

*Company announcement no. 5/2014 | 25. februar 2014*

## **Danske Andelskassers Bank – Annual Report 2013**

**In the fourth quarter of 2013, Danske Andelskassers Bank recorded a pre-tax profit of DKK 16m. As a result of the profit as well as other initiatives the solvency ratio of Danske Andelskassers Bank was 11.2 % as at 31 December 2013 and – all things being equal – 11.8 % at the date of the Annual Report 2013.**

**The bank's excess solvency compared to the general solvency requirement was thus 3.2 percentage points as at 31 December 2013 and 3.8 percentage points at the date of the Annual Report. The bank's shortfall compared to the individual solvency requirement was 1.4 percentage points at 31 December 2013 and 0.2 percentage points at the date of the Annual Report. The latter is due to a lowering of the individual solvency requirement to 12.0 %, as described in company announcement no. 3/2014, as well.**

**Danske Andelskassers Bank's pre-tax loss of 2013 as a whole came to DKK -380m against DKK -183m in 2012. The loss is primarily due to impairments related to the visit by the Danish FSH in the third quarter of 2013 and the loss is considered very unsatisfactory.**

**The pre-tax core earnings of 2013 came to DKK 178m which is in line with the banks expectations of pre-tax core earnings between DKK 160m and DKK 190m as announced in the Quarterly Report of the first quarter 2013. The bank expects core earnings in 2014 between DKK 175m and DKK 210m**

The Board of Directors of Danske Andelskassers Bank A/S has on this day adopted the financial statements for 2013.

Danske Andelskassers Bank recorded a pre-tax loss of DKK -380m in 2013 against a pre-tax loss of DKK -183m in 2012. The loss for 2013 is considered very unsatisfactory but it is however considered satisfactory that the fourth quarter of 2013 came to a pre-tax profit of DKK 16m compared to a pre-tax loss of DKK -70m in the fourth quarter of 2012.

With the profit of fourth quarter being contributory factor the solvency ratio of Danske Andelskassers Bank was 11.2 % as at 31 December 2013 against 10.1 % as at 30 September 2013. As at 31 December 2013 Danske Andelskassers Bank thus had an excess solvency of 3.2 percentage points compared to the general solvency requirement of 8.0 % and a shortfall of 1.4 percentage points compared to the individual solvency requirement of 12.6 % as stated by the Danish FSA.

Since publishing the Quarterly Report for the first three quarters of 2013 Danske Andelskassers Bank have been working with a capital recovery plan with a view to restoring solvency to a satisfactory level. This work has been a priority in the first months of 2014 as well and activities since 1 January 2014 – among these the divestment of shares in DLR Kredit A/S as announced in company announcement no. 4/2014 as of 11 February 2014 and adjustments due to the implementation of CRD IV – means that the solvency ratio of Danske Andelskassers Bank at the date of the Annual Report, all things being equal, is 11.8 %. This corresponds to an excess solvency of 3.8 percentage points compared with the general solvency requirement and a shortfall of 0.2 percentage points compared to the bank's individual solvency requirement which – as described in company announcement no. 3/2014 as of 7 February 2014 – is lowered to 12.0 %. As described later, the work with the capital recovery plan goes on.

### **Core earnings meet the expectations**

The pre-tax core earnings of Danske Andelskassers Bank came to DKK 178m in 2013 against DKK 231m in 2012. The core earnings of 2013 are in line with the banks expectations of pre-tax core earnings between DKK 160m and DKK 190m as announced in the Quarterly Report of the first quarter 2013.

Pre-tax core earnings are calculated as profit before tax, market value adjustments, impairments and expenses for sector solutions etc. and the main reason behind the decline is a fall in the bank's interest income. The fall in interest income is mainly due to a fall in loans and it is the bank's experience that the moderate growth in Denmark is still at a low level – particularly in the prime market areas of the bank, which are outside the larger cities.

As a result of the falling income Danske Andelskassers Bank has adjusted cost through 2013 by merging branches and cutting jobs at branch- as well as head office level, including a slimming of the number of management levels. These adjustments mean that the actual number of employees in the bank was 452 as at 31 December 2013 against 517 at the beginning of 2013. Dismissals that are already announced furthermore means that the number of employees in the bank – all things being equal – is below 400 by the end of H1 2014.

The cost saving effects of the adjustments will thus increase during 2014.

### **Highlights from the Annual Report**

Highlights from the Annual Report are as follows (results for 2012 are shown in parentheses):

- Pre-tax loss of DKK -380m (DKK -183m)
- Core earnings of DKK 178m (DKK 231m)
- Impairment and losses of DKK 542m (DKK 342m), corresponding to an impairment percentage of 5.7 %
- Market value adjustments of DKK 6m (DKK 11m)
- Staff costs and administrative expenses of DKK 492m (DKK 516m)
- Deposits of DKK 8,876m (DKK 9,324m)

- Loans of DKK 6,715m (DKK 7,537m)
- Solvency ratio of 11.2 % (15.1 %) against a solvency requirement of 12.6 %
- (11.7 %) corresponding to excess solvency of 3.2 percentage points compared to the general solvency requirement and a shortfall compared to the individual solvency requirement of 1.4 percentage points. At the date of the Annual Report the shortfall compared to the individual solvency requirement – all things being equal – is 0.2 percentage points
- Core capital ratio of 11.2 % (14.9 %)
- Equity of DKK 840m (DKK 1,222m).

Danske Andelskassers Bank has a surplus of deposits compared to loans and a liquidity surplus of 251 % compared to the Act's requirements. The bank thus complies with the liquidity demands of the Danish FSA's Supervisory Diamond as well as the other demands of the diamond.

#### **Impairment of loans etc.**

In 2013, impairment of loans etc. came to DKK 524m against DKK 342m in 2012. This corresponds to an increase of 53 % and an impairment percentage for loans and guarantees of 6 % in 2013 against 3 % in 2012.

A significant part of the impairment is attributable to the FSA's visit in autumn 2013, which gave rise to further impairment of DKK 230m, particularly as a result of sampling among the bank's private customers and small business customers.

Despite emerging positive trends in the Danish economy, many of the bank's market areas are still characterised by low growth, and several of the bank's customers, particularly the agricultural customers, were faced with financial challenges in 2013. Furthermore, as confirmed by the FSA's conclusions, the economic crisis, falling housing prices and continued low growth in the bank's market areas experienced in recent years mean that an increasing number of private customers and small businesses are no longer comprised by the current interpretation of the accounting rules on disposable income or are faced with technical insolvency. It should be noted that several of these customers have always met their financial commitments.

The bank has strengthened its competencies in the credit area considerably in recent years with a view to reducing impairment in the long term, while an impairment level above the financial sector average is still expected in the short term.

#### **Status of the capital recovery plan**

As at 30 September 2013, Danske Andelskassers Bank's solvency ratio was above the general solvency requirement of 8.0%, but below the bank's individual solvency requirement of 12.6%. Consequently, the Danish FSA ordered the bank to prepare, submit and implement a capital recovery plan with a view to restoring solvency to a satisfactory level as soon as possible.

The bank prepared the recovery plan and submitted it to the FSA on 5 December. In accordance with the relevant rules, the bank has subsequently submitted monthly status reports in respect of the recovery plan, and the general assessment of the bank is that things as a whole are proceeding according to the plan.

One element of the capital recovery plan which will not take effect until the presentation of the interim report for Q1 2014 has been the divestment of shares in DLR Kredit A/S with a market value of DKK 60m as announced in company announcement no. 4/2014 as of 11 February 2014, which increases the bank's solvency ratio with 0.7 percentage points.

When the next calculation is to be carried out on 31 March 2014 – with the solvency rules according to CRD IV being valid – the solvency ratio will have increased even further as a consequence of e.g. a capital reduction in Sparinvest Holdings SE at the end of December 2013 which brought Danske Andelskassers Bank's ownership interest above 10% ('significant holdings'). The holding is thus subject to the rules on threshold deductions from common equity tier 1 items under CRD IV. Thereby the deductions are reduced with DKK 55m corresponding to a rise in the solvency of 0.6 percentage points.

This is a contributing factor to the fact that Danske Andelskassers Bank's solvency ratio – all things being equal – is 11.8 % at the date of the Annual Report against an individual solvency requirement of 12.0 %. The excess solvency compared to the general solvency requirement is thus 3.8 percentage points while the shortfall compared to the individual solvency requirement is 0.2 percentage points.

Danske Andelskassers Bank's capital recovery plan comprises more elements than the above mentioned, including elements that only involve the bank and elements that also involve external stakeholders. As mentioned in company announcement no. 1/2014 of 21 January 2014, the bank has, for instance, entered into dialogue with various potential investors for the raising of subordinated loan capital, and this dialogue continues. At the time of presenting this annual report, the bank has not concluded any final agreements.

The bank believes that the recovery plan will provide the desired increase in solvency and has focused on obtaining the desired solvency surplus cover as quickly as possible with a view to ensuring satisfactory operations in the long term.

For competition and confidentiality reasons, Danske Andelskassers Bank cannot go into further detail about the recovery plan at the moment. Even though the bank expects the capital recovery plan to be implemented, the implementation and effect of such plan is naturally subject to uncertainty due to the involvement of external stakeholders, among other things. To this should be added uncertainty relating to the assessment of the bank's need for impairment and the interpretation of the solvency rules of CRD IV, which, of course, also affect the capital recovery plan. If the plan is not implemented as desired, it may initially be necessary to reassess the plan and, ultimately, the bank may have to cease operating as an independent bank.

### Corrections made to equity at the beginning of the year

Danske Andelskassers Bank has made a capital injection in Bankernes EDB-Central A/S (BEC) of DKK 180m, corresponding to an ownership interest of 13.12%.

After having clarified the issue with FSA, BEC submitted a letter to Danske Andelskassers Bank on 19 November 2013, informing the bank that the capital injection itself must be treated as a deposit and that the capital injection must be treated as a capital share valued at fair value. The letter states that the fair value adjustment may correspond to equity value.

Until now, Danske Andelskassers Bank has measured the BEC capital injection at par value. BEC has accumulated profits of DKK 189m, resulting in a fair value adjustment for Danske Andelskassers Bank of DKK 24.8m – meaning that Danske Andelskassers Bank's capital has been increased by a similar amount of which DKK 23.4m can be referred to 2012 and previous years while DKK 1.4m are referred to 2013.

As described in Danske Andelskassers Banks interim report of 28 August 2013, the bank has reassessed the accounting treatment of the bank's contractual obligation towards a former manager of one of the cooperative banks involved in the merger in 2011 between the Danish Amalgamation of Cooperative Banks and Danske Andelskassers Bank as mentioned in note 28 to the bank's annual report for 2012. At the same time, the bank has reassessed and corrected the actuarial elements of the bank's pension obligations towards former members of the Board of Executives.

Following this, the corrected equity as at 31 December 2012 can be calculated as follows:

DKK '000	Equity
Equity according to the annual report for 2012	1,233,832
Correction – contract and pension obligations	-35,459
Correction – capital injection BEC	23,458
Corrected equity 2012	1,221,831

The correction affects the calculation of solvency and the solvency surplus cover as indicated below. Please note that the correction of contract and pension obligations has been made as of H1 2013.

	Solvency ratio	Corrected solvency ratio	Solvency surplus cover	Corrected solvency surplus cover
31.12.2012	15.5	15.1	3.8	3.4
31.03.2013	14.5	14.1	3.2	2.8
30.06.2013	13.1	13.1	2.9	2.9
30.09.2013	10.1	10.1	-2.5	-2.5

**Outlook for 2014**

After years of instability in the Danish and global economy, 2013 was characterised by relative stability throughout the year, although an actual recovery did not materialise, among other things due to continued low private consumption.

2014 is also expected to be marked by relative stability and a gradually more positive development in the economy. As regards Danske Andelskassers Bank's primary markets outside the major cities in Jutland and on Funen, it is expected that an actual recovery here will be somewhat delayed as compared to the major cities, and it is uncertain if a recovery will occur at any time during 2014. Private consumption will be key to this recovery, and also to many of Danske Andelskassers Bank's business customers that mainly operate on the domestic market. In this context, it should be noted that Danske Andelskassers Bank as a bank is dependent or strongly influenced by the socio-economic development and that more negative economic trends than expected will naturally have a negative impact on the bank.

In recent years, Danske Andelskassers Bank has optimised and made substantial changes to the organisation, and the results of these efforts are expected to become even more evident in 2014 thanks to increased efficiency and quality. However, the process is not finalised and various initiatives will also be needed in future to ensure a long-term viable business and a continued strong offering to the bank's customers and local areas.

Combined with a gradual development in the quality of the bank's advisory services and other solutions, the bank expects core earnings between DKK 175m and DKK 210m, despite the market conditions. It should be noted that this could influence the bank's outlook for 2014 and that it is subject to extraordinary uncertainty due to the combination of internal and economic risks.

**Comments from the CEO and chairman of Danske Andelskassers Bank**

CEO of Danske Andelskassers Bank, Jan Pedersen, says in relation with the Annual Report:

"2013 was in no way the year we had hoped or expected it to be. The bank's employees have made an amazing effort through the last years and we're in many aspects strengthened as a bank. Due to e.g. the financial slump we haven't been able to reap the benefits of our work yet but the effect is emphasized by our expectations of core earnings in 2014 at our above the level of 2013."

"The work with the capital recovery plan continues and in 2014 we'll continue the development of recent years – while still remembering the roots. We'll secure a continued good financial institution for our customers and local areas."

Chairman of Danske Andelskassers Bank, Jakob Fastrup, furthermore says:

"The capital recovery plan is of course the first priority of the Board of Directors. It is crucial that we secure a sufficient solvency and thereby remove the insecurity some will

inevitably feel towards the bank. On this behalf it is very satisfactory with the progress being made.”

“We’re present in a part of Denmark that are challenged in these years, because the growth is mainly concentrated around Copenhagen and Aarhus. That’s a challenge but it’s an obligation as well, and we continue our work for the local areas, we’re a part of – because they are a part of us as well.”

**Further information**

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