

# vestjysk BANK Annual Report 2007



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#### **vestjyskBANK's Identity**

vestjyskBANK's business strategy is founded on healthy and positive qualities, which have always formed the basis for the activities, growth and development of the Bank. We have formulated a vision, in which we express our business strategy and identity:

- Through healthy growth, vestjyskBANK shall continue to be among the most profitable banks in Denmark and thereby ensure and assert the greatest amount of influence possible with regards to its own development and independence.
- At vestjyskBANK, customers shall be serviced by "whole people" with a common set of underlying values. The Bank as well as its customers shall experience value creation, resulting in mutual loyalty.
- vestjyskBANK is, and shall remain, a modern and value-driven workplace, which attracts and retains competent and committed employees, who possess the necessary professional skills and human qualities.

Furthermore, management and employees of the Bank have jointly formulated three core values:

- PRESENCE
- COMPETENCE
- DYNAMISM

#### **Solid Commitment – A Binding Promise**

In 2005 we formulated vestjyskBANK's promise of **Solid commitment**, based on our core values and vision. The words reflect our objective with regard to our customers as well as ourselves, which is to establish satisfactory financial latitude for our customers and ourselves, so that customers, shareholders and other stakeholders see our promise of **Solid commitment** as both credible and mutual.

We continuously work on our core values as well as our promise, and through internal and external activities we focus on living up to the commitment, we have made through our promise and values. In this way, we raise the profile of the areas, in which we differ from other banks.



# Management's Report

## Thank You to Our Customers...

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Thank you to our customers, shareholders and employees for another truly successful year at vestjyskBANK

### **Continued High Activity Level and High Growth Rates**

2007 turned out to be yet another year with very good results for vestjyskBANK. We have experienced continued high growth in the areas of both retail and corporate banking, and our core income has developed in a highly satisfactory way. Activity has been so high that we have managed to expand the number of our staff by 26. Consequently, we now employ over 450 skilled employees, who, each in their own area, support the Bank's vision of creating solid financial latitude for ourselves and for our customers.

Thus, vestjyskBANK is currently developing in a sound and healthy way, based on the plans drawn up for the Bank's development. The result from ordinary operations shows that our philosophy of sound growth is the right strategy for us and our customers, not least in light of the anxiety that arose in the financial markets in the wake of the subprime crisis in the USA. In the future, we wish to continue our business with a range of classic products, continuously developed and tailored to our customers' needs.

# Management's Report

## Thank You to Our Customers...

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### **Local Commitment**

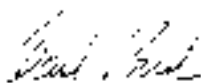
For the past nine years vestjyskBANK has employed a business adviser in Horsens. In the autumn of 2007, we decided to establish an actual branch in Horsens, on the basis of the customer base which we have built up. For this reason, we have recruited a branch manager, and we are now in the process of finding suitable premises and recruiting the necessary staff. This means that in the first half of 2008 we will see vestjyskBANK's characteristic logo displayed in yet another east Jutlandic town.

In January 2007 we opened our new domicile in Herning as well as expanded our branch in Kolding. We had planned to commence the extension of our head office in Lemvig, but different technical issues have meant that we are only just now ready to begin this task.

In 2008 we will refurbish our branches in Struer and Viborg, so their premises will be up-to-date, providing them with the opportunity to create the best settings for COMPASSMEETINGS and other customer meetings. Our branches in Randers and Thisted are also in need of a new physical setup, and several alternatives are being considered.

### **Thank You**

The high activity level in 2007 has yielded satisfactory results. For this we thank our customers and our shareholders as well as our employees, and we look forward to continued efficient and fruitful cooperation.



Frank Kristensen  
*Managing Director*

# Management's Report

## Financial Highlights

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Financial Highlights	2007	2006	2005	2004	2003
<b>Income statement (DKK m)</b>					
Net interest income and fee earnings	616	558	518	468	452
Market value adjustments	23	88	63	66	125
Staff costs and administrative expenses	353	318	295	288	271
Impairment of loans and advances and accounts receivable, etc.	-15	11	35	48	67
Pre-tax profit	291	311	243	187	245
Profit for the year	222	239	178	140	195
Core income <sup>1</sup>	653	622	550	513	545
Costs incl. depreciation and impairment of tangible assets	365	328	309	300	275
<b>Balance sheet (DKK m)</b>					
Loans and advances	14,563	11,531	9,037	7,213	6,338
Deposits	9,174	7,671	7,005	5,903	5,300
Shareholders' equity	1,714	1,656	1,404	1,312	1,179
Total assets	18,513	14,300	11,420	9,086	7,892
Guarantees	5,439	4,609	4,325	3,251	2,762
Business volume	29,176	23,811	20,367	16,367	14,400

<sup>1</sup> Net interest income and fee earnings + market value adjustments of foreign exchange and fixed assets + other operating income



# Management's Report

## Financial Highlights

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Financial Highlights	2007	2006	2005	2004	2003
<b>Key figures (DKK m)</b>					
Solvency ratio <sup>1</sup>	9.1%	11.2%	11.3%	11.7%	13.1%
Core capital ratio <sup>1</sup>	7.3%	9.8%	10.7%	12.3%	13.0%
Return on equity before tax <sup>2</sup>	17.3%	20.3%	17.9%	15.1%	22.0%
Return on equity after tax <sup>2</sup>	13.2%	15.6%	13.1%	11.3%	17.5%
Earnings/costs <sup>3</sup>	1.83	1.92	1.71	1.54	1.72
Cost percentage <sup>4</sup>	56.0%	52.6%	56.2%	58.5%	50.4%
Employees calculated as full-time staff (average)	431.7	405.5	378.9	372.2	358.3
Interest rate risk <sup>5</sup>	2.1%	2.1%	0.9%	1.3%	1.1%
Foreign exchange position <sup>6</sup>	99.6%	3.0%	3.3%	8.2%	5.8%
Foreign exchange risk	0.1%	0.0%	0.0%	0.1%	0.0%
Excess coverage in compliance with statutory liquidity requirements <sup>7</sup>	47.5%	19.4%	31.2%	23.8%	25.0%
Loans and advances plus impairment of these relative to deposits	160.6%	153.0%	132.2%	126.6%	125.2%
Loans and advances relative to shareholders' equity	8.5	7.0	6.4	5.5	5.4
Growth in loans and advances for the year	26.3%	27.6%	25.3%	13.4%	11.8%
Sum of large commitments <sup>8</sup>	125.4%	44.4%	29.7%	10.2%	10.8%
Accumulated impairment percentage	0.9%	1.3%	1.7%	2.7%	3.2%
Impairment percentage for the year	-0.1%	0.1%	0.3%	0.4%	0.7%
Per share of DKK 10:					
Profit per share for the year	26.3	27.8	20.5	15.8	22.2
Equity value per share	207.4	191.1	164.7	148.0	132.3
Dividend per share	5.0	5.0	3.0	3.0	7.5
Price of vestjyskBANK shares at the end of the year	289.9	312.2	256.6	222.5	163.7
Market price/profit per share for the year	11.0	11.2	12.5	14.1	7.4
Market price/equity value per share	1.4	1.6	1.6	1.5	1.2

1 In 2007 calculated in accordance with transitional requirements laid down in the new Executive Order on Capital Adequacy. The comparative financial statements prior to 1 January 2007 have not been restated.

2 On the basis of average shareholders' equity

3 Ordinary income relative to ordinary costs

Ordinary income = net interest income and fee earnings + market value adjustments  
+ other operating income

Ordinary costs = staff costs and administrative expenses + depreciation and impairment of intangible and tangible assets + other operating expenses + impairment of loans and advances and accounts receivable, etc.

4 Costs incl. depreciation and impairment of assets / core income

5 Interest rate risk relative to core capital after deductions

6 Foreign Exchange Indicator 1 relative to core capital after deductions

7 Excess coverage in compliance with the 10% requirement of Section 152 of the Danish Financial Business Act

8 Commitments larger than 10% of the capital base relative to the capital base



## Report

The year 2007 shows a very satisfactory pre-tax profit for vestjyskBANK of DKK 291m, as compared to DKK 311m in 2006. Profit after tax amounts to DKK 222m, compared to DKK 239m in 2006. 2007 did not see income from the sale of sectoral shares or the like. In 2006 we credited DKK 37m as a result of selling our remaining shareholdings in Totalkredit to Nykredit, as well as adjusting the Bank's shareholdings in Sparinvest Holding to market value. Thus, adjusted, the profit is the best to date in the Bank's history.

The positive development is the result of increased activity in all areas: loans and advances, deposits, housing, pensions and investment.

In the autumn of 2007 the entire financial sector throughout the western world was affected by the problems which arose in the US housing market, and the term "subprime loan" became a frequently used expression in the Danish media. vestjyskBANK has not been exposed to subprime loans. One direct consequence of this crisis has been higher prices in the monetary markets, but this has only affected the Bank's earnings in 2007 to a limited extent.

The cost percentage for the year is calculated at 56%, compared to 53% in 2006. The rising costs are primarily due to the expansion of our staff by 26 due to the heavily increased level of activity. The Bank's general objective continues to be a cost percentage of maximum 55%.

At the end of the year the Bank's loans and advances amounted to DKK 14.6bn, its deposits to DKK 9.2bn and its guarantees to DKK 5.4bn. The total business volume had thus increased by DKK 5.4bn, amounting to 23%. This development is due to increased business volume with both new and existing retail and corporate customers.

2007 was a satisfactory year in terms of income from traditional banking activities. The Bank's lending portfolio is of good quality, owing to the Bank's conservative and well-incorporated credit culture. As part of its credit policy the Bank has chosen not to be active in the field of investment credit. Likewise, the Bank has chosen only to finance building projects to a limited extent - e.g. the Bank is not involved in projects in Greater Copenhagen.

As a result of our conservative credit policy, we have little need for impairment and have experienced net reversal of impairment in 2007. Due to this we maintain our objectives in regard to solvency as well as liquidity.

Both the short-term and the long-term bond interest rates have increased in 2007. This has resulted in a debt discount on the Bank's bond holdings. The debt discount is modest, however, in relation to the volume of the holdings.

The global anxiety in stock markets during the last months of the year have affected the Bank's earnings on share holdings adversely, but the total yield has remained steadily positive.

As regards foreign exchange, we have seen a positive development in our business volume and positive market value adjustments.

Altogether, the Bank's market value adjustments have been positive, at DKK 23m, which is highly satisfactory.

At the end of the first half of 2007, vestjyskBANK adjusted the annual result forecast upwards by DKK 30m to DKK 310m. The upward adjustment has not been fully realised, primarily due to the anxiety in securities markets in the last months of the year.

Return on the Bank's average shareholders' equity before tax is 17%. Thus overall, profit for 2007 can be characterised as very satisfactory.

### **Local Commitment**

vestjyskBANK has 17 branches across Western and Central Jutland. Furthermore, we operate a Remote Customer Branch, which caters to retail customers outside the Bank's "home territory".

vestjyskBANK is a full-service bank for retail and corporate customers with the clear objective of creating satisfactory financial latitude for both our customers and ourselves. This objective, coupled with our vision, expresses what we on a day-to-day basis call **Solid commitment**, viewed both from the customer's perspective and our own.

In terms of improvements to the physical setup of our branches, vestjyskBANK seeks to satisfy its customers' demands so that focus is on the customer, regardless of what business he or she might have with the Bank. Our physical presence in local areas is undergoing constant change, as regards actual improvements made to the Bank's branches. In 2007 we refurbished our branch in Holstebro according to a new concept, which will be extended to other branches, if it lives up to our expectations.

### **Business Strategy**

More and more, our customers demand competent advice, which is why the Bank continuously focuses on education and training. In 2007 we carried out a wide series of training activities, we expanded our training department and increased our collaboration with the Financial Sector's Training Centre, so we can continue to maintain the high level of expertise of our employees. vestjyskBANK strives to train all its employees to become specialists, but in many cases we also recruit staff with special cutting-edge skills, when so required. vestjyskBANK has had no problems in attracting qualified staff. We believe that this is the result of the fact that in our recruitment, too, we place emphasis on presence, competence and dynamism.

As a result of vestjyskBANK's continuing focus on the geographical setup of its branches, we are opening a branch in Horsens in March 2008 in order to follow the strategy for sound growth which we have laid down. On the basis of the customer portfolio which has been built up by our local business adviser in this area over the last few years, we now find that the business foundation exists to set up an actual branch.



At vestjyskBANK, we wish to offer our customers products from all the classic business areas within the financial sector. We have therefore set up collaboration agreements with a number of specialists within the fields of payment services, investment, pension, mortgage credit and insurance. This ensures that we can offer some of the best solutions on the market within these fields.

### **Long-term Objectives**

vestjyskBANK has formulated a vision that it, through healthy growth, shall remain one of the most profitable banks in Denmark. It is furthermore a significant objective for the Bank to hold the financial power to withstand any difficulties the economic cycle might pose, and to maintain a strategic preparedness, which can be utilised, should new, attractive business opportunities arise. The purpose of these objectives is to ensure that the bank asserts the greatest amount of influence possible with regards to its own development and maintains its independence.

### **Looking Back at the Year 2007**

#### **Business Activities**

Also in 2007 vestjyskBANK managed to maintain the high level of activity, which has characterised recent years. The net inflow of customers was more than 2%, distributed as 5% more corporate customers and nearly 2% more retail customers. Although we are attracting new retail customers, corporate banking continues to be the segment which makes up the Bank's core business. This may to a large extent be attributed to vestjyskBANK's expertise within selected business areas.

When it comes to financing of the agricultural, fishery and windmill industries, vestjyskBANK's competencies are among the best in the country. In order to maintain and develop our cutting-edge competencies and provide the best possible advice to our customers, we established an actual branch for key customers in 2007. In addition, vestjyskBANK has a high level of expertise within the recreational industry (camp sites, etc.) and healthcare (private hospitals and specialist clinics).

In recent years, vestjyskBANK has placed a particular focus on pension and investment. For this reason, we introduced in 2007 an actual investment service which will focus, to a greater degree than before, on supporting vestjyskBANK's serious advice concept within the field of investment. In November 2007, we implemented the EU Markets in Financial Instruments Directive, popularly known as MiFID. This directive aims to improve conditions and security for retail customers trading in financial instruments and to ensure transparency in the market. In connection with this, many of our customers have received a communiqué from us in the form of new rules for securities trading, new conditions for depositing securities, as well as information about the Bank's policies in this area. In continuation of these activities, we have launched a new concept for asset consulting, which will extend further financial latitude to our customers.



The increased focus on investment has resulted in a 27% growth in total pension contributions from 2006 to 2007.

This means that vestjyskBANK is well positioned for continued strong growth. We have been very busy throughout 2007, indeed, but with joint efforts we have succeeded in showing **Solid commitment** to the advantage of both customers and shareholders.

### Income Statement

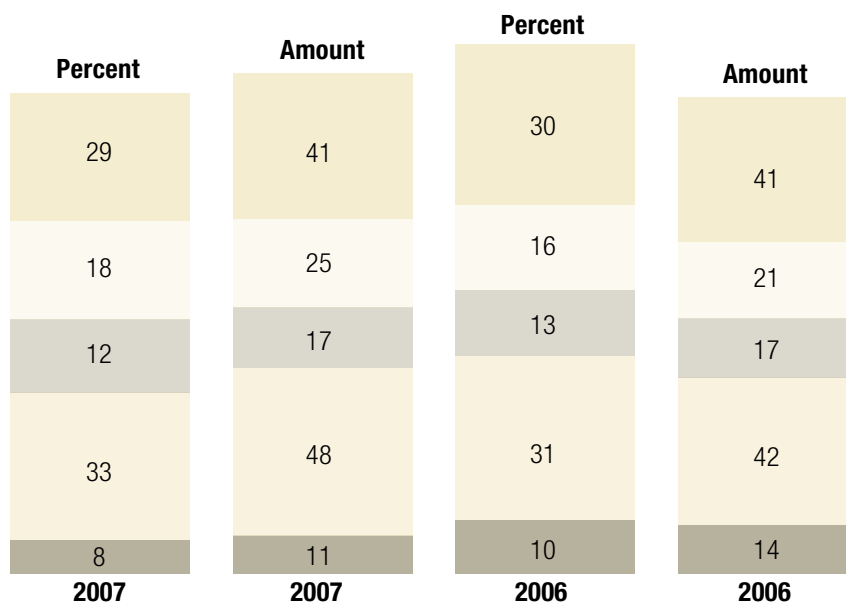
#### Interest and Fees

Again in 2007, total net interest income and fee earnings have developed satisfactorily from a level of DKK 558m in 2006 to DKK 616m in 2007 – an increase of 11%, which partly relates to a continuously increasing business volume and partly to commissions and fees in connection with facilitation of mortgage credit loans, payment services and securities handling.

Fees and commissions amount to DKK 142m in 2007 compared with DKK 135m in 2006 and are distributed as follows:

#### Fees and Commissions (percent and DKK m)

- Securities trading and custody
- Loan processing fees
- Payment services
- Guarantee commission
- Other fees and commissions



### **Market Value Adjustments**

In 2007 market value adjustments of securities and foreign exchange, etc. were realised with an income of DKK 23m against DKK 88m in 2006. There have been positive market value adjustments of shares, foreign exchange and derivative financial instruments to a total of DKK 43m, but as a result of the increasing interest rate, there have been negative market adjustments to bonds and other obligations totalling DKK 20m.

Of the total profits on shares, DKK 17m stem from market value adjustments of equity investments in jointly owned sector companies. In 2006 these market value adjustments amounted to a total of DKK 51m, but were positively impacted by a total of DKK 37m from the sale of shares in Totalkredit and profit generated by changing the method of valuation of the Bank's shareholding in Sparinvest Holding.

### **Costs**

In 2007 the Bank's cost percentage is calculated at 56% against 53% in 2006 - a negative development of 3 percentage points. Total costs including depreciation and impairment of tangible assets have increased by a total of DKK 37m to DKK 365m compared with DKK 328m in 2006 - an increase of just under 11%. The increase in costs is primarily attributable to the expansion in staff by 26 people on the grounds of sharply increased activity. The Bank's long-term objective continues to be a cost percentage of 55%.

### **Impairment of Loans and Advances and Accounts Receivable, etc.**

In 2007 impairment of loans and advances and accounts receivable, etc. has been positive by DKK 15m compared with expenses in 2006 of DKK 11m.

Impairment for the year represents -0.1% of total loans and advances and guarantees at the end of 2007, compared with 0.1% in 2006. Owing to the Bank's credit policy, the quality of our loan portfolio is good. Therefore, the need for impairment has been low, and in 2007 there has been a net reversal of impairment.

### **Shareholders' Equity**

The Board of Directors recommends that the dividend percentage for 2007 remains unchanged at 50, corresponding to a dividend distribution of DKK 43m.

The shareholders' equity prior to dividend payout amounts to DKK 1,714m as of 31 December 2007, compared to DKK 1,656m at the end of 2006. This corresponds to a growth of DKK 58m.

### **Solvency**

Solvency has been calculated at 9.1% compared to 11.2% in 2006. The core capital percentage amounts to 7.3%, compared to 9.8% in 2006. In 2007 supplementary capital totalling DKK 100m was taken up.



The Bank's solvency goal lies in the region of 10 to 12%. Thus, after the ending of the financial year the Bank has taken measures to ensure that the solvency percentage once again falls somewhere in the middle of this span.

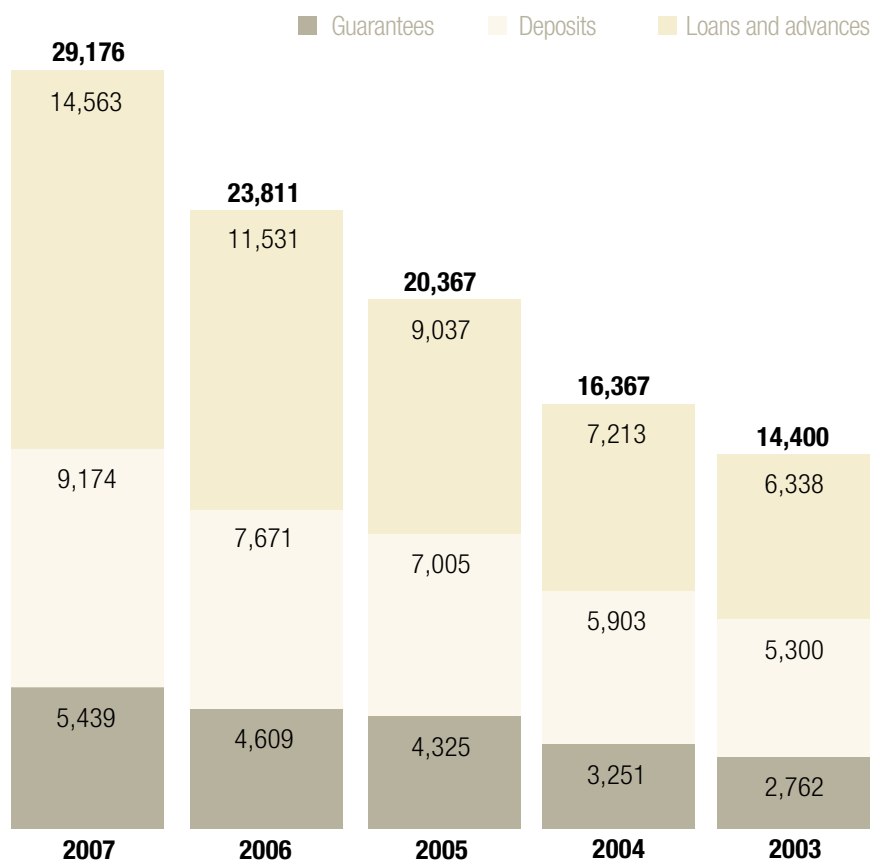
### Balance Sheet

At the end of 2007 the balance sheet amounted to DKK 18.5bn, compared to DKK 14.3bn at the end of 2006. This corresponds to an increase of approximately 29%.

At the end of 2007 total loans and advances amounted to DKK 14.6bn, which is an increase of DKK 3bn, or approximately 26% compared with 2006. Deposits have also increased from DKK 7.7 bn in 2006 to DKK 9.2bn in 2007 – an increase of approximately 20%.

The growth in loans should be seen in light of the fact that vestjyskBANK has an extremely conservative loans policy. First and foremost, this growth is attributable to loans and advances to our corporate customers. vestjyskBANK does not provide investment credits for gearing. Similarly, priority loans are not a standard product in our product portfolio.

### Development in Business Volume (DKK m)





The portfolio of guarantees increased from DKK 4.6bn to DKK 5.4bn, or approximately 18%. Overall, this means that the Bank's business volume – the total of loans and advances, deposits and guarantees – as of 31 December 2007 amounted to DKK 29.2bn compared to DKK 23.8bn at the end of 2006, which corresponds to a growth of 23%.

### **New Capital Adequacy Rules**

The new capital adequacy rules, Basel II, entered into force on 1 January 2007, but in the Danish set of rules, a number of transitional schemes have been incorporated for the so-called Pillar I (minimum capital requirement). In common with most other medium-sized Danish banks, vestjyskBANK has chosen to make up the credit risk according to the standard method and the operational risk according to the basic method. At the same time, the Bank has applied the transitional scheme of Basel II for these models, which means that the new methods and principles for making up the solvency ratio will be applied starting from the financial year 2008. The transition to the new rules in 2008 will result in a slight increase in the Bank's solvency ratio.

### **Liquidity**

vestjyskBANK's loans and advances have been larger than the Bank's deposits. Therefore, in recent years the Bank has raised committed loans and issued bonds, made available by both Danish and foreign credit institutions, to the approximate total value of DKK 5bn. Repayments on these loans and bonds have been equally distributed over the next five years.

The excess coverage in compliance with statutory liquidity requirements has developed from 19% in 2006 to 47% at the end of 2007, a positive development of 28 percentage points. The Bank's objective is a liquidity percentage of minimum 40%, and the Bank thus meets its objective.

### **Uncertainty in Connection with Recognition and Measuring**

The largest uncertainty in connection with recognition and measuring lies in the impairment of loans and advances. The Bank continuously strives to improve its methods of recognition and measuring in this area, but deems the level of uncertainty to be immaterial in relation to the Annual Report.

### **Events Following the Closing of the Financial Year**

From the date of the balance sheet and up until the present day no circumstances have taken place which change the assessment of the Annual Report.

### **Expectations for 2008**

In general we expect a more normalised growth of 10-15%, as in previous years. This should be seen in light of high oil prices and the continuing uncertainty in regards to the future interest structure and level, as well as continued pressure on cost levels. These factors are affecting all levels of activity in Denmark, resulting in lower growth.



It continues to be the Bank's long-term objective to maintain a cost percentage of maximum 55%. However, in 2008 we face considerable investments in new builds and the refurbishing of the Bank's existing buildings, which is why we do not expect to meet the objective in 2008.

The personal contact between adviser and customer is proving increasingly vital, as the need for more complex advice increases. Our strategy for healthy growth and **Solid commitment** places us in a strong position to broaden the personal relations between the Bank and our customers. In the future, we will place even more emphasis on the special qualifications, which we, as a local bank, can offer our customers. This means that we continue to require many skilled and committed employees, but we do not expect to increase our staff numbers in 2008 notably.

Based on the above, we expect a lower level of profit in 2008 than the historically good profit in 2007. Therefore, vestjyskBANK's total pre-tax profit in 2008 is expected to be in the magnitude of DKK 275m, given no material impact, determined by the state of the economy, on market value adjustments and/or impairment requirements for loans and advances and guarantees takes place.



# Management's Report

## Risk Management

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In accordance with the Danish Financial Business Act, the disclosure requirements of the Executive Order on Capital Adequacy (Pillar III) and additional executive orders and guidelines, vestjyskBANK is obliged to publish detailed information regarding risks, capital structure, capital adequacy, risk management, etc. As a result of this, we have prepared "The Risk Report 2007". The report is available at [vestjyskbank.dk](http://vestjyskbank.dk). The following section provides an outline of vestjyskBANK's risk management.

vestjyskBANK's Board of Directors lays out the overall framework and policies for the Bank's risk and capital structure, according to which the Executive Management of the Bank and other management personnel manage the Bank's risks. The Board of Directors is continuously updated on risk development and the utilisation of the assigned risk framework. The daily management of risk is handled by the Pension & Investment Department, as well as the Credit Department. The Finance Department carries out an independent control.



### Credit Risk

The credit area comprises a very significant part of vestjyskBANK's business. The area covers loans and advances, credits, guarantees and other financial services. The Bank has a prudent risk profile. We strive at all times to maintain good quality in assets, in order to secure a stable foundation for future growth.

In accordance with the Danish Financial Business Act, a commitment with one customer or customers within the same group may not exceed 25% of the capital base. To ensure a suitable spread across industries and customers, the Bank only wishes to engage in a small number of commitments that exceed 10% of the Bank's capital base. In this manner, vestjyskBANK seeks, in its issuance of credit, to ensure that singular commitments, including those with groups of companies, do not constitute a danger to the Bank's existence.

In its general management of credit risks, vestjyskBANK ensures a suitable spread, so that individual industries, geographic concentrations or specific types of securities do not pose a disproportionately high credit risk.

When credit assessing corporate commitments, vestjyskBANK emphasises that the customer's business concept must be viable, and that the customer must possess the necessary competencies. An important aspect of the Bank's credit assessment is analysing the customer's accounts and budgets. When credit assessing retail customers, the customer's disposable income and assets are the deciding factors. vestjyskBANK segments customer commitments into different risk groups. To ensure correct segmentation, vestjyskBANK uses different systems. Segmentation is an important aspect of how the Bank manages credit risks.

vestjyskBANK's loans and advances and guarantees are distributed as 70% to corporate customers and 30% to retail customers.

The need for both individual and collective impairment and provisions for losses on credit commitments is assessed continuously. The Bank carries out impairment on commitments that carry objective indications of value decrease to ensure that any expected risk of loss is hedged. The impairment is carried out using a set of overriding criteria.

Commitments that show signs of weakness, e.g. because of poor earnings or a flimsy capital base, are monitored, so that the Bank, by intervening in time, may avoid carrying out impairment because of value decrease. Collective impairment is performed by the Bank on the basis of a segmentation model developed by the industry organisation Lokale Pengeinstitutter. This model is based on a series of macroeconomic variables.



### **Liquidity Risk**

vestjyskBANK's cash flow position is monitored closely as part of the Bank's daily cash flow management. The Bank's cash flow management is based on the objective of ensuring a cash flow position which is adequate to cover the expected growth in loans and advances, as well as that of ensuring that there is always sufficient cash flow to enable us to deal with normal deviations in deposits made. The cash flow position consists of liquid securities, as well as lines in other credit institutions.

### **Market risks**

The risk that the market value of the Bank's financial assets and liabilities will change because of changes in market conditions is collectively referred to as "market risks". Engaging in market risks is a natural part of the Bank's business, which affects the total income of the Bank. Monitoring of market risks and control of the guidelines laid down take place on a daily basis. Deviations are immediately reported to the Executive Management.

### *Interest Rates*

Interest rate risk is calculated – according to the Danish Financial Supervisory Authority – as the total risk of loss, given a general change in the level of interest rates of 1 percentage point. The total interest rate risk covers the risk on both bonds and fixed-interest loans and advances and deposits. The Bank uses interest rate swaps to wholly or partly hedge the interest rate risk on fixed-interest loans and advances and deposits, as part of its risk management.

At the end of 2007, the total interest rate risk was DKK 34.2m which, measured against core capital, amounts to 2.1%.

### *Shares*

Share risk is calculated on the basis of the invested sum in shares and share-related products. At the end of 2007, the share risk amounted to 22.3% of shareholders' equity, compared to 20.9% in 2006.

### *Foreign Exchange*

At the end of 2007, the foreign exchange risk has been calculated at 99.6% against 3.0% at the end of 2006. The increase is primarily due to a position in Euro. The risk is measured through key figures, Foreign Exchange Indicator 1 and 2, which are calculated according to the guidelines of the Danish Financial Supervisory Authority.

### *Derivative Financial Instruments*

Derivative financial instruments are used both by the Bank's customers as well as the Bank to hedge and manage financial risks.



# Management's Report

## Risk Management

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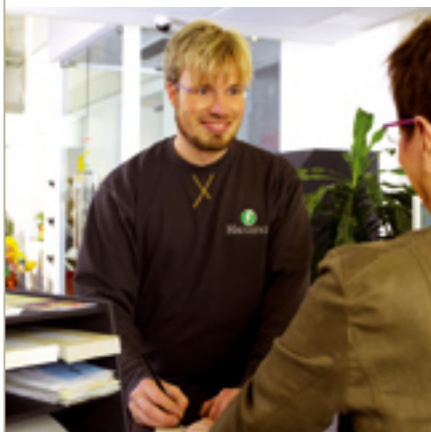
Derivative financial instruments are included in the assessment of the Bank's market risks, as they can be assigned to each of the three underlying risk types. This means that the derivative financial instruments do not constitute further independent market risks to the Bank.

### **Operational Risks**

The increased demand for qualified employees within the financial sector means that the Bank increasingly views its dependence on key employees as an area of focus. Work is continuously done to minimise this dependence on key employees, for instance through written business procedures, centralisation of tasks and via outsourcing of areas which have no bearing on the Bank's competitiveness.

vestjyskBANK continuously works on policies and contingency plans for physical disasters and IT breakdowns. The Bank is a member of Bankernes EDB Central (BEC), which is in charge of daily operations of its computer systems. The Bank follows the directions and recommendations which it receives from BEC and undertakes no independent development of IT systems.

The Bank's contingency plans for IT cover breakdowns at Head Office and parts of the Bank's branch network. In the case of a breakdown at one or more branches, operations may be continued at other branches, and in the case of longer-lasting breakdowns at Head Office, key functions may be carried out at a branch.



Building and maintaining good relations with the Bank's stakeholders – customers, shareholders, suppliers, employees and the local community – is the basis for vestjyskBANK's continued success and development. This is why the Bank focuses on openness and transparency in its corporate governance. The framework of the Bank's Corporate Governance Policy is OMX Nordic Exchange Copenhagen's general notification obligations, as well as the conditions governing inclusion in the stock exchange's MidCap+ index.

### **Shareholders' Role and Interaction with Management**

It is the goal of the Bank to remain an independent and complete financial company, rooted locally, and with a broad customer and shareholder base. Based on this, the shareholders have decided at the annual general meeting that voting rights be limited to 3%. The Board of Directors assesses that the voting rights restriction underpins the Bank's goal of remaining independent, thereby ensuring that business develops to the advantage of customers, shareholders and other stakeholders. vestjyskBANK holds a shareholders' meeting every year following the annual general meeting. Approximately 1,000 shareholders attend these meetings.

### **Openness and Transparency**

vestjyskBANK generally strives for as much openness as possible in its bank matters. The Board of Directors and the Executive Management continuously work to improve communication and the level of information vis-à-vis the Bank's partners, so that all communication regarding the Bank is made public in a trustworthy and adequate manner. The information should give a fair representation of vestjyskBANK's financial conditions, strategy and expectations for the future. During the course of the year, the management of the Bank communicates with shareholders through the Bank's website and via the shareholder and customer magazine Fjordternen. Furthermore, press releases are submitted in connection with yearly, half-yearly and quarterly results, as well as when it is deemed necessary to communicate a message to the public. The Bank's website also includes an investor portal, which contains relevant and updated information for shareholders and other stakeholders. The portal contains stock exchange notifications and presentations for investors, the annual profile brochure, the current share price, etc.

### **Board of Representatives**

It is the task of the Board of Representatives to select the members for the Board of Directors and to assist the Board of Directors and the Executive Management in their work, as well as to generally work for the well-being of the Bank. The Board of Representatives must, among its members, select no less than four and no more than eight members to be on the Bank's Board of Directors.

The Board of Representatives is made up of 56 members, at the most. Members are elected at the annual general meeting for a period of three years; re-election is possible. The age limit for members of the Board of Representatives is 67 years.

The Board of Representatives holds two meetings a year.

### **Board of Directors and Executive Management**

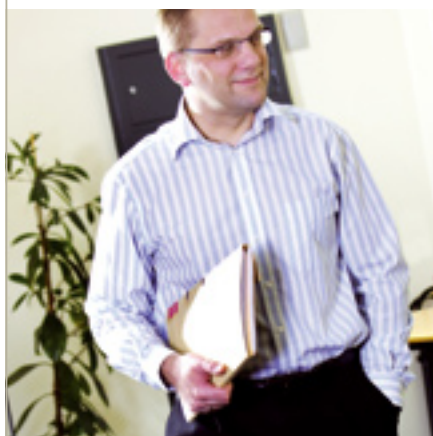
Members are elected to the Board of Directors for a period of three years; re-election is possible. In accordance with legislation, the Bank's employees also elect a number of members for the Board of Directors. At present, the Board of Directors has six members, of which four have been elected by and chosen amongst the members of the Board of Representatives. Immediately following the annual general meeting, the Board of Directors constitutes itself with a chairman and a vice-chairman.

It is intended that the members of the Board of Directors should represent a broad palate of business knowledge and experience, given the comprehensiveness of the Bank's activities.

It is the task and responsibility of the Board of Directors to be in charge of the over-all management of vestjyskBANK, which includes determining the Bank's general policies and objectives. Furthermore, it is the task of the Board of Directors to assess the Bank's organisation, e.g. in relation to internal auditing and accounting, budgeting and IT. Furthermore, the Board of Directors is obliged to follow up on business plans, budgets, etc., and to assess reports concerning the Bank's liquidity, financing conditions, cash flow, significant transactions and special risks.

The Board of Directors has in its rules of procedure set down on paper the specifics for performing its task. The Board of Directors' rules of procedure are continuously evaluated and revised. The rules of procedure are drawn up in accordance with legislation and the Danish Financial Supervisory Authority's regulations, and contain guidelines governing the work of the Board of Directors, including the cooperation between the Board of Directors and the Executive Management. It is the task of the Board of Directors to hire the Executive Management, which is in charge of the daily management of the Bank. The Board of Directors also hires the internal chief auditor.

Every spring, the Board of Directors conducts a seminar, at which the framework for next year's work as far as concerns the Bank's overall strategic management, the financial and managerial control of the Bank, as well as the continued assessment of the management's work is laid out. Board meetings are held every month except July.





Remuneration to the members of the Board of Directors and Executive Management salaries are posted in the Annual Report. The members of the Board of Directors receive an annual remuneration. The Executive Management is salaried, and the terms and conditions of employment, including severance terms, follow normal practice and are assessed continuously. Neither the Board of Directors nor the Executive Management is remunerated with share options, and the Executive Management is not remunerated according to an incentive scheme.

On vestjyskBANK's website and in the Annual Report, you will find a list of the members of the Board of Directors and their respective election terms. The list indicates whether members of the Board of Directors hold board member or managerial seats in other companies, Danish as well as foreign.

### **Risk Management**

vestjyskBANK's Board of Directors has, in a series of communiqués to the Executive Management, laid down a framework and a number of policies to safeguard the Bank. The Board of Directors is conscious of risk management at all times, and continued and detailed reporting is carried out at all board meetings. According to the requirements of BASEL II, all risk areas are covered in detail in a separate risk report, which is accessible at [vestjyskbank.dk](http://vestjyskbank.dk).



# Management's Report

## Capital Structure and Ownership

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### **Capital**

vestjyskBANK's share capital is DKK 86,000,000.00 denoted in one share class. The entire share capital is listed at OMX Nordic Exchange Copenhagen.

The share's face value is DKK 10. The share must be registered in a name in order to obtain the right to vote. Approximately 23,300 shareholders are registered, and 96.1% of the shares are registered in a name. The shares may be converted freely. No shareholder is obliged to redeem his/her shares fully or in part. No shares carry special rights. For every DKK 500 in total shareholding the shareholder receives one vote. No one may, through own votes or power of attorney, vote for more than 3% of the Bank's share capital.

In accordance with Section 28a of the Danish Public Companies Act, the following shareholder has notified that his share capital exceeds 5% of the total share capital: Peter Helm, Leather Goods Dealer, Skovvikken 26, DK-7500 Holstebro.

At least one half of the share capital must be represented at the general meeting in order to carry out valid amendments to the Bank's Articles of Association. The proposal must be adopted by at least 2/3 of the votes cast and 2/3 of the share capital represented at the general meeting and with the right to vote. In the event that half the share capital is not represented at the general meeting, and the proposal is adopted by 2/3 of the votes and the represented share capital, the Board of Directors will call a new general meeting within 14 days, where the proposal may be adopted by 2/3 of the votes, without consideration to how large a part of the capital is represented. Amendments to the Articles of Association proposed by the Board of Directors or Board of Representatives do not require that half of the share capital is represented.

### **Other Conditions**

vestjyskBANK has not entered into any agreements, which come into effect, are amended or expire, if control of the Bank is acquired as the result of a takeover. Furthermore, no agreements have been entered into with the Bank's management or employees regarding compensation in the case of severance or discharge without valid reason, or in the case their positions are discontinued as the result of a takeover.

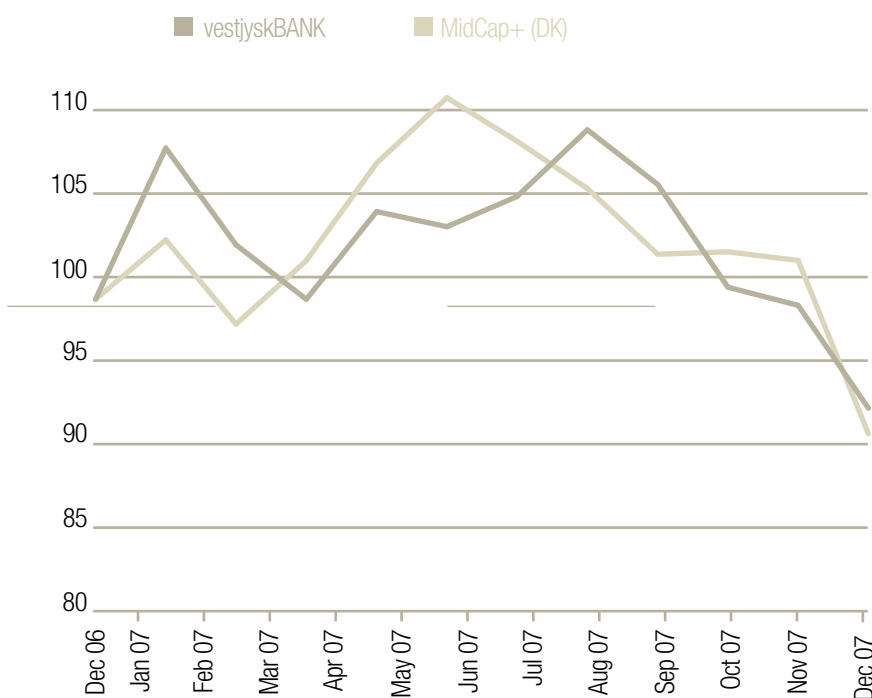
### MidCap+

vestjyskBANK's share has since 1 July 2003 been included in the MidCap+ index, the segment for medium-sized companies at OMX Nordic Exchange Copenhagen. The MidCap+ index includes medium-sized companies with good share liquidity, a high level of information and good investor management. Solid interest has been taken in the Bank's share, and it is the Bank's clear objective to remain a member of the MidCap+.

At the beginning of 2007 the share was traded at 312.17, while it on the last trading day of the year was traded at 289.91, a decrease of 7.13%.

### vestjyskBANK against MidCap+

(Rebased Dec 06)



### **Dividend Policy**

vestjyskBANK's dividend policy is determined based on the Bank's long-term solvency goals. Taking into account the annual result, the need for continued growth, as well as the development of the share, the Board of Directors assesses the need to repurchase shares on an annual basis. The dividend percentage is then determined, based on a combination of solvency goals and repurchase strategy.

In 2007 the Bank's share capital was written down by DKK 2,000,000.00 to DKK 86,000,000.00.

### **Communication Policy and Investor Relations**

The purpose of vestjyskBANK's communication policy and Investor Relations activities is to ensure that good and relevant information is provided to OMX Nordic Exchange Copenhagen, other stock market stakeholders, present and potential shareholders, the media, analysts and brokers.

The information intends to give a fair representation of vestjyskBANK's financial conditions, strategy and expectations for the future. Handover of information to the market is done in accordance with the rules of OMX Nordic Exchange Copenhagen, as well as in accordance with the obligations connected with the Bank's membership of the stock exchange's MidCap+ index, including:

- releasing yearly, half-yearly and quarterly reports with all relevant specifications
- releasing the annual review in accordance with Danish Law
- responding to all queries from investors in this regard
- placing information at disposal in Danish and English

### **Website, Shareholder Magazine and Annual Profile Brochure**

The Bank's website [vestjyskbank.dk](http://vestjyskbank.dk) includes an investor portal, which contains relevant and updated information for shareholders and other stakeholders. In the portal the released stock exchange notifications, financial statement presentations for investors, present share price, annual reports and the "brochure" vestjyskBANK Annual Profile may be found.

The annual profile brochure contains an overview of the Bank's financial highlights, and we relate in an informal way, what has happened in the past year, and what we will be working with in the year to come, to the advantage of our customers. The target group for the annual profile brochure comprises the Bank's shareholders, potential as well as new customers, the media, etc. The brochure is printed in large numbers and can also be viewed on the Bank's website.

The Bank releases the shareholder and customer magazine Fjordternen twice a year. Fjordternen is sent to shareholders and customers and can be viewed on the Bank's website. It is continuously our intention to publish an ambitious and interesting magazine, which reinforces customers' and shareholders' interest in and preference for the Bank.



### **Investor Relations Responsible**

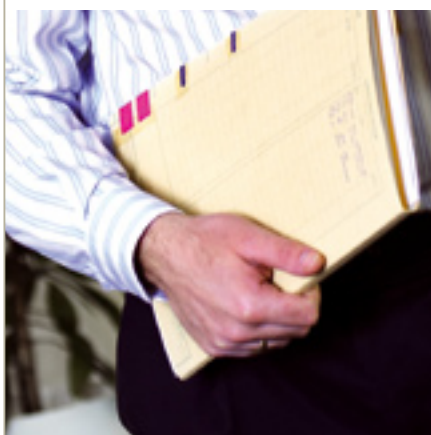
The Bank's contact to the stakeholders of the stock market, as well as questions relating to the Bank's Investor Relations Policy, are solely handled by the Executive Management:

Frank Kristensen  
vestjyskBANK  
Torvet 4-5  
DK-7620 Lemvig  
Tel +45 96 63 21 01  
fk@vestjyskbank.dk



### Annual General Meeting and Shareholders' Meeting

vestjyskBANK will be holding its annual general meeting on Thursday, 6 March 2008 at 3:30 p.m. at Idræts- og Kulturcentret (Sports and Cultural Centre) in Lemvig. The Bank's shareholders' meeting will be held on the same day and at the same location at 6:00 p.m.



### Financial Calendar for 2008

- 20 February Annual Report 2007
- 6 March Annual general meeting
- 30 April Quarterly report, Q1 2008
- 7 August Half-yearly report, H1 2008
- 29 October Quarterly report, Q1-3 2008

### Stock Exchange Announcements for 2007

- 11 January Own share holding
- 21 February Annual Report 2006
- 22 February Notice to convene annual general meeting
- 8 March Minutes of annual general meeting
- 8 March Changes board/management/auditors
- 25 April Subordinated loan capital
- 1 May Quarterly report, Q1 2007
- 1 June Changes in capital and voting rights
- 13 June Changes in capital and voting rights
- 13 June Articles of Association
- 31 July Changes in capital and voting rights
- 15 August Half-yearly report, H1 2007
- 30 October Quarterly report, Q1-3 2007



vestjyskBANK's branches are typically subdivided into a retail customer section and a corporate customer section, as well as a customer service section. The primary task of the retail and corporate customer advisers is based on the Bank's vision that both customer and Bank should experience value creation, resulting in mutual loyalty. The competencies and resources of the advisers should be put to optimal use, focusing sharply on customer needs. Administrative tasks are dealt with in customer services and are continuously executed more effectively. Indeed, we attempt to apply best practice to all areas of the Bank.

The staff functions support customer-related functions with specialists in all fields. This means that advisers are able to deal with all customer needs, even when cutting-edge competencies are needed.

### **Strategic Efficiency**

Together with 60 different companies, vestjyskBANK has participated in a business research project called "STRATEGIC EFFICIENCY" organised by STRATEGOS in conjunction with Copenhagen Business School and Århus School of Business. The achievement of strategic goals is based on three principles: meaning, commitment and energy.

All of the Bank's employees were invited to participate in the study. 92% of the employees answered the questionnaire, which is a good measure of their commitment to the Bank's strategy. The answers showed a high degree of understanding of, and commitment to, the Bank's strategy among managers as well as employees. As regards energy, there is room for further improvement. Overall, vestjyskBANK positioned itself among the top 10% of companies with the highest level of goal achievement with regard to most measurement criteria.

The final verdict was that vestjyskBANK has a particularly good strategic foundation from which to realise its vision.

### **Recruitment**

vestjyskBANK is aware of the fact that winning the competition for customers is achieved by skilled and committed staff showing solid commitment. It is with great pleasure that the Bank can look back on a year in which we managed to exceed our expectations in terms of the retention and attraction of employees. The banking sector is generally challenged in regards to attracting skilled labour. It is our impression that vestjyskBANK has a good profile for being an attractive workplace. We believe that this has been the reason behind the Bank's success in attracting staff for vacant posts in all categories.



### **Management Development**

It is an absolute necessity for the Bank to have skilled managers if it is to be able to retain and attract committed staff in the future. Therefore, the Bank's management has launched a management development programme under the working title "The Industry's Best Management Development Programme". The purpose of this programme is to put vestjyskBANK's vision into practice and equip managers with basic managerial tools. During the course of the programme, participants will be trained to put into action special managerial values and associated behaviours which are characteristic for vestjyskBANK.

### **Incentive Scheme**

An incentive scheme was launched in 2007 in order to motivate employees to focus more on specific strategic areas. The scheme, which is the same for all employees, boosts team spirit and motivates employees in unison to achieve the objectives laid out. Besides the strong focus on the Bank's development and earnings, the scheme underpins the Bank's vision of retaining and attracting skilled and committed employees.

Six different target areas have been identified as part of the incentive scheme for 2008. For each target area, in which the Bank's performance exceeds its budget, its employees are granted the right to purchase vestjyskBANK shares. The value of the total purchase right for the individual employee cannot exceed DKK 20,000.00. The total incentive scheme may thus amount to maximum DKK 8.4m.

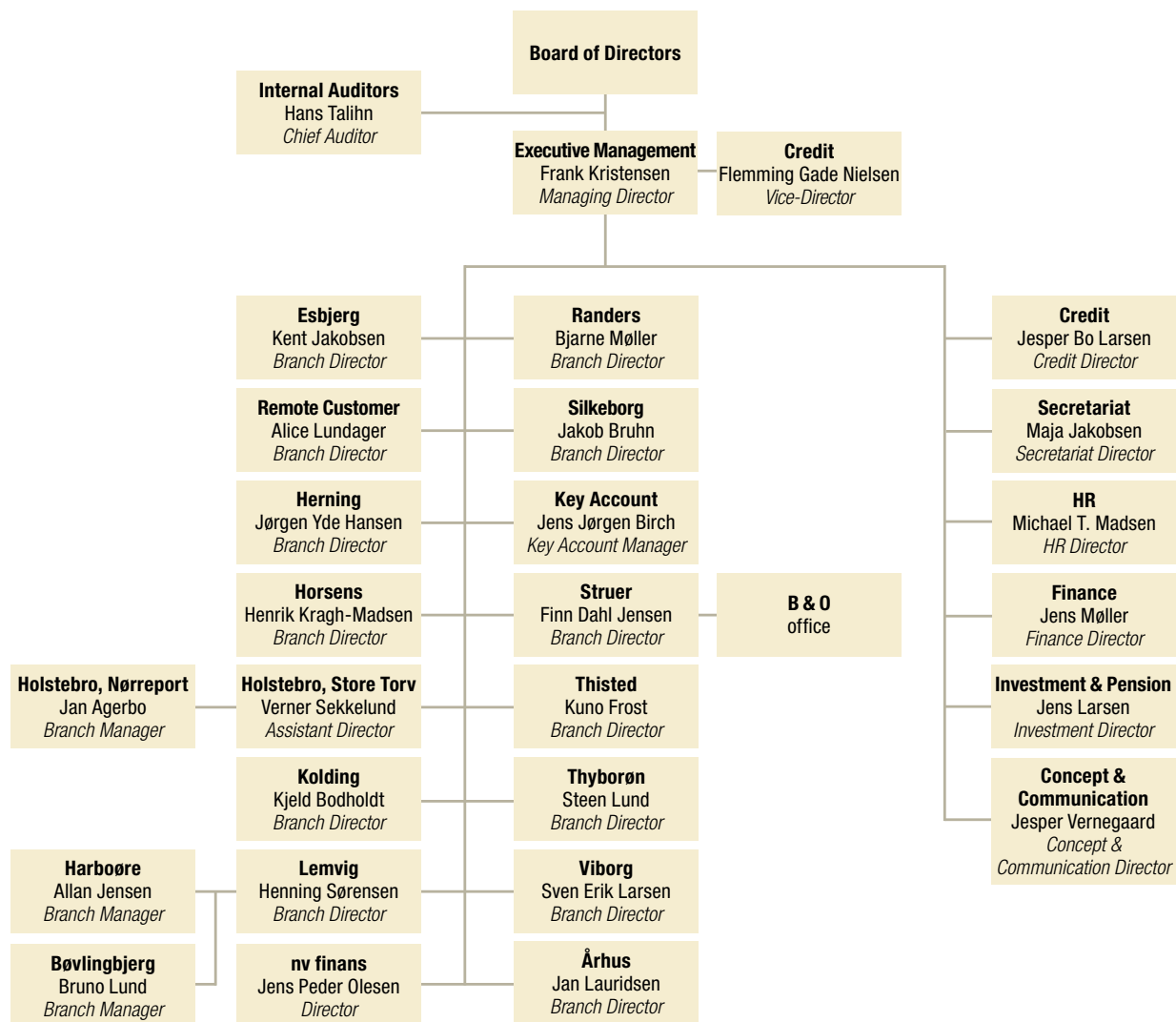
The Bank does not operate any other reward schemes.





# Management's Report

## Organisational Chart



# Management's Report

## Directorships and Executive Positions

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### Directorships and Executive Positions of the Board of Directors

■ Anders Bech, Managing Director, Holstebro:

Ejendomsselskabet Doktorvænget A/S

Kaj Bech Holding A/S

Murer- og Entreprenørfirmaet Kaj Bech A/S

The remaining members of the Board of Directors hold no seats on the Board of Directors of other limited companies.

### Directorships and Executive Positions of the Executive Management

According to Section 80(1) of the Danish Financial Business Act, persons appointed by the Board of Directors are not allowed to own or operate an independent business, or to function as a member of the Board of Directors, staff or in any other way participate in operating another business apart from the Bank, without the permission of the Board of Directors.

The Board of Directors has given permission for Managing Director Frank Kristensen to hold a seat on the Board of Directors in the following companies:

ATRIUM Fondsmæglerselskab A/S

Totalkredit A/S

PRAS A/S

Værdipapircentralen A/S

PBS A/S

PBS Holding A/S

MultiData A/S

MultiData Holding A/S

e-nettet a/s

e-nettet holding a/s





# Management's Statement 36

The Board of Directors and the Executive Management have, as of today, reviewed and approved the Annual Report of Vestjysk Bank A/S for the financial year 1 January – 31 December 2007.

The Annual Report has been prepared in accordance with the Danish Financial Business Act and additional disclosure requirements for annual reports of listed financial institutions.

The Annual Report gives a true and fair view of the Bank's assets, liabilities and financial position at 31 December 2007.

The Management's Report encompasses a true and fair review of the development in the activities and economic conditions of the Bank as well as a description of the most significant risks and factors of uncertainty, which may affect the Bank.

The Annual Report is recommended for approval at the annual general meeting.

Lemvig, 20 February 2008

## Executive Management

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Frank Kristensen

## Board of Directors

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Anders Bech

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Peter Grankær

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Søren Broe Langer

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Kirsten Lundgaard-Karlshøj

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Peder Hesselaa Nielsen

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Peter Bækkelund Rasmussen

## Internal Auditors' Report

We have audited the Annual Report of Vestjysk Bank A/S for the financial year 1 January - 31 December 2007, which comprises Management's Report, Management's Statement, accounting policies, income statement, balance sheet, statement of changes in shareholders' equity and notes. The Annual Report is prepared in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

### Basis of Opinion

We 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 the Danish Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

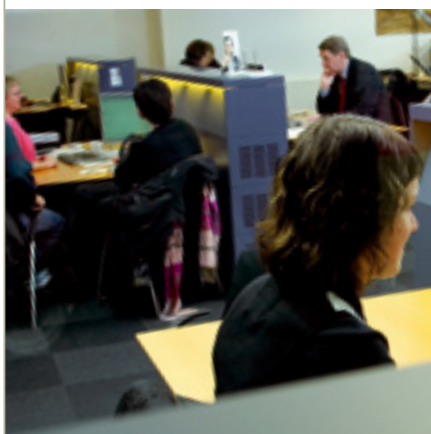
The audit has been performed in accordance with the division of duties agreed with the external auditors and has included an assessment of procedures and internal controls established, including the risk management organised by Management relevant to the Entity's reporting processes and significant business risks. Based on materiality and risk, we have examined, on a test basis, the basis of amounts and other disclosures in the Annual Report, including evidence supporting amounts and disclosures in the Annual Report. 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 Annual Report.

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.



Furthermore, in our opinion, the Annual Report gives a true and fair view of the Entity's assets, liabilities and financial position at 31 December 2007 and of the results of the Entity's activities for the financial year 1 January - 31 December 2007 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

Lemvig, 20 February 2008

Hans B. Talihn  
*Chief Auditor*



## Independent Auditors' Report

### To the Shareholders of Vestjysk Bank A/S

We have audited the Annual Report of Vestjysk Bank A/S for the financial year 1 January - 31 December 2007, which comprises Management's Report, Management's Statement, accounting policies, income statement, balance sheet, statement of changes in shareholders' equity and notes. The Annual Report is prepared in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

### Management's Responsibility for the Annual Report

Management is responsible for the preparation and fair presentation of the Annual Report in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Annual Report based on our audit. We conducted our audit in accordance with Danish Auditing Standards. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the Annual Report 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 Entity'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 Annual Report.

We 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 Annual Report gives a true and fair view of the financial position at 31 December 2007 of the Company and of the results of the Company's operations for the financial year 1 January - 31 December 2007 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

Holstebro, 20 February 2008

### **PricewaterhouseCoopers**

*Statsautoriseret Revisionsaktieselskab*

H.C. Krogh

*State Authorised Public Accountant*

### **Krøyer Pedersen**

*Statsautoriserede Revisorer I/S*

Henrik Holm

*State Authorised Public Accountant*

## **General**

The Annual Report has been prepared in accordance with the Danish Financial Business Act, including the executive order on financial reporting for credit institutions and investment companies, etc. Furthermore, the Annual Report has been prepared in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions.

With effect from 1 January 2007, vestjyskBANK merged the wholly-owned subsidiary vestjyskBOLIG A/S into Vestjysk Bank A/S. Comparative figures have been adjusted.

The Annual Report has been prepared according to the same accounting policies as used in 2006.

## **Recognition and Measuring in General**

Assets are recognised in the balance sheet when, as a consequence of an earlier occurrence, it is probable that future financial benefits will accrue to the Bank, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Bank, as a consequence of an earlier occurrence, has a legal or actual liability, and it is probable that future financial advantages will be set off against the Bank, and the value of the liability can be measured reliably.

On the first recognition, assets and liabilities are measured at current value. However, tangible assets are, at the time of the first recognition, measured at cost price. Measuring after the first recognition is effected as described for each individual item below.





In connection with recognition and measuring, allowance is made for predictable risks and losses occurring before presentation of the Annual Report and which confirm or invalidate circumstances existing on the date of the balance sheet.

In the income statement, incomes are recognised as earned, whereas expenses are recognised with the amounts relating to the financial year. However, value increases in domicile properties are recognised directly in the shareholders' equity.

Financial instruments are recognised on the settlement date.

No segment information is given, as neither activities nor geographical markets deviate mutually to a considerable extent.

## Accounting Estimates

### *General*

Determination of the accounting value of certain assets and liabilities involves an estimate of how future events will affect the value of such assets and liabilities. The most essential estimates relate to impairment of loans and advances, determination of current values of unlisted financial instruments and provisions.

The estimates exercised are based on preconditions considered by the management to be reasonable, but which are uncertain. In addition, the Bank is affected by risks and uncertainties which may lead to actual results deviating from the estimates.

As for impairment of loans and advances as well as accounts receivable, there are essential estimates associated with quantification of the risk of not all future payments being received. As for the current value of unlisted financial instruments, there are essential estimates involved in measuring the current value.

### *Changes*

Until now, assessment of collective loans and advances and accounts receivable has been made on the basis of a qualified estimate. When preparing the Annual Report for 2007, the Bank has applied an actual model. The switch from a qualified estimate to an actual model is regarded as a change in the accounting estimate. This change has not affected the financial statements significantly.

### **Conversion of Foreign Exchange**

At the first recognition transactions in foreign exchange are converted at the given rate on the transaction date. Accounts receivable, liabilities and other monetary items in foreign exchange that have not been settled on the balance sheet date are converted at the closing price for the currency on the balance sheet date. Exchange differences arising between the rate on the transaction day and the rate on the day of settlement and the rate on the balance sheet date, respectively, are recognised in the income statement as market value adjustments.



## **Hedge Accounting**

The Bank applies the special rules on hedge accounting to avoid any inconsistency arising due to certain financial assets or financial obligations being measured at amortised cost price, while derivative financial instruments are measured at current value. Hedging transactions have been established at portfolio level for the following items: fixed-interest loans and advances, loans in foreign currencies and bonds as well as fixed-interest deposits. These are covered by means of the products options, forward transactions and swaps.

## **The Income Statement**

### **Interest, Fees and Commissions**

Interest income and interest expenses are recognised in the income statement for the period they concern. Commissions and fees, constituting an integral part of the effective interest rate on loans and advances, are recognised as part of the amortised cost price.

Interest income from loans and advances, which have either been partially or fully impaired, is recognised as interest income with only the calculated effective rate of interest on the loan's impaired value. Additional interest income is recognised under the item "Impairment of loans and advances and accounts receivable, etc.".

Commissions and fees forming part of a current debt service are accrued over the term.

Other fees are recognised in the income statement on the transaction day.

### **Staff Costs and Administrative Expenses**

Staff costs comprise salaries and remunerations in addition to social security costs, pensions, etc. for staff members. Costs for goods and services provided to employees, including anniversary bonuses, are recognised concurrently with the employee's performance of the work output that entitles them to the goods and services in question.

Costs for incentive schemes are recognised in the income statement in the financial year to which the cost relates.

Contribution-based pension schemes have been established with the majority of employees. In the contribution-based schemes, fixed amounts are paid to an independent pension fund. The Bank has no obligation to pay further contributions.

### **Tax**

Tax for the year, consisting of the year's current tax and changes in deferred tax, is recognised in the income statement with the part which can be referred to the profit for the year and directly on the shareholders' equity for the part which can be referred to entries directly on the shareholders' equity.



Current tax liabilities and current tax receivable, respectively, are recognised in the balance sheet assessed as calculated tax of taxable income for the year adjusted for tax paid on account.

Deferred tax is recognised as all temporary differences between accounting and tax values of assets and liabilities.

Deferred tax is recognised under liabilities in the balance sheet under "Provisions for deferred tax" or recognised under assets in the balance sheet under "Deferred tax assets" after careful assessment if the net value is an asset.

## The Balance Sheet

### **Cash in Hand and Demand Deposits at Central Banks**

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



## **Accounts Receivable at Credit Institutions and Central Banks**

Accounts receivable at credit institutions and central banks comprise accounts receivable at other credit institutions as well as time deposits at central banks. The item is measured at amortised cost price, which normally corresponds to the nominal value.

## **Loans and Advances and Other Accounts Receivable**

Loans and advances and other receivables are measured at amortised cost price, which usually corresponds to the nominal value with deduction of establishment fees and with deduction of impairment for meeting incurred, but still unrealised losses, etc.

Impairment of loans and advances and accounts receivable is performed both individually and collectively.

Write-off is performed when there is objective indication of impairment.

In the case of individual impairment, objective indication is considered present when at least one of the following events has occurred:

- The borrower is experiencing considerable financial difficulties.
- The borrower has breached the contract, for example, by failing to meet payment obligations for instalments and interest.
- The borrower has been granted exemption from certain conditions that would not normally be considered if it was not due to the borrower's financial difficulties.
- It is likely that the borrower will go bankrupt or be subject to other financial reconstruction measures.

Impairment is made with the difference between the accounting value before the impairment and the present value of the expected future payments on the loans and advances. Expected future payments are calculated on the basis of probability-weighted scenarios, assessed on the debtor's ability to pay and realisation of securities and any dividends. The effective rate of interest is used as a discount factor. The Bank reviews loans over DKK 10m on a case-by-case basis as well as all loans, where objective indication of impairment has been established.

Loans and advances which have not been impaired individually undergo collective impairment.

For loans and accounts receivable that have not been impaired individually, a collective assessment is made to determine whether there has been any objective indication of impairment.

Collective assessments are made on groups of loans and advances and accounts receivable that have similar characteristics with regard to credit risk. The Bank has identified 11 different groups, divided thus: a single group for public authorities, one group for retail customers and nine groups for corporate customers as corporate customers are sub-divided into business sector groups.



The collective assessment is made by means of a segmentation model, developed by the industry organisation Lokale Pengeinstitutter. The association is responsible for ongoing maintenance and development of the model. The segmentation model determines cohesion of the individual groups by taking into account losses incurred and a number of significant explanatory macroeconomic variables via a linear regression analysis. Among the explanatory macroeconomic variables are unemployment, house prices, interest rates, number of bankruptcies/foreclosure auctions, etc.

The macroeconomic segmentation model is normally calculated on the basis of loss data for the whole banking sector. Therefore, vestjyskBANK has assessed whether the model estimates should be adjusted to take account of the credit risk to vestjyskBANK's own loan portfolio.

The assessment has resulted in an adjustment of the model estimates to fit the Bank's situation. Consequently, it is the adjusted estimates that form the basis for calculating collective impairment. For each group of loans and advances and accounts receivable, an estimate emerges that indicates the percentage of decrease in value associated with a given group of loans and advances and accounts receivable on the balance sheet date. By comparing the original risk of loss attached to the loan and the risk of loss at the beginning of the given financial period, the individual loan's contribution to the collective impairment charge emerges. Impairment is calculated as the difference between the accounting value and the discounted value of expected future payments.

Provisions for losses on guarantees and provisions for losses on potentially unutilised credit commitments are recognised under provisions for liabilities.

## **Bonds**

Bonds that are traded on regulated markets are measured at current value. Current value is calculated according to the closing price for the market in question on the balance sheet date.

## **Shares**

Bonds that are traded on regulated markets are measured at current value. Current value is calculated according to the closing price on the balance sheet date.

Unlisted shares in companies which the Bank owns jointly with a number of other financial institutions are valued at current value. If no current market data are available, the current value is determined on the basis of the companies' latest presented and approved accounts. Remaining unlisted securities are recognised at purchase price or a lower current value if relevant.



## **Tangible Fixed Assets**

Tangible fixed assets are, on first recognition, measured at cost price. The cost price includes the purchase price and expenses directly related to the purchase, as well as expenses relating to setting up the asset, up until the point, when the asset is ready for use.

Land and buildings include the Bank's domicile properties, as the Bank only owns property for the purpose of conducting banking business.

Domicile properties are, on first recognition, measured at revaluated values calculated as current value at the time of revaluation on the basis of a return-on-investment model with deduction of subsequent accumulated depreciation. The required rate of return-on-investment is in the region of 6 to 8%, depending on the location of the property. Revaluation is performed frequently enough in order to minimise differences compared to the current value.

External experts are used for evaluating the most important properties.

Increases in the revaluated value of domicile property are recognised under revaluation reserves under the statement of the shareholders' equity. Decreases in value are recognised in the income statement unless it involves reversal of a previous year's revaluation. Depreciation is made on the basis of the appreciated value and is calculated linearly on the basis of expected lifespan, which is 50 years, of the depreciable amount with deduction of an estimated scrap value.

Installations are depreciated linearly over a period of 15 years.

Other tangible assets are measured at cost price with deduction of accumulated depreciation and impairment. Linear depreciation is made on the basis of an expected lifespan of two to five years.

The need for depreciation of other tangible fixed assets is assessed when there is an indication of decrease in value.

## **Prepayments**

Prepayments recognised under assets comprise all expenses paid in relation to the subsequent financial year. Prepayments are measured at cost price.

## **Debt to Credit Institutions and Central Banks/Deposits**

Debt to credit institutions and central banks as well as deposits are valued at amortised cost price, adjusted by the current value of the hedged interest rate risk.

## **Provisions for Liabilities**

Liabilities, which are uncertain in regards to size or time of settlement, are recognised as provisions for liabilities, when it is probable that the liability will drain the Bank's economic resources, and the liability can be measured reliably. The liability is calculated as the current value of the costs necessary to meet the liability.

In addition, the liabilities comprise a pension liability, which is assessed according to actuary calculations.

## **Subordinated Debt/Issued Bonds**

Subordinated debt/issued bonds are valued at amortised cost price, adjusted by the current value of the hedged currency risk.

## **Derivative Financial Instruments**

Derivative financial instruments are measured at current value, which as a rule is based on listed market prices. Where non-listed instruments are involved, these are calculated at current value in accordance with generally approved principles, built on market-based parameters. Derivative financial instruments are recognised under other assets and other liabilities respectively.

In the event of hedging transactions, which fulfil the conditions of the Danish Financial Supervisory Authority's executive order on financial reporting in order to be regarded as hedging accounting, both the hedging instrument and the amount hedged are measured at current value on the balance sheet date.

All value adjustments concerning derivative financial instruments and hedge accounted items are entered under the item "Market value adjustments" in the income statement.

## **Shareholders' Equity**

### *Dividends*

Dividends are recognised as a liability commitment at the time of adoption by the General Meeting. The proposed dividend for the financial year is shown as a separate entry under the item "Shareholders' equity".

### *Own Shares*

Acquisition costs and considerations for treasury shares are recognised directly as earnings retained under the item "Shareholders' equity".

# Income Statement

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Note no.		2007 DDK t	2006 DDK t
1	Interest income	1,034,556	709,943
2	Interest expenses	550,720	277,981
	Net interest income	483,836	431,962
	Dividends of shares, etc.	4,376	3,516
3	Fees and commission income	141,737	134,920
	Paid fees and commission expenses	13,739	12,878
	Net interest income and fee earnings	616,210	557,520
4	Market value adjustments	22,955	87,507
	Other operating income	2,700	4,055
5-8	Staff costs and administrative expenses	352,978	317,809
9	Depreciation and impairment of intangible and tangible assets	12,290	9,738
	Other operating expenses	0	229
	Impairment of loans and advances and accounts receivable, etc.	-14,727	10,704
	Pre-tax profit	291,324	310,602
10	Tax	69,025	71,646
	Profit for the year	222,299	238,956



# Balance Sheet

## at 31 December

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Note no.	2007 DDK t	2006 DDK t	
<b>Assets</b>			
	Cash in hand and demand deposits at central banks	161,714	78,596
11	Accounts receivable at credit institutions and central banks	610,674	313,493
12-16, 30	Loans and advances and other accounts receivable at amortised cost price	14,563,436	11,531,002
17, 30	Bonds carried at current value	2,378,866	1,695,893
18	Shares, etc.	382,001	346,551
	Total land and buildings		
19	Domicile properties	213,189	220,406
20	Other tangible assets	7,800	4,234
	Current tax assets	13,784	16,215
21	Deferred tax assets	4,777	2,000
	Other assets	164,652	83,044
	Prepayments	12,337	8,922
	<b>Total assets</b>	<b>18,513,230</b>	<b>14,300,356</b>
<b>Liabilities</b>			
<b>Debt</b>			
22	Debt to credit institutions and central banks	5,379,692	3,451,590
23, 30	Deposits and other amounts due	9,174,443	7,670,943
24	Issued bonds carried at amortised cost price	1,506,990	909,779
	Other liabilities	282,654	260,641
	Prepayments	19	16
	<b>Total debt</b>	<b>16,343,798</b>	<b>12,292,969</b>
<b>Provisions for liabilities</b>			
	Provisions for pensions and similar liabilities	8,040	8,600
	Provisions for losses on guarantees	9,263	6,887
	Other provisions for liabilities	0	1,801
	<b>Total provisions for liabilities</b>	<b>17,303</b>	<b>17,288</b>
<b>Subordinated debt</b>			
25	Subordinated debt	438,088	334,029
<b>Shareholders' equity</b>			
26, 27	Share capital	86,000	88,000
	Revaluation reserves	15,750	15,750
	Earnings retained/loss brought forward	1,569,291	1,508,320
	Proposed dividends of this	43,000	44,000
	<b>Total shareholders' equity</b>	<b>1,714,041</b>	<b>1,656,070</b>
	<b>Total liabilities</b>	<b>18,513,230</b>	<b>14,300,356</b>

	Share capital DKK t	Revaluation reserves DKK t	Statutory reserves DKK t	Earnings retained DKK t	Proposed dividends DKK t	Total shareholders' equity DKK t
Shareholders' equity, end of 2006	88,000	15,750	2,813	1,505,507	44,000	1,656,070
Correction as a result of merger with subsidiary company			-2,813	2,813		
<b>Shareholders' equity, beginning of 2007, after correction</b>	88,000	15,750	0	1,508,320	44,000	1,656,070
Profit for the period				179,299	43,000	222,299
Distributed dividends				1,528	-44,000	-42,472
Write-down of capital	-2,000			2,000		0
Sale of own shares				199,104		199,104
Acquisition of own shares				-322,501		-322,501
Calculated tax relating to own shares				1,541		1,541
<b>Shareholders' equity, end of 2007</b>	86,000	15,750	0	1,569,291	43,000	1,714,041

# Notes to the Annual Report

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Note no.	2007 DDK t	2006 DDK t
<b>1. Interest income/forward premium of:</b>		
Accounts receivable from credit institutions and central banks	27,096	10,652
Loans and advances and other accounts receivable	913,289	653,613
Bonds	84,675	48,563
Total derivative financial instruments	9,476	-3,070
of which:		
Foreign exchange contracts	7,361	1,727
Interest rate contracts	2,115	-4,797
Other interest income	20	185
Total interest income	1,034,556	709,943
<b>2. Interest expenses for:</b>		
Credit institutions and central banks	157,621	75,070
Deposits and other amounts due	299,991	169,770
Issued bonds	71,365	20,997
Subordinated debt	21,720	12,077
Other interest expenses	23	67
Total interest expenses	550,720	277,981
<b>3. Fees and commission income:</b>		
Securities trading and custody	41,132	41,032
Payment services	25,199	21,611
Loan processing fees	17,097	16,757
Guarantee commission	47,506	41,814
Other fees and commissions	10,803	13,706
Total fees and commission income	141,737	134,920
<b>4. Market value adjustments of:</b>		
Bonds	-12,577	-3,054
Shares, etc.	17,088	66,356
Foreign exchange	15,611	9,626
Total foreign exchange, interest rate, share, raw material and other contracts as well as derivative financial instruments	10,746	7,828
Other assets	-1,391	-5,769
Other liabilities	-6,522	12,520
Total market value adjustments	22,955	87,507
<b>5. Staff costs and administrative expenses</b>		
<b>Salaries and remuneration to the Board of Directors, Executive Management and Board of Representatives</b>		
Board of Directors	794	900
Executive Management:		
Salary	2,440	2,086
Pension	1,462	313
Total Executive Management	3,902	2,399
<small>The Bank does not uphold agreements with the Executive Management in relation to bonus or incentive schemes or similar remuneration schemes.</small>		
Board of Representatives	252	283
Total	4,948	3,582
<b>Staff costs</b>		
Salaries	178,120	156,201
Pensions	20,837	18,632
Expenses for social security	17,670	15,795
Total	216,627	190,628
<b>Other administrative expenses</b>	131,403	123,599
<b>Total staff costs and administrative expenses</b>	<b>352,978</b>	<b>317,809</b>

# Notes to the Annual Report

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Note no.	2007 DDK t	2006 DDK t
<b>6. Pension conditions</b>		
Members of the Executive Management may resign without notice before expiry of the year in which the member turns 62. The bank is exempt from any pension liability in relation to resignation, be it on account of age, illness, disability or any other reason.		
<b>7. Number of employees</b>		
Average number of employees in the financial year, calculated as full-time staff	431,7	405,5
<b>8. Audit fees</b>		
Total fees payable to the auditing companies elected at the annual general meeting to carry out the statutory audit	985	952
Of which other services than auditing	203	174
<b>9. Depreciation and impairment of intangible and tangible assets</b>		
Total land and buildings	8,344	7,054
Other tangible assets	3,946	2,684
Total depreciation and impairment of intangible and tangible assets	12,290	9,738
<b>10. Tax</b>		
Calculated tax of profit for the year	72,013	70,550
Deferred tax	-2,777	2,027
Deferred adjustment of previous years' tax	-211	-931
Total tax	69,025	71,646
<b>Effective tax rate:</b>		
Current tax rate	25.0%	28.0%
Adjustments to this:		
Non-deductible expenses	0.1%	0.1%
Non-taxable incomes	-1.6%	-4.9%
Property depreciation, etc.	0.3%	0.2%
Adjustment of tax for previous years	-0.1%	-0.3%
Total effective tax rate	23.7%	23.1%
<b>11. Accounts receivable at credit institutions and central banks</b>		
Accounts receivable at notice at central banks	499,587	199,709
Accounts receivable at credit institutions	111,087	113,784
Total accounts receivable at credit instit. and central banks	610,674	313,493
Distributed by maturity:		
On demand	111,087	113,784
Up to 3 months	499,587	199,709
Total	610,674	313,493

Note no.	2007 DDK t	2006 DDK t
<b>12. Loans and advances and other accounts receivable at amortised cost price</b>		
Distributed by maturity :		
On demand	6,018,355	2,958,660
Up to 3 months	1,297,669	1,345,907
More than 3 months and up to 1 year	2,223,616	3,429,318
More than 1 year and up to 5 years	3,190,686	2,605,086
More than 5 years	1,833,110	1,192,031
Total	14,563,436	11,531,002
<b>13. Impairment of loans and advances and accounts receivable</b>		
<b>Individual impairment</b>		
Individual impairment of loans and advances and other accounts receivable at beginning of year	200,581	217,377
Impairment during year	59,617	67,831
Reversal of impairment made during previous financial years	-71,913	-58,066
Other movements	10,434	0
Previous individual impairment finally lost	-35,465	-26,561
Individual impairment of loans and advances and other accounts receivable at end of year	163,254	200,581
No impairment charges have been recognised to accounts receivable at credit institutions or to other accounts receivable. However, provisions have been made for losses on guarantees, cf. the liability item "Provisions for losses on guarantees".		
<b>Collective impairment</b>		
Collective impairment of loans and advances and other accounts receivable at beginning of year	4,856	8,784
Impairment during year	3,710	72
Reversal of impairment	-4,856	-4,000
Collective impairment of loans and advances and other accounts receivable at end of year	3,710	4,856
<b>14. Loans and advances and other accounts receivable with objective indication of impairment recognised in the balance with accounting value larger than zero</b>		
<b>Individual impairment</b>		
Valuation before impairment	275,083	220,485
Valuation after impairment	139,083	112,486
<b>Collective impairment</b>		
Valuation before impairment	1,395,361	350,121
Valuation after impairment	1,391,651	345,265
Accounts receivable with suspended interest calculation amounts to at end of year	108,468	85,982

Note no.	2007 DDK t	2006 DDK t
<b>15. Credit risks</b>		
Loans and advances and guarantees in percent at end of year, distributed by sector and trade		
<b>Public authorities</b>	0%	0%
<b>Corporate, of which:</b>		
Agriculture, hunting and forestry	15%	14%
Fishery	2%	2%
Manufacturing business, raw material extraction, public service utilities	10%	10%
Construction	7%	4%
Trade, restaurant and hotel business	10%	11%
Transportation, mail and telecommunication	2%	2%
Credit and finance companies and insurance companies	6%	5%
Property administration and real estate, business services	16%	15%
Other businesses	2%	3%
<b>Total corporate</b>	70%	66%
<b>Retail</b>	30%	34%
<b>Total</b>	100%	100%
<b>16. Related parties</b>		
<b>Size of loans, mortgages, sureties or guarantees issued for members of the Bank's:</b>		
Executive Management	921	1,125
Board of Directors	28,518	39,329
All services are carried out based on market conditions.		
Rate of interest 2007: Executive Management 6.25%, Board of Directors 4.00% * - 8.84%.		
* applicable to those elected by the employees		
<b>Securities set up for members of the Bank's:</b>		
Executive Management	25	25
Board of Directors	763	388
<b>17. Bonds carried at current value</b>		
Mortgage credit bonds	1,868,319	1,394,965
Government bonds	131	82
Additional bonds	510,416	300,846
<b>Total bonds carried at current value</b>	2,378,866	1,695,893
Pledged as security for drawing right at Danmarks Nationalbank:		
Total nominal value	426,672	468,814
Total market price	424,264	467,031
Of which charged	0	0

# Notes to the Annual Report

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Note no.	2007 DDK t	2006 DDK t
<b>18. Shares, etc.</b>		
Shares/investment units listed at OMX Nordic Exchange Copenhagen	93,324	80,610
Shares/investment units listed at other stock exchanges	22,716	22,143
Unlisted shares carried at current value	207,422	185,719
Unlisted shares, etc. carried at cost price	5,438	6,290
Additional shares	53,101	51,789
Total shares, etc.	382,001	346,551
<b>19. Total land and buildings</b>		
<b>Domicile properties</b>		
Revalued value at end of previous financial year	220,406	200,185
Additions in course of year, including improvements	1,127	28,228
Outflow during course of year	0	957
Depreciation	5,485	6,099
Value adjustments recognised in the income statement during course of year	-2,859	-951
Revalued value at time of balance sheet	213,189	220,406
<b>20. Other tangible assets</b>		
<b>Cost price</b>		
Cost price at end of previous financial year	9,854	8,906
Additions in course of year, including improvements	7,630	2,830
Outflow during course of year	1,992	1,882
Total cost price at balance sheet date	15,492	9,854
<b>Depreciation and impairment</b>		
Depreciation and impairment at end of previous financial year	5,620	3,824
Depreciation for the year	3,787	2,301
Depreciation and impairment for the year of sold and withdrawn shares	159	383
This year's reversal of impairment recognised during previous years, as well as reversal of total depreciation and impairment of assets sold or withdrawn during course of year	1,874	888
Total depreciation and impairment at balance sheet date	7,692	5,620
Booked holdings at balance sheet date	7,800	4,234
<b>21. Deferred tax assets/liabilities are specified as follows:</b>		
Loans and advances and other accounts receivable	-8,085	-7,292
Tangible assets	2,496	2,382
Provisions for liabilities	-2,743	-2,408
Other	3,555	5,318
Total deferred tax assets (-)/liabilities	-4,777	-2,000

# Notes to the Annual Report

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Note no.	2007 DDK t	2006 DDK t
<b>22. Debt to credit institutions and central banks</b>		
Distributed by maturity:		
On demand	725,807	594,732
Up to 3 months	959,245	2,095,775
More than 3 months and up to 1 year	1,096,202	750,000
More than 1 year and up to 5 years	2,246,472	11,083
More than 5 years	351,966	0
<b>Total</b>	<b>5,379,692</b>	<b>3,451,590</b>
<b>23. Deposits</b>		
On demand	5,421,851	4,999,641
At notice	72,929	75,244
Time deposits	2,470,661	1,634,960
Special deposits	1,209,002	961,098
<b>Total deposits</b>	<b>9,174,443</b>	<b>7,670,943</b>
Distributed by maturity:		
On demand	5,768,652	5,307,306
Up to 3 months	1,046,549	477,107
More than 3 months and up to 1 year	515,250	160,352
More than 1 year and up to 5 years	1,296,905	1,260,936
More than 5 years	547,087	465,242
<b>Total</b>	<b>9,174,443</b>	<b>7,670,943</b>
<b>24. Issued bonds carried at amortised cost price</b>		
Distributed by maturity:		
More than 1 year and up to 5 years	1,500,839	905,100
More than 5 years	6,151	4,679
<b>Total</b>	<b>1,506,990</b>	<b>909,779</b>



Note no.	2007 DDK t	2006 DDK t
<b>25. Subordinated debt</b>		
Costs in connection with raising loans	0	485
Interest expenses	21,720	12,077
<b>Included in the statement of the capital base</b>	<b>438,088</b>	<b>334,029</b>
<b>The subordinated debt comprises the following:</b>		
<b>Supplementary capital of EUR 15m</b>	<b>111,849</b>	<b>111,840</b>
The loan carries interest paid bi-annually in arrears at 6-month Euribor rate in EUR plus a margin of 1.05% p.a. of face value from 31.10.2005 until 31.10.2010. From 31.10.2010 until 31.10.2013 the margin stands at + 2.55% p.a. and from 31.10.2013 until 31.10.2015 + 2.8% p.a.		
The loan is instalment free and payable at the price of 100 on 31.10.2015.		
The loan is irredeemable during its entire life on the part of the lender. vestjyskBANK holds the option, with the approval of the Danish Financial Supervisory Authority, to prepay the loan on 31.10.2010 at the price of 100 when serving notice at least 30 calendar days in advance.		
The loan is fully included in the statement of the capital base.		
<b>Supplementary capital of DKK 100m</b>	<b>100,000</b>	<b>100,000</b>
The loan carries interest paid quarterly in arrears at 3-month CIBOR rate plus a margin of 1.0% p.a. of the face value from 01.11.2005 until 01.11.2010. From 01.11.2010 until 01.11.2013 the margin stands at + 2.5% p.a.		
The loan is instalment free and payable at the price of 100 on 01.11.2013.		
The loan is irredeemable during its entire life on the part of the lender. vestjyskBANK holds the option, with the approval of the Danish Financial Supervisory Authority, to prepay the loan on 01.11.2010 at the price of 100 when serving notice at least 30 calendar days in advance.		
The loan is fully included in the statement of the capital base.		
<b>Supplementary capital of NOK 135m</b>	<b>126,239</b>	<b>122,189</b>
The loan carries interest paid quarterly in arrears at 3-month NIBOR rate plus a margin of 0.75% p.a. of the face value from 16.05.2006 until 16.05.2011. From 16.05.2011 until 16.05.2014 the margin stands at + 2.25% p.a.		
The loan is instalment free and payable at the price of 100 on 16.05.2014.		
The loan is irredeemable during its entire life on the part of the lender. vestjyskBANK holds the option, with the approval of the Danish Financial Supervisory Authority, to prepay the loan on 16.05.2011 at the price of 100 when serving notice at least 30 calendar days in advance.		
The loan is fully included in the statement of the capital base.		

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Note no.	2007 DDK t	2006 DDK t
<b>25. Subordinated debt (continued)</b>		
<b>Supplementary capital of DKK 100m</b>	100,000	0
The loan carries interest paid quarterly in arrears at 3-month NIBOR rate plus a margin of 0.95% p.a. of the face value from 01.05.2007 until 01.05.2012. From 01.05.2012 until 01.05.2015 the margin stands at + 2.45% p.a.		
No costs have been charged in connection with raising the loan		
The loan is instalment free and payable at the price of 100 on 01.05.2015.		
The loan is irredeemable during its entire life on the part of the lender. vestjyskBANK holds the option, with the approval of the Danish Financial Supervisory Authority, to prepay the loan on 01.05.2012 at the price of 100 when serving notice at least 30 calendar days in advance.		
The loan is fully included in the statement of the capital base.		
<b>Total subordinated debt</b>	438,088	334,029
<b>26. Share capital</b>		
Number of shares of DKK 10 (no. of units)	8,600,000	8,800,000
Total share capital	86,000	88,000
<b>27. Own shares</b>		
<b>Beginning of year</b>		
Number of own shares in units of 1,000	136	476
Face value in DKK 1,000	1,361	4,760
Percentage of share capital	1.5%	5.3%
<b>Additions</b>		
Acquisition of own shares in units of 1,000	1,032	578
Face value in DKK 1,000	10,320	5,784
Percentage of share capital	12.0%	6.6%
Total acquisition price in DKK 1,000	322,501	166,737
<b>Outflow</b>		
Sale of own shares in units of 1,000	633	721
Own shares annulled in units of 1,000	200	197
Total outflow in units of 1,000	833	918
Face value in DKK 1,000	8,328	9,183
Percentage of share capital	9.7%	10.4%
Total sales price in DKK 1,000	199,104	208,286
<b>End of year</b>		
Number of own shares in units of 1,000	335	136
Face value in DKK 1,000	3,353	1,361
Percentage of share capital	3.9%	1.5%
Trading of own shares is part of the Bank's general share trading.		

# Notes to the Annual Report

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Note no.	2007 DDK t	2006 DDK t
<b>28. Contingent liabilities</b>		
<b>Guarantees</b>		
Financial guarantees	1.625.978	1.765.974
Loss guarantees for mortgage credit loans	1.896.413	1.702.327
Land registration and conversion guarantees	380.295	113.847
Other guarantees	1.536.204	1.026.389
Total guarantees, etc.	5.438.890	4.608.537
<b>Other contingent liabilities</b>		
Other liabilities	2.803	2.856
Total other contingent liabilities	2.803	2.856
<b>29. Capital requirement</b>		
Shareholders' equity at end of year	1.714.041	1.656.070
Proposed dividends	-43.000	-44.000
Revaluation reserves	-15.750	-15.750
Other deductions in core capital	-59.625	-2.000
Core capital after deductions	1.595.666	1.594.320
Subordinated loan capital	438.088	334.029
Revaluation reserves	15.750	15.750
Capital base before reductions	2.049.504	1.944.099
Deductions in capital base	-54.848	-117.561
Capital base after reductions	1.994.656	1.826.538
Total weighted items	21.913.315	16.226.716
Core capital after deductions in percent of total weighted items	7.3%	9.8%
Solvency ratio according to Section 124(2) of the Danish Financial Business Act	9.1%	11.2%
<b>30. Hedge accounting</b>		
To cover interest rate risks, the following have been hedged:		
<b>Bonds</b>	157.465	84.169
Covered through swap agreements		
Synthetic principal	168.023	86.000
Current value	4.804	1.717
<b>Loans and advances at amortised cost price</b>	152.507	175.361
Covered through swap agreements		
Synthetic principal	152.507	175.361
Current value	4.576	3.149
<b>Deposits</b>	590.000	850.000
Covered through swap agreements		
Synthetic principal	590.000	850.000
Current value	-5.999	-12.520

# Notes to the Annual Report

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Note no.	2007 DDK t	2007 DDK t	2006 DDK t	2006 DDK t
	Nominal value	Net market value	Nominal value	Net market value
<b>31. Derivative financial instruments</b>				
<b>Foreign exchange contracts</b>				
Forward contracts/futures, purchase	3,095,004	-4,029	2,275,043	-59,078
Forward contracts/futures, sale	2,884,359	48,216	1,200,702	17,770
Options, acquired	85,105	0	18,685	0
Options, issued	857,018	0	22,413	0
<b>Interest rate contracts</b>				
Forward contracts/futures, purchase	273,438	-344	209,775	-104
Forward contracts/futures, sale	26,414	197	47,585	-51
Swaps	2,237,069	384	1,721,858	-9,485
<b>Share contracts</b>				
Forward contracts/futures, purchase	25	109	0	0
Forward contracts/futures, sale	25	-109	0	0
Options, acquired	79	0	97	2,306
Options, issued	131	-44	174	-2,491
<b>Total net market value</b>		44,380		-51,133
All contracts regarding financial instruments are non-guaranteed.				
<b>Maturity distribution by term to maturity - up to 3 months</b>				
<b>Foreign exchange contracts</b>				
Forward contracts/futures, purchase	1,029,966	-6,894	927,321	-3,945
Forward contracts/futures, sale	2,617,882	19,849	982,724	8,531
Options, acquired	85,105	0	10,193	0
Options, issued	111,358	0	13,921	0
<b>Interest rate contracts</b>				
Forward contracts/futures, purchase	273,438	-344	204,282	-214
Forward contracts/futures, sale	26,414	197	41,001	48
Swaps	590,000	1,976	400	1
<b>Share contracts</b>				
Forward contracts/futures, purchase	25	109	0	0
Forward contracts/futures, sale	25	-109	0	0
Options, acquired	79	0	71	406
Options, issued	131	-44	148	-591

# Notes to the Annual Report

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Note no.	2007 DDK t		2006 DDK t	
	Nominal value	Net market value	Nominal value	Net market value
<b>31. Derivative financial instruments (continued)</b>				
<b>Maturity distribution by term to maturity - from 3 months up to 1 year</b>				
<b>Foreign exchange contracts</b>				
Forward contracts/futures, purchase	326,222	-4,321	320,433	-376
Forward contracts/futures, sale	257,341	28,112	217,978	9,239
Options, acquired	0	0	8,492	0
Options, issued	745,660	0	8,492	0
<b>Interest rate contracts</b>				
Forward contracts/futures, purchase	0	0	5,493	110
Forward contracts/futures, sale	0	0	6,584	-99
Swaps	1,050,000	-7,676	538,508	-45
<b>Maturity distribution by term to maturity - from 1 to 5 years</b>				
<b>Foreign exchange contracts</b>				
Forward contracts/futures, purchase	1,738,816	7,186	1,027,289	-54,757
Forward contracts/futures, sale	9,136	255	0	0
<b>Interest rate contracts</b>				
Swaps	313,634	-1,872	953,352	-12,890
<b>Share contracts</b>				
Options, acquired	0	0	26	1,900
Options, issued	0	0	26	-1,900
<b>Maturity distribution by term to maturity - from 5 years and beyond</b>				
<b>Interest rate contracts</b>				
Swaps	283,435	7,956	229,598	3,449
<b>32. Unsettled spot transactions</b>				
Foreign exchange transactions, bid	195,419	-44	22,830	0
Foreign exchange transactions, call	43,331	10	10,949	3
Interest rate transactions, bid	56,635	7	42,652	-9
Interest rate transactions, call	50,787	38	30,159	39
Share transactions, bid	16,702	-480	184,178	252
Share transactions, call	12,389	-153	184,331	-255
<b>Total</b>	<b>375,263</b>	<b>-622</b>	<b>475,099</b>	<b>30</b>

# Board of Representatives, Board of Directors and Executive Management 62

## Board of Representatives

- Christian Pedersen, Managing Director, Holstebro (Chairman)
- Viggo Jensen, Veterinarian, Fabjerg (Vice-Chairman)
- Jørgen Krarup Andersen, Specialist Worker, Harboøre
- Niels Chr. Andersen, Architect, Holstebro
- Niels Jørgen Lund Andersen, Veterinarian, Bækmarksbro
- Erik Bach, Managing Director, Lemvig
- Jan Erik Bach, Managing Director, Århus
- Anders Bech, Managing Director, Holstebro
- Ivan Bertelsen, Master Mason, Lemvig
- Hans Chr. Brich Hansen, Carpet Merchant, Holstebro
- Anton Bro, Civil Engineer, Harboøre
- Niels Bækdal, Engineer, Lemvig
- Poul Frandsen, Managing Director, Lind
- Peter Grankær, Managing Director, Lemvig
- Peter Helm, Leather Goods Dealer, Holstebro
- Mette Hilligsøe, Floral Decorator, Lemvig
- Hartmann Jensen, Managing Director, Holstebro
- Jeppe Jepsen, Certified Electrician, Nr. Nissum
- Henrik Kallesøe, Furniture Dealer, Lemvig
- Ejnar Kerstens, Engineer, Randers
- Steen Kisselhegn, Managing Director, Holstebro
- Lauge Kjelsmark, Farm Owner, Holstebro
- Niels Kjærgaard, Dentist, Lemvig
- Erling Kvist, Farm Owner, Lomborg
- Wiktor Lange, Purchasing Manager, Holstebro
- Søren Broe Langer, Fishing Vessel Master, Harboøre
- Kirsten Lundgaard-Karlshøj, Farm Owner, Struer
- Hans Steen Marrebæk, Farm Owner, Snedsted
- Peter Mortensen, Butcher, Lemvig
- Vibeke Korup Nielsen, Veterinarian, Holstebro
- Kurt Nygaard, Chairman, Holstebro
- Jørgen Nørby, Lecturer, Nr. Nissum
- Winnie Cordt Møller, Chiropractor, Lemvig
- Gustav Roslev, Managing Director, Viborg
- Jytte Seiling, Midwife, Fabjerg
- Bjarne Møller Simonsen, Pharmacist, Lemvig
- Peder Thomsen, Smallholder, Sir

# Board of Representatives, Board of Directors and Executive Management 63

## Board of Directors and Executive Management

### Board of Directors

- Anders Bech, Managing Director, Holstebro (Chairman)  
60 years old    Election term 2006-2009
- Peter Grankær, Managing Director, Lemvig (Vice-Chairman)  
66 years old    Election term 2007-2009
- Søren Broe Langer, Fishing Vessel Master, Harboøre  
65 years old    Election term 2007-2010
- Kirsten Lundgaard-Karlshøj, Farm Owner, Struer  
56 years old    Election term 2006-2009

### Elected by employees:

- Peder Hesselaa Nielsen, Key Account Manager, Århus  
46 years old    Election term 2007-2010
- Peter Bækkelund Rasmussen, Retail Customer Manager, Holstebro  
40 years old    Election term 2007-2010

### Executive Management

- Frank Kristensen, Managing Director

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