

NASDAQ OMX Copenhagen A/S
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Olso Børs

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Company announcement

Vestjysk Bank and Aarhus Lokalbank contemplate a merger and implementation of capital plan. Vestjysk Bank initiates a voluntary conversion of state hybrid capital in the amount of app. MDKK 297.

Vestjysk Bank and Aarhus Lokalbank publish their expectations to the profit for 2011.

- Vestjysk Bank and Aarhus Lokalbank contemplate to merge with Vestjysk Bank as the continuing entity and with an exchange ratio of 4:1, corresponding to four (4) shares in Aarhus Lokalbank for one (1) new share in Vestjysk Bank.
- In connection with the merger, Vestjysk Bank contemplates to implement a capital plan consisting of (1) voluntary conversion of state hybrid capital in the amount of app. MDKK 297, (2) a rights issue in the amount of MDKK 250 to 300, (3) raising of a subordinated loan in the amount of MDKK 200 and (4) sale of sector shares for an amount of MDKK 175. As part of the capital plan, it is assumed that the continuing bank will obtain new individual state guarantees with a term of up to three years that eventually can replace the existing individual state guarantees of the banks with expiry in 2012 and 2013.
- With the publication of this announcement the first step of the capital plan regarding voluntary conversion of a part of Vestjysk Bank's state hybrid capital is initiated, and immediately after the publication of this announcement Vestjysk Bank will contact FSR – Danish Accountants in order to have an independent valuer appointed, who shall determine the conversion ratio. The voluntary conversion of state hybrid capital will comprise a principal amount of app. MDKK 288 and accrued interest that depending on the actual time of conversion will amount to app. MDKK 9.
- The completion of the merger and the capital plan in its entirety is conditional on the banks entering into a final merger plan and that various approvals and consents from governmental authorities and other parties are obtained. The merger must be finally approved by the general meetings of the two banks.
- Vestjysk Bank and Aarhus Lokalbank maintain the announced expectations to the core earnings for 2011 and publish expectations to the profit for 2011, as further described under profit expectations for 2011 below.
- On the basis of an interim budget for the continuing bank, the merging parties aim to achieve core earnings in 2012 in the range of MDKK 550-600 before impairments and extraordinary expenses related to the merger.
- The completion of the merger and the capital plan in its entirety will contribute to an improvement of the capital structure of Vestjysk Bank. On the basis of interim budgets and an assumption of impairments of 1.5 per cent on loans and guarantees, the solvency by end 2012 of the continuing bank can be calculated to 14.5 per cent. On basis of the interim and unaudited accounts for 2011, the aggregate weighted solvency requirement as of 31 December 2011 of the two banks is between 10.5-11.0 per cent.

- Upon completion of the merger, Carsten Andersen, chairman of the board of directors of Aarhus Lokalbank, will be proposed elected as member of the board of directors of the continuing bank with the intention of subsequent election as chairman of the board of directors of the continuing bank.
- Vagn Thorsager, chief executive officer in Aarhus Lokalbank, will upon completion of the merger become part of the executive management of Vestjysk Bank. The executive management board of Vestjysk Bank will accordingly consist of chief executive officer Frank Kristensen and general manager, Vagn Thorsager.

The contemplated merger and the associated capital plan

The boards of directors of Vestjysk Bank and Aarhus Lokalbank have decided to work towards merging the two banks with Vestjysk Bank as the continuing bank.

In connection with the merger, a strengthening of the capital base in Vestjysk Bank is contemplated by means of a conversion of part of the state hybrid capital to share capital and, upon completion of the merger, a rights issue and the issue of liable capital from a number of Danish financial institutions. Further, Vestjysk Bank contemplates to sell sector shares to Danmarks Nationalbank.

As part of the capital plan it is assumed that Vestjysk Bank, as the continuing bank, obtains consents for new individual state guarantees with a term of up to three years that eventually can replace the banks' existing individual state guarantees for loans expiring in 2012 and 2013 with an aggregate principal amount of DKK 8.6 bn. The continuing bank will thus as part of the implementation of the capital plan have to reduce the aggregate guarantee facility amount from DKK 9.6 bn. to DKK 8.6 bn.

The banks are in dialogue with relevant Danish authorities in respect of the contemplated merger and the capital plan. A final implementation and completion of the merger and the capital plan is conditional on obtaining various approvals and consents from governmental authorities and other parties. In addition thereto, the merger is conditional on the banks entering into a final merger plan and that the merger is approved at the general meetings of the two banks.

Background

The contemplated merger and the associated capital plan originate from a mutual desire from the board of directors of both banks to expand the commercial basis in Eastern Jutland and to create an even stronger Jutland regional bank through operational synergies.

A merger of the two banks will furthermore create a basis for the contemplated capital plan, that if implemented will result in a strengthening of the long term liquidity and capital base of the continuing bank.

The merger is furthermore intended to counter the funding challenges of Vestjysk Bank and create an improved basis for a future successive reduction of the state guaranteed loans for the purpose of the bank not needing state guarantees after 2016. Together with an improved earnings potential, such improved funding situation will improve the continuing bank's possibilities to get well through the financial crisis.

Profit expectations for 2011 and goals for core earnings in the continuing bank

The core earnings of both banks in the financial year 2011 have had the expected and previously announced development.

On basis of the interim and unaudited accounts for 2011, Vestjysk Bank expects that the level of impairments on loans and guarantees will not differ from that which has previously been announced. On the basis hereof, Vestjysk Bank expects a result before taxes in the range of MDKK -550 and after taxes in the range of MDKK -415.

On the basis of the interim and unaudited accounts of Aarhus Lokalbank for 2011, Aarhus Lokalbank expects that impairments on loans and guarantees will be in the range of MDKK 150. On the basis hereof, Aarhus Lokalbank expects a result before taxes in the range of MDKK -150 and after taxes in the range of MDKK -150.

Accordingly, the two banks expect an aggregate negative impact on the capital expressed as aggregate result after taxes in 2011 in the range of MDKK -565.

The final profit for 2011 will appear from the banks' annual reports for 2011.

On basis of an interim budget for the continuing bank, the merging parties aim to achieve aggregate core earnings in 2012 in the range of MDKK 550-600 before impairments and extraordinary expenses related to the merger.

To illustration, the solvency for the continuing bank can be estimated to 14.5 per cent at end 2012 based on the interim budgets and an assumption of impairments *on* 1.5 per cent of loans and guarantees. On basis of the interim and unaudited accounts, the aggregate weighted solvency requirement of the two banks as of 31 December 2011 is in the range of 10.5-11.0 per cent.

The expectations in respect of solvency are based on an assumption of impairments in 2012 of approximately 1.5 per cent on loans and guarantees and that no synergies stemming from the merger are realised in 2012.

The Danish Financial Supervisory Authority ("DFSA") has informed Vestjysk Bank, that the DFSA contests Vestjysk Bank's recognition of goodwill in the amount of MDKK 96.6 relating to the acquisition of Bonusbanken in the bank's annual accounts for 2010 and semi-annual account for 2011, and that the DFSA will take the matter to the Danish Securities Council. Vestjysk Bank does not agree with the *opinion* of the DFSA. The outcome of the matter will not have a financial impact on the profit expectations above, including the stated solvency percentages, or otherwise result in changes to the contemplated merger and capital plan.

Preliminary time table

With this announcement Vestjysk Bank initiates the voluntary conversion of state hybrid capital, and will immediately after the publication of this announcement contact FSR - Danish Accountants in order to have an independent valuer appointed, who shall determine the conversion ratio, in order for the conversion to be completed prior to the publication of the bank's annual reports for 2011 by the end of February.

The parties expect to publish a final merger plan in continuation of the publication of both banks' annual reports for 2011 in February 2012, in order for the merger to be finally approved at the annual general meetings of the banks in March 2012.

The rights issue is expected to be launched in continuation of the completion of the merger and to be completed in May 2012. The raising of subordinated loan and sale of sector shares is expected to take place immediately after the completion of the rights issue.

The banks will publish revised financial calendars and a schedule for the contemplated completion of the merger and capital plan as soon as possible.

Further details on the conversion of state hybrid capital

- The first step of the capital plan concerning voluntary conversion of part of the state hybrid capital in Vestjysk Bank is initiated with the publication of this announcement, and immediately after the publication of this announcement Vestjysk Bank will contact FSR – Danish Accountants in order to have an independent valuer appointed, who shall determine the conversion ratio. The voluntary conversion of state hybrid capital will comprise a

principal amount of app. MDKK 288 and accrued interest that depending on the actual time of conversion will amount to app. MDKK 9.

- The conversion will be effected in accordance with the terms of the hybrid capital obtained from the Danish State by Vestjysk Bank in 2009, as appears from the articles of association of the bank.
- The conversion is expected to be completed immediately after the publication of the valuation report prepared by the appointed independent valuer, which report shall be available no later than three weeks after the notice for conversion.
- The shareholding of the State after the conversion will depend on the conversion ratio determined by the independent valuer. If the conversion ratio is 26.3 or lower, the State together with Finansielt Stabilitet A/S will hold a majority of the shares in Vestjysk Bank after the conversion. If the conversion ratio is 23.8 or lower, the State will by itself hold a majority of the shares in Vestjysk Bank after the conversion.
- Any possible change of control in Vestjysk Bank to the State as a result of the conversion will not trigger an obligation to make a mandatory offer to the other shareholders in Vestjysk Bank.

Further details on the contemplated merger

The merger is contemplated to be completed on the following main terms:

- The merger is completed with Vestjysk Bank as the continuing entity, and will imply that all activities in Aarhus Lokalbank, including commitments, employees and branches, are assumed by Vestjysk Bank. After the merger, the merged bank will have the name Vestjysk Bank A/S.
- The exchange ratio will be 4:1, implying that 4 shares in Aarhus Lokalbank entitle the shareholder to 1 share in Vestjysk Bank. The exchange ratio has been agreed between the banks on basis of the latest semi-annual reports and the profit expectations set out in this announcement, as well as other facts and circumstances that usually form part of such assessment.
- The merger will have accounting and tax effect as of the date of approval by the general meetings.
- It is expected that a final merger plan will be published in February 2012 after the completion of the bank's annual reports for 2011, following which the merger can be adopted at the annual general meetings of the banks in March 2012.
- Carsten Andersen, chairman of the board of directors of Aarhus Lokalbank, will be proposed elected as member of the board of directors of the continuing bank with the intention of subsequent election as chairman of the board of directors.
- Vagn Thorsager, chief executive officer in Aarhus Lokalbank, will upon completion of the merger become part of the executive management board of Vestjysk Bank. The executive management board of Vestjysk Bank will accordingly consist of chief executive officer Frank Kristensen and general manager Vagn Thorsager. A proposal for the entire composition of the management of the continuing bank will be published in the final merger plan.

Further details on the capital plan

The contemplated capital plan contains the following main steps:

- *Conversion of app. MDKK 297 state hybrid capital to share capital in Vestjysk Bank.* With the publication of this announcement, Vestjysk Bank initiates voluntary conversion of part of the state hybrid capital in Vestjysk Bank, as further described above.

- *Completion of a rights issue with proceeds of MDKK 250-300.* The capital increase will be completed as a share issue with pre-emption right for existing shareholders. The capital increase is expected to be launched after the completion of the merger and to be completed by May 2012.
- *Issue of liable capital in the amount of MDKK 200.* The loan capital will be raised after the completion of the abovementioned capital increase and on market terms, and the loan capital will rank pari passu other regulatory capital. Vestjysk Bank has received conditional commitment for a guaranteed subscription of the loan amount from a syndicate of banks consisting of: Arbejdernes Landsbank, Danske Bank, FIH Erhvervsbank, Jyske Bank, Nordea Bank Danmark, Nykredit Bank, Spar Nord Bank and Sydbank. A number of local financial institutions¹ have undertaken to subscribe for a part of the guaranteed loan amount. The commitment and undertaking are conditional on completion of the merger and the other steps of the capital plan, including an expectation that risk weighted items are reduced.
- *Sale of sector shares for an amount of MDKK 175.* Vestjysk Bank has received a conditional undertaking from Danmarks Nationalbank on acquisition of shares after the completion of the merger and the other steps of the capital plan. The undertaking is conditional on completion of the merger and the other steps in the capital plan. Going forward, the sale implies a reduced tie-up of regulatory capital for Vestjysk Bank and will, accordingly, have a positive effect on the solvency of the bank.

Individual state guarantees

The completion of the merger and the capital plan in its entirety is conditional on the banks obtaining consent to new individual state guarantees with a term of up to three years that eventually can replace the banks' existing individual state guarantees for loans expiring in 2012 and 2013 with an aggregate principal amount of DKK 8.6 bn. The continuing bank will thus as part of the implementation of the capital plan have to reduce the aggregate guarantee facility amount from DKK 9.6 bn. to DKK 8.6 bn.

As part of the merger negotiations, Vestjysk Bank has commenced negotiations with the Danish Ministry of Business and Growth in order to obtain consent from the European Commission.

Vestjysk Bank has from Finansielt Stabilitet A/S obtained a conditional consent to new individual state guarantees subject to obtaining required statutory authority and governmental approvals as well as completion of the merger and the other steps of the capital plan.

The future process

The banks continue the work on drafting and negotiating a final merger plan and completion of the associated capital plan in its entirety. The overall plan will be published as soon as it becomes available.

Press conference and queries

The banks hereby invite to a joint press conference to be held today at 14:00 at NASDAQ OMX Copenhagen A/S, Nikolaj Plads 6, DK-1006 Copenhagen K.

After the press conference, any queries regarding this announcement can be directed to:

Chairman of the board of directors in Vestjysk Bank, Anders Bech, tel. +45 22 70 88 35

CEO Frank Kristensen, Vestjysk Bank, tel. +45 40 40 87 77

Chairman of the board of directors in Aarhus Lokalbank, Carsten Andersen, tel. +45 20 12 44 46

¹ Sparekassen Vendsyssel, Sparekassen Hobro, Sparekassen Kronjylland, Den Jyske Sparekasse, Sparekassen Sjælland, Sparekassen Thy, Lån og Sparbank, Ringkjøbing Landbobank, Nørresundby Bank, Nordjyske Bank, Djurslands Bank and Sparekassen Himmerland.

CEO Vagn Thorsager, Aarhus Lokalbanc, tel. +45 40 53 92 55

Yours sincerely
Vestjysk Bank A/S

Aarhus Lokalbanc A/S

Anders Bech
Chairman of the board

Frank Kristensen
CEO

Carsten Andersen
Chairman of the board

Vagn Thorsager
CEO

This document encompasses forward-looking statements regarding Vestjysk Bank's and Aarhus Lokalbanc's financial situation, operating result and activities. With the exception of statements regarding historical facts, all statements are forward-looking or can be considered as forward-looking statements. Forward-looking statements are statements regarding future expectations, which are based on the managements' present expectations and assumptions and which are related to known and unknown risks and elements of uncertainty which may cause actual results, development or events to differ substantially from the results, the development, and the events which are expressed or implied in the statements.

This announcement has been prepared in Danish and English. In discrepancies, the Danish version shall prevail.