



# Annual Report 2011

(Extract)







## Satisfactory development and acceptable operating profit in Skjern Bank

- Annual profit before tax of DKK 10.7 million
- Core earnings add up to DKK 81.4 million
- Devaluation of loans DKK 52.2 million
- Loans and deposits from customers at current levels
- Solvency 15.8 % and individual solvency requirement of 11.5% = 137 % coverage
- Strong liquidity reserves of DKK 819 million, corresponding to 159,8%
- Continued high customer satisfaction and customer loyalty to the bank
- Danish Financial Supervisory Authority on standard functional examination
- Core earnings in 2012 is expected in range of DKK 80 to 95 million



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## Management's financial report for 2011

### Main activity

Skjern Bank's main activity is offering bank products to private customers, corporate and institutional customers and public companies. The customers are primarily based in West and South West Jutland and the Hellerup area north of Copenhagen. The bank wants to offer the customers a wide assortment of products combined with professional consulting.

### 2011 in outline

A profit of DKK 10.7 million before tax is acceptable and the bank's development is generally considered satisfactory. The bank's management has approved the financial statements for 2011 and commented that the bank is continuing on the right track.

At the beginning of 2011, the bank expected a core profit in the range of DKK 80 – 95 million, which was achieved with DKK 95.8 million before the underwriting commission to the state and DKK 81.4 million after the underwriting commission.

The Danish Financial Supervisory Authority has performed a functional examination of the bank in autumn 2011, with emphasis on the areas of: liquidity, measurement of loans, solvency requirements and the management's business procedures. The Danish Financial Supervisory Authority's report, which is publicly available on the bank's website, validates the bank's measurement of loans, but also points out the liquidity situation after the end of the government guarantee in spring 2013.

The bank's management is confident that the liquidity situation will be resolved and refers to the section below on liquidity for further comments on the matter.

The consequences of the international financial crisis lessened in the bank's market areas during the course of the year, but still clearly leave their mark on many companies' levels of activity and thus the number of jobs.

In 2011, the bank achieved core earnings and cost consumption essentially equal to 2010. Devaluation losses were significantly reduced to DKK 52 million, but remain at a relatively high level. However, it can be noted that the devaluations continue to mostly be in the nature of provisions and not direct losses.

The return on the securities portfolios and currency positions have virtually gone down to 0 for the year. The bank's shareholdings have contributed negatively by DKK 4.8 million, due to the development of the nervous stock markets. The bank's very large liquid reserves have mostly been placed in short-term bonds, which have contributed nicely to a capital gain of DKK 3.4 million. Income from currency positions, etc. has added up to DKK 1.5 million.

In 2011, the bank reported a loss on investments in associated and affiliated companies of DKK 14.2 million. The loss relates to individual circumstances and is thus expected not to recur.

The bank's capital base has not changed extraordinarily during the course of the year and the base capital adds up to DKK 610 million. Therefore, the solvency ratio is 15.8 %.

The individual solvency requirement is calculated in accordance with the Danish Financial Supervisory Authority's reported instructions to be 11.2 % and therefore the bank has a capital coverage of 41 %.

The 'Supervisory Diamond', which was introduced in 2010 as a future benchmark for the 'health' status of financial institutions, was calculated as of 31 December 2011 and shows that the bank is within the established limit values in all five areas. However, the Supervisory Diamond first takes effect as of 01 January 2013 in accordance with the Danish Financial Supervisory Authority's regulations.

### Expectations for 2012

The bank is looking optimistically at 2012 and expects a significant profit increase compared with profit in 2011. The bank is also fully aware that 2012 will be challenging, primarily in terms of provision of liquidity. The management is convinced that the action plan initiated in this area will ensure satisfactory and sufficient liquid reserves, even after 2013.

The bank has established the strategic and profit-related goals for the coming year.

Ambitious goals have been set for 2012 based on careful organic growth with a focus on strengthening the bank's position as an independent and local West and South Jutland bank that makes a difference in its local areas.

Pressured Danish competitiveness and restrained domestic consumption discourage both industrial and private consumers' willingness to invest. The job creation in the bank's market area will not be sufficient in 2012 to reduce unemployment.

However, the private customers in the West and South Jutland areas have continued with a very robust economy, which is supported by relatively low and stable housing prices and general economic caution. The bank does not expect significant challenges in lending to private customers in 2012.

The bank has close ties to the agricultural industry, which represents a significant loan exposure. Over time, credit lending to the industry has been relatively unproblematic and has only led to losses for the bank to a limited extent.

However, parts of the Danish agriculture industry continue to have difficulty. The industry's restrictive environment, economic exchange conditions and high debt burden mean that a significant number of agricultural operations continue to have a hard time achieving overall profitability in 2012. The bank will continue – out of loyalty and respect – and in close cooperation with individual farmers, to aim to find the best possible solutions to the challenges that will arise.

The bank has loans to agriculture of 14.2 % of the total loans. The bank has conducted a careful review of agricultural involvements, just like any other industry, which makes the management generally confident about the bank's agricultural involvements. The Danish Financial Supervisory Authority agrees with the bank's assessment of agricultural customers and the bank assesses that the involvements are generally in the top half of the agricultural industry.

The bank's activities are progressing well, based on the addition of new customers and particularly due to the fact that existing customers are increasingly entrusting more of their banking transactions to the bank. The increased focus on financing alternative energy, which was initiated in 2009/2010, has resulted in many new customer relationships and will remain an important business area in the bank in 2012.

There will continue to be a focus on maintaining a balanced – and preferably reduced – ratio between the total deposit and lending volumes, since the bank wants to strategically reduce dependence on external funding.

Overall, 2012 is expected to lead to a moderate increase of the bank's business volume, increased activity in securities and foreign countries, and that the devaluation requirements will continue to be significant, but declining in comparison to 2011, such that profit before tax is expected to clear a much higher level than in 2011.

The bank expects core earnings in the range of DKK 80 – 95 million in 2012.

### Audit

The Danish version of the Annual Report for 2011 is equipped with internal audit statements and independent auditors' statement. The statements are without reservations and complementary information.





## Endorsement of the Annual Report by the Management

We have today discussed and approved the annual report for the period 1 January – 31 December 2011 for Skjern Bank A/S.

The annual report has been prepared in accordance with the Danish legislation on financial activities, including executive order on financial reports for credit institutes and stock broker companies, etc. Furthermore, the annual report has been prepared in accordance with additional Danish requirements regarding information in annual reports for financial companies listed on the Stock Exchange.

We consider the accounting practice chosen to be appropriate so that the annual report gives a correct impression of the bank's assets, liabilities, financial position as at the 31st December 2011, and of the result of the bank's activities for the accounting year 1 January – 31 December 2011.

The management report includes a correct presentation of the development of the bank's activities and financial conditions together with a description of the material risks and uncertainties by which the bank may be affected.

The annual report is recommended for approval by the General Meeting.

*Skjern, the 9th February 2012*  
Executed Board of  
Skjern Bank A/S

*Per Munck*

/

*Thomas Baun*  
Chief Financial Officer

*Skjern, the 9th February 2012*

*The Board of Skjern Bank A/S*

*Hans L. Jeppesen*  
Chairman

*Jens Chr. Ostensen*  
Vice-Chairman

*Jens Okholm*

*Finn Erik Kristiansen*

*Lars Andresen*

*Metha Thomsen*

## Profit and loss account

Note:

	2011	2010
	(DKK 1,000)	(DKK1,000)
2 Interest receivable .....	268,016	256,456
3 Interest payable .....	106,970	98,336
<b>Net income from interest</b> .....	<b>161,046</b>	<b>158,120</b>
Dividend on shares and other holdings .....	3,287	2,053
4 Charges and commission receivable .....	55,451	54,986
Charges and commission payable .....	5,726	6,332
<b>Net income from interest and charges</b> .....	<b>214,058</b>	<b>208,827</b>
5 Value adjustments .....	94	21,835
Other ordinary income .....	1,683	1,199
6 Staff costs and administrative expenses .....	134,124	131,507
Depreciation and write-downs on intangible and tangible assets .....	3,578	2,535
Other operating expenses .....	1,052	19,434
Contribution to the Guarantee Fund for deposits .....	1,052	6,148
Guarantee commission first guarantee scheme .....	0	13,286
9 Write-downs .....	52,181	73,085
Write-downs on loans and outstanding accounts etc. ....	52,181	62,831
Write-downs regarding first guarantee scheme .....	0	10,254
10 Profit on equity investments in non-affiliated and affiliated companies .....	-14,208	-1,117
<b>Result before tax</b> .....	<b>10,692</b>	<b>4,183</b>
11 Tax .....	5,838	982
<b>Net-result for the financial year</b> .....	<b>4,854</b>	<b>3,201</b>

## Statement of comprehensive income

Profit for the financial year .....	4,854	3,201
Other comprehensive income after tax .....	0	0
<b>Total comprehensive income</b> .....	<b>4,854</b>	<b>3,201</b>

## Proposal for distribution of profit

Dividends .....	0	0
Transferred to/from retained earnings .....	4,854	3,201
<b>Total distribution of the amount available</b> .....	<b>4,854</b>	<b>3,201</b>

# Balance Sheet

Note:

2011

2010

(DKK 1,000)

(DKK 1,000)

## Assets

	Cash in hand and demand deposits with central banks .....	67,582	179,374
12	Receivables at credit institutions and central banks .....	378,716	435,179
13	Loans and other receivables at amortised cost .....	3,526,544	3,623,212
14	Bonds at fair value .....	887,607	843,058
15	Shares etc. ....	167,857	185,014
16	Holdings in associated enterprises .....	3,111	5,934
16	Holdings in group enterprises .....	3,365	6,745
17	Land and buildings (total) .....	69,538	69,987
	Investment properties .....	9,361	9,361
	Owner-occupied properties .....	60,177	60,626
18	Other tangible assets .....	10,755	4,959
19	Deferred tax assets .....	46,010	49,570
	Assets temporarily acquired .....	1,000	89,966
	Other assets .....	86,939	89,966
	Prepayments .....	116	1,550
	<b>Total assets</b> .....	<b>5,249,140</b>	<b>5,494,549</b>

## Liabilities

	<b>Debt</b>		
20	Debt to credit institutions and central banks .....	149,061	274,734
21	Deposits and other debts .....	3,509,897	3,569,671
	Deposits .....	2,767,346	2,825,796
	Other debts .....	742,551	743,875
22	Bonds issued at amortised cost .....	755,838	775,544
	Other liabilities .....	90,650	132,767
	Prepayments .....	248	366
	<b>Total debt</b> .....	<b>4,505,694</b>	<b>4,753,082</b>
	<b>Provisions</b>		
13	Provisions for loss on guarantees .....	5,208	6,000
	<b>Total provisions</b> .....	<b>5,208</b>	<b>6,000</b>
23	<b>Subordinated debt</b> .....		
	Subordinated loan capital .....	222,749	222,023
	Hybrid core capital .....	134,772	134,523
	<b>Total subordinated debt</b> .....	<b>357,521</b>	<b>356,546</b>
	<b>Equity</b>		
24	Share capital .....	22,560	22,560
	Revaluation reserves .....	417	417
	Proposed dividend .....	0	0
	Retained earnings .....	357,740	357,444
	<b>Total equity</b> .....	<b>380,717</b>	<b>380,421</b>
	<b>Total liabilities</b> .....	<b>5,249,140</b>	<b>5,496,049</b>

## Information on changes in equity

Note:

	2011	2010
	(DKK 1,000)	(DKK 1,000))
24		
Share capital beginning-of-year .....	22,560	22,560
<b>24</b>	<b>22,560</b>	<b>22,560</b>
Revaluation reserves beginning-of-year .....	417	417
Additions related to reassessed value .....	0	0
Other movements .....	0	0
<b>Revaluation reserves end-of-year .....</b>	<b>417</b>	<b>417</b>
Retained earnings beginning-of-year .....	357,444	350,411
25		
Profit or loss for the financial year .....	4,854	3,201
Sale of own funds .....	7,722	17,940
25		
Purchase of own funds .....	- 12,280	- 12,689
Taxation concerning own shares .....	0	- 1,419
<b>Retained earnings end-of-year .....</b>	<b>357,740</b>	<b>357,444</b>
<b>Total equity .....</b>	<b>380,717</b>	<b>380,421</b>





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## 1. Accounting Policies

The annual report is prepared in accordance with the Financial Business Act, including the notes on financial reports for credit institutions and investment companies, etc. The financial statements have been prepared in accordance with additional Danish disclosure requirements that apply to listed financial companies. The annual reports are presented in Danish kroner and rounded to the nearest DKK 1,000.

The accounting policies remain unchanged since last fiscal year.

In connection with the amendment of the notice of financial reports of credit institutions and investment companies, etc., on January 11, 2011, the bank has not fully applied the new notice for the Annual Report 2010. The bank has applied only § 93a, § 134 and § 129 for the presentation of the Annual Report 2010, even though the changes are only effective for Annual Reports filed on January 1, 2011 onward.

### General notes on recognition and measurement

Assets are recognised on the balance sheet when it is probable that future economic assets will come to the bank and the assets can be measured reliably.

Liabilities are recognised on the balance sheet when they are probable and can be measured reliably.

On initial recognition, assets and liabilities are measured at fair value. However, intangible and tangible activities at the time of initial recognition are measured at cost. Measuring after initial recognition is done as described below for each item.

The recognition and measurement methods take into account foreseeable risks and losses that arise before the Annual Report is presented, and which confirm or deny conditions that existed on the balance sheet date.

In the income statement, income is measured as it is earned, while expenses are recognised at the amounts that apply to the financial year. Increases in value in occupied properties are accounted for directly to equity.

Purchases and sale of financial instruments are recognised on the day of the trade, and the recognition ends when the right to receive/deliver the cash flows from the financial asset or liability expires, or if it is transferred, and the bank in all material respects has transferred all risks and rewards of ownership. The Bank has not applied the rules for reclassification of certain financial assets from fair value to amortised cost price.

### Changing comparative

After presentation of the annual report for 2010, the Bank has revised the accounting treatment of losses on Amagerbanken and now estimates that Amagerbanken collapse is an adjusting event after the balance sheet date that require recognition in the 2010 accounts. The comparative figures for 2010 are as a consequence changed as follows:

Losses on Amagerbanken 6,000 TDKK are expensed under "Other operating expenses". The tax is reduced by 1,500 TDKK, retained earnings were reduced by 4,500 TDKK and equity has been reduced by 4,500 TDKK.

Skjern Bank's profit for 2011 is substantially affected by the revised estimate of the loss on Amagerbanken.

Bank financial ratio for 2010 have been adjusted as a consequence of the above.

Contribution to the Deposit Guarantee Fund on 148 TDKK has moved from "The staff and administration" to "Other operating expenses".

### Determination of fair value

Fair value is the amount at which an asset could be exchanged or a liability settled in a trade under normal circumstances, and between informed, willing and non-related parties.

The fair value of financial instruments for which an active market exists is set at the closing price on the balance date, or, if there is no such price, another publicly available rate that can be assumed to be the closest equivalent.

For financial instruments where no active market exists, fair value is found using generally accepted valuation techniques based on observable current market data.

### Accounting estimates

When determining the carrying amounts of certain assets and liabilities, estimates are used with regards to how future events may affect the value of the assets and liabilities at the balance sheet date.

The estimates are based on assumptions which management believes are reasonable, although not certain. Final actual results can therefore differ from the estimates, since the bank is exposed to risks and uncertainties which may affect them.

Areas involving a higher degree of assessments/assumptions and estimates include write-downs on loans and receivables, unlisted financial instruments, and provisions.

### Foreign currencies

Assets and liabilities in foreign currencies are listed at the Danish National Bank exchange rate on the balance sheet date.

Currency spot transactions are revalued at spot price on the balance sheet date.

Currency translation adjustments are made as needed throughout the income statement.

### Income statement

#### Interest, fees and commissions, etc.

Income and expenses from interest are recognised in the income statement for the period to which they belong.

Interest received on loans in which a write-down has been made is listed for the written-own portion of the loan under the item "Impairment losses on loans and receivables", and is depreciated and deducted in the following year's write-downs.

Provision and fees that are an integral part of the effective interest rate on a loan are recognised as part of the amortised cost, and therefore as a proportion of interest income from loans.

Provisions and fees that are part of continuous service are accrued over the term.

Other fees and commissions, as well as dividends, are recognised as income when they are received.

#### Staff and administrative expenses

Expenses for staff and administration include expenditure on wages and salaries, social charges, pension plans, computer costs etc.

### Pension plans

The bank has entered into defined pension plans with the majority of employees. For the plans based on contribution, fixed contributions are paid to an independent pension fund. The bank is under no obligation to make further contributions.

### Tax

Income tax for the year, which is made up of current tax and deferred tax expenses, is accounted for in the annual accounts with the portion attributable to the year's results, and directly to owners' equity for income that can be attributed directly to owners' equity.

Current tax payable, or unpaid current tax, is included in the balance sheet as tax calculated on the taxable income adjusted for prepaid tax.

Deferred tax is recognised on all temporary differences between the book and tax values of assets and liabilities. Deferred tax assets, including the tax value of tax loss carry forwards, are recognised in the balance sheet using the value that is expected to be realised, either against deferred tax liabilities or against net assets.

The bank is taxed jointly with all Danish companies where it has a controlling influence. Current Danish corporate tax is allocated between the jointly taxed Danish companies in proportion to their taxable income (full allocation with reimbursement for tax losses).

### Balance sheet

#### Dues with credit institutions and central banks

Receivables are measured at current value.

### Loans

The "Loan" item consists of loans on which payment has been made directly to the borrower.

Loans are measured at amortised cost, which normally corresponds to the nominal value less front fees, etc., and write-downs for that have been incurred but not yet realised.

Loans, etc. are written down either individually or on a group basis when there is objective evidence suggesting inability to pay, resulting in a reduction in the expected future cash flows, established from an assessment of the most likely outcome.

For loans and receivables that are not individually written down, a collective assessment is made of whether the group is subject to an objective indication of impairment.

The group assessment is made based on groups of loans and receivables with similar credit risk characteristics. There are 11 groups divided into one group of public authorities, one group of residential customers and 9 groups of business customers, where the business customers are broken down by industry.

The group assessment is made by a segmentation model developed by the Association of Local Banks, which is responsible for its ongoing maintenance and development. The segmentation model determines the connection within each group between actual losses and a number of significant explanatory macroeconomic variables through linear regression analysis. The explanatory macroeconomic variables include unemployment rates, housing prices, interest rates, and number of bankruptcies/forced sales etc.

The macroeconomic segmentation model is basically calculated on the basis of loss data for the entire banking sector. The bank has therefore concluded that the model estimates accurately reflect the credit risk of the bank's lending portfolio.

For each group of loans and credits, an estimate is made which reflects the percentage of impairment associated with a given group of loans and receivables at the reporting date. By comparing the individual loan's current loss risk with the loan's original loss risk and loan loss risk at the beginning of the current accounting period, the individual loan's contribution to the collective impairment is found. Impairment is calculated as the difference between the carrying value and the discounted value of expected future payments.

Changes in impairment charges are regulated in the income statement under "Impairment of loans and receivables, etc."

### Bonds and shares etc.

Bonds and shares traded on a registered stock exchange are measured at market rate. The market rate is the official closing price on the balance sheet date.

Mortgages held to maturity are measured at amortised cost.

Unlisted shares are taken at fair value on the balance sheet date.

Value adjustments on bonds and equities are recognised in the income statement under "Adjustments".

### Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method, which means that investments are measured at the proportionate share of the net asset value at the end of the year.

The balance sheet includes the bank's share of corporate profit.

### Land and buildings

Land and buildings include

- "Occupied properties", which consists of the properties from which the bank conducts banking activities, and
- "Investment property", which consists of all other properties owned by the bank.

**Occupied properties** are measured at revalued amounts, which is the fair value measured by the return method on 5-7 %, less accumulated depreciation and any impairment losses. Depreciation is recognised in the income statement. Reassessments are made so frequently that there are no significant deviations from fair value.

Increases in occupied properties are revalued by the amount recognised in the revaluation reserve under equity. If an increase in the revalued amount is matched by an earlier fall, and thus is recognised in income in prior years, the increase is included in the income statement.

A decrease in the revalued value is included in the income statement, unless it is a reversal of previous revaluations.

Occupied properties are depreciated over 50 years on the basis of cost, adjusted for any value changes.

**Investment properties** are measured at fair value according to the return method.

Ongoing changes in fair value of investment property are recognised in the income statement.



**Other tangible fixed assets**

Other tangible fixed assets, including assets used in operations, are recognised at cost.

Subsequently, other tangible assets and the conversion of leasehold improvements are valued at cost, less accumulated depreciation.

A linear depreciation is carried out over 3-5 years on the basis of cost.

Depreciation and impairment losses are recognised in the income statement.

**Other assets**

Other assets include outstanding interest and commissions, as well as the positive market value of derivative financial instruments.

**Prepayment items**

Prepayments posted under assets include costs relating to subsequent financial years.

Prepayments posted under liabilities include prepaid interest and guarantee provisions relating to subsequent financial years.

**Amounts owed to credit institutions and central banks/deposits and other debt issued bonds/subordinated debt**

These items are measured at amortised cost.

**Other liabilities**

Other liabilities include due interest and commissions as well as the negative market value of financial instruments.

**Provisions**

Commitments, guarantees and other liabilities whose size and timing are uncertain are recognised as provisions when it is probable that the obligation will require an outflow of the bank's financial resources, and the obligation can be reliably measured. The liability is determined as the present value of the costs that must be incurred to meet the obligation.

Guarantees are not measured lower than the commission received for guarantee accrued over the guarantee period.

**Treasury shares**

Purchase and sales prices and dividends on shares are recognised directly under equity.

**Derivative financial instruments**

All derivative financial instruments, including forwards, futures and options in both bonds, shares as currency and interest rate and currency swaps are measured at their fair value on the balance sheet date.

Adjustments are included in the income statement.

Positive market values are recognised under other assets, while negative market values are recognised under other liabilities.

**Contingent obligations**

The bank's outstanding guarantees are reported under "Contingency obligations". Outstanding guarantees, which are believed to lead to a loss for the bank, are listed under "Provisions for losses on guarantees" and expensed in the income statement under "Impairment losses on loans and receivables".

**Financial highlights**

Financial highlights are presented in accordance with accounting order requirements.

## Note

	2011 (DKK 1,000)	2010 (DKK 1,000)
<b>2 Interest income</b>		
Receivables at credit institutions and central banks .....	4,535	4,982
Loans and other receivables .....	243,567	231,880
Loans (interest conc. the written-down part of loans) .....	-7,200	-7,200
Bonds .....	21,465	21,649
Other derivative financial instruments, total .....	5,649	5,145
of which		
Currency contracts .....	3,276	4,310
Interest-rate contracts .....	2,373	835
Other interest income .....	0	0
<b>Total</b> .....	<b>268,016</b>	<b>256,456</b>
<b>3 Interest expenses</b>		
Credit institutions and central banks .....	1,656	3,225
Deposits .....	61,194	52,167
Bonds, issued .....	20,788	19,625
Subordinated debt .....	23,332	23,319
Other interest expenses .....	0	0
<b>Total</b> .....	<b>106,970</b>	<b>98,336</b>
<b>4 Fees and commission income</b>		
Securities trading and custody accounts .....	18,493	17,767
Payment services .....	5,637	4,869
Loan fees .....	18,076	19,192
Guarantee commission .....	6,682	6,669
Other fees and commission .....	6,563	6,489
<b>Total</b> .....	<b>55,451</b>	<b>54,986</b>
<b>5 Value adjustments</b>		
Bonds .....	3,418	6,867
Total shares .....	-4,831	11,940
- Shares in sectorcompanies etc. ....	3,433	3,709
- Other shares .....	-8,264	8,231
Foreign currency .....	2,557	2,775
Other financial instruments .....	-1,050	253
<b>Total</b> .....	<b>94</b>	<b>21,835</b>
As the bank essentially operates deposits and lending activity in its local areas, the division of market areas is not specified for notes 2-5.		
No income or expenses are entered from genuine purchase or repurchase contracts in notes 2 and 3.		
<b>6 Staff costs and administrative expenses</b>		
<b>Salaries and remuneration of board of directors, managers etc.</b>		
Board of managers (1 person)* .....	2,830	2,830
Fixed fees .....	2,790	2,790
Pension contributions .....	40	40
Management board (6 persons in 2011 - 7 persons in 2010) .....	637	660
Audit Committee .....	50	90
Committee of representatives .....	184	183
<b>Total salaries and remuneration of board etc.</b> .....	<b>3,701</b>	<b>3,763</b>
*The Board of manager has a company car		
<b>Board of Directors' remuneration</b>		
Carsten Thygesen .....	142	147
Hans Ladekjær Jeppesen .....	12	0
Jens Christian Osterson .....	111	108
Jens Okholm .....	122	100
Finn Erik Kristiansen .....	91	81
Børge Lund Hansen .....	17	98
Holger Larsen .....	0	22
Metha Thomsen .....	101	97
Lars Skov Hansen .....	91	0
Lars Andresen .....	0	97
<b>Total</b> .....	<b>687</b>	<b>750</b>

## Note

	2011 (DKK 1,000)	2010 (DKK 1,000)
6	<b>Staff costs and administrative expenses (continued)</b>	
	<b>Staff costs</b>	
	62,078	62,730
	7,242	7,075
	798	626
	7,460	6,584
	<u>77,578</u>	<u>77,015</u>
	3,491	3,597
	371	383
	<b>Other administrative expenses</b>	
	23,609	23,151
	2,936	3,106
	1,414	1,927
	24,887	22,545
	<u>52,845</u>	<u>50,729</u>
	<u>134,124</u>	<u>131,507</u>
	With reference to the conditions for participation in the second guarantee scheme for banks in Denmark, it should be noted that tax has been deducted from remuneration of the executive board in the amount of TDKK 1,415 in connection with the preliminary statement of taxable income for the 2011 accounting period. This is unchanged compared to the 2010 accounting period.	
	<b>Pension and severance terms for the executive board</b>	
	The management receives 11% of salary grade 31 in annual pension, which is contribution-based through a pension company. Therefore, Skjern Bank has no pension obligations to the management, since there is regular payment to a pension company as indicated. Upon retirement, Skjern Bank pays a severance payment equivalent to 6 months' salary. The management may retire at 62 years and must retire at 67 years in accordance with the applicable contract. Skjern Bank's notice period to the management is 36 months, but may be 48 months in special circumstances. The management's notice period to the bank is 6 months.	
	<b>The Board's pension terms</b>	
	No pension is paid to the Board	
	<b>Special risk takers' pension terms</b>	
	The special risk takers receive 11% of their respective salary grades in annual pension, which is contribution-based through a pension company in which the payments are expensed continually.	
	<b>Average number of employees during the financial year converted into full-time employees</b>	
	129	133
	2	4
	<u>131</u>	<u>137</u>
7	<b>Incentive and bonus schemes</b>	
	The bank does not have any incentive or bonus schemes.	
8	<b>Audit fee</b>	
	772	1,466
	656	888
	41	121
	75	457



## Note

	2011 (DKK 1,000)	2010 (DKK 1,000)
9	<b>Write-downs on loans and receivables</b>	
	Write-downs and provisions during the year .....	118,890
	Reversal of write-downs made in previous years .....	-61,522
	Finally lost, not previously written down .....	6,977
	Interest on the written-down portion of loans .....	-7,200
	Recoveries of previously written off debt .....	-4,964
	<b>Total</b> .....	<b>52,181</b>
10	<b>Profit on equity investments in non-affiliated and affiliated companies</b>	
	Profit on equity investments in non-affiliated companies .....	-10,828
	Profit on equity investments in affiliated companies .....	-3,380
	<b>Total</b> .....	<b>-14,208</b>
11	<b>Tax</b>	
	Adjustment of deferred tax .....	5,074
	Adjustment of tax calculated in previous years .....	764
	<b>Total</b> .....	<b>5,838</b>
	Tax paid during the year .....	0
	<b>Effective tax-rate</b> .....	(Pct.)
	Current tax rate .....	25.00
	Non-liable income relating from increasing in reassessed value .....	-1.76
	Non-deductible write-downs and depreciations .....	3.43
	Non-liable income and -deductive costs .....	29.32
	<b>Total effective tax rate</b> .....	<b>55.99</b>
12	<b>Receivables at credit institutions and central banks</b>	
	Deposits with central banks .....	349,980
	Receivables at credit institutions .....	28,736
	<b>Total</b> .....	<b>378,716</b>
	<b>Remaining period</b>	
	Demand .....	359,649
	Over 1 year and up to 5 years .....	19,067
	<b>Total</b> .....	<b>378,716</b>
	No assets related to genuine purchase and resale transactions included.	
13	<b>Loans and other debtors at amortised cost price</b>	
	<b>Remaining period</b>	
	Claims at call .....	1,465,336
	Up to 3 months .....	36,225
	Over 3 months and up to 1 year .....	838,443
	Over 1 year and up to 5 years .....	710,247
	Over 5 years .....	476,293
	<b>Total loans and other debtors at amortised cost price</b> .....	<b>3,526,544</b>
	No assets related to genuine purchase and resale transactions included	
	<b>Individual write-downs and provisions</b>	
	Write-downs beginning of the year .....	264,439
	Write-downs during the year .....	111,492
	Reversal of write-downs made in previous years .....	-58,924
	Write-downs in previous years - now lost .....	-42,026
	<b>Write-downs end of year</b> .....	<b>274,981</b>
	<b>Group write-downs and provisions</b>	
	Write-downs - beginning of the year .....	13,268
	Write-downs during the year .....	1,450
	<b>Group write-downs - end of year</b> .....	<b>14,718</b>
	<b>Total write-downs</b> .....	<b>289,699</b>
		<b>277,707</b>

## Note

	2011 (DKK 1,000)	2010 (DKK 1,000)
13	<b>Loans and other debtors at amortised cost price (continued)</b>	
	<b>Guarantees</b>	
	Provisions beginning of the year .....	6,000 13,746
	Provisions during the year* .....	5,208 16,254
	Transferred to liabilities .....	-6,000 -24,000
	<b>Guarantees end of year .....</b>	<b>5,208 6,000</b>
	*) Provisions to the Guarantee Fund for deposits represents 1,857 TDKK in 2011.	
	<b>Loans etc. with suspended calculation of interest .....</b>	<b>202,692 226,660</b>
	<b>Loans and other debtors with an objective indication of impairment included in the balance sheet at a book value greater than zero</b>	
	<b>Individual written-down loan</b>	
	Balance for loans and other debtors before write-downs .....	640,217 690,301
	Write-downs .....	-278,331 -264,439
	<b>Balance for loans and other debtors after write-downs .....</b>	<b>361,886 425,862</b>
	<b>Group written-downs loans</b>	
	Balance for loans and other debtors before write-downs .....	3,179,376 3,210,618
	Write-downs .....	-14,718 -13,268
	<b>Balance for loans and other debtors after write-downs .....</b>	<b>3,164,658 3,197,350</b>
	There are no write-downs of receivables from credit institutions, or any other receivables.	
14	<b>Bonds at fair value</b>	
	Mortgage credit bonds .....	823,190 785,025
	Other bonds .....	64,417 58,033
	<b>Total bonds at fair value .....</b>	<b>887,607 843,058</b>
	The bank has no held-to-maturity assets	
15	<b>Shares etc</b>	
	Quoted on Nasdaq OMX Copenhagen A/S .....	8,738 26,029
	Quoted on other stock exchanges .....	0 4,275
	Unquoted shares recorded at fair value .....	148,894 144,129
	Other shares .....	10,225 10,581
	<b>Total shares etc .....</b>	<b>167,857 185,014</b>
16	<b>Equity investments in associated and affiliated companies</b>	
	2011 Associated companies (DKK 1,000)	2011 Affiliated companies (DKK 1,000)
	<b>Total cost price beginning-of-year .....</b>	<b>11,855 6,988</b>
	Acquisitions during the year .....	8,505 0
	Reduction during the year .....	0 0
	<b>Total cost price end-of-year .....</b>	<b>19,860 6,988</b>
	<b>Total write-ups/downs and depreciations beginning-of-year .....</b>	
	Result .....	-5,921 -243
	Difference in value by acquisition .....	-3,700 -3,380
	Other capital movements .....	0 0
	Reversal of write-ups/downs .....	-7,128 0
	<b>Total write-ups/downs and depreciations end-of-year .....</b>	<b>0 0</b>
	<b>Total write-ups/downs and depreciations end-of-year .....</b>	<b>-16,749 -3,623</b>
	<b>Book value end-of-year .....</b>	
	of this credit institutions .....	3,111 3,365
	Book value beginning-of-year .....	0 0
	of this credit institutions .....	5,934 6,745
		0 0

## Note

	2011 (DKK 1,000)	2010 (DKK 1,000)
16	<b>Equity investments in associated and affiliated companies (continued)</b>	
	<b>Overview of all capital shares in associated and affiliated companies</b>	
	<b>Associated companies</b>	
	Investeringsselskabet af 15. juli 2011, Tarm	
	The company conducts agriculture.	
	The bank's share of the capital amounts to 49 %	
	The company's net result for the accounting year 2011 amounts to 18 TDKK.	
	The company's equity as at the 31st December 2011 amounts to 1,018 TDKK.	
	The company's debt to Skjern Bank amounts at 31st December 2011 to 14,735 TDKK.	
	Value Estate A/S, Esbjerg	
	The company invests in real property	
	The bank's share of the capital amounts to 47.6 %.	
	The company's net result for the accounting year 2011 amounts to -7,773 TDKK.	
	The company's equity as at the 31st December 2011 amounts to 534 TDKK.	
	The company's debt to Skjern Bank amounts at 31st December 2011 to 38,161 TDKK.	
	<b>Affiliated companies</b>	
	Knud Eskildsen Ejendomme, Esbjerg	
	The company rents real estate.	
	The bank's share of the capital amounts to 100 %.	
	The company's net result for the accounting year 2011 amounts to -3,384 TDKK.	
	The company's equity as at the 31st December 2011 amounts to 3,36 TDKK.	
	The company's debt to Skjern Bank amounts at 31st December 2011 to 82 TDKK.	
	All agreements and transactions with affiliated undertakings is entered into on market terms.	
17	<b>Land and buildings</b>	
	Investment properties	
	Fair value - end of previous financial year .....	9,361                      9,361
	Acquisitions during the year incl. improvements .....	56                              61
	Disposals during the year .....	0                                0
	Adjustment of fair value for the year .....	-56                            -61
	<b>Fair value end-of-year .....</b>	<b>9,361                      9,361</b>
	<b>Owner occupied properties</b>	
	Reassessed value - end of previous financial year .....	60,626                      60,755
	Acquisitions during the year incl. improvements .....	206                            0
	Disposals during the year .....	0                                -460
	Depreciations .....	-1,410                      -1,357
	Changes in value recognized in income .....	755                            1,688
	<b>Reassessed value end-of-year .....</b>	<b>60,177                      60,626</b>
	External experts have not been involved by measurement of investment- and owner-occupied properties.	
	Return method is used for measurement of investment and owner-occupied properties	
	where used required rate of return between 5-7 %.	
18	<b>Other tangible assets</b>	
	Total cost price beginning-of-year .....	31,059                      30,568
	Acquisitions during the year incl. Improvements .....	8,677                        491
	Reduction during the year .....	0                                0
	<b>Total cost price beginning-of-year .....</b>	<b>39,736                      31,059</b>
	Total write-ups/downs and depreciations beginning-of-year .....	26,100                      23,278
	Depreciations during the year .....	2,881                        2,822
	Reversal of depreciations .....	0                                0
	<b>Total write-ups/downs and depreciations end-of-year .....</b>	<b>28,981                      26,100</b>
	<b>Book value end-of-year .....</b>	<b>10,755                      4,959</b>



**Note**

	<b>2011</b> (DKK 1,000)	<b>2010</b> (DKK 1,000)
<b>19</b>		
<b>Deferred taxation</b>		
(Tax amount)		
Tangible assets .....	-78	-822
Loans and other receivables .....	1,862	1,653
Other .....	-4,263	-5,046
Other deficits carried forward .....	48,489	55,285
<b>Total deferred taxation .....</b>	<b>46,010</b>	<b>51,070</b>
The activated deficit is expected to be utilised within the next 3-5 years.		
<b>20</b>		
<b>Debt to credit institutions and central banks</b>		
<b>Debt to credit institutions and central banks</b>		
Debt to credit institutions .....	149,061	274,734
<b>Total debt to credit institutions and central banks .....</b>	<b>149,061</b>	<b>274,734</b>
<b>Term to maturity</b>		
Demand .....	69,061	194,734
Over 1 year and up to 5 years .....	80,000	80,000
<b>Total debt to credit institutions and central banks .....</b>	<b>149,061</b>	<b>274,734</b>
No liabilities related to genuine sale and repurchase transactions included.		
<b>21</b>		
<b>Deposits and other debts</b>		
Demand .....	2,187,950	2,230,879
At notice .....	25,652	32,298
Time deposits .....	770,602	810,772
Special types of deposits .....	525,693	495,722
<b>Total deposits and other debts .....</b>	<b>3,509,897</b>	<b>3,569,671</b>
<b>Term to maturity</b>		
Demand .....	2,219,730	2,281,879
Deposits redeemable at notice:		
Up to 3 months .....	47,172	53,366
Over 3 months and up to 1 year .....	35,102	48,937
Over 1 year and up to 5 years .....	809,053	801,729
Over 5 years .....	398,840	383,760
<b>Total deposits and other debts .....</b>	<b>3,509,897</b>	<b>3,569,671</b>
No liabilities related to genuine sale and repurchase transactions included.		
The post "Time deposits" includes government guaranteed bonds totalling TDKK 742.551. The bonds were issued in 2010 and mature in march 2013.		
<b>22</b>		
<b>Bonds issued at fair value</b>		
<b>Term to maturity</b>		
Over 3 months and up to 1 year .....	1,797	20,200
Over 1 year and up to 5 years .....	754,041	755,344
<b>Total bonds issued at amortised cost .....</b>	<b>755,838</b>	<b>775,544</b>
The entry includes government guaranteed bonds totalling TDKK 749,341. The bonds were issued in 2010 and mature in 2013.		
<b>23</b>		
<b>Subordinated debt</b>		
<b>Supplementary capital DKK 25 mio.</b> .....	25,000	25,000
Rate .....	3.995%	4.33%
Due date .....	01.11.2014	01.11.2014
The loan can be repaid prematurely by the bank on the 3rd February 2012.		
<b>Supplementary capital DKK 100 mio.</b> .....	100,000	100,000
Rate .....	2.72%	2.84%
Due date .....	03.12.2015	03.12.2015
The loan can be repaid prematurely by the bank on the 3rd December 2012.		
The interest rate is a halfyearly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of 3 months plus 1,30% pa.		
On December 3 2012, the supplement is changed to 2,80% pa.		

**Note**

	2011 (DKK 1,000)	2010 (DKK 1,000)
<b>23 Subordinated debt (continued)</b>		
<b>Supplementary capital DKK 100 mio.</b>	97,749	97,023
Rate .....	8.00%	8.00%
Due date .....	14.12.2017	14.12.2017
With FSA approval, bonds can be redeemed before maturity on 14 December 2014. On December 14 2014, the interest rate is changed to a quarterly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of three months plus 6,442% pa.		
<b>Hybrid core capital DKK 70 mio.</b>	70,000	70,000
Rate .....	6.09%	6.09%
Due date .....	No due date	No due date
The loan can be repaid prematurely by the bank on the 1st May 2016, but 1st May 2011 if special circumstances should occur. On May 1 2016, the interest rate is changed to a quarterly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of three months plus 2.73% pa.		
<b>Hybrid core capital DKK 65 mio.</b>	64,772	64,523
Rate .....	11.11%	11.11%
Due date .....	No due date	No due date
The loan can be repaid prematurely by the bank at the following price: In the period 24.11.2012 - 23.11.2014 at price 100 In the period 24.11.2014 - 23.11.2015 at price 105 After 24.11.2015 at price 110		
<b>Subordinated debt total</b>	<b>357,521</b>	<b>356,546</b>
Subordinated debt that may be included in the capital base .....	351,271	356,546
Costs related to admission .....	0	184
Interest on subordinated liabilities recognised in income .....	23,332	23,319
<b>24 Share capital</b>	<b>22,560</b>	<b>22,560</b>
Number of shares is 1.128,000 at DKK 20 each		
The bank has pr. 31. December 2011 14,460 registered shareholders. 98.40 % of the share capital are registered on name.		
Due to the optional Bank Package II, the bank has restricted dividends in the period with added government hybrid capital. Dividends may only be paid to the extent that the benefits can be financed by the bank's net profits after taxes, which constitute the distributable reserves, generated in the period after October 1, 2010.		
<b>25 Own capital shares</b>		
<b>Purchase and sales of own shares</b>		
<b>Holdings beginning of the year</b>		
Number of own shares .....	57,458	96,619
Nominal value of holding of own shares (DKK 1,000) .....	1,146	1,932
Own shares proportion of share capital .....	5.09	8.57
<b>Addition</b>		
Number of own shares .....	103,540	87,980
Nominal value of holding of own shares (DKK 1,000) .....	2,071	1,760
Own shares proportion of share capital .....	9.18	7.80
urchase price (DKK 1,000) .....	12,280	12,689
<b>Disposal</b>		
Number of own shares .....	63,896	127,141
Nominal value of holding of own shares (DKK 1,000) .....	1,278	2,543
Own shares proportion of share capital .....	5.66	11.27
Sale price (DKK 1,000) .....	7,722	17,940

**Note**

	2011 (DKK 1,000)	2010 (DKK 1,000)
25		
<b>Own capital shares (continued)</b>		
<b>Holdings end of the year</b>		
Number of own shares.....	97,102	57,458
Nominal value of holding of own shares (DKK 1,000) .....	1,942	1,149
Own shares proportion of share capital .....	8.61	5.09

Every year at the annual meeting the bank asks the shareholders the permission to acquire up to a total nominal value of 10 % of the banks share capital, refer to the regulations in the Companies Act § 48.

The bank wish to receive this power, in order that the bank always is able to grant the requests from our customers and investors to buy respectively to sell shares in Skjern Bank, and the net-purchase during 2011 is only in consequence hereof.

26 **Contingent liabilities****Contingent liabilities**

Finance guarantees.....	37,248	3,265
Guarantees against losses on mortgage credit loans.....	125,724	111,924
Registration and conversion guarantees.....	86,097	130,288
Other contingent liabilities.....	235,587	219,701
<b>Total.....</b>	<b>484,656</b>	<b>465,178</b>

**Other binding engagements**

Irrevocable credit-undertakings.....	123,200	62,975
<b>Total.....</b>	<b>123,200</b>	<b>62,975</b>

**Assets pledged as collateral**

From the security portfolio, the bank has pr. 31. December 2011 put as collateral for clearing with Danmarks Nationalbank, securities with a total market value of DKK 22 million.

**Contract Legal obligations**

As a member of Bankdata, the bank is due to a possible resignation required to pay a withdrawal benefit.

Like other Danish financial institutions, Skjern Bank is liable for loss sustained by the Deposit Guarantee Fund.

The most recent calculation of Skjern Bank's share of the industry's assurances to the Deposit Guarantee Fund is 0.29 %.

The Bank is a tenant in three leases, two of which can be terminated with 6 months' notice, the yearly lease is 770 TDKK. The third lease is irrevocable until 31 December 2021, and the yearly lease is 1.770 TDKK.

27 **Lawsuits etc.**

As part of ordinary operations, the bank is involved in disputes and lawsuits. The bank's risk in these cases are evaluated by the bank's solicitors and management on an ongoing basis, and provisions are made on the basis of an evaluation of the risk of loss.

The bank is currently party to a trial in which the defendant claims to have suffered a loss of approximately 40 million DKK as a result of faulty investment advice. The bank and the bank's attorney and management believe that the lawsuit will not significantly affect the bank's financial position.

28 **Related parties**

Loans and warranties provided to members of the bank's management board, board of directors and committee of representatives are on marked-based terms.

**Transactions with related parties**

There have during the year not been transactions with related parties, apart from wages and salaries, etc. and loans and similar. Wages and considerations to the bank's management board, board of directors, audit committee and committee of representatives can be found in note no. 6.

There are no related with control of the bank.



## Note

	2011 (DKK 1,000)	2010 (DKK 1,000)
<b>28 Related parties (continued)</b>		
Amount of loans, mortgages, guarantees, with accompanying security for members of the management and related parties mentioned below.		
<b>Management:</b>		
Loans .....	200	200
Bid Bond .....	0	0
Rate of interest .....	6.19%	5.99%
<b>Board of directors:</b>		
Loans .....	6,403	16,978
Bid Bond .....	2,980	3,100
Rate of interest/interest range .....	5.69%	4.02 - 5.32%
	<b>Holding of shares in Skjern Bank</b>	<b>Holding of shares in Skjern Bank</b>
The board of managers		
Per Munck .....	3,781	3,781
The board of directors		
Hans Ladekjær Jeppesen .....	10	10
Jens Christian Ostensen .....	1,052	1,052
Jens Okholm .....	1,274	1,274
Finn Erik Kristiansen .....	376	376
Lars Sov Hansen .....	186	186
Metha Thomsen .....	398	298
<b>29 Capital requirement</b>		
<b>Core capital</b>		
Equity .....	380,717	380,421
Revaluation reserve .....	-417	-417
Deferred tax assets .....	-46,010	-51,070
Hybrid core capital (applied) .....	134,773	133,956
Half of equity investments in other financial companies in compliance with law concerning financial activity .....	-37,849	-36,649
<b>Core capital after statutory deduction .....</b>	<b><u>431,214</u></b>	<b><u>426,241</u></b>
Subordinated debt .....	216,499	222,023
Hybrid core capital (remainder) .....	0	565
Revaluation reserves .....	417	417
Half of equity investments in other financial companies in compliance with law concerning financial activity .....	-37,849	-36,649
<b>Capital base after deduction .....</b>	<b><u>610,283</u></b>	<b><u>612,597</u></b>
<b>Weighted items</b>		
Risk-weighted exposure in total .....	3,208,854	3,130,212
Weighted items with market risk .....	244,302	290,032
Weighted items with operational risk .....	435,513	396,121
Group write-downs .....	-14,718	-13,268
<b>Weighted items total .....</b>	<b><u>3,873,951</u></b>	<b><u>3,803,097</u></b>
<b>Core capital .....</b>	<b>11.1</b>	<b>11.4</b>
<b>Solcency ratio .....</b>	<b>15.8</b>	<b>16.3</b>

## Note

30

### Current value of financial instruments

Financial instruments are measured in the balance sheet at either current value or amortised cost price. The current value is the amount at which a financial asset can be sold or the amount at which a financial liability can be redeemed between agreed independent parties.

The current values of financial assets and liabilities valued on active markets are calculated on the basis of observed market prices on the balance sheet date. The current values of financial instruments which are not valued on active markets are calculated on the basis of generally recognised methods of valuation.

Shares etc. and derivative financial instruments are measured in the accounts at market value such that included book values correspond to current values.

The write-downs on loans are assessed such that they correspond to changes in credit quality. The difference from current value is assessed as fees and commissions received, costs incurred in lending activities, and, for fixed-interest loans, the value adjustment which is independent of the interest level and which can be calculated by comparing the actual market interest rate with the nominal rate applying to the loans.

The current value of claims on credit institutions and central banks is determined under the same method as for loans, but the bank has not currently made any write-downs on claims on credit institutions and central banks.

Issued bonds and subordinated debt are measured at amortised cost price. The difference between book and current values is calculated on the basis of prices on the market for own listed issues.

For variable-interest financial liabilities in the form of deposits and debts to credit institutions measured at amortised cost price, it is estimated that the book value corresponds to the current value.

For fixed-interest financial liabilities in the form of deposits and debts to credit institutions measured at amortised cost price, the difference from current values is estimated to be the value adjustment which is independent of interest level.

	31. december 2011		31. december 2010	
	Book value (DKK 1,000)	Fair value (DKK 1,000)	Book value (DKK 1,000)	Fair value (DKK 1,000)
<b>Financial assets</b>				
Cash in hand+claims at call on central banks	67,582	67,582	179,374	179,374
Claims on credit institutes and central banks 1)	378,716	378,716	435,179	435,505
Loans and other debtors at amort. costprice 1)	3,534,637	3,536,319	3,630,862	3,632,172
Bonds at current value 1) .....	897,724	897,724	851,929	851,929
Shares etc. ....	167,857	167,857	185,014	184,014
Capital shares in associated companies .....	3,111	3,111	5,934	5,934
Capital shares in group companies .....	3,365	3,365	6,745	6,745
Derivative financial instruments .....	55,431	55,431	65,401	65,401
<b>Total financial assets</b> .....	<b>5,108,423</b>	<b>5,110,105</b>	<b>5,360,438</b>	<b>5,362,074</b>
<b>Financial liabilities</b>				
Debt to credit institutions and central banks 1)	149,230	149,587	274,925	275,395
Deposits and other debts .....	3,521,651	3,546,207	3,582,953	3,598,994
Issued bonds at amortised cost price 1) 2) . . . .	758,495	758,495	776,965	779,197
Derivative financial instruments .....	28,584	28,584	42,705	42,705
Subordinated debt 1) 2) .....	362,318	351,318	356,546	361,671
<b>Total financial liabilities</b> .....	<b>4,820,278</b>	<b>4,834,191</b>	<b>5,034,094</b>	<b>5,057,962</b>

1) The entry includes calculated interest on the balance sheet date, which is included in "Other assets" and "Other liabilities".

2) Applied the latest quoted trading price at the balance sheet date

## Note

- 31 **Risks and risk management**  
 Skjern Bank is exposed to various types of risks which are controlled at various levels within the organisation. Skjern Bank's financial risks consist of:
- Credit risk:  
 Risk of losses due to debtors' or counterparties' default on payment obligations.
- Market risk:  
 Risk of losses resulting from the fair value of financial instruments and derivative financial instruments fluctuating due to changes in market prices. Skjern Bank classifies three types of risk for the market risk area:  
 Interest rate risk, currency risk and other price risks, including equity risk and commodity risks.
- Liquidity risk:  
 Risk of losses due to financing costs rising disproportionately, the risk that Skjern Bank is prevented from maintaining the adopted business model due to a lack of financing/funding or ultimately, the risk that Skjern Bank cannot honour incoming payment obligations when due as a result of a lack of financing/funding.
- Liquidity reserve:  
 The bank has on page 7 in the danish annual report mentioned the need for refinancing in connection with the liquidation of state-guaranteed loans of 1.5 billion DKK in the first halfyear of 2013. The bank has to refinance an amount of around 800 billion DKK to meet a liquidity surplus of 50 %. To provide the necessary liquidity, the bank has prepared a cash flow plan that includes various measures including mortgage lending in the National Bank, deposit growth, focusing on market and credit reduction. Please note that there is a risk that the credit quality of bank customer exposures can lead to collateral value is less than assumed in liquidity plan, and there is a risk that growth in deposits and / or loan reduction can not be realized in the rate at which it is assumed in the plan. The bank estimates that the plan is realistic, but note that the implementation thereof is subject to some uncertainty.
- Evaluation of securities:  
 The bank is exposed to the sectors agriculture and real-estate. The Bank has in the assessment of collateral in agricultural exposures used acres of arable land prices in the range of 90 TDKK - 125 TDKK. In the real-estate sector is used return requirement in the range 5% - 9%. Valuations in both agricultural exposures as real-estate exposures are made in accordance with the FSA's current guidance. The Bank notes that estimating the value of collateral is generally associated with uncertainty.
- The following notes to the annual report contain some additional information and a more detailed description of the bank's credit- and market risks.

32 <b>Credit risks</b>	2011 (Pct)	2010 (Pct)
Loans and guarantees distributed on sectors		
Public authorities.....	1.2	1.4
Business:		
Agriculture, hunting, forestry & fishing		
- Plant production.....	1.5	2.0
- Cattle farming.....	7.0	6.7
- Pig farming.....	3.2	3.5
- Mink production.....	1.0	1.4
- Other agriculture.....	1.5	1.1
Industry and mining.....	3.4	3.4
Energy.....	3.6	1.8
Building and constructions.....	5.0	4.5
Wholesale.....	7.9	8.2
Transport, hotels and restaurants.....	1.0	0.8
Information and communication.....	0.3	0.3
Financial and insurance business.....	8.3	8.5
Real-estate.....	20.6	22.2
Other business.....	4.5	3.8
<b>Total business.....</b>	<b>68.8</b>	<b>68.3</b>
Private persons.....	30.0	30.3
<b>Total.....</b>	<b>100.0</b>	<b>100.0</b>

The industry breakdown is based on Danmarks Statistik's industry codes etc. Furthermore, an individual assessment is made of the individual exposures, which has resulted in some adjustment.

From the above sectoral distribution represents alternative energy 5.7 % in 2011 and 4.1 % in 2010.

## Note

### 32 Credit risks (continued)

#### Maximum credit exposure classified by loan, guarantees and credit-undertakings

	2011 (DKK 1,000)	2011 (DKK 1,000)	2011 (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities .....	44,082	5,846	0
Business .....	2,361,863	361,722	111,682
Private persons .....	1,120,599	117,088	11,518
	<b><u>3,526,544</u></b>	<b><u>484,656</u></b>	<b><u>123,200</u></b>

Which recognized in the balance after deduction of depreciation .....

4,011,200

	2010 (DKK 1,000)	2010 (DKK 1,000)	2010 (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities .....	55,464	5,544	0
Business .....	2,610,995	330,407	44,505
Private persons .....	1,234,460	129,227	23,470
	<b><u>3,900,919</u></b>	<b><u>465,178</u></b>	<b><u>67,675</u></b>

Which recognized in the balance after deduction of depreciation ...

4,366,097

#### Description of collateral

##### Security distributed by type

	2011 (DKK 1,000)	2011 (DKK 1,000)	2011 (DKK 1,000)
	Public authorities	Business	Private
Securities .....	2,830	130,283	42,495
Real property .....	40,599	2,405,391	965,547
Chattels, vehicles and rolling stock .....	11,281	163,646	160,126
Other chattels .....	1,500	327,105	500
Guarantees .....	867	79,887	23,776
Other forms of security .....	2,046	109,889	63,488
	<b><u>59,123</u></b>	<b><u>3,216,201</u></b>	<b><u>1,255,932</u></b>

##### Security distributed by type

	2010 (DKK 1,000)	2010 (DKK 1,000)	2010 (DKK 1,000)
	Public authorities	Business	Private
Securities .....	6,300	166,802	170,917
Real property .....	41,104	2,088,699	945,676
Chattels, vehicles and rolling stock .....	10,567	167,969	158,486
Other chattels .....	700	245,590	5,100
Guarantees .....	773	56,765	24,913
Other forms of security .....	0	173,490	65,659
	<b><u>59,444</u></b>	<b><u>2,899,315</u></b>	<b><u>1,370,751</u></b>

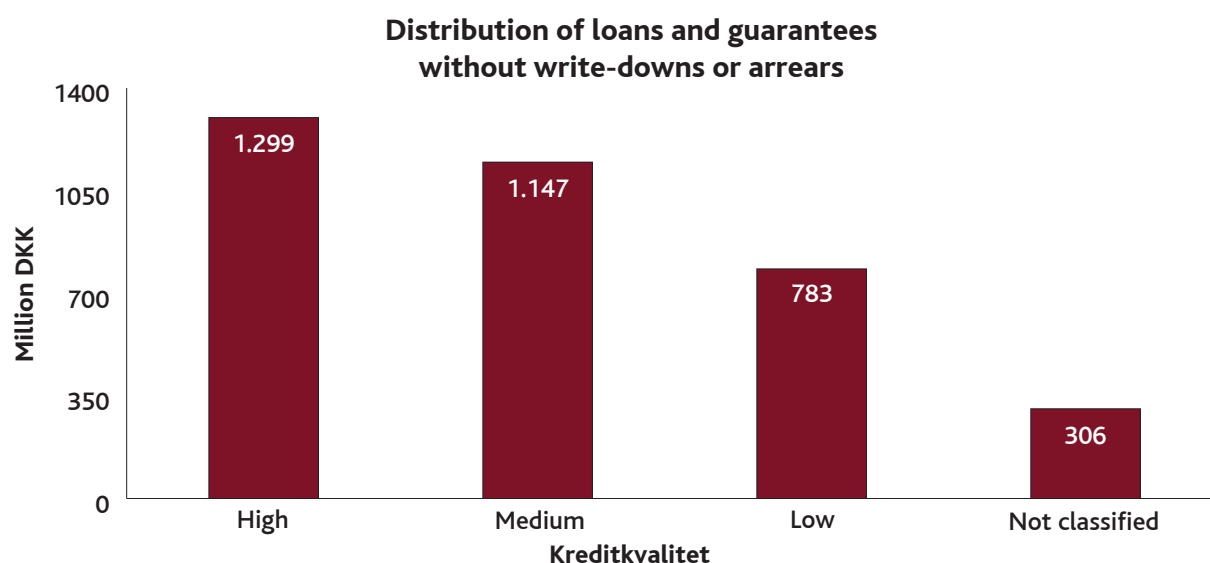
As a general rule, the bank is secured by financed assets and is also secured by sureties, mortgages and shares. The above listing refers to nominal securities, but transferable securities are recorded at fair value.



## Note

### 32 Credit risks (continued)

Credit-quality on loans which are neither in arrears nor written down\*



\*) Calculated based on the guidelines for accounting reports for credit institutions and investment companies, etc. regarding thresholds for reporting credit quality classes.

### Reasons for individual write-downs and provisions

	2011 Exposure before write-down	2011 Write-downs	2011 Securities
Significant financial difficulties .....	240,557	98,844	143,828
Breach of contract .....	62,913	34,722	18,077
Reductions in terms .....	101,173	43,587	23,175
Probability of bankruptcy .....	235,574	101,178	91,339
<b>Total</b> .....	<b>640,217</b>	<b>278,331</b>	<b>276,419</b>

Reference is made to relevant sections on the bank's credit risk on loans on page 8-9 in the Danish management report.

	2010 Exposure before write-down	2010 Write-downs	2010 Securities
Significant financial difficulties .....	190,067	92,117	72,408
Breach of contract .....	188,036	58,668	63,046
Reductions in terms .....	141,623	51,351	43,835
Probability of bankruptcy .....	170,575	62,303	86,830
<b>Total</b> .....	<b>690,301</b>	<b>264,439</b>	<b>266,119</b>

## Note

	2011 (DKK 1,000)	2010 (DKK 1,000)
32		
<b>Credit risks (continued)</b>		
<b>Arrears amount for loans, which have not been written down</b>		
0-90 days .....	77,748	40,426
>90 days .....	12,161	8,506
<b>Total</b> .....	<b>89,909</b>	<b>48,932</b>
33		
<b>Market risks and sensitivity information</b>		
In connection with Skjern Bank's monitoring of market risk, a number of sensitivity calculations, which include market risk variables, have been carried out.		
<b>Interest rate risk</b>		
In the event of a general increase in interest rates by 1 percentage point in the form of a parallel shift of the yield curve, equity is affected as shown below		
	2011 (DKK 1,000)	2010 (DKK 1,000.)
Interest rate risk on debt instruments etc - total .....	-183	4,473
Interest rate risk in pct of core capital after deductions .....	0	1.0
Interest rate risk split in currencies with highest risk:		
DKK .....	1,633	6,455
CHF .....	-601	-887
EUR .....	-1,134	-1,014
JPY .....	-81	-83
USD .....	1	0
Others .....	-1	2
<b>Total</b> .....	<b>-183</b>	<b>4,473</b>
<b>Foreign currency risk</b>		
Total assets in foreign currency .....	955,870	1,191,536
Total liabilities in foreign currency .....	800,304	871,029
In the event of a general change in exchange rates of 10%, and in the euro of 2.25%, Currency Indicator 1 will also be increased .....	11,028	6,343
Currency indicator 1 in pct of core capital after deductions .....	2.6	1.8
In the event of a general change in exchange rates of 10%, and in the euro of 2.25%, Currency Indicator 2 will also be increased .....	19	25
Currency indicator 2 in pct of core capital after deductions .....	0.0	0.0
Currency Indicator 1 represents the sum of the respective positions in the currencies in which the bank has a net asset position, and currencies where the bank has net debt.		
Currency Indicator 2 expresses the bank's currency risk more accurately than indicator 1, as it takes into account the different currencies' volatility and covariation.		
A value of indicator 2 of TDKK 25 means that as long as the bank does not change its currency positions in the following 10 days, there is a 1% chance that the institution will get a capital loss greater than TDKK 25, which will affect the bank's profit and equity.		
<b>Equity Risk</b>		
If stock prices change by 10 percentage points, equity is affected as shown below.		
Quoted on Nasdaq OMX Copenhagen A/S .....	873	2,603
Quoted on other stock exchanges .....	0	428
Unquoted shares recorded at fair value .....	14,889	14,413
Other shares .....	1,023	1,058
<b>Total shares etc.</b> .....	<b>16,785</b>	<b>18,502</b>

## Note

### 34 Derivate financial instruments

Derivatives are used solely to hedge the bank's risks. Currency and interest rate contracts are used to hedge the bank's currency and interest rate risks. Cover may not be matched 100%, so the bank has own risk. However, this risk is minor.

	2011 Nominal value	2011 Net market- value	2011 Market- value positive	2011 Market- value negative	2010 Nominal value	2010 Net market- value	2010 Market- value positive	2010 Market- value negative
<b>Currency-contracts</b>								
Up to 3 months	886,301	27,066	36,621	9,557	1,289,554	21,877	46,599	24,722
Over 3 months and up to 1 year	1,090	-14	21	35	83,824	597	6,659	6,062
Over 1 year and up to 5 years	4,721	-1	600	601	9,583	10	973	963
Over 5 years								
Average market value			48,930	11,648			65,918	53,827
<b>Interest-rate contracts</b>								
Up to 3 months	41,914	2	4,966	4,964	20,000	-741		741
Over 3 months and up to 1 year	51,904	92	531	439	36,554	335	622	287
Over 1 year and up to 5 years	151,977	-398	6,445	6,843	98,672	463	2,407	1,944
Over 5 years	87,466	98	6,148	6,050	169,384	173	8,173	8,000
Average market value			16,129	15,848			17,694	16,827
<b>Share contracts</b>								
Up to 3 months								
Over 3 months and up to 1 year								
Over 1 year and up to 5 years								
Over 5 years								
Average market value								

	2011 (DKK 1,000)	2010 (DKK 1,000)
<b>Credit risk on derivative financial instruments</b>		
Positive market value, counterparty with risk weighting of 0 %	0	0
Positive market value, counterparty with risk weighting of 20%	3,874	3,418
Positive market value, counterparty with risk weighting of 100%	51,557	61,983
<b>Total</b>	<b>55,431</b>	<b>65,401</b>

### Unsettled spot transactions

DKK 1,000

	Nominal value	Market- value Positive	Market- value Negative	Net market- value
Foreign-exchange transactions, purchase	271	-	-	-
Foreign-exchange transactions, sale	4,042	-	1	-1
Interest-rate transactions, purchase	13,044	12	26	-14
Interest-rate transactions, sale	8,144	20	8	12
Share transactions, purchase	3,814	56	10	46
Share transactions, sale	3,975	11	51	-40
<b>Total 2011</b>	<b>33,290</b>	<b>99</b>	<b>96</b>	<b>3</b>
<b>Total 2010</b>	<b>90,890</b>	<b>70</b>	<b>83</b>	<b>-13</b>

### 35 Cooperative agreements

Skjern Bank cooperates with, receives commission relating to payment transfers from, and is co-owner of some of the following companies:

Totalkredit A/S, Nykredit, DLR Kredit A/S, Privatsikring A/S, Eurocard, PFA Pension, Sparinvest A/S, Investeringsforeningen Valueinvest Asset Management S.A., Investerings- & Specialforeningen Dexia Invest, BI Asset Management Fondsbørsmæglerelskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, Garanti Invest A/S, Investeringsforeningen Egn-Invest, HP Fondsbørsmæglerelskab A/S, Investeringsforeningen Danske Invest, Investeringsforeningen Maj Invest, Tiedemann Independent A/S, Codan, Dankort A/S, Nets A/S, Multidata A/S, Visa International, Dansk Lokalleasing A/S and Deltaq A/S.

**Note**

	2011	2010	2009	2008	2007
36	<b>5 years in summary (DKK 1,000)</b>				
<b>Profit and loss account</b>					
Net income from interest .....	161,046	158,120	167,948	156,870	135,246
Dividend on shares .....	3,287	2,053	3,405	8,254	3,909
Charges and commission, net .....	49,725	48,654	46,637	46,672	51,541
<b>Income from core business .....</b>	<b>214,058</b>	<b>208,827</b>	<b>217,990</b>	<b>211,796</b>	<b>190,696</b>
Value adjustments .....	94	21,835	29,311	-60,948	7,920
Other ordinary income .....	1,683	1,199	1,825	1,958	1,216
Staff cost and admin. expenses .....	134,124	131,507	129,711	139,618	129,364
Depreciation of intangible and tangible assets.....	3,578	2,535	4,078	9,138	153
Other operating expenses .....	1,052	19,434	15,615	6,465	-8
- Contribution to the Guarantee Fund for deposits	1,052	6,148	85	71	-8
- Guarantee commission first guarantee scheme...	0	13,286	15,530	6,394	0
Write-downs on loans etc. (net) .....	52,181	73,085	218,119	69,572	19,439
- Write-downs on loans and outstanding accounts etc.	52,181	62,831	207,868	66,076	19,439
- Write-downs regarding first guarantee scheme...	0	10,254	10,251	3,496	0
Profit on equity investments in non-affiliated and affiliated companies	-14,208	-1,117	-892	-4,636	1,687
<b>Operating result .....</b>	<b>10,692</b>	<b>4,183</b>	<b>-119,289</b>	<b>-76,623</b>	<b>52,571</b>
Taxes .....	5,838	982	-28,443	-18,471	9,320
<b>Profit for the year .....</b>	<b>4,854</b>	<b>3,201</b>	<b>-90,846</b>	<b>-58,152</b>	<b>43,251</b>
<b>Balance as per 31st December</b>					
summary					
Total assets .....	5,249,140	5,496,049	4,988,301	5,618,617	5,358,137
Loans and other receivables .....	3,526,544	3,623,212	3,677,046	3,770,132	3,919,134
Guarantees etc. ....	484,656	465,178	626,997	1,067,385	1,735,617
Bonds .....	887,607	843,058	424,636	383,051	253,271
Shares etc. ....	167,857	185,014	186,323	184,695	213,388
Deposits and other debts. ....	3,509,897	3,569,671	2,990,783	3,087,535	2,677,096
Subordinated debt .....	357,521	356,546	355,625	195,000	220,000
<b>Total equity .....</b>	<b>380,717</b>	<b>380,421</b>	<b>373,387</b>	<b>463,661</b>	<b>536,276</b>
- of which proposed dividend .....	0	0	0	0	5,640
<b>Capital Base .....</b>	<b>610,283</b>	<b>612,597</b>	<b>613,285</b>	<b>568,491</b>	<b>686,180</b>



**Note**

	2011	2010	2009	2008	2007
38 <b>Financial ratio (figures in pct.)</b>					
Solvency ratio .....	15.8	16.1	15.6	12.4	13.5
Core capital ratio.....	11.1	11.2	10.4	10.2	11.1
Return on equity before tax.....	2.8	1,1	-28.5	-15.3	10.9
Return on equity after tax.....	1.3	0.8	-21.7	-11.6	9.0
Earning/expense ratio in DKK .....	1.06	1.03	0.68	0.66	1.35
Interest rate risk.....	0.0	1.3	1.3	0.7	0.4
Foreign currency position.....	2.6	1.8	2.6	2.8	14.8
Foreign currency risk.....	0.0	0.0	0.0	0.1	0.0
Loans etc. against deposits .....	108.7	109.3	132.4	126.8	149.5
Statutory liquidity surplus.....	159.8	198.7	124.3	143.8	90.7
Total large commitments.....	34.8	38.5	88.2	110.6	109.4
Loans and debtors at reduced interest.....	4.7	5.2	4.0	1.8	0.4
Accumulated impairment ratio .....	6.8	6.5	6.4	3.0	1.5
Impairment ratio for the year .....	1.2	2.0	4.7	1.4	0.3
Increase in loans etc. for the year.....	-2.7	-1.5	-2.5	-3.8	24.5
Ratio between loans etc. and capital funds .....	9.3	9.4	9.8	8.1	7.3
(value per share 100 DKK).....					
Earnings per share .....	21.5	14.2	-439.6	-279.6	205.7
Book value per share .....	1,847	1,777	1,810	2,271	2,474
Rate on Copenhagen Stock Exchange .....	403	800	900	675	2,950
Dividend per share .....	0	0	0	0	25
Market value/net income per share .....	18.7	56.3	-2.0	-2.4	14.3
Market value/book value .....	0.22	0.45	0.50	0.30	1.19



## Financial Calendar 2012

9th February	Announcement of Annual Report 2011
5th March:	General Meeting – Skjern Kulturcenter
10th May:	Announcement of quarterly report 1st quarter 2012
16th August:	Announcement of half-yearly report 2012
1st November:	Announcement of quarterly report 3rd quarter 2012



#### Committee of representatives

Bente Tang, Hanning, Skjern, farmer, head of the committee of representatives  
 Ole Strandbygaard, Ringkøbing, printer, vice-head of the committee of representatives  
 Jørgen Søndergaard Axelsen, Skjern, real estate agent  
 Jens Bruun, Viby J, Manager  
 Ole Eg, Varde, consultant  
 Kaj Eriksen, Vemb, police officer  
 Jens Chr. Fjord, Skjern, former bicycle dealer  
 Elmo Flaskager Hansen, Skjern, senior teacher  
 Orla Varridsbøl Hansen, Tarm, manufacturer  
 Helle Svenstrup Husted, Skjern, manager  
 Børge Lund Hansen, Skjern, manager  
 Tom Jacobsen, Tarm, manager  
 Mike Jensen, Skjern, bookseller  
 Bjørn Jepsen, Borris farmer  
 Niels Erik Kjærgaard, Skjern, city manager  
 Dorte H. Knudsen, Hviding, Ribe, hospital nurse  
 Viggo Nielsen, Borris, Skjern, former mayor  
 Tommy Noer, Esbjerg, technical teacher  
 Torben Ohlsen, Tjæreborg, manager  
 Niels Chr. Poulsen, No, Ringkøbing, mink farmer  
 Jesper Ramskov, Esbjerg, manager  
 Christen Spangsborg Sørensen, Hanning, Skjern, farmer  
 Poul Thomsen, Skjern, trader in men's clothing  
 Carsten Thygesen, Skjern, manager  
 Jesper Ørnkov, Århus, manager

#### Board of directors \*)

Hans L. Jeppesen, Skjern, lawyer, board chairman  
 Jens Christian Ostersen, Stauning, farmer, board vice-chairman  
 Jens Okholm, Esbjerg, adviser\*\*)
   
Finn Erik Kristiansen, Varde, bookseller  
 Lars Skov Hansen, Esbjerg, advisor, employee-selected  
 Metha Kirstine Thomsen, Skjern, agriculture advisor, employee-selected

#### Management

Per Munck, banking executive

\*) Shareholder-selected board of directors are a part of the Committee of representatives.

\*\*) Chairman of the Audit Committee



#### List of board members' managerial offices in companies as per December 31, 2011

Lawyer Hans Ladekjær Jeppesen:  
 Manager of BVLHLJ Holding ApS  
 Boardchairman of Gråkjær Retail A/S  
 Boardchairman of PE Trading A/S  
 Boardchairman of Skautrup Holding A/S  
 Boardchairman of Grønbjerg Grundinvest A/S  
 Boardchairman of Byggefirmaet Ivan V. Mortensen A/S  
 Boardchairman of LHI Invest A/S  
 Boardchairman of Grey Holding 2 A/S  
 Boardchairman of Grey Holding 1 A/S  
 Boardchairman of Krogsgaard Kompagni A/S  
 Boardchairman of Specialfabrikken Vinderup A/S  
 Boardchairman of AP Company A/S  
 Board member of Skjern Håndbold A/S  
 Board member of Gråkjær A/S  
 Board member of Gråkjær Ejendomme A/S  
 Board member of Gråkjær Industribyg A/S  
 Board member of Gråkjær Staldbyg A/S  
 Board member of BS Invest af 1992 A/S  
 Board member of Carl C A/S  
 Board member of Carl C Ejendomme ApS  
 Board member of Actona Company A/S  
 Board member of AA Holding, Herning A/S  
 Board member of Dahlholm Holding ApS  
 Board member of Grønbjerg Ejendomsselskab A/S  
 Board member of LINKA Maskinfabrik A/S  
 Board member of Spizy A/S  
 Board member of i AA Properties A/S  
 Board member of AA Ejendomme 1 A/S  
 Board member of A/S VQX af 8. november 1986  
 Board member of Advokatpartnerselskabet Kirk Larsen & Ascanius

Consultant Jens Okholm:

Boardchairman of CN Maskinfabrik A/S  
 Boardchairman of Logitrans A/S  
 Boardchairman of Group VH A/S  
 Boardchairman of HI Maskinfabrik ApS  
 Boardchairman of Vestjysk Hydraulik Holding ApS

Boardchairman of Dansk Halbyggeri A/S  
 Boardchairman of Gourmandiet A/S  
 Boardchairman af Brørup 1 kød A.m.b.A under livkvidation  
 Boardchairman of Dansk Halbyggeri Holding ApS  
 Boardchairman of Mineralvandsfabrikken Frem A/S  
 Boardchairman of Vestjysk Hydraulik Holding A/S  
 Boardchairman of Frem Produktion A/S  
 Boardchairman of Frem Ejendom A/S  
 Boardchairman of Hansen & Bay Byg A/S

Bookseller Finn Erik Kristiansen:

Manager of Indeks Retail Invest A/S  
 Manager of Indeks Retail Butik A/S  
 Manager and board member of Kristiansen Ejendomme A/S  
 Manager of Bordin Holding ApS  
 Boardchairman of Kristiansen Bog & Idé A/S  
 Boardchairman of Flensborg A/S  
 Board member of Boghandlerforeningen


Banking executive Per Munck,


Boardchairman of Knud Eskildsen Ejendomme A/S  
 Board member of BankData  
 Board member of Dansk Lokalleasing A/S, Bogense





CVR NR. 45 80 10 12


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 **Skjern Bank, Bramming:**  
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 **Skjern Bank, Hellerup:**  
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