# Annual Report 2008

DJURSLANDS BANK
– vi bygger på lokale værdier

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# 5 Years survey and key figures

| (1,000 kr.) | **2008** | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Profit and Loss Accont** | | | | | |
| Net interest income | **184.176** | 157.980 | 141.450 | 132.016 | 133.562 |
| Net interest and fee income | **245.580** | 230.478 | 208.232 | 187.190 | 174.046 |
| Value adjustments | **-24.921** | 15.031 | 28.498 | 30.033 | 15.512 |
| Operational expenditure | **176.461** | 157.129 | 145.021 | 134.488 | 122.623 |
| herof staff and administrative expenses | **165.711** | 151.715 | 140.758 | 129.506 | 116.914 |
| herof payment to the Private Preparedness Initiative | **5.502** | 0 | 0 | 0 | 0 |
| Writedowns | **30.728** | -9.141 | -13.838 | 4.696 | 12.022 |
| herof writedowns in the Private Preparedness Initiative / Roskilde Bank | **5.947** | 0 | 0 | 0 | 0 |
| Profit of associated and affiliated companies | **2.973** | 73 | 76 | 60 | -17 |
| Profit before tax for the financial year | **20.522** | 102.269 | 107.721 | 79.228 | 55.666 |
| Profit for the financial year | **17.766** | 79.659 | 83.292 | 59.876 | 41.777 |
| **Balance Sheet** | | | | | |
| **Assets** | | | | | |
| Cash in hand and claims on credit institutions, etc. | **638.363** | 245.718 | 215.968 | 252.818 | 132.894 |
| Loans and other amounts due | **4.235.007** | 4.301.945 | 3.535.614 | 2.820.627 | 2.351.315 |
| Bonds and shares etc. | **671.638** | 781.872 | 798.327 | 702.537 | 437.960 |
| Assets under pooled schemes | **749.905** | 825.910 | 732.116 | 570.403 | 437.888 |
| Other assets | **223.820** | 161.973 | 140.678 | 90.296 | 80.210 |
| Total assets | **6.518.733** | 6.317.418 | 5.422.703 | 4.436.681 | 3.440.267 |
| **Liabilities** | | | | | |
| Due to credit institutions and central banks | **1.035.970** | 798.931 | 835.691 | 359.519 | 224.441 |
| Deposits and other amounts due | **3.390.111** | 3.386.518 | 2.913.448 | 2.621.164 | 2.159.024 |
| Deposits under pooled schemes | **782.551** | 859.272 | 766.386 | 582.296 | 446.992 |
| Other liabilities | **196.203** | 113.625 | 116.415 | 158.660 | 135.032 |
| Issued bonds at amortised cost | **300.000** | 300.000 | 0 | 0 | 0 |
| Subordinated debt | **225.659** | 225.659 | 225.659 | 225.717 | 50.000 |
| Equity | **588.239** | 633.413 | 565.104 | 489.325 | 424.778 |
| Total liabilities | **6.518.733** | 6.317.418 | 5.422.703 | 4.436.681 | 3.440.267 |
| **Off-balance sheet items** | | | | | |
| Contingent liabilities and other obligating agreements | **1.390.640** | 2.251.373 | 2.328.346 | 2.254.159 | 1.479.594 |

# 5 Years survey and key figures

| Key figures | | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| **Solvency and capital ratio** | | | | | | |
| Solvency ratio * | pct. | **13,0** | 13,2 | 13,1 | 13,4 | 11,8 |
| Core capital ratio * | pct. | **9,5** | 10,1 | 9,5 | 10,2 | 12,0 |
| **Earning ratios** | | | | | | |
| Profit on own funds before tax | pct. | **3,4** | 17,1 | 20,4 | 17,3 | 13,6 |
| Profit on own funds after tax | pct. | **2,9** | 13,3 | 15,8 | 13,1 | 10,2 |
| Earning/costs | kr. | **1,10** | 1,69 | 1,82 | 1,57 | 1,41 |
| Basic earning / costs | kr. | **1,41** | 1,50 | 1,45 | 1,40 | 1,43 |
| Basic earning / costs excl. expense Private Preparedness | kr. | **1,46** | 1,50 | 1,45 | 1,40 | 1,43 |
| **Market risk ratios** | | | | | | |
| Interest rate risk | pct. | **2,3** | 1,8 | 1,8 | 2,3 | 1,8 |
| Foreign exchange standing - pos 1 | pct. | **2,2** | 4,3 | 3,6 | 2,5 | 1,2 |
| Foreign exchange standing - pos 2 | pct. | **0,0** | 0,0 | 0,0 | 0,0 | 0,0 |
| **Credit risk ratio** | | | | | | |
| Lendings plus provisions on loans in relation to deposits | pct. | **104,1** | 103,0 | 98,1 | 91,4 | 95,9 |
| Extra cover in relation to the statutory liquidity requirement | pct. | **100,5** | 44,9 | 60,0 | 61,9 | 104,5 |
| **Credit risk ratios** | | | | | | |
| The sum of large commitments | pct. | **72,7** | 97,2 | 57,6 | 47,2 | 68,4 |
| Share of outstandings with reduced interest | pct. | **0,5** | 0,1 | 0,1 | 0,4 | 0,7 |
| Provision percentage | pct. | **2,0** | 1,3 | 1,5 | 2,1 | 3,3 |
| The year's loss and writedown | pct. | **0,5** | -0,1 | -0,2 | 0,1 | 0,3 |
| The year's growth in lending | pct. | **-1,6** | 21,7 | 25,3 | 20,0 | 10,5 |
| Lending in relation to equity capital | pct. | **7,2** | 6,8 | 6,3 | 5,8 | 5,5 |
| | | | | | | |
| **Return on share** | | | | | | |
| Profit for the year per share ** | kr. | **7** | 28 | 30 | 21 | 15 |
| Net book value per share ** | kr. | **230** | 235 | 209 | 181 | 154 |
| Dividend per share ** | kr. | **0,0** | 3,5 | 3,5 | 2,5 | 2,0 |
| Stock value/result of the year per sl | | **22,8** | 13,5 | 11,8 | 13,2 | 14,1 |
| Stock value/net book value per share | | **0,65** | 1,64 | 1,69 | 1,56 | 1,36 |
| Stock value per share | kr. | **150** | 385 | 352 | 282 | 210 |

* due to implementation of BASEL II in 2007, the calculation of the solvency - and core capital ratio have been changed. 2004-2006 has not been changed

** The shares have been split in 1:2 in 2008, the size has been changed from 20 kr. to 10 kr.

# Annual Report

**Annual result lower than expected**
The annual profit of DKK 17.8m is distinctly lower than expected at the start of the year and is deemed by the bank's Board and Management to be unsatisfactory.

Before value adjustment of securities and currencies, the profit was DKK 45.4m, i.e. slightly below the expected guidance of DKK 50 to 60m to which the bank reduced its expectations after Q3 2008.

The only reason is to be found in the bank's contribution to the so-called Bank Package I and losses associated herewith.
The bank's total payment towards the Package in 2008 was DKK 11.5m or DKK 7m more than expected. These DKK 11.5m consist of a paid guarantee commission to the Government of DKK 5.5m (for 3 months), as well as write-downs of DKK 6m. These write-downs are spread across the Private Preparedness Initiative and the banking sector solution found for Roskilde Bank.

The profit before tax represents a return on the average equity of 3.4%, equaling DKK 7.6 (per DKK 10 share).

**Background for the result**
The main reason for the result achieved is the severe consequences of the international financial crisis for the Danish financial market and for economic developments in Denmark.

Particularly, developments in the second half of the year and specifically in Q4 had a distinct impact on the result achieved by the bank in 2008.

The financial crisis and negative trends in the national economy resulted in very low consumer confidence, low consumer spending and reluctance among companies to make investments. To this must be added the very significant interest-rate fluctuations resulting from unrest in regard to the Danish krone, as well as the follow-on effects on the Danish bond and share markets.

For the bank, these developments led to

• inadequate growth in the demand for loans
• increased lending risks and thus larger write-downs on loans
• more negative price adjustment of security holdings
• declining income from trust activities and fund management, and
• large payments to the national Bank Package and write-downs associated herewith

Despite this negative impact, the bank has achieved a satisfactory result for the year as a whole in terms of its basic earnings.

One of the reasons is the good, continued influx of customers to the Bank's branches in Djursland and Aarhus.

Despite the tough competition for customers, there are still a great many customers with a sound financial standing that wish to change banks; some of these have chosen to become customers of Djurslands Bank.

Another reason is that an increasing share of the bank's customers have chosen to gather their banking business in the bank.

All in all, total deposits have thus risen by DKK 226m – a 5.5% increase. This increase is lower than expected. The background is that for cash-flow reasons the bank has not needed or wished to participate in the high pricing put on deposits at certain times by the market.

The great uncertainty about economic developments for consumers and companies, as well as the heavy losses on investments in securities have led to lower payments into pension saving schemes, corresponding to a decline of approx. 12% compared with 2007.

As regards lending, the average growth has amounted to DKK 522m – an increase of 14%. This increase has been as budgeted and thus at a satisfactory level.
However, in the course of the year, the growth in lending ceased, so at the end of 2008 the level of lending was slightly lower than at the beginning of the year.

Some of the demand for loans from companies has continued to be aimed at investments in extension of production facilities, etc., but an increasing share relates to the financing of the operation of companies.

In regard to private customers, the demand for loans has related primarily to the financing of home purchase.

The average interest margin in the year under review was 0.12% points higher than in 2007. The main reason is to be found in the highly fluctuating market interest. The bank's balance between deposits and lending has meant that to a certain extent the bank has been able to benefit from interest fluctuations. To this must be added the fact that the bank has increased its risk premium on some of the lending portfolio.

Despite the decline in the number of property transactions, the bank has achieved an increase in earnings from mortgage credit finance.
The main reason is to be found in a steadily increasing portfolio of mortgage credit loans organized by the bank for private individuals and for companies, which has generated earnings for the bank.

The activity level in another of the bank's very important business areas – security trading, capital administration and trust funds – remained very low compared with previous years, so the bank's earnings from these activities declined by approx. 30%.

Generally speaking, the bank's credit portfolio has good creditworthiness due to the bank's long-term focus on credit quality and to the spread between private customers and business customers, combined with a positive spread across sectors and industries and a good geographical spread.

Because of the sweeping reversal in economic trends, however, some of the bank's private customers and business customers will experience difficulties in regarding to servicing their debt, which will have an impact on the bank's write-downs on loans.
Reference is made to the separate section on the management of credit risks.

Despite the bank's relatively cautious risk profile on its own investment transactions, the negative value adjustment of securities and currencies in the year under review amounts to a total, unsatisfactory capital loss of DKK 24.9m.
The reason is to be found in the sharp price decline for bonds and shares alike.
For the record, it should be mentioned that the bank has not held any kind of securities relating to the so-called subprime loans.

**Operations**
Net interest income rose by DKK 26.2m. This increase represents a combination of an average increase of the scope of business and an increase in interest margins.
Another reason for the increase in net interest income is a higher direct interest return on the bank's holding of bonds, caused by a higher bond interest rate.

The markedly lower activity in the fields of security trading and fund management is the main reason for the strong net decline of DKK 11.5m in commission and fee income.

Overall, the bank's total income rose by DKK 14.5m compared with 2007, corresponding to a 6.4% increase.

The total value adjustment of securities and currencies represents a capital loss of DKK 24.9m. This capital loss is evenly distributed over bond holdings at DKK 14.8m and shareholdings at DKK 14.5m, whereas currency trading has contributed positively with DKK 4.9m.
The value adjustment of the bank's share holding includes a price gain of just over DKK 17m from the final settlement in regard to the bank's sale of shares in Totalkredit. This sale to Nykredit was made in 2003 and finalized in 2008.

Total operating expenses rose by DKK 19.3m corresponding to 12.3%. The most important reasons are the following:
• the bank's payment of DKK 5.5m (for three months) towards Bank Package I /The Private Preparedness Initiative
• an increase in IT costs, including a extraordinary lump sum payment of DKK 1.9m for the development of systems to calculate group write-downs on loans
• an increase in the number of employees and thus salary and pension costs, including an increase caused by the new labour market agreement for employees in the financial sector, and
• continued renovation of the bank's branches.

In addition, there were normal price increases in the bank's other operating costs.

The average number of employees, converted to full-time equivalents, was 200, up 10 from 2007. The number of employees was slightly higher than budgeted. This development is a combination of the need to continue to attract young employees to the bank and reduce outflow from the bank.

Without the mandatory payment of DKK 5.5m towards Bank Package I, costs would have been DKK 13.8m (+8.8%).

As mentioned in the bank's annual report for 2007, the bank has concluded a bonus incentive agreement with the bank's employees. Since the preconditions regarding continued improvement of the bank's basic earnings per krone of cost have not been met, no bonus will be paid for the year under review.

Because of the national economic trends, as well as the bank's payment towards Bank Package I / the Private Preparedness Initiative, no bonus agreement has been concluded with the bank's employees for 2009.

The amount for losses and write-downs on loans amounted to DKK 30.7m in 2008, against a reversal of DKK 9.1m in 2007.

The main reasons for this distinct change are the following:
• the generally increased credit risk due to economic developments, resulting in an increase in group write-downs on loans, at a cost of almost DKK 4m.
• an increase in individually written-down loans, including in particular write-downs on selected business commitments that were hit by the strong exchange rate fluctuations in Q4 2008, and
• extraordinary write-downs of DKK 6m stemming from the banking sector aid given to Roskilde Bank as well as from Bank Package I/ The Private Preparedness Initiative.

The increase in the individually written-down loans consists of reversals of write-downs on individual commitments and new write-downs on individual commitments, where objective indicators for value deterioration have been ascertained.

In financial years 2005 and 2006, the group write-downs were based on a qualified estimate, since the bank did not have a calculation model that met applicable requirements for such models.

Cooperating via the data centre known as Bank-data, the bank has helped build up a rating model in 2007 and 2008 for group write-downs of the loan portfolio; it was expected that the model would be available for use in the 2008 financial year. However, the present expectation is that the work involved will not be implemented until 2009 in regard to the bank's portfolio of loans to private customers and in 2010 as regards the portfolio of business loans.

Consequently, the calculation of the group write-downs in the 2008 financial year – as in 2007 – has been based on a standard model developed by the trade association known as Lokale Pengeinstitutter (local banks) based on division of the bank's customers into segments.
The assumptions of the standard model have been compared with developments in the bank's primary market area and developments in the bank's historically ascertained losses, and in areas where significant deviations from the standard model have been ascertained, corrections have been made accordingly. In addition, when making a managerial assessment of the group write-downs, the bank has included already occurred events, the effects of which have not yet been integrated into the basic data of the standard model.

Provisions for guarantees were reduced significantly by DKK 11.3m in 2008 due to a positive development in the loss risk of individual provided guarantees.

The total write-downs on loans and provisions for guarantees amounted to DKK 109m at the end of the year under review, corresponding to 2.0% of the bank's loan and guarantee portfolio.

On 1 January 2008, the bank divested its 50% ownership share of Erhvervsparken A/S, Grenaa. The gain from the sale, DKK 2.9m, can be seen under the item "Profit from holdings in associated and affiliated companies" in the profit and Loss account.

**Allocation of profits**
After taxes of DKK 2.8m, the profit for the year was DKK 17.8m.

According to the legislation implemented on financial stability (Bank Package I), a 2-year ban on the payment of dividend has been imposed on the banks.
At the bank's annual general meeting, the Board will thus propose that the profit for the year, DKK 17.8m, be transferred to the reserves.

Following the proposed allocation of profits, the bank's equity will amount to DKK 588.2m, representing a decline of 7.1%. The reason for this is an increase in the holding of own shares. Further information is given under the notes and in the explanatory statement regarding the shareholders' equity.

**Capital**
The bank's capital base amounted to DKK 725m and the solvency ratio at the end of the year amounted to 13.0%, while the statutory requirement is 8%. The bank's own calculated solvency ratio requirement is lower than 8% and the Danish Financial Supervisory Authority has not asked the bank to maintain a higher solvency ratio than required by law.

The 13.0% solvency ratio is composed of a core capital of 9.5% and a supplementary capital of 3.5%.
The supplementary capital is described in more detail in the notes.

The bank makes ongoing assessments of its capital requirement by various means, such as stress tests. For further information and detailing, reference is made to www.diurslandsbank.dk, which contains the full risk report for the bank.

In the ongoing assessment of the capital requirement, the bank will make an assessment in the first half of 2009 of utilizing the opportunities offered by the Government to invest subordinate loan capital in the form of hybrid core capital.

On 12 March 2008, the bank's annual general meeting decided
- that the bank's nominal share capital of DKK 28m was to be reduced by nominally DKK 1m to nominally DKK 27m. The reduction involved 50,000 shares, which were acquired from the bank's holding of its own shares.

- that at the same time the bank carried out a share split from DKK 20 per share to DKK 10 per share, which meant that the share capital of nominally DKK 27m now consists of 2,700,000 shares of DKK 10 each.

In accordance with the bank's articles of association, the bank's Board of Directors is entitled, up to 1 March 2013, to increase the share capital by up to DKK 27m to reach a total of DKK 54m in the form of one or several emissions.

In 2008, the bank has welcomed 650 new shareholders, which means that the bank's share capital of nominally DKK 27m is now held by 15,500 shareholders. Sparinvest, a mutual fund, has informed the bank that it holds more than 5% of the share capital.

The bank has chosen to pay a guarantee commission to the Government for Bank Package I in the form of its own shares as regards the fourth quarter of 2008 and the first quarter of 2009. All in all, this payment in the form of shares will amount to approx. 2.7% of the bank's share capital.
The bank's Board will subsequently assess each quarter how the payment is to be made.

**Balance Sheet**
The bank's balance sheet grew by DKK 201m, amounting to DKK 6,518.7m at the end of the year. This growth represents a percentage increase of 3%.

Off-balance-sheet items were reduced by DKK 860.7m, corresponding to a decline of 38.2% compared with 2007.
This decline is the result mainly of a changed cooperation model with Totalkredit on the brokering of mortgage credit loans to the private market.
The loss guarantees of approx. DKK 800m previously made to Totalkredit have been replaced by a right to offset realized losses against ongoing commission payments received by the bank for mediated mortgage credit loans.

**Liquidity**
As a result of the growth in business volume and in order to strengthen the bank's liquidity, the bank took out a loan from Den Nordiske Investeringsbank for just under DKK 125m in June 2008. This loan has an average life of 6 years and is used to refinance loans already made towards environmental investments particularly in agriculture and transport. The bank's liquidity situation in 2008 remained at a very satisfactory level, which is why the bank has not wished or had any need to participate in the policy of overbidding on the market for deposits and liquidity in general.

At the end of 2008, the bank had excess liquidity cover of over 100%, which is more than double of that required by law.

The bank will make an ongoing assessment of the possibilities for further strengthening its liquidity in the form of the new opportunities presented in the newly adopted Crisis Package / Bank Package II.
In addition, the guaranteed lines of credit which the bank has from other financial enterprises will be adapted on an ongoing basis to the bank's growth and requirements.
For further information about cash-flow management, reference is made to the separate section on this topic.

**Market risks**
The bank's total interest-rate risk in 2008 amounted to between 1.9% and 3.1% of the bank's core capital at the beginning of the year. At the end of the year, the interest-rate risk was 2.3% of the core capital after consolidation.

In the year under review, the exchange-rate risk (indicator 1) was max. 4.2% of the bank's core capital at the beginning of the year.

**Pension funds**
The bank's pension funds were hit by distinct price drops in bond and share markets in 2008.

The returns were 4.14% in the Safe Investment Fund and – 14.97% in the Mixed Investment Fund.

For the first time in the 20 years of these pension funds, one of the funds generated a negative return. A negative return can never be satisfactory, but based on a long investment horizon and the entirely extraordinary market situation in the global financial markets, the return is deemed acceptable.

**Board and Management**
At the bank's annual general meeting in March 2008, master electrician Ole Birk Nielsen resigned from the bank's Board of Directors.

To replace him, state authorised estate agent Mikael Lykke Sørensen was elected as a new member to the Board.

**Other information**
The Annual Report has been prepared in accordance with applicable legislation and relevant rules and guidelines.

No events have occurred that would influence the bank's Annual Report or its financial position.

In 2008, the bank issued the following stock exchange announcements:

21.01.2008 Holding of own shares
20.02.2008 Annual Report for 2007
21.02.2008 Notice of the Annual General Meeting 21.02.2008 Motion to amend the bank's Articles of Association
06.03.2008 Totalkredit – price gain
08.05.2008 Interim report, Q1 2008
20.06.2008 Capital reduction – reduction of share size
18.07.2008 Advanced interim report for Q1-Q2 2008 18.07.2008 Interim report, Q1–Q2 2008
08.09.2008 Holding of own shares
07.10.2008 The bank joins the new state guarantee scheme
21.10.2008 Interim report, Q1–Q3 report 2008
05.12.2008 Modified annual profit expectation 2008 10.12.2008 Financial calendar for 2009

**Expectations for 2009**
The bank expects the growth of the national economy to remain at an extraordinarily low level in 2009, possibly a negative level.
The insufficient economic growth will clearly reduce companies' willingness to invest, so the demand for labour will be reduced. The present historically low level of unemployment is thus expected to rise significantly.

The rising unemployment and the risk of this rise will have a negative impact on consumer confidence and thus a negative impact on the demand for loans from private customers.

Based on this situation, the bank expects no growth in the demand for loans.
The expected restraint in consumer spending is expected to lead to increase the wish to save up, so the bank expects to see a minor increase in deposits.

The increase in the bank's business volume is thus expected to come from existing customers who gather more of their financial engagements with the bank as well as from the expected, continued influx of new customers to the bank. In the first half of 2009, the bank will start marketing the bank's newly established branch *Plusbank* in Grenaa for customers outside the bank's natural, geographical coverage. Other than that, the bank will not establish new branches in 2009.

As a consequence of the weakened national economy and the resulting credit risk, as well as the substantial payments made by the banks towards Bank Package I / the Private Preparedness Initiative, an increase in interest rate margins is expected.
The bank's payment towards Bank Package I is expected to be DKK 22m in 2009, to which must be added any additional losses suffered by the Private Preparedness Initiative when taking over banks that are in distress.

The bank's risk profile in regard to its own transactions in the fields of currencies and investments will remain at a cautious level and the bank's balanced growth in business volume until now will be maintained.

Because of the expected national economic trends, losses and write-downs on loans are expected to remain at the 2008 level.

Based on these assumptions, the profit for 2009 – excluding value adjustments of securities and currencies as well as tax – is expected to be at the level of DKK 30m to DKK 40m.

The bank's interim reporting for 2009 is shown on the financial calendar issued in collaboration with Copenhagen Stock Exchange to which reference is made.

# Commercial basis

**The local bank**
Djurslands Bank came into being in 1965 through a merger of the area's three small banks with roots dating right back to 1906.

Since its establishment the bank has continuously expanded its network of branches in Djursland.
The first branch in the Århus area was opened in 1995, since when the number has risen to 5.
Most recently the bank opened a Finance Centre in the centre of Århus.

The bank's vision is, based in East Jutland to be a strong and attractive partner for both private and businesses with a healthy economy.
The bank's strategy therefore includes a continued expansion of the bank within the bank's natural market area.

The foundation of the bank's principal objectives is that the bank should be a competitive, professional, locally-oriented business at all times.
Continuous development, optimal use of resources, responsible risk management and controlled growth are therefore keywords in the management of the bank.

The bank's values are described in more detail on the last page.

**Commercial basis**
Djurslands Bank is a full-service bank for private customers, small and medium-sized commercial enterprises and public institutions in the bank's market area.

In addition to banking products, customers are offered a full range of mortgage, investment, pension, insurance and leasing products.
The bank's most important cooperation partners in these business areas are

- Totalkredit
- DLR Kredit
- BankInvest
- PFA
- Privatsikring
- Letpension and
- SG Finans

**Customers**
The bank advises and services around 32,000 private customers and around 2,950 business customers and public institutions, and 1,800 other customers.

The number of customers is still growing in the right customer segments, where a healthy common sense in economic behaviour and a wish for full customers is the fundamental element.

The bank's customer concepts, which include active segmented customers advising and focused customer packages, supports the business goal, that those customers who collect their financial business' in the bank will benefit from this.
This way the bank will seek to get the best position in term of delivering a qualified and all-around advising to the customer.

At the bank we give high priority to the principle of proximity and to personal dialogue with customers.
The bank believes strongly in the value of good knowledge regarding the customer and the economic situation of the customer, and thus the needs and wishes of the customer are the foundation of the bank's advice and services.

The bank's local branches are the hub of our systematic customer contact – personal and individual advice.
We call it Active Customer Advice and we aim to become the best in Denmark in this area.

As a supplement to this, the bank's customers are offered all relevant forms of self-service products.
About half of the bank's business and private customers have electronic access to the bank via NetBank or NetBank Erhverv.

Continuous, systematic surveys of the bank's customers, and other market surveys, are the basis for the bank's business development, including the product range, branch network and business policies.

# Corporate Management and risk management

**Corporate Governance at Djurslands Bank**
Management at Djurslands Bank keeps up to date on an ongoing basis with developments in the field of Corporate Governance, and the de recommendations prepared by the Financial Supervisory Authority.

At www.djurslandsbank.dk the bank's share-holders and other interested parties can obtain further information about Djurslands Bank's response to the full set of recommendations on Corporate Governance.

The bank lives up to most of the recommendations, and for those recommendations that the bank does not live up to the bank's management has provided a detailed explanation of the reasons for this in accordance with the so-called "comply or explain" principle.

The duty to inform for publicly quoted companies also includes the individual company's opinion of and assessment of Corporate Governance, and the following sections therefore include a selection of the most significant areas of the bank that are covered by the rules.

**Shareholders**
The bank is owned by 15,500 share-holders, of which only one shareholder owns more than 5% of the share capital. Please see page 5 of the Annual Report.

One of the bank's principal objectives is to secure for shareholders a long-term, attractive return on their investment in the bank.

The bank's management aims to realise this objective by developing the bank in a continued dialogue with the bank's principal stakeholders:

- shareholders,
- customers,
- employees and
- the local community.

Information for the bank's shareholders will be developed on an ongoing basis at www.djurslandsbank.dk, and the bank's management also aims to enhance the level of information in the regular communications and reports from the bank.

The bank's shareholders decided, by quite a large majority at general meetings in 1990, to insert ownership restrictions into the bank's articles of association, as a roof of 10% of the share capital.
The immediate background for this was the relatively large shareholdings in the bank held by two other financial institutions, and thus the risk of a dominating influence on the bank's development.

Changes in the articles of association cannot be adopted unless at least two thirds of the votes submitted and votes cast by the share capital represented with voting rights at the general meeting.

Changes in the articles of association that are suggested by anyone other than the Board of Directors or the Board of Representatives cannot be adopted unless at least nine tenths of the share capital is represented at the general meeting.

According to the bank's articles of association, the following voting restrictions apply at the general meeting:

| | |
|---|---|
| 1-50 shares | = 1 vote |
| 51-100 shares | = 2 votes |
| 101-200 shares | = 3 votes |
| 201-400 shares | = 4 votes |
| 401-800 shares | = 5 votes |
| 801 shares or more | = 6 votes |

No shareholder or agent may cast more than a total of six votes.

The bank's management is still of the opinion that the ownership and voting right restrictions in the articles of association provide the best basis for realising the bank's vision and its principal objectives.
Optimising the return to shareholders in the short term by lifting the restrictions is, in the opinion of the management, not in harmony with the interests of the customers, employees and local community.

**Management**
The bank's Board of Directors consists of six members elected by the bank's Board of Representatives of 50 members.
In addition, the bank's employees have elected three members.
The composition of the Board of Representatives and the Board of Directors is shown on page 32 in the Annual Report.

The six Board Members elected by shareholders are elected for a 2-year term, so three are elected each year. See Note 33.
The number of Board Members is regularly reviewed. It is the opinion of the Board of Directors that the present number is appropriate for the management of the bank.
The bank's Articles of Association set an age limit of 67 years for election to the Board of Representatives, and thus also for election to the Board of Directors.

The tasks and responsibilities of the Board of Directors, and the division of the same between

the Board of Directors and the Management, are laid down in instructions prepared in accordance with statutory rules and the requirements and guidelines of the Financial Supervisory Authority in this area.
Board Meetings are held at intervals of around three to four weeks, and otherwise as often as required.
The other managerial duties of the Board of Directors and the Management can be seen below.
The fees and remuneration of the Board of Directors and the Management can be found in Note 6 to the Annual Report.
The fee for the Board of Directors is a fixed annual amount which is index-linked. The Board of Directors is not remunerated with share options.

The terms and conditions of employment of the Management are considered to be in line with normal practice in the area, and the terms and conditions are regularly reviewed.
The Management can be given a 12 months notice, and 24 months in case of merger with another company.
The Management participates on the same terms as all other employees in the bonus program, but does not receive any other incentive payments. No pension commitments have been made to the Management.

Executive appointments in other Danish limited companies held by members of Board of Direction and Executive Board.
Managing Director Ole Fast
Chairman in Grenaa Bowlingcenter A/S, Kolind Midtpunkt A/S and KØ Beton A/S.
Manager and member of Board of Directors in Peolia I A/S, Peolia II A/S and Djurslands Bowlinghus A/S.
Member of Board of Directors in Perstrup Beton Industri A/S and Hedensted lagerhoteller A/S.

Wholesaler Erik Nymann
Manager and deputy chairman in AUTO-G Dansk Grossist Union A/S.
Chairman in J.A.D.-Autodele A/S.
Manager and member of Board of directors in Auto-Generation A/S, Erik Nymann Holding A/S, Nymann Autoparts A/S, Nymann Ejendomme A/S, Nymann Kemi A/S, N.K. Specialværktøj A/S, Detailgruppen A/S, Kolind Midtpunkt A/S and Hedensted lagerhoteller A/S.
Member of Board of Directors in S.Burchardt Nielsen Autodele A/S and Sydjydsk Reservedele A/S.

Car dealer Poul Erik Sørensen
Manager and member of directors in Havblink Holding A/S under establishment.
Chairman in Grenaa Bil-Center A/S, Grenaa Bil-Center af 2002 A/S and Bil-Center Grenaa A/S.
Member of Board of Directors in HSM-Industires A/S

Managing Director Ole Selch Bak
Member of Board of Directors in Letpension Drift A/S and Letpension IT A/S.

**Employees**
In the bank we put great emphasis on our human assets, and the organisation is based on a team-oriented working environment.
To measure the working environment, and as a basis for further development, a general job satisfaction surveys was carried out in 2007. It showed a general satisfaction score of 8,66 in a range from 1 to 10, which is a hign and satisfactionally level compared to other surveys in and outside the financial branch.
As welfare and motivation is fundamental to the banks development, an ongoing effort is put into improving it further.

The personal and professional development of the bank's employees is a very important element in the bank's development.

Systematic skills development shall ensure a high level of advice for the bank's customers and lead to committed and satisfied employees.

The bank is also aware of its social responsibilities.
Flexible, individual contracts of employment, including senior employee contracts, are thus a natural part of the bank's personnel policy.

With the purpose of implementing the banks business strategi and policies, the banks has in 2008 prepared a set a set of values which describes how god management is executed in the bank.

**Risk management**
In all the most important areas of risk, the bank's Board of Directors has drawn up and laid down policies in accordance with relevant legislation and the rules and instructions of the Financial Supervisory Authority.

In the instructions to the Management, the bank's Board of Directors has laid down the framework for risk management by the bank and for the reporting thereof.

Through regular reports from the bank's Management, internal and external audits and continuous supervision by the Financial Supervisory Authority, the Board of Directors is kept fully aware of the risk management of the bank.

The risk management of all significant areas is evaluated and adapted continuously.

The bank's total risk report can be found at www.djurslandsbank.

**Asset management**
The Board of Directors assesses on an ongoing basis the necessary capital requirement to cover the bank's overall risks, and thus the scale of the solvency requirement, while at the same time taking into account the optimisation of capital utilisation.
This ongoing assessment includes all relevant areas, which includes the size, type and distribution of the bank's capital base.

Tools used to calculate what constitutes a sufficient capital base and capital adequacy requirement include stress tests, including all relevant risk areas, as well as the bank is working with 5 years plan on how to ensure further subordinated debt.

The bank must at a minimum comply with all prevailing rules and supervisory requirements, including a capital adequacy requirement of 8%, and The Danish Financial Supervisory Authorities has not set any higher requirement.

Until now the banks has not been seeking any credit-rating from an International rating-bureau.
The bank's Board of Directors has therefore defined its own solvency target at 11%, which is 3% higher than the legal requirement. This is to ensure new capital at a low cost.

The bank uses the standard method as a basis for producing a specification of capital employed.

**Credit risks**
Credit management and risk constitute a significant area of the bank's risk management, as loans comprise by far the biggest proportion of the bank's assets.

The bank's credit organisation is structured to enable it to make decisions close to the customer, i.e. in the individual branches.
The authorisation to make decisions is therefore delegated to customer advisors and managers in the branches, so that most credit decisions are made locally.
Authorisation is delegated to an individual employee on the basis of an assessment of competence and needs.

The bank has a central credit department to develop, manage and monitor the bank's credit policies and risks.
The credit department also authorises any commitments that exceed the branches' authorisation limits according to the defined rules, and processes, assesses and recommends the commitments to be authorised by the Management or the Board of Directors.

The bank accepts credit risks on the basis of a defined credit policy.
In the bank's credit policy the decisive emphasis is placed on the diversification of risk.

Diversification across
- customers,
- segments,
- sectors and
- geographic areas

is part of the credit management process, so that no individual commitments or sectors constitute a risk to the bank's continued existence.

The bank's lending policy is based on the concept that all loan commitments shall have a sound financial basis.
The determining element in assessing the credit-worthiness of business customers is their ability to service the debt with cash flow from operations.
For personal customers the balance between net income, expenses and capital is decisive.

To manage the banks loan portfolio a credit rating based on factual financial information about the individual business or personal customer is used.
The credit rating for private customers is from 2009 expanded with a financial behaviour score.
The credit rating is a determining element in work under way to create a model for the assessment of future losses, and thereby write-downs and provisions for the loan and guarantee portfolio.

To limit the bank's risk of losses, there is an assessment in each individual credit case of whether the lodging of security is necessary.
If the credit risk is not minimal, as a general rule it is a requirement that the customer lodges full or partial security for the commitment.
The value of security lodged is determined on the basis of defined valuation principles for each kind and type of security. This also includes changes in the market and depreciation as a consequence of age.

Write-downs of loans are performed on the basis of a breakdown of the portfolio into

- write-downs of significant loans
- individual write-downs and
- group write-downs.

All commitments of DKK 0.5 million or more are valued individually with a view to confirm whether there is an objective indication of any depreciation in value on the basis of actual events that have occurred. If an objective indication is confirmed and this involves an

impact on the size of expected future payment flows, a write-down is performed.
The loan is written down if necessary, applying the difference between the book value before the write-down and the present value of expected future payments.
Regardless of the size of the commitment, the endangered commitments are valued individually and the write-down is assessed correspondingly.

Loans and other amount that are not written down individually are included in the base data for group write-downs. An assessment of objective indication for losses is performed on the group.
Group assessments are made for groups of loans and receivables with uniform characteristics in relation to credit risks. 11 groups exist, comprising one group of public authorities, one group of private customers and nine groups of corporate customers that have been subdivided into sector groups.

Group assessments are in 2008 made using a segmentation model developed by the Association of Local Banks, which is responsible for maintaining and developing the model. The segment model determines relations in the individual groups between ascertained losses and a number of significant explanatory macro economical variables via a linear regression analysis. Such explanatory macro economic variables include unemployment, housing prices, interest rate, number of bankruptcies / compulsory sales etc.

The macro economical segment model is generally calculated on the basis of loss data for the entire banking sector. Djurslands Bank has therefore assessed whether the model estimates should be adjusted to the credit risk on the bank's own loan portfolio.

This assessment has led to an adjustment of the model estimates to own conditions, and the adjusted estimates, subsequently form the basis of the calculation of the group write-down. Each group of loans and receivables produces an estimate expressing the percentage impairment attached to a specific group of loans and receivables as at the balance sheet date. Comparing this value to the original loss risk on the individual loan and the loss risk on the loan at the beginning of the relevant financial period generates the individual loan's contribution to the group write-down. The write-down is calculated as the difference between the carrying amount and the discounted value of expected future payments.

The risk of guarantees lodged by the bank is assessed individually. On the basis of the probability that the guarantee will lead to a drain on the bank's resources, including the risk of whether the bank can achieve cover for the expected payment from a debtor, an assessment is performed of whether a provision should be made for the estimated risk of loss.

**Market risks**
Another important area of risk management is the management of the bank's market risk.
Market risk is the changes which a financial receivable may be subject to as a result of interest rate changes and general or specific fluctuations in the market prices of securities.

In this area, too, the policy is that the bank does not take on risks which may have a significant influence on the bank's financial situation.

The bank's total interest risk is quantified such that it may be a maximum of between 0 and 3% of the bank's core capital after deductions.

The bank's total currency risk is quantified such that it may be a maximum of 0.1% of the bank's tier 1 capital after deductions, calculated according to exchange rate indicator 2.

Management of the bank's share risk is quantified as a maximum percentage of investments in relation to the bank's core capital after deductions
Depending on whether investments are made in Danish, foreign or individual shares, or in shares in the bank's financial partners, individual limits have been defined for these.

The bank only uses financial instruments to hedge risks.

**Liquidity risks**
Liquidity management must guarantee that there is sufficient liquidity to be able to pay off the bank's current payment obligations at any time.
As well as the fact that cash resources must comply with prevailing laws and regulations, it is also an element of the bank's liquidity policy that the bank will at all times be independent of other financial companies in terms of liquidity.

The bank's primary source of financing is deposits from the bank's customers.
In addition to this, the bank uses bonded loans in the form of senior capital with a term of up to three years.
Unsecured loans in the wholesale market are used for the daily procurement of liquidity and investment.
In addition to this, the bank has entered into multi-annual agreements on guaranteed lines of liquidity of DKK 200 million.
The guaranteed lines are regularly adjusted to the bank's needs in the short and long term and

are not used in day-to-day liquidity management.

**IT security**
IT security is also monitored continuously.
Our most important partner in the area of IT is Bankdata, to which most of the operational and developmental activities are outsourced.
The division of responsibility and work between Bankdata and the bank is clearly defined and described, and there are regular evaluations of whether Bankdata complies with the bank’s IT security policy.

**Operational risks**
Operational risks can be described as the potential losses that the bank might incur as a consequence of operational errors and events caused by people, processes, systems or external events.
The risk can be ascribed to inappropriate behaviour by employees, system breakdown, breach of policies, failure to observe business processes, laws or regulations, etc.

To minimise operational risks, in purely organisational terms the bank has separated the performance of activities from the control of these.
The bank’s internal audit function also performs an ongoing audit in order to achieve the greatest possible guarantee that policies, business processes, rules and procedures are observed.

**Audit**
On the basis of a recommendation from the bank’s Board of Directors and Management, the bank’s General Meeting appoints the external auditors for the coming year as well as alternates.

In accordance with the applicable legislation, the external auditors prepare the basis for the audit of the bank, including the division of responsibilities and tasks between the auditors and the management, the planning and performance of the audit and reporting to the Board of Directors on the work carried out.

In addition to the external auditors, the bank’s Board of Directors has appointed a controller to run the internal audit department.
The division of work between the external and internal auditors is agreed annually.
The internal auditors report at least semi-annually to the Board of Directors.
In connection with the audit of the Annual Report, the auditors go through the details of the audit report with the Board of Directors and present their overall assessment of the bank.

With effect from the annual general meeting 11 March 2009, where the annual report will be put forward for approval, the bank establishes an auditing board, who consist of the whole board of Directors.

The auditing board shall supervise the process of preparing the banks annual report.
In accordance with current legislation, minimum one of the members must have special capabilities within the area.

# Profit and Loss Account

(DKK 1,000)

| | Note | 2008 | 2007 |
|---|---|---|---|
| Interest income | *2* | **366.342** | 292.864 |
| Interest expenses | *3* | **182.166** | 134.884 |
| **Net interest income** | | **184.176** | 157.980 |
| Dividend from share etc. | | **2.279** | 1.854 |
| Fees and commission income | 4 | **65.560** | 76.553 |
| Fees and commission expenses | | **6.435** | 5.909 |
| **Net interest and fee income** | | **245.580** | 230.478 |
| Value adjustments | *5* | **-24.921** | 15.031 |
| Other ordinary income | | **4.079** | 4.675 |
| Staff costs and administrative expenses | *6* | **165.711** | 151.715 |
| Depreciation and writedowns of tangible assets | | **5.248** | 5.414 |
| Other operational expenditures | | **5.502** | 0 |
| Writedowns | | **30.728** | -9.141 |
| Profit from holdings in associated and affiliated companies | *7* | **2.973** | 73 |
| **Profit before tax for the financial year** | | **20.522** | 102.269 |
| Tax | *9* | **2.756** | 22.610 |
| **Profit for the financial year** | | **17.766** | 79.659 |

## Allocation of profit

| | | |
|---|---|---|
| Profit on holdings in associated and affiliated companies | **99** | 73 |
| Proposed dividend | **0** | 9.800 |
| Retained profit | **17.667** | 69.786 |
| **Total allocated** | **17.766** | 79.659 |

# Balance Sheet as at 31. december

| (DKK 1,000) | Note | **2008** | 2007 |
|---|---|---|---|
| Cash in hand and claims at call on central banks | | **76.230** | 59.538 |
| Due from credit institutions and central banks | *11* | **562.133** | 186.180 |
| Loans and other amounts due at amortised cost | *12* | **4.235.007** | 4.301.945 |
| Bonds at fair value | | **514.044** | 591.010 |
| Shares, etc. | | **157.594** | 190.862 |
| Holdings in associated companies | *13* | **0** | 250 |
| Holdings in affiliated companies | *13* | **1.511** | 1.412 |
| Assets under pooled schemes | *14* | **749.905** | 825.910 |
| Tangible assets | | **77.245** | 76.325 |
| Investment properties | *16* | *2.865* | *2.565* |
| Domicile property | *17* | *74.380* | *73.760* |
| Other tangible assets | *18* | **13.762** | 10.567 |
| Tax assets | | **5.393** | 1.337 |
| Deferred tax assets | *19* | **18.392** | 10.216 |
| Other assets | | **103.925** | 61.866 |
| Cut-off assets | | **3.592** | 0 |
| **Total assets** | | **6.518.733** | 6.317.418 |
| | | | |
| Due to credit institutions and central banks | *21* | **1.035.970** | 798.931 |
| Deposits and other amounts due | *22* | **3.390.111** | 3.386.518 |
| Deposits under pooled schemes | | **782.551** | 859.272 |
| Issued bonds at amortised cost | *23* | **300.000** | 300.000 |
| Tax liabilities | | **0** | 0 |
| Other liabilities | | **181.333** | 89.183 |
| Cut-off liabilities | | **6.252** | 4.173 |
| **Total debt** | | **5.696.217** | 5.438.077 |
| Provisions for pensions and similar obligations | *24* | **5.278** | 5.591 |
| Provisions regarding loss on guaranties | | **3.000** | 14.263 |
| Other provisions | | **340** | 415 |
| **Provisions for commitments** | | **8.618** | 20.269 |
| Subordinated debt | *25* | **225.659** | 225.659 |
| **Subordinated debt** | | **225.659** | 225.659 |
| Share capital | | **27.000** | 28.000 |
| Share premium account | | **5.274** | 5.274 |
| Revaluation reserves | | **2.468** | 2.468 |
| Other reserves | | **1.511** | 1.412 |
| Retained profit | | **551.986** | 586.459 |
| Proposed dividend | | **0** | 9.800 |
| **Total equity** | | **588.239** | 633.413 |
| **Total liabilities** | | **6.518.733** | 6.317.418 |

# Cash Flow Analysis

(DKK 1,000)

| | **2008** | 2007 |
|---|---|---|
| **Source of capital** | | |
| **Operations** | | |
| Profit for the financial year | **20.522** | 102.269 |
| Writedowns | **30.728** | -9.141 |
| Revaluation on investment land and property | **-300** | -36 |
| Depreciation and writedowns of tangible assets | **5.248** | 5.414 |
| Profit on holding in affiliated | **-99** | -73 |
| Profit on holding in associate | **-2.874** | 0 |
| Taxes paid | **-10.483** | -33.268 |
| | **42.742** | 65.165 |
| Change in loans and other amounts | **36.210** | -757.190 |
| Change in assets under pooled schemes | **76.005** | -93.794 |
| Change in bonds | **76.966** | 40.904 |
| Change in shares | **33.268** | -24.449 |
| Change in other assets | **-45.651** | -5.384 |
| Change in due to credit institutuions and central banks | **-138.914** | -42.275 |
| Change in deposits and other amounts due | **-73.128** | 565.956 |
| Change in issued bonds | **0** | 300.000 |
| Change in other liabilities etc. | **82.578** | 3.848 |
| Cash flows from operation activities | **90.076** | 52.781 |
| Purchase of tangible assets | **-9.063** | -18.940 |
| Sales provision from associated company | **3.124** | 0 |
| Cash flows from investing activities | **-5.939** | -18.940 |
| Paid dividend | **-9.800** | -9.800 |
| Purchase / sale and revaluation of own shares | **-53.140** | 450 |
| Tax on own shares | **-4.505** | -256 |
| Cash flow from financing activities | **-67.445** | -9.606 |
| Cash flows for the year | **16.692** | 24.235 |
| Cash, beginning | **76.230** | 59.538 |
| Cash, end | **59.538** | 35.303 |
| Cash flows for the year | **16.692** | 24.235 |

# Equity

| | Share capital | Shares premium account | Revalua-tion reserves | Other reser-ves | Proposed dividend | Retained profit | Total |
|---|---|---|---|---|---|---|---|
| **Equity 01.01.2007** | **28.000** | **5.274** | **2.468** | **1.339** | **9.800** | **518.223** | **565.104** |
| Paid dividend | | | | | -9.800 | | -9.800 |
| Used for employee program | | | | | | -2.200 | -2.200 |
| Net purchase of own shares | | | | | | -1.600 | -1.600 |
| Own shares reserved for employee program | | | | | | 2.250 | 2.250 |
| Profit for the financial year | | | | 73 | 9.800 | 69.786 | 79.659 |
| **Equity 31.12.2007** | **28.000** | **5.274** | **2.468** | **1.412** | **9.800** | **586.459** | **633.413** |
| Paid dividend | | | | | -9.800 | | -9.800 |
| Used for employee program | | | | | | -2.250 | -2.250 |
| Reduction of share capital | -1.000 | | | | | 1.000 | 0 |
| Net purchase of own shares | | | | | | -56.392 | -56.392 |
| Own shares reserved for employee program | | | | | | 5.502 | 5.502 |
| Profit for the financial year | | | | 99 | 0 | 17.667 | 17.766 |
| **Equity 31.12.2008** | **27.000** | **5.274** | **2.468** | **1.511** | **0** | **551.986** | **588.239** |

Number of shares 2.700.000

| | 2008 | 2007 |
|---|---|---|
| **Own shares** | | |
| Bookvalue of own shares | 0 | 0 |
| Number of own shares | 144.823 | 49.589 |
| Stock value per share | 150 | 769 |
| Total stock value | 21.723 | 38.134 |
| Percentage of own shares | 5,4 | 3,5 |

| | |
|---|---|
| Number of shares | |
| Number 31.12.2007, size 20 kr. | 1.400.000 |
| Reduction | -50.000 |
| Number of reduction | 1.350.000 |
| Split | 1.350.000 |
| Number 31.12.2008, size 10 kr. | 2.700.000 |

**Shareholders**
The following share holders owns more than 5% of the sharevalue:
Investeringsforeningen Sparinvest.

# Notes

(DKK 1,000)

| | | **2008** | 2007 |
|---|---|---|---|
| 1 | **Solvency** | | |
| | Solvency ratio accordingly to FIL § 124, subsection 1 | **13,0%** | 12,3% |
| | Core capital after deductions in percentage of total weighted items | **9,5%** | 9,4% |
| | Equity | **588.239** | 633.413 |
| | Herof revaluation reserves | **-2.468** | -2.468 |
| | Herof suggested dividend | **0** | -9.800 |
| | Tax assets | **-18.392** | -10.216 |
| | Core capital before deduction of holding | **567.379** | 610.929 |
| | Half of Total of holding etc., more than 10% of capital base | **-35.101** | -63.008 |
| | Core capital after deductions | **532.278** | 547.921 |
| | Subordinated capital investments | **225.659** | 225.659 |
| | Revaluation reserves | **2.468** | 2.468 |
| | Capital base before deductions | **760.405** | 776.048 |
| | Half of Total of holding etc., more than 10% of capital base | **-35.101** | -63.008 |
| | Capital base after deductions | **725.304** | 713.040 |
| | Weighted values excl. values with marked risk | **5.329.580** | 5.472.630 |
| | Weighted values with marked risk | **267.244** | 330.198 |
| | Total weighted values | **5.596.824** | 5.802.828 |
| | Demand for capital accordingly to FIL § 124, subjection 1, 1 | **447.746** | 464.226 |
| | Demand for capital accordingly to FIL § 124, subjection 1, 2 | **37.283** | 37.283 |
| 2 | **Interest income** | | |
| | Claims on credit institutions, etc. | **10.929** | 8.966 |
| | Loans and advances | **307.762** | 244.828 |
| | Bonds | **32.075** | 27.318 |
| | Total derivative financial instruments | **15.389** | 11.671 |
| | of which | | |
| | Currency contracts | **1.405** | 1.841 |
| | Interest rate contracts | **13.984** | 9.830 |
| | Other interest income | **187** | 81 |
| | Total interest income | **366.342** | 292.864 |
| 3 | **Interest expenses** | | |
| | Credit institutions and central banks | **29.177** | 11.734 |
| | Deposits | **121.178** | 97.081 |
| | Issued bonds | **16.927** | 13.033 |
| | Subordinated debt | **14.719** | 12.518 |
| | Other interest expenses | **165** | 518 |
| | Total interest expenses | **182.166** | 134.884 |

# Notes

(DKK 1,000)

| | | 2008 | 2007 |
|---|---|---|---|
| 4 | **Fee and commission income** | | |
| | Securities trading and custody account fees | **26.674** | 39.049 |
| | Payment services fees | **8.414** | 8.482 |
| | Loan fees | **11.732** | 11.778 |
| | Guarantee commissions | **15.660** | 14.234 |
| | Other fees and commissions | **3.080** | 3.010 |
| | Total fee and commission income | **65.560** | 76.553 |
| 5 | **Value adjustments** | | |
| | Loan and advances at fair value | **5.957** | -4.715 |
| | Bonds | **-14.834** | 2.161 |
| | Shares, etc. | **-14.523** | 9.776 |
| | Investment property | **300** | 50 |
| | Currency | **4.926** | 3.665 |
| | Derivatives | **-5.849** | 4.822 |
| | Assets under pooled schemes | **-150.839** | 1.387 |
| | Deposits under pooled schemes | **149.941** | -2.115 |
| | Total value adjustments | **-24.921** | 15.031 |
| 6 | **Staff costs and administrative expenses** | | |
| | Salaries and remuneration of Executive Board, Board of Directors and Board of Representatives | | |
| | Executive Board | **1.786** | 1.667 |
| | Executive Board, pension | **309** | 300 |
| | Board of Directors | **746** | 717 |
| | Board of Representatives | **142** | 139 |
| | Total | **2.983** | 2.823 |
| | Staff costs | | |
| | Salaries | **81.640** | 75.695 |
| | Pensions | **9.492** | 8.419 |
| | Financial services employer, etc. | **768** | 772 |
| | Taxes | **7.519** | 6.977 |
| | Total | **99.419** | 91.863 |
| | Other administrative expenses | **63.309** | 57.029 |
| | Total staff costs and administrative expenses | **165.711** | 151.715 |
| | Number of full-time equivalent staff (avg.) | **200,0** | 189,9 |
| 7 | **Profit of holdings in associated and affiliated companies** | | |
| | Profit on holdings in affiliated companies | **99** | 73 |
| | Profit on holdings in associated companies | **2.874** | 0 |
| | Total profit on holdings in associated and affiliated companies | **2.973** | 73 |

# Notes

(DKK 1,000)

| | | 2008 | 2007 |
|---|---|---|---|
| 8 | **Write down on loans and advances** | | |
| | Individual write downs | | |
| | Write downs beginning | **68.077** | 58.768 |
| | Write downs in the financial year | **85.047** | 32.196 |
| | Changes in write downs regarding earlier years | **-48.032** | -19.523 |
| | Finally lost regarding earlier write downs | **-1.739** | -3.364 |
| | Individual write downs end | **103.353** | 68.077 |
| | Group write downs | | |
| | Write downs beginning | **1.913** | 14.362 |
| | Write downs in the financial year | **3.918** | 0 |
| | Changes in write downs regarding earlier years | **0** | -12.449 |
| | Group write downs end | **5.831** | 1.913 |
| | Total write downs on loans and advances | **109.184** | 69.990 |
| | herof write downs on the Private Preparedness Initiative t.kr. 2.947 in 2008 | | |
| 9 | **Tax** | | |
| | Calculated tax charge for the year | **8.625** | 24.960 |
| | Deferred tax | **-5.885** | -1.608 |
| | Adjustment of tax rate | **0** | -89 |
| | Adjustment of prior-year tax charge | **16** | -653 |
| | Total tax | **2.756** | 22.610 |
| | Effective tax rate | | |
| | Danish tax rate | **25,0%** | 25,0% |
| | Non-taxable income and non-deductible expenses | **-11,5%** | -1,7% |
| | Adjustment of prior-year tax charge | **0,1%** | -0,7% |
| | Others | **-0,2%** | -0,5% |
| | Effective tax rate | **13,4%** | 22,1% |
| | The non-taxable income was mainly from non-public shares | | |
| 10 | **Audit fees** | | |
| | Total fee to the accounting firm elected by the general meeting which perform the statutory audit | **492** | 406 |
| | Fees for non-audit services | **196** | 190 |
| | The bank has an internal audit department | | |
| 11 | **Due from credit institutions and central banks** | | |
| | Claims at notice on central banks | **499.842** | 149.876 |
| | Claims on credit institutions | **62.291** | 36.304 |
| | Total due from credit institutions and central banks | **562.133** | 186.180 |
| | By residual maturity | | |
| | Up to 3 months | **519.100** | 171.271 |
| | Over 5 years | **43.033** | 14.909 |
| | Total due from credit institutions and central banks | **562.133** | 186.180 |

# Notes

(DKK 1,000)

| | | 2008 | 2007 |
|---|---|---|---|
| **12** | **Loans and other amounts due at amortised cost** | | |
| | Loans and other amounts due at amortised cost | **4.235.007** | 4.301.945 |
| | Total loans and other amounts due at amortised cost | **4.235.007** | 4.301.945 |
| | By residual maturity | | |
| | Demand deposits | **446.008** | 572.149 |
| | Up to 3 months | **320.050** | 334.277 |
| | From 3 months to 1 year | **1.513.917** | 1.390.385 |
| | From 1 to 5 years | **1.032.931** | 1.234.658 |
| | Over 5 years | **922.101** | 770.476 |
| | Total loans and other amounts due at amortised cost | **4.235.007** | 4.301.945 |
| | **Specifikation of write downs** | | |
| | Loans and other amounts due at amortised cost, before write downs | **4.344.191** | 4.371.935 |
| | Write downs | **-109.184** | -69.990 |
| | Total loans and other amounts due at amortised cost | **4.235.007** | 4.301.945 |
| | **Broken down by sector and industry** | | |
| | Public sector | **3,2** | 2,4 |
| | Business | | |
| | Agriculture, hunting and forestry | **14,4** | 13,3 |
| | Fishing | **0,4** | 0,3 |
| | Manufacturing industry, quarring, electricity- and gas etc. | **3,5** | 2,7 |
| | Construction | **5,1** | 4,5 |
| | Wholesale and retail trade, hotels and restaurants | **6,5** | 6,0 |
| | Transport, post and communication | **2,5** | 2,4 |
| | Finance, insurance etc. | **1,1** | 2,6 |
| | Real estate administration and real estate business activities | **13,6** | 11,7 |
| | Other businesses | **7,7** | 6,7 |
| | Total business | **54,8** | 50,2 |
| | Private | **42,0** | 47,4 |
| | Total | **100,0** | 100,0 |
| **13** | **Holdings in associated companies** | | |
| | Erhvervsparken A/S, Grenaa | | |
| | Part of shares | **0%** | 50% |
| | **Holdings in affiliated companies** | | |
| | Djurs-Invest ApS, Grenaa | | |
| | Part of shares | **100%** | 100% |
| | Equity | **1.511** | 1.412 |
| | Profit for the financial year | **99** | 73 |

The activity in the companies are immaterial.

| | | | |
|---|---|---|---|
| **14** | **Assets under pooled schemes** | | |
| | Bonds at fair value | **629.231** | 583.787 |
| | Shares | **120.674** | 242.123 |
| | **Total** | **749.905** | 825.910 |

# Notes

(DKK 1,000)

## 15 Related parties

| | **2008** | 2007 | **2008** | 2007 |
|---|---|---|---|---|
| | Affiliated companies | | Affiliated Companies | |
| Loans and advances | **0** | 0 | **0** | 31.401 |
| Deposits | **610** | 602 | **0** | 3.500 |

| | **2008** | 2007 |
|---|---|---|
| **16 Investment property** | | |
| Marked value at January 1 | **2.565** | 2.479 |
| Additions | **0** | 50 |
| Revaluation of marked value | **300** | 36 |
| Marked value at December 31 | **2.865** | 2.565 |

## 17 Domicile property

| | | |
|---|---|---|
| Marked value at January 1 | **73.760** | 64.503 |
| Additions | **1.508** | 12.157 |
| Disposals | **0** | -500 |
| Depreciation | **-888** | -900 |
| Impairment charges of marked value, booked in the financial statement | **0** | -1.500 |
| Marked value at December 31 | **74.380** | 73.760 |

In 2007 external experts have evaluated the value of 3 of the banks domicile properties, the total bookvalue of these 3 buildings at 31/12 2007 was t.d.kr. 27.779.
No experts where used in 2008.

## 18 Other tangible assets

| | | |
|---|---|---|
| Total cost at January 1 | **23.673** | 16.940 |
| Additions | **7.555** | 6.733 |
| Disposals | **-324** | 0 |
| Total cost at December 31 | **30.904** | 23.673 |
| | | |
| Depreciation and impairment at January 1 | **13.106** | 10.022 |
| Depreciation | **4.360** | 3.084 |
| Disposals | **-324** | 0 |
| Depreciation and impairment at December 31 | **17.142** | 13.106 |
| | | |
| Carrying amount at December 31 | **13.762** | 10.567 |

## 19 Deferred tax assets and liabilities

| | | |
|---|---|---|
| Deferred tax at January 1 | **10.216** | 8.707 |
| Change in tax rate | **0** | -933 |
| Change in deferred tax due to own shares | **2.291** | 834 |
| Change in deferred tax due, without own shares | **5.885** | 1.608 |
| Deferred tax at December 31 | **18.392** | 10.216 |

# Notes

(DKK 1,000)

**20 Split of deferred tax on assets and liabilities**

| | 31/12 2008 Deferred tax assets | 31/12 2008 Deferred tax liabilities | 31/12 2007 Deferred tax assets | 31/12 2007 Deferred tax liabilities |
|---|---|---|---|---|
| Tangible assets | **0** | **415** | 0 | 134 |
| Cut of on fees and commissions | **3.045** | **0** | 3.124 | 0 |
| Own shares | **11.638** | **0** | 9.347 | 0 |
| Provisions for commitments | **1.319** | **0** | 1.398 | 0 |
| Other | **7.880** | **5.075** | 1.493 | 5.012 |
| Deferred tax total | **23.882** | **5.490** | 15.362 | 5.146 |

Deferred tax of unquoted stocks amount to DKK 1,560,000
As it is the banks intention to keep the stocks for more than 3 years, there will be no tax obligation, and therefore no liability has been booked on these stocks.

| **21 Due to credit institutions and central banks** | **2008** | 2007 |
|---|---|---|
| Due to credit institutions | **1.035.970** | 798.931 |
| By residual maturity | | |
| Amounts payable on demand | **311.370** | 302.065 |
| Up to 3 months | **600.000** | 496.866 |
| From 1 to 5 years | **74.760** | 0 |
| Over 5 years | **49.840** | 0 |
| Total due to credit institutions and central banks | **1.035.970** | 798.931 |

**22 Deposits and other amounts due**

| | | |
|---|---|---|
| Amounts payable on demand | **2.337.563** | 2.611.664 |
| At notice | **156.554** | 171.160 |
| Time deposits | **565.789** | 309.623 |
| Special deposits | **330.205** | 294.071 |
| Total deposits and other amounts due | **3.390.111** | 3.386.518 |
| By residual maturity | | |
| Amounts payable on demand | **2.548.154** | 2.702.614 |
| Up to 3 months | **475.406** | 426.566 |
| From 3 months to 1 year | **112.321** | 38.992 |
| From 1 to 5 years | **47.450** | 40.798 |
| Over 5 years | **206.780** | 177.548 |
| | **3.390.111** | 3.386.518 |

**23 Issued bonds at amortised cost**

| | | |
|---|---|---|
| From 1 to 5 years | **300.000** | 300.000 |
| Total issued bonds | **300.000** | 300.000 |

**24 Provisions for pensions and similar obligations**

| | | |
|---|---|---|
| Provision for pensions and similar commitments | **5.278** | 5.591 |
| | **5.278** | 5.591 |
| Paid to former members of the Executive Board | **676** | 616 |

# Notes

(DKK 1,000)

| | | 2008 | 2007 |
|---|---|---|---|
| 25 | **Subordinated debt** | | |
| | Floating rate loan in DKK, maturity 2012, Option to prepay from 2009 | **50.000** | 50.000 |
| | Floating rate loan in DKK, maturity 2013, Option to prepay from 2010 | **75.000** | 75.000 |
| | Floating rate loan in DKK, maturity 2014, Option to prepay from 2011 | **100.659** | 100.659 |
| | Total subordinated capital investments | **225.659** | 225.659 |
| | Signing fee | **0** | **0** |
| | Part of capital base | **225.659** | 225.659 |
| 26 | **Equity - shares** | | |
| | Number of shares each of nom value kr. 20. | **2.700** | 1.400 |
| | Share capital nom value DKK 28.000 (1.000 kr.) | | |
| | Number of own shares, beginning | **49.589** | 48.427 |
| | Reduction of share capital | **-50.000** | 0 |
| | Split of shares 1:2 | **46.670** | 0 |
| | Additions | **302.040** | 131.464 |
| | Disposals | **-203.476** | -130.302 |
| | Number of own shares, end | **144.823** | 49.589 |
| | Nom value of own shares, beginning | **992** | 969 |
| | Net additions / disposals | **456** | 23 |
| | Nom value of own shares, end | **1.448** | 992 |
| | Part of own shares, beginning | **3,5%** | 3,5% |
| | Net additions / disposals | **1,9%** | 0,0% |
| | Part of own shares, end | **5,4%** | 3,5% |
| 27 | **Guarantees, etc.** | | |
| | Financial guarantees | **763.381** | 728.143 |
| | Loss guarantees | **189.392** | 938.394 |
| | Registration guarantees | **123.477** | 246.917 |
| | Other guarantees | **314.390** | 337.919 |
| | | **1.390.640** | 2.251.373 |

The bank has joined the Goverment guarante by participating in the Privae Preparedness Initiative. The total guaranteeprovision paid to the Goverment amounts to 15 billion d.kr., the banks share of this amounts to a yearly expense of 22 million d.kr. each of the two years the guarantee covers.
The total guarantee obligation towards the Private Preparedness Initiative amounts to 20 billion Danish kr., the banks share amounts to 58 million d.kr., which is included in the above specified guarantees. 3 million d.kr. has been booked as a provision in 2008.

| | | 2008 | 2007 |
|---|---|---|---|
| 28 | **Credit risk on other financial instruments** | | |
| | Positive market value after netting | | |
| | Authorities (with weighted risk 0%) | **0** | 0 |
| | Credit institutions, etc. (with weighted risk 20%) | **1.239** | 4.715 |
| | Customers (with weighted risk 100%) | **54.967** | 3.125 |
| 29 | **Exchange rate risk** | | |
| | Exchange rate indicator 1 in % of core capital after deductions | **2,2%** | 4,3% |
| | Exchange rate indicator 2 in % of core capital after deductions | **0,0%** | 0,0% |

# Notes

(DKK 1,000)

| | | **2008** | 2007 |
|---|---|---|---|
| **30** | Interest rate risk | | |
| | Total interest rate risk on liabilities, etc. | **12.381** | 9.762 |
| | Interest rate risk by foreign currency with highest interest rate risk | | |
| | DKK | **12.338** | 9.719 |
| | NZD | **41** | **10** |
| | Other currencies | **2** | 33 |

The rate risks on fixed-interest assets DKK 306,400,000 - excluding mortgage deeds - are covered by interest swaps for nominel DKK 303,200,000.
Exchange rate adjustments to market value of loans and swaps have not been corrected.

**31 Other financial instruments**

The bank uses exchange rate- and interest futures as well as interests- and exchange rate swaps. Interest swaps have been signed with the intention of covering the banks portefolio of loans with fixed interests. The remaining financial instruments are used for covering the custumers businesses in relation 1:1

**32 Close parties**

Transaktions with close parties

Close parties covers the Board of Directors and the Board of Managment. None transactions have been entered into except those mentioned in note 6.

| | **2008** | 2007 |
|---|---|---|
| Loans etc to the management | | |
| Executive Board | **300** | 550 |
| Board of Directors | **19.502** | 22.015 |
| Board of Representatives | **318.318** | 260.575 |
| Interest rates | | |
| Executive Board | **8,3%** | 6,8-9,8% |
| Board of Directors | **4,4-11,3%** | 3,8-9,5% |
| Collaterals for engagements with | | |
| Executive Board | **180** | 180 |
| Board of Directors | **1.217** | 4.276 |

**33 Election of board of directors**

| | **First election** | **Chosen again** | **On election** |
|---|---|---|---|
| Erik Nymann | 1990 | 1992, afterwoods every 2 year | 2010 |
| Ole Fast | 1994 | 1995, afterwoods every 2 year | 2009 |
| Jakob Arendt | 1995 | 1997, afterwoods every 2 year | 2009 |
| Helle Bærentsen | 2006 | | 2010 |
| Tina Klausen | 1998 | 2002, afterwoods every 4 year | 2010 |
| Mikael Lykke Sørensen | 2008 | | 2010 |
| Jan B. Poulsen | 2002 | 2006 | 2010 |
| Poul Erik Sørensen | 2002 | 2004, afterwoods every 2 year | 2010 |
| Uffe Vithen | 2006 | 2007 | 2009 |

# Applied accounting policy

The Annual Report has been prepared in accordance with the Danish Financial Business Act, including the Executive Order on the presentation of financial reports by credit institutions and investment companies etc. (the Executive Order) and additional Danish disclosure requirements for annual reports of listed financial companies.

The accounting policies applied are consistent with those adopted in the preceding year.

**Recognition and measurement in general**
Assets are recognised on the balance sheet when, as a result of an earlier event, it is probable that the bank will enjoy future financial benefits and the value of the asset can be measured reliably.

Liabilities are recognised on the balance sheet when the bank, as a result of an earlier event, has a legal or actual obligation and it is probable that the bank will be deprived of future financial benefits and the value of the liability can be measured reliably.

Upon initial recognition assets and liabilities are measured at market value. However, at the time of their initial recognition tangible assets are measured at cost price. Measurement after initial recognition is carried out as described for each individual item below.

Recognition and measurement take into account foreseeable risks and losses, arising before the annual report is presented which validate or invalidate the situation which prevailed at the balance sheet date.

Income is recognised in the profit and loss account as it is earned, while costs are recognised at the amounts relating to the financial year. However, value growth in residential properties is recognised directly in equity.

Financial instruments are recognised at the time of trading.

**Accounting estimates**
The calculation of the accounting value of certain assets and liabilities entails an estimate of how future events will affect the value of these assets and liabilities. The most significant estimates relate to writedowns on loans and provisions regarding loss on guaranties.

The estimates made are based on assumptions which the management consider reasonable, but which are uncertain. In addition, the bank is affected by risks and uncertainties which may mean that the actual results differ from the estimates.

For writedowns on loans and receivables, significant estimates are associated with quantifying the risk that not all future payments will be received.

**Profit and loss account**
**Interest, fees and commission**
Interest income and interest expenses are recognised in the profit and loss account in the financial year to which they relate.
Fee and commission income which forms an integrated part of the effective return on a loan is recognised together with the yield to maturity for the loan concerned.

Other fees are recognised in the profit and loss account at the transaction date.

**Staff costs and administrative expenses**
Staff costs cover wages and salaries, social costs and pensions etc. for the bank's staff.

The costs of incentive schemes are recognised in the profit and loss account in the financial year to which the cost relates. Stock based payment is booked at marked value at the date of allocation.

**Tax**
The tax for the year, which comprises current tax and changes in deferred tax, is recognised in the profit and loss account for the part which can be ascribed to the profit for the year, and directly in equity for the part which can be ascribed to items recognised directly in equity.

Current tax liabilities or current tax assets are recognised on the balance sheet and calculated as estimated tax on the taxable income for the year adjusted for tax paid on account.

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

Deferred tax assets are recognised on the balance sheet at the value at which the asset is expected to be able to be realised.

Djurslands Bank A/S is taxed jointly with its 100%-owned subsidiary Djurs-Invest ApS. The actual Danish corporate tax is divided between the companies in proportion to their taxable incomes.

**Balance sheet**
**Due to and from credit institutions and central banks**
Amounts due from credit institutions and central banks includes due to other credit institutions and time deposits in central banks. Debt consists of credit institutions short debt and time deposits in Djurslands Bank.

**Loans**
Listed loans and loans which are included in a trading portfolio are measured at market value. Other loans are measured at their amortised cost price, which usually corresponds to the nominal value less arrangement fees etc. less provisions for losses incurred but not yet realised.

All commitments of DKK 0.5 million or more are valued individually with a view to confirming whether there is an objective indication of any depreciation in value on the basis of actual events that have occurred.
If an objective indication is confirmed and this involves an impact on the size of expected future payment flows, a write-down is performed.
The loan is written down if necessary, applying the difference between the book value before the write-down and the present value of expected future payments.
Regardless of the size of the commitment, the endangered commitments are valued individually and the write-down is performed correspondingly.

Loans and other amount that are not written down individually are included in the base data for group write-downs. An assessment of objective indication for losses is performed on the group.
Group assessments are made for groups of loans and receivables with uniform characteristics in relation to credit risks. 11 groups exist, comprising one group of public authorities, one group of private customers and nine groups of corporate customers that have been subdivided into sector groups.

Group assessments are in 2007 made using a segmentation model developed by the Association of Local Banks, which is responsible for maintaining and developing the model. The segment model determines relations in the individual groups between ascertained losses and a number of significant explanatory macro economical variables via a linear regression analysis. Such explanatory macro economic variables include unemployment, housing prices, interest rate, number of bankruptcies / compulsory sales etc.

The macro economical segment model is generally calculated on the basis of loss data for the entire banking sector. Djurslands Bank has therefore assessed whether the model estimates should be adjusted to the credit risk on the bank's own loan portfolio.

This assessment has led to an adjustment of the model estimates to own conditions, and the adjusted estimates, subsequently form the basis of the calculation of the group write-down. Each group of loans and receivables produces an estimate expressing the percentage impairment attached to a specific group of loans and receivables as at the balance sheet date. Comparing this value to the original loss risk on the individual loan and the loss risk on the loan at the beginning of the relevant financial period generates the individual loan's contribution to the group write-down. The write-down is calculated as the difference between the carrying amount and the discounted value of expected future payments.

The risk of guarantees lodged by the bank is assessed individually. On the basis of the probability that the guarantee will lead to a drain on the bank's resources, including the risk of whether the bank can achieve cover for the expected payment from a debtor, an assessment is performed of whether a provision should be made for the estimated risk of loss.

**Bonds**
Bonds traded in active markets are measured at fair value. Fair value is calculated at the closing price at the balance sheet date.

**Shares**
Shares which are traded on active markets are measured at market value. The market value is calculated on the basis of the closing price at the balance sheet date. Non-liquid and unlisted shareholdings, where it is not considered possible to calculate a reliable market value, are measured at cost price.

**Shareholdings in associated companies**
Shareholdings in subsidiaries are recognised and measured according to the equity method.

The Company's share in the profit after tax of the businesses is recognised in the profit and loss account. Net revaluations of shareholdings are transferred to revaluation reserves to the extent that the accounting value exceeds the cost price.

**Property, plant and buildings**
Property, plant and buildings consist of two types "Investment and Domicile properties". Those properties which are used to bank activities are categorised as Domicile properties, while other properties are seen as Investment properties.

After initial recognition investment properties are measured at fair value in accordance with Annex 8 of the Executive Order. Fair value adjustments are recognised in the income statement under "Investment property".

Domicile property is measured at revalued amount, which is the marked value less

deducted depreciations and impairments. Yield and yield percentage is dependent of place and condition. Depreciations are calculated on the basis of an expected life time of 50 years. The base for depreciation is cost deducted with scrap value. Depreciations are booked in the profit and loss account, while rising in the revalued value are booked directly on the equity as a part of revaluation reserves, unless it is depreciations, which earlier have been booked in the profit and loss account.
In 2007 external experts have evaluated the value of three of the bank's properties.

After initial recognition residential properties are measured at their reappraised value. Revaluation is carried out so frequently that significant differences to the market value do not arise.

Upon initial recognition tangible fixed assets are measured at cost price. The cost price includes the acquisition price and costs directly associated with the acquisition.

Rises in the reappraised value of residential properties are recognised under revaluation reserves under shareholders' equity. Falls in value are recognised in the profit and loss account, unless they are reversals of previous revaluations.

Changes in the market value of investment properties are recognised in the profit and loss account.

**Other tangible assets**
Other tangible assets and furnishing of leased premises is measured at cost price less accumulated depreciation, amortisation and writedowns. Depreciation and amortisation are on a straight-line basis over an expected lifetime of 3-8 years. The base for depreciation is cost deducted with scrap value.

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

**Issued bonds**
Issued bonds are measured at amortised cost. Any portfolio of own issued bonds is offset.

**Provisions for liabilities**
Liabilities, guarantees and other commitments which are uncertain with regard to their size or date of settlement are recognised as provisions for liabilities if it is likely that the liability will result in a drain on the financial resources of the business and the liability can be measured reliably. The liability is calculated at the present value of the costs required to discharge the liability. Provisions for liabilities relating to staff are made on a statistical actuarial basis.

However, guarantees are not measured as being lower than the commission received for the guarantee accrued over the guarantee period.

**Own shares**
Acquisition and disposal amounts and dividends from own shares are recognised directly in shareholders' equity under retained profits.

**Cash flow statement**
The cash flow statement is presented using the indirect method and presents cash flows from operating, investing and financing activities as well as cash at the beginning and the end of the year.

Cash flows from operating activities are determined as the net profit before tax for the year adjusted for non-cash operating items, taxes paid as well as changes in working capital.

Cash flows from investing activities include purchases and sale of companies and activities concerning purchases and sale of property, plant and equipment.

Cash flows from financing activities include changes in equity, subordinated capital, purchase of own shares and dividends paid.

Cash comprise cash and balances on demand with central banks.

# Signatures by the Board of Executives and Directors

We have today presented the annual report 2008 for Djurslands Bank A/S.

The annual report has been presented in accordance with the Danish Financial Business Act, including the Executive Order on Financial Reports for Financial Credit Institutions and Investment Companies etc.. Furthermore the annual report has been prepared in accordance with additional Danish disclosure requirements for annual reports of listed financial companies.

The management's review includes a fair presentation of the development in the bank's activities and financial position as well as a description of the most material risks and elements of uncertanity thta may affect the bank

We consider the accounting policies appropriate for the annual report to provide a true and fair view of the bank's financial position, result and cash flow.

The annual report is recommended for adoption at the general meeting.

Grenaa, 18 February 2009
**Board of Executive**
**Ole Bak**

**Martin Ring Andersen**
*Chief Accountant*

Grenaa, 18 February 2009
**Board of Directors**

**Erik Nymann**
*Chairman*

**Ole Fast**
*Deputy Chairman*

**Jakob Arendt**

**Helle Bærentsen**

**Tina Klausen**

**Mikael Lykke Sørensen**

**Jan B. Poulsen**

**Poul Erik Sørensen**

**Uffe Vithen**

# Internal auditors´ report on the financial statement

We have audited the Annual Report of Djurslands Bank A/S for the financial year 2008. The Financial statement has been prepared in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

**Basis of opinion**
We conducted our audit in accordance with the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Undertakings etc. and the Danish Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Annual Report is free from material misstatement.

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

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

Our audit has not resulted in any qualification.

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

Furthermore, in our opinion, the Annual Report gives a true and fair view of the company's financial position at 31 December 2008 and of its financial performance and its cash flows for the financial year 2008 in accordance with the Danish Financial Business Act and additional Danish disclosure requirements for annual reports of listed financial institutions.

Grenaa, 18 February 2009

Internal audit

**Jens Reckweg**

Manager Internal audit

# The independent auditors' report

**To the shareholders of Djurslands Bank A/S**
We have audited the annual report of Djurslands Bank A/S for the financial year 1 January - 31 December 2008, which comprises the statement by the Executive and Supervisory Boards, Management's review, accounting policies, income statement, balance sheet, statement of changes in equity and notes. The annual report has been prepared in accordance with the Danish Financial Business Act and in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions.

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

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

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

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

Our audit did not result in any qualification.

**Opinion**
In our opinion, the annual report gives a true and fair view of the bank's financial position at 31 December 2008 and of the results of its operations for the financial year 1 January - 31 December 2008 in accordance with the Danish Financial Business Act and in accordance with additional Danish disclosure requirements for annual reports of listed financial institutions.

Aarhus, 18 February 2009

**KPMG**
Statsautoriseret Revisionspartnerselskab

| | |
|---|---|
| **Jakob Nyborg** | **Kristian Winkler** |
| State Authorised | State Authorised |
| Public Accountant | Public Accountant |