



Annual Report 2009

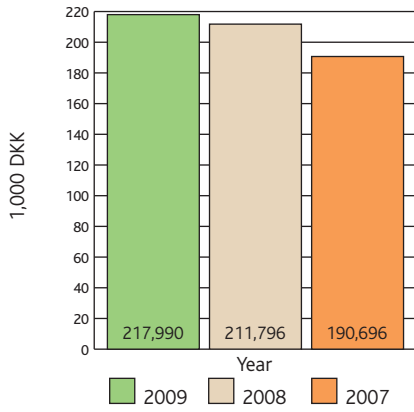
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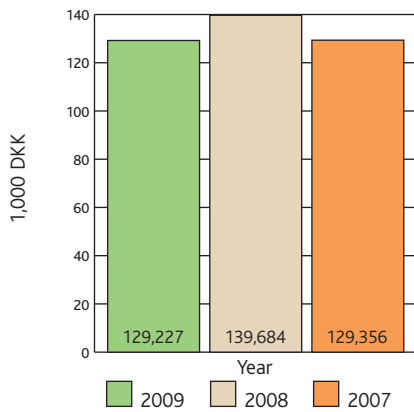
Content

Management's Report	3
– Management's review for 2009	3
– Customer and market situation	6
– Risks and risk management	7
– First guarantee scheme for banks in Denmark	8
– Capital adequacy and solvency	8
– Management	8
– Investor Relations	9
– Corporate governance	9
– Social responsibility	9
– Information for listed companies	9
Endorsement of the Annual Report by the Management	10
The Independent Auditor's Report	11
Accounting policies	12
Profit and loss account	14
Proposal for distribution of profit	14
Balance Sheet	15
Information on changes in equity	16
Capital requirement and solvency	16
Contingent liabilities	18
Notes	18
5 years in summary	33
Financial ratios	33
Financial Calendar	34
Committee of representatives	35
List of board members' managerial offices	35

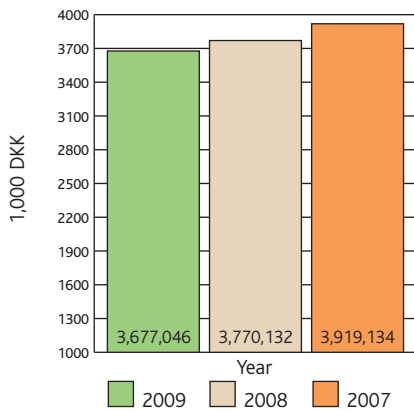
Net income from interest



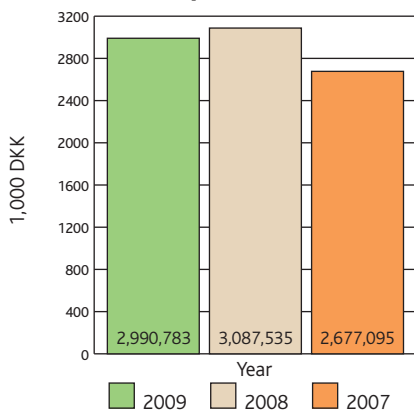
Staff costs and administrative expenses



Loans and other receivables



Deposits



Management's Report

Management's review for 2009

Principal activities

Skjern Bank's principal activities are to supply bank products to private customers, business customers and institutional customers as well as state-controlled entities. The customers are primarily based in Western and South-western Jutland as well as in the Hellerup area north of Copenhagen. The bank wishes to offer its customers a full product range in the financial services sector combined with professional consultancy services.

2009 in review

The international financial crisis and recession have radically altered the basis for operating a financial institution. As expected, 2009 was by no means a less difficult year than 2008 for Skjern Bank. The consequences of the financial crisis have become evident in earnest within the bank's market area. Hardly anyone has remained unaffected, neither companies nor employees. The level of activity for companies has been reduced and many employees have felt the effects of this as a large number of jobs have been lost.

Skjern Bank's activities have been significantly affected by the crisis. Despite a respectable increase in the core income being achieved during the year and savings and rationalisation being carried out in the organisation, it must be ascertained that the indication of impairment in particular has resulted in a net profit or loss for the year that is very unsatisfactory with a loss of DKK 90.8 million after tax.

The negative result is predominately caused by a very high indication of impairment on loans amounting to DKK 218 million. Since the beginning of the financial crisis, write-downs have been quite significant. However, while these were characterised by being direct losses during 2008 and the first six months of 2009, it has been the trend during the last six months that the write-downs more have the character of provisions.

The costs associated with the first guarantee scheme for banks are also a significant burden amounting to DKK 25.8 million, of which the guarantee to the Financial Stability Company of DKK 10.3 million is contained in the write-downs. The bank has chosen to pay the current guarantee commission for the first guarantee scheme for banks in cash and not with shares in the bank, which would have been possible. The Danish Government is thus still not a shareholder in Skjern Bank.

Core income – net interest and fees – is increased by 3 % and constitutes DKK 218 million.

The primary operating expenses – staff expense and administration costs – are reduced by DKK 10.5 million, equivalent to 7.5 %.

A sound return, seen in the light of share prices, on the portfolio of securities of DKK 29.3 million has been achieved; of this the positive adjustment of the bond portfolio accounts for DKK 16.5 million. For a number of years the bank has pursued a strategy where it has placed a certain number of shares of the excess liquidity in securities, including shares on the Danish NASDAQ OMX market. Viewed overall, this strategy has led to solid returns over the years, though with the exception of 2008 which saw significant negative returns.

The bank's capital base has been strengthened during the year, partly due to the participation in the second guarantee scheme for banks with the raising of DKK 65 million in hybrid core capital out of a maximum loan

opportunity of DKK 117 million. In addition, during the fourth quarter an issuing of a listed capital base of DKK 100 million has been carried out. The issue was with pre-emption rights for the bank's shareholders and the bank is pleased to note that the bank's shareholders, customers and other stakeholders solidly supported the issue, which was fully subscribed.

With these capital-related measures, and despite the very unsatisfactory profit or loss from operating activities, the bank has a capital base of DKK 613 million, which entails a solvency ratio of 15.6 %. Following the latest recommendations made by the Danish Financial Supervisory Authority, the individual capital adequacy is determined at 9.7 %, and the bank is thereby well capitalised for continued development with an excess capital adequacy of 160 %.

Adapted business volume

During 2009 the bank has not altered its business policy and during the year a significant demand for loans has been ascertained. It has, however, been necessary to accept that loan applicants' credit quality has been lower than previous years. Many loan applications have therefore been rejected. Despite the bank to a high degree taking part in a positive manner in the coverage of financing requests in the bank's branch areas, it can be ascertained that the business volume has been reduced with just below 8 % to DKK 7.3 billion.

Both loans and deposits have fallen by approx. 3 % to DKK 3.7 billion and DKK 3.0 billion, respectively. The deposit deficit is unaltered at just under DKK 700 million which is considered acceptable. During the year the bank has chosen not to participate to any significant extent in the market for major fixed-term deposits as these are not assessed to be stable in the current and future market.

The guarantees have been reduced by approx. 40 %; primarily as a result of a larger portfolio of customers' guaranteed loans in foreign banks being repaid or repatriated for booking of the bank's loan portfolio. The portfolio of land registration and remortgaging guarantees have been increased by 20 %, partly as a result of increased activity within the housing sector and partly as a result the long processing time by the registration authorities.

Respectable increase in the net interest income

Net interest income has increased by 7 % to DKK 167.9 million.

In 2009 the interest income fell by 16.4 % compared to the previous year to DKK 299 million. The decrease is due to a range of different circumstances:

1. The general fall in interest rates.
2. A smaller reduction in the total loans.
3. A larger proportion of loans in foreign currency where the nominal interest rate is lower than for Danish kroner (DKK).
4. Increased indications of impairment have resulted in an increase of non-accrual loans, etc. and consequently a reversal of receivable credit rates.

The fall in interest income in connection with the alteration in loan composition is, however, to some extent offset by increased interest income on currency contracts as the bank's foreign currency risks are hedged by such contracts.

Interest expenses have decreased by a total of 34.7 % to DKK 131.3 million, primarily due to the general fall in interest rates. The fall in interest rates has, e.g., contributed to a significant fall in the bank's total funding costs, equivalent to a reduction of almost 50 % com-

pared to 2008. This should, however, be seen in light of the bank's reduction of its excess capital adequacy in relation to liquidity during the course of the year concurrently with the money markets becoming more successful after the "frozen" period during the last six months of 2008, during which the bank chose to maintain a large and costly excess capital adequacy in relation to liquidity.

Fee income

Fee and commission income is maintained at the same level as in 2008, i.e. approx. DKK 50 million, despite a decline in income from securities trading of approx. DKK 4 million and reduced guarantee commissions as a result of the conversion of customers' guaranteed loans abroad to foreign currency loans in the bank.

The securities trading decline may to a large degree be attributed to the drastic fall in prices on the financial markets during 2008, which resulted in a considerable fall in the trading volume and the number of transactions during the first six months of 2009. These activities have, however, increased fairly well during the second half of the year.

The income decline in the trading area is offset by increases in the bank's loan transaction fees and other fees. Net interest and fee income thus amounts to DKK 218 million and has been increased by 3 %.

Reduction of costs

Staff and administration costs fell by 7.5 % in 2009 to DKK 129.2 million. The reduction of approx. DKK 10 million is the result of the bank's rationalisation and cost reduction plan which was implemented in 2008 due to the altered market conditions with a fall in the level of activity.

The cost saving effects in 2009 is satisfactory and the bank will continue to focus on this in the coming financial year.

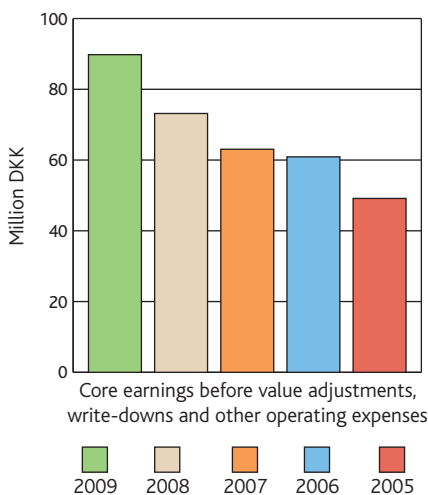
Depreciation and write-downs

Depreciation and write-downs of intangible assets and property, plant and equipment negatively impact the 2009 financial statements by DKK 4.1 million. The item solely comprises ordinary depreciation in 2009.

23 % core earnings improvement

The result of bank operating activities – the core earnings – has increased to DKK 89.8 million in 2009 against DKK 73.2 in 2008, an increase of 23 %.

Capital Base



Write-downs of DKK 218 million

In 2009 the bank realised very significant write-downs on customer receivables, equivalent to 4.7 % of the total loans and guarantees. The write-downs relate to a significant number of customer commitments and transactions with both private and business customers in a number of different sectors have been included. The write-downs are dominantly on customer commitments in the bank's branch areas.

Write-downs have not been made on transactions abroad.

The highly unsatisfactory indication of impairment has naturally given rise to analyses of the causes hereof.

The analyses show that broadly speaking the write-downs may be divided into three categories:

1. The impact of the financial crisis:
Write-downs which are a direct consequence of the financial crisis, i.e. where the write-down has been unpredictable.
2. Local bank considerations:
Write-downs which are related to the bank – also in difficult times – taking part in our local customer's lives and banking for better or worse.
3. Write-downs resulting from the growth strategy:
During the past 5 years or so, the growth strategy has contributed to the bank gaining a significantly larger revenue base. However, the strategy has unfortunately also led to major write-downs in 2008 and 2009 due to the sudden changes in the economic trends.

The consequences of the financial crisis continue to impact on large parts of society and continued write-downs must be expected in relation to this in the coming time, though at a significantly lower level than in 2009.

The growth strategy has been deferred and write-downs within this category are expected to be significantly lower in the coming year.

Of the total write-downs of DKK 218 million which have been charged to the profit and loss account, DKK 29 million have been ascertained to be lost and provisions for bad debts amount to DKK 189 million. Then the bank has completely set aside 295 million to counter future losses.

Significant positive share price adjustments

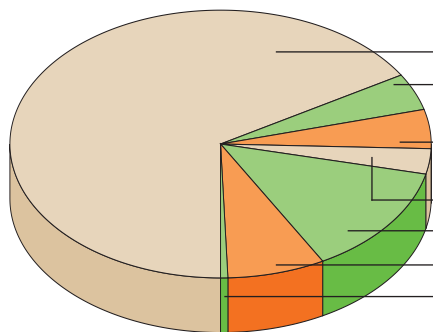
Following major negative share price adjustments in 2008 due to the financial crisis, the securities market has returned to more normal conditions in 2009. This has resulted in a positive development, which could be determined at DKK 29.3 million at the end of the year. This is a consequence of the bank's long standing investment policy of adherence to major Danish liquid shares, primarily from the C20 index, and a conservative investment policy for bonds with a low interest rate risk.

The bank's bond portfolio has been particularly positive and has resulted in a capital gain of DKK 16.5 million. The capital gain on shares amounts to DKK 10.7 million. Of this, DKK 4.4 million stem from the bank's shares in sector-related companies (e.g. DLR Kredit, BankInvest, Garanti-Invest).

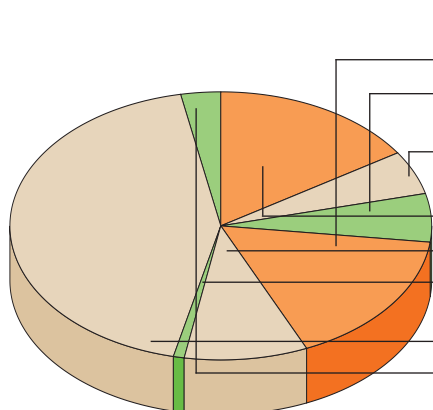
Within the area of currency and financial instruments, the bank achieved a positive result of DKK 2.1 million. Focus on currency trading and derivative financial instruments has been increased, e.g. in connection with the borrowers' scope for optimising e.g. financing of fixed-rate loans by means of currency and interest rate swaps. Activities within this line of business will increase in 2010.

First guarantee scheme for banks in Denmark

In October 2008, the bank joined the first guarantee scheme for banks which involved the Danish government issuing a 2-year guarantee for all unsecured claims – including deposits – in Danish financial institutions.

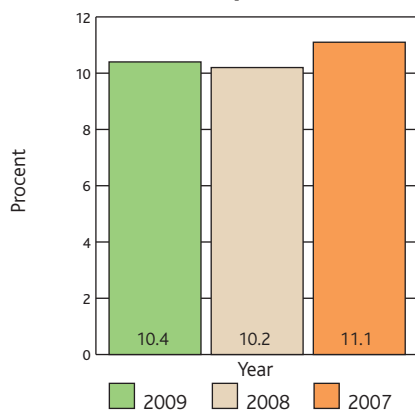


Income distribution	%
Interest from loans and other receivables	66,51
Interest from credit institutions and central banks	4,29
Interest from bonds and dividend from shares	4,88
Other interest receivable	3,01
Fees and commission income	13,22
Value adjustment	7,62
Other ordinary income	0,47
Total	100,00

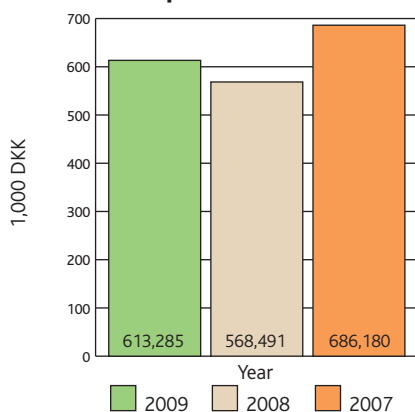


Cost allocation	%
Interest to deposits	15,97
Interest to credit institutions and central banks	5,01
Other interest and charges payable	5,91
Value adjustment	0,18
Staff costs	16,16
Other administrative expenses	9,49
Depreciation and write-downs on intangible and tangible assets	0,81
Write-downs on loans etc.	43,28
Guarantee commission first guarantee scheme	3,08
Operating expenses	0,11
Total	100,00

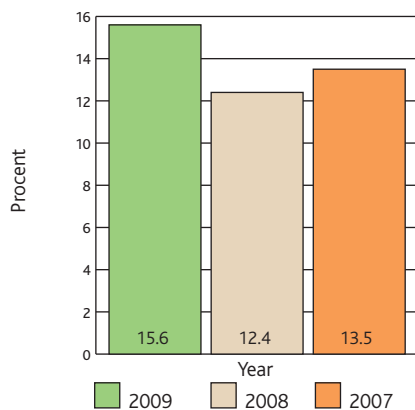
Core capital



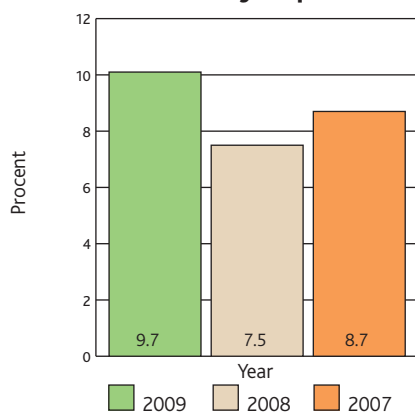
Capital Base



Solvency ratio



Calculated solvency requirement



The bank's costs related hereto have amounted to DKK 25.8 million in 2009. The costs consist of a guarantee commission of DKK 15.5 million and write-downs under the guarantee of DKK 10.3 million for the winding up of distressed financial institutions. The costs of participation in the first guarantee scheme for banks are determined as follows:

	2009	2008
Guarantee to the Financial Stability Company	10,3	3,5
Guarantee commission to the Private Contingency Association	15,5	6,4
	25,8	9,9

The bank's maximum remaining cost under the guarantee to the Financial Stability Company amounts to approx. DKK 34 million. In addition to this, the current guarantee commission amounts to approx DKK 13 million until 30 September 2010 when the scheme expires. At the present time the bank does not expect to need the full payment under the guarantee.

As part of the adopted act on financial stability (the first guarantee scheme for banks), it also become possible for the participating banks to enter into an agreement for the payment of an individual government guarantee for bond issues etc. At the beginning of January 2010 the bank has entered into an agreement with the Financial Stability Company and has been granted the framework guarantee applied for of DKK 2 billion with a term of up to three years.

Second guarantee scheme for banks in Denmark

On 23 November 2009 Skjern Bank entered into an agreement with the Danish Government on the addition of subordinated loan capital in the form of hybrid core capital to the value of DKK 65 million, out of a maximum loan amount of approximately DKK 117 million.

It is a fixed-rate loan of 11.11 % per annum for the first 5 years, following which the redemption price increases to 105 in the sixth year and 110 in the seventh year and subsequent years. The bank may repay the loan 3 years after the issue at the earliest.

Raising of capital base

As a consequence of e.g. the somewhat cost-heavy participation in the second guarantee scheme for banks, the bank decided to reduce its raising of loans and instead, with pre-emption rights for the bank's shareholders, raise a capital base in the form of listed subordinated notes with a term of up to 8 years. It is very pleasing to note a strong level of support for the bank, which meant that the issue was fully subscribed in December with DKK 100 million.

Unsatisfactory result

In 2009 Skjern Bank has realised core earnings of DKK 89.8 million. The core earnings live up to the expectations in the quarterly report for the third quarter of 2009 for core earnings in the region of DKK 80–90 million. The bank's loss after tax is determined at DKK – 90.8 million, which is regarded as highly unsatisfactory by the bank's management, particularly based upon the high indications of impairment.

15.6 % solvency ratio

Upon transfer of the loss for the year, the bank's equity at the end of 2009 constituted a total of DKK 373.4 million against DKK 463.7 million a year ago. The bank's capital base constituted DKK 613.3 million at the end of

2009. This corresponds to a solvency ratio of 15.6 % and a core capital ratio of 10.4.

Compared to last year, the solvency ratio has increased by 3.2 %, which is due to participation in the second guarantee scheme for banks with DKK 65 million as hybrid core capital and the issue of listed subordinated notes as subordinate loan capital of DKK 100 million.

The bank's individual capital adequacy is determined at 9.7 % which is a very significant increase compared to the quarterly report of 30 September 2009, where the individual capital adequacy was calculated as 8.7 %. The increase is due to the issuing of a new guideline on the determination of capital adequacy in banks by the Danish Financial Supervisory Authority, with more stringent requirements for the basis of calculation. Despite this, the actual solvency ratio constitutes a significant excess capital adequacy of 160 %. For further information please refer to the bank's website, www.skjernbank.dk.

The bank thus has sufficient working capital with regard to the growth limits which are part of the first guarantee scheme for banks in Denmark. Furthermore, the capital structure of Skjern Bank is quite solid as the bank's supplementary capital does not fall due until the end of 2014. The structure of the bank's capital base in regard to the falling due of the supplementary capital can be seen in the table below. The maturity date is the latest possible.

Repayment	Capital type	Principal amount, nominal (DKK million)
November 2014	Subordinate loan capital	25
December 2015	Subordinate loan capital	100
December 2017	Subordinate loan capital	100
Indefinite term	Hybrid core capital	65
Indefinite term	Hybrid core capital	70
Total		360

Cash resources

In 2010 a significant part of the bank's non-subordinate loans ordinarily mature due to the present terms of the capital market where funding could not be obtained with terms exceeding the expiry of the first guarantee scheme for banks.

Non-subordinate loans that ordinarily fall due will be refinanced to the necessary extent under the governmental financial scheme with terms up to three years where an agreement has been entered into with the Financial Stability Company for a framework guarantee of DKK 2 billion.

Similarly, the ratio between deposits and loans will continue to be an area of focus in 2010, though without the bank wishing to focus on large special-term loans, which are presumed to have a transient character.

Over the past year or so, the bank made the strategic choice to maintain a high degree of liquidity surplus in order to have ample reserves at any time. At the end of 2009, the bank's liquidity reserves, compared to the statutory requirements, constituted DKK 600 million more than the statutory amount. This is equivalent to an excess capital adequacy of 124 %.

No major shareholders

The bank does not have any shareholders who own more than 5 % of the share capital.

Expectations for 2010

The economic slowdown in 2009 is also expected to leave its mark on 2010. The bank expects in particular to see a continuing increase in unemployment together with challenges for the large parts of the corporate sector due to the pressure on Danish competitiveness.

The private customer segment is expected to be affected by the increased unemployment level together with the declining real property prices. However, the private customers' financial circumstances within bank's market area are assessed as being quite solid. This is firstly due to low real property prices compared to other regions in Denmark and, secondly, the real property prices have not been subject to major fluctuations and therefore no significant problems are expected within this group of customers.

Skjern Bank has always had a close relationship with the agricultural sector with a significant loan exposure, which has been very satisfactory in the past and has only to a limited extent led to losses.

The Danish agricultural sector is currently experiencing financial problems, primarily as a result of a high burden of debt, together with the settlement conditions applying to agricultural products. The bank's customers within this sector are also affected by these conditions; however, the bank assesses that the industry is not heading for insurmountable problems. Improved settlement prices and the current low interest rate are expected to lead to a significant part of the industry being able to achieve total profitability. The bank is however expecting to carry out write-downs on the weakest agricultural commitments, but will continue to aim for a high level of loyalty

towards the industry and the individual farmer so that the best possible solutions may also be found in difficult situations for both the individual farmer and the bank.

Despite the economic slowdown, the bank's activities are developing well. The intake of business from existing customers is satisfactory and the bank can note a generally satisfactory influx of new customers with a good credit quality. Based on this, a moderate increase in the bank's business volume is expected together with increased activity within the areas of securities trading and currency.

Due to the weakened economic trends, it is difficult to predict the bank's write-downs for 2010. The indication of impairment, excluding guarantees towards the Financial Stability Company is still expected to be at a high level, though such that it will be possible to contain this within the core earnings, which are expected to lie in the range of DKK 85-100 million.

2010 will also present challenges, but the bank has a solid foundation which is why the bank's management is confident about the coming year.

Events occurring after 31 December 2009

As part of the second guarantee scheme for banks, the bank has applied for and been granted a governmental framework guarantee of DKK 2 billion to be used for bond issues etc.

Customer and market situation

Despite a very difficult 2009, Skjern Bank has maintained a high level of activity. The number of loan inquiries has been significant, but it must unfortunately be noted that the credit quality of the loan applicants has often been too low to grant the applications. The Hellerup branch has, in particular, noted a too low credit quality among a very high share of business and private persons who have wished to enter into a customer relationship with the bank.

In the bank's branch areas in South-western Jutland, good credit ratings have been noted for the loan applicants who have wished to switch to Skjern Bank. The bank's reputation as a fair and loyal partner – also during difficult times – has in particular resulted in the influx of many good customer commitments.

All-in-all the bank has achieved a satisfactory influx of customers.

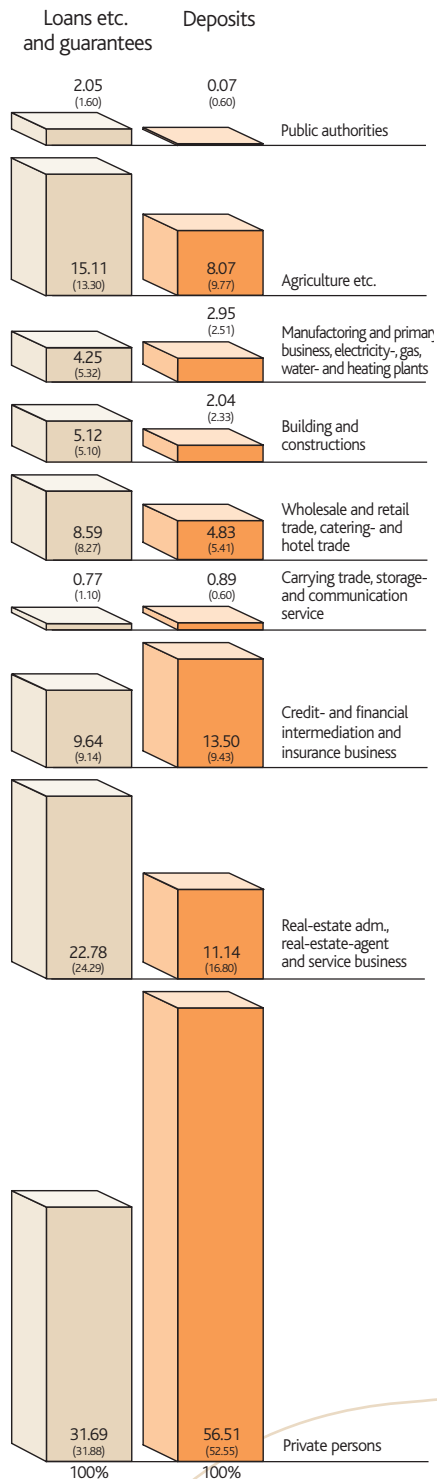
The bank is grateful of having highly loyal customers in general who strongly support the local bank.

The bank is very much aware of this trust and humble hereof!

Product range

The bank offers a simple and flexible product range, which is used to provide an individual and flexible solution for the individual customer's needs. No two customers have the same needs, which is why the bank will not offer its customers "package solutions". The product range is expanded on an ongoing basis so that it is at all times competitive in a market that is constantly changing.

The deposit side is characterised by the bank's wish to maintain and attract stable deposits. As a consequence of this, the bank has chosen not to actively participate in the market for large fixed-term deposits, as these are often influenced by completely marginal interest rate differences and cannot therefore be characterised as stable deposits. This focus on attracting deposits will continue with increased efforts, with a view to reducing the

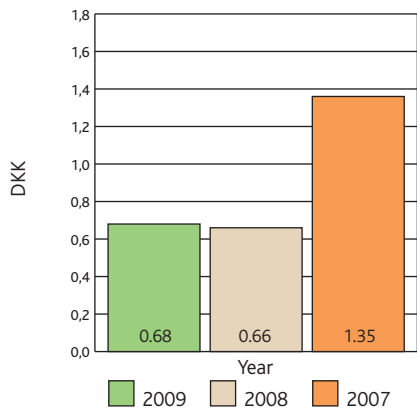


▲ Deposit, loans etc. and guarantees distributed on sectors and branches. 2008 figures in brackets.

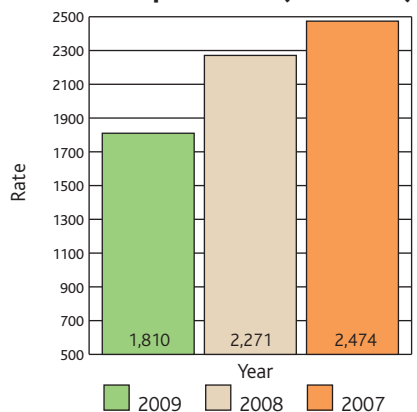
bank's deposit deficit and thereby the bank's dependence on external sources of funding.

The area of pension contributions has again in 2009 continued the positive development of recent years. A focused effort on, e.g., pension and asset management and advice has enabled the bank to succeed in attracting payments into pension agreements in the bank, which far exceed the expected level for an institution of Skjern Bank's size.

Earning/expense ratio



Bookvalue per share (DKK 100)



Risks and risk management

Skjern Bank is exposed to different types of risks. The purpose of the bank's risk management policies is to minimise the losses that may occur as a result of e.g. an unpredictable development on the financial markets, changes in economic trends or political interventions. The types of risk may be divided into; credit risk, market risk, liquidity risk and operational risk.

Credit risk expresses the risk that one party to a loan transaction / financial transaction may inflict a loss on the other party as a consequence of the failure to meet an obligation.

Market risk expresses the risk that the market value of the bank's assets and equity and liabilities may change as a consequence of amendments to / changes in the market conditions.

Liquidity risk expresses the risk that the bank's payment obligations cannot be observed by the cash resources established by the bank.

Operational risk is defined as the risk of financial losses inflicted on the bank directly or indirectly as a consequence of errors in internal processes, human mistakes, system errors or losses as a consequence of external events.

Skjern Bank continuously develops tools for the identification and management of the risks that affect the bank on a daily basis. The board of directors will determine the overall framework and principles for the risk and capital management and receive current reports on the development in risks and the utilisation of the risk framework allocated.

The risk management work is based on the three pillars defined by the Basel II Accord:

- Pillar 1 involves a quantitative assessment of credit risks, market risks and operational risks.
- Pillar 2 involves a qualitative assessment of the same risks as well as a number of other risks.
- Pillar 3 prescribes a number of requirements for disclosure about the nature and scope of risks.

The bank's risk management work is essentially based on the guidelines, which the bank's industry association – Lokale Pengeinstitutter (The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) – has drawn up. In general, the bank's risk-weighted items are assessed in accordance with the so-called standard method, while the advanced method is being used to assess the amount of the exposure, taking into account any financial security. The operational risks are determined in accordance with the basic method and market risks are determined in accordance with the simple method. In addition to the information presented in this annual report, an overview of the bank's risk information is available on the bank's website www.skjernbank.dk.

The following is a more detailed description of the different types of risk.

Credit risk

The principal risk for the bank naturally relates to credit risk. The bank's risk management policies have been planned to ensure that its transactions with customers and credit institutions at all times remain within the frameworks defined by the board of directors and what is expected to be safe. Counterparties to derivatives are limited to credit institutions with an excellent credit rating. Furthermore, policies have been adopted to limit exposure in regard to any credit institution with which the bank does business. Major loans are covered by adequate liquid security.

The bank classifies the customers in groups in accordance with the risk which is assessed as being related to loans to precisely that customer. For private customers, the classification is made on the basis of actual assets, while business customers are classified on the basis of earnings, equity and security.

No changes were made to Skjern Bank's credit policy in 2009. The bank continues to focus on safe work procedures and routines regarding credit assessments.

In general, it is the bank's policy to try to assist both private and business customers by meeting their financing-related wishes and needs.

As a result of the turmoil on the financial markets and the limitations of the first guarantee scheme for banks, and not least so as to attain a better balance between deposits and loans, the loan volume has been reduced during the year. One element of this decision was – and continues to be – to reduce dependency on funding from financial institutions at home and abroad.

The bank's exposure in the property sector has been calculated at 22.8 % of total loans and guarantees. A significant part of this has been provided to finance residential rental properties in Northern Germany and in Denmark where the investors have contributed significant equity and where the rental income may service the debt in the properties. None of these commitments have led to write-downs. The bank has also participated to a lesser degree in the financing of property investment projects and other types of property financing that have shown themselves not to be favourable under the current market conditions and which have led to a significant indication of impairment.

The agricultural segment, which constitutes 15.1 % of the bank's total loans and guarantees, has had a high level of focus during 2009 – and this will continue in 2010. The industry is facing significant challenges, primarily as a result of disadvantageous settlement prices and a high debt-equity ratio. The bank has always enjoyed a close relationship with the agricultural sector in our branch areas, as well as a significant business volume. The agricultural sector has historically seen substantial economic fluctuations, but the bank has only suffered limited losses as a result. It cannot be disputed that the current economic problems within the sector are serious and will inflict losses on all creditors. The bank's intention is to contribute to finding the best possible solutions that take the individual farmer into consideration and minimise the bank's risk.

The financial crisis has led to the loss of many jobs in the bank's branch areas. The increasing unemployment is also expected to influence the bank's private customer segment to some degree. The bank does not, however, expect to encounter significant problems as property prices in particular in our regions have not experienced the major increases seen in other parts of the country; as a consequence, they are not expected to fall significantly.

The assessment is that the vast majority of home owners will be able to keep their homes, also in a situation with unemployment.

For a statement of credit risks regarding other loans, please refer to note 28.

Market risk

Skjern Bank's market risk is managed on a daily basis through fixed limits for a large number of risk targets. Management of the bank's excess liquidity involves investing the bank's funds in the share, bond and foreign exchange market in order to optimise the return on the bank's cash at bank and in hand.

The bank's board of directors and executive board have set up clear guidelines for the risks which the bank wants to accept for shares, bonds, foreign exchange, interest rates etc.

The main characteristics in our market strategy remain unchanged:

Foreign currency risk

The foreign currency risk is an expression of how changes to foreign exchange rates may affect the fair value of the bank's currency positions. Skjern Bank has a very modest risk, as the bank's balance in foreign currencies is covered continually.

The day-to-day management / monitoring of the bank's currency positions is carried out by the finance and international department. The board of directors and the executive board receive reports on an ongoing basis.

In 2009 the bank's foreign currency risk was calculated as 0 %, which is the same insignificant level as the previous year.

Interest rate risk

Interest rate risk is a measurement of how changes to current interest rate levels may affect the fair value of the bank's fixed-rate assets. The interest rate risk primarily occurs around the bank's bond portfolio and fixed-rate loans.

The day-to-day management / monitoring of the bank's interest rate risk is carried out by the financial department, while the bank's service department manages the compliance with limitations for assumption of interest rate risk. The board of directors and the executive board receive reports on an ongoing basis.

The bank has maintained a low interest rate risk for the past 5 years, which is in agreement with the bank's policy for this type of risk.

Share price exposure

The share price exposure is a measurement how changes to share prices may affect the fair value of the bank's shares. The share price exposure is a consequence of the composition of the bank's exposure to shares where the investments are spread over a large number of primarily Danish shares.

In common with other banks, the bank is co-owner of a number of sector companies such as e.g. DLR Kredit A/S, Bankdata, Letpension A/S, PBS Holding A/S, Multidata Holding A/S, VP Securities Services A/S, Sparinvest Holding A/S etc. The ownership interests in sector companies are seen as constituting a limited share price exposure. In addition, the bank has a portfolio of listed shares.

The day-to-day management / monitoring of the bank's share portfolio is carried out by the financial department, while the bank's service department manages the compliance with lines etc. The board of directors and the executive board receive reports on an ongoing basis.

The bank's share holding may be specified as follows:

Sector shares	DKK 135 million
Listed shares etc.	DKK 51 million

A further specification of the bank's shareholding may be seen in note 14.

Property price risk

To a large extent, the bank only wishes to hold property which is used for the day-to-day operation of the bank (owner-occupied property); however, the bank also owns a few small investment properties.

The total holding of properties is assessed as being of less significant importance, with a low property price risk.

Liquidity risk

Skjern Bank manages its liquidity in accordance with fixed strategies and policies which are continually evaluated and adapted to the current situation. This means that the bank's liquidity is subjected to stress testing in different scenarios on an ongoing basis. Uncertainty, particularly in relation to deposits, up to the expiry of the first guarantee scheme for banks has meant that the bank's risk management has been extended and that the reporting in regard to liquidity has been increased in general.

Skjern Bank's liquidity strategy dictates that the bank may at no point be solely dependent on the short money market, just as the bank must at any time be able to withstand lack of access to the money market for a minimum of 3 months. Additionally, the bank's strategic requirements for minimum cash resources have been increased.

The bank has established a number of loan commitments with Danish banks for the coverage of unexpected impacts on cash resources. It is not expected that the loan commitments will be used in the day-to-day liquidity management.

Developments in deposits are closely monitored and it is expected that deposits will come under pressure up until the expiry of the first guarantee scheme for banks, both with regard to volume and interest rates. To meet this, the bank has applied for and been granted a total framework guarantee of up to DKK 2 billion with the Financial Stability Company. The framework guarantee may be used to secure institutional lenders to the bank with terms of up to 3 years. In addition, the bank focuses on continuing to be able to offer competitive deposit products. The ratio between deposits and loans will continue to be an area of focus in 2010.

Skjern Bank participates in the Danish National Bank's loan opportunity based upon statutory excess solvency. At the end of 2009 the loan facility was DKK 124 million; this has not been utilised since being allocated.

A considerable part of the bank's external credit agreements and issued bonds have ordinary maturity in 2010, which imposes a refinancing risk on the bank under the current market conditions. It is however expected that the allocated framework guarantee of up to DKK 2 billion from the Financial Stability Company will facilitate funding access significantly.

Based upon this, the bank's liquidity management will continue to be a significant area of focus with high priority in 2010.

Operational risk

With a view to minimising losses as a result of operational risks, Skjern Bank has prepared a number of policies. A central part is the security policy, which lays down a whole range of requirements for IT and staff, just as it lays down a range of requirements for the handling of sensitive information. IT emergency procedures have also been prepared in order to limit losses in the case of IT facilities being down and other similar crisis situations.

Due to its size, the bank is dependent on certain key employees. To minimize this dependency, written work procedures have been prepared for the most important areas. The bank undertakes ongoing assessments of whether business procedures, etc. are optimal or whether they can be improved with a view to minimising the operational risks. Business procedures are also controlled and assessed by the bank's internal and external auditing.

Furthermore, a compliance function has been established, which shall contribute to ensuring that the bank

lives up to both external and internal requirements at all times.

The operational risk is calculated based on the so-called basis indicator method (Basel II), meaning that the bank calculates the average of the net income based on the past three years' financial statements, which, in the form of a quantified amount, is added to the risk-weighted assets to cover the bank's operational risks.

First guarantee scheme for banks in Denmark

The unlimited guarantee for all deposits and unsecured claims in Danish banks will, after 30 September 2010, be replaced by a deposit guarantee of DKK 750,000 per legal entity. This way, one significant aspect of the Danish financial system returns to more normal conditions. It may also be noted that the money market, which was frozen at the beginning of the financial crisis, is functioning again to a certain extent.

One element of the first guarantee scheme for banks was the possibility of obtaining a three-year framework guarantee for the bank's raising of funding with institutional lenders via the Financial Stability Company. Skjern Bank applied for and was granted a commitment of DKK 2 billion; with this, the bank's funding needs ought to be covered, based on the stress scenarios that have been determined as a precondition for obtaining the framework guarantee.

Capital adequacy and solvency

At the end of 2009, Skjern Bank's capital base was determined at DKK 613 million, corresponding to a solvency ratio of 15.6 %.

In the second half year of 2009, the bank's capital has been strengthened in two ways:

Second guarantee scheme for banks in Denmark

On 23 November 2009 Skjern Bank entered into an agreement with the Danish Government on the addition of subordinated loan capital in the form of hybrid core capital to the value of DKK 65 million, out of a maximum loan amount of approximately DKK 117 million.

It is a fixed-rate loan of 11.11 % per annum for the first 5 years, following which the redemption price increases to 105 in the sixth year and 110 in the seventh year and subsequent years. The bank may repay the loan 3 years after the issue at the earliest.

Raising of capital base

In part as a consequence of the quite cost-heavy participation in the second guarantee scheme for banks, the bank decided to reduce the borrowing and instead, with pre-emption rights for the bank's existing shareholders, raise a capital base in the form of listed subordinated notes with a term of up to 8 years. It is very pleasing to note a strong level of support for the bank, which meant that the issue was fully subscribed in December with DKK 100 million.

At the end of the year, Skjern Bank's capital structure thus consists of the following components:

- Share capital and retained earnings
- Hybrid core capital, nominally DKK 135 million.

After adjustment for regulatory deductions, these items constitute the bank's core capital.

The bank's capital base is arrived at by adding subordinate loan capital of nominally DKK 225 million and revaluation reserves and adjusting for regulatory deductions.

Individual capital adequacy of 9.7 %

In accordance with the Basel II rules, the bank must at all times maintain a sufficient capital base to cover any deficit that might arise if a number of negative events defined by the Danish Financial Supervisory Authority should occur simultaneously.

In the determination of the bank's capital adequacy, Skjern Bank used the Lokale Pengeinstitutter model in which the capital adequacy is calculated from the bottom up, beginning with 0 %.

The model is based on completed stress tests.

The parameters in the stress tests include large increases in write-downs, large drops in share prices, large increases in interest rates, large falls in property prices as well as an increase in exchange rate risks and counterparty risks. In addition, a number of other risk areas have been assessed in connection with the determination of the capital adequacy, including the scope of major transactions, weak commitments and risks relating to the procurement of capital and liquidity.

Skjern Bank's required capital requirement is determined at DKK 382 million, equivalent to an internal solvency requirement of 9.7 %.

Objectively, the above-mentioned capital requirement reflects the bank's minimum solvency ratio.

The ratio between the bank's internal solvency requirement and actual solvency shows that Skjern Bank has sufficient capital to continue its business operations at the current level. The solvency-related excess capital adequacy is 160 %. Calculation of the individual capital adequacy has not been covered by audit.

Management

Consideration policy

The consideration policy for the board of directors and executive board of Skjern Bank is such that the management receives a fixed payment; no form of incentive payment or variable payment features in the consideration. The consideration shall conform to the market rate and reflect the efforts made by management on behalf of the bank.

Meetings of the board of directors and evaluation

The board of directors have fixed meetings every fortnight, with additional meetings as required. The attendance rate at the board meetings is close to 100 %, and it has never happened that more than one board member was absent.

Since 2006, the board of directors has utilised systematic self-evaluation. The board of directors also lays down requirements for its own development and training to ensure that it constantly has the necessary competence and ability to handle the work of the board as efficiently as possible for the benefit of the bank.

Supplementary information on the members of the management, including other managerial posts

Reference is made to page 25, 26 and 35 of this annual report for supplementary information on the members of the management of the bank, including information on these persons' other managerial posts.

Investor relations

Skjern Bank places great emphasis on communication and dialogue with its shareholders and other investors, and in 2009 the bank has maintained a high level communication effort, which in the bank's assessment has strengthened its relations with all of the bank's stakeholders.

The way we communicate with our stakeholders is based on Skjern Bank's basic values, and we would like the bank's core values – individual solutions, vigour and presence – to be applied actively in all communication.

The overall aim of our communication strategy is to strengthen the bank's position on the market and at the same time minimise the risks to its reputation – i.e. the risk that incorrect information or misinformation, rumours or gossip negatively affect the bank's reputation. In crisis situations, the aim of our communication strategy is to come across as a professional and decisive organisation that adopts an open and pro-active approach to problems and does its best to minimise the scope of the crisis and its short and long term effects on the bank, its shareholders, customers and employees.

Annual general meeting and annual meetings

Skjern Bank holds the annual general meeting with a clear focus on IR and Corporate Governance commitments, i.e. by focusing entirely on the bank's financial and business development and the way the board of directors manages the bank as well as various elections. The more socially-inclined contact with shareholders is taken into account in the form of five annual meetings in the bank's branch areas, where the bank's management presents more of a summary of the bank's most recent year of operation and current status than at the annual general meeting.

The structure with a focused annual general meeting and annual meetings has led to close contact with more than 2,000 of the bank's owners – the shareholders.

The Skjern Bank share

At the end of the year, Skjern Bank was owned by a total of 13,872 shareholders.

The bank's share price increased during 2009 from 135 at the beginning of the year to 180 at the end of the year. The increase amounts to 33 %. When measured in comparison with the bank's book value, the price has increased from 0.30 to 0.50.

Corporate governance

Skjern Bank's board of directors discusses developments within corporate governance on an ongoing basis.

The points of view and assessments by the board of directors are published on the bank's website: www.skjernbank.dk

Nasdaq OMX Copenhagen A/S has set up a committee for corporate governance (the Nørby Committee) which takes the promotion of corporate governance in listed Danish companies as its point of departure. The committee's reports may be viewed at the website: www.corporategovernance.dk

Social responsibility

Skjern Bank has prepared a social responsibility policy based on the bank's employees, the local community and the environment.

The complete policy, together with the associated report, may be read on the bank's website www.skjernbank.dk.

Information for listed companies

In pursuance of Section 133a of the Executive Order on the Financial Reports for Credit Institutions and Investment Companies etc., the following information is provided:

As at 31 December 2009, the bank's share capital amounts to DKK (thousand) 22,560, distributed on 1,128,000 shares with a nominal value of DKK 20.

The bank has only one share class and the entire share capital, and thus all shares, are admitted for listing on NASDAQ OMX Copenhagen. No restrictions apply to the negotiability of the shares.

The following applies to the exercise of voting rights:

Each number of shares up to and including a nominal value of DKK 1,000 allows one single vote to be cast; after this, each commenced DKK 1,000 allows the casting of a further single vote up to five votes, which is the largest number of votes that any shareholder may cast on their own account. If the shareholder is represented by a proxy holder who is not a shareholder, this person may cast up to a total of five votes. If the shareholder also holds a power of attorney from other shareholders, this person may cast up to a total of 10 votes.

Any shareholder shall be entitled to attend the annual general meeting if the person in question has requested an admittance card no later than three days prior to the meeting. Any shareholder who is entitled to attend the annual general meeting and whose shares have been registered in the bank's register of shareholders shall have a right to vote at the annual general meeting.

The shareholder-elected members of the bank's board of directors are elected by and from among the members of the bank's committee of shareholders.

The following shall be applicable for changes to the bank's articles of association:

Decisions to amend the articles of association are only valid if at least 1/3 of the share capital is represented at the annual general meeting and if the motion is adopted by a minimum of 2/3 of both the votes cast and of the share capital holding voting rights represented at the annual general meeting.

The board of directors has the following powers in regard to the possibility of issuing shares (provided by the articles of association):

The board of directors is, following close consultation with the committee of shareholders, empowered to increase the share capital by DKK 7,440,000 to DKK 30,000,000 in one or more issues, such that this empowerment expires on 1 April 2012.

Furthermore, the board of directors has the following powers regarding the possibility of acquiring treasury shares:

Held on 2 March 2009, the bank's annual general meeting has authorised the board of directors to, within a period of eighteen months from the date of the annual general meeting, acquire for the company up to 10 % of the company's share capital against a consideration that must not be more than 10 % greater or less than the most recently listed share price on the Copenhagen Stock Exchange prior to the acquiring of the shares.

Endorsement of the Annual Report by the Management

We have today discussed and approved the annual report for the period 1 January – 31 December 2009 for Skjern Bank A/S.

The annual report has been prepared in accordance with the Danish legislation on financial activities, including executive order on financial reports for credit institutes and stock broker companies, etc. Furthermore, the annual report has been prepared in accordance with additional Danish requirements regarding information in annual reports for financial companies listed on the Stock Exchange.

We consider the accounting practice chosen to be appropriate so that the annual report gives a correct impression of the bank's assets, liabilities, financial position as at the 31st December 2009, and of the result of the bank's activities for the accounting year 1 January – 31 December 2009.

The management report includes a correct presentation of the development of the bank's activities and financial conditions together with a description of the material risks and uncertainties by which the bank may be affected.

The annual report is recommended for approval by the General Meeting.

Skjern, the 25th February 2010
Executed Board of
SKJERN BANK A/S

Per Munck

/

Michael Fabricius
Chief Financial Officer

Skjern, the 25th February 2010

The Board of Skjern Bank A/S

Carsten Thygesen
Chairman

Jens Chr. Ostensen
Vice-Chairman

Børge Lund Hansen

Holger Larsen

Lars Andresen

Metha Thomsen

The Independent Auditor's Report

For the shareholders of Skjern Bank A/S

We have audited the annual report for Skjern Bank A/S for the accounting year 1 January – 31 December 2009. The annual accounts comprises the profit and loss account, balance sheet, statement of shareholders' equity, accounting policies and notes to the annual report. The annual accounts are prepared in accordance with the Danish legislation on financial activities. The management report, which is not covered by the audit, prepared in accordance with Danish disclosure requirements for listed financial institutions.

Management responsibility for the annual report

The Management is responsible for preparing and presenting which provide a true and fair picture of the annual accounts in accordance with the legislation on financial activities. This responsibility includes the creation, implementation and maintenance of internal control measures relevant for the preparation and presentation of annual accounts which give a true and fair picture without material misinformation, regardless whether such misinformation is due to fraud or errors. The responsibility also includes selecting and using appropriate accounting policies; and making of accounting estimates that are reasonable in the circumstances. In addition to this the management is also responsible for preparing a management report which contains a true and fair statement in accordance with Danish disclosure requirements of listed financial institutions.

The auditor's responsibility and the audit implemented

It is our responsibility to express a conclusion regarding the annual accounts on the basis of our audit. We have carried out our audit in accordance with Danish auditing standards. The above standards demand that we meet ethical requirements and plan and carry out the audit with a view to obtaining a high degree of certainty that the annual accounts does not include material misinformation.

An audit includes actions to obtain documentation for the amounts and information included in the annual accounts. The actions chosen depend on the auditor's assessment, including the assessment of the risk of material misinformation in the annual accounts, regardless whether such misinformation is due to fraud or errors. In connection with the risk assessment, the auditor considers internal control measures relevant to Skjern Bank A/S' preparation and presentation of an annual accounts which gives a correct impression with a view to preparing audit actions which are appropriate in the given circumstances, but not with a view to expressing a conclusion regarding the effectiveness of the company's internal control measures. An audit also includes a decision as to the appropriateness of the accounting practice chosen by the management, as to whether the accounting estimates made by the management are reasonable, and an assessment of the overall presentation of the annual accounts.

It is our opinion that the audit documentation obtained is sufficient and suitable as a basis for our conclusion.

The audit has not given rise to reservations.

Conclusion

It is our opinion that the annual accounts gives a correct impression of the financial institution's assets, liabilities and financial position as at the 31st December 2009, and of the result of the financial institution's activities for the accounting year 1 January – 31 December 2009 in accordance with the legislation on financial activities.

We have under the Financial Business Act read the management report. We have no further acts in addition to the revision of the financial statements. It is against this background we believe that the information in the management report is consistent with the financial statement.

Skjern, the 25th February 2010
PricewaterhouseCoopers
Statsautoriseret Revisionsaktieselskab

Alex Nyholm Ole Blinkenberg
State-Authorised Public Accountants

Silkeborg, the 25th February 2010
Deloitte
Statsautoriseret Revisionsaktieselskab

Henrik A. Laursen Klaus Skovsen
State-Authorised Public Accountants

Accounting policies

General information

The annual report has been prepared in accordance with the Danish legislation on financial activities.

Furthermore, the annual report has been prepared in accordance with the order issued by the Danish Financial Supervisory Authority on the financial reporting of financial institutions.

Furthermore, the annual report has been prepared in accordance with Nasdaq OMX Copenhagen A/S's information obligations to the extent that the legislation on financial activities and the current regulations of the Danish Financial Supervisory Authority, respectively, do not stipulate a different practice.

The annual report is presented in DKK rounded to the nearest 1,000 kroner.

The accounting practice used remains unchanged compared with last year.

Accounting estimates

When calculating the book values of certain assets and liabilities, estimates have been made regarding the effect of future events on the assets and liabilities in question on the date of the balance sheet.

Such estimates are based on assumptions considered justified by the Management, but which are uncertain.

The final, actual results may thus deviate from the estimates made, as the bank is affected by risks and uncertainties which may affect the estimates.

Foreign currency balances

Assets and debts in foreign currencies are stated at the balance sheet date at the prices listed from Danmarks Nationalbank.

Currency spot transactions are market value adjusted at the balance sheet date in accordance with the spot rate.

Market value adjustments are continuously carried out in the profit and loss account.

Financial instruments

Financial assets and liabilities are in general measured at fair value on the balance sheet date unless specifically mentioned below.

The first recognition is measured at fair value.

Likewise the settlement date is used as the date of recognition for financial instruments.

Profit and loss account

Interest and provisions, etc.

Interest income and interest expenses are recognised under the accruals concept and are included in the period they concern.

Interest received on loans on which a write-down has been performed is included under the item "write-downs on loans and other receivables" for that part of the loan that has been written down and is therefore offset in write-downs for the year.

Commission and fees that are an integral part of the effective interest rate on loans are recognised as part of the amortised cost and thereby as part of the interest income under loans.

Commission and fees that are part of ongoing payments are accrued over the term.

Other fees, commission, and dividends are recognised in the profit and loss account on receipt.

Expenses for personnel and administration

Expenses for personnel include wages and salaries, social contributions, and pensions, etc., for the bank's personnel.

Pension schemes

The bank has entered into contribution-based pension schemes with all personnel at a percentage of working hours of eight hours per week and above.

Where the contribution-based schemes are concerned, the bank pays fixed contributions to an independent pension fund.

The bank has no further obligation to pay other contributions.

Write-downs on loans and advances

Loans and advances, etc. are written down individually when an objective indication of deterioration in the debtor's ability to pay has been ascertained and this will result in a decrease in the estimated cash flow.

The write-down is reversed if there is no longer an objective indication of deterioration in the debtor's ability to pay.

Information regarding group write-downs

For loans and advances which have not been written down individually, a group estimate is made to establish whether an objective indication of a deterioration of the value has occurred.

The group estimate is made for groups of loans and advances with similar characteristics as far as credit risks are concerned. The bank uses eleven groups: one group consisting of public authorities, one group of private customers and nine groups consisting of commercial customers, such commercial customers being divided among lines of business.

The group estimate is made through a segmentation model developed by the association Lokale Pengeinstitutter which is in charge of the current maintenance and development. The segmentation model establishes the connection in the individual groups between established losses and a number of significant explaining macro-economic variables via a linear regression analysis. The explaining macro-economic variables include unemployment, housing prices, interest rates, number of bankruptcies/forced sales, etc.

The macro-economic segmentation model is in principle based on loss data for the entire financial institution sector. Consequently, the bank has assessed whether the model estimates reflect to the credit risk for the bank's own loan portfolio.

This estimate has led to an adaptation of the model estimates to the bank's own conditions for most groups, after which the adapted estimates will form the basis of the calculation of the group write-downs.

For each group of loans and advances, an estimate is calculated as an expression of the percentage of deterioration involved in a specific group of loans and advances on the date of the balance sheet. By comparing the actual loss risk of the loan with the original loss risk of the individual loan and the loss risk of the loan at the start of the accounting period in question, the individual loan's contribution to the group write-down is calculated. The write-down is calculated as the difference between the book value and the discounted value of the expected future payments.

Tax

Tax on the annual results, which is calculated on the basis of the on-account taxation scheme, includes the calculated tax that must be paid on the taxable profit for the year, changes in deferred tax, tax on provisions, and the adjustment of calculated tax for previous years. That part of tax that can be attributed to entries directly in equity is booked directly in equity.

Provisions have been made for deferred tax at 25 % of all timing differences between the net profit or loss and taxable result.

Balance sheet

Loans

Loans are measured at amortised cost, which normally corresponds to nominal value with the deduction of initial expenses and deductions for write-down for losses.

Write-down is carried out individually and on a group basis.

Bonds and shares, etc.

Bonds traded on active markets are measured at fair value. Fair value is calculated in accordance with the officially listed prices at the end of the year (closing prices).

Listed shares are stated in accordance with the officially listed prices at the end of the year (closing prices).

Unlisted shares are stated in accordance with fair value at the end of the year, computed on the basis of what the price would be in a transaction between independent parties.

Value adjustments on bonds and shares are continuous carried out in the profit and loss account.

Equity investments in non-affiliated companies

Equity investments in non-affiliated companies are recognised and measured at equity value, which means that the equity investments is recognised and measured as the proportionate share of each company's equity value at the end of the year.

The bank's share of the companies results after taxes are recognised in the profit and loss account.

Land and buildings

Land and buildings includes

- owner-occupied properties comprising the properties from which the bank operates its banking activities, and
- investment properties comprising all other properties owned by the bank.

Owner-occupied properties are measured in the balance sheet as revalued, which is fair value calculated in accordance with the annual rate of return method with the deduction of accumulated depreciation and any loss in connection with impairment.

Depreciation is booked in the profit and loss account.

Revaluation is carried out frequently enough to ensure that there is no significant difference between this and fair value.

External experts were involved in measuring the owner-occupied properties as far as the bank's head office at Skjern is concerned.

Increases in the revaluation of the owner-occupied properties are booked under re-valuation reserves under equity.

If an increase in the reassessed value is balanced by a previous decline and thereby included in the profit and loss account for previous years, the increase is included in the profit and loss account.

Decreases in the revaluation are booked in the profit and loss account unless this is a question of reversals of prior revaluations.

Owner-occupied properties are depreciated on a straight line basis over 50 years on the basis of the cost price adjusted for write-ups, if any.

Investment properties are measured in the balance sheet at fair value calculated in accordance with the annual rate of return method.

Ongoing changes in fair value for investment properties are booked in the profit and loss account.

External experts were not involved in measuring the investment properties.

Other tangible fixed assets

Other tangible fixed assets are measured at cost with the deduction of accumulated depreciation, amortisation, and write-down's.

Amortisation is carried out on a straight line basis over three to five years on the basis of the purchase price.

Depreciations are recognised in the profit and loss accounts.

Derivative financial instruments

All derivative financial instruments, including forward transactions, futures, and op-tions in bonds, shares, currency, interest rate and currency swaps are measured at fair value.

Translation adjustments are included in the profit and loss account. Positive market values are recognised under other assets, while negative market values are recognised under other liabilities.

Hedge accounting

The bank has not established hedging measures for hedge accounting.

Tax assets and tax liabilities

Current tax liabilities and current tax receivables respectively are recognised in the balance sheet as computed tax on the taxable profit for the year adjusted for on-account tax paid.

Deferred tax is recognised on all taxable temporary differences between the carrying amount and the tax base on assets and liabilities. Deferred tax assets, including the tax base of tax loss carry forwards, are recognised in the balance sheet at the value at which it is expected they can be realised, either by offsetting against deferred tax liabilities, or as net assets.

Prepayments

Prepayments recognised under assets include incurred costs for the following financial year.

Prepayments recognised under liabilities include prepaid interest and warranty commission for the following financial year.

Dividends

Dividends are recognised as debts on the date they are adopted by the general meeting.

Provisions

Provisions, warranties, and other liabilities regarding which there is doubt as to their amount or the date for settlement, are recognised as provisions when it is probable that the liability will mean drawing on the bank's financial resources and the liability can be reliably measured. The liability is calculated at the present value of the costs that are necessary to repay the liability.

Warranties are not measured lower than the commission received for the warranty accrued during the warranty period.

Bond issues

Bond issues are recognised at amortised cost dependent on the kind of bond issued.

Other financial liabilities

Financial liabilities are recognised at amortised cost, which usually corresponds to nominal value.

Own holdings

Acquisition costs and considerations and dividends on own shares are recognised directly in equity.

Profit and loss account

Note:

	2009	2008
	(1.000 DKK)	(1.000 DKK)
1 Interest receivable	299.258	357.935
2 Interest payable	131.310	201.065
Net income from interest	167.948	156.870
Dividend on shares and other holdings	3.405	8.254
3 Charges and commission receivable	50.843	50.889
Charges and commission payable	4.206	4.217
Net income from interest and charges	217.990	211.796
4 Value adjustments	29.311	-60.948
Other ordinary income	1.825	1.958
5 Staff costs and administrative expenses	129.227	139.684
Depreciation and write-downs on intangible and tangible assets	4.078	9.138
Other operating expenses	16.099	6.399
Operating expenses	569	5
Guarantee commission first guarantee scheme	15.530	6.394
Write-downs	218.119	69.572
Write-downs on loans and outstanding accounts etc.	207.868	66.076
Write-downs regarding first guarantee scheme	10.251	3.496
9 Profit on equity investments in non-affiliated and affiliated companies	-892	-4.636
Result before tax	-119.289	-76.623
10 Tax	-28.443	-18.471
Net-result for the financial year	-90.846	-58.152

Proposal for distribution of profit

Result for the financial year	-90.846	-58.152
Total amount available for distribution	-90.846	-58.152
Dividends	0	0
Transferred to/from retained earnings	-90.846	-58.152
Total distribution of the amount available	-90.846	-58.152

Balance Sheet

Note:

2009

2008

(1.000 DKK)

(1.000 DKK)

Assets

	Cash in hand and demand deposits with central banks	125.316	30.032
11	Receivables at credit institutions and central banks	345.033	976.478
12	Loans and other receivables at amortised cost	3.677.046	3.770.132
13	Bonds at fair value	424.636	383.051
14	Shares etc.	186.323	184.695
15	Equity investments in non-affiliated companies	6.807	7.699
16	Land and buildings (total)	70.116	94.000
	Investment properties	9.361	10.062
	Owner-occupied properties	60.755	83.938
17	Other tangible assets	7.290	9.517
	Current tax assets	5.443	10.692
10	Deferred tax assets	53.303	25.496
	Other assets	85.788	126.825
	Prepayments	1.200	0
	Total assets	4.988.301	5.618.617

Liabilities

	Debt		
18	Debt to credit institutions and central banks	571.862	1.658.800
19	Deposits and other debts	2.990.783	3.087.535
20	Bonds issued at amortised cost	555.357	9.378
	Other liabilities	127.354	200.559
	Prepayments	185	189
	Total debt	4.245.541	4.956.461
	Provisions		
	Provisions for loss on guarantees	13.747	3.495
	Total provisions	13.747	3.495
21	Subordinated debt	355.625	195.000
	Hybrid core capital	134.273	70.000
	Subordinated loan capital	221.352	125.000
22	Equity		
	Share capital	22.560	22.560
	Revaluation reserves	417	7.992
	Retained earnings	350.411	433.109
	Total equity	373.388	463.661
	of this proposed dividend	0	0
	Total liabilities	4.988.301	5.618.617

Information on changes in equity

Note:

	2009	2008
	(1.000 DKK)	(1.000 DKK)
Share capital beginning-of-year	22.560	22.560
Share capital end-of-year	22.560	22.560
Revaluation reserves beginning-of-year	7.992	2.293
Additions related to reassessed value	0	5.699
Other movements	-7.575	0
Revaluation reserves end-of-year	417	7.992
Other reserves beginning-of-year	0	480
Other movements	0	-480
Other reserves end-of-year	0	0
Retained earnings beginning-of-year	433.109	510.943
Profit or loss for the financial year	-90.846	-58.152
Sale of own funds	16.111	20.252
Other increase	7.575	480
Purchase of own funds	14.375	43.614
Distributed dividend	0	5.288
Taxation concerning own shares	6.163	-8.488
Retained earnings end-of-year	350.411	433.109
Total equity	373.388	463.661
of which proposed dividend	0	0

Capital requirement and solvency

Core capital

Equity	373.388	463.661
Revaluation reserve	-417	-7.992
Deferred tax assets	-53.303	-25.496
Hybrid core capital (applied)	120.685	70.000
Half of equity investments in other financial companies in compliance with law concerning financial activity	-31.212	-32.337
Core capital after statutory deduction	409.140	467.836
Subordinated debt	221.352	125.000
Hybrid core capital (remainder)	13.588	0
Revaluation reserves	417	7.992
Half of equity investments in other financial companies in compliance with law concerning financial activity	-31.212	-32.337
Capital base after deductions	613.285	568.491

Solvency

Note:

Weighted items ref. to the standard method

Risk weighted exposure

	2009 (1.000 DKK) Exposure	2008 (1.000 DKK) Exposure
Exposure against		
the public sector	1.223	1.451
institutions	90.877	84.013
companies etc.	1.669.861	2.261.654
retail customers	1.131.855	1.335.599
Exposure		
secured by mortgage on property	279.044	174.341
on which arrears or overdraw	24.799	25.923
other items	84.077	107.166
Total risk weighted exposure	3.281.736	3.990.147

Weighted items with market risk

Bonds etc.	215.641	201.918
Shares	50.005	42.417
Foreign Currency	10.645	13.090
Total market risk	276.291	257.425

Weighted items with operational risk

Basic indicator method	376.103	360.914
Total operational risk	376.103	360.914

Total weighted items at the standard method

before group write-down deductions	3.934.130	4.608.486
Group write-downs	11.921	5.138
Total weighted items	3.922.209	4.603.348

Total exposure after write-downs and before consideration of the effect from credit risk deduction

6.307.902	7.386.932	
Weighted items ref. to the standard method	3.281.736	3.990.147
Weighted items with market risk	276.291	257.425
Weighted items ref. to the standard method	376.103	360.914
Group write-downs	-11.921	-5.138
Total weighted items	3.922.209	4.603.348

Core capital after deduction as a percentage

of total weighted items	10,4	10,2
Solvency ratio	15,6	12,4

Contingent liabilities

	2009 (1.000 DKK)	2008 (1.000 DKK)
Guarantees etc.		
Guarantees		
Finance guarantees	2.798	438.412
Guarantees against losses on mortgage credit loans	18.855	21.092
Registration and conversion guarantees	381.675	318.680
Other contingent liabilities	223.669	289.201
Total	626.997	1.067.385
Other binding engagements		
Irrevocable credit-undertakings	20.945	31.916
Total	20.945	31.916

Notes

1	Interest income		
	Receivables at credit institutions and central banks	16.502	31.143
	Loans and other receivables	262.821	311.566
	Loans (interest conc. the written-down part of loans)	-7.000	-5.000
	Bonds	15.360	14.472
	Other derivative financial instruments, total	11.259	5.430
	of which		
	Currency contracts	11.065	5.358
	Interest-rate contracts	194	72
	Other interest income	316	324
	Total interest income	299.258	357.935
	Of which interest related to genuine purchase and resale transactions	0	0
2	Interest expenses		
	Credit institutions and central banks	25.265	84.968
	Deposits	80.483	103.014
	Bonds, issued	13.610	171
	Subordinated debt	11.784	12.713
	Other interest expenses	168	199
	Total interest payable	131.310	201.065
	Of which interest related to genuine sale and repurchase transactions	0	0
3	Fees and commission income		
	Securities trading and custody accounts	12.985	16.923
	Payment services	4.475	4.772
	Loan fees	13.870	10.733
	Guarantee commission	13.930	15.239
	Other fees and commission	5.583	3.222
	Total fees and commission receivable	50.843	50.889
4	Value adjustments		
	Bonds	16.496	-29.462
	Total shares	10.719	-33.890
	Shares in TotalKredit A/S	0	12.199
	Shares in sectorcompanies etc.	4.449	4.655
	Other shares	6.270	-50.744
	Foreign currency	3.279	3.742
	Other financial instruments	-1.183	-1.338
	Total value adjustments	29.311	-60.948

	2009 (1.000 DKK)	2008 (1.000 DKK)
5	Staff costs and administrative expenses	
	Salaries included pension liabilities and remuneration of board of directors, managers etc.	
	2.830	2.478
	563	541
	161	153
	3.554	3.172
	Staff costs	
	63.483	65.844
	7.342	7.004
	726	402
	6.316	6.616
	77.867	79.866
	Other administrative expenses	
	22.644	20.842
	2.847	3.875
	2.030	2.474
	20.285	29.455
	47.806	56.646
	129.227	139.684
	With reference to the conditions for participation in the second guarantee scheme for banks in Denmark, it should be noted that tax has been deducted from remuneration of the executive board in the amount of DKK thousand 2,483 in connection with the preliminary statement of taxable income for the 2009 accounting period.	
	Pension and severance terms for the executive board	
	The executive board receives 11 % of salary grade 31 in pension annually through a defined contribution plan with a pension insurance company.	
	Skjern Bank shall pay retirement pension for six months in case of termination benefit, if any. Resign due to age retirement pay Skjern Bank severance compensation equal to 6 months' salary in force from the age of 62 year.	
	Skjern Bank's term of notice towards the executive board is 36 months; in special cases 48 months.	
	The executive board's term of notice towards the bank is 6 months.	
	Skjern Bank has no pension obligation towards the executive board as payment is made on an ongoing basis to a pension company.	
6	Average number of employees during the financial year converted into full-time employees	
	142	150
	4	4
	146	154
	Number of employees at year end converted into full-time employees	
	131	149
	4	3
	135	152
7	Incentive and bonus	
	The Bank has no incentive or bonus schemes.	
8	Audit fee	
	Total fee to the firms of accountants, elected by the annual meeting, that perform the statutory audit	
	1.948	979
	1.217	357
9	Profit on equity investments in non-affiliated and affiliated companies	
	-892	-4.636
	-892	-4.636

	2009 (1.000 DKK)	2008 (1.000 DKK)
10 Tax		
Calculated tax of the income for year	-37.953	-2.749
Adjustment of deferred tax	8.983	-15.279
Adjustment of tax calculated in previous years	527	-443
Total tax	-28.443	-18.471
Tax paid during the year	-6.169	-2.922
Deferred taxation (Tax amount)		
Loans and debtors	-1.589	-1.861
Bonds	-6.041	-7.709
Shares	-657	-12.167
Properties	1.418	1.408
Other tangible assets	-582	-705
Amortised cost etc.	1.051	0
Other deficits carried forward	-46.903	-4.462
Total deferred taxation	-53.303	-25.496
Effective tax rate	(Pct.)	(Pct.)
Current tax rate	25,00	25,00
Non-liable income relating from increasing in reassessed value	0,05	0,97
Non-deductible write-downs and depreciations	-0,32	-1,92
Non-liable income	0,40	1,89
Non-deductible costs etc.	-0,77	-1,83
Total effective tax rate	24,36	24,11
The re-adjustment of tax for previous years is not incorporated in this statement		
11 Receivables at credit institutions and central banks	(1.000 DKK)	(1.000 DKK)
Deposits with central banks	309.926	774.754
Receivables at credit institutions	35.107	201.724
Total receivables at credit institutions and central banks	345.033	976.478
Remaining period		
Demand	322.200	801.895
Up to 3 months	0	150.000
Over 1 year and up to 5 years	22.833	24.583
Total receivables at credit institutions and central banks	345.033	976.478
No assets related to genuine purchase and resale transactions included		
12 Loans and other debtors at amortised cost price		
Remaining period		
Claims at call	716.487	546.850
Up to 3 months	249.604	261.188
Over 3 months and up to 1 year	894.124	631.892
Over 1 year and up to 5 years	1.510.944	1.781.017
Over 5 years	305.887	549.185
Total loans and other debtors at amortised cost price	3.677.046	3.770.132
No assets related to genuine purchase and resale transactions included		
Individual write-downs and provisions		
Loans and receivables		
Write-downs – beginning of the year	138.757	82.632
Write-downs during the year	194.673	84.425
Reversal of write-downs made in previous years	-14.392	-22.712
Write-downs in previous years – now lost	-48.884	-5.588
Write-downs – end of year	270.154	138.757
Guarantees		
Provisions beginning of the year	3.495	0
Provisions during the year	10.251	3.495
Provisions – end of year	13.746	3.495

2009
(1.000 DKK) **2008**
(1.000 DKK)

Group write-downs and provisions

Loans and receivables

Write-downs – beginning of the year	5.138	828
Write-downs during the year	6.783	4.310
Group write-downs – end of year	11.921	5.138

Guarantees

Provisions beginning of the year	0	1.000
Reversal of provisions made in previous years	0	-1.000
Provisions end of year	0	0

Loans and other debtors with an objective indication of impairment included in the balance sheet at a book value greater than zero

Individual written-down loans

Balance for loans and other debtors before write-downs	695.940	356.959
Write-downs	271.075	136.440
Balance for loans and other debtors after write-downs	424.865	220.519

Group written-downs loans

Balance for loans and other debtors before write-downs	3.323.726	3.643.191
Write-downs	11.921	5.138
Balance for loans and other debtors after write-downs	3.311.805	3.638.053

Total loss (depreciation) on loan and guarantees on which individual write-down/provision has not earlier been made	28.213	6.438
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Paid on loan written-down (lost) in earlier years	7.410	5.385
of which interest deducted in interest receivable	7.000	5.000

Write-downs on receivables at credit institutions	0	0
Write-downs on other receivables, which carry a credit risk	0	0

Loans etc. with suspended calculation of interest

Loans etc. with suspended calculation of interest amounts to	185.363	88.756
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13 **Bonds**

Bonds at fair value	424.636	383.051
Total bonds at fair value	424.636	383.051

Bonds at fair value

Mortgage credit bonds	360.203	295.981
State bonds	2	2
Other bonds	64.431	87.068
Total bonds at fair value	424.636	383.051

The bank has not deposited bonds with Danmarks Nationalbank.

The bank has no held-to-maturity assets.

14 **Shares etc.**

Quoted on Nasdaq OMX Copenhagen A/S	33.016	45.188
Quoted on other stock exchanges	9.883	2.843
Unquoted shares recorded at fair value	132.750	126.718
Unquoted shares recorded at cost price	10.674	9.946
Total shares etc.	186.323	184.695

Equity investments in non-affiliated and affiliated companies

	2009 Affiliated companies (1,000 DKK)
Total cost price beginning-of-year	11.855
Acquisitions during the year	0
Reduction during the year	0
Total cost price end-of-year	11.855
Total write-ups/downs and depreciations beginning-of-year	-4.156
Result	-892
Difference in value by acquisition	0
Reversal of write-ups/downs	0
Total write-ups/downs and depreciations end-of-year	-5.048
Book value end-of-year	6.807
of this credit institutions	0
Book value beginning-of-year	7.699
of this credit institutions	0

Affiliated companies

Vestjysk Invest ApS, Skjern

The company invests in mortgage bonds in real property, and the bank's share of the capital amounts to 49 %.

The company's net result for the accounting year 2009 amounts to DKK 146,546.

The company's equity as at the 31st December 2009 amounts to DKK 839,007.

The company's debt to Skjern Bank amounts to DKK 21,948,596 by the 31st December 2009.

Value Estate A/S, Esbjerg

The company invests in real property, and the bank's share of the capital amounts to 46,09 %.

The company's net result for the accounting year 2009 amounts to DKK -1,934,330.

The company's equity as at the 31st December 2009 amounts to DKK 14,768,349.

The company's debt to Skjern Bank amounts to DKK 18,467,125 by the 31st December 2009

Land and buildings

	2009 (1,000 DKK)	2008 (1,000 DKK)
Investment properties		
Fair value – end of previous financial year	10.062	7.586
Acquisitions during the year incl. improvements	0	0
Disposals during the year	699	0
Depreciations	0	0
Increasing in reassessed value	0	0
Decreasing by reassessment of value	0	0
Adjustment of fair value for the year	0	2.476
Fair value end-of-year	9.361	10.062
Owner occupied properties		
Reassessed value – end of previous financial year	83.938	65.632
Acquisitions during the year incl. improvements	679	19.282
Disposals during the year	22.501	0
Depreciations	1.361	1.330
Increasing in reassessed value	0	7.053
Decreasing by reassessment of value	0	6.699
Reassessed value end-of-year	60.755	83.938

External experts have been involved by measurement of owner-occupied properties in so far as the banks headquarter.

	2009	2008
	(1.000 DKK)	(1.000 DKK)
17 Other tangible assets		
Total cost price beginning-of-year	30.670	27.362
Acquisitions during the year incl. Improvements	1.267	5.466
Reduction during the year	1.013	2.158
Total cost price beginning-of-year	30.924	30.670
Total write-ups/downs and depreciations beginning-of-year	21.153	19.223
Depreciations during the year	2.717	4.088
Reversal of depreciations	236	2.158
Total write-ups/downs and depreciations end-of-year	23.634	21.153
Book value end-of-year	7.290	9.517
18 Debt to credit institutions and central banks		
Credit institutions	571.862	1.658.800
Total debt to credit institutions and central banks	571.862	1.658.800
Term to maturity		
Demand	305.825	220.598
Up to 3 months	0	386.265
Over 3 months and up to 1 year	186.037	858.794
Over 1 year and up to 5 years	80.000	113.143
Over 5 years	0	80.000
Total debt to credit institutions and central banks	571.862	1.658.800
No liabilities related to genuine sale and repurchase transactions included.		
19 Deposits and other debts		
Demand	2.007.009	1.621.817
At notice	60.375	69.436
Time deposits	423.176	919.300
Special types of deposits	500.223	476.982
Total deposits and other debts	2.990.783	3.087.535
Term to maturity		
Demand	2.050.996	1.706.801
Up to 3 months	350.181	708.474
Over 3 months and up to 1 year	147.080	194.609
Over 1 year and up to 5 years	57.601	109.825
Over 5 years	384.925	367.826
Total deposits and other debts	2.990.783	3.087.535
No liabilities related to genuine sale and repurchase transactions included.		
20 Bonds issued at amortised cost		
Term to maturity		
Over 3 months and up to 1 year	403.660	0
Over 1 year and up to 5 years	150.346	7.678
Over 5 years	1.351	1.700
Total bonds issued at amortised cost	555.357	9.379
Accumulated change of value of commitments to fair value because of change in own credit risk	0	0

Subordinated debt

Subordinated debt as supplementary capital

Nominal DKK 25,000,000 with a term from the 16th December 2005 to the 1st November 2014.

The loan is at a fixed rate of 4.33 % p.a. until the 1st November 2011, from which date the loan is at a floating rate.

The loan can be repaid prematurely by the bank on the 1st November 2011.

Interest payable in 2009 amounts to DKK 1,082,500.

Subordinated debt as hybrid core capital

Nominal DKK 70,000,000 with an endless duration.

The loan is at a fixed rate of 6.09 % p.a. until the 1st May 2016, from which date the loan is at a floating rate.

The bank can at the earliest repay the loan by the 1st May 2016, however by the 1st May 2011 in case special circumstances should occur.

Interest payable in 2009 amounts to DKK 2,794,000.

Subordinated debt as supplementary capital

Nominal DKK 100,000,000 with term from the 3rd December 2007 to the 3rd December 2015.

The loan is at a floating rate and the rate of interest as at the 31st December 2008 has been fixed at 7.3 % p.a.

The bank is entitled to repay the loan prematurely as at the 3rd December 2012.

Interest payable in 2009 amounts to DKK 5,347,260.

Emission of capital-certificates as hybrid core capital

On the 23rd November 2009 Skjern Bank entered into an agreement with the Danish Government on the addition of capital-certificates as hybrid core capital for the amount of DKK 65,000,000 with an endless duration.

The capital-certificates have a fixed-rate of 11.11 % per annum.

In the period from the 24th November 2012 up to the 23rd November 2014 the capital-certificates can be repaid wholly or partly at a rate of 100.

In the period from the 24th November 2014 to the 23rd November 2015 the capital-certificates can be repaid wholly or partly at a rate of 105.

From the 24th November 2015 the capital-certificates can at any time be repaid wholly or partly at a rate of 110.

In connection with the emission of the capital-certificates the bank has defraided costs amounting to DKK 747,451.

The costs are – according to the amortized cost principle – carried out during the minimum duration of the capital-certificates of 3 years with DKK 20,800 per month.

Until the final carrying out of the costs the balance at every time of the costs is deducted from the "subordinated debt" in the banks balance sheet. In the solvency ratio the balance at every time of the costs is deducted from the principal DKK 65,000,000.

Interest payable in 2009 amounts to DKK 762,270.

Emission of capital-certificates as supplementary capital

On the 14th December 2009 Skjern Bank issued capital-certificates as supplementary capital for the amount of DKK 100,000,000 with duration until the 14th December 2017.

The capital-certificates have a fixed interest rate of 8 per cent per annum up to the 14th December 2014. Hereafter the rate of interest is variable.

The capital-certificates can be repaid by the bank at the 14th December 2014.

In connection with the emission of the capital-certificates the bank has defraided costs amounting to DKK 3,648,371.

The costs are – according to the amortized cost principle – carried out during the minimum duration of the capital-certificates of 5 years with DKK 60,500 per month.

Until the final carrying out of the costs the balance at every time of the costs is deducted from the "subordinated debt" in the banks balance sheet. In the solvency ratio the balance at every time of the costs is deducted from the principal DKK 100,000,000.

Interest payable in 2009 amounts to DKK 377,780.

The loans are incorporated in the capital base with

DKK 70,000,000 as hybrid core capital, and

DKK 64,273,348 as hybrid core capital, from the first guarantee scheme for banks in Denmark

DKK 125,000,000 as supplementary capital, and

DKK 96,351,629 as supplementary capital.

Share capital

	2009 (1.000 DKK)	2008 (1.000 DKK)
22 Share capital	22.560	22.560
Number of shares is 1.128,000 at DKK 20 each		
The bank have 13,187 registered shareholders. 95,06 % of the share capital are registered on name.		
23 Own capital shares		
Purchase and sales of own shares		
Holdings beginning of the year		
Number of own shares	107.226	44.242
Nominal value of holding of own shares (DKK 1,000)	2.145	885
Own shares proportion of share capital	9,51	3,92
Addition		
Number of own shares	94.995	122.628
Nominal value of holding of own shares (DKK 1,000)	1.900	2.453
Own shares proportion of share capital	8,42	10,87
Purchase price (DKK 1,000)	14.376	43.615
Disposal		
Number of own shares	105.602	59.644
Nominal value of holding of own shares (DKK 1,000)	2.112	1.193
Own shares proportion of share capital	9,36	5,29
Sale price (DKK 1,000)	16.111	20.252
Holdings end of the year		
Number of own shares	96.619	107.226
Nominal value of holding of own shares (DKK 1,000)	1.932	2.145
Own shares proportion of share capital	8,57	9,51

Every year at the annual meeting the bank asks the shareholders the permission to acquire up to a total nominal value of 10 % of the banks share capital, refer to the regulations in the Companies Act § 48. The bank wish to receive this power, in order that the bank always is able to grant the requests from our customers and investors to buy respectively to sell shares in Skjern Bank, and the net-purchase during 2009 is only in consequence hereof.

Lawsuits, etc.

- 24 As part of ordinary operations, the bank is involved in disputes and lawsuits. The bank's risks in these cases are evaluated by the bank's solicitors and management on an ongoing basis, and provisions are made on the basis of an evaluation of the risk of loss.

The board of managers' and the board of directors' holdings of shares in Skjern Bank – end of year

25 (nominal value)		
The board of managers		
Per Munck	66	66
The board of directors		
Carsten Thygesen	42	42
Jens Christian Ostersen	21	21
Børge Lund Hansen	14	14
Holger Larsen	82	82
Lars Andresen	2	2
Metha Thomsen	5	5

Management, board and committee of representatives

Amount of loans, mortgages or guarantees for members of the management and related parties mentioned below

	Rate of interest/ interest range	2009 Loans etc. (1.000 DKK)	2008 Loans etc. (1.000 DKK)
Management	5,71%	214	370
Committee of representatives	3,96 – 11,4%	99.013	88.072

Related parties

Transactions with related parties:

Wages and considerations to the bank's management board, board of directors, and committee of representatives can be found in note no. 5.

Loans and warranties provided to members of the bank's management board, board of directors, and committee of representatives are on market-based terms.

Current value of financial instruments

- 26 Financial instruments are measured in the balance sheet at either current value or amortised cost price (with consideration to risk cover that fulfil the conditions applying to hedging). The current value is the amount at which a financial asset can be sold or the amount at which a financial liability can be redeemed between agreed independent parties. The current values of financial assets and liabilities valued on active markets are calculated on the basis of observed market prices on the balance sheet date. The current values of financial instruments which are not valued on active markets are calculated on the basis of generally recognised methods of valuation. Shares etc. and derivative financial instruments are measured in the accounts at market value such that included book values correspond to current values. The write-downs on loans are assessed such that they correspond to changes in credit quality. The difference from current value is assessed as fees and commissions received, costs incurred in lending activities, and, for fixed-interest loans, the value adjustment which is independent of the interest level and which can be calculated by comparing the actual market interest rate with the nominal rate applying to the loans. The current value of claims on credit institutions and central banks is determined under the same method as for loans, but the bank has not currently made any write-downs on claims on credit institutions and central banks. Issued bonds and subordinated debt are measured at amortised cost price. The difference between book and current values is calculated on the basis of prices on the market for own listed issues. For variable-interest financial liabilities in the form of deposits and debts to credit institutions measured at amortised cost price, it is estimated that the book value corresponds to the current value. For fixed-interest financial liabilities in the form of deposits and debts to credit institutions measured at amortised cost price, the difference from current values is estimated to be the value adjustment which is independent of interest level.

Current value of financial instruments

	2009 Book value (1.000 DKK)	2009 Fair value (1.000 DKK)	2008 Book value (1.000 DKK)	2008 Fair value (1.000 DKK)
Financial assets				
Cash in hand+claims at call on central banks	125.356	125.356	30.156	30.156
Claims on credit institutes and central banks	345.033	345.033	976.529	976.529
Loans and other debtors at amort. costprice	3.685.056	3.687.199	3.779.375	3.780.698
Bonds at current value	430.906	430.906	390.404	390.404
Shares etc.	186.323	186.323	184.695	184.695
Capital shares in associated companies	6.807	6.807	7.700	7.700
Derivative financial instruments	65.408	65.408	103.690	103.690
Total financial assets	4.844.889	4.847.032	5.472.549	5.473.872
Financial liabilities				
Debt to credit institutions and central banks ..	572.841	574.444	1.667.380	1.667.380
Deposits and other debts	3.010.195	3.021.833	3.110.149	3.140.018
Issued bonds at amortised cost price	556.318	556.318	9.388	9.388
Derivative financial instruments	62.755	62.755	118.278	118.278
Subordinated debt	360.022	360.322	198.639	198.639
Total financial liabilities	4.562.131	4.575.672	5.103.834	5.133.703

Risks and risk management

27 Skjern Bank is exposed to various types of risk. See the section on risks on pages 7-8 of the management report for a description of financial risks and policies and objectives for their management.

The following notes to the annual report contain some additional information and a more de-tailed description of the bank's credit and market risks.

Credit risk

28 Loans and guarantees distributed on sectors

	2009	2008
	Procent	Procent
Public authorities	2,1	1,6
Business:		
Agriculture, hunting and forestry	15,1	13,3
Manufacturing and primary business, electricity-, gas, water- and heating plants	4,3	5,3
Building and constructions	5,1	5,1
Wholesale and retail trade, catering- and hotel trade	8,6	8,3
Carrying trade, storage- and communication service	0,7	1,1
Credit- and financial intermediation and insurance business	9,6	9,1
Real-estate administration, real-estate-agent and service business	22,8	24,3
Total business	66,2	66,5
Private persons	31,7	31,9
Total	100,0	100,0

The distribution by sector is based on Statistics Denmark's sector codes etc.

Maximum credit exposure classified by loan, guarantees and credit-undertakings

	2009	2009	2009
	(1.000 DKK)	(1.000 DKK)	(1.000 DKK)
	Loans	Guarantees	Credit-undertakings
Public authorities	82.436	11.804	0
Business	2.641.781	399.714	3.600
Private persons	1.234.928	229.201	22.345
	3.959.145	640.719	25.945
	2008	2008	2008
	(1.000 DKK)	(1.000 DKK)	(1.000 DKK)
	Udlån	Garantier	Kredittilsagn
Public authorities	61.504	18.037	0
Business	2.529.866	785.506	20.467
Private persons	1.326.152	263.842	16.449
	3.917.522	1.067.385	36.916

Security distributed by type

	2009	2009	2009
	(1.000 DKK)	(1.000 DKK)	(1.000 DKK)
	Public authorities	Business	Private persons
Securities	15.243	213.569	156.014
Real property, private	14.340	495.278	752.259
Real property, business	26.969	1.339.220	182.521
Chattels, vehicles and rolling stock	11.622	187.480	166.721
Other chattels	7.500	187.040	3.670
Guarantees	774	52.108	31.404
Other forms of security	699	121.814	72.569
	77.147	2.596.509	1.365.158

Credit risk – continued

	2008 (1.000 DKK)	2008 (1.000 DKK)	2008 (1.000 DKK)
	Public authorities	Business	Private persons
Securities	8.420	89.622	112.708
Real property, private	12.574	315.192	725.191
Real property, business	17.660	964.737	151.995
Chattels, vehicles and rolling stock	9.567	174.186	146.232
Other chattels	4.000	128.450	270
Guarantees	1.073	51.676	40.897
Other forms of security	243	127.825	42.309
	53.537	1.851.688	1.219.602

As a general rule, the bank secured by the financed asset, and in addition, be secured by securities shares and deposits. Refer to the above listing of nominal value, other securities are recorded at fair value.

Credit-quality on loans which are neither in arrears not written down

Reference is made to relevant sections on the bank's credit risk on loans on page 7 in the management report.

	2009 (1.000 DKK)	2008 (1.000 DKK)
Book value of loans which would have been in arrears or written down if they had not been renegotiated	0	0
Arrears amount for loans, which have not been written down		
0-90	71.801	71.780
>90 dage	1.117	1.148
	72.918	72.928
Distribution of loans which are written down individual		
Public authorities	10.932	5.733
Business	581.707	287.236
Private persons	116.127	66.307
	708.766	359.276

Security distributed by type in regard to overdue receivables written down individually

	2009 (1.000 DKK)	2009 (1.000 DKK)	2009 (1.000 DKK)
	Public authorities	Business	Private persons
Securities	5.446	95.946	2.669
Real property, private	8.998	259.026	198.013
Real property, business	16.224	587.177	56.839
Chattels, vehicles and rolling stock	7.317	54.428	35.431
Other chattels	3.500	69.200	0
Guarantees	0	36.676	7.253
Other forms of security	247	31.815	8.513
	41.732	1.134.268	308.718
	2008 (1.000 DKK)	2008 (1.000 DKK)	2008 (1.000 DKK)
	Public authorities	Business	Private persons
Securities	2.091	31.688	7.132
Real property, private	7.041	153.731	221.305
Real property, business	4.050	257.652	50.195
Chattels, vehicles and rolling stock	3.017	54.190	37.112
Other chattels	500	39.650	8.000
Guarantees	459	8.268	14.739
Other forms of security	1	68.959	4.690
	17.159	614.138	343.173

The above listed is rated values, but securities are recorded at fair value.

Market risks

		2009 (1.000 DKK)	2008 (1.000 DKK)		
29	Foreign currency exposure				
	Assets in foreign currency				
	Cash in hand and claims at call on central banks	3.661	6.812		
	Claims on credit institutions and central banks	10.029	17.346		
	Loans and other debtors at amortised cost price	1.507.695	969.869		
	Bonds at current value	7.044	15.818		
	Shares etc.	23.855	23.759		
	Other assets	65.408	97.412		
	Total assets in foreign currency	1.617.692	1.131.016		
	Liabilities in foreign currency				
	Debt to credit institutions and central banks	186.456	861.014		
	Deposits and other debts	23.302	26.989		
	Other liabilities	62.785	113.454		
	Total liabilities in foreign currency	272.543	1.001.457		
	Foreign currency holdings in main currencies (negative sign – net debt)				
	EUR	-10.561	-1.670		
	USD	83	-7.884		
	GBP	3	164		
	SEK	-51	-3.484		
	NOK	-32	344		
	CHF	1.634	2.816		
	CAD	1	138		
	JPY	67	171		
	Foreign currency risk				
	Currency indicator 1	10.645	13.090		
	Currency indicator 1 in pct of core capital after deductions	2,6	2,8		
	Currency indicator 2	52	322		
	Currency indicator 2 in pct of core capital after deductions	0,0	0,1		
30	Interest rate risk				
	Interest rate risk on debt instruments etc – total	5.360	2.129		
	Interest rate risk in pct of core capital after deductions	1,3	0,7		
	The interest rate risk shows how big a part of the capital base after deductions, there will be lost if the interest rate increases 1 %-point.				
	Interest rate risk split in currencies with highest risk				
	Currency				
	DKK	8.484	3.145		
	CHF	-2.008	-1.200		
	EUR	-1.062	1.068		
	JPY	-85	0		
	USD	21	98		
31	Unsettled spot transactions DKK 1,000				
		Nominal value	Market- value Positive	Market- value Negative	Net market- value
	Foreign-exchange transactions, purchase	17.003	51	5.106	-5.055
	Foreign-exchange transactions, sale	17.682	4.888	55	4.833
	Interest-rate transactions, purchase	9.566	0	22	-22
	Interest-rate transactions, sale	2.766	10	2	8
	Share transactions, purchase	3.314	108	34	74
	Share transactions, sale	3.285	34	89	-55
	Total 2009	53.616	5.091	5.308	-217
	Total 2008	187.290	14.905	11.262	3.643

Derivate financial instruments By residual maturity

DKK 1,000

	Up to 3 months		Over 3 months and up to 1 year	
	Nominal value	Net marketvalue	Nominal value	Net marketvalue
Foreign-exchange contracts				
Forward transactions/futures, purchase	490.478	-6.242	20.666	461
Forward transactions/futures, sale	1.867.333	8.448	20.641	-427
Swaps			3.924	8
Options, purchase	12.443	90	63.935	3.765
Option, sale	12.443	-122	32.637	-3.012
Interest-rate contracts				
Forward transactions/futures, purchase				
Forward transactions/futures, sale				
Swaps	30.042	-109		
Options, purchase				
Option, sale				
Share contracts				
Forward transactions/futures, purchase				
Forward transactions/futures, sale				
Options, purchase				
Option, sale				
	Over 1 year and up to 5 years		Over 5 years	
	Nominal value	Net marketvalue	Nominal value	Net marketvalue
Foreign-exchange contracts				
Forward transactions/futures, purchase				
Forward transactions/futures, sale				
Swaps	98.637	318	14.883	1
Options, purchase				
Option, sale				
Interest-rate contracts				
Forward transactions/futures, purchase				
Forward transactions/futures, sale				
Swaps	94.872	-694	185.537	385
Options, purchase				
Option, sale				
Share contracts				
Forward transactions/futures, purchase				
Forward transactions/futures, sale				
Options, purchase				
Option, sale				

Derivative financial instruments – continued

	Total nominal value		Total net market value	
	2009	2008	2009	2008
Foreign-exchange contracts				
Forward transactions/futures, purchase	511.144	1.192.469	-5.781	-45.355
Forward transactions/futures, sale	1.887.974	853.108	8.021	25.674
Swaps	117.444	109.701	327	422
Options, purchase	76.378	66.915	3.855	6.088
Option, sale	45.080	39.319	-3.134	-4.482
Interest-rate contracts				
Forward transactions/futures, purchase		3.931		70
Forward transactions/futures, sale		7.322		-233
Swaps	310.451	228.052	-418	-415
Options, purchase				
Option, sale				
Share contracts				
Forward transactions/futures, purchase				
Forward transactions/futures, sale				
Options, purchase				
Option, sale				
Total net market value			2.870	-18.231

	Market value Positive 2009	Market value Positive 2008	Market value Negative 2009	Market value Negative 2008
Foreign-exchange contracts				
Forward transactions/futures, purchase	16.888	21.755	22.669	67.110
Forward transactions/futures, sale	25.047	49.769	17.026	24.095
Swaps	4.306	4.496	3.979	4.074
Options, purchase	3.855	6.088		
Option, sale			3.134	4.482
Interest-rate contracts				
Forward transactions/futures, purchase		70		
Forward transactions/futures, sale				233
Swaps	10.221	6.607	10.639	7.022
Options, purchase				
Option, sale				
Share contracts				
Forward transactions/futures, purchase				
Forward transactions/futures, sale				
Options, purchase				
Option, sale				
Total	60.317	88.785	57.447	107.016

Derivative financial instruments – continued

		Average market value		
	Positive 2009	Positive 2008	Negative 2009	Negative 2008
Foreign-exchange contracts				
Forward transactions/futures, purchase	10.435	11.600	20.197	23.166
Forward transactions/futures, sale	23.436	25.554	12.321	13.435
Swaps	4.471	1.593	4.033	1.358
Options, purchase	5.547	1.621		
Option, sale			4.164	1.197
Interest-rate contracts				
Forward transactions/futures, purchase	1	32		14
Forward transactions/futures, sale		62	16	67
Swaps	7.430	4.223	7.285	3.332
Options, purchase				
Option, sale				
Share contracts				
Forward transactions/futures, purchase	8			
Forward transactions/futures, sale				
Options, purchase				
Option, sale				
Total	51.328	44.685	48.016	42.569

Cooperative agreements

- 32 Skjern Bank cooperates with, receives commission relating to payment transfers from, and is co-owner of some of the following companies:
 Totalkredit A/S / Nykredit, DLR Kredit A/S, Privatsikring A/S, Eurocard, PFA Pension, Bankin-vest, Sparinvest A/S, Investeringsforeningen Valueinvest Danmark, Investerings- og Special-foreningen Dexia Invest, BI Asset Management Fondsbørsmæglerselskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, Garanti Invest A/S, Atrium Fondsmæglerselskab A/S, Investeringsforeningen Egn-Invest, HP Fondsbørsmæglerselskab A/S, Investeringsforeningen LD Invest, Tiedemann Independent A/S, Codan, Dankort A/S, PBS A/S, PBS International A/S, Multidata A/S, Visa International, Dansk Lokalleasing A/S and Del-taq A/S.

5 years in summary

(1.000 DKK)

	2009	2008	2007	2006	2005
Profit and loss account					
Net income from interest	167.948	156.870	135.246	124.374	94.334
Dividend on shares	3.405	8.254	3.909	3.567	1.076
Charges and commission, net	46.637	46.672	51.541	47.790	41.026
Income from core business	217.990	211.796	190.696	175.731	136.436
Value adjustments	29.311	-60.948	7.920	54.867	41.237
Other ordinary income	1.825	1.958	1.216	911	725
Staff cost and admin. expenses	129.227	139.684	129.356	115.679	91.693
Depreciation of intangible and tangible assets	4.078	9.138	153	21.106	6.150
Other operating expenses	16.099	6.399	0	0	0
Write-down on bad debts (net)	218.119	69.572	19.439	3.077	-6.060
Profit on equity investments in non-affiliated and affiliated companies	-892	-4.636	1.687	387	198
Operating result	-119.289	-76.623	52.571	92.034	86.813
Taxes	-28.443	-18.471	9.320	24.627	26.312
Profit for the year	-90.846	-58.152	43.251	67.407	60.501

Balance as per 31st December summary

Total assets	4.988.301	5.618.617	5.358.137	4.148.826	2.747.664
Loans and other receivables	3.677.046	3.770.132	3.919.134	3.149.009	2.077.200
Guarantees etc.	626.997	1.067.385	1.735.617	1.541.000	1.545.241
Bonds	424.636	383.051	253.271	234.939	102.489
Shares etc.	186.323	184.695	213.388	197.996	155.952
Deposits	2.990.783	3.087.535	2.677.096	1.942.334	1.947.678
Subordinated debt	355.625	195.000	220.000	120.000	75.000
Total equity	373.388	463.661	536.276	424.092	379.469
of which proposed dividend	0	0	5.640	4.700	9.400
Capital Base	613.285	568.601	686.180	490.953	396.909

Financial ratios

(figures in pct.)

Solvency ratio	15,6	12,4	13,5	11,2	12,5
Core capital ratio	10,4	10,2	11,1	11,1	11,3
Return on equity before tax	-28,5	-15,3	10,9	22,9	24,7
Return on equity after tax	-21,7	-11,6	9,0	16,8	17,2
Earning/expense ratio in DKK	0,68	0,66	1,35	1,66	1,95
Interest rate risk	1,3	0,7	0,4	0,8	1,1
Foreign currency position	2,6	2,8	14,8	13,2	9,4
Foreign currency risk	0,0	0,1	0,0	0,1	0,0
Loans etc. against deposits	132,4	126,8	149,5	165,5	109,8
Statutory liquidity surplus	124,3	143,8	90,7	41,0	23,0
Total large commitments	88,2	110,6	109,4	165,0	98,5
Loans and debtors at reduced interest	4,0	1,8	0,4	0,4	0,6
Accumulated impairment ratio	6,4	3,0	1,5	1,5	1,8
Impairment ratio for the year	4,7	1,4	0,3	0,1	-0,2
Increase in loans etc. for the year	-2,5	-3,8	24,5	51,6	20,9
Ratio between loans etc. and capital funds	9,8	8,1	7,3	7,4	5,5
(value per share 100 DKK)					
Earnings per share	-439,6	-279,6	205,7	358,5	321,8
Book value per share	1.810	2.271	2.474	2.290	2.031
Rate on Copenhagen Stock Exchange	900	675	2.950	4.350	3.184
Dividend per share	0	0	25	25	50
Market value/net income per share	-2,0	-2,4	14,3	12,1	9,8
Market value/book value	0,50	0,30	1,19	1,90	1,57
Number of employees by 31. December	135	152	141	125	119



Financial Calendar 2010

25th February	Announcement of Annual Report 2009
8th Marts	General Meeting – Skjern Kulturcenter
6th May	Announcement of Quarterly Report 1st quarter 2010
19th August	Announcement of Half-yearly Report 2010
28th October	Announcement of Quarterly Report after 3rd quarter 2010



Committee of representatives

Bente Tang, Hanning, Skjern, farmer, chairperson
Ole Strandbygaard, Ringkøbing, printer, vice-chairperson
Jørgen Søndergaard Axelsen, Skjern, real estate agent
Jens Bruun, Viby J, Manager
Kaj Eriksen, Vemb, police officer
Jens Chr. Fjord, Skjern, former bicycle dealer
Elmo Flaskager Hansen, Skjern, senior teacher
Orla Varridsbøl Hansen, Tarm, manufacturer
Helle Svenstrup Husted, Skjern, manager
Mike Jensen, Skjern, bookseller
Niels Erik Kjærgaard, Skjern, city manager
Dorte H. Knudsen, Hviding, Ribe, hospital nurse
Finn Erik Kristiansen, Varde, bookseller
Hans Juul Mikkelsen, Skjern, master carpenter
Lars Aage Sandfeldt Nielsen, Borris, Skjern, farmer
Niels-Henrik Skovsgaard Nielsen, Skjern, financial adviser
Viggo Nielsen, Skjern, former mayor
Tommy Noer, Esbjerg, technical teacher

Torben Ohlsen, Tjæreborg, manager
Jens Okholm, Esbjerg, adviser
Niels Chr. Poulsen, No, Ringkøbing, mink farmer
Jesper Ramskov, Ribe, manager
Christen Spangsborg Sørensen, Hanning, Skjern, farmer
Poul Thomsen, Skjern, trader in men's clothing

Board of directors *)

Carsten Thygesen, Skjern, manager, chairman
Jens Christian Ostensen, Stauning, farmer, vice-chairman
Børge Lund Hansen, Skjern, manufacturer
Holger Larsen, Dejbjerg, master builder
Lars Andresen, Varde, deputy manager, employee-selected
Metha Kirstine Thomsen, Skjern, agriculture advisor, employee-selected

Management

Per Munck, banking executive

*) Shareholder-selected board of directors are a part of the Committee of representatives



List of board members' managerial offices in Danish limited companies as per December 31, 2009

Manufacturer Børge Lund Hansen:
Manager and board member of Vestjysk Industrilakering A/S, Skjern.

Master builder Holger Larsen:
Manager and board member of Hansen & Larsen A/S, Dejbjerg, Skjern,
Manager and board member of Skjern Huse A/S, Skjern,
Board member of H&L Udlejning A/S, Skjern,
Board member of Skjern Installationsforretning A/S, Skjern,
Board member of Skjern Vinduer A/S, Skjern, and
Board member of Flemming Damgaard A/S, Ringkøbing.

Manager Carsten Thygesen:
Manager and board member of Hecto A/S, Videbæk,
Manager and board member of Rehborg A/S, Skjern,
Board chairman of MBT Danmark A/S, Århus,
Board chairman of Skjern Håndbold A/S, Skjern,
Board chairman of Trinity A/S, Erritsø,
Board chairman of Vest Detail A/S, Skjern,
Board member of Agro Korn A/S, Videbæk,
Board member of Compu-Game Holding A/S, Esbjerg, *)
Board member of Conset A/S, Skjern,
Board member of Letbæk Plast A/S, Tistrup,
Board member of Mogis A/S, Skjern, *)
Board member of Rolighed – Humania A/S, Vinderup
Board member of Skjern Installationsforretning A/S, Skjern,
Board member of Flemming Damgaard A/S, Ringkøbing,
Board member of Pro-Movec A/S, Århus,
Board member of Strandbygaard Grafisk A/S, Skjern, and
Board member of VenSet A/S, Skjern.


*) together with one subsidiary in each


Banking executive Per Munck,
Board member of Dansk Lokalleasing A/S, Bogense





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