

The Danish Financial Supervisory Authority
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Vestjysk Bank A/S
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Vestjysk Bank's 2018 Annual Report

2018 Highlights

Vestjysk Bank realised a profit after tax of DKK 296 million in 2018. The profit was positively affected in the amount of DKK 75 million by the recognition of a deferred tax asset at 31 December 2018 (see company announcement dated 12 February 2019). The Bank's core operations remain sound, producing earnings before impairment of DKK 428 million. Impairment losses were generally at a lower level than in 2017, and in light of the severe financial challenges that the agricultural sector still faced in 2018, the Bank's overall profit after tax for 2018 is considered very satisfactory.

Summary of Vestjysk Bank's results in 2018:

- Profit after tax of DKK 296 million (2017: DKK 163 million), equalling a return on equity after tax of 12.1 per cent. Excluding the recognition of the deferred tax asset, the profit after tax was DKK 221 million and return on equity after tax was 9.2 per cent.
- Core income of DKK 909 million (2017: DKK 945 million), including value adjustments of DKK 35 million (2017: DKK 23 million).
- Cost ratio of 52.9 (2017: 53.3).
- Core earnings before impairment of DKK 428 million (2017: DKK 441 million).
- Impairment of loans and receivables, etc. of DKK 186 million (2017: DKK 270 million). Impairment losses on agriculture still accounted for the majority of the Bank's impairment losses.
- Recognition of a deferred tax asset of DKK 75 million. Not capitalized deferred taxes are subsequently DKK 546 million.
- The Bank's capital requirement was 13.0 per cent, consisting of an individual solvency need of 11.1 per cent and a general capital conservation buffer of 1.875 percent.
- The Bank's total capital ratio was 19.7, implying an excess coverage of 6.7 percentage points or DKK 955 million.
- The Bank's LCR was 195.3 per cent compared with a requirement of 100 per cent.
- Implementation of the new IFRS 9 rules at 1 January 2018 resulted in additional impairment losses of DKK 225 million. The impact net of tax was recognised directly in the Bank's equity at 1 January 2018, which was thus reduced by DKK 207 million, equal to 9.0 per cent of shareholders' equity.
- The Bank has decided not to apply the European Commission's transitional arrangement for partial recognition in total capital of the impairment losses resulting from IFRS 9. The DKK 207 million adverse effect of the impairment rules under IFRS 9 thus has full effect on the Bank's capital ratios from 1 January 2018.

Organisational adjustments

The Bank implemented organisational adjustments effective at 1 September 2018, reducing its headcount by about 24 FTEs, corresponding to a staff reduction of 6 per cent. Non-recurring expenses in connection with these redundancies amounted to approximately

DKK 30 million, which affected staff costs and administrative expenses for the year and, by extension, the Bank's profit for 2018.

Impairment losses in 2018

In the course of 2018, the Bank recognised an add-on on the calculation of impairment allowances on agricultural customers. This was in response to last summer's drought and the currently depressed settlement prices of agricultural products. On an ongoing basis, the Bank has thus addressed the Danish FSA's demand that banks calculate an add-on on impairment allowances based on a qualified estimate of the financial consequences to agricultural customers, and the Bank has recognised an add-on which, based on available facts, is expected to be sufficient to cover the extraordinary consequences of last summer's drought and the depressed settlement prices of milk and especially pork.

The EU Commission

In 2017, the Commission approved the state aid subject to certain terms, which included the implementation of the overall solution announced by the Bank in a company announcement of 12 June 2017 and the Bank complying with a number of conditions, as described in greater detail in a separate section of the Management's review. If the Bank generates a specified minimum return on equity after tax in the 7-11 per cent interval in 2018, the restructuring period will end at 31 December 2018. The Commission has yet to approve the Bank's compliance with this requirement. The Bank has not incorporated any Commission restrictions in 2019 and thus does not expect the pending approval to give rise to any amendment of the Bank's strategy or outlook for 2019.

Outlook for 2019

Given an unchanged economic climate and an overall decrease in impairment losses, the Bank's total business volume is expected to have the capacity to generate a profit after tax of around DKK 225-275 million. These expectations are based on an assumption of an unchanged economic climate. Currently, however, there is some uncertainty as to the global economic outlook and, in particular, the settlement price trend for agricultural products. A decline in these could impact the Bank's impairment losses.

Enquiries

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Vestjysk Bank A/S

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Chairman

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