vestjyskBANK
Annual Report 2013

vestjyskBANK

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The vestjyskBANK Finanancial Report for 2013 is a translation of the original report in Danish (vestjyskBANK Årsrapport for 2013). In case of discrepancies, the Danish version prevails.

Introduction

Financial Headway Without a Real Turning Point

The Bank achieved satisfactory core earnings before impairments of DKK 631 million in 2013, compared with DKK 575 million in 2012. The combination of loyal customers, expert staff and efficient operations with a low rate of cost of 49, compared with 55 in 2012 shows that the Bank's basic operations—our engine—function well.

However, the challenges related to normalising our need for impairments as well as restoring a proper balance between the Bank’s business volume and its capital base remain considerable.

The Bank’s solvency stood at 11.3 per cent at 31 December 2013. The solvency need ratio has been calculated at 10.9 per cent. The Bank is meeting the statutory solvency requirements but the surplus of 0.4 percentage points corresponds to a surplus of only DKK 67 million. This is an unsatisfactorily low amount and various measures have therefore been initiated to improve this condition. The need to strengthen the Bank’s solvency is made more pressing by the new CRD IV rules, scheduled to be implemented as of 31 March 2014. At present—with no additional measures—this is believed to result in a negative effect of approx. 1.5-2.0 percentage points.

Even though the Bank’s net loss of DKK 442 million is a significant improvement over 2012, those results are nonetheless unsatisfactory.

The need for impairments remains high owing to the Bank’s previously high level of risk acceptance and its late risk acceptance alignment once the financial crisis escalated from 2008. The Bank had insufficient preventive measures in place to minimise risks. This means that the Bank has not yet reached a stage where the need for new impairments has declined sufficiently. The Bank has also not been able to benefit from previously performed, unnecessary and reversible impairments and has therefore not been able to apply such reversed impairments to counterbalance new impairments.

In February 2014, the Financial Supervisory Authority completed an ordinary review of the Bank. The Financial Supervisory Authority’s comprehensive review of the Bank’s loans and guarantees included a large number of individual cases and random samples across various types and categories of commitments, including retail customer loans. Based on that review, the Financial Supervisory Authority established that there was a need for additional impairment charges of around DKK 500 million since 30 September 2013, of which DKK 191 million pertained to the 79 biggest commitments and DKK 309 million involved minor commitments. Most of these impairments were related to real estate and agricultural commitments. At its own initiative, the Bank has performed a number of these impairments in Q4 2013. The findings of the Financial Supervisory Authority’s review are included in full in the 2013 Annual Report.

The timeframe for restoring the creditworthiness of the Bank’s business customer loan portfolio to a level where the average quality can be measured with the banking sector's average has—in the weak economic climate—turned out to be more complex and drawn-out than first assumed.

Loan Concentration by Industry Segments

The Bank’s exposure to the real estate and agricultural sectors has historically—up until 2012—been dominated by its strategy targeting growth. That strategy was successful but also resulted in insufficient focus on credit risks and the robustness in the composition of the Bank’s capital base. Combined, the Bank's exposure to the real estate and agricultural sectors constitutes approx. 41 per cent of its overall net lending.

The continuing alignment of the Bank’s involvement in the real estate industry segment shows progress as we reduce or wind down commitments by selling assets or using other financing sources. It is a complex process and often requires additional liquidity during the winding-down period. The additional liquidity typically involves equivalent impairments on loans in the Bank’s accounts. In addition to this, to complicate matters, determining the right time to sell at an acceptable price can—in certain cases—also result in the Bank having to accept an additional need for impairments or losses, in order to terminate the specific cases. However, some real estate commitments have developed favourably with positive operations and have sufficient liquidity to service their obligations.

The agricultural sector is a similarly major factor with respect to the Bank's industry segment diversification

Introduction

across business loans. The adverse market conditions in recent years has meant that agriculture represents the largest share of the Bank's accumulated impairments at 31 per cent, corresponding to DKK 1,140 million. Overall, agriculture has experienced economic progress in 2013, especially during the second half of the year. The greatest progress was witnessed in milk production where, for a number of years, the industry had been particularly hard hit by very low settlement prices. Within pig meat production, the picture was more nuanced. On the one hand, prices on slaughter pigs failed to live up to the baseline projections at the beginning of the year. On the other, a decline in feed prices improved the terms of trade. The effect of this manifested itself in various ways from one pigholding to the next depending on, among other things, the scope of the farmer's own feed production as well as the dates and duration of executed contracts for the delivery of feed.

The vast majority of the Bank's agricultural customers have efficient productions at a level at which a change in ownership would not be perceived to benefit the Bank. When the customer's professional and management skills are deemed sufficient and the financial results show progress—with positive consolidation having already taken place or if such prospects seem realistic—the Bank, in principle, remains inclined, on a case by case basis, to contribute to these farmers' restoration of economic viability. This strategy is expected, if agriculture's present economic framework remains stable, to form the basis for a further reduction in the need for new impairments for agriculture industry as well as a certain reduction over time in already performed impairments. These expectations are not reflected in the prepared financial statements.

Irrespective of industry segments, some businesses have had to recognise that achieving profitability was unrealistic and therefore had to be wound up. The Bank endeavours to have such winding up proceedings take place in close consultation with the customer and affiliated advisers—characterised by mutual respect and understanding.

Also in 2014, there will be situations where businesses will need to be wound down within various industry segments. The Bank has endeavoured—to the greatest extent possible—to identify and prepare for such situations by incurring impairments for particularly weak customers with a very uncertain future.

Strategy and Action Plan

In conjunction with Management's Review for 2012, the Bank introduced a ***Strategy and Action Plan*** to intensify its efforts to restore a positive bottom line.

The essence of the strategy and the action plan can be described as follows:

- Strengthen the Bank's solvency by exercising its right to convert government additional Tier 1 capital to share capital;
- Perform close monitoring of income and costs developments;
- Implement additional measures to handle credit processes;
- Implement action-oriented monitoring of commitments with impairments;
- Proactively evaluate relationship between the Bank's business concept and the size of individual customers and/or complexity;
- Adjustment of individual customers' size in relation to the Bank's total capital;
- Optimise the Bank's liquidity;
- Continue to pare down the Bank's balance sheet;
- Provide attentive and proactive servicing and advisory services to customers.

It is Management's assessment that the strategy and action plan was followed carefully with significant positive effects— and that it will have a beneficial effect also going forward.

Conversion of Government Hybrid Capital

As a strategic measure, the Bank exercised its right to convert additional government Hybrid core capital of approx. DKK 338 million, *cf*. Company Announcement of 24 September 2013, and approx. DKK 588 million, *cf*. Company Announcement of 20 December 2013. The latter conversion has **not** been included in the Bank's financial statements for 2013, since it did not enter into effect until 21 January 2014. The two conversions adopted by the Bank's Supervisory Board in accordance with the executed loan agreement under Bank Package II mean that the Danish State's stake of Vestjysk Bank has increased from 52.2 per cent to 80.6 per cent.

Upcoming Changes to Solvency Rules

The challenges related to the Bank's solvency ratio are about to be additional exacerbated as a result of changes to the laws related to European banks' capital requirements expressed in the so-called Basel III rules as well as the Capital Requirements Directive (CRD) IV and the Capital Requirements Regulation (CRR).

Management has been conscious of the early need to have these rules interpreted and their impact analysed, which upon adoption of a Danish legislative proposal will be implemented effective 31 March 2014. Significant internal and external resources have been expended to map out the consequences of the Bank's statutory compliance with these new capital requirements. At present, the negative impact on the Bank's solvency is assessed to be at around 1.5–2.0 percentage points.

Structural Measures

Naturally, a strengthening of the Bank's solvency ratio has been and continues to be a critical focus area for Management. Studies were therefore launched in the autumn of 2013 to map out opportunities for structural measures that could contribute to the Bank's capital-related challenges in the longer term. Prompted by coverage in the daily newspapers, the Bank issued a company announcement on 18 October 2013 regarding those studies. The need for structural measures was further emphasised in the Bank's Quarterly Report at 30 September 2013 noting the upcoming CRD IV rules and the uncertainty they create in respect of the Bank's ability to comply with the new rules when they enter into effect on 31 March 2014.

Management is closely examining various opportunities to further strengthen the Bank's capital base. In addition to the two conversions of government hybrid capital, no specific results have been achieved so far, but the Bank's efforts continue in close partnership with its financial advisor and the principal shareholder, the Danish State, and its financial advisor. Currently, the efforts centre on a model with three key items, that is,

- Continued reduction of the balance sheet, focusing particularly on the partial disposal of existing activities;
- Reduction in the Bank's holdings of sector shares; and
- Optimisation of subordinated debt.

Within those three areas, there are ongoing consultations taking place with the relevant counterparties but with no specific results yet. The full or partial success of the model described here will be critical to the Bank's capacity to meet the new CRD IV rules capital requirements across all the areas. In that regard, the Bank will ensure that the outcome of the current discussions will comply with EU state subsidy rules.

Bank's General Action Plan

In parallel with the structural measures, the Bank is focusing its efforts on an action plan that addresses the following items:

- Close monitoring of income and costs developments;
- Additional steps to monitor and following up on credit risks;
- Action-oriented monitoring of commitments with impairments;
- Proactively evaluate relationship between the Bank's business concept and the size of individual customers and/or complexity;
- Adjustment of individual customers' size in relation to the Bank's total capital;
- Optimise the Bank's liquidity;
- Continued paring down of the Bank's balance sheet;
- Provide attentive and proactive servicing and advisory services to customers.

EU Commission

On 25 April 2012, the EU Commission issued a provisional decision relating to the approval of government support for parts of vestjyskBANK's capital plan, including the provision of new individual government guarantees. Final approval is conditional upon the Bank's submitting a restructuring plan to the EU Commission for subsequent approval. The process is taking place in close cooperation with the Danish State but a final approval has not yet been issued. Based on the studies of possible structural measures, the process has been put on hold temporarily, but the dialogue related to conditions for final approval is expected to be resumed in the near future. The importance of settling the issue of final approval is highlighted by the fact that, ultimately, the Bank may find itself in a situation where the question regarding the potential repayment of government subsidy might become relevant.

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Paring Down the Balance Sheet

The efforts involved in aligning the Bank's business volume closer with its capital base are primarily focused on reducing the Bank's volume of business loans. The process of paring down the balance sheet is progressing satisfactorily and takes into account a generally low demand for loans, regular repayments, dissolving certain types of customer relationships (size and/or complexity), a conservative approach to the issuing of new loans to existing business customers and caution with respect to seeking out new business customers. In the long term, this kind of policy is not viable; however, in the short term, it has been a necessary tool for the Bank in its particular situation. In the assessment of the Bank's Management, customers have not experienced terminations that have been unwarranted just to accommodate the Bank's desire for a reduction in its balance sheet. Customers' need for bank financing is predominantly being met for the Bank's good customers.

Liquidity

An additional and important focus area with respect to the Bank's future operations is restoring a healthier balance between loans and deposits. In restoring this balance, the Bank would regain a firm grip on its liquidity, have it remain in proportion and competitively priced. As late as 31 December 2010, the Bank had a deposit deficit of nearly DKK 8 billion. Through targeted efforts, the Bank managed to reverse this situation so that, at 31 December 2013 a deposit surplus of around DKK 500 million has been reached. The pricing on deposits follow the prevailing market conditions where declining interest rates have also facilitated more affordable liquidity for the Bank and fixed deposit levels at around DKK 18 billion.

Outlook for 2014

As previously mentioned, the implementation of CRD IV is estimated to result in a weakening of the Bank's solvency, which will create major uncertainty about the Bank's ability to meet its individual solvency need. In the event that the planned structural measures fail, the surplus funding in relation to the minimum requirement of 8 per cent for banking operations is expected to be limited

In that light and in the context of the Bank's relative failure, up to this point, to achieve the desired results through structural measures and to implement a more permanent solution to its weak capital structure, Management believes that the Bank's outlook is best expressed in the form of two scenarios.

Scenario 1: The Bank's structural measures succeed to en extent that ensures a continuing bank

Assuming an unchanged economic climate, the Bank's total business volume is expected to be able to generate core earnings of DKK 450–500 million before impairments. The conversions of government additional Tier 1 capital in 2013 and in early 2014 will contribute to this effort with interest savings of approx. DKK 90 million. The need for impairments is expected to exhibit a continued decline. If the Bank executes a partial sale of activities, the resulting reduction in core earnings is expected to be offset by a combination of net proceeds, savings from the Bank's cost structure and a reduction in the effect of weighted assets on solvency ratios. Combined, the net impact is designed to ensure a continuing bank with a proper business platform and the opportunity to achieve a more adequate capital structure.

Scenario 2: The Bank's structural measures do not succeed in the short term and the solvency ratio requirements are therefore only met in part

If this situation were to arise, the Bank will have to prepare a restructuring plan, which will be subject to the approval of the Financial Supervisory Authority. The plan will need to render probable that the Bank will be able to meet solvency indicators.

In this scenario, no material negative effect is anticipated for the level of the Bank's core earnings, as described in Scenario 1.

Based on the Bank's current financial status, the challenges related to the creation of an adequate capital structure in order to comply with the upcoming CRD IV rules and thereby secure the Bank's continued operations are quite significant. The Bank's ambition for its current action plans to strengthen the capital framework is that they, to the greatest extent possible, should be realised in close partnership with the involved advisers and the relevant government agencies. The efforts to eliminate this risk—the biggest risk to the going concern of the Bank—continue intensively. Provided they succeed, in an unchanged economic climate, Management believes that its options of maintaining satisfactory core earnings are good and therefore that the Bank will be able to absorb continued reduced impairment charges on loans and restore a certain consolidation capacity.

Steen Hemmingsen	Vagn Thorsager
Chairman of the Supervisory Board	*Chief Executive Officer*

Management's Review

Consolidated Key Figures and Financial Ratios

Key figures	2013	2012	2011	2010	2009
Statement of Income (in MDKK)					
Net interest income	813	892	846	816	789
Net fee income	262	279	236	233	225
Dividends on equity securities etc.	13	5	3	3	7
Market value adjustments for foreign currency and sector shares	126	94	-19	52	137
Other operating income	20	10	6	9	66
Core income	1,234	1,280	1,072	1,113	1,224
Personnel and administrative expenses	-539	-656	-588	-589	-619
Other operating expenses as well as depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets	-64	-49	-61	-106	-152
Operating expenses and operating depreciations and amortisations	-603	-705	-649	-695	-771
Core earnings before impairments	631	575	423	418	453
Impairment of goodwill	0	-208	0	0	0
Impairments of loans and receivables etc.	-1,073	-1,515	-984	-408	-537
Profit/loss before tax	-442	-1,148	-561	10	-84
Tax	0	299	-136	4	-18
Profit/loss	-442	-1,447	-425	6	-66
Statement of Financial Position (in MDKK)					
Assets, total	26,112	32,773	29,265	33,572	32,829
Loans	17,360	20,697	21,716	23,468	23,874
Deposits, including pooled funds	17,877	18,058	15,029	15,564	18,635
Contingent liabilities	2,958	5,154	4,353	4,485	5,715
Business volume	38,195	43,909	41,098	43,517	48,224
Equity	887	998	1,718	2,150	2,140

Financial ratios	2013	2012	2011	2010	2009
Solvency					
Solvency ratio	11.3%	11.2%	12.6%	13.7%	14.8%
Core capital ratio	5.9%	5.6%	9.3%	11.5%	11.5%
Earnings					
Return on equity before tax, annually [1]	-46.9%	-84.5%	-29.0%	0.4%	-3.9%
Return on equity after tax, annually [1]	-46.9%	-106.6%	-22.0%	0.3%	-3.1%
Income-cost ratio [2]	0.74	0.53	0.66	1.01	0.94
Rate of cost [3]	48.9%	55.1%	60.6%	62.5%	63.2%
Employees converted to full-time (average)	562.9	621.3	614.8	642.1	658.9
Market risk					
Interest rate risk [4]	-4.9%	-11.2%	-4.5%	-1.9%	-1.6%
Foreign currency position [5]	1.6%	1.6%	1.5%	4.7%	3.9%
Foreign currency risk	0.0%	0.0%	0.0%	0.1%	0.1%
Excess cover in relation to statutory liquidity requirements [6]	162.2%	144.8%	98.8%	126.7%	125.8%
Credit risk					
Loans plus impairments on loans in relation to deposits	117.9%	133.2%	158.9%	160.3%	135.0%
Loans in relation to equity	19.6	20.7	12.6	10.9	11.2
Growth in loans for the year [7]	-16.1%	-4.7%	-7.5%	-1.7%	-0.8%
Total of large commitments [8]	33.5%	44.9%	30.4%	40.5%	37.9%
Accumulated impairment ratio	15.5%	11.6%	7.8%	5.1%	5.1%
Impairment ratio for the year	4.5%	5.2%	3.5%	1.4%	1.7%
vestjyskBANK share					
Profit/loss for the year per share	-6.0	-39.4	-34.5	0.5	-5.4
Equity value per share [9]	10.3	16.3	139.5	173.4	175.0
Price of vestjyskBANK shares, end of the year	9.0	13.0	18.8	68.5	87.0
Market price/Profit/loss for the year per share	-	-	-	144.2	-
Market price/equity value per share	0.9	0.8	0.1	0.4	0.5

The results for Aarhus Lokalbank have been recognised in vestjyskBANK's Statement of Income as at 1 April 2012. Assets and liabilities from Aarhus Lokalbank have been recognised in the Statement of Financial Position as at the end of March 2012.

1 Based on average equity.

2 Income from ordinary activities in relation to costs from ordinary activities.
Income from ordinary activities = net interest and fee income + market value adjustments + other operating income.
Costs from ordinary activities = personnel and administrative expenses + depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets + other operating expenses + impairment of loans and receivables etc.

3 Operating costs as well as depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets / core income

4 Interest rate risk in relation to core capital, less deductions

5 Exchange Rate Indicator 1 in relation to core capital, less deductions

6 Excess cover in relation to the 10 percent requirement set out in sec 152 of the Danish Financial Business Act

7 Growth in loans measured in relation to vestjyskBANK’s loans, beginning of the period

8 Commitments exceeding 10 percent of the capital base in relation to the capital base

9 The Bank changed the individual denomination of its share from DKK 10 to DKK 1 per share when it reduced its share capital from DKK 612.9 million to DKK 61.3 million, cf. Company Announcement of 25 April 2013.

Management's Review

Consolidated Quarterly Key Figures and Financial Ratios

Key figures	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Statement of Income (in MDKK)					
Net interest income	219	193	201	200	211
Net fee income	75	61	67	59	82
Dividends on equity securities etc.	3	2	8	0	0
Market value adjustments	21	16	20	70	51
Other operating income	1	3	9	7	-4
Core income	319	275	305	336	340
Personnel and administrative expenses	-136	-123	-138	-142	-154
Other operating expenses as well as depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets	-17	-15	-15	-18	-15
Operating expenses and operating depreciations and amortisations	-153	-138	-153	-160	-169
Core earnings before impairments	166	137	152	176	171
Impairments of loans and receivables etc.	-482	-199	-253	-140	-611
Profit/loss before tax	-316	-62	-101	36	-440
Tax	0	0	-3	3	110
Profit/loss	-316	-62	-98	33	-550
Statement of Financial Position (in MDKK)					
Assets, total	26,112	26,839	27,396	29,111	32,773
Loans	17,360	18,451	19,418	20,144	20,697
Deposits, including pooled funds	17,877	17,347	17,446	17,470	18,058
Contingent liabilities	2,958	3,161	3,307	4,196	5,154
Business volume	38,195	38,959	40,171	41,810	43,909
Equity	887	864	926	1,027	998

Financial ratios

Financial ratios	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Solvency					
Solvency ratio	11.3%	11.2%	11.5%	12.4%	11.2%
Core capital ratio	5.9%	5.6%	5.7%	6.2%	5.6%
Earnings					
Return on equity before tax, annually [1]	-143.0%	-27.4%	-41.3%	14.1%	-139.2%
Return on equity after tax, annually [1]	-143.0%	-27.4%	-40.1%	12.9%	-174,3%
Income-cost ratio [2]	0.50	0.82	0.75	1.12	0.44
Rate of cost [3]	48.0%	50.1%	50.1%	47.7%	49.6%
Employees converted to full-time (average)	547.9	559.0	567.1	577.8	604.7
Market risk					
Interest rate risk [4]	-4.9%	-4.7%	-6.1%	-4.7%	-11.2%
Foreign currency position [5]	1.6%	2.9%	4.9%	1.3%	1.6%
Foreign currency risk	0.0%	0.0%	0.0%	0.0%	0.0%
Excess cover in relation to statutory liquidity requirements [6]	162.2%	146.1%	111.6%	101.0%	144.8%
Credit risk					
Loans plus impairments on loans in relation to deposits	117.9%	128.0%	132.3%	135.2%	133.2%
Loans in relation to equity	19.6	21.4	21.0	19.6	20.7
Growth in loans for the year [7]	-5.9%	-5.0%	-3.6%	-2.7%	-4.6%
Total of large commitments [8]	33.5%	34.5%	35.4%	31.6%	44.9%
Accumulated impairment ratio	15.5%	15.0%	14.0%	12.7%	11.6%
Impairment ratio for the year	2.0%	0.8%	1.0%	0.5%	2.1%
vestjyskBANK share					
Profit/loss for the year per share	-4.3	-1.0	-1.6	0.5	-9.0
Equity value per share 9	10.3	14.1	15.2	16.8	16.3
Price of vestjyskBANK shares, end of the year	9.0	13.5	9.3	7.9	13.0
Market price / Profit/loss for the year per share	0.9	1.0	0.6	0.5	0.8

1 Based on average equity.

2 Income from ordinary activities in relation to costs from ordinary activities.
Income from ordinary activities = net interest and fee income + market value adjustments + other operating income.
Costs from ordinary activities = personnel and administrative expenses + depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets + other operating expenses + impairment of loans and receivables etc.

3 Operating costs as well as depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets / core income

4 Interest rate risk in relation to core capital, less deductions

5 Exchange Rate Indicator 1 in relation to core capital, less deductions

6 Excess cover in relation to the 10 percent requirement set out in sec 152 of the Danish Financial Business Act

7 Growth in loans measured in relation to vestjyskBANK's loans, beginning of the period

8 Commitments exceeding 10 percent of the capital base in relation to the capital base

9 The Bank changed the individual denomination of its share from DKK 10 to DKK 1 per share when it reduced its share capital from DKK 612.9 million to DKK 61.3 million, cf. Company Announcement of 25 April 2013.

Management’s Review

Financial Review

Introduction

The Bank’s results before tax stood at DKK -442 million in 2013 compared with results of DKK –1,148 million in 2012.

Core earnings stood at DKK 1,234 million compared with DKK 1,280 million in 2012.

Personnel and administrative costs continued their downward trend and stood at DKK 539 million; a decline of DKK 117 million compared with the previous year.

Income and cost developments brought about core results of DKK 631 million, which is DKK 56 million higher than in 2012. This improvement was primarily attributable to increased proceeds from market value adjustments. The gains were achieved through the prepayment of subordinated loans. These payments were performed with the prior approval of the Danish Financial Supervisory Authority.

The impairments on loans stood at DKK 1,073 million in 2013 compared with DKK 1,515 million in 2012. The decline is significant but the level remains high.

In February 2014, the Financial Supervisory Authority completed an ordinary review of the Bank. The Financial Supervisory Authority’s comprehensive review of the Bank’s loans and guarantees included both a large number of individual cases and random samples across various types and categories of commitments, including retail customer loans. Based on the review of those commitments, the Financial Supervisory Authority determined that there was a need for additional impairment charges of around DKK 500 million since 30 September 2013, of which DKK 191 million pertained to the 79 biggest commitments and DKK 309 million involved minor commitments. Most of these impairments were related to real estate and agricultural commitments. At its own initiative, the Bank performed a number of these impairments in Q4 2013. The findings of the Financial Supervisory Authority’s review are included in full in the 2013 Annual Report.

In summary, the result of the continued high level of impairments has not developed within the framework of Management’s expectations. The extent of the impairments has kept the results in negative territory—a development that is unsatisfactory.

The Bank’s Challenges and Management Actions

As detailed in the Management’s Action Plan, the Bank’s unsatisfactory capital structure has made it necessary to continue its efforts to pare down the Bank’s balance sheet. A decline in lending of approx. DKK 3 billion over the course of 2013 is the greatest contributor. The Bank's deposits remain stable at around DKK 18 billion. At 31 December 2013, the Bank had a deposit surplus of approx. DKK 500 million, which contributed to the Bank’s good liquidity.

Management has maintained its focus on tight management processes and the components that formed part of the 2013 Action Plan. All the components were designed to strengthen the Bank's solvency and restore positive operating results.

On 22 October 2013, in order to strengthen its solvency, the Bank converted government hybrid core capital of a total of 323 million as well as accrued unpaid coupon interest of approx. DKK 15.4 million for the issuance of 24,692,811 shares at a nominal value of DKK 1 to the Danish State.

At 31 December 2013, the Bank’s solvency ratio stood at 11.3 per cent. The calculated solvency requirement stood at 10.9 per cent and the solvency surplus at 31 December 2013 stood at 0.4 percentage points—or DKK 67 million. In order to strengthen the Bank's common equity Tier 1 capital, it was decided to exercise its right to convert government hybrid loan capital to share capital in the amount of approx. DKK 575 million, *cf.* Company Announcement of 20 December 2013. This conversion is not reflected in the figures at 31 December 2013; if it were, it would have meant an increase in the common equity Tier 1 capital ratio of approx. 2.8 percentage points. The Bank’s solvency ratio remains unchanged since the amount is already reflected in the ratio. However, the conversion produced additional loss-absorbency under the statutory 8-per cent requirement.

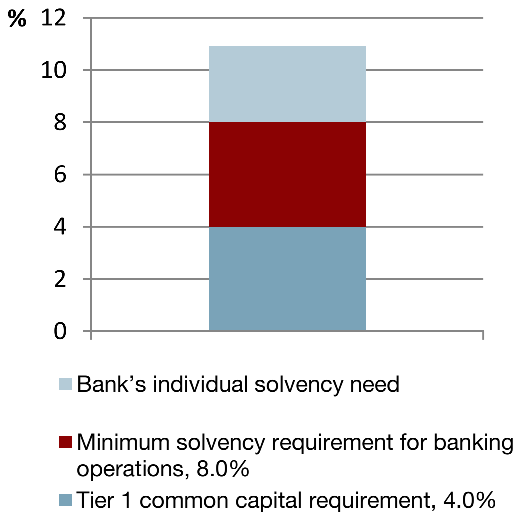
After this conversion, the Danish State's stake stood at 80.62 per cent and the Financial Stability ownership share stood at 0.86 per cent of the total share capital and votes.

CRD IV Rules

With the Capital Requirement Directive (CRD) IV and the Capital Requirement Regulation (CRR), the European Union has laid the foundation for implementing the Basel III regulatory. The rules were tightened in relation to their implementation effective as of 2014 with respect to how much capital the Bank must hold and what may be included in the capital. Similarly, the requirements for additional Tier1/Tier 2 capital—in the form of hybrid core capital and/or subordinated capital—will be changed as to how it can be included in the Bank's total capital and a transitional scheme will be introduced for the recognition of additional Tier1/Tier 2 capital raised before the submission of the proposal for the CRD IV. At the same time, amendments will be implemented that deal with the computation of risk-weighted items where the recognition of impaired commitments will be tightened, since such commitments must be computed by a factor of up to 1.5 in recognising risk-weighted assets going forward. Concurrently, a provisional rebate will be introduced for the recognition of exposure to small and medium-sized enterprises (SME's). The European Banking Authority (EBA) has not yet issued many of its final interpretations related to, among other things, the Capital Requirements Regulation. Therefore, over the course of 2014, changes may occur in the interpretations that are currently applied.

As illustrated in the figure, the commen eqity Tier 1 common capital requirement will be 4 per cent in 2014.

Capital Requirements



The minimum requirement for the Bank's solvency for continued banking activities is 8.0 per cent. With the Bank's current financial status, the Tier 1 common capital ratio requirement is 4 per cent in which the share of the Bank's individually computed solvency need that exceeds the 8 per cent minimum requirement should be included. This addition has been computed at 2.9 percentage points at 31 december 2013. With its conversion of government-provided, additional Tier 1 capital in January 2014, the Bank complies with this requirement.

However, great uncertainty prevails with respect to the Bank's meeting of the total, individual solvency need when computed at 31 march 2014. The Bank is aware that this may result in the need for an actual restructuring plan, which will require the Financial Supervisory Authority's approval.

Based on the Bank's figures for common equity Tier 1 capital, Tier 1 capital and solvency, at 31 December 2013, the consequences of implementing the CRD IV rules—which following the adoption of a Danish legislative proposal will be implemented effective 31 March 2014—have been calculated. Those calculations show that there will be a significant impact on the Bank, particularly in terms of its solvency ratio. The new rules show a

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deterioration in the Bank's solvency ratio of around 1.5–2.0 percentage points, which corresponds to a solvency shortfall in the range of 1.0–1.5 percentage points.

This worsening is caused by two circumstances. For the Bank's capital, the reduced capacity to recognise hybrid and other subordinated capital will result in a reduction on the order of DKK 350 million in the Bank's capital that can be included in the solvency calculation. Similarly, the new rules will result in an expected increase of the Bank's risk-weighted assets of around DKK 1.0 billion. In spite of the relief measures related to the exposure to small and medium-sized enterprises, the Bank's tentative credit book, which contains many impaired commitments, will—by virtue of the tougher recognition at a factor of up to 1.5—result in an increase.

Statement of Income

Income/Loss
For 2013, the Bank's results before tax stood at DKK -442 million, compared with DKK -1,148 million in 2012.

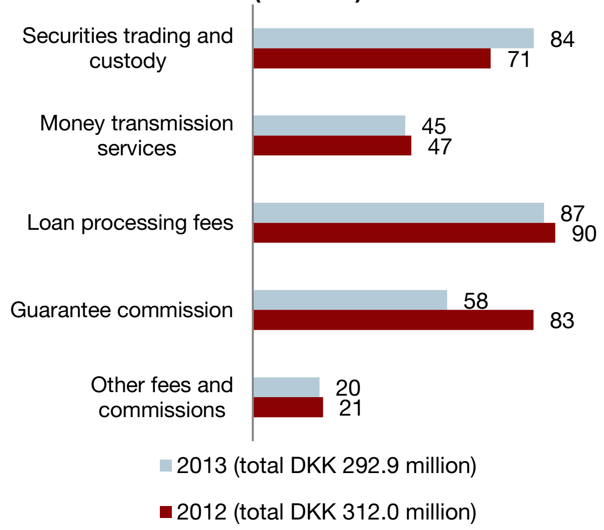
Impairments on loans and receivables, etc. stood at DKK 1,073 million in 2013. The impairment ratio for 2013 stood at 4.5 per cent.

Core Income
In 2013, vestjyskBANK realised core income of DKK 1,234 million, which is a decline of DKK 46 million compared with 2012.

Positive market value adjustments have been recognised at DKK 126 million compared with DKK 94 million in 2012. DKK 64 million of the reporting period's market value adjustments is attributable to the Bank's prepayment of subordinated debt of DKK 75 million and NOK 90 million at a discount.

Simultaneously, fee income of DKK 293 million was realised in 2013, which is DKK 19 million less than in 2012.

Commissions and fees (in MDKK)



Other operating income stood at DKK 20 million in 2013 compared with DKK 10 million in 2012.

Operating Expenses and Operating Depreciations and Amortisations
Total operating expenses and operating depreciations and amortisations stood at DKK 603 million in 2013. Compared with 2012, this shows the effect of the efficiency processes that were launched in 2012 as expenses for staff and administration declined from DKK 656 million in 2012 to DKK 539 million in 2013 in spite of the addition of Aarhus Lokalbank effective 1 April 2012.

vestjyskBANK's contributions to the Guarantee Fund for Depositors and Investors was recognised as an expense in the amount of DKK 46 million in 2013 compared with DKK 28 million in 2012.

Core Earnings Before Impairment Charges
In 2013, the Bank's core earnings before impairment charges stood at DKK 631 million compared with DKK 575 million in 2012. The lower results from interest and fees were offset by lower operating expenditures and positive market value adjustments, of which DKK 64 million was attributable to the Bank's early repayment of subordinated debt at a discount. Thus, core earnings before impairment charges were DKK 56 million higher than in 2012.

Impairment of loans and guarantees, etc.
The need for impairments totalled net DKK 1,073 million in 2013 compared with DKK 1,515 million in 2012. The decline is significant but the need for impairments remains unacceptably high and also higher than Management's outlook.

The main reasons for this are the generally, very limited improvements in the weak economic climate and the Bank's previously high level of risk acceptance as well as its late alignment of its risk acceptance levels once the financial crisis escalated as of 2008. Since the proportional share of financially weak customers in the Bank's loan portfolio remains relatively high, weak preventive measures to minimise the Bank's risks have prevented it from reaching a stage yet where the need for new impairment charges has declined satisfactorily. A deterioration in the economy for these weak customers will typically result in an impairment charge for the Bank to mitigate a potential loss. The Bank has also not yet reached a stage where, to any noteworthy degree, its previous impairments have shown themselves to be unnecessary and therefore can be reversed to form a certain counterbalance to new impairments.

The timeframe for restoring the creditworthiness of the Bank's business customer loan portfolio to a level where the average quality equals the banking sector's average has—in the continued weak economic climate—turned out to be more protracted than first assumed.

For a number of years and up until 2012, the Bank's exposure to the real estate and agricultural sectors was dominated by a strategy that emphasised growth. That strategy was successful but also failed to focus adequately on credit risks and the robustness in the composition of the Bank's capital base. Combined, these two industry segments comprise approx. 41 per cent of the Bank's total net loans.

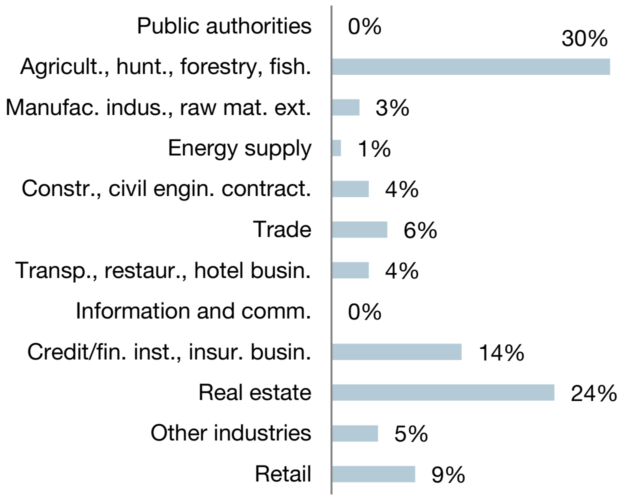
The continuing alignment of the Bank's real estate segment involvement shows progress as we reduce or wind down commitments by selling assets or using other financing sources. It is a complex process and often requires additional liquidity during the winding-down period. The additional liquidity typically involves equivalent loan impairments in the Bank's accounts. In addition to this, to complicate matters, determining the right time to sell at an acceptable price can—in certain cases and in order to terminate the specific case—also result in the Bank's having to accept an additional need for impairments or losses. However, it bears mentioning that some real estate commitments have developed favourably with positive operations and have sufficient liquidity to service their obligations.

The agricultural sector is a correspondingly large factor when viewed from the perspective of the Bank's industry diversification across business loans. As a result of the industry's unfavourable market conditions in recent years, agriculture also represents the largest share of the Bank's accumulated impairments by 30 per cent. Overall, agriculture has experienced economic progress in 2013, especially during the second half of the year. The greatest progress was witnessed in milk production where, for a number of years, the industry had been particularly hard hit by very low settlement prices. Within pig meat production, the picture was more nuanced. On the one hand, prices on slaughter pigs failed to live up to the baseline projections at the beginning of the year. On the other, a decline in feed prices improved the terms of trade. The effect of this manifested itself in various ways from one pigholding to the next depending on, among other things, the scope of the farmer's own production of feed as well as the dates and duration of executed contracts for the delivery of feed.

The vast majority of the Bank's agricultural customers have efficient productions at a level at which a change in ownership would not be perceived to benefit the Bank. When the customer's professional and management skills are deemed sufficient and the financial results show progress—with positive consolidation having already taken place or if such prospects seem realistic—the Bank, in principle, remains inclined, on a case by case basis, to contribute to these farmers' restoration of economic viability. This strategy is expected, if agriculture's present economic framework remains stable, to form the basis for a further reduction in the need for new impairments for the agriculture industry as well as a certain reduction over time in already executed impairments. These expectations are not reflected in the prepared financial statements.

The Bank's cumulative impairment ratio stood at 15.5 at 31 December 2013 compared with 11.6 at 31 December 2012.

Accumulated impairments and provisions by industry segment 31 december 2013



Irrespective of industry segments, some businesses have had to recognise that achieving profitability was unrealistic and they therefore had to be wound up. The Bank endeavours to have such winding up proceedings take place in close consultation with customers and affiliated advisers—characterised by mutual respect and understanding.

Also in 2014, there will be situations where businesses will need to be wound up within various industry segments. The Bank has endeavoured—to the greatest extent possible—to identify and prepare for such situations by incurring impairments for particularly weak customers with a very uncertain future.

Internally, the Bank is continuing with additional process improvement measures to manage and monitor the Bank’s loans and guarantees combined with development initiatives of customer representative competencies.

Statement of Financial Position

At 31 December 2013, vestjyskBANK’s Statement of Financial Position stood at DKK 26.1 billion, compared with DKK 32.8 billion at 31 December 2012. This balance sheet reduction of DKK 6.7 billion can primarily be attributed to the Bank's focused efforts on narrowing the gap between deposits and loans.

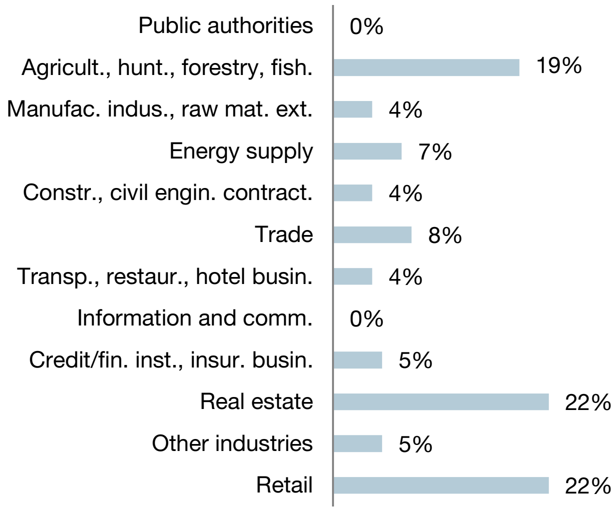
The Bank continues to follow its planned balance sheet adjustment, which is designed to ensure that the Bank will have the requisite funding and liquidity and to reduce the Bank's risk-weighted items

Loans

At 31 December 2012, vestjyskBANK’s loans had risen to DKK 20.7 billion. The ongoing balance sheet alignment efforts have shrunk the Bank’s loans to DKK 17.4 billion at 31 December 2013; a reduction over the course of 2013 of DKK 3.3 billion.

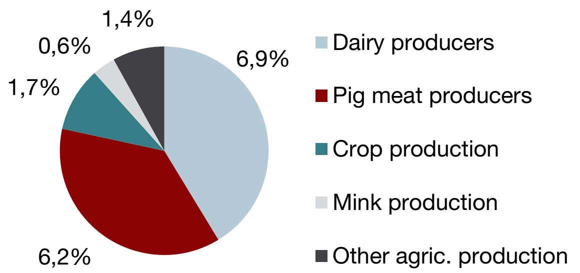
The distribution of vestjyskBANK’s loans and guarantees by industry segment is illustrated below.

Loans and guarantees by industry segment as at 31 december 2013

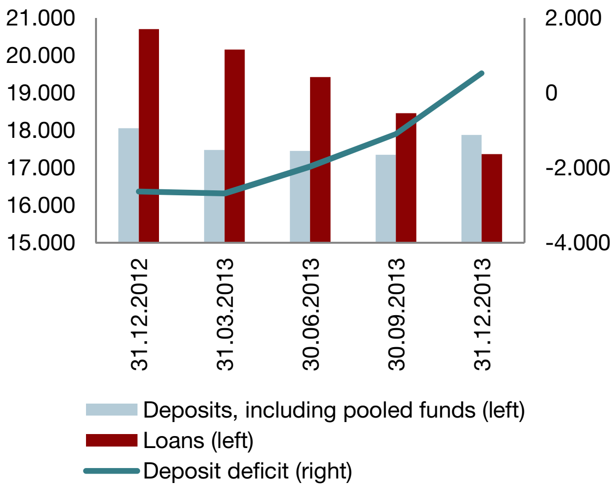


Agriculture remains an important business area; one in which the Bank has great experience. The Bank’s exposure to agriculture in isolation stood at 16.8 per cent of its total loans and guarantees at 31 December 2013 and was distributed across the various production branches as shown in the figure on the next page.

Agricultural commitments distributed across production branches 31 december 2013



Development in deposits, including pooled funds, loans and deposit deficit (in MDKK)



The sum of major commitments (commitments of 10 per cent or more of the total capital) stood at 33.5 per cent of the total capital at 31 December 2013 and consisted of two commitments.

Deposits, Including Pooled Funds

vestjyskBANK's loans, including pooled funds, stood at DKK 17.9 billion at year-end 2013. This is largely unchanged compared with year-end 2012 where deposits including pooled funds stood at DKK 18.1 billion.

Gap Between Deposits and Loans

The positive development in the gap between deposits and loans of DKK 3.2 billion has reversed the Bank's deposit deficit of DKK 2.6 billion at 31 December 2012 to a deposit surplus of DKK 0.5 billion at 31 December 2013.

The following figure illustrates the trend in vestjyskBANK's deposits and loans over the past five quarters.

vestjyskBANK's objective is to increase its deposit surplus.

Business Volume

vestjyskBANK's business volume—that is, its total deposits, loans and contingent liabilities—stood at DKK 38.2 billion at 31 December 2013 compared with DKK 43.9 billion at year-end 2012. This change in business volume is attributable to a decline in loans and guarantees.

Capital and Liquidity Conditions

Equity

vestjyskBANK's equity totalled DKK 887 million at 31 December 2013. The development in equity since 1 January 2013 is detailed in the Statement of Changes in Equity.

Subordinated Debt

The Bank's subordinated debt stood at DKK 1,848 million at 31 December 2013 of which government-issued additional Tier 1 capital under Bank Package II totalled DKK 875 million. They accrue interest at 9.943 per cent.

Special rules apply to additional Tier 1 capital under Bank Package II as set out by law. Thus, no dilution of the capital may occur, and buyback programmes aimed at reducing the Bank's share capital are therefore not permitted.

Additionally, executive board salaries are only eligible for a 50 percent tax deduction.

As authorised by the Danish Financial Supervisory Authority, subordinated debt has been reduced by DKK 75 million and NOK 90 million.

In order to improve the common equity Tier 1 capital, on 20 January 2014—after the fiscal year ended—DKK 575 million in additional Tier 1 capital as well as accrued unpaid coupon interest of DKK 12.6 million was converted to share capital.

The impact of conversion in January 2014 has improved the Bank's common equity Tier 1 capital by 2.8 percentage points whereas its overall solvency has not been appreciably affected.

Solvency

The total capital less deductions totalled DKK 2,291 million at 31 December 2013, which—together with risk-weighted items of a total of DKK 20,335 million—produced a solvency ratio of 11.3 per cent. At 31 December 2012, the Bank's solvency ratio stood at 11.2 per cent.

Concurrently, the Bank's Tier 1 capital ratio has been computed to 5.9 per cent at 31 December 2013 compared with 5.6 per cent at 31 December 2012.

Solvency Need

The individual solvency need for vestjyskBANK has been calculated at 10.9 per cent.

The adequate capital base has been recognised at DKK 2,224 million, which is comparable to the total capital less deductions of DKK 2,291 million. The difference between the total capital and the adequate total capital constitutes the surplus solvency, which has been assessed at 0.4 percentage points corresponding to DKK 67 million 31 December 2013. Management considers this an unsatisfactory level.

For a detailed discussion of the Bank's solvency need as at 31 December 2013, please refer to the Bank's website.

Liquidity

vestjyskBANK's loans have traditionally exceeded the Bank's deposits. In recent years, the Bank has therefore raised loans and issued debt securities through both Danish and non-Danish credit institutions. At 31 December 2013, the Bank's external funding totalled DKK 7.0 billion, incl. subordinated capital of DKK 1.8 billion.

vestjyskBANK's liquidity situation has improved, especially as a result of an improved balance between the Bank's deposits and loans.

External Funding, Incl. Subordinated Capital (mDKK)

	31 Dec 2013	31 Dec 2012
Debts to credit institutions	402	925
Debts to central banks	4.700	3.001
Issued bonds at amortised cost	18	6.782
Total, before subordinate capital	5.120	10.708
Subordinated capital	1.848	2.384
Total	6.968	13.092

The table above shows the development in vestjyskBANK's external funding, incl. subordinated capital. Debts to credit institutions and central banks as well as issued bonds at amortised cost were reduced by DKK 5.6 billion from 31 December 2012 to 31 December 2013.

Issued bonds at amortised cost were reduced drastically by DKK 6.8 billion while there was an increase of debts to credit institutions and central banks of DKK 1.2 billion. This increase was caused by a rise in debt to Danmarks Nationalbank while debt to credit institutions was reduced. The Bank's debt to Danmarks Nationalbank has increased based on collateral that primarily consisted of bond loans guaranteed by the Financial Stability Company under the new guarantee scheme. Bond loans guaranteed by the Financial Stability totalled DKK 3.7 billion at 31 December 2013, which is a reduction of DKK 3.1 billion compared to 31 December 2012, when the government-guaranteed issues represented DKK 6.8 billion.

Recognition of sector shares in the statement of cash flows as well as Danmarks Nationalbank's loan scheme will lapse on 1 July 2014. The consequence of this has been incorporated into the Bank's liquidity plans for 2014.

Uncertainties Relating to Recognition or Measurements

The most significant uncertainties related to recognition and measurements are associated with impairments on loans and provisions against guarantees. Additionally, there are uncertainties related to the valuation of the Bank's headquarters and investment properties, acquired assets as well as financial instruments.

In the opinion of Management, the assessments in calculating the impairment need at 31 December 2013 reflect the Danish Financial Supervisory Authority guidelines as well as the risk of losses related to the current economic climate.

Risks related to going concern

If Management's expectations for core earnings and materially lower impairments are not substantially realised or if material, unexpected negative events transpire, this may ultimately mean that the Bank will have its license to conduct banking activities revoked or be forced to enter settlements that will have a negative impact on the Bank's results, financial position and going concern.

Management is aware that the Bank has a relatively substantial number of customers displaying signs of weakness and customers with impairments. If the economic climate deteriorates further, especially within the agricultural and real estate sectors, this may also have a material impact on the Bank's operating results, financial position and going concern.

The Financial Supervisory Authority's Supervisory Diamond

vestjyskBANK's goal is to remain within the limit values for the five parameters established by the Danish Financial Supervisory Authority's "Supervisory Diamond" and with which, in principle, all banks should comply. vestjyskBANK is meeting this goal.

vestjyskBANK's values in relation to the relevant limit values are listed in the table below.

Realised values at 31 December 2013

Supervisory Diamond Benchmarks	Realised values
Sum of large commitments (< 125%).	33.5 pct.
Growth in loans (< 20%).	-16.1 pct.
Property exposure (< 25%)	22.3 pct.
Funding ratio (< 1)	0.73
Liquidity surplus (> 50%)	162.2 pct.

Miscellaneous Accounting Information

Related Parties
vestjyskBANK's related parties comprise the members of the Supervisory Board, the Executive Board as well as these persons' relatives. Over the course of the year, the Bank has conducted normal trade on arm's-length terms with Kaj Bech A/S, an enterprise controlled by Director Anders Bech, the Bank's deputy chairman.

Related parties furthermore comprise the Danish State, which holds a controlling stake by virtue of its ownership of 65.96 per cent of the Bank's share capital and voting rights. After conversion of additional Tier 1 capital on 20 January 2014, the Danish State holds 80.62 per cent of vestjyskBANK.

Please see Note 33 for a more detailed discussion.

Pay Policy
vestjyskBANK's policy in the area is detailed in the Bank's pay policy, which is available at vestjyskbank.dk/english/organisation.

Collaboration partners

vestjyskBANK collaborates with and receives commissions from the following:

Mortgage credit
In the mortgage credit area, vestjyskBANK is primarily collaborating with Totalkredit within the mortgaging of full-year and second homes as well as owner-occupied dwellings.

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vestjyskBANK is also a shareholder in the holding company Pras A/S.

Within mortgaging of commercial properties, including agriculture, residential rental properties and cooperatives, vestjyskBANK collaborates primarily with DLR Kredit, which is also co-owned by the Bank.

In addition to these primary partners, vestjyskBANK is collaborating with Nykredit.

Insurance and pension

Within the insurance area, vestjyskBANK collaborates with PFA insurance in respect to life and disability insurance policies.

vestjyskBANK is moreover, via Letpension Holding A/S, co-owner of Letpension A/S, which functions as an advisory and intermediation platform, and insurance policies taken out are transferred to PFA.

vestjyskBANK is also collaborating with Pensionsinfo about data exchange in connection with pension advisory services.

Within the non-life insurance area, vestjyskBANK is primarily collaborating with Vestjylland Forsikring and Privatsikring.

Securities trading and management

vestjyskBANK collaborates with BankInvest for intermediation of BankInvest investment societies and other related products and is shareholder of BI Holding A/S, which is the parent company for the Group.

vestjyskBANK is collaborating with Garanti Invest A/S for the provision of structured products and is a shareholder of Garanti Invest A/S.

vestjyskBANK collaborates with Sparinvest for the intermediation of Sparinvest investment societies and is a shareholder in Sparinvest Holding A/S.

vestjyskBANK is also collaborating for the intermediation of financial products with Sydinvest, Alm. Brand Invest, Maj Invest, Danske Invest, Carnegie and ValueInvest.

vestjyskBANK is collaborating with Forvaltningsinstituttet for Lokale Pengeinstitutter, which has been authorised by the Danish Ministry of Justice to handle administrative duties. This collaboration includes referring customers to Forvaltningsinstituttet.

Payment services

vestjyskBANK collaborates with NETS A/S for payment intermediation, cards and NemID. vestjyskBANK is a co-owner of NETS A/S via NETS Holding A/S.

Payroll processing for customers

vestjyskBANK collaborates with Bluegarden A/S for payroll systems. vestjyskBANK is a co-owner of Bluegarden A/S via Bluegarden Holding A/S.

In addition to the partners specified above, vestjyskBANK collaborates with the following enterprises but without receiving commissions:

Mortgage credit

vestjyskBANK is collaborating with BoligCenterVestjylland, a local real estate broker. This collaboration covers valuation of properties as well as mutual referral of customers.

vestjyskBANK is also collaborating with Nykredit Mægler. This collaboration includes valuations of properties as well as mutual referral of customers.

vestjyskBANK is using e-net for electronic registration of property transactions.

Insurance

vestjyskBANK is collaborating with Euler Hermes. This collaboration includes referring customers for matters relating to credit insurance.

Securities transactions

vestjyskBANK collaborates on securities trading with Arbejdernes Landsbank, Danske Bank, Nordea, Sydbank, Spar Nord Bank, Maj Invest, Lind Capital and Nykredit Bank.

vestjyskBANK is collaborating with Arbejdernes Landsbank for the execution of securities orders received by vestjyskBANK from customers via NetBank.

Foreign exchange activities
vestjyskBANK is collaborating on foreign exchange trades with Danske Bank, Nordea Finland, Jyske Bank, SEB Stockholm and KBC Bruxelles.

Employees
vestjyskBANK is collaborating with Finanssektorens Uddannelsescenter, which is used for basic studies, continuing studies and advanced studies.

vestjyskBANK is also collaborating with Bankpension in connection with its employee pension funds.

Other collaboration partners
vestjyskBANK is co-owner of BEC, one of Denmark's three jointly owned bank computer centres. The Bank's collaboration with BEC means that vestjyskBANK always has at its disposal reliable, user-friendly and competitive IT solutions. BEC is also a significant provider of services to other players in the financial sector.

vestjyskBANK is collaborating with e-Boks A/S to maintain an electronic archive of correspondence from the Bank to the customers who subscribe to e-Boks. vestjyskBANK is a co-owner of e-Boks A/S via NETS Holding A/S.

vestjyskBANK is collaborating with and is a co-owner of VP SECURITIES A/S, whose most important duty is to handle the electronic issuance of securities, to register ownership and rights as well as perform clearing and settlement of securities trades.

vestjyskBANK is collaborating with Bankernes Kontantservice, whose most important duties involve handling cash and money transports.

vestjyskBANK is a member of the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark. The objective of the Association is to support its members, promote members' common interests taking into consideration individual members' independence, freedom of action and integrity and to promote the sound development of the financial sector, so that its members can solve their tasks in the best possible manner.
vestjyskBANK is also a member of the Danish Employers' Federation for the Financial Sector (Finanssektorens Arbejdsgiverforening) as well as the Danish Bankers' Association (Finansrådet).

Process for Presenting the Accounts
The Supervisory and Executive Boards have the overall responsibility for the Bank's control and risk-management systems in connection with the process for presenting the accounts, including ensuring compliance with relevant laws and other rules and regulations related to presenting the accounts. The Bank's control and risk-management systems can provide for reasonable, but not absolute, certainty that assets are not being misappropriated or misapplied, and that losses and/or material errors and omissions are avoided in connection with presenting the accounts.

The Supervisory Board performs an evaluation of the Bank's organisational structure, the risk of fraud, and verifies the presence of the Bank's internal rules and guidelines. The Supervisory and Executive Boards approve the general procedures and control mechanisms in significant areas in connection with the presentation of the accounts. The Executive Board continuously monitors to ensure that relevant laws and other regulations and provisions related to presenting the accounts are complied with, and it briefs the Supervisory on its findings on a regular basis.

The Supervisory Board performs an overall risk assessment in connection with the process for presenting the accounts. As part of this risk assessment, the Supervisory Board determines the risk of fraud and what measures are required to reduce and/or eliminate such risks. In that connection, discussions are held regarding any incentives/motives Management might have to manipulate the accounts or commit other kinds of fraud.

Events Since the End of the Fiscal Year

In its Company Announcement of 20 January 2014, the Bank announced the conversion of DKK 575,200,000 in government capital injections as well as accrued unpaid coupon interest of approx. DKK 12.6 million to share capital by issuing 65,026,432 shares with a par value of DKK 1 to the Danish State.

Structural Measures

Naturally, the strengthening of the Bank's solvency has been a critical focus area for Management and studies were therefore initiated in the autumn of 2013 to examine structural measures that could resolve the Bank's capital-related challenges in the longer term. Prompted by coverage in the daily newspapers, the Bank issued a company announcement on 18 October 2013 regarding the studies that had been initiated. The need for structural measures was further emphasised in the Bank's Quarterly Report at 30 September 2013 with the reference to the fact that the upcoming CRD IV rules created uncertainty related to the Bank's ability to comply with the new rules when they enter into effect on 31 March 2014.

Management is working intensively with various opportunities to strengthen the Bank's capital base. No specific results have been achieved so far, but the work continues in close partnership with the Bank's financial and general advisers. Currently, the efforts centre on a model with three key items, that is,

- Partial sale of existing activities;
- Reduction in the Bank's holdings of sector shares; and
- Optimisation of subordinated debt.

Within those three areas, there are consultations with the relevant counterparties but with no specific results yet. The full or partial success of the model described here will be critical to the Bank's capacity to meet the new CRD IV rules capital requirements across all the areas. The outcome of the current considerations will, where appropriate, have to be presented to the EU Commission via the Danish State for final approval.

In the Bank's estimate, the structural measures will have the capacity to improve its solvency by about 2–3 percentage points.

Bank's General Action Plan

In parallel with its structural measures, the Bank is focusing its efforts on continuing its 2013 action plan, which addresses the following items:

- Close monitoring of income and costs developments;
- Additional steps to monitor and following up on credit risks;
- Action-oriented monitoring of commitments with impairments;
- Proactively evaluate relationship between the Bank's business concept and the size of individual customers and/or complexity;
- Adjusting of individual customers' size in relation to the Bank's total capital;
- Optimise the Bank's liquidity;
- Continued paring down of the Bank's balance sheet; and
- Provide attentive and proactive servicing and advisory services to customers.

Outlook for 2014

As previously mentioned, the implementation of CRD IV is estimated to result in a weakening of the Bank's solvency, which will create major uncertainty about the Bank's ability to meet its individual solvency need. In the event that the planned structural measures are unsuccessful, the surplus funding in relation to the minimum requirement of 8 per cent for banking operations is expected to be limited.

In that light and in the context of the Bank's relative failure, up to this point, to achieve the desired results through structural measures and to implement a more permanent solution to its weak capital structure, Management believes that the Bank's outlook is best expressed in the form of two scenarios.

Scenario 1: The Bank's structural measures succeed to en extent that ensures a continuing bank.

Assuming an unchanged economic climate, the Bank's total business volume is expected to be able to generate core earnings before impairments of around DKK 450–500 million before impairments. The conversions of government additional Tier 1 capital in 2013 and in early 2014 will contribute to this effort with interest savings of approx. DKK 90 million. The need for impairments is expected to exhibit a continued decline. If the Bank executes a partial sale of activities, the resulting reduction in core earnings is expected to be offset by a combination of net proceeds, savings from the Bank's cost structure and a reduction in the effect of weighted assets on solvency ratios. Combined, the net impact is designed to ensure a continuing bank with a proper business platform and the opportunity to achieve more adequate capital structure.

Scenario 2: The Bank's structural measures do not succeed in the short term and the solvency ratio requirements are therefore only met in part.

If this situation were to arise, the Bank will have to prepare a restructuring plan, which will be subject to the approval of the Financial Supervisory Authority. The plan will need to render probable that the Bank will be able to meet solvency indicators within a specific timeframe.

In this scenario, no material negative effect is anticipated for the level of the Bank's core earnings, as described in Scenario 1.

Based on the Bank's current financial status, the challenges related to the creation of an adequate capital structure in order to comply with the upcoming CRD IV rules and thereby secure the Bank's continued operations are quite significant. The Bank's ambition for its current action plans to strengthen its capital structure is that they, to the greatest extent possible, should be realised in close partnership with the involved advisers and the relevant government agencies. The efforts to eliminate this risk—the biggest risk to the going concern of the Bank—continue intensively. Provided they succeed, in an unchanged economic climate, Management believes that its options of maintaining satisfactory core earnings are good and therefore that the Bank will be able to absorb continued reduced impairment charges on loans and restore a certain consolidation capacity.

Risk Management

vestjyskBANK defines risk as any event that might adversely affect the Bank's ability to reach its business objectives. The Bank is exposed to various types of risk. These are being monitored and managed at various levels in the organisation.

It has turned out that the Bank, in periods of a favourable economic climate, was insufficiently focused on the prevention of risks and on incorporating precautionary principles that could create a certain ballast to mitigate the consequences of the current financial challenges. This has increased the Bank's sensitivity. At the same time, the Bank's previous growth strategy was too dependent on a capital base whose structure carried a relatively high level of interest expenditures. The absence of patient and non-interest bearing core capital has impeded more long-term strategic manoeuvres.

Risk exposure is a completely central consideration for all the transactions in which the Bank engages.

The Bank's general policy within the area is set out in the document 'Risk Exposure Policy for the Bank' (Politik for bankens risikoeksponering).

The Supervisory Board of vestjyskBANK establishes the overall framework and policies for risk and capital structure under which the Bank's Executive Board and general management manage the risks of the Bank. The Supervisory Board receives regular reports relating to risk developments and how the Bank's allocated risk framework is being applied. Day-to-day risk management is performed by the Finance and Risk Management, Markets & Advisory Services and Credit Departments. The Finance and Risk Management Department performs an independent audit.

vestjyskBANK divides risk into the following categories:

Market Risk

The risk that the market value of the Bank's financial assets and liabilities changes as a result of changes in market conditions is collectively referred to as "market risk." Market risk exposure is a natural part of the Bank's activities and it impacts the Bank's total earnings.

vestjyskBANK defines the following risks as market risks: Interest rate risk, foreign exchange risk, equity risk and other price risks, including for commodities.

It is vestjyskBANK's policy to maintain an overall market risk that is low.

vestjyskBANK's ambition is only to a limited degree to assume market risks not directly linked to the Bank's general operations.

vestjyskBANK accepts market risks related to the Bank's general operations. However, if possible, the Bank will endeavour to moderate a given risk or hedge it in such a way that it cannot be characterised as high.

The Supervisory Board has established a framework for the Bank's market risks. Monitoring market risks and verifying the Bank's established risk framework take place on a daily basis.

Interest rate risk

Interest rate risk is defined as the loss incurred by the Bank in the event of a rise in general interest rate levels of 1 percentage point.

For general operations, the Bank assumes interest rate risk from the following activities: Deposits, loans, raising Tier 2 capital and funding as well as investing the Bank's liquidity reserves and trading portfolio in interest rate instruments. The Bank may utilise financial instruments to hedge against the interest rate risk from these activities in part or in full.

The Bank accepts a certain interest rate risk for activities related to deposits, loans and the raising of Tier 2 capital and funding.

However, it is the Bank's policy that the interest rate risk derived from the investment of the Bank's liquidity reserves and trading portfolio in interest rate instruments must be low.

The Bank's total interest rate risk stood at TDKK –58,515 at 31 December 2013. The Bank therefore maintains a positive exposure in relation to a general increase in interest rates. The negative interest rate risk was primarily derived from fixed-interest deposits that contributed with a negative interest rate risk of TDKK 82,161, while the Bank's bond portfolio and its fixed-rate loans contributed with a positive interest rate risk of TDKK 10,354 and TDKK 18,507, respectively.

Foreign Exchange Risk
The Bank assumes foreign exchange risk related to assets and liabilities held in foreign currencies.

It is the Bank's policy to maintain an overall foreign exchange risk profile that is low. The Bank therefore makes extensive use of financial instruments to hedge against foreign exchange risk.

Foreign Currency Indicator 1, which represents a simplified target for the scope of the Bank's positions in foreign currencies, stood at TDKK 19,119 at 31 December 2013.

Equity Risk
The Bank's equity risk is derived from shares and derivatives in the Bank's investment and trading portfolios.

The investment portfolio primarily includes shares in enterprises in the financial sector with which the Bank has a strategic partnership.

This typically pertains to shares where the Bank holds a share of these enterprises in terms of its proportionate share of the partnership.

The Bank accepts the risk associated with the ownership of sector enterprises while it is its policy that the risk derived from shares and derivative equity instruments in its investment portfolio must be low.

At 31 December 2013, equity risk represented by the invested amount, totalled TDKK 479,211 of which sector enterprise shares totalled TDKK 455,977.

Other Market Risks
It is the Bank's policy not to assume other market risks via financial instruments than the ones specified above. It is therefore also the Bank's policy not to assume commodities risk through financial instruments.

The most significant aspects of the various types are set out in Notes 47–51 of the Annual Report.

Credit Risk
Credit risk is a very significant part of vestjyskBANK's business area.

Credit risk is the risk that a counterparty is unable or unwilling to satisfy his or her obligations and that the security provided does not sufficiently cover the obligations. Illiquidity or value impairments for provided collateral may result in losses and increase the need for impairments and provisions.

A heightening of the Bank's credit risks may incur losses for the Bank or result in the need for impairment charges, risk definite losses on already impaired commitments or increase the need for measures to improve capital adequacy.

The Bank's risk assessment greatly relies on case-by-case assessments by human beings as to whether the customer's can/will meet his or her obligations and whether the requisite value and collaterals are present.

Operational Risk
Risk of losses derived from internal and external conditions caused by inappropriate or defective internal procedures, human or system-related errors as well as external conditions, including legal risks. These conditions are described in greater detail in Note 52 of the Annual Report.

Liquidity Risk
The risk that the Bank will be unable to pay its liabilities drawing on its regular liquidity reserves.

The Bank has as its objective a liquidity surplus of at least 50 per cent measured in relation to statutory requirements. The Bank's liquidity risk and cash resources are detailed in Note 50 of the Annual Report.

Business Risk
The risk of losses caused by changes in external conditions or events that harm the Bank's reputation or earnings.

A good relationship with the Bank's stakeholders—shareholders, customers, suppliers, employees and therefore also the communities in which the Bank is active—is considered the cornerstone of the Bank's continued success and opportunities for development.

Capital base risk:
The risk of losses as a result of the Bank's not having sufficient capital to meet solvency requirements and solvency needs, if this is greater.

The Bank's capital base is recognised under the Danish Financial Business Act, and at year-end 2013, it totalled 2,291 million after deductions. Weighted items totalled 20,335 million; the Bank's solvency ratio—recognised under sec 124(2) of the Danish Financial Business Act—therefore stood at 11.3%.

With a solvency need of 10.9% at year-end 2013, the surplus solvency was 0.4 percentage point, or 67 million. Surplus funding is considered small.
The core capital ratio at year-end 2013 stood at 5.9%, which is a measure of the Bank's reliance on subordinated loan capital—thus a higher core capital ratio is wanted.

The capital is assessed to be slim, and it is also Management's assessment that there is a need for a strengthening in the future to reduce our vulnerability to future losses and changes to the capital rules as a result of the implementation of the CRD IV rules.

Uncertainties Relating to Recognition or Measurements
The most significant uncertainties related to recognition and measurements are associated with impairments on loans and provisions against guarantees. Additionally, there are uncertainties related to the valuation of the Bank's headquarters and investment properties, acquired assets as well as financial instruments.

In the opinion of Management, the assessments in calculating the impairment need at 31 December 2013 reflect the Danish Financial Supervisory Authority guidelines as well as the risk of losses related to the current economic climate.

Capital structure—going concern
It is assumed for the presentation of accounts about the Bank's going concern that the Bank will have sufficient capital resources to cover future capital needs.

The determination of solvency and solvency amounts is described in the Management's Review on page 18. The Bank's outlook for 2014 and its action plan are described in the Management's Review on page 22.

Based on expectations for an unchanged economic climate, it is viewed as realistic—in the context of the review performed of the Bank's loan portfolio—that the Bank's need for impairments can be contained in the core earnings. Management expects to be able to maintain core earnings before impairments at around DKK 450-500 million.

In this context the capital is assessed to be sufficient, but it is also Management's assessment that there is a need for future strengthening to reduce our vulnerability to future losses and changes to the rules relating to capital including the new Basel III/CRD IV rules.

If Management's expectations for core earnings and materially lower impairments are not substantially realised or if material, unexpected negative events transpire, this may ultimately mean that the Bank will lose its license to conduct banking activities or be forced to enter settlements with a resulting negative impact on the Bank's results, financial position and going concern.

Risk Report 2013
vestjyskBANK is required to provide detailed public disclosure about risks, capital structure, capital adequacy, risk management, etc. in pursuance of the Danish Financial Business Act, the disclosure requirements set out in Column III of the Danish Executive Order on Capital Adequacy as well as other orders, regulations and guidelines. The Bank has therefore drawn up Risk Report 2013. The report is published at the same time as the Annual Report and is available at vestjyskbank.dk/riskreport.

Credit risk

Credit risk is the risk that a counterparty is unable or unwilling to satisfy his or her obligations and that the security provided does not sufficiently cover the obligations. Credit risk is a very significant part of vestjyskBANK's business area.

Under the Danish Financial Business Act, involvement with one customer or group of consolidated customers may not exceed 25 percent of the capital base. In order to ensure proper diversification across industry segment and customers, the Bank only accepts involvements exceeding 10 percent of its capital base by way of exception. In doing so, in its issuance of credit vestjyskBANK constantly seeks to ensure that individual involvements, including with consolidated enterprises, do not present a danger to the existence of the Bank. Large commitmens totalled 33.5 per cent of the capital base at 31 December 2013 and comprised two commitments.

The Bank's credit policy has been tightened with respect to financing assets outside the Bank's ordinary market area and its opportunities to utilise foreign exchange loans and financial instruments.

For performing credit analyses of business commitments, vestjyskBANK emphasises that the customer's business concept is sound and sustainable and that the customer is in possession of the requisite competencies. An important component in the Bank's credit analyses is the analysis of customers' financial statements and budgets.

In analysing the creditworthiness of retail customers, the customer's disposable funds and his or her assets are the decisive factors. vestjyskBANK segments client commitments into various risk categories, and employs various systems to facilitate the correct segmentation. vestjyskBANK employs various auxililiary systems to facilitate correct segmentation.

Segmentation is an important component in the Bank's management of credit risks.

At year-end 2013, vestjyskBANK's corporate customers accounted for 78 percent of its loans, advances and guarantees; retail customers accounted for 22 percent.

The Bank's valuation of collaterals provided for real estate is based on a specific assessment of the properties' market value in the context of either a current assessment or cost-benefit analysis with an estimated factor based on the property's location, its use and alternative applications, layout, creditworthiness of the tenant, length of lease, etc. The value of the Bank's collaterals in real estate is therefore associated with uncertainty, since changes in market conditions may result in the need to revaluate the collaterals provided. Even for commitments where the provided collaterals are sufficient in the Bank's present assessment, going forward there is a material risk related to the Bank's loans and guarantees provided to the real estate segment, since the provided collaterals and impairment needs may change if the market changes.

Declining sales prices for real estate, including commercial properties, agricultural and private properties, the general market conditions or other conditions that lead to declining prices for securities or other collaterals may result in declining values for the collaterals provided to the Bank and that the collaterals will thus be insufficient to cover the customer's obligations. If the collaterals are illiquid, the collaterals might not be realisable for covering the customer's obligations.

The Bank is also exposed to material risk with respect to the Bank's loans and guarantees within the agricultural sector, among other things, due to the continued economic downturn in the industry segment, including declining prices and debtors' inability to pay. The need for both individual and group impairments and provisions for credit commitments is assessed on an ongoing basis.

The Bank performs impairments on commitments or groups of commitments that display objective indications of impairment loss, so that the anticipated loss risk is hedged. Impairments are made based on a number of general criteria and after preparing a loss calculation statement.

Generally, the Bank does not wish to expand its exposure within the agricultural segment but existing agricultural customers will have loan applications reviewed as usual. Farms that can document a development phase from negative to positive operating results and whose increased need for bank financing is accommodated will also entail heightened risk for the Bank.

Commitments that exhibit signs of weakness due to e.g. poor earnings or a fragile capital base are monitored closely, so that the Bank can intervene in time to reduce losses. The Bank performs impairments in groups based on a segmentation model developed by the industry organisation Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter). The model is structured around a number of macro-economic variables.

Management’s Review

Financial Review

Management is aware that the Bank's has a relative high number of customers that exhibit signs of weakness and customers with impairments. Impairments on loans and provisions against guarantees are therefore associated with significant uncertainty. If the economic climate deteriorates further, especially within the agricultural and real estate sectors, this may also have a material impact on the Bank’s operating resilts, financial position and going concern.

vestjyskBANK's Investor Relations (IR) activities are designed to communicate a true and fair view of the Bank's activities and prospects to investors, analysts and other stakeholder in the capital markets.

Disclosure of information takes place subject to the rules of NASDAQ OMX Copenhagen.

IR Portal at vestjyskBANK's Website

vestjyskBANK's website has an IR portal that contains relevant and updated information to shareholders and other stakeholders. The portal contains published company announcements, investor presentations, the current share price, financial statements and other IR-related information. vestjyskBANK's IR policy is posted on vestjyskbank.dk/irpolicy.

vestjyskBANK Share

The shares of vestjyskBANK are listed at NASDAQ OMX Copenhagen. The closing price of the vestjyskBANK share was DKK 9.0 at 31 December 2013 compared with a closing price at 31 December 2012 of DKK 13.0, a decline of nearly 31 per cent. The officially quoted price in relation to the equity value is 0.9. During 2013, a little over 12.1 million shares were traded at a combined market value of DKK 132.8 million.

Share Capital

vestjyskBANK's share capital totalled DKK 85,981,689 at 31 December 2013. The share capital was distributed across 85,981,689 shares with a par value of DKK 1.

At the Bank's Annual General Meeting at 26 March 2013, the Supervisory Board's proposal to reduce the par value of the Bank's share from DKK 10 to DKK 1 was adopted. The reduction was executed in April 2013. Among other things, this meant that

- The denomination of all the Bank's shares was changed from a nominal price of DKK 10 to DKK 1; so that the Bank's share capital after the capital reduction totalled DKK 61,288,878 distributed across 61,288,878 shares of DKK 1 each.
- After the capital reduction, the Bank holds a special reserve under the Bank's Articles of Association of DKK 551,599,902, which constitutes part of the Bank's equity.
- The reserve created by the capital reduction is tied up and may be used only to cover deficits or to convert share capital, unless the shareholders at the Annual General Meeting determine that it should be used for a different purpose. However, the Annual General Meeting cannot make such a determination as long as the Bank has outstanding loans in the form of government capital injections or senior loans covered by individual government guarantees.
- To strengthen its solvency, on 22 October 2013 the Bank converted government hybrid core capital of a total of DKK 323,150,000 as well as accrued unpaid coupon interest of approx. DKK 15.4 million for the issuance of 24,692,811 shares at a nominal value of DKK 1 to the Danish State.

vestjyskBANK has approx. 43,200 registered shareholders. The Danish State holds 56,710,239 shares, corresponding to a stake of 66.0 per cent. Additionally, the Financial Stability Company, which is wholly owned by the Danish State, holds 1,291,222 shares in vestjyskBANK, which corresponds to a stake of 1.5 per cent. In total, including this stake, the Danish State holds 67.5 per cent of the share capital and voting rights of vestjyskBANK. Following the conversion of hybrid core capital on 20 January 2014, the Danish State's stake has risen to 80.62 per cent, while the Financial Stability Company's stake was reduced to 0.86 per cent.

Second only to the Danish State, the ten biggest shareholders hold 5.9 percent of the share capital in vestjyskBANK.

Capital

At the Annual General Meeting on 26 March 2013, the Supervisory Board was authorised to acquire treasury shares until 26 March 2018 of a nominal value of up to 10 per cent of the share capital. At year-end 2013, vestjyskBANK held 176,349 treasury shares, which corresponds to 0.2 per cent of the share capital.

Government hybrid core capital may be converted up to a nominal DKK 1,438 billion subject to specific rules. On both

Management's Review

Investor Relations

20 February 2012 and 22 October 2013 a nominal DKK 287.6 million was converted to share capital. Moreover, on 20 January 2014, an additional conversion of a nominal DKK 575.2 million was converted to share capital.

Similarly, there was an opportunity to convert government hybrid core capital of up to DKK 177.8 million. Of this, conversion has previously been performed of DKK 142.2 million to share capital and on 22 October 2013, DKK 35.6 million was converted to share capital.

The rules related to the conversion of hybrid core capital as well as other matters concerning the Bank's share capital are set out in the Bank's Articles of Association, which are available at vestjyskbank.dk/vedtaegter.

Dividend Policy

vestjyskBANK has received government capital injections in accordance with the Danish Act on State-Funded government hybrid core capital and exercised the individual government guarantee scheme in accordance with the Danish Act on Financial Stability. The Bank is therefore subject to limitations in its ability to pay dividends until such time as the Bank neither has any outstanding government hybrid core capital nor issuances under the individual government guarantee scheme. This means that vestjyskBANK may only distribute dividends to the extent that they can be financed by the Bank's net profits after tax that consist of distributable reserves and that have been generated after 1 October 2010.

Under the terms for government hybrid core capital, vestjyskBANK is obligated to pay a variable dividend supplement to the state, in the event dividends are paid out during the period the government hybrid core capital are made.

2014 Financial Calendar

03 March	2013 Annual Report
25 March	Annual General Meeting
23 May	Quarterly Report, Q1
21 August	Half-Year Report
27 November	Quarterly Report, Q1-Q3

During the period in which the government hybrid core capital is injected, no reduction of capital may take place and treasury shares may not be acquired apart from what occurs as part of the general daily trade.

Annual General Meeting and Shareholder Meetings

vestjyskBANK's Annual General Meeting will be held on Tuesday, 25 March 2014 at Lemvig Idræts- og Kulturcenter, Christinelystvej 8, DK-7620 Lemvig, Denmark.

A shareholder meeting will be held in Ringkøbing on Wednesday, 26 March 2014 at the Ringkøbing Sports- og Kursuscenter (ROFI), Kirkevej 26, DK-6950 Ringkøbing, Denmark.

A shareholder meeting will be held in Holstebro on Thursday, 27 March 2014 at Musikteatret Holstebro, Den Røde Plads 16, DK-7500 Holstebro, Denmark.

Investor Relations Manager

The Bank's Supervisory Board is responsible for vestjyskBANK's investor relations activities; shareholders and other interested parties are welcome to contact the board with questions or comments. The Bank's contact to equity market stakeholders and inquiries regarding the Bank's IR policy are primarily handled by

Vagn Thorsager, Chief Executive Officer
vestjyskBANK
Torvet 4-5
DK-7620 Lemvig, Denmark
Tel. +45 96 63 21 03
vth@vestjyskbank.dk

2013 company announcements

Over the course of 2013 vestjyskBANK has published the following company announcements

11 January	Changes in the Supervisory Board
24 January	Notice of extraordinary general meeting and convention of the board of directors
01 February	Increase in expected losses for 2012
18 February	Redemption of bonds at maturity
19 February	Resolutions at vestjyskBANK's extraordinary general meeting held on 19 February 2013
27 February	vestjyskBANK repays subordinated loan capital
28 February	vestjyskBANK's Annual Report 2012
04 March	Notice of annual general meeting 2013 from the board of directors of Vestjysk Bank A/S
20 March	Annual general meeting - Nomination of two additional candidates for the Supervisory Board
26 March	Resolutions at vestjyskBANK's annual general meeting held on 26 March 2013
03 April	Vestjysk Bank A/S repays subordinated loan capital
25 April	Completion of capital decrease in Vestjysk Bank A/S
30 April	Changes in share capital and voting rights
01 May	vestjyskBANK's Quarterly Report for Q1 2013
17 June	Vestjysk Bank A/S repays subordinated loan capital
09 July	Charges of price manipulation during the period 22 to 30 September 2008
29 August	vestjyskBANK's Half-Year Report 2013
24 September	Vestjysk Bank initiates voluntary conversion of approx. DKK 338 mill. government hybrid core capital
15 October	Conversion price for government hybrid core capital
18 October	The media coverage of Vestjysk Bank A/S
22 October	Conversion of government hybrid core capital completed
22 October	Major shareholder announcement from the Danish State
31 October	Share capital and voting rights
28 November	vestjyskBANK's Quarterly Report for Q1-Q3 2013
12 December	Status on investigations regarding possible structural measures
20 December	Vestjysk Bank initiates voluntary conversion of approx. DKK 575 mill. government hybrid core capital

Report on corporate governance

The principles for vestjyskBANK's Management are based on the Recommendations on Corporate Governance issued by the Committee on Corporate Governance in Denmark (Komitéen for god Selskabsledelse) and are therefore in line with the principles that NASDAQ OMX Copenhagen A/S has decided listed companies must address. The principles on corporate governance are furthermore based on the Recommendations for Members of the Danish Bankers Association (Anbefalinger for Finansrådets medlemmer).

vestjyskBANK has decided to publish its statutory report on corporate governance at the Bank's website. For more details, see vestjyskbank.dk/corporate_governance_ENG. The report provides details for the Bank's status for each of the recommendations for corporate governance.

Supervisory and Executive Boards

Bank's Supervisory Board

vestjyskBANK's Supervisory Board consists of nine members, of which three are elected by the Bank's employees.

Steen Hemmingsen (b. 1945), Director, Chairman of the Supervisory Board
Newly elected to vestjyskBANK's Supervisory Board at the special general meeting on 19 February 2013, after which he was elected chairman.

Meets the definition of independence issued by the Committee on Corporate Governance in Denmark.

- Elected to vestjyskBANK's Supervisory Board in 2013.
- Expiry of current term of office: 2014
- Other executive positions or organisational duties: Supervisory board member of Falck Holding A/S and two subsidiaries as well as the EAC Foundation and Obel-LFI Ejendomme A/S.

Own and related parties' shares, options or warrants in vestjyskBANK: none.

Changes to holdings in the course of the financial year: none.

Anders Bech (b. 1947), Deputy Chairman of the Supervisory Board
Chairman of the Supervisory Board until the Aarhus Lokalbank merger on 29 March 2012, after which the Supervisory Board was constituted with Anders Bech as Deputy Chairman. After Carsten Andersen's departure on 11 January 2013, Anders Bech was constituted as chairman for the period until the special annual meeting on 19 February 2013 where the Supervisory Board was constituted with Anders Bech as deputy chairman.

Meets the definition of independence issued by the Committee on Corporate Governance in Denmark.

- First elected to the Supervisory Board of the then Vestjysk Bank in 1997.
- Continued serving on the Supervisory Board for vestjyskBANK after its merger with Nordvestbank in 2002 and was elected chairman at the same time.
- Was re-elected to vestjyskBANK's Supervisory Board.
- Expiry of current term of office: 2014
- Other executive positions or organisational duties: Chief Executive Officer of Kaj Bech Holding A/S and one subsidiary. Member of the Supervisory Board of Kaj Bech Holding A/S and one subsidiary, and Fonden Nørre Vosborg and Chairmann of the Supervisory Ejendomsselskabet Doktorvænget A/S.

Own and related parties' shares, options or warrants in vestjyskBANK: 64,870 shares.

Changes to holdings in the course of the financial year: none.

Bent Simonsen, Director (b. 1961)
Meets the definition of independence issued by the Committee on Corporate Governance in Denmark.

- Elected to vestjyskBANK's Supervisory Board in 2013
- Expiry of current term of office: 2014
- Other leadership positions or organisational duties: Group chief executive officer of Det danske Hedeselskab and Dalgasgroup A/S, Chief executive officer of Hedeselskabet Sp. z.o.o. (Poland), Enricom A/S, DDH Forests A/S and SIA Dan Baltic Forest (Latvia), supervisory board member of HedeDanmark

A/S, Orbicon A/S and one subsidiary, Enricom A/S, DDH Forests A/S and one subsidiary, A/S Jydsk Landvinding, JCCJS Rindibel (Belarus), Plantningsselskabet Steen Blicher A/S, A/S Plantningsselskabet Sønderjylland and Viborg Håndbold Klub A/S and one subsidiary

Own and related parties' shares, options or warrants in vestjyskBANK: none.

Changes to holdings in the course of the financial year: none.

Kirsten Lundgaard-Karlshøj (b. 1951), Farmer
Meets the definition of independence issued by the Committee on Corporate Governance in Denmark.

- First elected to the Supervisory Board of the then Vestjysk Bank in 1998.
- Continued on the Supervisory Board of vestjyskBANK after its merger with nordvestBANK in 2002.
- Was re-elected to vestjyskBANK's Supervisory Board. Expiry of current term of office: 2014
- Other executive positions or organisational duties: Practises large-scale farming

Own and related parties' shares, options or warrants in vestjyskBANK: 122,070 shares.

Changes to holdings in the course of the financial year: none.

Poul Hjulmand (b. 1945), Director
Deputy Chairman of the Supervisory Board up until the Aarhus Lokalbank merger on 29 March 2012, after which Poul Hjulmand resigned his deputy chairmanship of the Supervisory Board. After Carsten Andersen's departure on 11 January 2013, Poul Hjulmand was constituted as deputy chairman for the period up to the special general meeting on 19 February 2013, after which Poul Hjulman resigned his deputy chairmanship of the Supervisory Board.

Meets the definition of independence issued by the Committee on Corporate Governance in Denmark.

- Elected for the first time to Ringkjøbing Bank's Supervisory Board in 2003 after which he was elected chairman.
- Continued serving on the Supervisory Board for vestjyskBANK after its merger in 2008 and was elected deputy chairman at the same time.
- Was re-elected to vestjyskBANK's Supervisory Board. Expiry of current term of office: 2014
  Other executive positions or organisational duties: Chief executive officer of Landia Holding ApS, member of the supervisory boards of Landia Holding ApS and two subsidiaries, being chairman in one of the subsidiaries, Vestas Aircoil A/S and chairman in two subsidiaries, Hydromann Holding A/S, ConSet A/S and one subsidiary, RTG Holding A/S, Iron Pump Holding A/S and chairman in two subsidiaries, Ølgaard Jensens Fond, Hvide Sande Havn Fond, deputy chairman of Lem Varmeværk and chairman in RAH Holding A/S and its five subsidiaries

Own and related parties' shares, options or warrants in vestjyskBANK: 30,804 shares.

Changes to holdings in the course of the financial year: none.

Aage Tang-Andersen, Director (b. 1960)
Meets the definition of independence issued by the Committee on Corporate Governance in Denmark.

- Elected to vestjyskBANK's Supervisory Board in 2013.
- Expiry of current term of office: 2014
- Other executive positions or organisational duties: Director of Logistik 39 ApS, Ejendomsadministrationen ApS, Anpartsselskabet ATA, Tang + Krogh Ejendomme I/S and Tang Invest Holding ApS, supervisory board member of Nordic Air A/S and one subsidiary, Romania Farm Invest A/S Remien Holding ApS and Forældre Skolen in Aarhus, board chairman of LB Consult A/S and Jantzen Development A/S

Own and related parties' shares, options or warrants in vestjyskBANK: none.

Changes to holdings in the course of the financial year: none.

Jacob Møllgaard, Development Officer (b. 1976)
Elected by the Bank's employees. Meets the definition of independence issued by the Committee on Corporate

Governance in Denmark—with the exception of his employment with the Bank.

- Elected employee board representative in 2013.
- Expiry of current term of office: 2017
- Other executive positions or organisational duties: Supervisory board member of the Financial Services Union Denmark, Southern District

Own and related parties' shares, options or warrants in vestjyskBANK: 328 shares

Changes to holdings in the course of the financial year: none.

Malene Rønø (b. 1971), Business Advisor
Elected by vestjyskBANK's employees Meets the definition of independence issued by the Committee on Corporate Governance in Denmark—with the exception of her employment with the Bank.

- Elected as employee supervisory board representative in 2011.
- Was re-elected to vestjyskBANKs Supervisory Board
- Expiry of current term of office: 2017
- Other executive positions or organisational duties: none

Own and related parties' shares, options or warrants in vestjyskBANK: 672 shares.

Changes to holdings in the course of the financial year: none.

Palle Hoffmann (b. 1972), Vice President of Business Sales
Elected by vestjyskBANK's employees Meets the definition of independence issued by the Committee on Corporate Governance in Denmark—with the exception of his employment with the Bank.

- Elected as employee supervisory board representative in 2011.
- Expiry of current term of office: 2015
- Other executive positions or organisational duties: none

Own and related parties' shares, options or warrants in vestjyskBANK: 5,910 shares.

Changes to holdings in the course of the financial year: none.

Bank's Executive Board

Vagn Thorsager, Chief Executive Officer (b. 1948)
Chief Executive Officer of Aarhus Lokalbank from 1 March 2011 and continued as executive vice president of vestjyskBANK after the merger of 29 March 2012. Took up the position as chief executive officer of vestjyskBANK on 25 September 2012.

- Other executive positions or organisational duties: none

Own and related parties' shares, options or warrants in vestjyskBANK: 19,637 shares.

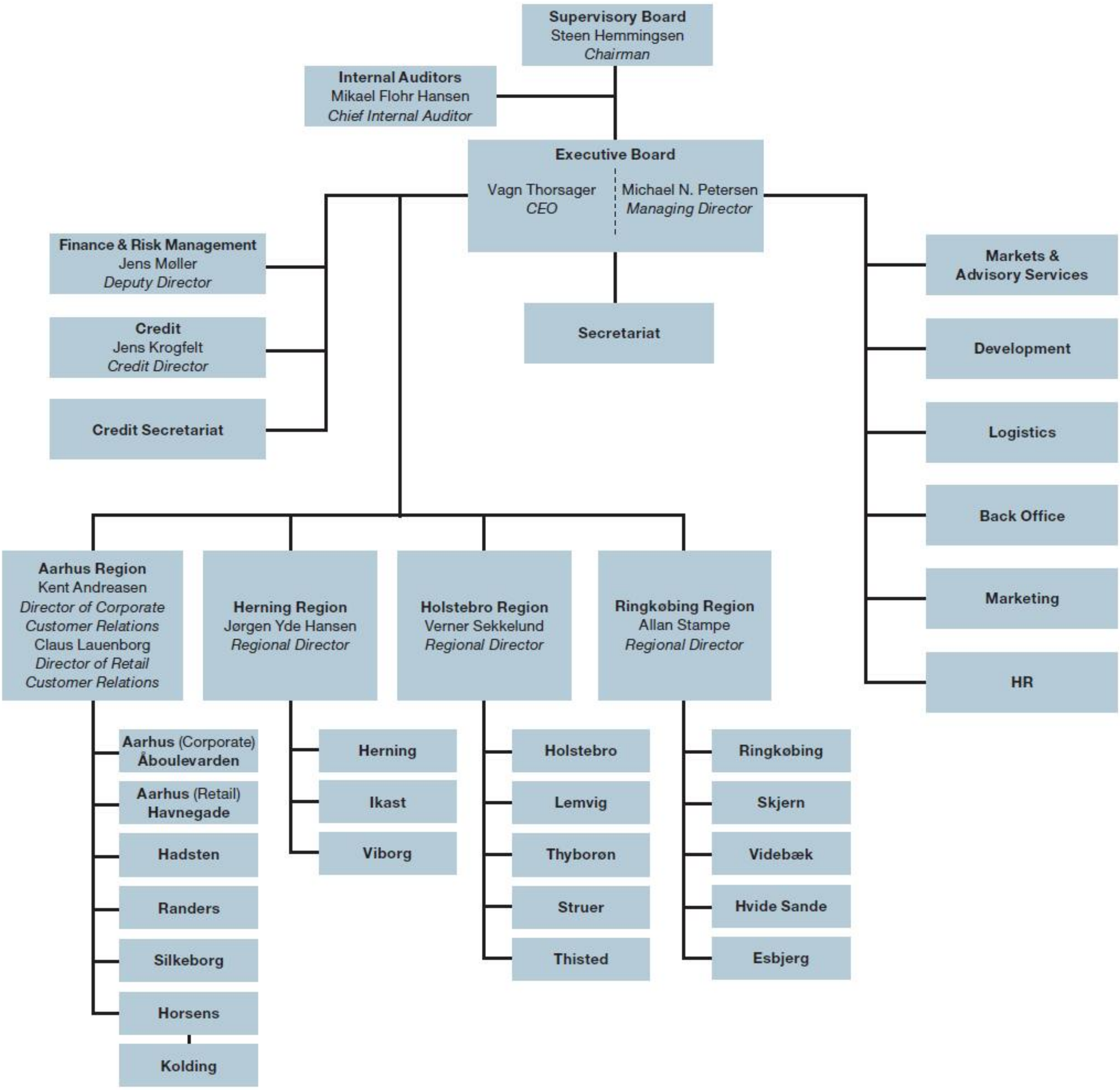
Changes to holdings in the course of the financial year: none.

Michael Nelander Petersen, Managing director (b. 1963)
Took up position of managing director of vestjyskBANK on 25 September 2012.

- Other executive positions or organisational duties: Supervisory board member of Bankernes EDB Central (BEC) and BDC-Bankernes Uddannelsesfond.

Own and related parties' shares, options or warrants in vestjyskBANK: 10,000 shares.

Changes to holdings in the course of the financial year: none.



Supervisory Board
Steen Hemmingsen
Chairman
Internal Auditors
Mikael Flohr Hansen
Chief Internal Auditor
Executive Board
Vagn Thorsager
CEO
Michael N. Petersen
Managing Director
Finance & Risk Management
Jens Møller
Deputy Director
Credit
Jens Krogfelt
Credit Director
Credit Secretariat
Secretariat
Markets & Advisory Services
Development
Logistics
Back Office
Marketing
HR
Aarhus Region
Kent Andreasen
Director of Corporate Customer Relations
Claus Lauenborg
Director of Retail Customer Relations
Herning Region
Jørgen Yde Hansen
Regional Director
Holstebro Region
Verner Sekkelund
Regional Director
Ringkøbing Region
Allan Stampe
Regional Director
Aarhus (Corporate) Åboulevarden
Aarhus (Retail) Havnegade
Hadsten
Randers
Silkeborg
Horsens
Kolding
Herning
Ikast
Viborg
Holstebro
Lemvig
Thyborøn
Struer
Thisted
Ringkøbing
Skjern
Videbæk
Hvide Sande
Esbjerg

Management's Review
Organisation and Corporate Social Responsibility

Organisation of the Bank

vestjyskBANK is dedicated to being a full-service bank that, with the customer in the centre advises retail and business customers locally and regionally via a well-developed branch network in Jutland.

vestjyskBANK sees the central and western Jutland markets as its core area. Additionally, the Bank is dedicated to maintaining the Aarhus area and East Jutland as a market area that constitutes a significant part of its business. The market strategy is adapted to the general opportunities in the individual market area. The number of branches is regularly being evaluated in relation to current and anticipated market developments.

The business customer segment is vestjyskBANK's primary business area and the Bank's activities are primarily directed towards the financing of small and mid-sized enterprises within agriculture, fisheries and real estate-related investments. vestjyskBANK has built up special expertise and experience within advisory services for the agricultural and fisheries sectors.

vestjyskBANK's business customers are offered a number of financing products, such as construction loans, commercial credit lines, provision of guarantees, foreign loans, as well as foreign exchange and interest rate swaps to hedge against commercial risks.

The Bank's retail customers are offered all the traditional products and advisory services within savings, retirement pension, loans, debit and credit cards. Through strategic preferred partners, the Bank also offers mortgage credit, investment, retirement pension and insurance products.

Foundation
Based on vestjyskBANK's history, vision and values, the Bank draws its strength from traditional banking. The Bank's—and therefore also its staff's—mission is to create the financial freedom our customers need through steadfast and responsible banking.

In the short term, where the consequences of the financial crisis and the economic backlash as an impact on societal development, vestjyskBANK is particularly committed to emphasising limited risks and cost management.

The general financial objective of vestjyskBANK is to consolidate its core capital and especially its common equity Tier 1 capital.

In order to ensure the Bank's future freedom of action, it is important to create the solidity that is in compliance with CRD IV.

Organisation
The Bank is built up around four regions, which are responsible for sales, management and close sparring in the credit area.

The aim of the four regions is to ensure the links between the customer-facing branches and the central staffs in the Bank's senior management. The regional vice presidents are thus part of the Bank's management group, which works with strategy, results and action plans.

In addition to the four regions, the Bank has a number of central management forums. Thus, the Bank has established a Credit Committee which reviews major credit cases. Similarly, a Solvency and Market Risk Committee has been established which is tasked with regularly assessing the composition of the Bank's funding and liquidity. Finally, a special committee is evaluating developments in, and the composition of, the Bank's prices and products.

Management and Employee Development
At vestjyskBANK, we are constantly striving towards a high level of expertise for both management and staff. Our ambition to do things properly and the development of competencies is therefore a strategic development area for us.

This emphasis enables the Bank to retain and attract skilled and expert employees with respect to both competencies of a general nature and specialist expertise. The average age and seniority for the Bank's employees are 46.5 years and 14.3 years, respectively. The number of employees in 2013 was 562.9 converted to full-time (average), which is 58.4 fewer than in 2012.

Report on Corporate Social Responsibility (CSR)

vestjyskBANK's efforts involving corporate social responsibility focus on three key areas: Our colleagues, our customers and the local communities of which we are dedicated to being an active part. Through its vision, mission and values, the Bank's social responsibility platform has been an integral part of its business for several years.

Customers
vestjyskBANK aspires to provide expert and professional advisory services. We offer simple and clear products based on the individual customer's financial situation and needs.

Employees
It is important for vestjyskBANK that our vision be implemented in our day-to-day work. Our vision must be followed not only in our employees' contact with customers but also among our employees themselves.

Community
vestjyskBANK prioritises involvement in the local community. This is evidenced in vestjyskBANK's many sponsorships of sports, culture and charitable causes.

Environment
vestjyskBANK wants to contribute to a cleaner environment and a more healthy way of living—but we prefer to leave it up to each individual's initiative. We have therefore posted information about energy and the environment on vestjyskBANK's website.

vestjyskBANK is furthermore committed to the Danish government's efforts to place human rights and climate change high on the agenda. However, as a bank we have a particularly local emphasis and therefore do not have any specific policies in these two areas.

vestjyskBANK has decided to publish its statutory report on corporate governance at the Bank's website. The report can be read at vestjyskbank.dk/CSR_ENG.

Report on the Under-represented Sex

Pursuant to sec 135a of Executive order on financial reporting for credit institutions *et al.*, the following statutory report has been prepared.

vestjyskBANK should be an attractive workplace for both women and men. vestjyskBANK therefore endeavours to provide women and men with equal opportunities to pursue careers and to attain and hold positions of leadership. For vestjyskBANK, it is important that its executives have the proper competencies, irrespective of gender.

Our ambition is to seek equal distribution of competent female and male executives. When filling executive positions, it is in our interest to have as many competent candidates to choose among as possible. We therefore support the endeavour to have both men and women in the Bank that have the proper competencies to hold executive positions.

Under sec 79 a of the Danish Financial Business Act, the Supervisory Board has set the target figures below for the share of the under-represented sex on the Supervisory Board and has prepared the policy below to increase the share of the underrepresented sex at vestjyskBANK's other executive levels.

Target Figures for the Under-represented Sex on the Supervisory Board
At the time of adoption by the Supervisory Board, the gender composition among the Bank's members of the Supervisory Board elected at the Annual General Meeting was as follows:

- 17% women
- 83% men

It is the Supervisory Board's goal that the share of female annual general meeting elected supervisory board members from 2017 total a minimum of 33% (provided the number of general meeting elected board members totals six).

The target of the Supervisory Board was adopted as a goal effective as of 2017, and the Bank's Supervisory Board will, for future nomination processes for the election of members of the Supervisory Board, be focused on reaching that target.

Policy to Increase the Share of the Under-represented Sex at the Bank's Other Executive Levels

The Bank's Supervisory Board has adopted a Policy to Increase the Share of the Under-represented Sex at the Bank's Other Executive Levels. The purpose of the adopted policy is to lay the foundation for a more equal distribution of the sexes at the Bank's other executive levels.

Other executive levels (in the following referred to as "management") here refer to executive positions not related to the Supervisory Board, that is, the Executive Board, regional vice presidents, branch managers, staff managers and team leaders.

It is the Bank's general and long-term goal to provide for a more equal representation of the sexes in management. The Bank's ambition is to be able to follow up on the development of the composition of the sexes in management as well as to have the opportunity to adjust the effort along the way in relation to the target that has been set.

In reaching the established specific goals and targets, the Bank will launch initiatives in the areas as necessary. However, the launch of initiatives will take place taking into account that the Bank wishes to preserve and develop the present open and unprejudiced culture where individual staff has the opportunity to apply his or her competencies in the best fashion possible, irrespective of gender, just like the Bank will hire managers on the premise that the person who is best suited for the position will always be hired/appointed, irrespective of gender.

At 31 December 2013, the number of employees represented in the Bank's management totalled 63 persons and the gender composition was as follows:

- 34% women
- 66% men

Gender Distribution at Management Levels at 31 December 2013

	Male	Female
Executive Board	100%	
Management Group	80%	20%
Branch Managers	58%	42%
Team Managers	29%	71%

vestjyskBANK's goal is to increase the share of women executives in the Management Group from 20 pct. to at least 25 pct. before 2017, and the share of male team managers from 29 pct. to at least 35% before 2017.

The present statutory report on the under-represented sex has also been posted to the Bank's website at vestjyskbank.dk/CSR_ENG.

Management's Statement

The Bank's Supervisory and Executive Boards have today considered and approved the present Annual Report, representing the period 1 January–31 December 2013 for Vestjysk Bank A/S.

The Financial Statements are presented in accordance with the Danish Financial Business Act and also in accordance with the supplementary Danish disclosure requirements relating to financial reporting for listed financial enterprises.

In our opinion, the applied accounting policies are appropriate and the financial statements provide a true and fair view of the Bank's assets and liabilities and financial position as at 31 December 2013, as well as the results of the its activities and cash flows for the reporting period 1 January–31 December 2013.

In our opinion, the present Management's Review provides a true and fair view of the developments in the Bank's activities and financial situation, as well as a true and fair description of the most significant risks and uncertainties that may affect the Bank.

As stated in the Management's Review sections "CRD IV Rules," "Risks Related to Going Concern," "2014 Outlook" as well as Note 2 "Uncertainty, Capital Structure and Going Concern," there is a need for certain structural measures in connection with the challenges caused by the anticipated implementation of new capital adequacy rules (CRD IV) at 31 March 2014.

It is Management's assessment that the Bank's structural measures and action plan in conjunction with the projected core earnings and need for impairments for 2014 will be sufficient to ensure the Bank's continuation as a going concern.

We hereby recommend the Annual Report for adoption by the Annual General Meeting.

Lemvig, 3 March 2014

Executive Board

…………………………………………	…………………………………………
Vagn Thorsager	Michael Nelander Petersen
Chief Executive Officer	Managing Director

Supervisory Board

……………………………………….	…………………………………………	…………………………………………
Steen Hemmingsen	Anders Bech	Bent Simonsen
Chairman of the Board of Directors	Deputy Chairman of the Board of Directors	
…………………………………………	…………………………………………	…………………………………………
Kirsten Lundgaard-Karlshøj	Poul Hjulmand	Aage Tang-Andersen
…………………………………………	…………………………………………	…………………………………………
Jacob Møllgaard	Malene Rønø	Palle Hoffmann

Auditors' Reports

Internal auditors' reports

Report on Financial Statements

We have audited the Financial Statements of Vestjysk Bank A/S for the financial year 1 January to 31 December 2013, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and notes. The Financial Statements are prepared in accordance with the Danish Financial Business Act.

Basis of opinion
We have conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. as well as Financial Groups and International Standards on Auditing. This requires that we plan and perform the audit to obtain reasonable assurance that the Financial Statements are free from material misstatement.

The audit has been performed in accordance with the division of work agreed with the external auditors and has included an assessment of procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Financial Statements. Furthermore, the audit has included evaluating the appropriateness of the accounting policies applied by Management and the reasonableness of the accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

We have participated in the audit of risk and other material areas and believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the procedures and internal controls established, including the risk management organised by Management relevant to the entity's reporting processes and significant business risks, are working satisfactorily.

In addition, in our opinion, the Company's Financial Statements give a true and fair view of the Company's financial position at 31 December 2013 and of its financial performance for the financial year 2013 in accordance with the Danish Financial Business Act.

Emphasis of Matter
Without modifying our opinion we draw attention to the significant uncertainty, raising material doubt as to the company's ability to continue its operations. We refer to management's assessment of the financial basis for the company's operations for the coming financial year in note 2 "Uncertainty, capital resources and going concern", including credit risks and capital resources. Management has assessed capital resources as adequate to ensure the continued operations of the Bank, albeit with limited margin.

In assessing the adequacy of the capital resources management has placed emphasis as to the expectations of the Bank's core earnings and expected impairment of loans and provisions related to guarantees in 2014. As mentioned in note 2, management's assessment of impairment of loans and provisions related to guarantees is subject to significant uncertainty. As described in note 2, management has considered it as realistic that the need for impairment and provisions can be absorbed against core earnings.

The plan for structural measures prepared by management, ref. note 2, is of significant importance for the solvency position of the Bank. Upon the capital requirement rules stated in CRD IV coming into effect the Bank expects that, without further measures, there will be a deficiency in relation to the individual solvency requirement as at 31 March 2014. A strengthening of the Bank's solvency is crucial for the Bank's ability to comply with the coming capital requirement rules under CRD IV.

If management's expectations to core earnings and impairment and provisions as well as implementation of structural measures are not realised in 2014, in all material respects, there is a significant risk that the Bank will not be able to continue its operations.

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Business Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Financial Statements.

Lemvig, 3 March 2013

Mikael Flohr Hansen
Chief Auditor

Auditors’ Reports

Independent Auditor’s Report

To the Shareholders of Vestjysk Bank A/S

Report on the Financial Statements

We have audited the Financial Statements of Vestjysk Bank A/S for the financial year 1 January – 31 December 2013, which comprise income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and notes. The Financial Statements are prepared in accordance with the Danish Financial Business Act.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as Management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation of Financial Statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The audit has not resulted in any qualification.

Opinion

In our opinion, the Financial Statements give a true and fair view of assets, liabilities and the financial position of the Company at 31 December 2013 and of the results of the Company operations for the financial year 1 January - 31 December 2013 in accordance with the Danish Financial Business Act.

Emphasis of matter

Without modifying our opinion we draw attention to the significant uncertainty, raising material doubt as to the company’s ability to continue its operations. We refer to management’s assessment of the financial basis for the company’s operations for the coming financial year in note 2 “Uncertainty, capital resources and going concern”, including credit risks and capital resources. Management has assessed capital resources as adequate to ensure the continued operations of the Bank, albeit with limited margin.

In assessing the adequacy of the capital resources management has placed emphasis as to the expectations of the Bank’s core earnings and expected impairment of loans and provisions related to guarantees in 2014. As mentioned in note 2, management’s assessment of impairment of loans and provisions related to guarantees is subject to significant uncertainty. As described in note 2, management has considered it as realistic that the need for impairment and provisions can be absorbed against core earnings.

The plan for structural measures prepared by management, ref. note 2, is of significant importance for the solvency position of the Bank. Upon the capital requirement rules stated in CRD IV coming into effect the Bank expects that, without further measures, there will be a deficiency in relation to the individual solvency requirement as at 31 March 2014. A strengthening of the Bank’s solvency is crucial for the Bank's ability to comply with the coming capital requirement rules under CRD IV.

If management's expectations to core earnings and impairment and provisions as well as implementation of structural measures are not realised in 2014, in all material respects, there is a significant risk that the Bank will not be able to continue its operations.

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Business Act. We have not performed any procedures additional to the audit of the Financial Statements. On this basis, in our opinion, the information provided in Management's Review is consistent with the Financial Statements.

Holstebro, 3 March 2014
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerskab

H.C. Krogh
State Authorised Public Accountant

Financial Statements

Statement of Income and Statement of Comprehensive Income

Note		2013 TDKK	2012 TDKK
	Statement of Income		
3	Interest income	1,333,568	1,619,146
4	Interest expenses	520,318	727,132
	Net interest income	813,250	892,014
	Dividends on equity securities etc.	13,003	4,818
5	Income from fees and commissions	292,863	312,027
	Fees and commissions paid	31,112	32,581
	Net interest and fee income	1,088,004	1,176,278
6	Market value adjustments	126,421	94,192
7	Other operating income	19,883	10,192
8-9	Personnel and administrative expenses	538,675	656,419
	Depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets	15,956	223,809
10	Other operating expenses	48,689	33,665
11	Impairment of loans and receivables etc.	1,073,345	1,514,755
	Income from investments i group enterprises	-16	1
	Profit/loss before tax	-442,373	-1,147,985
12	Tax	0	299,408
	Profit/loss	-442,373	-1,447,393
	Statement of Comprehensive Income		
	Profit/loss	-442,373	-1,447,393
	Other comprehensive income:		
	Changes in value of owner-occupied properties	0	24,185
	Changes in the value of pension liabilities	275	-3,468
	Hedge accounting	-5,999	38,434
	Of which transferred to interest in the Statement of Income	-322	-16,361
	Tax on hedge accounting	0	-3,938
	Other comprehensive income after tax	-6,046	38,852
	Total comprehensive income	-448,419	-1,408,541

Financial Statements

Statement of Financial Position at 31 December

Note		2013 tkr.	2012 tkr.
	Assets		
	Cash in hand and demand deposits with central banks	1,198,891	1,232,087
13	Amounts receivable from credit institutions and central banks	189,367	456,065
14-15	Loans and other receivables at amortised cost	17,360,430	20,696,873
	Debt securities at fair value	4,470,961	7,271,083
	Equity securities etc.	479,211	510,320
	Income from investments in group enterprises	0	717
16	Assets related to pooled fund schemes	1,586,325	1,255,966
17	Intangible assets	7,482	8,978
	Land and buildings, total	371,671	390,470
18	Investment property	5,695	1,212
19	Owner-occupied property	365,976	389,258
20	Other property, plant and equipment	7,384	12,661
	Current tax assets	2,195	940
21	Deferred tax assets	0	0
	Temporary assets	4,644	3,787
22	Other assets	421,000	914,334
	Deferred Revenue	12,676	18,271
	Assets, total	26,112,237	32,772,552

Financial Statements

Statement of Financial Position at 31 December

Note		2013 TDKK	2012 TDKK
	Liabilities		
	Debts		
23	Amounts owed to credit institutions and central banks	5,101,855	3,926,024
24	Deposits and other debt	16,290,590	16,801,610
	Deposits with pooled fund schemes	1,586,325	1,255,966
25	Debt securities in issue at amortised cost	18,013	6,781,980
26	Other liabilities	344,824	547,949
	Prepayments	28	58
	Liabilities, total	23,341,635	29,313,587
	Provisions		
	Provision for pensions and similar liabilities	21,455	23,622
	Provisions against losses on guarantees	10,573	43,614
	Other provisions	3,074	9,663
	Provisions, total	35,102	76,899
27	**Subordinated debt**	1,848,481	2,384,054
	Equity		
28	Share capital	85,982	612,889
	Accumulated changes in value, total	55,433	61,754
	Revaluation reserves	55,433	55,433
	Accumulated value adjustments of hedging instruments in hedging cash flows	0	6,321
	Reserves provided for by the Bank's Articles of Association	551,600	0
	Retained profit or loss	194,004	323,369
	Equity, total	887,019	998,012
	Liabilities, total	26,112,237	32,772,552
	Items not recognised in the Statement of Financial Position		
29	Contingent liabilities	2,957,747	5,153,651
30	Other binding agreements	30,262	5,179
	Items not recognised in the Statement of Financial Position, total	2,988,009	5,158,830

Financial Statements

Statement of Changes in Equity

	Share capital	Share premium	Revaluation reserves	Accumulated value adjustments of hedging instruments in hedging cash flows	Statutory reserves	Retained profit /loss	Retained profit /loss
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Equity, 1 January 2013	612,889	0	55,433	6,321	0	323,369	998,012
Comprehensive income for the period				-6,321		-442,098	-448,419
Additions relating to sale of own equity securities						45,505	45,505
Disposals relating to purchase of own equity securities						-45,534	-45,534
Capital reduction	-551,600				551,600		0
Shares issued upon conversion of hybrid capital	24,693	313,846					338,539
Costs related to capital increase		-1,084					-1,084
Transferred to retained earnings		-312,762				312,762	0
Equity, 31 December 2013	85,982	0	55,433	0	551,600	194,004	887,019

	Share capital	Share premium	Revaluation reserves	Accumulated value adjustments of hedging instruments in hedging cash flows	Statutory reserves	Retained profit /loss	Retained profit /loss
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Equity, 1 January 2012	125,000	0	30,848	-11,814	0	1,549,497	1,693,531
Correction, capital injection in BEC						24,315	24,315
Equity at 1 January 2012, corrected	125,000	0	30,848	-11,814	0	1,573,812	1,717,846
Comprehensive income for the period			24,585	18,135		-1,451,261	-1,408,541
Additions relating to sale of own equity securities						53,190	53,190
Disposals relating to purchase of own equity securities						-52,962	-52,962
Shares issued upon conversion of hybrid capital	141,780	154,540					296,320
Shares issued upon merger	39,664					57,008	96,672
Capital injection from issue of shares	306,445	12,258					318,703
Costs related to capital increase		-23,216					-23,216
Transferred to retained earnings		-143,582				143,582	0
Equity, 31 December 2012	612,889	0	55,433	6,321	0	323,369	998,012

Financial Statements
Notes

Oversigt over noter til årsregnskab

Note

1 **Accounting policies**

General remarks

vestjyskBANK's annual report is presented in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's executive order on financial reporting for credit institutions and investment companies, et al. as well as the disclosure requirements for listed enterprises issued by NASDAQ OMX Copenhagen A/S.

The Bank has not prepared consolidated financial statements for 2013 because its subsidiary Center Finansiering A/S was wound up on 30 September 2013. As a result of this, the Bank no longer prepares its financial statements in compliance with the policies set out in the International Financial Reporting Standards (IFRS).

The Bank has not previously included its accumulated surplus in its data centre BEC and has therefore made a minor correction to its 2013 financial statements. The Bank's share of this was recognised in 2013 and the comparative figures have been restated.

The changes have increased the Bank's equity by DKK 24 million and improved its solvency from 10.9% to 11.2% at 31 December 2012. The change has not had any significant impact on operations.

Section 38a of the Danish Executive order on the presentation of financial statements contains a new provision on general policies for the measurement of fair value. It replaces sections 47–48, which solely described the measurement of fair value in relation to financial instruments. This change has not had any material impact on the Bank's results and equity.

Similarly, in section 68(2) of the Danish executive order on the presentation of financial statements, a new provision has been introduced that state that changes in pension liabilities that result from a remeasurement of the size of the net liability must be recognised under other comprehensive income. The change has not had any impact on equity and total comprehensive income, since the change only resulted in a reallocation from income to other comprehensive income. The comparative figures have been restated accordingly.

Apart from those changes, the accounting policies remain unchanged in relation to the 2012 Annual Report.

Recognition and Measurement

Assets are recognised in the balance sheet when it is deemed likely that—as a result of past events—future economic benefits will accrue to the Bank and that the value of the assets can be reliably measured.

Liabilities are recognised in the statement of financial position once the Bank has a legal or constructive commitment as a result of past events and where it is deemed likely that future economic benefits will flow from the company and that the value of the liability can be reliably measured.

At initial recognition, assets and liabilities are measured at fair value. However, property, plant and equipment are measured at cost upon initial recognition. Measurement upon initial recognition occurs as specified for each individual accounting item.

Foreseeable losses and risks arising before the presentation of the annual report and which confirm or disprove matters arising on or before the reporting date are taken into consideration upon recognition and measurement.

Income is recognised in the statement of income as it is earned while costs are recognised at the amounts that pertain to the reporting period. However, increases in value from owner-occupied properties are recognised directly in equity.

Financial instruments are recognised on the day they are settled.

Segment information is not provided since neither the activities nor geographic markets differ substantially from one another.

Financial Statements
Notes

Accounting estimates and assessments

Determining the carrying amount of certain assets and liabilities involves estimating how future events will affect the value of the assets and liabilities at the reporting date.

The estimates and assessments applied by management are based on assumptions that it considers reasonable, but which by their nature are uncertain and unpredictable. Such assumptions may be incomplete or inexact, and unexpected future events or circumstances may arise. This makes it intrinsically difficult to make estimates and assessments; and when such estimates and assessments furthermore involve customer relationships and other counterparties, they will involve an additional degree of uncertainty. The need may arise to restate previous estimates because of changes in the underlying conditions for the previous estimates, or because new knowledge has come to light or subsequent events have occurred.

The principles for making accounting estimates and assessment material to presenting the accounts include, among other things, assessments related to:

- impairments of loans and advances and provisions for guarantees;
- the fair value of investment properties and restated value of owner-occupied properties
- the fair value of financial instruments,
- deferred tax assets, and
- whether or not debt securities are traded in an active market.

Impairment of loans and advances and provisions for guarantees

Impairment testing of individual loans and advances involves estimates relating to conditions about which there is a high degree of uncertainty. The assessment entails estimating the most likely future cash flow that the customer will be able to generate.

Loans and advances for which there is no objective indication of impairment are included in a group for which it is assessed at portfolio level whether there is any need for impairment.

An important aspect of testing for impairment of a group of loans and advances is identifying events that indicate objectively that the group has incurred losses. The assessment of the fair value of the cash flows generated by the customers in the group entails a degree of uncertainty when historical data and experience-based assessments are applied in connection with adjusting the assumptions based on the historical data and in order to reflect the current situation.

Assessment by group is performed for groups of loans and receivables that possess uniform credit risk characteristics. There are 11 groups: one for public authorities, one for retail clients, and nine for business and corporate clients whereby business and corporate clients are segmented by industry.

Furthermore, estimates related to provisions for guarantees are associated with uncertainty when establishing the extent to which payments should be made for the relevant guarantee.

If, at the reporting date, the Bank is aware that an event has occurred that will either weaken or strengthen future payment performance, and which the models have not taken into account, Management will correct for this by making a qualified estimate.

Factors with the most influence on the assessment of impairment and provision needs are

- Continued weak economic climate.
- A deteriorating earnings capacity within certain branches of agriculture, especially milk production as well as negative trends in the terms of trade for feed expenses and settlement prices. This deterioration of many farmers' operating results often occurs in the context of a negative consolidation throughout several years.
- The real estate market is still exhibiting sluggishness in terms of the turnover of letting and housing properties. Parts of the market are nearly frozen solid and price formation is extremely unfavourable for owners and lenders.
- Many commercial properties are affected by long periods of idleness in letting.

The amount of loan and guarantee impairments is specified in Note 10.

The fair value of investment properties and restated value of owner-occupied properties
Investment properties at fair value and owner-occupied properties at restated value. The uncertainty related to the measurement is primarily linked to the rate of return used in the valuation.

The carrying amount of investment property and Owner-occupied property is specified in Note 18 and 19.

Fair value of financial instruments
vestjyskBANK measures a number of financial instruments at fair value, including all derivative financial instruments, as well as equity and debt securities.

Assessments are made in connection with establishing the fair value of financial instruments in respect of the following areas:

- choice of valuation method,
- determination of when available listed prices do not represent the fair value,
- calculation of fair value adjustments to take account of relevant risk factors such as credit and liquidity risk,
- assessment of which market parameters should be observed, and
- estimate of future cash flows and rate of return requirements for unlisted equity securities.

As part of its operations, vestjyskBANK has acquired strategic equity interests. These are measured at fair value based on available information about trading in the relevant enterprise's equity interests or, alternatively, a valuation model based on accepted and current market data, including a valuation of expected financial performance and cash flows. The valuation will similarly be influenced by ownership, trading and shareholder agreements, etc.

The carrying amount of securities measured at fair value is specified in Note 33.

Deferred tax assets
Deferred tax assets relating to unused tax credits are included to the extent it is considered likely that, in the near future, a tax profit will be realised in which the losses can be off-set.

Assessment relating to whether or not debt securities are traded in an active market
Some debt securities listed on NASDAQ OMX Copenhagen are attributed to the category 'Loans and receivables.' The assessment is that trading in the relevant debt securities is so insignificant in volume and scope that the market cannot be characterised as active; the conditions for attributing the debt securities to the category 'Loans and receivables' have therefore been met.

Specification of applied accounting policies

Translation of foreign currencies
Upon initial recognition, transactions in foreign currencies are translated at the actual rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled on the reporting date are translated at their rate at the reporting date. Exchange differences between the transaction date rate and the rate at the date of the cash flow, respectively the closing rate, are recognised in the Statement of Income as currency translation adjustment.

Determination of fair value for measurement and disclosure
Derivative financial instruments as well as unsettled spot transactions are recognised and measured at fair value which, as a rule, is based on listed market prices. To the extent that these are unlisted instruments, fair value is determined using generally accepted principles based on arm's-length parameters.

Debt securities traded in regulated markets are measured at fair value. The fair value is determined using the most recent observable market price at the reporting date.

Equity securities traded in regulated markets are measured at fair value. The fair value is determined using the most recent observable market price at the reporting date.

Unlisted equity securities in enterprises held jointly by the Bank with a number of other financial institutions are valued at fair value. If no current market data are available, fair value will be established on the basis of the enterprises' most recent presented and adopted accounts as well as taking into consideration shareholder agreements.

For loans with variable interest rates, write-downs relating to impairment are, in principle, assumed to correspond to the fair value of the credit risk with the following corrections:

Credit margin changes for a given risk are taken into account by correcting for the difference between the current credit premium and the credit premium that would be required if a given loan was granted at the reporting date.

Fixed-rate loans not subject to hedge accounting are also adjusted by the change in value that arises because of the difference between the fixed interest rate and the current market rate.

Fair value of debt securities in issue traded in an active market is determined at fair value as a ratio of the most recent observable market price at the reporting date. The fair value of debt securities in issue and subordinated debt not traded in an active market is determined based on the terms that would have applied if the loan in question had been made at the reporting date.

Hedge accounting
The Bank applies the special rules on hedge accounting to avoid the inconsistency of having certain financial assets or financial liabilities measured at amortised cost. However, derivative financial instruments are measured at fair value if the conditions relating to documentation and efficiency are met. The hedging relationship is established for the following items: Fixed-rate loans, foreign currency loans and fixed-rate deposits. In hedging the fair value of fixed rate assets and liabilities, hedged items will be regulated at their fair value for the hedged risk.

For hedging of future cash flows, value adjustments of the hedging instruments are recognised in other comprehensive income and classified as a separate reserve under equity. They are reversed to the statement of income as the hedged items affect the results.

Hedging is performed using options, forward contracts, swaps and caps.

Statement of Income and Statement of Comprehensive Income
Interest, fees and commissions
Interest income and interest expenses are recognised in the Statement of Income for the period to which they pertain. Commissions and fees that are integrated parts of the effective interest on a loan are recognised as part of amortised cost.

Interest income from loans impaired in part or in full is recognised under interest income only with the calculated effective interest on the loan's impaired value. Any additional interest income is recognised under the item 'Impairments of loans and receivables, etc.' Commissions and fees that form part of an annuity are accrued over the term of the annuity.

Other fees are recognised in the Statement of Income at the transaction date.

Other operating income
Other operating income contains items of a secondary nature in relation to the Bank's activities, including gains and losses relating to the sale of acquired, investment and owner-occupied property.

Gains and losses relating to sales are determined as the sale price, less selling expenses and the carrying amount at the time of sale.

Personnel and administrative expenses
Staff costs comprise employee salaries and social security costs, pension plans, etc. Costs of goods and services provided to employees, including anniversary bonuses, are recognised as the employees perform the services that entitle them to the goods and services in question.

The majority of employees have entered into defined contribution plans. Under defined contribution plans, fixed contributions are made to an independent pension fund. The Bank is not required to make any additional contributions.

Other operating expenses
Other operating expenses contain items of a secondary nature in relation to the Bank's activities, including contributions to the current guarantee provision relating to the Danish Government-Backed Deposit Guarantee Scheme (Statsgarantiordningen).

Tax

Tax for the year, consisting of the year's current tax and changes in deferred tax, is recognised in the Statement of Income as the part that can be attributed to the income for the year, and directly to other comprehensive income, respectively equity, at the part that can be attributed thereto.

Current tax liabilities, respectively, current tax receivables are recognized in the Statement of Financial Position as calculated tax on the taxable income for the year adjusted for tax paid on account.

Deferred tax is recognised for all temporary differences between carrying amounts and the taxable values of assets and liabilities, apart from goodwill and temporary differences that arise in connection with acquiring assets or assuming liabilities which, at the time of acquisition, affect neither the taxable income nor the result.

Deferred tax is recognised as a liability in the Statement of Financial Position under 'Deferred tax liabilities' or recognised as an asset under 'Deferred tax assets,' if the net value is an asset and it is considered likely that the tax asset will be realised.

Statement of financial position

Financial assets in general

The purchase and sale of financial assets are recognised at fair value at the settlement date. From the trade date to the settlement date, changes are included in the fair value of the financial instrument that has not been settled.

Transaction costs are added upon initial recognition of financial assets not subsequently measured at fair value in the Statement of Income.

Financial assets are not reclassified after initial recognition.

Financial assets are measured at fair value with recognition of fair value changes in the Statement of Income.

Loans and receivables are measured at amortised cost, which usually corresponds to their nominal value less opening fees constituting part of the effective interest rate and impairments to cover incurred but not yet realised losses.

Cash in hand and demand deposits with central banks

Cash in hand and demand deposits comprise the Bank's holdings of domestic and foreign currency notes and coins, as well as demand deposits in central banks.

Amounts receivable from credit institutions and central banks

Amounts receivable from credit institutions and central banks comprise amounts receivable with other credit institutions as well as term deposits in central banks.

Loans and other receivables

Loans and other amounts receivable comprise loans to customers and certain debt securities not traded in an active market.

Impairment of loans and amounts receivable, as well as provisions against guarantees and unused credit commitments, are performed both individually and on a group basis. Impairments to losses are performed when there is objective indication of impairment.

For individual impairments, objective indication exists, at a minimum, once one or more of the following events have occurred:

- Borrower is in major financial difficulties
- Borrower is in breach of contract, for example, by failing to perform payment obligations for payment of principal and interest
- Borrower has been granted relief from conditions that would otherwise not have been considered if it were not because of borrower's financial difficulties, or if it is likely that the borrower will enter bankruptcy proceedings or is made subject to other financial reorganisation

Impairment is performed as the difference between the carrying amount before impairment and the present value of the expected future payments on the loan. Expected future payments are determined based on probability-weighted scenarios performed on the debtor's ability to pay, realisation of collateral as well as any dividends. The loan's effective interest rate is applied as the discount rate.

Loans not individually impaired are included in the impairments by group.

Loans and amounts receivable not individually impaired are assessed by group to determine whether an objective indication for impairment of the group exists.

The assessment by group is performed using a segmentation model developed by the industry organisation Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter). This organisation is responsible for the ongoing maintenance and development of the model. The segmentation model establishes cohesion within the individual groups between established losses and a number of significant explanatory macroeconomic variables using linear regression analysis. The explanatory macroeconomic variables include such factors as unemployment, home prices, interest, number of bankruptcies/enforced sales, etc.

In principle, the macroeconomic segmentation model is calculated based on loss data for the entire financial institution sector. vestjyskBANK has therefore made an assessment of the extent to which the model estimates reflect the credit risk for vestjyskBANK's own loan portfolio.

This assessment has resulted in model estimate adjustments to fit the Bank's own conditions, after which it is the adjusted estimates that form the basis for calculating the impairments in groups. For each group of loans and amounts receivable, an estimate is drawn up that expresses the percentage impairment relating to a given group of loans and amounts receivable at the reporting date. The individual loan's contribution to the impairment by group is arrived at by comparing the individual loan's original loss risk and the loan's loss risk at the beginning of the current reporting period. The impairment is calculated as the difference between the carrying amount and the discount to net present value of the expected future payments adjusted for management estimates.

Provisions against losses on guarantees as well as provisions against losses on unutilised credit commitments are recognised under provisions.

Equity

Equity securities comprise shares traded in active markets as well as unlisted shares in enterprises held by the Bank jointly with a number of other financial institutions.

Debt securities

This item comprises bonds traded in an active market.

Pooled pension funds

Assets included in pooled pension funds and customers' deposits in pooled pension funds are presented under separate items in the Statement of Financial Position. Returns on pooled assets and deposits are presented jointly under value adjustments.

Land and buildings

Investment property is property principally held to earn rental income and/or capital gains.

Investment property is recognised upon acquisition at cost and subsequently measured at fair value. Adjustment of fair value as well as rental income is recognised in the Statement of Income under, respectively, 'Value adjustments' and 'Other operating income.'

The fair value of investment property is determined on the basis of a systematic assessment based on the property's expected return as the method is assessed to reflect how similar property is valued in the market. Such property is not depreciated.

An assessment of the carrying amounts is obtained from external experts periodically.

Owner-occupied property is property the Bank utilises for administration, branches or other service activities.

Owner-occupied properties are measured at their revalued amounts, which is the fair value at the date of revaluation less subsequent accumulated depreciations and impairment charges. The revalued value constitutes the depreciation basis. Revaluation to an amount that exceeds the cost less accumulated depreciations is recognised under other comprehensive income and is bound under revaluation reserves in equity. Revaluation to an amount lower than the cost less accumulated depreciations is recognised in the statement of income.

Intangible assets
Intangible assets concern the value of customer relationships acquired in connection with the acquisition of Bonusbanken.

The value of acquired customer relationships is measured at cost less accumulated depreciation and impairment. The value of the acquired customer relationships is depreciated on a straight-line basis over the expected life, which is 10 years.

Other tangible assets
Other tangible assets are measured at cost less accumulated depreciation and impairments. Depreciations are performed on a straight-line basis based on the following assessment of the other assets' useful lives:

- IT equipment 2–3 years;
- Machinery, tools and equipment 3 years;
- Automobiles 3–4 years

Other tangible assets are assessed for impairment need when there is indication of impairment.

Other assets
This item comprises assets not placed under other asset items, among others, positive market values of spot transactions and derivative financial instruments, as well as interest receivable.

Financial liabilities
Financial liabilities are recognised at the settlement date at fair value. Transaction costs are deducted upon initial recognition of financial liabilities not subsequently measured at fair value.

Other liabilities
This item comprises liabilities not included under other liability items and comprises, among others, negative market values of spot transactions, derivative financial instruments and interest payable.

Amounts owed to credit institutions and central banks/deposits
Amounts owed to credit institutions and central banks as well as deposits are valued at amortised cost.

Subordinate dept/debt securities in issue
When recognising subordinate debt/debt securities in issue, embedded derivatives are treated as independent derivatives.

Offsetting financial assets and liabilities
Financial assets and liabilities are presented as offset, provided offsetting is legally sanctioned and the Bank intends to offset or sell the asset and the liability simultaneously.

Own equity securities
Purchase and disposal considerations as well as dividends from own equity securities are recognised directly as retained earnings under equity.

Note

2 **Uncertainty, capital structure and going concern**

It has turned out that the Bank, in periods with a favourable economic climate, was insufficiently focused on the prevention of risks and on incorporating precautionary principles that could have created a certain ballast that would have mitigated the consequences of the current financial challenges. This has increased the Bank's sensitivity. At the same time, the Bank's previous growth strategy was too dependent on a capital base whose structure carried a relatively high level of interest expenditures. The absence of patient and non-interest bearing core capital has impeded longer term strategic manoeuvres.

Uncertainties Relating to Recognition or Measurements

The biggest uncertainties related to recognition and measurements are associated with impairments on loans and provisions against guarantees. Additionally, there are uncertainties related to the valuation of the Bank's headquarters and investment properties, acquired assets as well as financial instruments.
In 2013, there were efforts to ensure that the Bank's credit policy and its business processes and internal procedures were sufficient to ensure the correct credit treatment of the Bank's commitments for the purpose of assessing and calculating any impairment need in a timely fashion. In the opinion of Management, the assessments in calculating the impairment need at 31 December 2013 reflect the Danish Financial Supervisory Authority guidelines as well as the risk of losses related to the current economic climate. Management is aware that the Bank's has a relative large number of customers with signs of weakness and customers with impairments, and impairments on loans and provisions against guarantees are therefore associated with significant uncertainty. In the event, the economic climate deteriorates further, especially within the agricultural and real estate sectors, it might have a significant negative impact on the Bank's operating results and financial position as well as create uncertainty relating to its ability to continue as a going concern.

Capital Structure and going Concern

The assumption at the time the accounts are presented as they relate to the Bank's going concern is that the Bank will have sufficient capital resources to cover its future need for capital.

The Bank's capital base is recognised in accordance with the Danish Financial Business Act, and at 31 December 2013 it totalled DKK 2,291 million, less deductions. Weighted items totalled DKK 20,335 million, which meant that the Bank's solvency ratio—recognised under sec 124(2) of the Danish Financial Business Act—stood at 11.3%. The solvency need at 31 December 2013 stood at 10.9%, which means that the solvency surplus was at 0.4 percentage points or DKK 67 million.

The capital surplus is deemed to be tenuous and it is Management's assessment that there will be a need for a future strengthening, in order to reduce the Bank's vulnerability to future losses as well as changes to the capital rules as a result of the implementation of CRD IV rules, which are expected to be implemented on 31 March 2014. The effect of this is presently assessed—without further measures—to be negative at 1.5–2 percentage points.

In the event the solvency need remains unchanged and without additional measures, there would be a solvency shortage at around 1.0–1.5 percentage points in relation to the individual solvency need, which would trigger the need for a restructuring plan. There will still be a surplus in relation to the 8%-requirement, even though it will be limited in size.
Based on expected unchanged economic conditions, it is assessed to be realistic for the impairment need to be absorbed by core earnings. Management expects to be able to realise core results before impairments at around DKK 450–500 million.

Note

2 **Uncertainty, capital structure and going concern (continued)**

The strengthening of the Bank's solvency ratio is a key focus area. As described on page 21 in the Management's Review section "Structural Measures," Management is working with various options to strengthen the Bank's capital base. The full or partial success of the model described here will be critical to the Bank's capacity to meet the new CRD IV rules' anticipated capital requirements across all the areas. In the Bank's assessment, the structural measures will have the potential to improve its solvency by about 2–3 percentage points.

In the event Management's expected core earnings as well as significantly lower impairments are not materially realised, or in the event major, unexpected negative events arise—in conjunction with a failure to execute measures to strengthen the Bank's capital structure, this might—ultimately—mean that the Bank forfeits its permission to operate as a bank or be forced to wind down with a related negative impact on the Bank's results, financial position and as a going concern.

EU Commission

On 25 April 2012, the EU Commission issued a provisional decision relating to the approval of government support for parts of vestjyskBANK's capital plan, including the provision of new individual government guarantees. Final approval is conditional upon the Bank's submission of a restructuring plan to the Commission for subsequent approval. The process is taking place in close cooperation with the Danish State but final approval has not yet been issued. Based on the studies of possible structural measures, the process has been put on hold temporarily, but the dialogue related to conditions for final approval is expected to be resumed in the near future. The importance of settling the issue of final approval is highlighted by the fact that, ultimately, the Bank may find itself in situation where the question regarding the potential repayment of government subsidy might become relevant.

Note		2013 TDKK	2012 TDKK
3	**Interest income**		
	Amounts receivable from credit institutions and central banks	3,647	7,982
	Loans and other receivables	1,257,611	1,485,889
	Debt securities	36,036	78,400
	Other interest income	434	285
	Derivative financial instruments	35,840	46,590
	Interest income, total	1,333,568	1,619,146
	This amount includes interest income from actual purchase and resale transactions recognised under		
	Amounts receivable from credit institutions and central banks	0	16

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Notes

Note		2013 TDKK	2012 TDKK
4	**Interest expenses**		
	Credit institutions and central banks	59,113	24,871
	Deposits and other debt	280,507	308,184
	Debt securities in issue	50,526	192,955
	Subordinated debt	130,157	201,044
	Other interest expenses	15	78
	Total	520,318	727,132
	This amount includes interest expenses Actual sales and repurchase transactions recognised under Credit institutions and central banks	30	10
5	**Income from fees and commissions**		
	Securities trading and custody	83,510	70,738
	Money transmission services	45,279	47,048
	Loan processing fees	86,497	89,910
	Guarantee commission	57,704	83,419
	Other fees and commissions	19,873	20,912
	Total	292,863	312,027
6	**Market value adjustments**		
	Debt securities	29,162	29,810
	Equity securities etc.	20,998	22,812
	Investment property	-1,712	0
	Exchange rate adjustment, total	14,387	23,089
	Derivative financial instruments	-3,317	3,213
	Assets related to pooled fund schemes	166,640	150,279
	Deposits with pooled fund schemes	-166,640	-150,279
	Fair value hedged lending	-9,690	4,040
	Fair value hedged borrowing	12,942	-12,757
	Gain from repayment of liabilities measured at amortised cost	63,651	23,985
	Total	126,421	94,192
7	**Other operating income**		
	Gains on disposal of operating equipment	4,691	619
	Other income	15,390	9,741
	Operation of investment property	-198	-168
	Total	19,883	10,192

Note		2013 TDKK	2012 TDKK
8	**Personnel and administrative expenses**		
	Salaries and remuneration to the Supervisory and Executive Boards	8,013	19,560
	Personnel expenses	325,694	403,272
	Other management expenses	204,968	233,587
	Total	538,675	656,419
	Personnel expenses		
	Wages and salaries	255,957	329,639
	Pensions	35,042	35,155
	Expenses relating to social security contributions, payroll tax etc.	34,695	38,478
	Total	325,694	403,272
	Salaries and remuneration to the Supervisory and Executive Boards and significant risk takers		
	Supervisory Board		
	Fixed remuneration	1,621	1,562
	Total	1,621	1,562
	Number of Supervisory Board members, end of the year	9	8
	Remuneration of the Supervisory Board:		
	Supervisory Board Chairman	300	300
	Deputy Chairman	250	250
	Non-executive members of the Supervisory Board	150	150
	Supplemental remuneration for Chairman of Audit Committee	50	50
	Executive Board		
	Vagn Thorsager, Chief Executive Officer (appointed 1 April 2012)		
	Contractual remuneration	4,101	3,557
	Pension	2	2
	Total	4,103	3,559
	Michael N. Petersen, Managing Director (appointed 1 October 2012)		
	Contractual remuneration	2,042	500
	Pension	247	62
	Total	2,289	562
	Frank Kristensen, Chief Executive Officer (retired on 1 Oct 2011)		
	Contractual remuneration	0	2,559
	Pension	0	514
	Termination benefits, former chief executive officer	0	10,804
	Total	0	13,877
	Executive Board, total		
	Contractual remuneration	6,143	6,616
	Pension	249	578
	Termination benefits	0	10,804
	Executive Board, total	6,392	17,998

Note		2013 TDKK	2012 TDKK
8	**Personnel and administrative expenses (continued)**		
	Value of perquisites	243	282
	With reference to the terms and conditions for participation as set out in the Act on State-Funded Capital Injections into Credit Institutions (Bankpakke II), please note that the calculation of taxable income payments to the Executive Board deducted for tax purposes totalled	3,318	9,140
	No agreements have been executed concerning bonus plans, incentive programmes or similar compensation plans.		
	The Bank is exempt from any and all defined benefit obligations in respect of the departure of members of the Executive Board, whether as a result of age, illness, disability or any other reason.		
	Pension scheme/annual pension:		
	Vagn Thorsager: No pension scheme.		
	Michael N. Petersen: Defined benefit plan through pension fund. vestjyskBANK contributes 12.25% of salary.		
	Other employees with significant influence on the Bank's risk profile		
	Fixed remuneration	12,310	9,089
	Pension	1,481	1,072
	Severance pay	0	4,660
	Total	13,791	14,821
	Number of employees with significant influence on the Bank's risk profile, end of the year	17	15
	Pension scheme:		
	Defined benefit plan through pension fund as well as premium capital pension.		
	Annual pension:		
	vestjyskBANK deposits 12.25% of salaries		
	The above-mentioned is accordance with the Bank's Pay Policy, which is accessible at the Bank's website - please refer to vestjyskbank.dk/paypolicy		
9	**Auditors' fees**		
	Fees for statutory audit of the annual financial statements	2,769	2,413
	Fees for other assurance engagements	390	340
	Fees for other services	4,247	5,186
	Audit fees, total	7,406	7,939
10	**Other operating expenses**		
	Contributions to the Guarantee Fund for Depositors and Investors	46,174	28,292
	Other expenses	2,515	5,373
	Total	48,689	33,665

Note		2013 TDKK	2012 TDKK
11	**Impairments of loans and provisions against guarantees etc.**		
	Individual impairments of loans		
	Individual impairments of loans and other receivables, beginning of the year	3,319,190	2,121,489
	Impairments over the course of the year	1,212,575	1,575,614
	Reversal of impairments performed in prior financial years	-205,937	-70,991
	Other movements	47,709	22,677
	Previously individually impaired, now definitely lost	-722,418	-329,599
	Individual impairments of loans and other receivables, end of the period	3,651,119	3,319,190
	Impact on operations	1,006,638	1,504,623
	Impairments of loans in groups		
	Impairments of loans and other receivables in groups, beginning of the year	36,089	51,304
	Impairments over the course of the year	32,308	9,143
	Reversal of impairments performed in prior financial years	-11,591	-36,372
	Other movements	1,557	12,014
	Impairments of loans and other receivables in groups, end of the period	58,363	36,089
	Impact on operations	20,717	-27,229
	Impairments of loans, total		
	Impairments of loans and other receivables, beginning of the year	3,355,279	2,172,793
	Impairments over the course of the year	1,244,883	1,584,757
	Reversal of impairments performed in prior financial years	-217,528	-107,363
	Other movements	49,266	34,691
	Previously individually impaired, now definitely lost	-722,418	-329,599
	Impairments of loans and other receivables, end of the period	3,709,482	3,355,279
	Impact on operations	1,027,355	1,477,394
	Provisions against losses on guarantees and unused credit commitments		
	Provisions against losses on guarantees and unused credit commitments, beginning of the year	49,839	36,043
	Impairments over the course of the year	4,744	34,841
	Reversal of provisions performed in prior financial years	-43,251	-21,045
	Provisions against losses on guarantees and unused credit commitments, end of the period	11,332	49,839
	Impact on operations	-38,507	13,796
	Accumulated impairment ratio	15.5%	11.6%

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Note		2013 TDKK	2012 TDKK
11	**Impairments of loans and provisions against guarantees etc. (continued)**		
	Amounts receivable for which calculation of interest has stopped, end of the period	2,208,438	2,025,471
	Of which impaired, total	1,587,757	1,395,861
	Amounts receivable for which calculation of interest has stopped, as a percentage of loans before impairments	10.5%	8.4%
	Impairments of/provisions for amounts receivable from credit institutions		
	Impairments of/provisions for amounts receivable from credit institutions, beginning of the year	1,043	1,081
	Impairments/provisions over the course of the period	0	637
	Reversal of impairments performed in prior financial years	-1,043	-675
	Impairments of/provisions for amounts receivable from credit institutions, end of the period	0	1,043
	Impact on operations	-1,043	-38
	Impact on operations, total	987,805	1,491,152
	Lost, where individual impairments/provisions have not been made	105,320	29,444
	Included in previously written-off debts	-19,780	-5,841
	Impairment of loans and guarantee debtors, etc., total	1,073,345	1,514,755
	Interest income on written-down loans is offset in impairments by	73,360	49,266
12	**Tax**		
	Deferred tax	0	-284,750
	Impairment of deferred tax assets	0	588,096
	Total	0	303,346
	Allocated as follows:		
	Tax on income for the year	0	299,408
	Tax on other total comprehensive income	0	3,938
	Total	0	303,346
13	**Amounts receivable from credit institutions and central banks**		
	Amounts receivable at call with central banks	0	0
	Amounts receivable from credit institutions	189,367	456,065
	Total	189,367	456,065
	Broken down by term to maturity		
	On demand	141,672	444,538
	Up to and including 3 months	42,000	0
	Over 3 months and up to and including 1 year	0	3,186
	Over 1 year up to and including 5 years	5,695	8,341
	Total	189,367	456,065

Note		2013 TDKK	2012 TDKK
14	**Loans and other amount receivable broken down by term to maturity**		
	On demand	5,638,374	7,807,616
	Up to and including 3 months	4,319,123	2,588,032
	Over 3 months and including 1 year	1,213,688	1,803,574
	Over 1 year up to and including 5 years	3,574,900	4,410,954
	More than 5 years	2,614,345	4,086,697
	Total	17,360,430	20,696,873
15	**Carrying amount of loans and amounts receivable where there is objective indication of impairment**		
	Loans and amounts receivable before impairments	8,387,864	8,519,937
	Impairments	3,651,119	3,319,190
	Carrying amount	4,736,745	5,200,747
16	**Pooled assets**		
	Cash deposits	91,604	28,352
	Debt securities	595,526	518,208
	Shares, etc.	893,096	704,579
	Other assets	6,099	4,827
	Total	1,586,325	1,255,966
17	**Intangible assets**		
	Goodwill		
	Total acquisition price, beginning of the period	0	96,590
	Addition due to merger with Aarhus Lokalbank	0	111,074
	Total acquisition price, end of the period	0	207,664
	Impairments, beginning of the period	0	0
	Amortisations and impairments for the period	0	207,664
	Impairments, end of the period	0	207,664
	Recognised holding, end of the period	0	0
	Customer relations		
	Total acquisition price, beginning of the period	14,964	14,964
	Total acquisition price, end of the period	14,964	14,964
	Amortisations and impairments, beginning of the period	5,986	4,489
	Amortisations and impairments for the period	1,496	1,497
	Amortisations and impairments, end of the period	7,482	5,986
	Recognised holding, end of the period	7,482	8,978
	Customer relations are derived from the acquisition of Bonusbanken in 2008.		

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Note		2013 TDKK	2012 TDKK
18	**Investment property**		
	Fair value, beginning of the year	1,212	1,492
	Carried forward from owner-occupied property	6,895	2,130
	Disposals during the year	700	2,130
	Fair value adjustment for the year	-1,712	-280
	Fair value, end of the year	5,695	1,212
19	**Owner-occupied property**		
	Revalued amount, 1 Jan	389,258	327,596
	Additions	0	45,917
	Disposals	15,276	2,130
	Depreciations	7,506	6,853
	Changes in value recognised under other comprehensive income	0	24,185
	Changes in value recognised in the Statement of Income	-500	543
	Changes in value, end of the year	365,976	389,258
	External experts were involved in measuring the most significant investment properties and owner-occupied properties.		
20	**Other property, plant and equipment**		
	Cost price		
	Cost price, beginning of the year	35,309	31,908
	Additions during the year	3,257	9,696
	Disposals during the year	11,438	6,295
	Total cost price, end of the year	27,128	35,309
	Depreciations		
	Depreciations, beginning of the year	22,648	19,825
	Depreciations for the year	5,572	7,672
	Depreciations for the year on sold and scrapped assets	881	386
	Reversals for the year of impairment losses for previous years and reversal of the overall depreciation and impairment losses on assets sold or retired from operations during the year.	9,357	5,235
	Total depreciations, end of the year	19,744	22,648
	Carrying amount, end of the year	7,384	12,661
21	**Deferred tax assets/liabilities**		
	Deferred tax, Beginning of the year	0	303,346
	Deferred tax for the year	0	284,750
	Impairment of deferred tax assets, end of the year	0	-588,096
	Deferred tax asset, end of the year	0	0

Note		2013 TDKK	2012 TDKK
22	**Other assets**		
	Positive market value of derivative financial instruments	178,742	648,042
	Interest and commission receivable	46,902	66,242
	Other assets	195,356	200,050
	Other assets, total	421,000	914,334
23	**Amounts owed to credit institutions and central banks broken down by term to maturity**		
	On demand	401,617	650,559
	Up to and including 3 months	0	6,571
	Over 3 months and including 1 year	475,000	0
	Over 1 year up to and including 5 years	4,225,238	3,129,225
	More than 5 years	0	139,669
	Total	5,101,855	3,926,024
24	**Deposits and other debt**		
	On demand	6,794,047	7,197,269
	Redeemable at notice	5,238	16,962
	Term deposits	5,970,614	5,957,699
	Special deposit schemes	3,520,691	3,629,680
	Total	16,290,590	16,801,610
	By term to maturity		
	On demand	7,419,815	7,700,077
	Up to and including 3 months	2,406,593	1,690,614
	Over 3 months and including 1 year	1,651,682	3,261,722
	Over 1 year up to and including 5 years	4,581,203	3,726,961
	More than 5 years	231,297	422,236
	Total	16,290,590	16,801,610
25	**Issued debt securities**		
	by term to maturity		
	Up to and including 3 months	9,252	2,188,135
	Over 3 months and including 1 year	0	4,575,774
	Over 1 year up to and including 5 years	8,761	18,071
	Total	18,013	6,781,980
26	**Other liabilities**		
	Negative market value of derivative financial instruments	76,025	240,395
	Various creditors	130,313	149,225
	Interest and commission payable	119,790	113,419
	Other liabilities	18,696	44,910
	Total	344,824	547,949

Note		2013 TDKK	2012 TDKK
27	**Subordinated debt**		
	Tier 2 capital	743,822	931,511
	The Tier 2 capital falls due between 16 May 2014 and 28 June 2020 with an option of exercising early settlement of the capital until 28 June 2017, subject to the approval of the Danish Financial Supervisory Authority. The capital accrues interest at 2.718–9.500% with a step-up clause after the prepayment date. In 2013, the Bank repaid Tier 2 capital in the nominal amounts of NOK 90 million and DKK 75 million, cf. Company Announcements of 27 February, 3 April and 17 June 2013.		
	Total	743,822	931,511
	Hybrid core capital		
	Hybrid core capital of DKK 100 million	104,936	107,573
	The capital accrues interest at a fixed 4.765%. There is no due date.		
	There is an option of prepayment, subject to the approval of the Danish Financial Supervisory Authority, on 15 November 2015.		
	Hybrid core capital of DKK 75 million	75,000	75,000
	The capital accrues interest at a fixed 5.000%. There is no due date.		
	There is an option of prepayment, subject to the approval of the Danish Financial Supervisory Authority, on 30 June 2016.		
	Hybrid core capital of DKK 50 million	50,000	50,000
	The capital accrues interest at a fixed 5.440%. There is no due date.		
	There is an option of prepayment, subject to the approval of the Danish Financial Supervisory Authority, on 1 May 2016.		
	Hybrid core capital of DKK 862.8 million	874,723	1,184,568
	The capital accrues interest at a fixed 9.943%. There is no due date. The Bank retains the option of prepayment, subject to the approval of the Danish Financial Supervisory Authority, from 25 August 2012 to 24 August 2014 at a price of DKK 100, from 25 August 2014 to 24 August 2015 at a price of 105 and on and after 25 August 2015 at a price of DKK 110.		
	Premiums are recognised and amortised according to their expected repayment date. On 22 October 2013, additional Tier 1 capital of DKK 287.6 million was converted to share capital. On 20 January 2014, additional Tier 1 capital of DKK 575.2 million was converted to share capital.		
	Hybrid core capital of DKK 35.6 million	0	35,402
	On 22 October 2013, the capital was converted to share capital.		
	Total	1,104,659	1,452,543
	Subordinated debt, total	1,848,481	2,384,054
	Charged as an expense under interest expenses Subordinated capital injections		
	Interest expenses	162,579	168,134
	Costs related to payment and incurrence	2,950	1,285
	Market value adjustments, etc.	-35,372	31,625
	Total	130,157	201,044
	Subordinated debt that can be included in the capital base	1,557,543	1,977,319

Note		2013 TDKK	2012 TDKK
28	**Share capital**		
	Share capital, beginning of the year	612,889	125,000
	Shares issued upon conversion of hybrid capital	24,693	141,780
	Shares issued upon merger	0	39,664
	Capital injection from issue of shares	0	306,445
	Capital reduction	-551,600	0
	Total	85,982	612,889
	Number of equity shares	85,981,689 DKK 1 each	61,288,878 DKK 10 each
	Number of own equity securities, beginning of the year		
	Number of own equity securities in 1,000 unit lots	174	185
	Nominal value in DKK 1,000	1,747	1,852
	Percentage of the share capital	0.3%	0.3%
	Additions		
	Purchased own equity securities in 1,000 unit lots	4,211	2,936
	Nominal value in DKK 1,000	4,211	29,361
	Percentage of the share capital	4.9%	4.8%
	Total purchase price in DKK 1,000	45,534	52,962
	Disposals		
	Disposal of own equity securities in 1,000 unit lots	4,209	2,947
	Nominal value in DKK 1,000	4,209	29,466
	Percentage of the share capital	4.9%	4.8%
	Total selling price in DKK 1,000	45,505	53,190
	Number of own equity securities, end of the period		
	Number of own equity securities in 1,000 unit lots	176	174
	Nominal value in DKK 1,000	176	1,747
	Percentage of the share capital	0.2%	0.3%
	The Bank is receiving additional Tier 1 capital and issuing bonds under the individual government guarantee and is therefore not allowed to pay out dividends.		
29	**Contingent liabilities**		
	Financial guarantee contracts	405,861	1,368,854
	Loss guarantees for mortgage loans	1,622,291	1,814,473
	Registration and conversion guarantees	1,429	540,606
	Other contingent liabilities	928,166	1,429,718
	Total	2,957,747	5,153,651
	Other contingent liabilities' include, among other things, performance bonds, delivery guarantees as well as provisions of endemnity in relation to the Guarantee Fund for Depositors and Investors (Indskydergarantifonden) etc.		

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Note		2013 TDKK	2012 TDKK
30	**Other binding agreements**		
	Other liabitlities	30,262	5,179
	Total	30,262	5,179
31	**Capital requirements**		
	Equity excl. profit/loss for the period	887,019	998,012
	Revaluation reserves	-55,433	-55,433
	Intangible assets	-7,482	-8,978
	Deferred capitalised tax assets	0	0
	Other deductions from the core capital	-72,980	-53,739
	Hybrid core capital	443,748	552,736
	Core capital after statutory deductions	1,194,872	1,432,598
	Subordinated loan capital	452,884	524,776
	Revaluation reserves	55,433	55,433
	Hybrid core capital	660,911	899,807
	Capital base before deductions	2,364,100	2,912,614
	Deductions from the capital base	-72,980	-53,739
	Capital base after deductions	2,291,120	2,858,875
	Weighted items, total	20,334,717	25,601,755
	Core capital after statutory deductions as a percentage of weighted items, total	5.9%	5.6%
	Solvency ratio according to sec 124(2) of the Danish Financial Business Act	11.3%	11.2%
	Solvency reguirement according to sec 124(2) of the Danish Financial Business Act	8.0%	8.0%
32	**Security pledged**		
	Credit institutions:		
	Margin accounts pledged as security in relation to financial instruments	42,991	108,158
	Loans:		
	Pledged as security for credit facility with Danmarks Nationalbank		
	Collateral basis	2,037,408	3,208,826
	Collateral value	1,324,315	2,085,737
	Of which pledged	1,324,315	2,085,737
	Debt securities:		
	Pledged as security for credit facility with Danmarks Nationalbank		
	Total nominal value	1,559,384	2,394,206
	Total market value	1,567,832	2,393,649
	Of which pledged	0	915,780

Note		2013 TDKK	2012 TDKK
33	**Related parties**		
	vestjyskBANK's related parties with significant influence comprise The Danish State's, the Bank's Supervisory and Executive Boards, senior executives and relatives of these individuals. Over the course of the year, the Bank has conducted normal trade on arm's-length terms with Kaj Bech A/S, an enterprise wholly owned by Director Anders Bech.		
	Purchases from Kaj Bech A/S	42	255
	Shareholdings of min. 5% of the Bank's share capital (1,000):		
	The Danish State	56,710	32,017
	Financial Stability Company (wholly owned by the Danish State)	1,291	1,291
	Total	58,001	33,308
	The Danish State's percentage interest of the Bank's share capital	67.5%	54.3%
	The Danish State is considered a related party with controlling influence.		
	The Bank has conducted the following transactions with the Danish State:		
	In 2013, hybrid core capital with a principal of DKK 323.1 million was converted to share in the Bank at a nominal value of DKK 24.7 million.		
	Hybrid core capital, cf. Note 26:		
	Principal	862,800	1,150,400
	Interest	9.943%	9.943%
	Principal	0	35,550
	Interest	-	11.111%
	Interest expense for hybrid core capital stood at	112,052	101,724
	Payment guarantee for issued bonds	3,720,000	6,757,073
	Guarantee provision represents	67,015	62,338
	Size of loans, pledges, sureties or guarantees established for members of the institution's		
	Executive Board	100	100
	Supervisory Board	8,972	58,958
	During the course of 2013 no further commitments have been granted to the Supervisory Board		
	All commitments are provided on arm's-length terms.		
	Interest rate:		
	Executive Board	0% *	0% *
	Supervisory Board	3.50%-6.00%	2.825%-6.10% **
	* MasterCard		
	** Secured by corresponding deposits		
	Security pledges established for members of the institution's:		
	Executive Board	0	0
	Supervisory Board	3,296	19,299
	Apart from what is considered normal management remuneration, no transactions have been carried out with related parties during the fiscal year.		

Note

34 **Fair value of financial assets and liabilities**

Financial instruments are measured in the Statement of Financial Position at their fair value or amortised cost.

Fair value is the amount for which a financial asset can be traded or a financial liability settled between parties in an arm's-length transaction. For financial assets and liabilities priced in active markets, fair value is determined on the basis of observed market prices on the reporting date. For financial instruments not priced in active markets, the fair value is computed—to the greatest extent possible—based on generally accepted valuation methods based on observable market data. The valuation is based on non-observable market data only in exceptional cases.

Equity securities etc. and derivative financial instruments have been measured at their fair value in the financial statements so that the recognised values correspond to the fair values.

Impairments of loans and advances are determined to correspond to changes in credit quality. The differential in respect of fair values is calculated as received fees and commissions, interest receivables, which does not fall due until after the end of the financial reporting period, and, for fixed-rate loans, also value adjustments linked to the interest rate level. If the loan portfolio is transferred in full or in part, the fair value will be lowered.
The fair value for amounts receivable from credit institutions and central banks is determined by applying the same method as for loans.

Debt securities in issue and subordinated debt are measured at amortised cost. The difference between the carrying amount and the fair value is determined to be interest payable that does not fall due until after the end of the financial reporting period as well as costs and premiums amortised over the life of the loan and, for fixed-rate debt securities in issue, also market value adjustments linked to the interest rate level.

For floating-rate financial liabilities in the form of deposits and debt to credit institutions measured at amortised cost, the differential in respect of fair values is estimated to be interest payable that does not fall due until after the end of the financial reporting period.

For fixed-rate financial liabilities in the form of deposits and debt to credit institutions measured at amortised cost, the differential in respect of fair values is estimated to be interest payable that does not fall due until after the end of the financial reporting period and the market value adjustments linked to the interest rate level.

For financial instruments measured at fair value, the basis for establishing the fair value is stated as:

Level 1: Observable prices in an active market for identical assets and liabilities

Level 2: Valuation model based primarily on observable market data

Level 3: Valuation model that, to a significant degree, is based on non-observable market data. Financial instruments valued on the basis of non-observable market data primarily comprise shares in enterprises in the financial sector, cf. Note 49

Note		2013 Carrying amount TDKK	2013 Fair value TDKK	2012 Carrying amount TDKK	2012 Fair value TDKK
34	**Fair value of financial assets and liabilities (continued)**				
	Financial assets				
	Cash in hand and demand deposits with central banks	1,198,891	1,198,891	1,232,087	1,232,087
	Amounts receivable from credit institutions and central banks	189,367	189,375	456,065	456,137
	Loans	17,360,430	17,376,865	20,696,873	20,713,415
	Debt securities at fair value (Level 1)	4,470,961	4,470,961	7,271,083	7,271,083
	Listed equity securities (Level 1)	18,875	18,875	31,054	31,054
	Unlisted equity securities etc. (Level 3)	459,276	459,276	444,858	444,858
	Assets related to pooled fund schemes	1,586,325	1,586,325	1,255,966	1,255,966
	Derivative financial instruments (Level 2)	178,742	178,742	648,042	648,042
	Total	25,462,867	25,479,310	32,036,028	32,052,642
	Financial liabilities				
	Amounts owed to credit institutions and central banks	5,101,855	5,101,959	3,926,024	3,926,066
	Deposits	16,290,590	16,289,760	16,801,610	16,799,274
	Deposits with pooled fund schemes	1,586,325	1,586,325	1,255,966	1,255,966
	Debt securities in issue	18,013	18,719	6,781,980	6,812,725
	Subordinated debt	1,848,481	1,858,938	2,384,054	2,371,316
	Derivative financial instruments (Level 2)	76,025	76,025	240,395	240,395
	Total	24,921,289	24,931,726	31,390,029	31,405,742
	Changes in financial assets belonging to Level 3:				
	Beginning of the year	444,858		520,366	
	Additions	44,528		56,726	
	Disposals	34,743		130,970	
	Fair value adjustment included in market value adjustments	4,633		-1,264	
	End of the year	459,276		444,858	
	Value adjustment during the course of the period of financial assets in the portfolio totals	19,001		8,612	

35 **Risk conditions and risk management**

vestjyskBANK is exposed to various types of risk. These risks as well as the Bank's policies and goals for managing such risks are described in the Management Review's risk section "Risk Management" and "Credit Risks" on pages 24–26:

Credit Risks, p. 25

Market Risks, p. 24

- Interest Rate Risk, p. 24
- Foreign Exchange Risk, p. 25
- Equity Risk, p. 25

Liquidity Risks, p. 25

Note		2013 TDKK	2012 TDKK
36	**Credit exposure**		
	The Bank's credit exposure is composed of the following assets and items not recognised in the Statement of Financial Position:		
	Amounts receivable from central banks	1,098,903	1,125,999
	Amounts receivable from credit institutions	189,367	457,108
	Debt securities	4,470,961	7,271,083
	Loans	21,069,912	24,052,152
	Items not recognised in the Statement of Financial Position:		
	Financial guarantees	2,031,944	3,195,302
	Non-unconditional credit commitments	5,591,138	5,163,402
	Total	34,452,225	41,265,046
	Of which recognised in the Statement of Financial Position	26,829,143	32,906,342
	Credit institutions		
	The item 'Amounts receivable from central banks' solely pertains to Danmarks Nationalbank. Amounts receivable from credit institutions' pertain to receivables from a number of credit institutions located in Denmark and abroad. Amounts receivable from credit institutions abroad represent a very limited portion.		
	Amounts receivable from individual institutions in excess of DKK 5 million		
	Credit institutions or their subsidiaries rated, at a minimum, A+	60,872	182,288
	Credit institutions or their subsidiaries rated A and lower	69,124	23,461
	Unrated credit institutions or their subsidiaries	46,326	192,000
	Total	176,322	397,749
	Debt securities by rating categories		
	AAA	3,895,937	6,347,343
	AA+ to AA-	0	0
	A+ to A-	81,064	290,883
	BBB+ to BBB-	370,525	619,548
	BB+ and lower	9,516	8,411
	No rating	113,919	4,898
	Total	4,470,961	7,271,083
	Debt securities by issuers		
	Mortgage-credit bonds	4,416,624	6,748,532
	Other debt securities	54,337	522,551
	Total	4,470,961	7,271,083

Note		2013 TDKK	2012 TDKK
36	**Credit exposure (continued)**		
	Loans, Financial Guarantees and Credit Commitments by Industry Segments		
	Public authorities	50,050	27,327
	Business:		
	Agriculture, hunting, forestry and fishery	5,765,523	6,503,158
	Manufacturing industry and raw material extraction	1,248,828	1,265,475
	Energy supply	1,640,372	2,443,506
	Construction and civil engineering contractors	1,029,619	1,095,730
	Trade	2,148,084	2,274,791
	Transportation, hotels and restaurant businesses	1,136,595	1,250,649
	Information and communication	130,919	138,374
	Credit and financing institutes and insurance businesses	1,546,342	1,974,904
	Real estate	5,690,332	6,396,351
	Other business	1,521,879	1,805,010
	Business, total	21,858,493	25,147,948
	Retail	6,784,451	7,235,581
	Total	28,692,994	32,410,856

37 **Collaterals**

The Bank holds a charge on financed asset for most of its business commitments, which is the reason the most common collaterals are mortgages secured in real property, ships, wind turbines, motor vehicles, movable property, securities and floating charges. Owner's sureties and personal insurance also constitute a large share of the collateral held by the Bank. The Bank holds charges in financed assets for most of its retail customer commitments which is the reason the most common collaterals are mortgages secured in real property and in motor vehicles. The Bank continuously performs assessments of pledged collateral. Valuations are porformed on the basis of the fair value of the asset, les the margin for covering costs related to realisation, selling period costs as well as rebates. Some collaterals are assessed for precautionary and practial reasons not to have any value; thus, the figures listed below may not necessarily be taken to represent the collaterals' actual value. The Bank made changes to its assessment of collaterals in 2013 as a result of an improved data baseline.

Note

37 **Collaterals (continued)**

Collaterals distributed by type

2013 TDKK	Charges held in properties and wind turbines	Right of substitution for security provided on property	Charges held in movable property, motor vehicles, operating equipment, ships etc.	Securities	Bank accounts	Other	Total
Public authorities	0	0	0	0	0	0	0
Business:							
Agriculture, hunting, forestry and fishery	2,949,333	85,579	548,980	94,502	51,520	128,499	3,858,413
Manufacturing industry and raw material extraction	74,949	32,484	279,561	1,945	6,371	39,166	434,476
Energy supply	870,357	119,694	78,801	129,710	11,953	10,214	1,220,729
Construction and civil engineering contractors	276,113	56,578	117,562	5,739	7,466	6,266	469,724
Trade	177,864	103,134	509,653	30,497	25,307	19,027	865,482
Transportation, hotels and restaurant businesses	251,558	239,277	154,394	11,125	2,545	17,204	676,103
Information and communication	22,299	2,660	7,117	15,930	409	0	48,415
Credit and financing institutes and insurance businesses	243,589	26,042	2,505	216,734	17,579	81,020	587,469
Real estate	3,142,145	569,751	13,939	197,594	97,440	90,628	4,111,497
Other business	202,308	86,218	113,850	36,248	37,160	6,751	482,535
Business, total	8,210,515	1,321,417	1,826,362	740,024	257,750	398,775	12,754,843
Retail	2,280,878	290,778	198,144	296,752	126,632	60,264	3,253,448
Total	10,491,393	1,612,195	2,024,506	1,036,776	384,382	459,039	16,008,291

Note

37 **Collaterals (continued)**

Collaterals distributed by type

2012 TDKK	Charges held in properties and wind turbines	Right of substitution for security provided on property	Charges held in movable property, motor vehicles, operating equip-ment, ships etc.	Securities	Bank accounts	Other	Total
Public authorities	0	0	0	0	0	0	0
Business:							
Agriculture, hunting, forestry and fishery	1,499,548	44,127	404,123	73,786	24,032	51,038	2,096,654
Manufacturing industry and raw material extraction	59,828	20,690	45,584	2,283	2,666	30,864	161,915
Energy supply	480,321	18,133	64,705	152,799	19,087	324,349	1,059,394
Construction and civil engineering contractors	176,061	52,535	46,028	4,716	16,477	0	295,817
Trade	130,632	63,456	124,663	19,174	35,006	5,612	378,543
Transportation, hotels and restaurant businesses	150,927	199,319	111,377	15,197	4,437	3,816	485,073
Information and communication	14,538	1,926	3,209	17,806	56	408	37,943
Credit and financing institutes and insurance businesses	369,569	47,723	4,611	224,189	12,203	15,986	674,281
Real estate	2,174,015	378,552	14,714	82,949	89,870	62,777	2,802,877
Other business	161,092	64,836	42,961	62,281	48,062	7,261	386,493
Business, total	5,216,531	891,297	861,975	655,180	251,896	502,111	8,378,990
Retail	1,172,302	253,964	209,852	292,362	108,875	45,442	2,082,797
Total	6,388,833	1,145,261	1,071,827	947,542	360,771	547,553	10,461,787

Note		2013 TDKK	2012 TDKK
38	**Credit quality – summary overview**		
	Loans as per Statement of Financial Position	17,360,430	20,696,873
	Impairment of loans, cf. Note 11	3,709,482	3,355,279
	Guarantees as per Statement of Financial Position	2,957,747	5,153,651
	Provisions for guarantees	10,333	43,375
	Loans and guarantee debtors, gross	24,037,992	29,249,178
	Loans and guarantee debtors where impairments/provisions have been made, cf. Note 42	7,456,669	7,494,699
	Loans and guarantee debtors in arrears, cf. Note 41	1,943,384	1,410,250
	Loans and guarantee debtors where impairments/provisions have been made, cf. Note 40	14.637.939	20.344.229
	Loans and guarantee debtors, gross	24,037,992	29,249,178
	Loans and guarantee debtors where impairments/provisions have been made, cf. Note 42	7,456,669	7,494,699
	Impairments of loans, cf. Note 11	3,709,482	3,355,279
	Provisions for guarantees	10,333	43,375
	Loans and guarantee debtors where impairments/provisions have been made	3,736,854	4,096,045
	Loans and guarantee debtors in arrears, cf. Note 41	1,943,384	1,410,250
	Loans and guarantee debtors not in arrears where impairments/provisions have not been made, cf. Note 40	14.637.939	20.344.229
	Risk, net	20,318,177	25,850,524
	Loans, cf. Statement of Financial Position	17,360,430	20,696,873
	Guarantees, cf. Statement of Financial Position	2,957,747	5,153,651
	Loans and guarantees, cf. Statement of Financial Position, total	20,318,177	25,850,524
39	**Loans and guarantees by industry segments**	2013 pct.	2012 pct.
	Public authorities	0%	0%
	Business:		
	Agriculture, hunting, forestry and fishery	19%	18%
	Manufacturing industry and raw material extraction	4%	4%
	Energy supply	7%	10%
	Construction and civil engineering contractors	4%	4%
	Trade	8%	7%
	Transportation, hotels and restaurant businesses	4%	4%
	Information and communication	0%	0%
	Credit and financing institutes and insurance businesses	5%	6%
	Real estate	22%	20%
	Other business	5%	5%
	Business, total	78%	78%
	Retail	22%	22%
	Total	100%	100%

Note

40 **Credit quality of loans and guarantee debtors that are neither in arrears nor for which impairments/provisions have been made**

Loan and guarantee debtors with signs of weakness' refers to loans and guarantee debtors for which individual impairments have not been performed but which display signs of weakness. 'Signs of weakness' refers to conditions that affect the credit risk assessment of the loan negatively. These are loan and guarantee debtors whose credit rating is impaired and therefore closer to being written down.

2013 TDKK	Loan + guarantee debtors with material weaknesses, but without impairments/provisions	Loan + guarantee debtors with slightly impaired credit rating, certain signs of weakness	Loan+ guarantee debtors with normal credit rating	Amortised cost, total
Public authorities	0	0	2	2
Business:				
Agriculture, hunting, forestry and fishery	432,847	551,476	1,280,771	2,265,094
Manufacturing industry and raw material extraction	101,784	148,267	414,906	664,957
Energy supply	22,899	488,798	594,268	1,105,965
Construction and civil engineering contractors	133,926	113,400	248,480	495,806
Trade	310,323	214,340	762,198	1,286,861
Transportation, hotels and restaurant businesses	120,240	151,436	310,064	581,740
Information and communication	12,329	7,178	32,274	51,781
Credit and financing institutes and insurance businesses	193,634	104,819	435,975	734,428
Real estate	864,163	751,999	818,250	2,434,412
Other business	133,027	225,821	505,462	864,310
Business, total	2,325,172	2,757,534	5,402,648	10,485,354
Retail	971,036	656,971	2,524,576	4,152,583
Total	3,296,208	3,414,505	7,927,226	14,637,939

Note

40 **Credit quality of loans and guarantee debtors that are neither in arrears nor for which impairments/provisions have been made (continued)**

2012 TDKK	Loan + guarantee debtors with material weaknesses, but without impairments/provisions	Loan + guarantee debtors with slightly impaired credit rating, certain signs of weakness	Loan+ guarantee debtors with normal credit rating	Amortised cost, total
Public authorities	0	0	26,933	26,933
Business:				
Agriculture, hunting, forestry and fishery	352,867	853,724	1,700,004	2,906,595
Manufacturing industry and raw material extraction	62,257	220,891	583,842	866,990
Energy supply	215,528	283,874	1,811,859	2,311,261
Construction and civil engineering contractors	146,844	198,477	326,810	672,131
Trade	265,022	421,948	848,612	1,535,582
Transportation, hotels and restaurant businesses	275,534	143,238	370,371	789,143
Information and communication	16,189	6,922	38,642	61,753
Credit and financing institutes and insurance businesses	197,319	234,310	528,495	960,124
Real estate	1,114,003	1,358,873	1,122,883	3,595,759
Other business	150,842	337,705	723,219	1,211,766
Business, total	2,796,405	4,059,962	8,054,737	14,911,104
Retail	1,163,105	962,972	3,280,115	5,406,192
Total	3,959,510	5,022,934	11,361,785	20,344,229

Note

41 **Distribution by industry segment of overdue receivables for loans that have not been written down**

2013 TDKK	0-30 days	31-60 days	61-90 days	>90 days	Total
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	31,623	3,787	88	131	35,629
Manufacturing industry and raw material extraction	987	1,201	0	204	2,392
Energy supply	2,396	102	918	0	3,416
Construction and civil engineering contractors	6,426	539	657	0	7,622
Trade	10,513	1,529	1,575	882	14,499
Transportation, hotels and restaurant businesses	3,064	2,199	182	48	5,493
Information and communication	471	77	25	0	573
Credit and financing institutes and insurance businesses	2,512	282	0	57	2,851
Real estate	22,451	910	13,714	115	37,190
Other business	10,613	1,460	747	143	12,963
Business, total	91,056	12,086	17,906	1,580	122,628
Retail	25,375	5,157	1,285	1,005	32,822
Overdue receivables, total	116,431	17,243	19,191	2,585	155,450
Loans in arrears, total	1,764,420	106,357	38,831	33,776	1,943,384

2012 TDKK	0-30 days	31-60 days	61-90 days	>90 days	Total
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	42,771	7,400	408	7,315	57,894
Manufacturing industry and raw material extraction	4,178	828	0	13	5,019
Energy supply	2,379	0	115	0	2,494
Construction and civil engineering contractors	7,817	735	0	28	8,580
Trade	10,845	4,543	781	2,494	18,663
Transportation, hotels and restaurant businesses	5,480	368	637	102	6,587
Information and communication	482	155	3	0	640
Credit and financing institutes and insurance businesses	5,973	926	2	22	6,923
Real estate	17,115	15,015	17	505	32,652
Other business	7,915	1,597	109	4,024	13,645
Business, total	104,955	31,567	2,072	14,503	153,097
Retail	21,215	7,429	1,623	1,350	31,617
Overdue receivables, total	126,170	38,996	3,695	15,853	184,714
Loans in arrears, total	1,044,990	314,337	18,786	32,137	1,410,250

Note		2013 TDKK	2012 TDKK
42	**Distribution of gross loans and guarantee debtors, individually impaired, by cause**		
	Reorganisation/bankruptcy	612,205	477,357
	Rescheduling of debts	13,299	9,359
	Collection	782,683	394,714
	Customer deceased	9,648	8,491
	Relief in terms	2,030,963	1,736,846
	Other causes	4,007,871	4,867,932
	Total	7,456,669	7,494,699

43 **Distribution by industry segment of loan and guarantee debtors, individually impaired**

2013 TDKK	Gross	Loan value of collaterals	Unsecured part before impairment	Impairments/ provisions	Unsecured part after impairment
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	2,354,772	660,912	1,693,860	1,132,641	561,219
Manufacturing industry and raw material extraction	202,374	62,213	140,161	112,324	27,837
Energy supply	161,787	61,109	100,678	53,302	47,376
Construction and civil engineering contractors	272,301	120,844	151,457	119,164	32,293
Trade	327,688	86,069	241,619	209,679	31,940
Transportation, hotels and restaurant businesses	420,532	164,544	255,988	166,486	89,502
Information and communication	18,991	3,946	15,045	5,777	9,268
Credit and financing institutes and insurance businesses	779,535	148,968	630,567	541,050	89,517
Real estate	2,206,514	1,355,389	851,125	855,219	0
Other business	225,426	32,492	192,934	156,810	36,124
Business, total	6,969,920	2,696,486	4,273,434	3,352,452	925,076
Retail	486,749	74,033	412,716	309,999	102,717
Total	7,456,669	2,770,519	4,686,150	3,662,451	1,027,793

43 **Distribution by industry segment of loan and guarantee debtors, individually impaired (continued)**

2012 TDKK	Gross	Loan value of collaterals	Unsecured part before impairment	Impairments/ provisions	Unsecured part after impairment
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	2,644,828	751,066	1,893,762	1,133,697	760,065
Manufacturing industry and raw material extraction	204,563	35,142	169,421	116,766	52,655
Energy supply	66,314	10,870	55,444	15,739	39,705
Construction and civil engineering contractors	264,073	86,953	177,120	124,024	53,096
Trade	273,646	87,430	186,216	134,816	51,400
Transportation, hotels and restaurant businesses	303,872	104,526	199,346	121,705	77,641
Information and communication	9,309	1,143	8,166	5,584	2,582
Credit and financing institutes and insurance businesses	1,060,022	332,520	727,502	583,961	143,541
Real estate	1,985,805	1,086,411	899,394	716,264	183,130
Other business	216,750	33,761	182,989	136,831	46,158
Business, total	7,029,182	2,529,822	4,499,360	3,089,387	1,409,973
Retail	465,517	52,080	413,437	279,641	133,796
Total	7,494,699	2,581,902	4,912,797	3,369,028	1,543,769

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44 **Collaterals for loans and guarantees that have been individually impaired, distributed by type of collateral**

2013 TDKK	Charges held in properties and wind turbines	Right of substitution for security provided on property	Charges held in movable property, motor vehicles, operating equipment, ships etc.	Securities	Bank accounts	Others	Total
Public authorities	0	0	0	0	0	0	0
Business:							
Agriculture, hunting, forestry and fishery	531,645	17,411	68,010	7,248	12,317	24,281	660,912
Manufacturing industry and raw material extraction	6,425	4,316	46,140	10	0	5,322	62,213
Energy supply	53,443	0	0	7,513	153	0	61,109
Construction and civil engineering contractors	96,066	3,147	17,142	205	159	4,125	120,844
Trade	10,007	4,445	69,932	5	347	1,333	86,069
Transportation, hotels and restaurant businesses	72,378	51,563	38,252	2,281	70	0	164,544
Information and communication	0	0	0	3,938	8	0	3,946
Credit and financing institutes and insurance businesses	78,161	2,377	761	57,193	33	10,443	148,968
Real estate	1,182,604	109,154	3,384	10,906	34,513	14,828	1,355,389
Other business	18,476	279	9,127	1,947	68	2,595	32,492
Business, total	2,049,205	192,692	252,748	91,246	47,668	62,927	2,696,486
Retail	48,624	12,944	6,962	1,920	90	3,493	74,033
Total	2,097,829	205,636	259,710	93,166	47,758	66,420	2,770,519

Note

44 **Collaterals for loans and guarantees that have been individually impaired, distributed by type of collateral (continued)**

2012 TDKK	Charges held in properties and wind turbines	Right of substitution for security provided on property	Charges held in movable property, motor vehicles, operating equipment , ships etc.	Securities	Bank accounts	Others	Total
Public authorities	0	0	0	0	0	0	0
Business:							
Agriculture, hunting, forestry and fishery	673,477	15,156	41,272	3,644	3,707	13,810	751,066
Manufacturing industry and raw material extraction	1,061	1,740	28,761	47	283	3,250	35,142
Energy supply	10,068	0	691	0	111	0	10,870
Construction and civil engineering contractors	70,572	4,481	11,225	364	311	0	86,953
Trade	21,537	5,725	60,115	0	53	0	87,430
Transportation, hotels and restaurant businesses	17,545	30,726	45,269	9,748	1,238	0	104,526
Information and communication	779	0	158	1	0	205	1,143
Credit and financing institutes and insurance businesses	240,518	16,300	547	74,586	569	0	332,520
Real estate	885,488	138,734	7,763	20,431	33,495	500	1,086,411
Other business	17,538	0	11,539	1,964	0	2,720	33,761
Business, total	1,938,583	212,862	207,340	110,785	39,767	20,485	2,529,822
Retail	21,211	7,331	6,951	15,375	762	450	52,080
Total	1,959,794	220,193	214,291	126,160	40,529	20,935	2,581,902

Note		2013 TDKK	2012 TDKK
45	**Hedge accounting**		
	For hedging interest rate risk, the following are hedged (fair value hedge):		
	Debt securities	0	209,286
	Hedged with interest rate swaps:		
	Synthetic principal	0	200,000
	Fair value	0	-6,481
	Loans at amortised cost	201,154	258,783
	Hedged with interest rate swaps, maturity 2014-2022		
	Synthetic principal	178,340	224,948
	Fair value	-15,655	-23,000
	Hedged with interest rate caps, maturity 2024:		
	Synthetic principal	7,258	10,748
	Fair value	100	-86
	Deposits	3,756,964	914,693
	Hedged with interest rate swaps, maturity 2014-2016:		
	Synthetic principal	3,750,000	900,000
	Fair value	6,964	14,693
	Issued securities	0	1,682,941
	Hedged with interest rate swaps		
	Synthetic principal	0	1,680,120
	Fair value	0	230,303
	Subordinated debt	606,620	107,573
	Hedged with interest rate swaps, maturity 2015-2020:		
	Synthetic principal	600,000	100,000
	Fair value	6,620	7,573
	Total fair value adjustment of hedging instruments	-3,055	-305
	Total fair value adjustment of the hedged items	3,055	789
	Ineffectiveness recognised in the Statement of Income	0	484
	For hedging foreign currency risk, the following are hedged (fair value hedge):		
	Issued securities	0	3,955,256
	Hedged with interest rate swaps:		
	synthetic principal	0	3,950,931
	fair value	0	10,467
	Value adjustments of these transactions are classified as hedging instruments related to hedging cash flows.		
	Recognised under other comprehensive income	-6,321	18,135
	Recognised under equity	-6,321	18,135

Note

46 **Derivative financial instruments**

Derivative financial instruments are utilised by both the Bank's customers and the Bank to hedge and manage financial risks and positions.

2013 TDKK	Nominal value	Net market value	Positive market value	Negative market value
Foreign exchange contracts				
Up to and including 3 months	3,765,918	93,853	107,364	13,511
Over 3 months and including 1 year	259,923	7,787	8,783	996
Over 1 year up to and including 5 years	29,998	-6	6,442	6,448
More than 5 years	29,477	-3,187	933	4,120
Average market value		101,347	143,310	41,963
Interest-rate contracts				
Up to and including 3 months	1,660,593	232	710	478
Over 3 months and including 1 year	1,210,285	9,276	9,364	88
Over 1 year up to and including 5 years	2,566,387	1,142	16,681	15,539
More than 5 years	614,185	-6,057	27,673	33,730
Average market value		3,771	68,906	65,135
Equity contracts				
Up to and including 3 months	165,016	-144	788	932
Over 3 months and including 1 year	110	-181	3	184
Over 1 year up to and including 5 years	0	0	0	0
More than 5 years	0	0	0	0
Average market value		-566	1,027	1,593

2012 TDKK	Nominal value	Net market value	Positive market value	Negative market value
Foreign exchange contracts				
Up to and including 3 months	5,993,592	482,420	502,800	20,380
Over 3 months and including 1 year	3,838,125	-73,197	40,256	113,453
Over 1 year up to and including 5 years	27,751	-24	9,941	9,965
More than 5 years	58,362	-4,558	0	4,558
Average market value		382,169	506,995	124,826
Interest-rate contracts				
Up to and including 3 months	609,843	568	904	336
Over 3 months and including 1 year	968,680	2,737	6,737	4,000
Over 1 year up to and including 5 years	1,591,317	9,474	39,562	30,088
More than 5 years	527,885	-9,232	47,208	56,440
Average market value		16,425	90,615	74,190
Equity contracts				
Up to and including 3 months	103,331	-428	437	865
Over 3 months and including 1 year	57	-112	197	309
Over 1 year up to and including 5 years	0	0	0	0
More than 5 years	0	0	0	0
Average market value		-710	674	1,384

Note

47 **Interest rate risk**

Interest rate risk is defined as the loss incurred by the Bank in the event of an increase in general interest rate levels of 1 percentage point. Interest rate risk is calculated applying the Financial Supervisory Authority's guidelines.

	2013 TDKK	2012 TDKK
Interest rate risk relating to the Bank's trading portfolio:		
Securities	10,354	22,894
Futures/forward contracts/forward rate agreements	-126	332
Options	0	0
Swaps	90	-7,911
Total	10,318	15,315
Interest rate risk outside the Bank's trading portfolio:		
Amounts receivable from credit institutions	0	6
Loans	18,507	28,841
Debt securities	0	430
Amounts owed to credit institutions	0	-14,042
Deposits	-82,161	-85,244
Debt securities in issue	-89	-270
Subordinated debt	-5,090	-105,103
Total	-68,833	-175,382
Total interest rate risk	-58,515	-160,067
Measured in relation to the core capital, this corresponds to	-4.9%	-11.2%
An increase in the interest rate of 1 percentage point will result in an income and equity exposure before tax of	58,515	160,067
A decline in the interest rate of 1 percentage point will result in an income and equity exposure before tax of	-58,515	-160,067
Interest rate risk for financial instruments measured at fair value		
Up to and including 1 year	-5,408	-16,149
Over 1 year up to and including 2 years	4,754	-14,698
Over 2 years up to and including 3.6 years	-14,810	-23,574
More than 3.6 years	-43,051	-105,646
Total	-58,515	-160,067

Note

48 **Foreign currency risk**

Foreign currency risk is the risk of losses on foreign currency positions as a result of changes in foreign exchange rates. Exchange Rate Indicator 1 expresses a simplified target for the scope of the institution's positions in foreign currency and is calculated - according to the guidelines of the Danish Financial Supervisory Authority - as whichever is the greater of the sum of the foreign currency positions where the Bank has net payables (short currency positions) and the sum of all the currencies where the Bank has a net receivable (long currency positions).

	2013 TDKK	2012 TDKK
Assets in foreign currency, total	2,610,849	3,392,662
Liabilities in foreign currency, total	261,106	7,662,829
Exchange Rate Indicator 1	19,119	23,375
Exchange Rate Indicator 1 as a percentage of core capital (incl. hybrid core capital), less deductions	1.6%	1.6%
The foreign currency position primarily consists of CHF, EUR, GBP, SEK, NOK, USD and TRY.		
A change unfavourable to the Bank in EUR of 2% and other foreign currencies of 10% will result in an income and equity effect before tax of	-1,774	-2,715

49 **Equity risk**

The Bank's equity risk is derived from shares and derivatives in the Bank's investment and trading portfolios.

	2013 TDKK	2012 TDKK
Equity securities etc.		
Shares/unit-denominated certificates listed on NASDAQ OMX Copenhagen A/S	9,035	20,500
Shares/unit-denominated certificates listed on other exchanges	9,839	10,554
Unlisted shares recognised at their fair value	459,277	444,858
Unlisted shares etc. recognised at cost	1,060	34,408
Equity securities etc., total	479,211	510,320
Of which sector shares	455,977	449,507
Sensitivity		
An increase in the share value of 10 percentage points will result in an income and equity exposure before tax of	47,921	51,032
of which sector shares	45,598	44,951
of which other shares	2,323	6,081
A decrease in the share value of 10 percentage points will result in an income and equity exposure before tax of	-47,921	-51,032
of which sector shares	-45,598	-44,951
of which other shares	-2,323	-6,081

Note

50 **Liquidity risk**

Cash resources are established based on ongoing compliance with the Supervisory Diamond subject to a specific long-term stress scenario. The stress scenario is based on stress factors, etc. formulated by the Financial Supervisory Authority. Cash resources consist of cash equivalents, deposits in and credit facilities with Danmarks Nationalbank.

Cash resources	2013 TDKK	2012 TDKK
Demand deposits and uncollateralised certificates of deposit with Danmarks Nationalbank as well as demand deposits and undrawn committed credits with other credit institutions	1,297,595	1,452,511
Cash equivalents	5,038,278	7,115,732
Other secure, readily negotiable and uncollateralised securities and credit instruments	645,891	0
Total	6,981,764	8,568,243
Excess cover in relation to the 10 percent requirement set out in sec 152 of the Danish Financial Business Act	162.2%	144.8%

51 **Contractual terms of financial liabilities**

2013 TDKK	Carrying amount	Contractual cash flows	Before 1 year	1-5 years	After 5 years
Amounts owed to credit institutions and central banks	5,101,855	5,102,045	876,627	4,225,418	0
Deposits and other debt	16,290,590	16,692,365	11,655,186	4,568,960	468,219
Debt securities in issue at amortised cost	18,013	19,153	10,053	9,100	0
Subordinate debt	1,848,481	2,475,999	353,315	1,892,412	230,272
Irrevocable credit commitments and guarantees	2,957,747	2,957,747	2,957,747	0	0
Derivative financial instruments	76,025	163,942	37,858	74,665	51,419

2012 TDKK	Carrying amount	Contractual cash flows	Before 1 year	1-5 years	After 5 years
Amounts owed to credit institutions and central banks	3,926,024	3,926,616	657,130	3,129,489	139,997
Deposits and other debt	16,801,610	17,177,964	13,027,260	3,699,767	450,937
Debt securities in issue at amortised cost	6,781,980	6,817,235	6,798,044	19,191	0
Subordinate debt	2,384,054	3,212,440	170,273	1,675,600	1,366,567
Irrevocable credit commitments and guarantees	5,153,651	5,153,651	5,153,651	0	0
Derivative financial instruments	240,395	360,941	171,356	103,357	86,228

The maturity analysis shows the contractual undiscounted cash flows and includes principal and interest. The distribution by maturity is made on the basis of the earliest point in time an amount can be made payable. Hybrid capital with no maturity date has been listed according to expected life.

Note

52 **Other risks**

Operating risks

The general responsibility for operational risks is based in the The Finance and Risk Management Department.

vestjyskBANK considers its reliance on key employees to be a focus area. There are ongoing efforts to minimise the Bank's reliance on key employees, among other things in the form of written business procedures, centralisation of tasks, and the outsourcing of areas that are not significant to the Bank's competitiveness.
vestjyskBANK is continuously working on policies and contingency plans for physical catastrophes and IT-related disaster recovery. The Bank is a member of Bankernes EDB Central (BEC), which handles the day-to-day operations of its IT systems. The Bank follows the directions and recommendations issued by BEC, and it does not perform any independent IT system development.
The Bank's contingency plans for the IT area cover service interruptions at headquarters and parts of the department network. For interruptions in one or more departments, operations can still take place from the other departments, and in the event of prolonged interruptions at headquarters, vital functions can be carried out from one of the branches. The Bank's contingency plan is reviewed by the Supervisory Board at least once a year.

The operational risk is minimised by ensuring, among other things, that the execution of activities is organisationally separated from the control of such activities.

Capital base risk

The capital base is monitored on an ongoing basis, and the Supervisory Board receives monthly reports based on established guidelines.

Compliance

vestjyskBANK has a compliance function, whose area of responsibility is to monitor compliance with financial legislation. Instructions and an annual plan for this area, approved by the Supervisory Board, have been drawn up.

53 **Pending litigation**

In addition to that, vestjyskBANK is also party to other litigation. The proceedings are evaluated on an ongoing basis, and requisite provisions are made on the basis of a risk assessment of losses.
The pending proceedings are not expected to have significant influence on the Bank's financial position.
Additionally, cf. the Company Announcement of 9 July 2013, charges have been brought against the Bank for market manipulation, which allegedly took place from 22 September to 30 September 2008. vestjyskBANK is also the defendant in legal proceedings related to market manipulation in the former Aarhus Lokalbank A/S, which allegedly took place from 1 September 2009 to 5 February 2010, cf. Company Announcement of 2 January 2013.

54 **Events Since the End of the Fiscal Year**

Please see page 21 of the Management's Review for events after the end of the financial year.

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Note		2013	2012	2011	2010	2009
55	**Key figures and financial ratios**					
	Statement of Income (in MDKK)					
	Net interest income	813	892	846	816	789
	Net fee income	262	279	236	233	225
	Dividends on equity securities etc.	13	5	3	3	7
	Market value adjustments for foreign currency and sector shares	126	94	-19	52	137
	Other operating income	20	10	6	9	66
	Core income	1,234	1,280	1,072	1,113	1,224
	Personnel and administrative expenses	-539	-656	-588	-589	-619
	Other operating expenses as well as depreciation, amortisation and impairment losses; property, plant and equipment as well as intangible assets	-64	-49	-61	-106	-152
	Operating expenses and operating depreciations and amortisations	-603	-705	-649	-695	-771
	Core earnings before impairments	631	575	423	418	453
	Impairment of goodwill	0	-208	0	0	0
	Impairments of loans and receivables etc.	-1,073	-1,515	-984	-408	-537
	Profit/loss before tax	-442	-1,148	-561	10	-84
	Tax	0	299	-136	4	-18
	Profit/loss	-442	-1,447	-425	6	-66
	Statement of Financial Position (in MDKK)					
	Assets, total	26,112	32,773	29,265	33,572	32,829
	Loans	17,360	20,697	21,716	23,468	23,874
	Deposits, including pooled funds	17,877	18,058	15,029	15,564	18,635
	Contingent liabilities	2,958	5,154	4,353	4,485	5,715
	Business volume	38,195	43,909	41,098	43,517	48,224
	Equity	887	998	1,718	2,150	2,140

Note		2013	2012	2011	2010	2009
55	**Key figures and financial ratios (continued)**					
	Solvency					
	Solvency ratio	11.3%	11.2%	12.6%	13.7%	14.8%
	Core capital ratio	5.9%	5.6%	9.3%	11.5%	11.5%
	Earnings					
	Return on equity before tax, annually [1]	-46.9%	-84.5%	-29.0%	0.4%	-3.9%
	Return on equity after tax, annually [1]	-46.9%	-106.6%	-22.0%	0.3%	-3.1%
	Income-cost ratio [2]	0.74	0.53	0.66	1.01	0.94
	Rate of cost [3]	48.9%	55.1%	60.6%	62.5%	63.2%
	Employees converted to full-time (average)	562.9	621.3	614.8	642.1	658.9
	Market risk					
	Interest rate risk [4]	-4.9%	-11.2%	-4.5%	-1.9%	-1.6%
	Foreign currency position [5]	1.6%	1.6%	1.5%	4.7%	3.9%
	Foreign currency risk	0.0%	0.0%	0.0%	0.1%	0.1%
	Excess cover in relation to statutory liquidity requirements [6]	162.2%	144.8%	98.8%	126.7%	125.8%
	Credit risk					
	Loans plus impairments on loans in relation to deposits	117.9%	133.2%	158.9%	160.3%	135.0%
	Loans in relation to equity	19.6	20.7	12.6	10.9	11.2
	Growth in loans for the year [7]	-16.1%	-4.7%	-7.5%	-1.7%	-0.8%
	Total of large commitments [8]	33.5%	44.9%	30.4%	40.5%	37.9%
	Accumulated impairment ratio	15.5%	11.6%	7.8%	5.1%	5.1%
	Impairment ratio for the period	4.5%	5.2%	3.5%	1.4%	1.7%
	vestjyskBANK share					
	Profit/loss for the year per share	-6.0	-39.4	-34.5	0.5	-5.4
	Equity value per share	10.3	16.3	139.5	173.4	175.0
	Price of vestjyskBANK shares, end of the year	9.0	13.0	18.8	68.5	87.0
	Market price / Profit/loss for the year per share	-	-	-	144.2	-
	Market price / equity value per share	0.9	0.8	0.1	0.4	0.5

The results for Aarhus Lokalbank have been recognised in vestjyskBANK's Statement of Income as at 1 April 2012. Assets and liabilities from Aarhus Lokalbank have been recognised in the Statement of Financial Position as at the end of March 2012.

1 Based on average equity.
2 Income from ordinary activities in relation to costs from ordinary activities.
Income from ordinary activities = net interest and fee income + value adjustments + other operating income.
Costs from ordinary activities = operating costs and operating depreciations and impairments + impairment of goodwill + impairment of loans and amounts receivable, etc.
3 Operating costs and operating depreciations and impairments compared with core income.
4 Interest rate risk in relation to core capital, less deductions.
5 Foreign Currency Indicator 1 in relation to core capital, less deductions.
6 Surplus funding in relation to the 10% requirement set out in sec 152 of the Danish Finance Act.
7 Growth in loans measured in relation to vestjyskBANK's loans, beginning of the period.
8 Commitments exceeding 10 percent of the capital base in relation to the capital base
9 The Bank changed the individual denomination of its share from DKK 10 to DKK 1 per share when it reduced its share capital from DKK 612.9 million to DKK 61.3 million, cf. Company Announcement of 25 April 2013.

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