



Valuation report prepared in connection with the
voluntary conversion of state-funded tier 1 hybrid
capital (capital certificates) into shares in Vestjysk
Bank A/S



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1. Basis of preparation

On 20 December 2013 at 11:50 am, Vestjysk Bank A/S ('the Bank') announced its intention to convert approx. DKK 587 million out of a total of DKK 863 million of state-funded tier 1 hybrid capital ('capital certificates') into share capital.

The conversion comprises state-funded capital injections at a total principal amount of DKK 575 million plus accrued interest until the expected time of conversion, i.e. 20 January 2014.

Vestjysk Bank A/S' conversion right is reflected in the Bank's agreement with the Danish government regarding state-funded capital injections, entered into on 20 August 2009 by Vestjysk Bank A/S, cf. the rendering of the loan terms in the Bank's articles of association, section 3, capital certificates with voluntary conversion in appendix 1 to the articles of association, and the agreement on changes in and specification of state-funded capital injections in appendix 6 to the articles of association.

The undersigned, Henrik O Larsen, state authorised public accountant in Ernst & Young Godkendt Revisionspartnerselskab, has been appointed valuation expert by FSR - Danish Auditors for purposes of setting the conversion price. On this basis, I have been appointed to set the conversion price of the capital certificates to be converted.

2. Criteria for determining the market value of the Bank and the conversion price of the capital certificates

Pursuant to the agreement on state-funded capital injections between the Bank and the Danish Government, represented by the Danish Ministry of Business and Growth, my efforts to determine the market value and the conversion price are subject to certain valuation criteria. The main valuation criteria for purposes of the preparation of the valuation report are:

- ◆ The conversion price is set by the valuation expert as the market value of the issuer's shares immediately following the notification announcement, taking into account the situation of the issuer at the time of the conversion announcement.
- ◆ The valuation expert determines the most appropriate valuation method(s) considering the situation of the issuer and may, if so considered appropriate by the valuation expert, set the market value on the basis of the price of the shares quoted on the Stock Exchange after the conversion announcement.
- ◆ The valuation expert should not in his valuation make allowance of the effect of any simultaneous or subsequent capital increase or capital injection in the issuer, unless such a capital increase or capital injection has been subscribed or guaranteed at the time of the conversion announcement.
- ◆ If the valuation expert chooses to determine the market value based on the price of the shares quoted on the Stock Exchange after the issuer's conversion announcement, he should not adjust such price unless he considers it appropriate.

Method for determining the market value

As the Bank's shares are quoted on the Stock Exchange, they are priced on a day-to-day basis. If the share is sufficiently liquid and the stock market has been notified of all price-sensitive information, the share price will be considered a natural basis upon which to determine the Bank's market value.

Further, I have assessed alternative valuation methods.

Circumstances which have arisen after the conversion announcement and which have affected the Bank or the banking sector in general are not included in the assessment of the Bank's market value at the time of the conversion announcement. Accordingly, there may be subsequent factors impacting on the Bank's share price until the time of the actual conversion of the Danish government's capital certificates into share capital in the Bank. Such factors may have a significant impact on the share price.

3. Procedures performed

My efforts to determine the Bank's market value included the following procedures as a basis for assessing if the share price quoted on the Stock Exchange can form a basis upon which to determine the Bank's market value.

The scope of the procedures performed should be assessed considering the limited time available and the fact that the valuation is not based on audited or reviewed interim accounts on the date of the conversion announcement. Had an audit or a review been performed, this might have implied a significant adjustment of the conversion price.

Share liquidity

In order to assess if the Bank's share is sufficiently liquid to allow the share price to be used as a basis for the conversion price, I have analysed the most recent 12 months' share ratios for the Bank, including the average, daily turnover and volume.

Moreover, I compared relevant financial ratios based on the market value with comparable, listed regional banks in Denmark.

As my analysis showed a liquid share in the past year as well as in the period up to and immediately after the conversion announcement, the share price may be used as a basis for the assessment.

Absorption of the conversion announcement in the share price

As it often takes less liquid banks more time to absorb stock exchange announcements in the share price, it is considered necessary to allow them the time necessary to absorb the conversion announcement.

The absorption in the share price is considered completed four banking days after the conversion announcement.

Alternative valuation methods

I analysed alternative valuation methods to assess if they might provide a better basis than the current share price for purposes of determining the market value.

In summary, I believe that these alternative models would not provide a better basis for determining the market value than the price of the Bank's share quoted on the Stock Exchange.

Identification of potential price-sensitive information not disclosed to the market

To assess if all price-sensitive information regarding the Bank has been communicated to the stock market, I performed such investigations and examinations of background material as I considered relevant. In addition, I conducted interviews and held meetings with selected top executives, employees and external auditors of the Bank regarding topics of relevance to the preparation of the valuation report.

My efforts focused on the quarterly report dated 28 November 2013 (Q1-Q3 2013 (unaudited)), internal accounts for the 11-month period ended 30 November 2013 (unaudited), estimate for 2013, review of the Bank's capital structure, solvency, cash flow position, correspondence with the Danish FSA, stock exchange announcements, long-form audit reports, minutes of board meetings for 2013 and the budget for 2014.

I obtained a representation letter from the Bank's CEO and chairman of the board on the Bank's solvency and capital structure. The representation letter includes the following wording:

"As of today, it is our view - where the Bank's impairments for 2013 have not yet been established and the Danish FSA has not completed its inspection of the bank's loan portfolio - that the bank by voluntary conversion of approx. DKK 575 million (excluding accrued interest) of the government hybrid core capital will have adequate solvency and capital to continue operations, as we also refer to the company announcements dated 28 November 2013 and 12 December 2013 which state that the risk profile of the Bank's loan portfolio causes uncertainty as to the level of impairments in 2013 and that the pending introduction of the CRD IV in 2014 is also expected to have a negative impact on the solvency ratio".

The representation letter further confirms that the Bank has communicated all price-sensitive information to the market.

As stated in the Company Announcement dated 20 December 2013, the conversion, viewed in isolation, results in an improvement in the Bank's actual core capital, which from 2014 is subject to separate requirements under the new CRD IV rules while the conversion, viewed in isolation, only leads to a marginal improvement of the Bank's solvency ratio.

Also, as stated in the Company Announcement dated 20 December 2013, the development in the Bank's solvency ratio and solvency needs, and thus the Bank's compliance with solvency requirements in relation to CRD IV going forward, continue to be subject to considerable uncertainty, and will among others depend on the Bank's financial performance, the impairments of the Bank and the effect of the continuous balance sheet reductions.

The Bank continues its efforts to find a long term solution to the Bank's capital base challenges, as described in the Company Announcement dated 12 December 2013.

Based on the procedures performed, I did not become aware of any price-sensitive information not having been communicated to the market at 20 December 2013.

4. Conversion price assessment

Based on the procedures performed, I concluded that the market value of Vestjysk Bank A/S may be determined on the basis of the share price quoted on the Stock Exchange.

The conversion price has been set at the average share price on 2 January 2014.

Thus, the price of the Bank's share immediately following the conversion announcement has been set at DKK 9.04 per share of DKK 1, resulting - seen in relation to the nominal share capital of DKK 85.98 million - in a total market value of the Bank of DKK 777.3 million.

Based on this calculation, the conversion price of the issued capital certificates plus accrued interest can be made up at DKK 9.04 per share of DKK 1. Accordingly, the conversion of DKK 575,200,000 nominal value in issued share certificates plus accrued interest until the expected time of conversion, i.e. 20 January 2014, of DKK 12,638,954, totalling DKK 587,838,954, implies an increase in the Bank's share capital by DKK 65,026,433 nominal value, i.e. from DKK 85,981,689 to DKK 151,008,122.

In connection with the conversion, 65,026,433 new shares of DKK 1 each will thus be issued.

Copenhagen, 10 January 2014

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