2010

vestjyskBANK **Risk Report**

vestjyskBANK

It's all about people

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Introduction

The objective of risk reports for financial institutions is to increase transparency, sharpen market discipline and thereby place investors and credit assessment agencies in a better position to be able to assess the risk profile and capital requirements of the financial institutions.

Unless otherwise indicated, the disclosures provided in the present Risk Report relate to 2010. The disclosures have not been audited by internal or external auditors.

Individual Disclosure Requirements
The disclosure requirements set out in Annex 20 in the Executive Order on Capital Adequacy are specified in 23 general paragraphs, subdivided into a number of subparagraphs. The disclosure requirements contained in the 23 paragraphs are categorised as follows:
- Objectives and risk policies,
- Area of application,
- Capital base,
- Solvency requirement and capital adequacy,
- Individual solvency need and individual solvency requirement,
- Counterparty risk,
- Credit and dilution risk,
- Regarding application requirements for the application of special instruments or methods

The numbering of the following sections corresponds to the 23 paragraph captions of Annex 20 of the Executive Order on Capital Adequacy.

1. Objectives and Risk Policies

vestjyskBANK defines risk as any event that might have a significant negative influence on the possibility of achieving the Bank's business goals. The Bank is exposed to various kinds of risks. These are managed and monitored at various levels within the organisation.

vestjyskBANK maintains a precautionary risk policy and strives at all times to maintain an asset portfolio of superior quality in order to secure a stable foundation for future growth.

The Bank's exposure to risk is absolutely central to its business transactions with customers and trading partners and the business transactions it conducts at its own account. The Bank does not enter into any business transactions without giving consideration to the risks involved.

The Bank's overall policy in this area is defined in the Bank's Policy on Risk Exposure.

Organisation
vestjyskBANK maintains a functional division between units that are transacting business with customers and are otherwise exposing the Bank to risks and units concerned with the general risk and capital management functions; just as control is undertaken by a separate unit.

The Bank's overall risk management is centralised across the Finance, Credit, Investment and Pension as well as the Risk Management Departments.

In most areas, control tasks are carried out by the Finance Department which also has ongoing responsibility for maintaining the Bank's systems and calculating the individual solvency need. The Credit Department looks after all credit-related controlling and risk management. The Risk Management Department is responsible for the Bank's liquidity and holding of own shares and securities and overall responsibility for operational risks. This is where the Bank's liquidity and interest rate risk, foreign currency positions and operational risks are managed. The Investment and Pension Department has responsibility for market risks attributable to the customer side.

The Bank has a compliance function with reference to the Bank's Deputy Director with responsibility for risk management. The function is intended to help ensure that the Bank at all times complies with applicable legislation and various orders issued by the authorities, and also that the Bank has up-to-date and updated business procedures.

vestjyskBANK divides risks into the following risk types:
- Market risks
- Credit risks
- Operational risks
- Liquidity risks
- Business risks, etc.
- Capital base risks (solvency requirement)

1.1 Market Risks

Definition

Value at risk resulting from the market value of the Bank's assets or liabilities changing as a consequence of changes in market conditions.

Objectives and Policies for Managing Market Risks

The Bank's market risks are managed by, amongst other things, established limits for a number of risk targets, which together cover the level of the individual types of risks. The guidelines for the Bank's overall market risk are defined by the Supervisory Board and are delegated as guidelines to the Executive Board. The Executive Board delegates risk frameworks to the Deputy Director with responsibility for Risk Management and the Investment Director. The Investment Director can delegate his authorisation to function managers and employees in the trading area in part or in full, and the Deputy Director can delegate his authorisation to the Liquidity Manager in part or in full.

Market risk comprises interest rate, foreign currency and equity risk affected by both general and specific market fluctuations. Market risk is a natural part of the Bank's risk exposure, since customer trading in securities and foreign currencies is of great importance to the Bank's total earnings and is thereby part of the Bank's core business. The Bank's liquidity is also invested in securities with market risk exposure.

The Bank uses derivative financial instruments in specific areas for hedging and managing market risk. The Bank takes its own speculative positions in derivative financial instruments within established risk parameters for both foreign currency and securities instruments. Derivative financial instruments are also used by the Bank's customers. Derivative financial instruments are included in the statement of the Bank's market risk for the underlying risk areas.

Structure of the Bank's Market Risk Management

The Bank's investment portfolio is characterised exclusively by the holding of shares in other companies with which the Bank has strategic and long-term collaboration. The purchase and sale of fixed assets are strategic decisions based on Executive Board decisions. The Bank has decided that only the Bank's strategic fixed assets shall be excluded from its trading portfolio. Other positions on securities plus all trading and decisions on derivatives are thus included in the Bank's trading portfolio.

Reporting Risks and Measuring Market Risks

The Supervisory Board is continuously updated on risk development and the utilisation of the allocated risk framework.

The Executive Board receives daily reports on trends in major market risks, any breach of the Supervisory Board's instructions to the Executive Board and the counterparty lines granted by the Supervisory Board.

Transactions to and from the trading portfolio are checked daily. Any discrepancies are reported to the Supervisory Board. The market prices used, including the prices of unlisted securities, are checked quarterly.

Systems and Controls for Managing Market Risks

Controls to ensure that the established policies and instructions relating to market risks are located in the Finance Department for the following tasks:

- Daily follow-up on compliance with the Supervisory Board's instruction to the Executive Board
- Daily follow-up on compliance with the Executive Board's delegated instructions to the Investment Director and the Deputy Director in the Risk Management Department
- Price-check relative to market prices for trading in securities and financial instruments
- Ongoing assessment and reporting of potential risks in connection with the Bank's trading in securities and financial instruments
- Assessment of risks related to new products associated with market risks.

1.2 Credit Risks

Definition

Value at risk as a result of the customer partially or wholly defaulting on his/her payment obligations.

Objectives and Policies for Managing Credit Risks

The Bank focuses on diversifying credit risks sufficiently across industries, size of commitment, securities and geographical location.

Individual industries must not constitute a disproportionately large credit risk. The strategy for portfolio distribution measured by industry is reassessed annually. The Bank is reluctant to advance credit to companies in industries in which we have little experience with regard to the assessment of risk, and there are tighter requirements and heightened awareness with regard to advancing credit to companies operating within industries that are regarded as weak or sensitive to business cycles.

Within the corporate customer segment, the Bank deals predominantly with small to medium-sized companies.

vestjyskBANK has a policy which stipulates that the Bank only wishes to have a maximum of five commitments which, after deductions, calculated in accordance with section 145 of the Danish Financial Business Act, exceed 10% of the Bank's capital base. As a rule, the Bank will only approve this size of commitment if it has a long-standing acquaintance with the customer.

The Bank does not actively market loan-financed securities investments.

Commitments that are classified as credit-impaired can, as a rule, only be extended against full security.

The Structure of the Bank's Credit Risk Management

Within vestjyskBANK, powers for authorising credit have been established based on a precautionary delegation policy. The Supervisory Board's authorisations issued to the Executive Board are delegated to the Deputy Director responsible for credit management, who in turn delegates these powers to individual employees.

In order to ensure the best credit assessment possible, the approval powers are delegated in such a way that each branch director has an approval authority which, among other things, is based on the size of the branch, the branch director's experience and the area in which he or she works.

Commitments beyond the branch director's approval authority are transferred to the Credit Department for consideration. Depending on the size of the commitment, credit applications need to be authorised by the Credit Department, the Deputy Director, the Executive Board or, ultimately, the Supervisory Board. In the network of branches, the delegated approval authority is delegated in such a way that all corporate customer commitments and major retail customer commitments are considered by a minimum of two people.

When assessing the credit for 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 assessing credit for retail customers, the customer's disposable income and assets are the deciding factors.

All customers are credit-risk classified. This segmentation is reassessed on an ongoing basis and is also incorporated as an element in the Bank's price structure with a view to ensuring correlation between price and risk.

The industry distribution of commitments is assessed quarterly in order to ensure that individual industries do not come to represent too much of a disproportionate risk for the Bank. Similarly, trends in the distribution of commitments in the various risk classes are monitored.

All overdrafts with balance movements are considered daily by the responsible customer management employee. Once a month, the customer management employee considers all overdrafts regardless of movements in the account. The Credit Department considers all daily overdrafts of DKK 100,000 or more and, for credit-impaired commitments, all daily overdrafts of DKK 25,000 or more.

The Bank is particularly alert to warning signs in the day-to-day processing of commitments. Credit-impaired commitments flagged as showing signs of weakness, and commitments directly written down or for which provisions have been made as a result of an objective indication of impairment are almost exclusively handled by the Credit Department, the Deputy Director and the Executive Board. The individual branch directors only have very limited approval authority for processing such commitments.

Credit-impaired commitments are monitored closely. Action plans as well as cautious risk estimations are drawn up for commitments for which impairments/provisions have been made; these are reassessed quarterly. Cases involving distressed corporate customer commitments are handled by the individual branches in close dialogue with the Credit Department and the Bank's legal function. All collection proceedings involving retail customers are processed by collection management personnel in the Credit Department.

Risk Reporting and Measurement of Credit Risk

The Credit Department reviews all corporate commitments for reapproval annually. Additionally, a fresh review is performed for all commitments exceeding DKK 10 million as well as any credit-impaired commitments regardless of size. The review includes assessments of accounts and budgets as well as action plans for commitments flagged as impaired. The department holding the account will similarly perform a review of commitments credit rated immediately above the credit-impaired commitments. These commitments are reviewed in order to ensure that all credit-impaired commitments are properly identified and action plans drawn up.

The Credit Department issues quarterly and ad hoc reports on the development and status of the credit risks to the Supervisory Board.

The Supervisory Board also receives reports and information on the following specific areas:

- Ongoing developments in overdrafts at branch level
- Significant overdrafts
- Industry distribution
- Developments within business cycle-sensitive industries, including the property market
- Distribution of risk classes for specific industries
- Developments in commitments exceeding 10% of the Bank's capital base
- All major authorisations made under the Executive Board's authorisation powers and those delegated by Executive Board.

Once a year, a list of the approx. 100 largest commitments and commitments impaired by DKK 5 million or more is submitted to the Supervisory Board.

Methods for Hedging and Reducing Risk

The Executive Order on Capital Adequacy stipulates special requirements for banks that apply the rules for calculating credit risk reduction. The Bank's ability to give a low weighting to exposures where mortgages have been taken on financial securities and property is conditional on meeting these requirements.

As in previous years, in 2010 vestjyskBANK has measured credit risk by applying the standardised approach.

Systems and Controls for Managing Credit Risks

In addition to systems used on a daily and periodic basis for the management and control of credit risks, systems for flagging credit-impaired commitments have been put in place.

1.3 Operational Risks

Definition

Value at risk 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.

Objectives and Policies for Managing Operational Risk

The policy defines the types of events considered to belong to operational risk and identifies registration and reporting requirements. The Bank's goal is to limit its exposure to operational risk on an ongoing basis taking due account of associated costs.

Written procedures have been drawn up in all major areas with a view to minimising dependence on individuals and also to ensure that where transactions etc. are entered into, this is done in accordance with the Bank's adopted policy. Contingency plans have also been drawn up for IT intended to limit losses in the event of IT outages or other similar crisis situations.

Systems and Controls for Managing Operational Risks

The Bank is constantly developing tools for identifying, monitoring and managing risks that can affect the Bank on a daily basis.

The Risk Management Department has coordinating as well as overall responsibility for operational risks.

1.4 Liquidity Risks

Definition

Value at risk resulting from the Bank's being unable to honour its payment obligations using its normal liquidity reserves.

Objectives and Policies for Managing Liquidity Risks

The Bank's target is to have liquidity coverage of at least 50 percent measured in relation to the statutory requirements and having sufficient liquidity to cover both organic growth and day-to-day fluctuations in liquidity needs.

The overall aim of the Bank's liquidity management policy is to:

- Monitor and manage developments in the Bank's short-term and long-term liquidity
- Ensure that the Bank holds sufficient liquidity at all times in both Danish and foreign currency.

The Bank wishes to have a composition of balances that ensures a sufficient and stable cash flow in both the long and the short term. This makes it possible for the Bank to achieve its business goals without recourse to short-term transactions.

The Bank's general liquidity policy is to maintain a sound and thoroughly diversified funding base distributed amongst different funding sources (including geographically), the use of different funding structures and also an even distribution of loan duration.

In order to ensure flexible and effective access to the international credit and capital markets, the Bank makes use of various types of loans: Bonds, syndicated loans, bilateral agreements and revolving credit facilities. For that the Bank utilises several different intermediaries so that in this area, too, there is a high degree of independence and diversification, thereby ensuring that the Bank has significant flexibility in choosing terms to maturity, foreign currencies, interest rates (fixed/variable) and, to some extent, also geographical markets. This means that the Bank is in a position to match its issues to the prevailing market rates and to investors' requirements. Through the Financial Stability Company (Finansiel Stabilitet A/S), vestjyskBANK applied for and was granted an individual guarantee facility of DKK 12.5 billion, of which it has exercised DKK 7.8 billion so far. Until 30 September 2010, all general unsecured creditors were covered by a government guarantee based on Bank Package I (Bankpakke I).

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

Structure of the 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 cash resources plan. The Executive Board is responsible for complying with the targets/framework as set out in the mandate granted to the Executive Board.

The Bank's immediate cash resources are calculated in accordance with the guidelines in Section 152 of the Danish Financial Business Act. The general liquidity risk is calculated on the basis of budgets, historical and statistical material and known future deposits to and withdrawals from business transactions already entered into.

The Bank continuously monitors all significant sources of funding, including their terms to maturity, counterparty distribution, geographical location etc. The Bank generally emphasises sound diversification, with a special focus on customer deposits. The Bank has raised bond loans that reach maturity in 2013 backed by a government guarantee. This is not optimal in respect of sound diversification across maturities and due date structures.

Risk Reporting and Measurement of Liquidity Risk

The Bank employs an approved model for assessing future liquidity requirements and submits monthly reports to the Supervisory Board. Among other things, the model ensures that the Bank is sufficiently liquid in relation to its risk profile, growth strategy and earnings forecast.

The Bank's liquidity management is based on legislation and also the instructions of the Executive Board. These control parameters have all been calculated and included in the Bank's approved model and are calculated and reported on a daily basis to the Executive Board and executive employees, and also in monthly reports to the Supervisory Board.

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).

1.5 Business Risks

Definition

Value at risk due to changes in external circumstances or events that damage the Bank's reputation or earnings.

Objectives and Policies for Managing Business Risks

The Bank focuses constantly on the building and maintenance of strong relationships with all its stakeholders – shareholders, customers, suppliers, employees and, in consequence, with the local communities in the areas in which the Bank operates. This is regarded as the basis for continued growth and development opportunities.

This is reflected in the Bank's mission and vision which strive to ensure that all rather than individual interests are advanced. The Bank's set of underlying values is incorporated into all parts of the organisation as a natural part of the way in which vestjyskBANK operates its business.

In order to ensure that employees' competencies at all times correspond to the demands made on a business of vestjyskBANK's size, it is the Bank's policy that employees are trained on an ongoing basis.

The Structure of the Bank's Business Risk Management

The Bank has an established procedure for approving new products, which ensures that the Bank does not offer products that have not been pre-approved.

In order to ensure that customers are offered the best product range possible and in order to ensure that the Bank is supported optimally, the Bank cooperates with a well-established network of competent cooperation partners. Here, the Bank is ensured strong representation in cooperation fora which give vestjyskBANK a great deal of influence.

The Bank strives to ensure that dependence on these cooperation partners is minimised at all times.

Systems and Controls for Managing Business Risks

The compliance function ensures that procedures are drawn up within the central areas of financial legislation. These procedures thus apply to good practice, investor protection, money laundering, handling of personal data, trading in securities by employees, customer complaints etc.

1.6 Capital Base Risks

Definition

The risk of loss as a result of the Bank's not having sufficient capital to honour the solvency requirement and the solvency need, if the latter is greater.

Objectives and Policies for Managing Capital Base Risks

Management has set a solvency target of 12 percent.

The Structure of the Bank's Capital Base Risk Management

The Supervisory Board determines the solvency target and the criteria for the calculation of the solvency need. The Executive Board is responsible for ensuring that the targets/guidelines are adhered to.

The Bank's capital base is calculated in accordance with the Danish Financial Business Act in the same way as the financial resources plan.

The Bank continuously monitors the capital base and the structure thereof.

Risk Reporting and Risk Measurement of the 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. Area of Application

vestjyskBANK has no subsidiaries and therefore does not produce any consolidated accounts.

3. Capital Base

The table below shows the Bank's capital base at 31 December 2010.

Capital base statement	TDKK
1. Core capital	2,111,425
Share capital/ guarantee capital	125,000
Retained profit	1,984,919
Current surplus for the year	1,506
2. Primary deductions in core capital	271,686
Intangible assets	108,562
Deferred capitalised tax assets	163,124
3. Core capital after primary deductions	1,839,739
4. Hybrid core capital	1,484,895
5. Core capital, including hybrid core capital, after deductions	3,324,634
6. Other deductions	106,767
Half the sum of equity investments, etc. > 10%	106,767
7. Core capital, including hybrid core capital, after deductions	3,217,867
8. Tier 2 capital	715,313
Subordinated loan capital	619,389
Revaluation reserves	30,848
Hybrid core capital	65,076
9. Included Tier 2 capital	715,313
10. Capital base before deductions	3,933,180
11. Deductions in capital base	106,767
Half the sum of equity investments, etc. > 10%	106,767
12. Capital base after deductions	3,826,413

4. Solvency Requirement and Capital Adequacy

In accordance with legislation, the Supervisory Board and the Executive Board must ascertain vestjyskBANK's individual solvency need. A description of the model, process and method used is given under point 5.

The solvency requirement is calculated according to the criteria below since vestjyskBANK is covered by section 124(2)(1) of the Danish Financial Business Act.

Standardised Approach for Measuring Credit Risk

vestjyskBANK uses the standardised credit risk approach for measuring risk-weighted items and is required to state 8 percent of the risk-weighted exposures for each of the categories listed in section 9 of the Executive Order.

Internal Rating-Based Approach

vestjyskBANK currently has no plans to use an internal approach for measuring credit risk.

Eight Percent of Risk-Weighted Items with Market Risk

The table below shows the Bank's solvency requirement for market risks.

TDKK	Risk-weighted items	Capital requirement (8% of exposure)
Debt securities	1,795,379	143,630
Equity securities	91,383	7,311
Collective investment schemes	12,896	1,032
Foreign currency risk	151,718	12,137
Total weighted items	2,051,376	164,110

Solvency Requirement for Operational Risk

vestjyskBANK uses the basic indicator approach for measuring solvency requirements for operational risk.

5.-10. Individual Solvency Need and Individual Solvency Requirement

5. Further Explanation of the Methods Used for Calculating the Adequate Capital Base and the Solvency Need

The Supervisory Board of vestjyskBANK holds discussions to determine the solvency need at least once every quarter. These discussions take as their starting point a proposal from the Executive Board which includes a proposal in respect of the size of the solvency need, including proposals for the choice of stress variables, stress levels, any risk areas and expected growth. On the basis of these discussions, the Supervisory Board makes a decision on the calculation of the Bank's solvency need, which must be sufficient to cover vestjyskBANK's risks, cf. section 124 (1) and (4) of the Danish Financial Business Act. Furthermore, once a year, the Supervisory Board discusses at length the method for calculating vestjyskBANK's solvency need, including which risk areas and stress levels ought to be taken into account when calculating the solvency need.

The Management of vestjyskBANK has decided that the calculation of the Bank's solvency need should be based on a template drawn up by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and on the Danish FSA's "Guidelines on Adequate Capital Base and the Solvency Need of Financial Institutions". It is the view of Management that vestjyskBANK, by taking this model and guidelines from the Danish FSA as its basis, is able to calculate a solvency need sufficient to cover the Bank's risks.

Under the method vestjyskBANK uses to calculate the solvency need, capital is allocated to four risk areas (credit risk, market risk, operational risk and other risks).

The first part of the model contains a number of stress tests. In these stress tests, the individual accounting/ budget items are "stressed" using a number of variables. As a rule, the most recently presented financial report – the Annual Report or the Quarterly Report – is used as a basis.

Stress test used for determining solvency need

Capital for covering credit risks	Impairment of loans etc.: Customers with financial difficulties, and where the commitment exceeds 1% of the capital base, have been individually assessed. Other loans, guarantees and unused credit commitments: 3.69% Unused credit commitments have been included in the calculation with 10, 20 or 30% depending on the term of notice.
Capital for covering market risks	Fall in share price: 30%, but only 15% for shares in sector companies. Interest rate increase: 1.35% of the trading portfolio and 2.0% outside the trading portfolio. Foreign currency risk: For Euro: Foreign Exchange Indicator 1 * 2.25% Other currencies: Foreign Exchange Indicator 1 * 12% Risk on derivative financial instruments: 8% of the positive market value
Capital for covering other risks	General decrease in net interest income: 12% General decrease in net fee income: 17% Own properties: 18%

Other risk areas that have been considered in relation to establishing the solvency need

Additional capital for covering credit risks	Including: Customers with financial problems Major commitments Commercial concentration Geographical concentration Concentration of securities
Additional capital for covering market risks	
Capital for covering operational risks	
Capital for covering other risks	Including: Strategic risks Reputation risks Risks in relation to the size of the financial institution Property risks Group risks Funding Liquidity risks Settlement risks Other conditions

On the basis of the Bank's specific situation as well as the requirements set out in the Executive Order on Capital Adequacy and "Guidelines on Adequate Capital Base and the Solvency Need of Financial Institutions" it is ascertained which risks vestjyskBANK should be able to withstand and consequently which variables and stress levels should be tested. Stress tests are basically an attempt to expose vestjyskBANK's accounting figures to a number of negative events in order to see how the Bank reacts in the given scenario.

When calculating vestjyskBANK's solvency need, the point of departure is an economic depression scenario which, among other things, is reflected in the chosen stress levels, cf. the table above.

The results from the completed stress tests are included in the solvency need model, by the Bank holding a capital that would at least cover the result that would be obtained if the scenario in question were to occur. The combined effect of the stress tests on the solvency need is calculated by comparing the financial results with the overall effect on the weighted items. This produces a target for how much capital is required for the Bank to be able to survive the proposed scenario.

In addition to the risk areas addressed via stress tests, there are also a large number of risk areas which vestjyskBANK has found useful to take into account when assessing the solvency need.

Determination of the influence of these areas on the solvency need ratio is either calculated directly by means of supplementary calculations or by Management having assessed the capital needs relating to these risk areas.

The risk factors included in the model are, in vestjyskBANK's view, applicable to all risk areas which the law requires that the Bank's Management should consider when determining the solvency need and the risks that Management finds the Bank has taken on.

In addition, the Supervisory Board and the Executive Board must consider whether the capital base is sufficient to support future activities. At vestjyskBANK, this assessment forms part of the general process of ascertaining the solvency need. Management therefore undertakes ongoing assessments of how anticipated growth will affect the determination of the solvency need.

6. Adequate Capital Base and Solvency Need

vestjyskBANK's solvency need distributed by risk areas

	Adequate capital base MDKK	Solvency need (as a percentage)
Credit risks	1,749	6.3%
Market risks	433	1.5%
Operational risks	228	0.8%
Other risks	72	0.3%
Precautionary premium	256	0.9%
Adequate capital base/solvency need	2,738	9.8%

vestjyskBANK's surplus/capital situation

	MDKK
Capital base after deductions	3,826
Adequate capital base	2,738
	Percentage
Solvency	13.7
Solvency need	9.8
Surplus solvency	3.9

Solvency Need

vestjyskBANK has reported its individual solvency need as being

9.8 percent whereas the solvency target determined by Management is 12.0 percent.

7. Note on Specifications for Measurements Set out Under Section 6

Solvency need and surplus solvency

vestjyskBANK has calculated its surplus solvency as 3.9 percentage points on the basis of a solvency need of 9.8 percent and an actual solvency ratio of 13.7. The surplus solvency is regarded as being highly satisfactory. The surplus solvency will be capable of ensuring the continued operation of the Bank and aid its continued growth.

Credit risk

The credit risk is the Bank's largest risk area which is why the bulk of the solvency need can be attributed to this. Therefore, vestjyskBANK focuses intensely on this risk area in particular. The bulk of the allocated capital coming under the area of credit risks can be attributed to the stress test conducted.

Market risk

The capital allocated to market risks can primarily be attributed to the interest rate risk on the Bank's fixed interest rate assets and liabilities, equity risk and foreign currency risk. The market risk is calculated primarily via the stress test.

Operational risk

Under this category, capital has been allocated to cover the value at risk derived from internal and external circumstances caused by insufficient or defective internal procedures, human or system errors as well as external influences, including legal risks.

Other risks

Other risks are included in the solvency need stress test as a deduction. This is due to the fact that, even under the most stringent stress test, the Bank will accrue considerable earnings from its business operations. This consolidation is included in the solvency need model as a deduction. In addition, "Other risks" includes allocated capital for a decrease in price for owner-occupied property.

Reference should also be made to the description of the solvency need model used under point 5 for a more detailed description of which risks are attributed to the various categories.

8. Disclosure Relating to Adequate Capital Base and Solvency Need is Determined on the Basis of Legal Requirements

The adequate capital base and solvency need are **not** determined on the basis of legal requirements.

9. Capital Base after Deductions and Solvency Ratio

The capital base amounts to DKK 3,826 million, and the solvency ratio amounts to 13.7 percent. The specification is outlined in point 3.

10. Extension of Adequate Capital Base and Solvency Need Resulting from Legally Stipulated Requirements

There has been no extension as a result of legally stipulated requirements.

11. Counterparty Risks

vestjyskBANK's policy is to manage tightly any and all counterparty risks while entering into the transactions necessary to maintain a sound operating environment.

vesjyskBANK uses the market value method for counterparty risk to calculate the exposures' size and risk weighting for derivative financial instruments. The market value method is described in the following.

In the market value method, the market value of contracts with a positive market value and principal amounts of all contracts are included in the capital adequacy statement. The market value of the contracts is included with the weighting of the relevant contracts' remaining maturities and with the weighting for the relevant counterparties.

In vestjyskBANK's authorisation process and in the general monitoring of commitments, the calculated exposure value is taken into account, thus ensuring that this does not exceed the authorised credit limit for the counterparty.

Positive Gross Current Value

The positive gross current value of financial contracts after netting, cf. Annex 17 of the Executive Order on Capital Adequacy, is TDKK 815,536. The value of the Bank's total counterparty risk, calculated in accordance with the market value method for counterparty risk, cf. Annex 16, points 19-16 of the Executive Order on Capital Adequacy is TDKK 669,062.

Risk Coverage by Means of Credit Derivatives

vestjyskBANK does not use credit derivatives to cover the part of the credit risk that relates to counterparties. Therefore the Bank does not carry out any transactions in the area.

12. Credit Risk and Risk of Dilution

For the purpose of assessing vestjyskBANK's credit risk, an account is given below of the various ways in which the Bank calculates the distribution of its exposures, and how the Bank deals with defaulted and impaired accounts receivable. It also describes the movements in impairments/provisions in 2010, as well as the distribution of impairment/provisions amongst industries.

Guidelines for Adjusting the Value of Loans

The Bank ascertains the value of defaulted accounts receivable and impaired accounts receivable in accordance with the rules in Sections 50-55 of the Executive Order on Financial Reporting for Credit Institutions and Investment Companies, etc.

Exposure after Impairment

The Bank's total exposure after impairment amounts to TDKK 40,036,812.

Geographic Distribution of Exposures

More than 97 percent of the Bank's total debet exposures is receivable in Denmark, and for that reason we have not carried out further geographic division.

Distribution of Maturity of Credit Exposures	On demand	0-3 months	3 months-1 year	1-5 years	More than 5 years
TDKK					
Central governments or central banks	528,614	499,941	0	0	0
Regional or local authorities	24,432	3	2,285	8,996	1,372
Public bodies	0	0	0	0	0
Development banks	0	0	0	0	0
Multilateral international organisations	0	0	0	0	0
Institutes	348,784	675,150	0	100,287	0
Corporate clients, etc.	7,309,783	702,676	1,598,821	2,976,847	1,742,754
Retail customers	2,857,108	266,931	885,005	2,565,542	1,511,510
Exposures secured by real estate property	452,690	64,750	162,549	325,408	218,285
Exposures on which there are defaults in payments or overdrafts	26,750	2,587	10,154	27,646	8,692
Covered bonds	0	0	0	0	0
Short-term institutional and corporate exposures, etc.	0	0	0	0	0
Collective investment schemes	0	0	0	0	0
Exposures in other items, including assets without contracting parties	768,333	0	0	0	0

Industry Distribution of Credit Categories

TDKK	Central governments or central bansk	Regional or local authorities	Public bodies	Multilateral development banks	International organisations	Institutes	Corporate customers etc.	Retail customers	Exposures secured by liens	Exposures on which there are defaults in payments or overdrafts	Covered debt securities	Short-term institutional and corporate exposures etc.	Collective investment schemes	Other items, including assets without counterparties
Public authorities	0	38,774	0	0	0	0	204,249	461,891	63,204	10,379	0	0	0	0
Agriculture, hunting, forestry and fishery	0	0	0	0	0	0	4,333,324	1,673,499	183,620	2,383	0	0	0	0
Manufacturing industry, raw material extraction, public service utilities	0	22,000	0	0	0	0	3,300,206	591,443	129,368	2,341	0	0	0	0
Construction and civil engineering contractors	0	0	0	0	0	0	1,134,644	620,873	117,591	3,699	0	0	0	0
Trade, restaurant and hotel businesses	0	0	0	0	0	0	2,054,439	1,305,976	370,381	18,249	0	0	0	0
Transport, mail and telecommunications	0	0	0	0	0	0	299,493	209,706	27,401	1,474	0	0	0	0
Credit and financing companies and insurance companies	1,028,555	0	0	0	0	1,645,581	1,758,073	144,601	35,814	0	0	0	0	90,662
Property administration and real estate, business services	0	0	0	0	0	0	4,853,987	1,490,891	654,458	33,953	0	0	0	0
Other businesses	0	5,000	0	0	0	0	401,130	303,330	36,165	3,403	0	0	0	0
Retail	0	0	0	0	0	0	854,684	7,893,052	672,233	23,398	0	0	0	677,671
Industry category not available or unknown	0	0	0	0	0	0	249,567	0	0	0	0	0	0	0

The distribution by industry segment does not conform with the Danish Financial Supervisory Authority's new model for grouping industry segments, as the Bank lacks the requisite system-level support.

The average value of the exposures during period

Statement of risk-weighted items:

TDKK	31/03/2010	30/06/2010	30/09/2010	31/12/2010	Average for the year
The Bank's total risk-weighted exposures calculated by applying the standardised approach					
Exposures to central governments or central banks	0	0	0	0	0
Exposures to regional or local authorities	0	0	0	0	0
Exposures to public bodies	0	0	0	0	0
Exposures to multilateral development banks	0	0	0	0	0
Exposures to international organisations	0	0	0	0	0
Exposures to institutes	420,548	423,015	477,035	506,526	456,781
Exposures to corporate customers etc.	14,705,021	15,646,502	15,065,493	15,444,060	15,215,269
Exposures to retail customers	8,313,338	8,334,797	8,006,412	7,066,983	7,930,383
Exposures secured by liens	964,914	926,847	952,635	961,344	951,435
Exposures on which there are defaults in payments or overdrafts	948,759	81,871	166,800	112,970	327,600
Covered debt securities	0	0	0	0	0
Short-term institutional and corporate exposures etc.	0	0	0	0	0
Exposures to collective investment schemes	0	0	0	0	0
Exposures in other items, including assets without counterparties	431,534	413,226	432,172	394,198	417,783
Weighted items with credit risk, total	25,784,114	25,826,258	25,100,547	24,486,081	25,299,250

Industry Distribution

Impaired loans and guarantees, with subdivision into defaulted accounts receivable and defaults receivable that are impaired, impairment/provisions and also expenses relating to value adjustments and impairments, treated both individually and as a group, are divided among the following industries:

TDKK	Loans and guarantees on which there has been impairment/provisions		Impairment/ provisions at end of 2010	Effect on operations re. value adjustments and impairment during 2010
	Defaulted	Impaired		
Public authorities	0	485	0	11
Agriculture, hunting, forestry and fisheries	72,827	3,096,413	166,718	-58,598
Industry and raw material extraction	34,988	870,679	65,325	-46,241
Energy supply	0	204,138	1,278	19,376
Building and construction	131,874	963,617	99,521	-7,739
Trade	60,783	704,481	77,182	9,553
Transportation, hotels and restaurants	55,966	274,355	67,233	-17,101
Information and communications	3,475	62,484	6,800	78,544
Financing and insurance	401,152	1,243,237	420,449	-216,888
Real property	145,253	3,258,796	278,509	-158,639
Other business	90,897	886,811	117,863	-3,478
Business, total	997,215	11,565,011	1,300,878	-401,211
Retail	151,969	854,219	197,075	-7,019
Total	1,149,184	12,419,715	1,497,953	-408,219

The effect on operations with regard to value adjustment of impairment during the year is calculated as: Impairment/provisions at the end of 2009 less Impairment/provisions at the end of 2010 less Final loss (written off) in 2010 plus Entered into previously written off accounts receivable.

Geographic distribution

More than 99 percent of the Bank's defaulted and impaired accounts receivable are in Denmark, and for this reason we have not carried out further geographic distribution.

Movements in 2010

In 2010, the Bank had the following movements in value adjustment and impairment:

TDKK	Individual impairments/provisions		Impairments/provisions made in groups	
	Loans	Guarantee debtors	Loans	Guarantee debtors
Cumulative impairment/provisions at the beginning of the year	1,170,412	101,081	103,822	0
Movements over the year:				
1. Exchange rate adjustment	0	0	0	0
2. Impairments/provisions over the year	362,567	6,962	24,036	0
3. Reversal of impairment/provisions made during previous financial years, where there is no longer any objective indication of impairment or the impairment has been reduced	7,851	9,602	58,547	0
4. Other movements	226,273	0	1,014	0
5. Value adjustment of acquired assets	0	0	0	0
6. Final loss (written off) of previously individually impaired/allocated	334,483	87,731	0	0
Accumulated impairment/provisions at end of year	1,416,918	10,710	70,325	0
Total loans and guarantees, on which there has/have been impairment/provisions (calculated before impairment/provisions made)	3,073,936	137,038	10,532,924	0
Loss not previously individually impaired/allocated	101,214	0	0	0
Entered into on previously written off accounts receivable	10,559	0	0	0

13. Credit Rating Agencies

This part of the reporting is not relevant to vestjyskBANK.

14. Disclosure Relating to Calculating Credit Risk Using the IRB Method

This part of the reporting is not relevant to vestjyskBANK.

15. Market Risks

The Executive Order on Capital Adequacy contains a requirement to the effect that the Bank must provide disclosure relating to the solvency requirements for a number of risks stated under the market risk area. The following table shows a statement of the solvency requirements for the risks in question.

Statement of solvency risks in the market risk area

	TDKK (weighted amounts)	Capital requirement 8%
Items with position risk:		
Debt securities	1,795,379	143,630
Equity securities, etc. (incl. collective investment schemes)	104,279	8,342
Total foreign currency position	151,718	12,137

16. Disclosure Relating to Internal Models (VaR Models)

vestjyskBANK does not use internal models (VaR models) to calculate the risk on positions in its trading portfolio.

17. Operational Risks

vestjyskBANK uses the basic indicator approach, cf. Annex 18 of the Executive Order on Capital Adequacy for calculating the capital requirement for operational risks. This means that the capital requirement is calculated as 15 percent of the average core income for the previous three years. The core income is the total of the net interest income and non-interest-related net income.

vestjyskBANK also continuously assesses the capital requirement for its operational risks. If the requirement is considered to be greater than what is stated above, this will be taken into account when the Bank calculates the solvency need.

18. Exposures in the Form of Shares etc. not included in the Trading Portfolio

vestjyskBANK, in collaboration with other banks, has acquired shares in a number of sector companies. The aim of these companies is to support the banks' mortgage credit transactions, payment services, IT, unit trusts, etc. vestjyskBANK has no plans to sell these shares, since participation in these sector companies is considered necessary for operating a local bank. The shares are therefore not considered part of the trading portfolio.

In many of the sector companies, the shares are redistributed so that the banks' share of the participation at all times reflects the individual banks' business volumes with the sector companies. Redistribution is typically done on the basis of the sector company's equity value. On the basis of this, vestjyskBANK regulates the book value of these shares quarterly, half-yearly or yearly – depending on the frequency of new information received from the individual sector companies. This continuous regulation is entered in the income statement in accordance with the rules.

Positions in listed shares, unlisted share positions and other exposures

	TDKK
Beginning 2010	452,952
Additions	20,397
Outflow	567
Unrealised profit	13,627
End 2010	486,409

Realised and non-realised profit or loss 2010

	TDKK
Realised profit or loss resulting from sales and liquidation	345
Non-realised profit or loss, latent profit and loss	13,627

In other sector companies the shares are not redistributed, but are instead usually valued on the basis of the last known trade, or the value is calculated using a recognised valuation method. Adjustments to the booked values of the shares in these companies are also entered in the income statement.

Non-realised profit or loss is included in the Bank's core capital and the supplementary capital.

19. Exposures for Interest Rate Risk in Positions outside the Trading Portfolio

vestjyskBANK's exposures to interest rate risk in positions outside its trading portfolio are primarily in the form of fixed-interest loans, mortgages, deposits and subordinated debt.

The Bank's policy is to apply the rules set out in Executive Order on Accounting Principles to the interest rate risk pertaining to positions not included in the trading portfolio. This allows the Bank to hedge fixed-rate assets (loans and mortgages) and fixed-rate liabilities (funding) using swaps and other derivatives, so that any interest rate risk is hedged optimally. The Bank complies with the accounting rules for measurement of effective hedging; there is therefore constant focus on maintaining an interest rate risk and value adjustment that remain neutral.

Hedging for fixed-rate loans and mortgages occurs at portfolio level and is checked monthly. Effective hedging is ensured by means of a requirement for interest rate matching within defined terms and term bands. The hedged portfolio is rebalanced and adjusted quarterly.

Hedging fixed-rate liabilities such as subordinated debt is done on a one-to-one basis, so that there is zero net interest rate exposure on these positions.

At 31 December 2010, vestjyskBANK had a total interest rate risk exposure not included in the trading portfolio of DKK -172 million.

20. Disclosure Relating to Securitisations

vestjyskBANK does not use securisations.

21. Disclosure Relating to Calculating Credit Risk in IRB Institutions

vestjyskBANK does not use the internal ratings based approach for calculating credit risk, cf. section 19 of the Executive Order on Capital Adequacy.

22. Disclosure Relating to Methods for Reducing Credit Risk

vestjyskBANK uses the standard method for reducing credit risk for the 2010 financial year.

23. Disclosure Relating to Advanced Measuring Method for Calculating Operational Risk

vestjyskBANK does not use the advanced measuring method for calculating operational risk. Instead, it uses the basic indicator method, cf. section 17.

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