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## Research Update:

# Denmark-Based Jyske Bank And BRFkredit Ratings Affirmed At 'A-/A-2' Following Completion Of Merger; Outlook Stable

### Primary Credit Analyst:

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

### Secondary Contact:

Alexander Ekbohm, Stockholm (46) 8-440-5911; alexander.ekbom@standardandpoors.com

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## Research Update:

# Denmark-Based Jyske Bank And BRFkredit Ratings Affirmed At 'A-/A-2' Following Completion Of Merger; Outlook Stable

## Overview

- On April 30, 2014, Jyske Bank A/S and BRFkredit A/S completed the merger announced in February, after having received all necessary approvals.
- We consider BRFkredit to be a "core" subsidiary of Jyske Bank within the new group.
- We are affirming our 'A-/A-2' ratings on both banks.
- Our stable outlook reflects that the possible removal of government support from the ratings by year-end 2015 may be offset by an improvement in the combined entity's stand-alone credit profile from potentially stronger capital and earnings.

## Rating Action

On July 18, 2014, Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' short-term counterparty credit ratings on Denmark-based Jyske Bank A/S and its subsidiary BRFkredit A/S. The outlook is stable.

## Rationale

The rating actions follow the banks' announcement on April 30, 2014, that the merger between them had been concluded after receiving all necessary approvals. New shares in Jyske Bank have been issued and transferred to BRFholding as payment for the full incorporation of BRFkredit into the Jyske Bank group.

Although the merger was recently completed, we consider BRFkredit to be a "core" subsidiary to the newly established group and 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 in Denmark. For example, we view Nordea Kredit as a core subsidiary of Nordea, and Realkredit Denmark as core to Danske Bank. In addition, our assessment of BRFkredit's core status remains underpinned by our expectation that the integration of the two entities will be relatively smooth. We note that they have cooperated with each other for more than a decade and have worked intensively over the past year on a joint funding structure and linked information technology platforms for Jyske Bank's Prioritet loans.

We consider that potential improvements in the group's capitalization could offset a lower likelihood of government support. This is because we expect our risk-adjusted capital (RAC) ratio for the combined entity to increase meaningfully above 10% under our base case, from the pro forma level of 9.8% as of Dec. 31, 2013. We include in our projections a reduction in commissions from loans placed with Totalkredit, a subsidiary of Nykredit Realkredit, and a gradual transfer of these loans back to the group.

We note the large impairment provisions of Danish krone 965 million (about 45 basis points of the loan book) that BRFKredit reported in the first quarter of 2014. We expect this to be a one-time occurrence, resulting from recently introduced guidelines from the Danish financial supervisory authority and an alignment of policies in the overall group. However, we will closely monitor any negative trend that could indicate weaker asset quality than currently.

## **Outlook**

The stable outlook reflects our view that the possible removal of government support from the ratings on both banks by year-end 2015 may be offset by strengthening capital, such that our RAC ratio sustainably exceeds 10%. We expect that this will be supported by stronger, more stable earnings resulting from synergies of the merger.

We may remove the notch of uplift for extraordinary government support from the ratings on Jyske Bank and BRFKredit by year-end 2015 if we consider that such support is less predictable under the new EU legislative framework. If, however, the group can deliver improvements in earnings stability and capital generation, and we expect that it can achieve and maintain a RAC ratio higher than 10%, we could revise our assessment of capital and earnings to "strong" from "adequate."

We could consider an upgrade if we believe that potential extraordinary government support for the combined entity's senior unsecured creditors is unchanged in practice, despite the introduction of bail-in powers and international efforts to increase banks' resolvability. We would also assess any steps Jyske Bank and BRFKredit might take to mitigate bail-in risks for senior unsecured creditors, such as building a large buffer of subordinated instruments.

Given the existing synergies and our anticipation of a smooth transition, we consider it unlikely that bank-specific factors would lead us to lower the ratings on Jyske Bank over the next two years. However, ongoing high loan impairments could lead us to reassess the group's risk position. We also continue to review the impact of proposed changes in regulations to reduce refinancing risk for Denmark's mortgage institutions, including BRFKredit. We could lower the ratings if expected future improvement in the combined entity's funding and liquidity profile cannot bring it in line with that of its larger domestic peers.

The stable outlook on BRFkredit mirrors that on Jyske Bank.

## Ratings Score Snapshot

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

## Related Criteria And Research

- Group Rating Methodology, Nov. 19, 2013
- Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Bank Hybrid Capital Methodology And Assumptions, Nov. 1, 2011
- Bank Capital Methodology And Assumptions, Dec. 6, 2010

## Ratings List

### Ratings Affirmed

#### Jyske Bank A/S

Counterparty Credit Rating	A-/Stable/A-2
Nordic Regional Scale	--/--/K-1
Certificate Of Deposit	A-2
Senior Unsecured	A-

#### BRFkredit A/S

Counterparty Credit Rating	A-/Stable/A-2
Senior Unsecured	A-

**Additional Contact:**

Financial Institutions Ratings Europe; FIG\_Europe@standardandpoors.com

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