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vestjyskBANK Increases Impairments

Heightening socioeconomic and market uncertainty prompted vestjyskBANK to state in its quarterly report for Q1-Q3 2011 that impairments for the year for loans and guarantees were expected to reach DKK 400 million levels; the Bank anticipated that DKK 150 million of that amount would be charged during the fourth quarter.

It has now been determined that additional impairments of around DKK 550 million will be needed, of which DKK 384 million is related to agriculture.

During Q4 2011 the Danish Financial Supervisory Authority conducted a functional study of vestjyskBANK's credit area. The study covered credit policies, business procedures as well as credit management/organisation.

The Financial Supervisory Authority concluded that vestjyskBANK's core earnings remain good.

Impairments mainly pertain to agricultural commitments

The Financial Supervisory Authority reviewed 149 of the Bank's largest commitments, the equivalent of approximately 35 percent of the Bank's total loans and credits. As a result of the review and as at 30 September 2011, the Bank will be required to perform additional impairments of DKK 481.3 million for the reviewed commitments. This amount covers commitments in agriculture of DKK 309.3 million, DKK 128.2 million on the largest real estate commitments and miscellaneous commitments of DKK 43.8 million. Additionally, the Bank expects that it will have to perform additional impairments of DKK 75 million across its general agricultural commitments. As a result, the accumulated impairment ratio for commitments with dairy and pig meat producers amounts to 15 percent.

In its review the Financial Supervisory Authority employed a more restrictive approach primarily to agricultural commitments determined to possess objective indication of impairment than the one used by the Bank. Also, the Financial Supervisory Authority utilised a more cautious valuation approach to collaterals and the price of farm land.

The Financial Supervisory Authority's report summarised that the Bank's risk awareness is good and that the Bank exercises close follow-up on commitments, but determines objective indication of impairment late in the process.

The Financial Supervisory Authority also pointed to a number of factors of a more technical nature and issued notice to the Bank to adapt its practices accordingly. The Bank has taken this note of this.

Agriculture important to vestjyskBANK

Agriculture is and has historically always been an important part of vestjyskBANK's core business; it is a business area in which the Bank has substantial expertise. There is no doubt that generally agriculture is under a good deal of pressure and that the financial statements for the first nine months of 2011 contained a number of disappointing results. This spring, a more positive development was expected for the second half-year of 2011. Danish agriculture will be undergoing a period of consolidation and will therefore have fewer farmholdings. The Bank's task will be to contribute to financing farm holdings that are financially sustainable in the long term.

Solvency

Before the Financial Supervisory Authority's review the Bank's solvency need stood at 10.5 percent. As at 30 September 2011 and after the additional impairments, the Bank's relevant solvency need totalled 10.6 percent (calculated according to the credit reservation approach (kreditreservationsmetoden)). The Bank's solvency rate is 12.7 percent, which means that it has 2.1 percent in surplus solvency.

Liquidity

The measures taken by vestjyskBANK to reduce lending and increase deposits—which were designed to secure necessary funding and liquidity in 2012 and 2013—conform completely with the course we have already charted out.

The Bank will update the Financial Supervisory Authority continuously about its long-term liquidity plans, especially with respect to the Bank's plans for settling its government guarantees in 2013. As at 16 December 2011, the Bank's liquidity ratio totalled 102 percent.

Supervisory Diamond (Tilsynsdiamanten)

vestjyskBANK remains within the limit values for all the five benchmarks set out in the Financial Supervisory Authority's Supervisory Diamond.

Updates on 2011 Accounting Matters

The Bank maintains its core earnings outlook of minimum DKK 500 million before impairments and extraordinary contributions to the Danish Guarantee Fund for Depositors and Investors (Garantifonden for Indskydere og Investorer). We also maintain our rate of cost expectation of 55 as we push ahead with our targeted efforts to bolster our income platform and streamline our use of resources.

Expectations for the fiscal year's total impairments are adjusted from levels of DKK 400 million to DKK 950 million. The income outlook for 2011 is lowered equivalently by DKK 550 million.

The Bank's 2011 Annual Report will be published on 22 February 2012.

vestjyskBANK

Frank Kristensen
Chief Executive Officer