2012

vestjyskBANK **Risk Report**

vestjyskBANK

Introduction

The present Risk Report was prepared in accordance with the rules and regulations set out in Danish Executive Order on Capital Adequacy (Column III), with which banks are required to comply with respect to the publication of risk disclosures. Reporting in accordance with the disclosure requirements take place annually in connection with the presentation of the annual financial statements, while the individual solvency need is published quarterly. Unless otherwise indicated, the disclosures provided in this Risk Report pertain to 2012. These disclosures have not been audited by internal or external auditors.

The report is posted at vestjyskBANK's website. The Bank also provides disclosures related to Group-related risks and risk management in the Annual Report. We have numbered the disclosures in the Risk Report so that they correspond to the numbering of the individual sections in Annex 20 of the Danish Executive Order on Capital Adequacy.

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1. Objectives and risk policies

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

vestjyskBANK's risk policy is cautious, and its ambition is always to maintain an asset portfolio of superior quality in order to ensure that future decisions are based on a solid foundation.

The Bank's risk exposure is a central consideration in all the Bank's transactions with customers and trading partners as well as those performed on its own account. The Bank does not enter into transactions without considering which risks it will incur as a result of the transaction.

The Bank's general policy within the area is detailed in vestjyskBANK's business plan.

Organisation

vestjyskBANK maintains a functional division between units that are transacting business with clients and are otherwise exposing the Bank to risks, and units concerned with general risk and capital management functions; these are controlled by a separate unit.

The Bank's overall risk management is centralised across the Credit Department, the Credit Secretariat, Markets & Advisory Services as well as Finance & Risk Management.

The Credit Department and the Credit Secretariat handle credit-related control and risk management.

Finance & Risk Management is responsible for the Bank's equity risk, liquidity and its own holdings of securities. This is where the Bank's liquidity and interest rate and foreign exchange rate positions are managed.

Markets & Advisory Services is responsible for market risks that can attributed to customers.

Finance & Risk Management manages most control areas and is responsible for maintaining the Bank's control systems on an ongoing basis, including the Bank's individual solvency need.

The Bank maintains a compliance function. This function is designed to ensure that the Bank complies with current legislation and orders issued by government agencies at all times and that the Bank's has sufficient and current procedures in place.

vestjyskBANK divides risk into the following categories:

- Market risk
- Credit risk
- Operational risk
- Liquidity risk
- Business risk, etc.
- Capital base risk (solvency need)

Market risk

Definition

Market risk is defined as the risk of losses resulting from changes in the market value of assets or liabilities related to changes in market conditions.

Objectives and policies relating to management of market risk

The Bank’s market risks are, among other things, managed via established limits across a number of risk targets that, combined, cover the individual risk types. The framework for the Bank’s overall market risk is defined by the Bank's Supervisory Board and delegated as a framework to the Executive Board. The Executive Board delegated risk limits to the relevant vice president as well as the head of investments. The head of investments may, in full or in part, delegate his authority to employees within the trading area; and the relevant vice president may, in full or in part, delegate his authority to the head of liquidity.

Market risk comprises interest rate, foreign exchange and equity risk as affected by both general and specific market fluctuations. Market risk is a natural part of the Bank’s risk profile, since client trading in securities and foreign currencies are of major significance to the Bank’s total earnings and are thereby part of the Bank’s core activities. The Bank’s liquidity is also invested in securities with market risk exposure.

In specific areas, the Bank uses derivative financial instruments for hedging and managing market risks. The Bank’s customers also use derivative financial instruments. Derivative financial instruments are included in the determination of the Bank’s market risk for the underlying risk areas.

Structure of Bank’s management of market risks

The Bank’s investment portfolio is characterised by exclusively containing equity securities in other enterprises with which the Bank is maintaining strategic and long-term collaboration. The purchase and sale of equity investments are strategic decisions performed on the basis of considerations made by the Executive Board. The Bank has determined that it is only the Bank's strategic equity investments that will not be classified as held for trading.

Risk reporting and measurement of credit risk

The Supervisory Board is briefed regularly on risk developments and how the allocated risk framework is being exercised.

The Executive Board receives daily reports on developments in material market risks as well as cases where the framework provided by the Supervisory Board to the Executive Board has been exceeded.

Trade into and from the trading portfolio are monitored daily. Instances where the limit is exceeded are reported to the Supervisory Board. Applied prices and rates are monitored on an ongoing basis and the prices of unlisted securities are verified quarterly.

Systems and controls for managing market risk

Monitoring established policies and instructions with respect to market risk resides with Finance and Risk Management for the following tasks:

- Daily follow-up of compliance with Supervisory Board’ instructions to the Executive Board;
- Daily follow-up of compliance with the Executive Board’s delegated instructions to the head of investments and the vice president;
- Price verification in relation to market prices for trading in securities and financial instruments;
- Ongoing assessment and reporting of potential risks related to the Bank’s trade in securities and financial instruments; and
- Assessment of risk of new products subject to market risk.

Credit risk

Definition
Risk of loss as a result of customers' default on their payment obligations in full or in part.

Organisation
The credit area is organised into

A **credit department** with general responsibility for

- establishing and intermediating the Bank's credit policy,
- granting and establishing approval limits,
- general management of commitments, incl. the handling of overdrafts and arrears,
- preparing pricing policies in the area, and
- reviewing commitments and preparing proposals for impairment and provision needs.

A **credit secretariat** with general responsibility for

- managing the credit area in compliance with the applicable rules and regulations,
- performing independent controls and reporting within the credit area,
- implementing new laws and rules within the credit area, and
- the administrative management of the Bank's impairments and provisions.

Objectives and policies for managing market risk
The Bank focuses on its credit risks' being soundly diversified across the asset mass, including customer types, geographic location, industry segments, commitment creditworthiness as well as the various types of collaterals accepted.

Certain industry segments are not permitted to constitute a disproportionally high credit risk. The strategy for portfolio allocation is measured annually for industry segments. The Bank is reluctant to extend credit to enterprises in industry segments with which it has little experience in assessing risk, and our requirements are stricter when extending credit to enterprises operating within industry segments considered weak and cyclical in nature.

For the corporate customer segment, the Bank primarily caters to small and medium-sized enterprises.

vestjyskBANK's policy is that it, in principle, will not accept commitments that represent more than 10 percent of its capital base. Approved commitments greater than the 10 percent specified above must be accompanied by an action plan for when and how the amount can be accommodated by the 10-percent rule.

The Bank is not working proactively with loan-financed securities investments.

Commitments classified as weak in terms of credit may, in principle, only be raised against the provision of full collateral.

Structure of Bank's management of credit risk

At vestjyskBANK, credit approval authority is based on a cautious delegating policy. The Supervisory Board's powers to the Executive Board are delegated to the Finance Director, who in turn delegates to individual employees.

In order to ensure that credit assessment is optimised, approval powers are delegated in such a manner that each branch manager has the authority to approve credit in consideration of, among other things, the size of the branch, the experience of the branch manager as well as operational area.

Commitments that exceed the branch manager's approval authority are transferred for review by the Credit Department. Depending on the amount of the commitment, the credit inquiry will be approved by the Credit Department, the Credit Director, the Executive Board or, ultimately, the Supervisory Board. Throughout the branch network, the delegated approval powers are structured so that all corporate customer commitments as well as major retail customer commitments will be reviewed by a minimum of two persons.

In performing credit analyses of business commitments, vestjyskBANK emphasises that the customer's business concept is sound and sustainable and that he or she is in possession of the requisite competencies. An important component in the Bank's credit analyses is reviewing the customer's financial statements and budgets.

For credit analyses of retail customers, the customer's disposable funds and his or her assets are the decisive factors.

All customers are classified by credit risk. This segmentation is constantly reassessed and is a component in the Bank's pricing structure in order to ensure that prices and risks remain in balance.

The distribution of industry segments across commitments are monitored on a quarterly basis to ensure that certain industry segments do not constitute a disproportionate risk to the Bank. Similarly, the Bank monitors developments in commitments by risk categories.

All overdrafts with balance movements are examined by the relevant customer representative daily. The customer representative will examine all overdrafts regardless of account movements once monthly. The Credit Department reviews all daily overdrafts of DKK 100,000 and more as well as all daily overdrafts of DKK 25,000 and more for commitments exhibiting weakness.

The Bank is paying close attention to warning signs in its daily handling of commitments. Commitments exhibiting weakness are flagged and commitments for which direct impairments/provisions have been made due to objective indication of value impairment are handled almost exclusively by the Credit Department, the Credit Director and the Executive Board. The individual branch manager only has negligible authority to review such commitments.

Commitments exhibiting weakness are monitored closely. Action plans as well as cautious risk estimates are drawn up for commitments for which impairments/provisions have been made; these are reassessed quarterly. Cases involving distressed corporate client commitments are handled by the individual branches in close contact with the Credit Department and the Bank's legal function. All collection proceedings involving retail customers are handled by collection officers at the Credit Secretariat.

In 2012, a Task Force Group was established in the Credit Department. It reports directly to the Credit Director and is tasked with handling particularly complex corporate commitments.

Risk reporting and measurement of credit risk

The Credit Department reviews all major corporate commitments annually for re-approval. It also reviews all commitments above DKK 10 million, commitments with impairments of DKK 1 million and over as well as commitments of DKK 1 million and over that have been flagged as exhibiting weakness. The review includes analyses of accounts and budgets as well as of commitments exhibiting weakness and action plans.

In the same manner, individual branches review all other commitments with an emphasis on identifying commitments that are or may be in the process of exhibiting signs of weakness. The Credit Secretariat quarterly reports developments as well as status of credit-related risks to the Executive Board and Supervisory Board.

The report includes:

- A status report on credit analyses of the individual branches;
- An overview of major commitments;
- Overdraft statistics;
- A briefing on major overdrafts;
- Distribution by industry segments, including developments by individual industry segment groups;
- Migration of customers' risk classification; and
- Trends in impairments and provisions.

Once annually, the Supervisory Board is presented with approx. 125 of the largest credit commitments that exhibit the strongest signs of weakness.

Methods of hedging and mitigating risk

In Danish Executive Order on Capital Adequacy, there are special requirements for banks that apply the rules to determine credit risk mitigation. Meeting these requirements is a precondition for the Bank's ability to reduce exposures for which collaterals have been accepted in financial guarantees and properties.

As in previous years, vestjyskBANK measured credit risk applying the standardised approach also in 2012.

Systems and controls for managing credit risk

In addition to daily and periodically used systems for managing and controlling credit risk, the Bank has created a system for flagging commitments exhibiting warning signs of weakness.

Operational risk

Definition

Operational risk is defined as the risk of losses associated with internal and external conditions caused by inappropriate or defective internal procedures, human or system-related errors as well as external conditions, including legal risks.

Operational risk management policy and objectives

The policy defines the types of events considered to be operational risks and identifies registration and reporting requirements.

The Bank's goal is for operational risks to remain limited taking into account associated costs.

In order to minimise the Bank's dependency on individuals and to ensure that transactions, etc. are entered into in accordance with the Bank's adopted policy, the Bank has written operational procedures in place for all major areas. The Bank also has IT contingency plans in place to limit losses in case of failing IT systems or other similar crises.

Systems and controls for managing operational risk
The Bank is constantly developing tools to identify, monitor and manage daily risks to which the Bank is exposed.

Finance & Risk Management retains coordinating and general responsibility for operational risks. Finance & Risk Management submits quarterly reports to the Executive and Supervisory Boards on operational risks.

Liquidity risk

Definition
Liquidity risk is defined as the risk of incurring losses due to the Bank's inability to meet its payment obligations using its normal liquidity reserves.

Objectives and policies for managing liquidity risk
Measured in relation to statutory requirements, the Bank's goal is to maintain a liquidity surplus of at least 50 percent, in order to comply with the surplus liquidity requirements set out by the Supervisory Diamond and to ensure that there is sufficient liquidity to cover ongoing liquidity need fluctuations.

The general purpose of the Bank's liquidity management is

- to monitor and manage the development of the Bank's short-term and long-term liquidity, and
- to ensure that the Bank has sufficient liquidity at its disposal at all times in Danish kroner as well as foreign currencies.

The Bank's general liquidity policy is to maintain a sound and well-diversified funding base spread out across several funding sources, including geographical distribution, use of several different funding structures as well as a balanced distribution across loan maturities.

The liquidity need is planned in both the long and the short term for the purpose of ensuring a sufficient and stable level of liquidity preparedness. The Bank primarily seeks to produce liquidity through its depositors by offering attractive deposit products. Additional liquidity needs are covered by raising loans from Danmarks Nationalbank. The money markets are used to offset daily fluctuations in liquidity.

In order to create a solid platform for the Bank's future, the Bank is sharpening its focus on the relationship between its deposits and lending. In the future, the Bank will therefore be placing greater emphasis on increasing deposits in relation to lending.

Structure of Bank's liquidity risk management
The Supervisory Board determines the size of the desired risk profile and adopts liquidity goals through its liquidity policy and adopted liquidity preparedness plan. The Executive Board is responsible for complying with the targets/framework set out in the mandate granted by the Executive Board.

The Bank's immediate liquidity preparedness is determined applying the guidelines set out in section 152 of the Danish Financial Business Act. The general liquidity risk is determined based on budgets, historical and statistical materials as well as future receipts and payments from concluded transactions.

The Bank performs monitoring on an ongoing basis of all major financing sources, including maturity, distribution across counterparties, geographical location, etc. and emphasises solid, general diversification with a special focus on customer deposits.

Risk reporting and measurement of liquidity risk

The Bank performs continuous assessments of future liquidity needs and reports to the Supervisory Board on a monthly basis. Among other things, the model ensures that the Bank is liquid in relation to its risk profile, strategy and earnings forecast.

The Bank's cash management is based on the law as well as the mandate granted by its Executive Board. These management parameters are all determined and included in the Bank's statement and are also reported daily to the Executive Board and senior executives as well as included in the monthly Supervisory Board report.

Systems and controls for managing liquidity risk

The Bank employs the liquidity forecasting and stress-testing model approved by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter).

Business risk

Definition

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

Objectives and policies for managing business risk

The Bank's Supervisory Board believes that focusing on building and maintaining strong relationships with all its stakeholders—shareholders, customers, suppliers, employees and thereby also the local communities where the Bank operates—is considered the foundation for vestjyskBANK's continued success and its opportunities for growth.

This is reflected in the Bank's mission and vision, which seek to promote the whole in relation to individual interests. The Bank's core values are a natural part of the manner in which vestjyskBANK carries out its activities.

For the purpose of ensuring that its employees' competencies always correspond to what is required by an enterprise of vestjyskBANK's size, the Bank's policy is for its employees to continue to develop through further training.

Structure of Bank's management of business risk

The Bank has a permanent procedure in place for approving new products to ensure that the Bank does not offer products that have not received proper prior authorisation.

For the purpose of ensuring the best possible product offerings to its customers as well as optimal support for the Bank, the Bank is collaborating with a well-established network of competent partners. Here, the Bank is well represented in various collaboration forums, which provides vestjyskBANK with a great degree of influence.

The Bank is consistently seeking to ensure that its dependency on these partners is minimised.

Systems and controls for managing business risk

The compliance function ensures that procedures are prepared for the central areas of finance laws and regulations. Thus, the procedures apply to proper conduct, investor protection, money laundering, processing of personal data, employee transactions with securities, and customer complaints, etc.

Capital base risk

Definition

Capital base risk is defined as the risk of losses incurred from the Bank’s not having sufficient capital to meet its solvency requirements and, if greater, its solvency needs.

Objectives and policies for managing capital base risk

Management establishes a solvency target that is included in the Bank’s capital management.

Structure of Bank's management of capital base risk

The Supervisory Board sets the solvency targets and criteria for determining solvency needs. The Executive Board is responsible for complying with the targets and framework. The Bank’s capital base is determined in accordance with Danish Executive Order on Calculation of Capital Base and in accordance with the capital preparedness plan that the Bank has established. Finance and Risk Management performs ongoing monitoring of the capital base and its structure.

Risk reporting and measurement of capital base risk

Reports relating to the Bank’s solvency are submitted to the Executive Board on an *ad hoc* basis, and to the Supervisory Board on a monthly basis.

2. Scope

The Bank’s disclosure requirements cover the parent company Vestjysk Bank A/S as well as the subsidiary Centerfinansiering A/S, which are included in the consolidated financial statements.

3. Capital base

The capital base is determined in accordance with the rules set out in Danish Executive Order on Calculation of Capital Base. The capital base comprises core capital and subordinated capital in the form of hybrid core capital and tier 2 capital as well as deductions made from these. The calculation of the capital base is shown in the table below.

	Calculation of consolidated capital base at 31 Dec 2012	TDKK
1	Actual core capital	**913.411**
	Share capital	612,889
	Retained earnings	300,522
2	Primary deductions from actual core capital	**8,978**
	Intangible assets	8,978
3	Actual core capital after primary deductions	**904,433**
4	Hybrid core capital	540,434
5	Core capital including hybrid core capital after primary deductions	**1,444,867**
6	Other deductions from the core capital	**50,538**
	Accumulated value adjustments of hedging instruments in hedging cash flows	-6.321
	Half of the total of equity interests, etc. >10 %	56.859
7	Core capital including hybrid core capital less deductions	**1,394,329**
8	Tier 2 capital	**1,444,869**
	Subordinated loan capital	477,327
	Revaluation reserves	55,433
	Hybrid core capital	912,109
9	Included tier 2 capital	**1,444,869**
10	Capital base before deductions	**2,839,198**
11	Deductions from capital base	**56,859**
	Half of the sum of equity interests etc. > 10%	56.859
12	Capital base after deductions	**2,782,339**

4. Solvency requirements and adequate capital

4. a. Method

By law, the Supervisory and Executive Boards are required to establish vestjyskBANK's individual solvency need. In determining the Bank's solvency need, the Bank's Management has decided to employ a template prepared by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter) as well as applying the Financial Supervisory Authority's "Guidelines on Adequate Capital Base and Solvency Needs of Banks." The model, process and method are detailed in section 5-10 Individual solvency needs.

4. b. Group's risk-weighted items and capital requirements for individual exposure categories

vestjyskBANK applies the standardised method for credit risk in measuring risk-weighted items. The table below lists the Bank's risk-weighted items as well as the 8% capital requirement for each individual exposure category.

Risk-weighted exposures	31 Dec 2012 TDKK	Capital requirement (8% of exposure) TDKK
Calculation of risk-weighted items:		
Exposures to central government or central banks	0	0
Exposures to regional or local government authorities	0	0
Exposures to public entities	3	0
Exposures to multilateral development banks	0	0
Exposures to international organisations	0	0
Exposures to institutes	504,115	40,329
Exposures to business enterprises etc.	13,906,050	1,112,484
Exposures to retail customers	6,267,897	501,432
Exposures secured with mortgages in real property	1,220,217	97,617
Exposures which are in arrears or overdrawn	94,099	7,528
Covered debt securities	0	0
Exposures to business enterprises etc. with short-term credit assessment	0	0
Exposures to collective investment funds	0	0
Other exposures, including assets without counterparties	612,522	49,002
Credit-risk weighted items, total	**22,604,903**	**1,808,392**

4. c. Internal ratings-based approach

vestjyskBANK does not apply an internal ratings-based approach to credit risk to calculate its risk-weighted items. The disclosure requirement is therefore not relevant to vestjyskBANK.

4. d. Bank's solvency requirements for market risks

The table below shows the Bank's solvency requirements for market risks at 31 December 2012.

Solvency requirements for market risks	Risk-weighted items TDKK	Capital requirement (8% of exposure) TDKK
Debt instruments	859,573	68,766
Equity	74,394	5,952
Collective investment plans	6,104	488
Foreign exchange risk	0	0
Weighted items, total	**940,071**	**75,206**

As indicated in the overview, foreign exchange risk has been recognised at DKK 0. The reason for this is that inclusion of foreign currency positions are only required if they exceed 2% of the capital base. At 31 December 2012, the foreign currency position was below 2% of the capital base of vestjyskBANK.

4. e. Solvency requirements for operational risk

vestjyskBANK uses the basic indicator approach to calculate the solvency requirement for operational risks. The solvency requirement for operational risks was calculated at TDKK 166,957 at 31 December 2012 (8% of TDKK 2,086,958). 5. – 10. Individuelt solvensbehov

5. – 10. Individual solvency needs

5. a. Internal process for calculating adequate capital base and solvency need

vestjyskBANK's internal process for assessing and determining its solvency need—the Internal Capital Adequacy Assessment Process (ICAAP)—is the Bank's basis for establishing the Bank's adequate capital base and solvency needs. In the ICAAP, the Bank identifies the risks to which vestjyskBANK is exposed for the purpose of assessing its risk profile. Once the risks have been identified, it is assessed how these might be reduced through, e.g. business procedures, contingency plans, etc. Finally, the Bank will asses the risks that need to be hedged with capital.

The solvency need is vestjyskBANK's own assessment of its capital need as a result of the risks it incurs. The Bank's Supervisory Board has discussions quarterly regarding establishing its solvency need. The discussions are based on the Executive Board's recommendation. The recommendation will contain proposals regarding the amount of the solvency need, including stress levels and growth outlooks. This also applies if the Financial Supervisory Authority's benchmarks are applied. Based on those discussions, the Supervisory Board will make a determination with respect to the calculation of the Bank's solvency need, which must be adequate to cover the risks of the Bank, *cf.* section 124(1) and (4) of the Danish Financial Business Act.

In addition to those discussions, the Supervisory Board also meets once a year to discuss the method of calculating the Bank's solvency need, including relevant risk areas and benchmarks for calculating the solvency need.

The solvency need is determined using an 8+ approach, which comprises the types of risks that the Supervisory Board has determined should be hedged with capital: Credit risk, market risk, operational risk, other risks as well as others related to statutory requirements. The assessment will be based on the Bank's risk profile, capital structure as well as prospective considerations that may affect the assessment, including the budget.

5. b. Methods for determining adequate capital base and solvency needs

The Financial Supervisory Authority has issued a publication entitled "Guidelines on Adequate Capital Base and Solvency Needs of Banks." In addition to that, the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark (Lokale Pengeinstitutter) has issued a solvency need model. Both the Financial Supervisory Authority's guidelines and the Association of Local Bank's solvency need model used by vestjyskBANK are based on the 8+ method, which is based on the 8% minimum requirement for risk-weighted items (Column I requirement) plus risks and conditions not fully reflected in the calculation of risk-weighted items.

Additionally, the Financial Supervisory Authority's guidelines establish benchmarks for when, in the Financial Supervisory Authority's assessment, Column I is not sufficient within the individual risk areas and wherefore the solvency need allocation should be supplemented. Furthermore, extensive methods for calculating supplemental amounts have been put in place within the individual risk areas.

The Financial Supervisory Authority establishes benchmarks in most areas. However, vestjyskBANK still performs an assessment across all areas whether the indicated benchmarks take the Bank's risks sufficiently into account and whether, to the extent necessary, it has performed individual adjustments. For that purpose, vestjyskBANK uses its own historical data.

In vestjyskBANK's opinion, the risk factors included in the model cover all the risk areas that the Bank's Management should take into account under the law in setting its solvency need as well as the risks that Management finds that vestjyskBANK has assumed.

The Executive and Supervisory Boards are furthermore required to assess whether the capital base is sufficient for supporting future activities. This assessment forms part of determining the general solvency need at vestjyskBANK.

6. Adequate capital base and solvency need

Adequate capital base and individual solvency needs are calculated as distributed across the risk areas below.

	Calculation of the consolidated solvency need at 31 Dec 2012	Amount in TDKK	%
1	Column I requirement (8% of risk-weighted items)	2,047,584	8.0
+2	Earnings (capital for risk coverage as a result of weak earnings)	0	0.0
+3	Growth in loans (capital to cover organic growth in business volume)	0	0.0
+4	Credit risks, of which		
4a	Credit risks for major customers (2% of capital base) with financial problems	407,872	1.5
4b	Other credit risks	37,330	0.2
4c	Concentration risk of individual commitments	17,722	0.1
4d	Concentration risk by industry segments	0	0.0
+5	Market risk, of which		
5a	Interest rate risk	50,000	0.2
5b	Equity risk	0	0.0
5c	Exchange rate risk	0	0.0
+6	Liquidity risk (capital for coverage of more expensive liquidity)	0	0.0
+7	Operational risk (capital for coverage of operational risk in addition to Column I)	0	0.0
+8	Any supplementary items as a result of statutory requirements	0	0.0
	Total capital need/solvency need	**2,560,508**	**10.0**

7. Commentary on solvency need

Column I requirement (8% of risk-weighted items)

vestjyskBANK is subject to the requirement set out in section 124(2)(1) of the Danish Financial Business Act that solvency must, at a minimum, constitute 8% of risk-weighted items.

Credit risk

Credit risk covers the risk of losses from debtors or counterparties defaulting on their payment obligations, apart from what is covered by Column I, including major customers with financial problems, concentration risk across individual commitments and industry segments.

Major customers with financial problems

For major customers with financial problems, assessments are made based on the cautiously estimated loss for the individual commitment. Customers with financial problems comprise the following:

- Customers with objective indication of value impairment (OIV) credit quality category 1,
- Customers with material signs of weakness but without OIV, credit quality category 2c.

Major commitments are commitments constituting at least 2% of the capital base.

The cautiously estimated loss represents the “net loss” that, based on a cautious and prospective assessment, may be lost if major commitments with customers with financial problems have to be settled due to payment default.

Other credit risks

The Bank performs an assessment of whether there special credit risks exist in the general credit portfolio (commitments below 2% of the capital base) not covered by the Column I requirement. For these commitments, the Bank has assessed that it will add a supplementary TDKK 37,330.

Concentration risk across individual commitments

Concentration risk across individual commitments represents the risk associated with the distribution across commitment amounts in the loan portfolio. The Bank determines the supplementary amount for concentration risk across individual commitments based on the Financial Supervisory Authority’s "Guidelines on Adequate Capital Base and Solvency Needs of Credit Institutions.” In accordance with these guidelines, amounts must be added if the sum of the 20 largest commitments is greater than 4 percent of the commitment mass.

A supplement is required because the 20 largest commitments constitute 14 percent. In 2012 and 2013, the supplement is weighted at 50 percent. The supplement will be phased in as of 2014. The Bank has calculated a supplement of TDKK 17,722.

Concentration risk by industry segments

The concentration risk by industry segments covers risk associated with commitments' distributed across relatively few industry segments. The Bank determines the supplementary amount for concentration risk across industry segments on the Financial Supervisory Authority’s "Guidelines on Adequate Capital Base and Solvency Needs of Credit Institutions.” In accordance with these guidelines, the Bank uses the Herfindahl-Hirschman Index (HHI) to measure the degree of concentration across industry segments. Based on the HHI, the supplement is calculated as set out in the table on the next page.

HHI	Supplement for adequate capital base/solvency need
HHI < 20%	0
20% < HHI < 25%	0.008*RWAbusiness*(1-SRbusiness)
25% < HHI < 30%	0.016*RWAbusiness*(1-SRbusiness)
30% < HHI < 40%	0.024*RWAbusiness*(1-SRbusiness)
40% < HHI < 60%	0.032*RWAbusiness*(1-SRbusiness)
60% < HHI < 100%	0.040*RWAbusiness*(1-SRbusiness)

A supplement is not added because vestjyskBANK's HHI has been calculated at 18.2%. In 2012 and 2013, the supplement is weighted at 50 percent. The supplement will be phased in as of 2014.

Market risk

The market risk is the risk of losses because of potential changes in interest rates, equity prices as well as foreign exchange rates, apart from what is covered in Column I. It is not based on vestjyskBANK's current risk but on the maximum risk vestjyskBANK may assume within the limits established by the Supervisory Board for the Executive Board's powers to assume market risks under section 70 of the Danish Financial Business Act.

The Bank bases its assessment on whether all market risks have been adequately covered by Column I in the Financial Supervisory Authority's indicative benchmarks for interest rate risk, equity risk and foreign exchange rate risk. Based on these benchmarks as well as on an overall assessment of the Bank's market risks, it is the Bank's assessment that a supplement of TDKK 50,000 is required for market risks. Apart from the Column I requirement, the supplement for market risk can be attributed to the interest rate risk for the Bank's fixed-rate deposits and subordinated debt. Market risk is primarily calculated by means of stress testing.

Operational risk

Operational risk comprises risk of losses resulting from inappropriate or defective internal procedures, human or system-related errors as well as external events, including legal risks, in addition to what is covered by Column I.

In assessing supplements for operational risks, the Bank considers these risk areas, including the Bank's organisation, cyber security and IT operations as well as the Bank's business model. On that basis, apart from what is covered in Column I, it is the Bank's assessment that a supplement is not needed.

Other risks

The Bank has performed an assessment of whether capital provisions should be made for hedging the risk of weak earnings, of organic growth in business volume and of more expensive liquidity from professional investors. It is the assessment that there is no need to make capital provisions for covering other risks.

Earnings

The Bank has based its assessment of whether extra capital provisions should be made to counter prospective credit losses on the Financial Supervisory Authority's relevant indicative benchmarks. The Bank performed its assessment of core earnings in relation to total loans and guarantees. It is the assessment that there is no need to make capital provisions for covering weak earnings.

Growth

The Bank has based its assessment of whether extra capital provisions should be made for a growth in loans on the Financial Supervisory Authority's relative indicative benchmarks. It is the assessment that there is no need to make capital provisions for covering a growth in loans.

Liquidity

The Bank has a high liquidity surplus. In assessing whether capital provisions should be made as a result of additional costs related to raising liquidity, the Bank bases its estimate on the Bank's stress testing of liquidity for a one-year term. It is the assessment that there is no need to make capital provisions for raising liquidity.

8. Statutory requirements

The Financial Supervisory Authority has not established an individual solvency requirement for vestjyskBANK.

9. Capital base and solvency ratio

The Bank's capital structure, including solvency surplus, is detailed in the table below.

Capital structure and solvency surplus at 31 Dec 2012

	TDKK	%
Capital base less deductions/solvency ratio	2,782,339	10.9
Adequate capital base/solvency need	2,560,508	10.0
Surplus	**221,831**	**0.9**

10. Solvency need determined internally

The Bank does not determine internal solvency need apart from the statutory solvency need.

11. Counterparty risk

11. a. Method

vestjyskBANK applies the mark-to-market approach to counterparty risk to determine the size of the exposure for derivative financial instruments covered by the definition of Annex 17 of the Danish Executive Order on Capital Adequacy.

The determination of the amount of the exposure by applying the mark-to-market approach to counterparty risk is detailed in the description below:

- 1. Contracts are determined at market value, in order to arrive at the current replacement cost for all contracts with a positive value.
- 2. In order to arrive at figures for prospective credit exposure, the contracts' nominal principals or the underlying values are multiplied by the percentages established by the Financial Supervisory Authority. Swaps based on two variable interest rates in the same foreign currency are exempted, since only the current replacement cost is calculated.
- 3. The sum of current replacement costs and potential future credit exposures constitutes the exposure value.

For establishing the adequate capital base, capital is held corresponding to 8% of the positive market value of the derivatives.

In the Bank's approval process and in the general monitoring of commitments, the Bank takes into account the calculated exposure value so that it is ensured that it does not exceed the authorised credit limit for the counterparty.

11. b. Policies
Commitments involving commercial enterprises and retail customers, the Bank processes and authorises limits for financial contracts using its regular credit assessment principles.

11. c. EPE models
The Bank does not apply internal models for determining counterparty risk (EPE models). The disclosure requirements are therefore not relevant to the Bank.

11. d. Downwards adjustment of credit rating
The disclosures are not assessed to be relevant to vestjyskBANK and are therefore not provided for these items.

11. e-f. Gross positive fair value of financial contracts after netting
The gross positive fair value of financial contracts after netting, *cf.* Annex 17 of the Danish Executive Order on Capital Adequacy, stood at TDKK 648,042. The value of the Bank's total counterparty risk determined using the mark-to-market approach for counterparty risk stood at TDKK 374,221; *cf.* Annex 16, items 9-16 of the Danish Executive Order on Capital Adequacy.

11. g-h. Credit derivatives
The Bank does not use credit derivatives to hedge the portion of credit risk that affects counterparties. Therefore, no disclosures are provided for this item.

11. i. Intern models
The Bank is not permitted to apply internal models to determine counterparty risk. Therefore, no disclosures are provided for this item.

12. Credit and dilution risk

12. a. Accounting definition of non-performing and impaired amounts receivable
The Bank complies with the Danish Financial Supervisory Authority's executive order on financial reporting for credit institutions *et al.* and applies the accounting definitions of non-performing and impaired amounts receivable as set out in sections 51–54 of the Executive order on financial reporting for credit institutions, *et al.*

The Bank complies with the provisions set out in IAS 39, which are assessed to be compatible with the definition of non-performing and impaired amounts receivable set out in the Executive Order on Accounting Policies.

12. b. Exposures after impairments

vestjyskBANK's total value of unweighted credit exposures after impairments totalled TDKK 36,057,924 at 31 December 2012.

12. c. Exposures' average value over the course of 2012 by exposure categories

Calculation of risk-weighted items:	31 Dec 2012 TDKK	Average weighted amount for 2012 TDKK
Exposures to central government or central banks	0	0
Exposures to regional or local government authorities	0	0
Exposures to public entities	3	2,306
Exposures to multilateral development banks	0	0
Exposures to international organisations	0	0
Exposures to institutes	504,115	521,321
Exposures to business enterprises, etc.	13,906,050	14,167,424
Exposures to retail customers	6,267,897	6,510,722
Exposures secured with mortgages in real property	1,220,217	1,247,168
Exposures which are in arrears or overdrawn	94,099	646,011
Covered debt securities	0	0
Exposures to business enterprises, etc. with short-term credit assessments	0	0
Exposures to collective investment funds	0	0
Other exposures, including assets without counterparties	612,522	610,767
Credit-risk weighted items, total	**22,604,903**	**23,705,719**

12. d. Geographical distribution of exposures

The geographical distribution of the exposures has been omitted, since more than 95% of the Bank's exposures are in Denmark.

12. e. Exposures distributed by industry segment

Distribution of credit risk by industry segment across exposure categories at 31 Dec 2012

Amount in TDKK	Central governments and central	Regional and local authorities	Institutions	Commercial enterprises	Retail customers	Mortgage secured in real property	Arrears or overdrafts	Other items
Public authorities	**0**	**56,261**	**0**	**0**	**0**	**0**	**0**	**0**
Business								
Agriculture, hunting, forestry and fisheries	0	0	0	3,745,192	1,656,996	228,479	22,452	0
Industry and raw material extraction	0	0	0	1,158,119	339,179	69,476	282	0
Energy supply	0	49,125	0	2,504,301	179,255	283,603	1	0
Building and construction	0	2,000	0	671,268	540,836	96,165	309	0
Trade	0	0	0	1,375,298	836,107	162,940	10,047	0
Transportation, hotels and restaurants	0	15,000	0	515,524	414,345	279,321	3,078	0
Information and communications	0	0	0	38,632	101,414	7,308	244	0
Financing and insurance	1,126,939	0	1,508,203	1,257,941	333,568	46,762	2,285	3
Real estate	0	0	0	4,388,759	716,810	824,723	6,531	0
Other business	0	0	0	627,536	1,006,387	149,221	7,487	0
Business, total	**1,126,939**	**66,125**	**1,508,203**	**16,282,571**	**6,124,897**	**2,147,997**	**52,717**	**3**
Private	**0**	**34**	**0**	**671,627**	**6,655,797**	**618,891**	**16,033**	**0**
Other items	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**729,829**
Total	1,126,939	122,420	1,508,203	16,954,198	12,780,694	2,766,888	68,750	729,832

12. f. Distribution of exposures by term to maturity

Distribution of items recognised in the Statement of Financial Position at 31 Dec 2012

Amount in TDKK	On demand	0–3 months	3 months –1 year	1 - 5 years	More than 5 years	Total
Exposure categories:						
Central governments and central banks	1,126,939	0	0	0	0	**1,126,939**
Regional and local authorities	34,337	236	22,976	10,106	10,106	**69,472**
Public entities	0	1	4	12	12	**17**
Institutions	713,209	150,064	3,186	8,157	8,157	**874,617**
Commercial enterprises	6,695,679	292,788	1,041,920	2,482,062	2,482,062	**12,334,837**
Retail customers	2,766,371	234,415	768,160	2,474,688	2,474,688	**7,374,846**
Mortgage secured in real property	448,483	52,378	131,741	249,383	249,383	**1,039,878**
Arrears or overdrafts	8,751	3,296	17,723	33,762	33,762	**63,532**
Other items	729,,832	0	0	0	0	**729,832**
Total	**12,523,601**	**733,177**	**1,985,709**	**5,258,170**	**3,113,312**	**23,613,970**

12. g. Impaired debts and impairments by industry segments

Impaired loans and guarantee debtors subdivided by debts in default and impaired debts, impairments/provisions as well as expenses relating to value adjustments and impairments, both those treated individually and by group, are distributed across industry segments as follows:

Amount in TDKK	Debts in default	Loans and guarantees for which impairments/ provisions have been made	Impairments/ provisions, 31 Dec	Amounts recognised as expenses related to value adjustments and impairments for the
Public authorities	**0**	**0**	**0**	**0**
Agriculture, hunting, forestry and fisheries	545,447	3,113,746	1,135,842	579,909
Industry and raw material extraction	85,509	678,213	119,785	51,559
Energy supply	0	201,382	16,465	6,036
Building and construction	117,201	508,124	128,001	32,892
Trade	153,422	640,755	136,825	74,330
Transportation, hotels and restaurants	75,515	543,107	123,523	63,944
Information and communications	9,251	34,340	5,622	1,635
Financing and insurance	424,223	1,376,180	591,835	196,457
Real estate	539,916	4,234,077	725,529	347,338
Other business	105,030	548,342	138,554	64,314
Business, total	**2,055,514**	**11,878,766**	**3,121,981**	**1,418,414**
Retail	299,125	2,827,853	283,136	96,341
Total	**2,354,639**	**14,706,619**	**3,405,117**	**1,514,755**

12. h. Geographic distribution of non-performing and impaired amounts receivable

More than 95 percent of the Group's non-performing and impaired amounts receivable are based in Denmark. The Bank has therefore not performed geographic distribution.

12. i. Movements in 2012 of impaired amounts receivable

Movements of impaired amounts receivable as a result of value adjustments and impairments

Amount in TDKK	Individual impairments/provisions		Impairments/provisions by groups		Impairments/provisions made for receivables with credit institutions and other items with credit risk	
	Loans	Guarantee debtors	Loans	Guarantee debtors	Loans	Guarantee debtors
Accumulated impairments/provisions, 1 Jan 2012	2,121,489	36,042	51,304	0	1,081	0
Movements for the year:						
1. Foreign currency translation adjustment	0	0	0	0	0	0
2. Impairment/provisions for the year	1,575,614	34,481	9,143	0	637	
3. Reversals of impairments/provisions performed in previous financial years for which there is no longer objective indication of impairment or where the impairment has been reduced	70,991	21,045	36,372	0	675	0
4. Other movements	22,677	0	12,014	0	0	0
5. Value adjustment of acquired assets	0	0	0	0	0	0
6. Final loss (depreciated) for which previous individual impairments/provisions had been made	329,599	0	0	0	0	0
Accumulated impairments/provisions made for loans and guarantee debtors at 31 Dec	3,319,190	49,838	36,089	0	1,043	0
Sum of loans and guarantee debtors for which individual impairments/provisions have been made (measured before impairments/provisions)	6,939,020	555,664	9,566,574	0	75,000	0
Losses for which no previous individual impairments/provisions have been made	29,514	0	0	0	0	0
Included in previously written-off debts	5,841	0	0	0	0	0

13. Credit rating agencies

The Group does not use external credit rating agencies to determine the size of risk-weighted items.

14. Disclosures on the determination of credit risk applying the Internal Ratings-Based (IRB) Approach

The Group does not apply the IRB Approach, *cf.* item 4.c.

15. Market risk

The Danish Executive Order on Capital Adequacy requires that the enterprise provide disclosure of the solvency requirements for a number of risks measured under the market risk area. The following lists the solvency requirements for the relevant risks.

Items with position risk in TDKK at 31 Dec 2012	Risk-weighted items	Capital requirements 8%
Debt instruments	859,573	68,766
Equity securities, etc. (incl. collective investment plans)	80,498	6,440
Commodities	0	0
Total foreign currency position	0	0

16. Disclosures on internal models (VaR models)

vestjyskBANK does no apply internal models (VaR models) in measuring positional risk in its trading portfolio.

17. Operational risk

Under the Danish Executive Order on Capital Adequacy, banks are required to hedge operational risks. The capital requirements for operational risks must hedge the "risk of losses resulting from inappropriate or defective internal procedures, human or system-related errors as well as external events, including legal risks".

The Bank applies the basic indicator approach, *cf.* Annex 18 of the Danish Executive Order on Capital Adequacy for measuring the capital requirements for operational risks. In accordance with this approach, operational risks are measured as 15 percent of the Bank's average "core income" for the past three years. The core income is the sum of net interest income and non-interest related net income.

18. Exposures relating to equity securities, etc. not held for trade

In collaboration with other banks, vestjyskBANK has acquired shares in a number of sector companies. The purpose of these sector companies is to support bank activities within mortgage credit, payment intermediation, IT, and investment funds, etc. vestjyskBANK has no plans of selling these shares and they are therefore not considered to be held for trade.

In several of the sector companies, the shares are reallocated in such a manner that the interests held by the banks always reflect the individual bank's business volume with the sector company. Reallocation typically occurs based on the sector company's net asset value. vestjyskBANK adjusts the carrying amount of these shares quarterly, every six months or yearly depending on the frequency of new data from the individual sector company. Continuous adjustments are recognised in the Statement of Income in accordance with the rules.

In other sector companies, the shares are not reallocated but are typically assessed based on the most recent, known trade, alternatively based on the recognised valuation approach. Adjustments to the carrying amount of the shares in these companies are also recognised in the Statement of Income.

The table below shows the Bank's exposures in shares not held for trade.

Amounts in TDKK at 31 Dec 2012	Exposure 31/12 2012	Realised gains or losses in 2012	Non-realised gains or losses in 2012
Shares not held for trading	429,602	-51	18,784

19. Exposures relating to interest rate risk for positions not held for trade

Interest rate risk is measured as the expected rate loss for interest rate positions that would follow from an immediate upwards or downwards change in all interest rates of 1 percentage point.

vestjyskBANK's interest rate risk arises in connection with fixed-rate loans, deposits, subordinated debt and issued bonds. Financial derivatives are used only to a limited extent to hedge the Bank's interest rate risk. The interest rate risk represents the largest share of the Bank's market risk and is reported every month to the Supervisory Board and Executive Board. For periods where the interest rate is unsettled, reporting is performed as needed.

vestjyskBANK's interest rate risk for positions not held for trade is listed in the table below:

Interest rate risk in positions not in included in trading portfolio in TDKK at 31 Dec 2012	Long positions	Short positions	Interest rate risk
Items recognised in the Statement of Financial Position	-1,622,109	10,017,504	-175,382
Positions with limited or hedged interest rate risk	-26,608,996	23,387,167	0
Not included in trading portfolio, total	**-28,231,105**	**33,404,671**	**-175,382**

20. Disclosures on securitisations

vestjyskBANK does not use securitisations. The disclosure requirement is therefore not relevant to the Group.

21. Disclosures on determination of credit risk in IRB institutions

vestjyskBANK uses the standardised approach. The disclosure requirement is therefore not relevant to the Group.

22. Disclosure on methods for reducing credit risk

22. a. Netting

vestjyskBANK uses neither balance sheet netting nor off-balance sheet items.

22. b. Policies and procedures for valuation and management of collaterals

In its policies and procedures, vestjyskBANK has prioritised obtaining financial collaterals within the following key areas/categories:

- Deposited funds
- Bonds/debt instruments—issued by governments as well as rated and un-rated credit institutions, *et al.*
- Shares—within and outside a key index
- Unit trust certificates

The Bank's procedures ensure continuous, daily monitoring of the realisation values of the collaterals. The monitoring is performed by computer and is therefore performed automatically. The Bank's agreements with customers for collaterals in securities ensure that the Bank has the capacity to realise the securities at its discretion.

Thus, the Bank maintains standard procedures for the management and valuation of the financial collaterals, which means that the Bank maintains proper credit protection for its loans. The relevant procedures are an integral part of the general risk monitoring performed by the Bank's credit department.

22. c. Key categories of collaterals

vestjyskBANK uses the financial collateral comprehensive method to mitigate credit risk. This means that the Bank can reduce the capital charge of a commitment when accepting certain financial collaterals.

Items 58–61 of Annex 7 of Danish Executive Order on Capital Adequacy specify which financial collaterals banks are permitted to accept applying the comprehensive credit risk mitigating approach. In that regard, it should be noted that the Executive Order requires that financial collaterals used must be issued by an enterprise or country with a particularly high rating.

Taking into account the limitations specified in Annex 7 of the Executive Order on Capital Adequacy, the financial collateral normally accepted by the Bank can be divided into the following key categories:

- Deposited funds
- Bonds/debt instruments—issued by governments as well as rated and un-rated credit institutions, *et al.*
- Shares—within and outside a key index
- Unit trust certificates

22. d. Key types of counterparties in the form of guarantor and credit derivatives

The Bank makes limited use, as a credit risk mitigating method, guarantees issued by the following types of counterparties:

- Central governments
- Regional and local authorities
- Credit institutions

The Bank does not use credit derivatives to mitigate credit risk.

22. e. Disclosures relating to market or credit concentrations within performed credit risk mitigation

The Bank's policies etc. for investment credits set out certain requirements for the diversification of investments. Similarly, financial collaterals will be similarly diversified with respect to credit risk concentration.

22. f-g. Financial collaterals for hedging of credit risk

In accordance with the rules set out in the Danish Executive Order on Capital Adequacy, the Bank uses collaterals as well as guarantees to hedge credit risk. The table below shows individual credit risk mitigation distributed across exposure categories:

Amounts in TDKK at 31 Dec 2012	Financial collaterals' adjusted value	Guarantees
Exposures to central government or central banks	0	0
Exposures to regional or local government authorities	0	0
Exposures to public entities	0	0
Exposures to multilateral development banks	0	0
Exposures to international organisations	0	0
Exposures to institutes	0	0
Exposures to business enterprises etc.	341,497	9,125
Exposures to retail customers	275,953	34
Exposures secured with mortgages in real property	3,231	0
Exposures which are in arrears or overdrawn	282	0
Securitisation positions	0	0
Short-term institution exposures and business exposures, etc.	0	0
Exposures to collective investment plans	0	0
Total	620,963	9,159

23. Disclosures on advanced measurement methods for determining operational risk

vestjyskBANK applies the basic indicator approach to measure operational risk. This disclosure requirement is therefore not relevant to the Group.


Thisted
Thyborøn
Lemvig
Struer
Holstebro
Viborg
Randers
Langå
Hadsten
Ringkøbing
Videbæk
Herning
Ikast
Silkeborg
Aarhus
Havnegade
Aarhus
Åboulevarden
Hvide Sande
Lem
Skjern
Horsens
Esbjerg
Kolding
Odense