The Danish Financial Supervisory Authority
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Vestjysk Bank A/S
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Vestjysk Bank's 2016 Annual Report

Vestjysk Bank realised a profit after tax of DKK 80 million in 2016. The Bank's core operations are sound and core earnings of DKK 499 million before impairment are considered very satisfactory. 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 acceptable.

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.

In light of the Bank's operational performance and the expectation that the positive trend will continue, a capital increase in the form of a share issue is being considered. For the time being, the Bank has not settled on any concrete model, however, and no further information on these considerations is therefore available.

Summary of Vestjysk Bank's results in 2016:

- Profit after tax of DKK 80 million (2015: DKK 49 million).
- Core income of DKK 1,004 million (2015: DKK 989 million), including value adjustments of DKK 65 million (2015: DKK 17 million).
- Cost ratio of 50.3 (2015: 57.5), corresponding to a decrease of 7.2 percentage points.
- Core earnings before impairment of DKK 499 million (2015: DKK 420 million).
- Impairment of loans and receivables, etc. of DKK 416 million (2015: DKK 370 million). Impairment charges on agriculture still accounts for the majority of the Bank's impairment charges.
- 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 31 December 2016, the Bank's surplus relative to these requirements was 5.0 percentage points, or DKK 798 million, and 4.2 percentage points, or DKK 682 million, respectively.
- The total capital ratio stood at 13.0 per cent and the individual solvency need at 10.6 per cent, corresponding to a surplus of 2.4 percentage points or DKK 388 million at 31 December 2016, which is how far the Bank is from the need to prepare a recovery plan.
- Common equity tier 1 capital ratio of 8.7 at 31 December 2016, compared with a requirement of 7.0. The surplus is 1.7 percentage point, or DKK 287 million, which is how far the Bank is from the need to prepare a capital conservation plan.
- Deposit surplus of DKK 4.4 billion at 31 December 2016, compared with a deposit surplus of DKK 4.7 billion at 31 December 2015. Surplus liquidity of 127.4 per cent at 31 December 2016.

As announced in the company announcement dated 4 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.

At 1 January 2017, in accordance with the FSA's guidelines on the calculation of solvency need, the Bank has recognised state-funded additional tier 1 capital of DKK 312 million in the Bank's individual solvency need, in addition to a 0.625 per cent increase in the general capital conservation buffer. Accordingly, the common equity tier 1 capital requirement has risen to 9.5 per cent. At 1 January 2017, common equity tier 1 capital ratio was calculated at 8.8 per cent – i.e. 0.7 of a percentage point, or DKK 116 million, short of the requirement.

Due to the shortfall, the Bank has, in compliance with section 125 of the Danish Financial Business Act, prepared a capital conservation plan. The plan has been assessed and approved by the Danish FSA. The Bank is expected to be able to recover the shortfall through earnings from ordinary operation.

Outlook for 2017
Given an unchanged economic climate, the Bank's total business volume is expected to have the capacity to generate core earnings before impairment at around DKK 400-450 million. Lower impairment losses are expected. Assuming an unchanged economic climate, Management expects that impairment losses can be absorbed by the Bank's core earnings, resulting in a significant improvement of its consolidation in 2017.

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

Vestjysk Bank A/S

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