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Vestjysk Bank's Quarterly Report for Q1-Q3 2016 with upward adjustment of core earnings forecast for full year 2016

Vestjysk Bank realised a profit after tax of DKK 26 million in Q1–Q3 2016. The Bank’s core operations are still sound, and a profit before impairment charges of DKK 354 million for Q1–Q3 2016 is considered satisfactory and leads the Bank to increase the expectations for core earnings in 2016. As a result of the persistently large impairment charges - due to the depressed economic situation still facing Danish agriculture, with very low settlement prices - the Bank's profit after impairment charges is considered unsatisfactory.

The Bank remains committed to improving its capital situation, including strengthening its solvency surplus and its surplus in relation to the requirement for common equity tier 1 capital.

Summary of Vestjysk Bank's results in Q1-Q3 2016:

- Profit after tax of DKK 26 million (Q1-Q3 2015: DKK 34 million).
- Core income of DKK 725 million (Q1-Q3 2015: DKK 719 million).
- Cost ratio of 51.2 (Q1-Q3 2015: 59.9), corresponding to a decrease of 8.7 percentage points.
- Core earnings of DKK 354 million before impairment (Q1-Q3 2015: DKK 288 million).
- Impairment of loans and receivables, etc. of DKK 326 million (Q1-Q3 2015: DKK 252 million). Impairment charges on agriculture accounted for the majority of the Bank’s impairment charges.
- Deposit surplus of DKK 4.1 billion at 30 September 2016, compared with a deposit surplus of DKK 4.2 billion at 30 September 2015.
- The minimum requirements for continued banking operations are 8.0 per cent (total capital ratio) and 4.5 per cent (common equity tier 1 capital ratio), respectively, of weighted risk exposures. At 30 September 2016, the Bank’s surplus relative to these requirements was 4.7 percentage points, or DKK 754 million, and 3.9 percentage points, or DKK 624 million, respectively.
- The total capital ratio stood at 12.7 per cent and the individual solvency need at 10.5 per cent, corresponding to a surplus of 2.2 percentage points or DKK 348 million at 30 September 2016.
- Common equity tier 1 capital ratio of 8.4 at 30 September 2016, compared with a requirement of 6.8. The surplus is 1.6 of a percentage point, or DKK 248 million, which is how far the Bank is from the need to prepare a capital conservation plan.
- Surplus liquidity of 120 per cent at 30 September 2016.
- In December 2015, the EU Commission opened an in-depth investigation to assess whether the state aid granted to Vestjysk Bank by the Danish State in 2012 was in accordance with EU state aid rules. In particular, the Commission will examine whether Vestjysk Bank’s restructuring plan would restore the Bank’s long-term viability without unduly distorting competition. The time frame of this investigation and the approval process is unknown.

Outlook for 2016
Given an unchanged economic climate, the Bank's total business volume is expected to have the capacity to generate positive adjusted core earnings before impairment of DKK 400 to 450 million, against previously stated core earnings before impairment at the upper end of DKK 350 to 400 million. Assuming an unchanged economic climate, Management expects that impairment writedowns can be absorbed into the Bank's core earnings, leading to a result at the same level as 2015. This will contribute to ensuring a continuing bank with an appropriate business platform and the possibility of achieving a more adequate capital structure.

Although Danish agriculture experienced improved conditions with rising settlement prices in Q3 2016, the outlook for the sector is still considered to be uncertain, and the year to date has not brought any essential improvements to the underlying economic conditions facing agriculture. As the Bank has a significant exposure to this industry a return to the low price level in H2 2015 and H1 2016 will lead to increased need for impairment writedowns relative to Management's current estimates for 2016. The impact of a further deterioration of the economic climate on the agricultural sector and/or other sectors will thus reduce the Bank's opportunities for consolidation in 2016.

As from 1 January 2017, the Bank will be required to include additional tier 1 capital from the Danish State in the Bank's individual solvency need, in addition to a 0.625 per cent increase in the general capital conservation buffer. According to the Bank's expectations as to the financial performance for Q4 2016, all other things being equal, it will only be possible to partially comply with the enhanced requirements as to the amount and composition of the Bank's capital. Non-compliance with the so-called individual common equity tier 1 capital requirement – a "soft requirement" – leads to the need for a capital conservation plan to be prepared, which is to be approved by the Danish FSA.

Please address any enquiries regarding the present announcement to Jan Ulsø Madsen, CEO, at tel. +45 96 63 21 04.

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