | <b>bbb+</b>     |           |   | <b>ALAC Support</b>      | <b>+1</b> |   | <b>Issuer Credit Rating</b>           |          |
| <b>Business Position</b>    | <b>Adequate</b> | <b>0</b>  |   | <b>GRE Support</b>       | <b>0</b>  |   | <b>A/Stable/A-1</b>                   |          |
| <b>Capital and Earnings</b> | <b>Strong</b>   | <b>+1</b> |   | <b>Group Support</b>     | <b>0</b>  |   | <b>Resolution Counterparty Rating</b> |          |
| <b>Risk Position</b>        | <b>Adequate</b> | <b>0</b>  |   | <b>Sovereign Support</b> | <b>0</b>  |   | <b>A+/--/A-1</b>                      |          |
| <b>Funding</b>              | <b>Average</b>  | <b>0</b>  |   |                          |           |   |                                       |          |
| <b>Liquidity</b>            | <b>Adequate</b> | <b>0</b>  |   |                          |           |   |                                       |          |

## Major Rating Factors

| Strengths:   | Weaknesses:  |
|--|--|
| <ul style="list-style-type: none"> <li>• A strong domestic franchise in retail and commercial banking.</li> <li>• Strong risk-adjusted capitalization.</li> <li>• Buffers of loss-absorbing debt instruments.</li> </ul> | <ul style="list-style-type: none"> <li>• Pressure on revenue and asset quality stemming from the COVID-19 pandemic.</li> <li>• Limited geographic diversity.</li> <li>• Dependence on wholesale funding for mortgage loans.</li> </ul> |

## Outlook: Stable

The stable outlook on Jyske Bank reflects our expectation that the bank's capital buffer will remain resilient despite pressure from the consequences of the COVID-19 pandemic. Through 2022, we anticipate Jyske Bank's risk-adjusted capital (RAC) ratio and additional loss absorbing capacity (ALAC) buffer will remain sustainably above 10% and 5% of S&P Global Ratings' risk-weighted assets (RWA). We also expect that the credit loss provisions the bank posted at Q1 2020 should cover a sizeable share of the year's overall impairment needs, and that its asset quality will remain broadly in line with its domestic peers.

We could, however, lower the issuer credit rating if the bank's asset quality weakened materially more than we currently expect. We could also lower the rating if--contrary to our base-case expectations--bottom-line pressure and asset growth led capitalization and ALAC buffers to fall durably below 10% and 5% of the bank's RWA, respectively. Downward rating pressure would also build if long-term trends in lending growth and margin highlighted a weakened business franchise or if the bank's profitability--in the aftermath of the pandemic--was materially underperforming peers'.

We consider an upgrade remote at this point.

## Rationale

The 'A/A-1' ratings reflect our expectation that Jyske Bank will maintain strong capitalization, with an S&P Global Ratings RAC ratio exceeding 10% in the next two years. We expect the bank to calibrate its dividend payout to mitigate the negative capital impact of reduced operating revenues and increased credit costs as a result of the COVID-19 pandemic through 2022. Furthermore, despite a slowdown of senior-non-preferred debt issuances in 2020 due to less favorable market conditions, we expect Jyske Bank to continue building up its reserves of additional loss-absorbing liabilities from next year and that they will remain above 5% of S&P Global Ratings' RWA, adding further protection for senior creditors. The ratings also reflect that Jyske Bank will continue to develop its brand and strengthen its already sound domestic franchise as the fourth-largest domestic player by market share. Although its revenue streams are diversified, combining retail and corporate lending with fee and commission income, they remain geographically concentrated in Denmark

### Anchor: 'bbb+' given that Jyske Bank operates predominantly in Denmark

We 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 a commercial bank operating only in Denmark is 'bbb+', based on an economic risk score of '2' and an industry risk score of '4'.

Our assessment of low economic risks for Denmark balances the anticipated recession and profitability pressures for banking in the wake of the pandemic and elevated private-sector debt (vis-à-vis international peers) with our view that Danish banks operate in a resilient and competitive economy, with demonstrated monetary and fiscal flexibility, and a historical focus on prudent management of public finances. We currently forecast Denmark's GDP to contract by 5.4% in 2020 before bouncing back to 4.8% growth in 2021.

We expect the structure of the Danish economy to lead to more resilience than in other Nordic countries amid the COVID-19 pandemic. This, as well as the robustness of the Danish welfare system, and the government's policy response to the pandemic are, in our view, efficient mitigating factors against the potential pressure that the situation creates for banks' asset quality. Overall, we expect bank provisioning needs to peak in 2020 at 35 basis points of total sector loans, mostly driven by non-mortgage credit exposures to small and midsize enterprises (SMEs), a level that rated systemic Danish banks can accommodate with their capital buffers. We expect the retail mortgage sector, which represents two-thirds of total lending, will remain largely performing supported by overall sound supply and demand fundamentals in the housing market. That said, we expect a modest house price correction in real terms as a result of the pandemic followed by a return to slow appreciation.

Our industry risk assessment incorporates our expectation that higher credit losses and revenue attrition linked to COVID-19 will create a further headwind for the sector's profitability. The frontloading of bail-inable debt issuances, negative interest rates, significant compliance investments, and competitive pressure on corporate lending constrain profitability for Danish banks. We now expect Danish banks' ROEs to fall to 4% in 2020, close to the average of Denmark's peer countries but below the other Nordic countries.

We consider the banking sector's higher reliance on functioning wholesale markets than peers in our assessment. However, the Danish covered bonds market has demonstrated a stable and strong track record, even during the most recent market turbulence. We view the regulatory environment in Denmark as in line with that of other EU countries, overall. This balances a generally robust track record of macroprudential policies and conservative bank supervision with the national anti-money laundering (AML) governance shortcomings highlighted in Danske Bank's Estonia case. We note, however, the progress made by local banks and regulators in strengthening the country's overall AML framework, and expect this focus to continue considering significant public attention and overall political consensus.

Our economic and industry risk trends for the Danish banking sector remain stable.

**Table 1**

| Jyske Bank A/S--Key Figures |                        |           |           |           |           |
|-----------------------------|------------------------|-----------|-----------|-----------|-----------|
|                             | --Year ended Dec. 31-- |           |           |           |           |
| (Mil. DKK)                  | 2020*                  | 2019      | 2018      | 2017      | 2016      |
| Adjusted assets             | 674,097.0              | 649,737.0 | 599,942.0 | 597,427.0 | 586,632.0 |
| Customer loans (gross)      | 444,909.0              | 444,491.0 | 441,928.0 | 425,069.0 | 394,097.0 |
| Adjusted common equity      | 31,022.0               | 31,761.0  | 29,416.0  | 28,012.0  | 27,639.0  |
| Operating revenues          | 1,510.0                | 8,438.0   | 8,724.0   | 9,787.0   | 9,676.0   |
| Noninterest expenses        | 1,503.0                | 5,495.0   | 5,415.0   | 6,027.0   | 5,621.0   |
| Core earnings               | (780.0)                | 2,412.3   | 2,261.9   | 3,093.5   | 3,074.5   |

\*Data as of March 31. DKK--Danish krone.

### **Business position: Concentration in Denmark but revenues are diversified.**

Our assessment of Jyske Bank's business position assumes the bank will maintain its position as the fourth-largest lender in Denmark, with a 12% market share, and a diversified revenue profile.

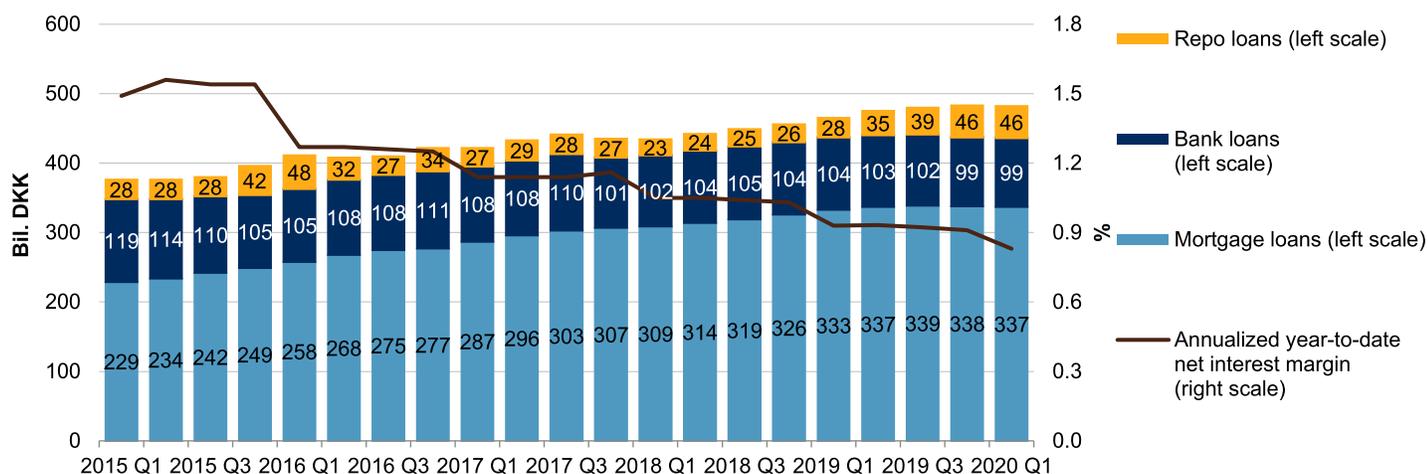
On March 31, 2020, Jyske Bank's consolidated assets were Danish krone (DKK) 674.1 billion (€90.3 billion at DKK7.46

to €1). Historically a regional bank with a stronger presence in SME lending in Jutland, Jyske Bank has since 2014 and the acquisition of a mortgage bank (today Jyske Realkredit) grown to become the fourth-largest banking group in Denmark, with a nationwide presence among households and SMEs.

Since the acquisition, Jyske Bank has increased its relative share of mortgage lending by repatriating loans previously financed via mortgage lender Totalkredit, while uncollateralized bank loans--mostly to corporates--remained largely stable (see chart 1). This contributed to lowering the bank's overall risk profile and reducing topline margins.

**Chart 1**

**Jyske Bank A/S Changing Loan Book: Lower Risk, Lower Net Interest Margin**

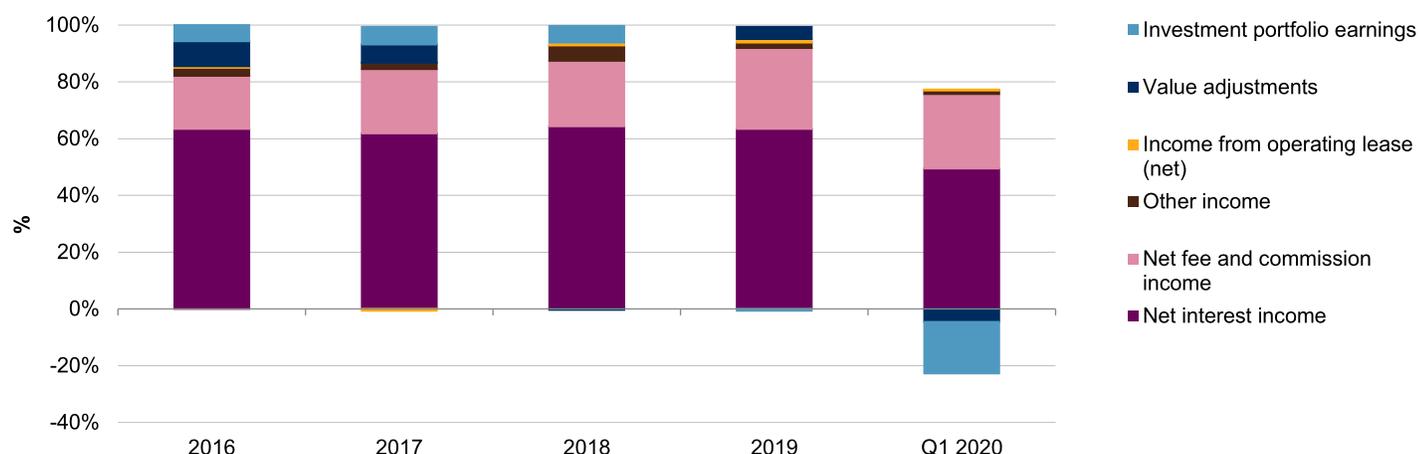


DKK--Danish krone. Source: S&P Global Ratings.  
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In addition to net interest income (64% of 2019 total income), Jyske Bank's revenue mix builds largely on generally stable net fees and commissions (see chart 2) composed mostly of securities trading, loan application fees, and payments. More volatile performance-related fees have accounted, on a quarterly average, for less than 3% of net fees and commission income since Q1 2016. The bank also provides other value-added services such as asset management, mainly to retail clients and leasing to personal and corporate clients.

**Chart 2**

**Jyske Bank's Revenue Mix Provides Diversification And Stability**



Source: Jyske Bank A/S.

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Still, we expect the pandemic to affect its business prospects, with low credit demand among both private and corporate customers, and that Jyske Bank's earnings will be pressured as a result of COVID-19 and sustained price competition in retail mortgages and corporate lending (see capital and earnings section). Through this crisis, we anticipate that Jyske Bank will maintain its strategy of focusing on relationship-based commercial banking for households and SMEs, while working on improving its digital offering and asset management footprint.

We think Jyske Bank has a strong and stable management team and a prudent corporate strategy that has helped it weather the Danish banking crisis without needing extraordinary capital or liquidity support from the state, and should now enable it to weather the COVID-19 pandemic without any major or long-lasting impact on capitalization.

**Table 2**

| Jyske Bank A/S--Business Position                             |                        |         |         |         |         |
|---|------------------------|---------|---------|---------|---------|
|   | --Year ended Dec. 31-- |         |         |         |         |
| (%)   | 2020*                  | 2019    | 2018    | 2017    | 2016    |
| Loan market share in country of domicile                      | 12.0                   | 12.0    | 12.0    | 12.0    | 11.6    |
| Deposit market share in country of domicile                   | N/A                    | N/A     | N/A     | N/A     | 12.8    |
| Total revenues from business line (currency in millions)      | 1,510.0                | 8,473.0 | 9,023.0 | 9,850.0 | 9,728.0 |
| Commercial & retail banking/total revenues from business line | 114.6                  | 88.5    | 82.5    | 80.9    | 80.8    |
| Other revenues/total revenues from business line              | (14.6)                 | 11.5    | 17.5    | 19.1    | 19.2    |
| Return on average common equity                               | (9.8)                  | 7.6     | 7.8     | 10.0    | 10.2    |

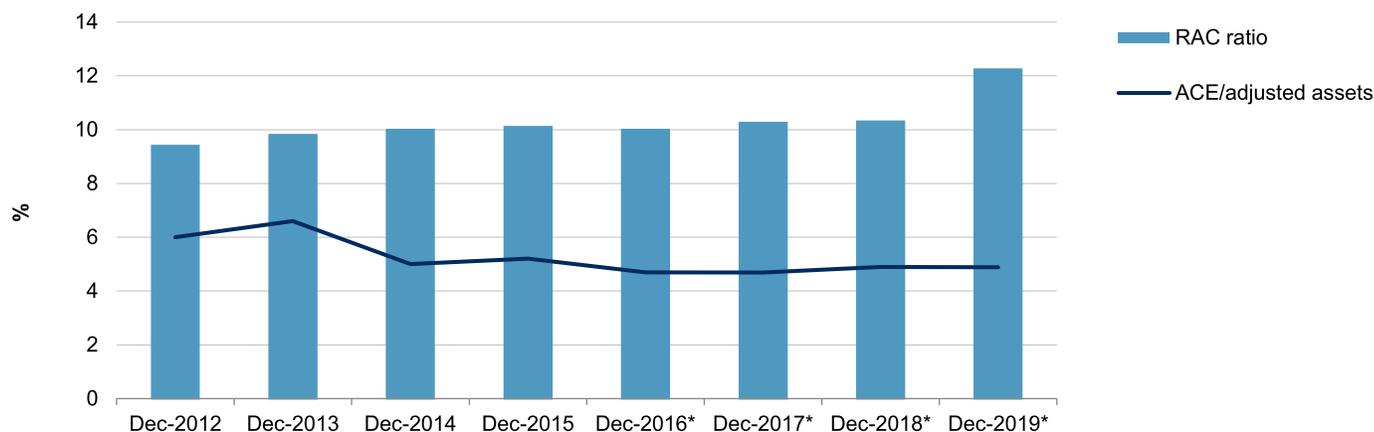
\*Data as of March 31. N/A--Not applicable.

**Capital and earnings: Reduced distribution protects capital ratios amid COVID-19 pressure.**

We base our assessment of Jyske Bank's capital and earnings on our expectation that the bank will maintain a resilient RAC ratio despite earning pressure stemming from the effects of COVID-19, above 11.0% through 2022, from 12.2% at end-2019 (see chart 2). Reduced economic risks in Denmark since 2019 leads to lower risk weights on Danish assets, which is positive for our RAC calculations including for Jyske Bank (see "Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings," published on Oct. 23, 2019).

**Chart 3**

**Lower Economic Risks In Denmark Have Strengthened Jyske Bank's Risk-Adjusted Capitalization**



\*Calculated using 2017 RAC criteria, 2019 calculations based on lower economic risks in Denmark. RAC--Risk-adjusted capital. ACE--Adjusted common equity. Source: S&P Global Ratings. Copyright © 2020 by Standard & Poor's Financial Services LLC. All rights reserved.

We expect COVID-19 to weaken Jyske Bank's earnings and markedly so in 2020:

- We expect sluggish 1% loan growth in 2020. Despite the broadening of negative rates for private depositors, we foresee that the bank's net interest margin will continue to contract from Q1 2019 levels as a result of sustained competition on the corporate side. We expect pressure on fee and commission income, in particular from lower performance related fees and lower remortgaging fees.
- Furthermore, we foresee that new loan loss provisions will reach 40 bps of loans in 2020, from 2 bps on average in 2016-2019.
- As a result, we forecast yearly net profit of DKK0.4 billion-DKK1.4 billion in 2020-2022, from DKK2.8 billion on average in 2016-2019, and that return on equity will fall to 1%-5%, from 7%-10% since 2016.

However, we expect the bank's management to calibrate its dividend distribution to safeguard the bank's capitalization. After distributing on average 72% of its annual profits in the last three years, Jyske Bank did not propose any dividend for 2019, and discontinued its ongoing share buyback program on March 31, 2020, after distributing DKK486 million in the first few months of the year.

We no longer deduct from the bank's TAC the value of its holding in DLR Kredit because this is now below 10% of the agriculture lender's capital. Instead, we risk weight DLR Kredit as a private equity exposure. We include in our assessment of the bank's capital base for end-2019 the four Additional Tier 1 (AT1) instruments it had outstanding, for DKK3.3 billion or about 9% of TAC.

Jyske Bank's regulatory common equity tier 1 (CET1) capital ratio and total capital ratio were 16.7% and 21.5% on March 31, 2020. These results were within the long-term goal of a total capital ratio of 20%-22% and CET1 ratio of 15%-17%, which will ensure meeting future regulatory requirements.

**Table 3**

| <b>Jyske Bank A/S--Capital And Earnings</b>          |                               |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>--Year ended Dec. 31--</b> |             |             |             |             |
| <b>(%)</b>   | <b>2020*</b>                  | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| Tier 1 capital ratio                                 | 18.6                          | 19.4        | 18.0        | 18.0        | 17.7        |
| S&P Global Ratings' RAC ratio before diversification | N/A                           | 12.2        | 10.3        | 10.3        | 10.0        |
| S&P Global Ratings' RAC ratio after diversification  | N/A                           | 10.2        | 8.8         | 8.6         | 8.5         |
| Adjusted common equity/total adjusted capital        | 90.8                          | 90.7        | 92.0        | 91.6        | 94.9        |
| Net interest income/operating revenues               | 82.6                          | 62.9        | 65.5        | 64.2        | 67.4        |
| Fee income/operating revenues                        | 43.0                          | 27.4        | 21.3        | 20.0        | 15.8        |
| Market-sensitive income/operating revenues           | (38.1)                        | 1.9         | 4.2         | 8.8         | 9.2         |
| Noninterest expenses/operating revenues              | 99.5                          | 65.1        | 62.1        | 61.6        | 58.1        |
| Preprovision operating income/average assets         | 0.0                           | 0.5         | 0.6         | 0.6         | 0.7         |
| Core earnings/average managed assets                 | (0.5)                         | 0.4         | 0.4         | 0.5         | 0.5         |

\*Data as of March 31. N/A--Not applicable.

**Table 4**

| <b>Jyske Bank A/S--Risk-Adjusted Capital Framework Data</b> |                  |                      |                                |                                   |  |
|---|------------------|----------------------|--------------------------------|-----------------------------------|--|
| <b>(Mil. DKK)</b>   | <b>Exposure*</b> | <b>Basel III RWA</b> | <b>Average Basel III RW(%)</b> | <b>S&amp;P Global Ratings RWA</b> | <b>Average S&amp;P Global Ratings RW (%)</b> |
| <b>Credit risk</b>  |                  |                      |                                |                                   |  |
| Government & central banks                                  | 57,556.9         | 24.6                 | 0.0                            | 970.0                             | 1.7  |
| Of which regional governments and local authorities         | 10,922.6         | 19.0                 | 0.2                            | 206.1                             | 1.9  |
| Institutions and CCPs                                       | 99,944.6         | 7,713.4              | 7.7                            | 9,748.9                           | 9.8  |
| Corporate   | 229,202.5        | 84,011.2             | 36.7                           | 134,052.0                         | 58.5   |
| Retail  | 294,651.5        | 50,747.1             | 17.2                           | 72,659.0                          | 24.7   |
| Of which mortgage   | 263,355.2        | 41,773.8             | 15.9                           | 54,218.7                          | 20.6   |
| Securitization§   | 6,220.9          | 1,021.6              | 16.4                           | 1,275.6                           | 20.5   |
| Other assets†   | 6,674.6          | 6,701.8              | 100.4                          | 6,610.5                           | 99.0   |
| Total credit risk   | 694,251.1        | 150,219.7            | 21.6                           | 225,316.1                         | 32.5   |
| <b>Credit valuation adjustment</b>                          |                  |                      |                                |                                   |  |
| Total credit valuation adjustment                           | --               | 1,075.0              | --                             | 0.0                               | --   |
| <b>Market Risk</b>  |                  |                      |                                |                                   |  |
| Equity in the banking book                                  | 2,448.4          | 2,450.4              | 100.1                          | 20,714.4                          | 846.0  |
| Trading book market risk                                    | --               | 11,600.0             | --                             | 17,400.0                          | --   |

Table 4

| Jyske Bank A/S--Risk-Adjusted Capital Framework Data (cont.) |                |                  |                         |                                  |                             |
|--|----------------|------------------|-------------------------|----------------------------------|-----------------------------|
| Total market risk  | --             | 14,050.4         | --                      | 38,114.4                         | --                          |
| Operational risk   |                |                  |                         |                                  |                             |
| Total operational risk                                       | --             | 15,930.2         | --                      | 22,562.7                         | --                          |
|  | Exposure       | Basel III RWA    | Average Basel II RW (%) | S&P Global Ratings RWA           | % of S&P Global Ratings RWA |
| Diversification adjustments                                  |                |                  |                         |                                  |                             |
| RWA before diversification                                   | --             | 181,275.2        | --                      | 285,993.1                        | 100.0                       |
| Total diversification/ concentration adjustments             | --             | --               | --                      | 55,697.0                         | 19.5                        |
| RWA after diversification                                    | --             | 181,275.2        | --                      | 341,690.1                        | 119.5                       |
|  | Tier 1 capital | Tier 1 ratio (%) | Total adjusted capital  | S&P Global Ratings RAC ratio (%) |                             |
| Capital ratio  |                |                  |                         |                                  |                             |
| Capital ratio before adjustments                             |                | 0.0              | 0.0                     | 35,018.0                         | 12.2                        |
| Capital ratio after adjustments†                             |                | 0.0              | 0.0                     | 35,018.0                         | 10.2                        |

\*Exposure at default. §Securitization Exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' 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 2019, S&P Global Ratings.

#### Risk position: Asset quality deterioration expected slightly above market.

Jyske Bank's risk position is based on the sound asset quality of its domestic loan book, which we expect to remain broadly in line with our current assessment of economic risk for the Danish banking system in the aftermath of the pandemic.

Total loans amounted to DKK485 billion including repos (€65 billion) of which 69% were mortgage loans.

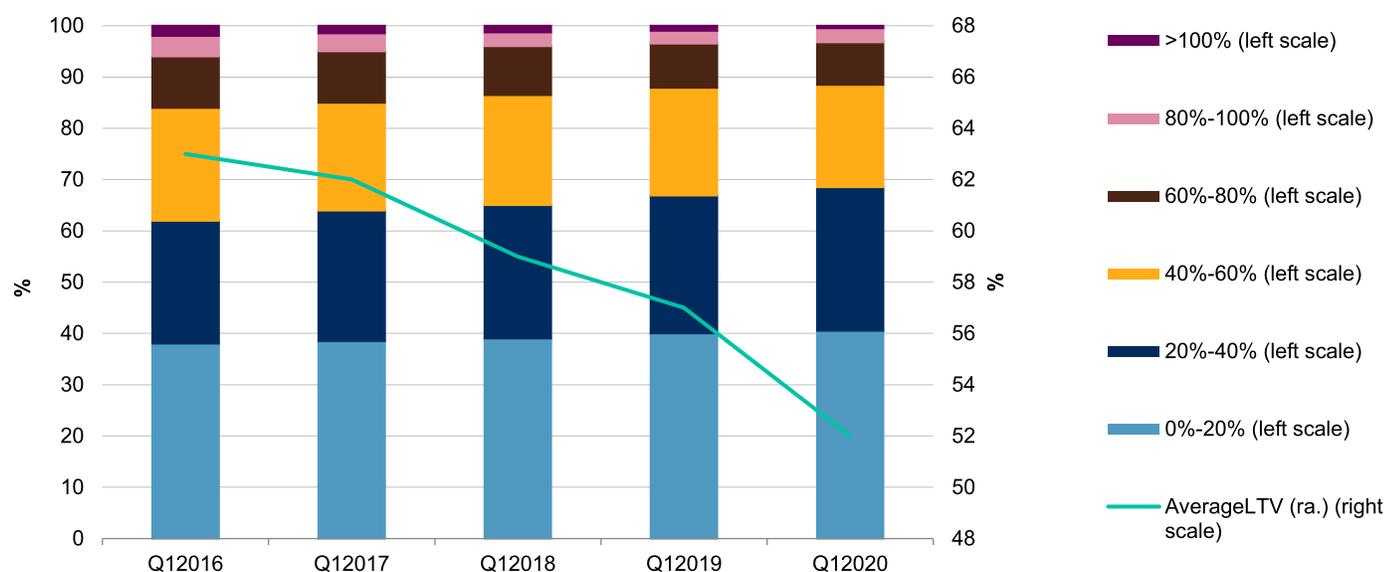
Jyske Bank's exposure to sectors badly affected by COVID-19 and the resulting lockdowns--airlines, shipping, retail, hotels, restaurants, and leisure--approximates 3% of lending, below the overall market average.

Although we foresee new banking sector provisions reaching 35 bps of lending this year in Denmark, from 6 bps in 2019, we continue to foresee low economic risk in the long term (see "COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems," June 16, 2020). We expect Jyske Bank to reach a slightly higher level in 2020, at 40 bps, driven by pressure in its corporate portfolios, mostly in hotels, restaurants, leisure, and commerce. Still, this remains materially below the bank's peak losses of 233 bps in 2009 before it entered the mortgage market.

Jyske Realkredit's collateralized loan book has increased the bank's resilience and provides regional and product diversification to Jyske Bank's historically SME-focused loan book. The average loan-to-value of the bank's mortgage portfolio has reduced to 52% at Q1 2020 (see chart 4) reducing the loss potential from the 2.5% and 4.0% price reduction that we expect this year for private dwellings and commercial real estate, respectively.

Chart 4

Jyske Bank A/S Lending Portfolio Refocused On Housing (share of lending per LTV category)



Source: Jyske Bank A/S.  
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That said, observed impairments remain limited so far. As of Q1 2020 Jyske Bank reported loan impairment charges of DKK1 billion driven entirely by a management estimate. It spread DKK400 million to mortgage activities, DKK550 million to banking activities, and DKK50 million to leasing activities.

The bank's gross nonperforming loans (NPLs) had decreased to 2.04% of loans at Q1 2020 from 2.15% at year-end 2019. We expect NPLs to increase to about 2.6% at end-2020 and approach closer to 3.0% by end-2022, as COVID-19 and the consequences of lockdowns affect the bank's retail, leisure, hotels, and restaurants portfolios.

Table 5

| Jyske Bank A/S--Risk Position   |                        |       |      |       |      |
|---|------------------------|-------|------|-------|------|
|   | --Year ended Dec. 31-- |       |      |       |      |
| (%)   | 2020*                  | 2019  | 2018 | 2017  | 2016 |
| Growth in customer loans  | 0.4                    | 0.6   | 4.0  | 7.9   | 9.2  |
| Total diversification adjustment/S&P Global Ratings' RWA before diversification | N/A                    | 19.5  | 18.0 | 18.9  | 18.1 |
| Total managed assets/adjusted common equity (x)                                 | 21.7                   | 20.5  | 20.4 | 21.3  | 21.2 |
| New loan loss provisions/average customer loans                                 | 0.9                    | (0.0) | 0.1  | (0.0) | 0.1  |
| Net charge-offs/average customer loans  | 0.1                    | 0.1   | 0.2  | 0.2   | 0.3  |
| Gross nonperforming assets/customer loans + other real estate owned             | 2.0                    | 2.1   | 2.4  | 4.0   | 5.4  |
| Loan loss reserves/gross nonperforming assets                                   | 63.4                   | 50.8  | 48.5 | 28.4  | 25.9 |

\*Data as of March 31. N/A--Not applicable.

As have other Nordic banks, Jyske Bank has been ramping up its AML efforts, and we expect the bank to be compliant with relevant AML regulations.

### **Funding and liquidity: Funding profile similar to larger Danish peers'**

We consider Jyske Bank's funding to be average and liquidity to be adequate and expect these factors to remain in line with peers. In particular, the bank's funding profile consolidates bank and mortgage financing in the group's metrics and, as such, is similar to that of domestic peer Danske Bank. The group's stable funding ratio was 95.8% on Dec. 31, 2019, down slightly from 98.6% on Dec. 31, 2018.

We note the importance of the supportive Danish covered bond market. The "balance principle" results in high duration and cash flow matching (in addition to interest rate and currency matching) and the industry and regulator have worked to significantly reduce the volume of one-year bond refinancings, resulting in longer and more balanced debt maturity profiles. In our view, this improved stability is complemented by the 2014 Danish covered bond legislation that extends bond maturities by 12 months in the event of a failed auction, thereby effectively passing onrefinancing risks to investors and repricing risks onto borrowers. The Danish covered bond market--a key investment target for Danish pension funds--has, over its 200-year history, performed well in several crises including in recent months despite the capital market turbulence caused by COVID-19. We expect pension funds' demand for low-risk domestic assets to continue to support stable demand for Danish covered bonds.

Despite the substantial contribution of corporate deposits to Jyske Bank's deposit book, we think most deposits are granular and stable. This benefits Jyske Bank's SME lending profile and provides the bank with a steady source of funding for its nonmortgage lending. Overall core customer deposits formed 22% of the funding base on Dec. 31, 2019.

We view Jyske Bank's liquidity as adequate, with our one-year liquidity ratio (broad liquid assets to short-term wholesale funding) at 0.97x on Dec. 31, 2019, compared with 1.06x at end- 2018. The bank's regulatory liquidity coverage ratio (LCR) was 253% on Dec. 31, 2019, versus 219% at end-2018. Jyske Bank has an internal guideline setting the minimum LCR at 150%, compared with a minimum regulatory requirement of 100%.

Our ratio calculation does not currently factor in that some covered bonds maturing within a year--and therefore considered short-term funding--could already be pre-auctioned with a forward settlement, or could be linked to a planned instalment on the borrower side. We estimate that giving credit to these Denmark-specific features in our ratio calculation would currently improve our BLAST ratio by around 20 bps and our stable funding ratio by around 5 bps.

**Table 6**

| <b>Jyske Bank A/S--Funding And Liquidity</b>         |                               |             |             |             |             |
|--|-------------------------------|-------------|-------------|-------------|-------------|
|  | <b>--Year ended Dec. 31--</b> |             |             |             |             |
| <b>(%)</b>   | <b>2020*</b>                  | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> |
| Core deposits/funding base                           | 22.2                          | 22.1        | 25.5        | 26.5        | 26.7        |
| Customer loans (net)/customer deposits               | 334.7                         | 346.3       | 321.7       | 300.2       | 289.6       |
| Long-term funding ratio                              | 74.1                          | 75.5        | 83.1        | 83.2        | 78.8        |
| Stable funding ratio                                 | 95.3                          | 95.8        | 98.6        | 102.7       | 98.6        |
| Short-term wholesale funding/funding base            | 27.4                          | 26.0        | 18.0        | 17.9        | 22.5        |
| Broad liquid assets/short-term wholesale funding (x) | 1.0                           | 1.0         | 1.1         | 1.3         | 1.1         |
| Net broad liquid assets/short-term customer deposits | (4.1)                         | (7.1)       | 4.3         | 18.6        | 4.6         |

**Table 6**

| Jyske Bank A/S--Funding And Liquidity (cont.)        |                        |      |      |      |      |
|--|------------------------|------|------|------|------|
|  | --Year ended Dec. 31-- |      |      |      |      |
| (%)  | 2020*                  | 2019 | 2018 | 2017 | 2016 |
| Short-term wholesale funding/total wholesale funding | 35.0                   | 33.2 | 24.0 | 24.2 | 30.6 |
| Narrow liquid assets/3-month wholesale funding (x)   | 1.7                    | 1.8  | 2.6  | 2.0  | 1.8  |

\*Data as of March 31.

### Support: One notch of ALAC support.

We view Denmark's resolution regime as effective under our ALAC criteria because, among other factors, we think it contains a well-defined bail-in process under which authorities would permit nonviable systemically important banks to continue critical functions as going concerns, following a bail-in of eligible liabilities.

Following the publication of MREL for systemic banks in March 2018, Jyske Bank has started to issue senior nonpreferred instruments, thereby accumulating ALAC to meet its MREL. By end-2021, the bank will have to meet subordination requirements set as the highest of 2x its solvency requirement plus 1x the combined buffer requirement and 8% of total liabilities and own funds. We estimate that the DKK9 billion of senior nonpreferred instruments it issued in 2018 and 2019 led ALAC to rise above 5% of its RWAs by end-2019. We foresee that the bank's ALAC will remain above 5% over the long run.

### Key subsidiary: Jyske Realkredit

We view Jyske Realkredit as a core subsidiary and align our long-term issuer credit rating and outlook on it with those on Jyske Bank. We think it is highly unlikely that Jyske Bank would sell Jyske Realkredit given its vital role in the enlarged bank'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.

### Resolution Counterparty Ratings (RCR)

Following the completion of our RCR jurisdiction assessments on Denmark, we assigned 'A+/A-1' RCRs to Jyske Bank (see "24 European Banking Groups Assigned Resolution Counterparty Ratings," published June 29, 2018).

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default with an effective bail-in resolution process for the issuing financial institution.

### Additional rating factors: None

No additional factors affect the ratings.

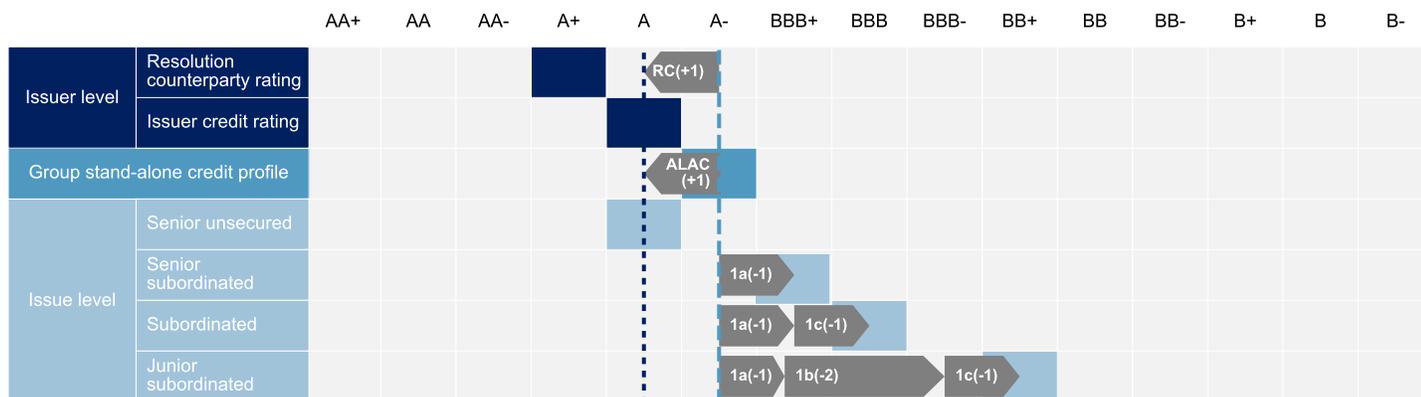
### Issue Ratings

We rate Jyske Bank's nonpreferred senior debt instruments, which rank below its senior preferred debt, at 'BBB+', one notch below the bank's SACP, reflecting the subordination risk (see the "senior subordinated" notes listed in the Ratings Detail box below). This follows our approach when an instrument is contractually or statutorily subordinated to preferred senior unsecured debt and the BRRD, in effect represents a contractual write-down clause. We rate the bank's senior preferred instruments 'A', one notch above the bank's stand-alone credit profile, factoring into the ratings our expectation that its increased ALAC buffer would provide meaningful protection to senior creditors in a resolution scenario.

We rate the subordinated debt instruments of Jyske Bank at 'BBB', two notches below the bank's SACP.

We rate Jyske Bank's junior subordinated instruments at 'BB+', four notches lower than the SACP.

### Jyske Bank A/S: Notching



#### Key to notching

- Group stand-alone credit profile
- Issuer credit rating
- RC Resolution counterparty liabilities (senior secured debt)
- ALAC Additional loss-absorbing capacity buffer
- 1a Contractual subordination
- 1b Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
- 1c Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our "Hybrid Capital: Methodology And Assumptions" criteria, published on July 1, 2019.

AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt. NVCC--nonviability contingent capital.

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### Environmental, Social and Governance

We consider ESG credit factors for Jyske Bank to be broadly in line with industry and country peers.

In 2019, Jyske Bank launched an ESG program. The initiative initially focuses on external ESG reporting, and the bank's investing activities--integrating ESG in the bank's advice and product range--before addressing the group's wider activities. Jyske Bank aims to increase its share of lending to sustainable areas such as green buildings, clean transport, and renewable energy. For the latter, it targets the financing of a generation of a 2TWh of renewable energy in 2025--equivalent to 6% of Denmark's electricity generation in 2018.

### Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018

- 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: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating 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

## Related Research

- COVID-19: Resilient Fundamentals And Assertive Policy Measures Will Buoy Nordic Banking Systems, Jun 16, 2020
- Banking Industry Country Risk Assessment Update: May 2020, May 18, 2020
- EMEA Financial Institutions Monitor 2Q2020: Resilient But Not Immune To COVID-19, May 14, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 29, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- Various Rating Actions Taken On Five Danish Banks As Denmark's Banking Market Offers Mixed Blessings, Oct 23, 2019
- 24 European Banking Groups Assigned Resolution Counterparty Ratings

| 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 July 9, 2020)\*

**Jyske Bank A/S**

|                                |              |
|--------------------------------|--------------|
| Issuer Credit Rating           | A/Stable/A-1 |
| <i>Nordic Regional Scale</i>   | --/--/K-1    |
| Resolution Counterparty Rating | A+/--/A-1    |
| Commercial Paper               |              |
| <i>Foreign Currency</i>        | A-1          |
| Junior Subordinated            | BB+          |
| Senior Subordinated            | BBB+         |
| Senior Unsecured               | A            |
| Short-Term Debt                | A-1          |
| Subordinated                   | BBB          |

**Issuer Credit Ratings History**

|             |   |
|-------------|---|
| 23-Oct-2019 | A/Stable/A-1                              |
| 05-Apr-2018 | A-/Positive/A-2                           |
| 01-Dec-2011 | A-/Stable/A-2                             |
| 10-Feb-2012 | <i>Nordic Regional Scale</i><br>--/--/K-1 |

**Sovereign Rating**

|         |                 |
|---------|-----------------|
| Denmark | AAA/Stable/A-1+ |
|---------|-----------------|

**Related Entities****Jyske Realkredit A/S**

|                                |              |
|--------------------------------|--------------|
| Issuer Credit Rating           | A/Stable/A-1 |
| Resolution Counterparty Rating | A+/--/A-1    |
| Senior Secured                 | AAA/Stable   |
| Short-Term Secured Debt        | A-1+         |

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' 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.

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