



Annual Report 2008

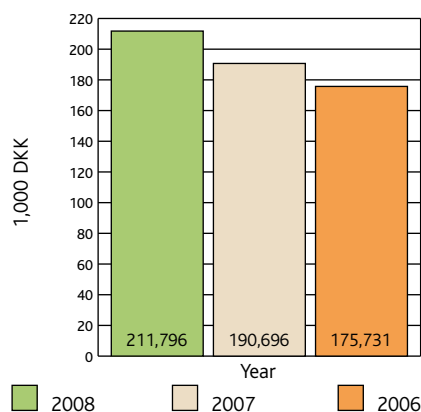
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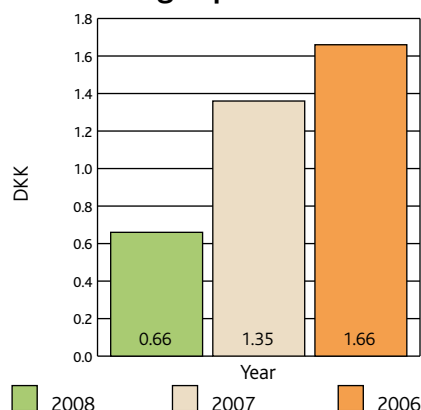
Management's report	4
Accounting policies	10
Profit and loss account	12
Proposal for distribution of profit	12
Balance Sheet.....	13
Information on changes in equity	14
Capital requirement and solvency	14
Notes	16
Statement by the executive and supervisory	24
External auditors' report	24
Financial calendar.....	25
Committee of representatives.....	26
List of board members' managerial offices	26

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In the event of any inconsistencies the Danish version shall apply.

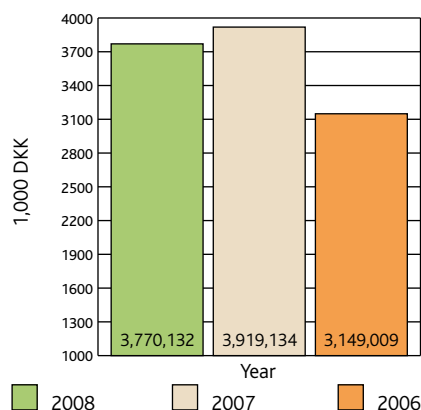
Net income from interest



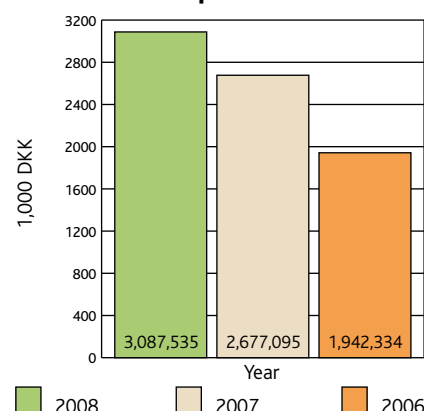
Earning/expense ratio



Loans and other receivables



Deposits



Management's Report

1. The management's financial report for 2008

Principal activities

Skjern Bank's principal activities are to supply bank products to private customers, business customers and institutional customers as well as state-controlled entities. The customers are primarily based in Western and South-western Jutland as well as in the Hellerup area north of Copenhagen. The bank wishes to offer its customers a full product range in the financial services sector combined with professional consultancy services.

2008 in review

In the course of 2008, the international financial crisis and the beginning recession radically changed the terms for banking operations. For Skjern Bank, 2008 must therefore be described as a very unusual year in which external events had an extreme effect on the bank's activities. For 2008 the crisis contributed both directly and indirectly an unsatisfactory result before tax of DKK -76.6 million and a result after tax of DKK -58.1 million.

The result is first and foremost dragged downwards by unrealised negative share price adjustments of DKK 60.9 million and writes downs of DKK 69.6 million; but payment to the first Guarantee Scheme for Banks in Denmark and extraordinary expenses for maintaining good cash resources also negatively impact the financial statements by almost DKK 10 million.

As far as the negative share price adjustments are concerned, it must be admitted that the bank's decision to uphold its past strategy of investing the bank's excess liquidity in securities has been extremely costly due to the very negative securities market that characterised all of 2008. The bank maintained considerable ownership shares in the expectation that the financial crisis would be temporary and that the share market would recover. The bank's holding of bonds also greatly contributed to the overall very negative – but predominantly unrealised – return on the bank's securities holding.

Despite the unsatisfactory result Skjern Bank still has good financial resources with a capital base of DKK 568 million. This is equivalent to a solvency of 12.4%. Skjern Bank thus has sufficient working capital for running the bank under unaltered business operations within the growth limits which are part of the conditions of the First Guarantee Scheme for banks in Denmark.

The second guarantee scheme for banks in Denmark or the guarantee scheme for the Danish society, adopted by the Danish Parliament in January 2009, gives the possibility to strengthen the overall capital base by adding new hybrid core capital.

The Bank has not yet taken a position regarding the possible participation in this strengthens of the capital base; but it is positively considered, and it is clear however, that the bank fulfils all requirements for participation.

Likewise the Bank has unchanged strong cash resources with liquidity reserves as excess capital adequacy of 144% compared to the requirements by the law as at the end of 2008.

Slowdown in growth

As a consequence of the credit crisis the bank has curbed the previous growth strategy, which has entailed a smaller reduction in the total business volume of approx. DKK 200 million to DKK 8 billion.

Loans have fallen by 3.8% to DKK 3.8 billion. On the other hand deposits have increased by DKK 410 million or 15.3% to DKK 3.1 billion and the bank's deposit deficit is hereby reduced by DKK 560 million to DKK 680 million in comparison with the end of 2007. Finally, guarantees have fallen by 38.5% to DKK 1.1 billion, which primarily can be attributed to an altered collaboration

model with Totalkredit that has resulted in the lapse of loss guarantees of DKK 511 million.

The lapse of loss guarantees in regard to Totalkredit are the predominant reason why loans and guarantees provided for private customers fall from a share of 41.1% in 2007 to a share of 31.9% in 2008.

Good progress in income from interest

Skjern Bank has increased interest income in 2008 by 30% to DKK 358 million compared to the previous year. The increase is partly based upon a generally increased interest rate level during 2008, but is in general achieved as a result of a strong focus on product profitability. The increase is absolutely satisfactory.

Interest expenses have increased by 43% to DKK 201 million, which can partly be attributed to increased deposits, but also generally higher prices for deposits. The credit crisis has however also been quite cost consuming in this area, as the bank's funding costs have increased quite significantly as a consequence of the periodically frozen money market. Particularly in the second half year of 2008, the bank has aimed to have a very significant excess capital adequacy in term of liquidity for reasons of security; this has also contributed to the increased interest expenses.

Net interest receivables have increased by 16% to DKK 156.9 million.

Drop in share prices reduces fee income

The income from fees and commission shows a reduction of approximately 10% to DKK 50.9 million. This reduction is primarily due to a decline in income from securities trading and custody accounts of almost DKK 10 million. This decline can largely be attributed to the drastic drop in prices on the financial markets, which has resulted in a considerable fall in the volume of trading and the number of transactions.

The decline in income in the trading area is however partially offset by increases in the bank's loan transaction fees and guarantee commission, which help underline that Skjern Bank's loan activities continue to boom.

Minor cost development

Staff and administration costs increased by 8% in 2008 to DKK 139.7 million. The increase can primarily be attributed to increases in payroll and pension costs contained in collective agreements.

As a part of its adjustment to the altered market conditions, Skjern Bank has conducted a staff reduction in the autumn of 2008 which, together with natural wastage, has led to a total reduction by 12 employees equivalent to approx. 8%.

In addition cost savings have been initiated in a number of other areas.

The effect of these initiatives will first be visible in the financial statements for 2009 and onwards.

Increased write downs and depreciation of assets

Depreciation and write downs of intangible assets and property, plant and equipment negatively impact the financial statements for 2008 by DKK 9.1 million. This item being divided into completely ordinary depreciation of DKK 5.4 million together with write downs associated with the construction of a new building for the bank's branch in Varde and the bank's new branch in Hellerup – near Copenhagen. Both were inaugurated in the first half year of 2008. The bank's existing measurement principles mean that part of the investments must be written down.

Ordinary depreciation and write downs on intangible assets and property, plant and equipment are in the future expected to lie in the range of DKK 5 – 5.5 million per year.

Core earnings

The primary result – the core earnings – is increased to DKK 73.2 million in 2008 against DKK 63.1 million in 2007, corresponding to increase of 16%.

Write downs of DKK 69.6 million

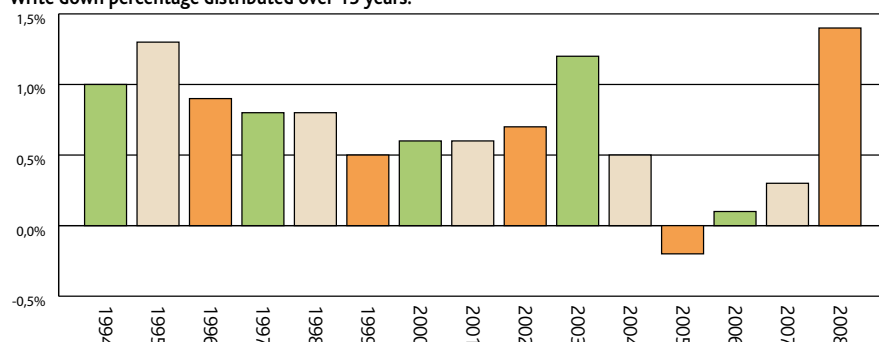
In 2008 the bank realised very significant write downs on customer receivables, equivalent to 1.4% of the total loans and guarantees.

The write downs relate to a number of customer relations where the ability to pay has been ascertained to be weakened or completely lapsed. Transactions with both private and business customers in a number of different sectors figure here. It should also be noted that virtually all of the write downs relate to transactions within the bank's core area and furthermore primarily relate to transactions with customers who have had longstanding relationships with the bank, and who by now have been hidden by the growing decrease in economic trends.

Write downs have not been carried out on transactions in the bank's new branch in Hellerup or on transactions abroad.

During a number of years Skjern Bank has had a low write down percentage measured against the total loans, write downs, guarantees and provisions. The average write down percentage is measured over the past 15 years at 0.71%.

Write down percentage distributed over 15 years:



Substantial negative share price adjustments

In 2008, the share price adjustments developed very negatively, and at the end of the year, unrealised share price adjustments could be determined at DKK -60.9 million. This is a result of Skjern Bank's investment policy with a relatively strong exposure in major Danish liquid shares, primarily in the C20 index. Skjern Bank therefore maintained the considerable exposure in the share market that we have had for many years in the expectation that the financial crisis would be temporary and that the share market would recover.

The bank's investment strategy in 2008 led to a significant loss on shares of DKK 33.9 million, which is of course not satisfactory. Seen in a historical perspective, the bank has however made respectable gains from its offensive strategy with the previous five years (2003-2007) seeing overall positive share price adjustments in excess of DKK 130 million.

The year 2008 led to negative share price adjustments from the bond portfolio of DKK 29.5 million, which may largely be attributed to the extraordinary situation on the interest rate and bond markets.

First guarantee scheme for banks in Denmark

In October 2008, Skjern Bank joined the first guarantee scheme for banks which implied that the Danish government issued a 2-year guarantee for all unsecured claims – including deposits – in Danish financial institutions. The individual banks participate in the guarantee scheme in proportion to their statutory capital base. In 2008, Skjern Bank's participation in the scheme had a negative effect on the bank's result to the order of DKK 6.4 million.

Guarantee provisions and subsequent payments in connection with the financial services sector's guarantee of depositors when the first banks collapsed during the financial crisis have cost the bank an additional DKK 4.9 million.

The costs of the first guarantee scheme for banks in Denmark and the mentioned guarantee of depositors in other financial institutions therefore cost a total of DKK 11.3 million in 2008.

Dissatisfactory result

The total pre-tax loss for 2008 is determined at DKK 76.6 million. Tax adjustments of DKK +18.5 million, however result, that the net loss for the year is reduced to DKK 58.2 million.

Regardless of the extreme market conditions in 2008, the management finds the result unsatisfactory.

Solvency rate of 12.4

Upon transfer of the loss of the year, Skjern Bank's equity at the end of 2008 amounted to a total of DKK 463.7 million against DKK 536.3 million a year ago. The bank's capital base at the end of 2008 was determined at DKK 568.4 million. This corresponds to a solvency of 12.4% and a core capital ratio of 10.2.

The actual solvency thus continues to constitute a significant excess capital adequacy.

thermore, the capital structure of Skjern Bank is quite solid as the bank's supplementary capital is not due until the end of 2014.

The maturity structure of the bank's capital base follows from the table below.

Repayment	Type of capital	Principal (mio. DKK)
November 2014	Subordinated debt	25
December 2015	Subordinated debt	100
Endless duration	Hybrid core capital	70
Total		195

Further strengthening of cash resources

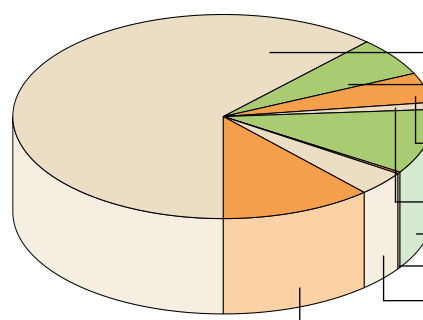
During the second half of 2008 in particular, the bank's management has been strongly focused on maintaining a good liquidity even though the related costs have been significant. This was however a strategic choice. Being well-established meant that the bank was not all that vulnerable when the money market froze completely for a period of time during autumn 2008.

Because of a long-term liquidity planning Skjern Bank still has strong cash resources. Compared to the requirements under the law, the statutory requirement as of the end 2008 exceeded the requirements with approx. DKK 0.9 billion, corresponding to an excess capital adequacy of 144%. Add to this further pledged loan opportunities with the Danish National Bank of DKK 155 million. This loan opportunity is not included in the excess capital adequacy statement.

The Danish Financial Supervisory Authority

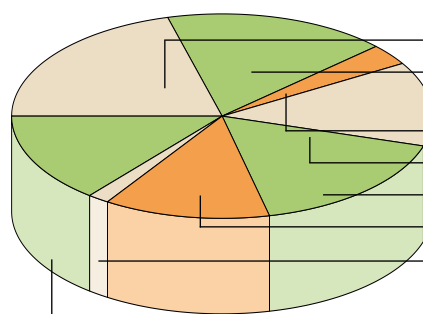
Four years after its latest supervisory visit, the Danish Financial Supervisory Authority carried out a normal inspection at Skjern Bank in October. In the credit area, the supervisory authority reviewed approximately 35% of the bank's total loan and guarantee portfolio, which led

The bank thus has sufficient working capital with regard to the growth limits which are part of the conditions of the first guarantee scheme for banks in Denmark. Fur-



How we earned DKK 100

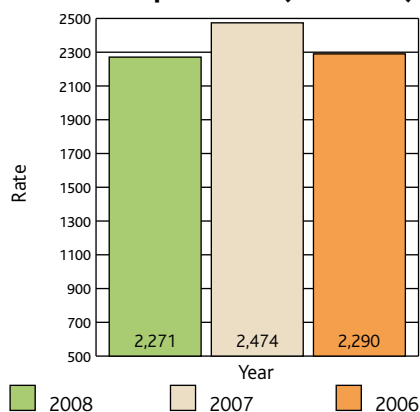
Interest from loans and other receivables	61,85
Interest from credit institutions and central banks	6,28
Interest from bonds and dividend from shares	4,59
Other interest receivable	1,16
Fees and commission income	10,27
Other ordinary income	0,40
Negative tax	3,73
Transferred from retained earnings	11,72
Total	100,00



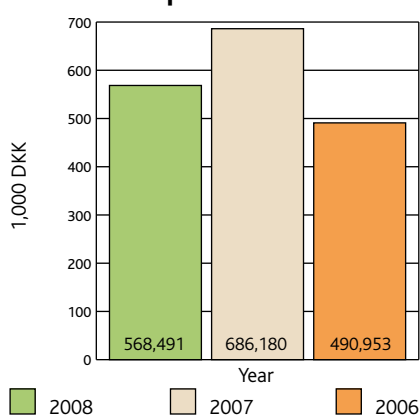
How we used DKK 100

Interest to deposits	20,78
Interest to credit institutions and central banks	17,14
Other interest and charges payable	3,49
Value adjustment	13,23
Staff costs	16,75
Other administrative expenses	12,72
Depreciation and write-downs on intangible and tangible assets	1,84
Write-downs on loans etc.	14,05
Total	100,00

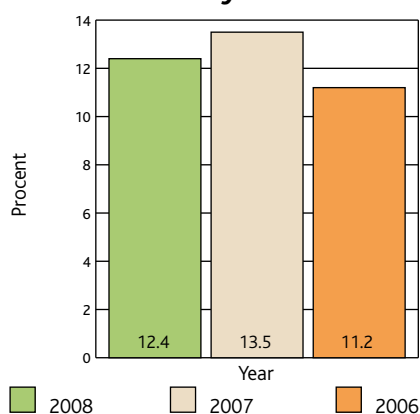
Bookvalue per share (DKK 100)



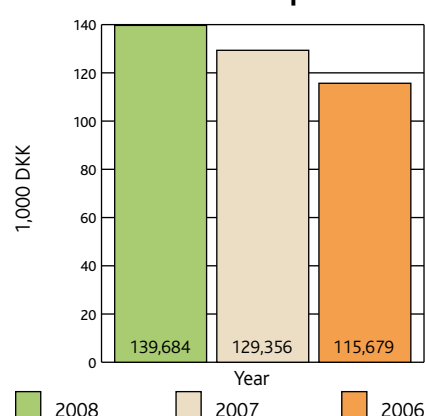
Capital Base



Solvency ratio



Staff costs and administrative expenses



to a small reversal of write downs. It is particularly positive that the review of approximately 75% of the bank's total property management exposure did not give rise to any comments.

Furthermore, the bank was assessed as having a good control environment within all areas, including credit, market risks, IT and money laundering, etc.

During the third quarter, Skjern Bank participated in a sample survey which the Danish Financial Supervisory Authority conducted in a number of randomly selected banks across the country. The aim of the survey was to examine whether the rules of good practice for advice on property were followed in a range of professional advice situations. The survey was conducted in the Esbjerg branch of the bank and it was noted with satisfaction that the bank's advisers fully lived up to all the conditions with regard to the rules of good practice for the important property sector.

No major shareholders

In the past, the bank had a single shareholder who owned more than 5% of the bank's share capital. In November 2008, the liquidator of the estate of this major shareholder advised that the estate had sold all shares in Skjern Bank. The bank therefore no longer has any shareholders owning more than 5% of the share capital.

Expectations for 2009

The conditions for operating a financial institution in Denmark have become increasingly more difficult during 2008 and there are no signs indicating that 2009 will be an easier year in any way.

The cyclical decline is expected to continue which will increase credit risks on basically all types of customers. The need for write downs is expected to be absolutely crucial for the bank's result in 2009.

The bank will continue to aim at being the preferred local bank in the areas where the bank has opened branches. We will primarily focus on existing customers; they will experience to the greatest extent that is both possible and prudent that the bank is also an attentive and loyal partner when the economic trends make many things more difficult.

The budget provides for an improvement in 2009 of the primary sources of income – net interests and fees, and the bank will continue to focus intently on optimising cost expenditure.

As a consequence of the significant negative share price adjustments of our own security portfolio, the strategy for this area has been altered to substantially minimise the risk of major negative share price adjustments.

The very uncertain market conditions mean that the bank is currently not able to state the range of the bank's annual results. The bank management will find it satisfactory if write downs on customer receivables for the year and costs for participating in the first guarantee scheme for banks in Denmark, and possibly the second guarantee scheme for banks in Denmark, may be contained in the primary earnings of the year.

Events occurring after the 31st December 2008

The second guarantee scheme for banks in Denmark or the guarantee scheme for the Danish society was adopted by the Danish Parliament in January 2009. The bank is positively considering participating in the second guarantee scheme for banks in Denmark; a decision will be taken in due time before the deadline of the 30th June 2009. It has, however, been ascertained that the bank complies with all requirements for participation in the scheme, which primarily consist of capital base; the so-called hybrid core capital with infinite term.

2. Customer and market situation

Throughout 2008, Skjern Bank maintained a relatively high level of activity, and the bank continues to attract

a large number of new customers. By the end of 2008, the bank had approximately 24,500 customers corresponding to a net increase for the year of approximately 6%.

All branches are developing well and it is particularly positive that the two branches that moved into new premises during the year, the Varde branch, which moved to a newly built domicile, and the brand new branch in Hellerup, noted considerable interest from both existing and new customers.

The bank is also pleased that it managed to build the new head office in Skjern before the recession began. Both customers and employees enjoy the new head office. Apart from normal depreciation on buildings, the conversion of the new head office in Skjern does not affect the financial statements for 2008, as this conversion was expensed in earlier years.

Product range

Late 2007, the bank carried out a comprehensive review and reduction of its product range, which turned out to be a success. Today, we offer a simpler product range, which has been an administrative advantage in a market characterised by frequent changes in interest rates and tough competition.

In 2008, the development in the individual business areas was primarily characterised by an increase in deposits. In that context, the bank has been pleased to note that pension contributions continued the positive development of recent years with deposits of approximately DKK 200 million in 2008. In 2009, the bank will continue its strong efforts to attract deposits with a view to further reducing the bank's deposit deficit and therefore its dependence on external funding sources.

3. Risk management

Skjern Bank continuously develops the identification and management tools for the risks that affect the company daily.

The purpose of the bank's risk management policies is to minimise the losses that may occur as a result of e.g. an unpredictable development on the financial markets, changes in economic conditions or political interventions.

The risk management work is based on the three pillars defined by the Basel II Accord:

- Pillar 1 involves a quantitative assessment of credit risks, market risks and operational risks.
- Pillar 2 involves a qualitative assessment of the same risks as well as a number of other risks.
- Pillar 3 prescribes a number of requirements for disclosure about the nature and scope of risks.

Simultaneously with the publication of the 2007 annual report, Skjern Bank published a risk report, which is available on the bank's website. A new and updated risk report will become available on the bank's website in connection with the publication of the 2008 annual report.

As far as structure is concerned, the risk management work more or less follows the guidelines of the bank's industry association – Lokale Pengeinstitutter (The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark). In general, the bank's risk-weighted items are assessed in accordance with the so-called standard method, while the advanced method is being used to assess the amount of the exposure, taking into account any financial security. The operational risks are determined in accordance with the basic method and market risks are determined in accordance with the simple method.

Credit risk

The credit risk reflects the risk of one party to a financial transaction inflicting a loss on the other party as a result of the failure to meet an obligation.

In general, credit risks represent the main risk factor in the overall picture and account for approximately 87% of the total risks in pillar 1.

The bank's risk management policy has been planned to ensure that its transactions with customers and credit institutions at all times remain within the limits defined by the board of directors and what is expected to be safe. Counterparties to derivatives are limited to credit institutions with an excellent credit rating. The bank has also adopted policies that include clear guidelines for e.g. the bank's credit policy, its exposure to different industries as well as reporting requirements.

The credit situation at the end of 2008

There were no changes to Skjern Bank's credit policy in 2008. The bank continues to focus on safe work procedures and routines regarding credit assessments.

In general, it is the bank's policy to try to assist both private and business customers by meeting their financial wishes and needs. In particular, the bank wishes to make a difference in the local areas where the branches are located.

As a result of the turmoil on the financial markets, the bank made a strategic decision during the first quarter to dampen the bank's lending activities with a view to attaining a better balance between the deposit and loan volumes.

The purpose of this was – and continues to be – to reduce dependence on funding from financial institutions at home and abroad.

The bank's exposure in the property sector has been calculated at 24% of total loans and guarantees. The majority of these loans have been provided to finance residential rental properties in Northern Germany and in Denmark, where the investors have contributed significant equity and where the rental income can service the debt in the properties. The bank has not financed tax-driven property investment projects.

In October 2008, the Danish Financial Supervisory Authority reviewed the bank's property exposure. The review, which did not give rise to any comments, covered 75% of the total exposure. This review further strengthened the bank's conviction that its exposure in especially the German property market is justifiable from a credit viewpoint. It should also be noted that the German property market has not experienced the price turbulence that has been experienced in e.g. Denmark, in as far as the German market has been and continues to be stable and positive.

In addition to the property market, Skjern Bank in 2008 continued to focus on the development in the agricultural sector, and in 2009, will begin focusing on the private customer segment due to the prospect of increasing unemployment.

4. Skjern Bank's participation in the First Guarantee Scheme

At the beginning of October, the Danish government issued a 2-year guarantee for all deposits and unsecured claims in Danish financial institutions – the so-called first guarantee scheme for banks or stability package. The main purpose of the scheme was to promote a thaw of the otherwise frozen money market.

Skjern Bank decided to participate in this new guarantee scheme, which meant, among other things, that the ceiling of DKK 300,000 for deposit guarantees was abolished.

As part of the agreement, the financial institutions must pay the first DKK 35 billion of the bill if any banks end up in a situation where they can no longer finance their activities. In this context, the banks are establishing a joint company administered by the Danish banking sector's contingency association, Det Private Beredskab, to be responsible for the potential winding up of distressed banks.

In the first instance, the banks deposit DKK 15 billion in the company over two years in the form of a so-called guarantee provision. In addition, the banks must provide guarantees worth DKK 10 billion, and, if this turns out to be insufficient, the banks must moreover cover losses of up to DKK 10 billion via an increased guarantee commission. Beyond that amount, the government steps in and therefore covers any losses exceeding DKK 35 billion.

The importance of the scheme for Skjern Bank

The individual banks participate in the guarantee scheme in proportion to their statutory capital base. As far as Skjern Bank is concerned, it means that the costs during the guarantee period in respect of the immediate payment will amount to approximately DKK 23 million per year. To this should be added any additional costs if the obligations to provide guarantees or pay increased guarantee commission becomes relevant.

In 2008, Skjern Bank's participation in the scheme had a negative effect on the bank's result to the order of DKK 11.3 million. As from 2009, it is expected, however, that the government guarantee will affect the bank's funding costs positively with the effect on the result becoming somewhat less than the DKK 23 million.

No dividend for two years

The agreement with the government requires that no dividend can be paid to shareholders during the 2008 and 2009 financial years. At the same time, the guarantee scheme limits the bank's possibilities for growth during the guarantee period, as the scheme limits the bank's growth in loans to 8% per year.

5. Capital adequacy and solvency

At the end of 2008, Skjern Bank's capital base was determined at DKK 568 million, corresponding to a solvency ratio of 12.4%.

Skjern Bank's capital structure consists of the following components:

- Share capital and retained earnings
- Hybrid core capital, DKK 70 million

After adjusting for regulatory deductions, these items constitute the bank's core capital.

The bank's capital base appears by adding subordinate loan capital of DKK 125 million and revaluation reserves and adjusting for regulatory deductions.

Individual capital adequacy

In accordance with the new Basel II rules, the bank must at all times maintain a sufficient capital base to cover any deficit that might arise if a number of negative events should occur simultaneously.

In the determination of the bank's capital adequacy, Skjern Bank used the Lokale Pengeinstitutter model in which the solvency requirement is calculated from the bottom up, beginning with 0%.

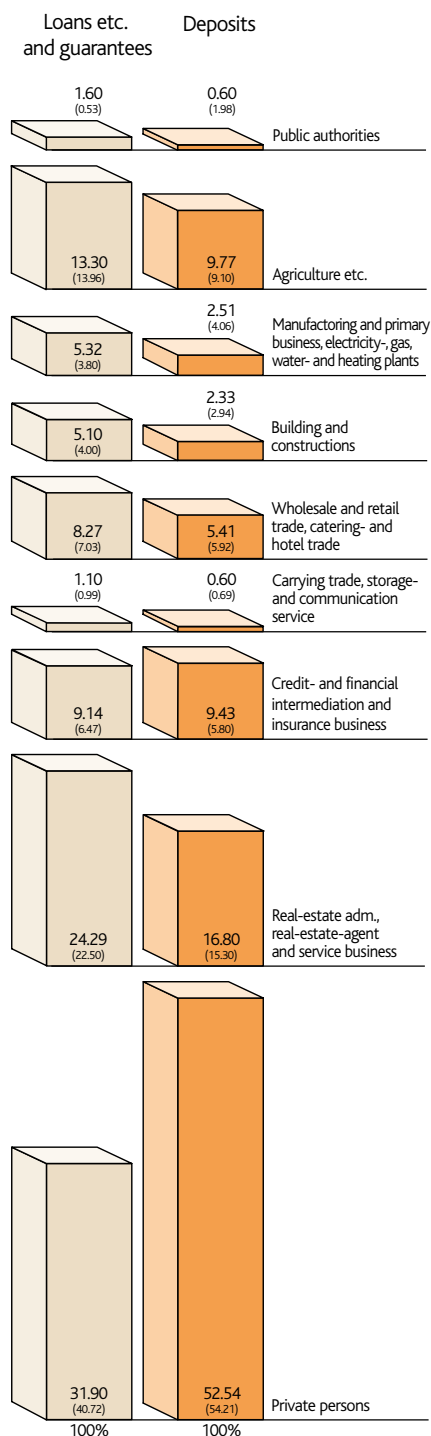
The model is based on completed stress tests.

The parameters in the stress tests include large increases in write downs, large drops in share prices, large increases in interest rates, large falls in property prices as well as an increase in exchange rate risks and counterparty risks. In addition, a number of other risk areas have been assessed in connection with the determination of the capital adequacy, including the scope of major transactions, weak transactions and risks relating to the procurement of capital and liquidity.

The Individual capital adequacy for Skjern Bank, determined in accordance with the Basel II rules is under 8%.

Objectively, the above-mentioned capital base reflects the bank's minimum solvency ratio.

The ratio between the bank's internal capital adequacy and actual solvency ratio shows that Skjern Bank has sufficient capital to continue its business operations at the



▲ Deposit, loans etc. and guarantees distributed on sectors and branches. 2007 figures in brackets.

current level. In actual fact, according to the determination, the bank's risks are less than they were one year ago.

However, Skjern Bank wishes to maintain a capital structure that ensures a high solvency ratio at all times – much higher than the statutory 8%, and also considerably more than the capital adequacy determined in accordance with the new Basel II rules.

In the light of the fact that we are in a recession and therefore facing a risk of write downs, the bank is considering further improving its security by applying for participation in the second guarantee scheme for banks.

The way it looks at the moment, Skjern Bank is able to strengthen its core capital by up to 3%, which would increase the overall solvency ratio to 15.4% compared with the solvency ratio at the end of 2008.

As Skjern Bank already has a core capital of well over 9%, which is the main criteria in the Second Guarantee Scheme for qualifying for additional capital at the lowest price, the bank expects that the price of the new core capital will be at the lower end of the range.

6. Investor relations

Skjern Bank places great emphasis on communication and dialogue with its shareholders and other stakeholders and in 2008 increased its communication – especially via its website. The bank would like the website to play an even more prominent role as the bank's most important channel of communication to existing as well as potential customers, shareholders and other business relations – including the local communities in which we are represented.

In addition, the bank has completely revised its communication strategy.

The way, upon which the bank communicates with its investors – private or institutional –, takes the bank's core values as starting point, with the desire that the key values of the bank – individual solutions, drive and presence – always shall be used actively in any kind of communication.

The overall aim of the communication strategy in Skjern Bank is to strengthen the bank's position on the market and at the same time minimise the risks to its reputation – i.e. the risk that incorrect information or misinformation, rumours or gossip negatively affect the bank's reputation.

In crisis situations, the aim of the bank's communication strategy is to come across as a professional and decisive organisation that adopts an open and pro-active approach to problems and does its best to minimise the scope of the crisis and its short and long term effects on the bank, its shareholders, customers and employees.

New form of the annual general meeting was a success

Since 2007, Skjern Bank has held an annual general meeting with a strong emphasis on compliance with the bank's IR and Corporate Governance commitments – i.e. entirely focusing on the bank's financial and business development and the way the board of directors manages the bank as well as different elections.

In addition, five annual meetings have been held in the different branch areas, which has been a very positive experience. The bank has therefore decided to continue this form of contact and debate with shareholders.

The Skjern Bank share

Skjern Bank welcomed almost 900 new shareholders in 2008 and had by the end of the year 13,550 shareholders.

Unfortunately the bank's share price – as was the case for most listed Danish banks – developed very negatively in 2008 with a drop in share prices of 77% to the closing price of 135, corresponding to a price/book value of 0.30.

7. Corporate Governance

Danish listed companies must give an account of how they comply with the Committee for Corporate Governance's recommendations for good company management – also known as Corporate Governance.

Ever since the so-called Nørby Committee's first set of recommendations for corporate governance was published in 2001, Skjern Bank has continuously considered and acted on the recommendations. And in 2007, the

bank's Board of Directors has assessed the situation thoroughly to decide if the bank should change its attitude to the set of rules. Among other things, the Board of Directors has considered introducing a limitation to the period of membership of the Board of Directors or the committee of shareholders; the bank has, however, decided not to introduce time limits at the moment. It has, however, been decided to introduce voting by ballot.

The following contains a summary of an update of the bank's attitude to the code on corporate governance. At our website, we have given a detailed account, in accordance with the "follow or explain" principles, of the recommendations that we do not follow fully.

The recommendations are divided into the following eight principal sections.

1. The shareholders' role and interaction with the management.

Skjern Bank partly follows the recommendations. However, the bank has a restriction on voting rights, which means that no shareholder may cast more than 5 votes. In the Board of Directors' opinion, a scrapping of these protection rules will entail a high risk that the bank's share will become the object of short-sighted speculation, and the Board of Directors consequently has no intention to propose an amendment to the Articles of Association on this. Conversely, the Board of Directors does not find that there is currently any need to introduce further restrictions or protection rules.

2. The stakeholders' role in and importance to the company.

Skjern Bank follows the recommendations.

3. Openness and transparency.

Skjern Bank largely follows the recommendations.

4. The Board of Directors' duties and responsibility.

Skjern Bank follows the recommendations.

5. The Board of Directors' composition.

Skjern Bank essentially follows the recommendations.

6. Fees to the Board of Directors and the Management Board.

Skjern Bank follows the recommendations.

7. Risk management.

Skjern Bank follows the recommendations.

8. Auditing.

Skjern Bank follows the recommendations.

The work of the board of directors in 2008

The board of directors holds a number of ad hoc meetings in addition to its regular fortnightly meetings. The attendance rate at the board meetings is close to 100%, and it has never happened that more than one board member was absent.

Since 2006, the board of directors has systematically evaluated its own performance and in addition lays down requirements for its own development and training to ensure that it always has the necessary competence and ability to handle the board work as effectively as possible to the benefit of the bank.

Audit committee

According to current legislation, Skjern Bank must set up an audit committee in spring 2009. The purpose of establishing an audit committee is to prevent accounting scandals and sudden financial breakdowns and to ensure that financial reporting, independent external audits and compliance with acts and accounting standards are the responsibility of the board of directors, independently of the day-to-day management.

At least one member of the audit committee must be independent of the bank and have qualifications within accounting or auditing.

8. Transparency information

Under the EU transparency directive and the order on annual accounts issued by the Danish Financial Supervi-

sory Authority, Skjern Bank must publish the below information about the company in its annual report.

Share capital

At the end of 2007, Skjern Bank A/S had a share capital of DKK 22,560,000 divided into 1,128,000 shares of DKK 20. The share capital has not been divided into classes.

All shares have been listed at Nasdaq OMX Copenhagen A/S.

No shareholder owns more than 5% of the bank's share capital.

Voting right

In its Articles of Association, the Bank has adopted a limitation to voting rights so that the voting right is exercised with one vote for each share amount of up to a nominal value of DKK 1,000. Subsequently, each share for a fraction DKK 1,000 shall give an additional one vote up to five votes, which is the highest number of votes any shareholder – including any legal entity – shall be able to cast on his/her own behalf.

If the shareholder/shareholders is/are represented by a proxy who is not a shareholder – including a legal entity – such proxy shall be able to cast a total of up to five votes. If the shareholder also has power of attorney from other shareholders – including legal entities – such shareholder shall be entitled to cast a total of up to 10 votes.

Amendments to the Articles of Association

Amendments to the Articles of Association can be adopted when at least 1/3 of the share capital is represented at the General Meeting and if the proposal is adopted by minimum 2/3 of both the votes cast and of the share capital with voting right represented at the General Meeting.

If 1/3 of the share capital is not represented, but the proposal has been adopted by 2/3 of both the votes cast and of the share capital with voting right represented at the General Meeting, the Board of Directors shall within 14 days call a new General Meeting at which the proposal can be adopted by 2/3 of the votes cast regardless of the size of the represented share capital.

Management

The General Meeting is the bank's ultimate authority. The General Meeting elects a committee of shareholders of up to 30 members who must be shareholders. The shareholders are elected for a 4-year period. The members of the Board of Directors are elected among the members of the committee of shareholders and consist of 3-5 members. Board members are elected for 2-year periods so that up to 3 members shall retire each year. Re-election is possible.

Furthermore, the Board of Directors includes two members elected by and among the bank's employees.

After consultation with the committee of shareholders, the Board of Directors is authorised to expand the share capital by up to DKK 7,440,000 to DKK 30,000,000 through one or more shares issues. The authorisation applies until the 1st April 2012.

Furthermore, the Board of Directors is authorised to change the nominal value of the shares of Skjern Bank within a framework of DKK 20 to DKK 1 per share.

Consequences of a takeover bid

If the managing director is dismissed without valid reason or his position is abolished, the managing director shall be entitled to three years' salary from his finishing date. In the event of a successful takeover or merger, the managing director shall under certain circumstances be entitled to an additional 12 months' salary.

Apart from the above, the company has not entered into any major agreements that take effect, change or expire if the control of the company changes as a result of a successful takeover.

5 years in summary (1.000 DKK)

2008 **2007** **2006** **2005** **2004**

Profit and loss account

Net income from interest	156.870	135.246	124.374	94.334	91.319
Dividend on shares	8.254	3.909	3.567	1.076	1.399
Charges and commission, net	46.672	51.541	47.790	41.026	32.274
Income from core business	211.796	190.696	175.731	136.436	124.992
Value adjustments	-60.948	7.920	54.867	41.237	25.123
Other ordinary income	1.958	1.216	911	725	3.713
Staff cost and admin. expenses	139.684	129.356	115.679	91.693	80.288
Depreciation of intangible and tangible assets	9.138	153	21.106	6.150	5.059
Other operating expenses	6.399	0	0	0	0
Write-down on bad debts (net)	69.572	19.439	3.077	-6.060	12.237
Profit on equity investments in non-affiliated and affiliated companies	-4.636	1.687	387	198	-6
Operating result	-76.623	52.571	92.034	86.813	56.238
Taxes	-18.471	9.320	24.627	26.312	16.543
Profit for the year	-58.152	43.251	67.407	60.501	39.695

Balance as per 31st December

summary

Total assets	5.618.617	5.358.137	4.148.826	2.747.664	2.452.457
Loans and other receivables	3.770.132	3.919.134	3.149.009	2.077.200	1.718.538
Guarantees etc.	1.067.385	1.735.617	1.541.000	1.545.241	1.079.425
Bonds	383.051	253.271	234.939	102.489	104.043
Shares etc.	184.695	213.388	197.996	155.952	88.979
Deposits	3.087.535	2.677.096	1.942.334	1.947.678	1.783.936
Subordinated debt	195.000	220.000	120.000	75.000	50.000
Total equity	463.661	536.276	424.092	379.469	324.971
of which proposed dividend	0	5.640	4.700	9.400	4.700
Capital Base	568.491	686.180	490.953	396.909	363.761

Financial ratios

(figures in pct.)

Solvency ratio	12,4	13,5	11,2	12,5	14,7
Core capital ratio	10,2	11,1	11,1	11,3	12,5
Return on equity before tax	-15,3	10,9	22,9	24,7	19,1
Return on equity after tax	-11,6	9,0	16,8	17,2	13,5
Earning/expense ratio in DKK	0,66	1,35	1,66	1,95	1,59
Interest rate risk	0,7	0,4	0,8	1,1	-0,1
Foreign currency position	2,8	14,8	13,2	9,4	6,4
Foreign currency risk	0,1	0,0	0,1	0,0	0,0
Loans etc. against deposits	126,8	149,5	165,5	109,8	100,0
Statutory liquidity surplus	143,8	90,7	41,0	23,0	86,2
Total large commitments	110,6	109,4	165,0	98,5	88,4
Loans and debtors at reduced interest	1,8	0,4	0,4	0,6	0,7
Accumulated impairment ratio	3,0	1,5	1,5	1,8	3,6
Impairment ratio for the year	1,4	0,3	0,1	-0,2	0,5
Increase in loans etc. for the year	-3,8	24,5	51,6	20,9	13,6
Ratio between loans etc. and capital funds	8,1	7,3	7,4	5,5	5,5

(value per share 100 DKK)

Earnings per share	-279,6	205,7	358,5	321,8	206,7
Book value per share	2.271	2.474	2.290	2.031	1.604
Rate on Copenhagen Stock Exchange	675	2.950	4.350	3.184	2.615
Dividend per share	0	25	25	50	25
Market value/net income per share	-2,4	14,3	12,1	9,8	12,7
Market value/book value	0,3	1,19	1,90	1,57	1,63
Number of employees by 31. December	152	141	125	119	108

Accounting policies

General information

The annual report has been prepared in accordance with the Danish legislation on financial activities.

Furthermore, the annual report has been prepared in accordance with the order issued by the Danish Financial Supervisory Authority on the financial reporting of financial institutions.

Furthermore, the annual report has been prepared in accordance with Nasdaq OMX Copenhagen A/S's information obligations to the extent that the legislation on financial activities and the current regulations of the Danish Financial Supervisory Authority, respectively, do not stipulate a different practice.

The accounting practice used remains unchanged compared with last year.

Accounting estimates

When calculating the book values of certain assets and liabilities, estimates have been made regarding the effect of future events on the assets and liabilities in question on the date of the balance sheet.

Such estimates are based on assumptions considered justified by the Management, but which are uncertain.

The final, actual results may thus deviate from the estimates made, as the bank is affected by risks and uncertainties which may affect the estimates.

Foreign currency balances

Assets and debts in foreign currencies are stated at the balance sheet date at the prices listed from Danmarks Nationalbank.

Currency spot transactions are market value adjusted at the balance sheet date in accordance with the spot rate.

Market value adjustments are continuously carried out in the profit and loss account.

Financial instruments

Financial assets and liabilities are in general measured at fair value on the balance sheet date unless specifically mentioned below.

The first recognition is measured at fair value.

Likewise the settlement date is used as the date of recognition for financial instruments.

Profit and loss account

Interest and provisions, etc.

Interest income and interest expenses are recognised under the accruals concept and are included in the period they concern.

Interest received on loans on which a write-down has been performed is included under the item "write-downs on loans and other receivables" for that part of the loan that has been written down and is therefore offset in write-downs for the year.

Commission and fees that are an integral part of the effective interest rate on loans are recognised as part of the amortised cost and thereby as part of the interest income under loans.

Commission and fees that are part of ongoing payments are accrued over the term.

Other fees, commission, and dividends are recognised in the profit and loss account on receipt.

Expenses for personnel and administration

Expenses for personnel include wages and salaries, social contributions, and pensions, etc., for the bank's personnel.

Pension schemes

The bank has entered into contribution-based pension schemes with all personnel at a percentage of working hours of eight hours per week and above.

Where the contribution-based schemes are concerned, the bank pays fixed contributions to an independent pension fund.

The bank has no further obligation to pay other contributions.

Write-downs on loans and advances

Loans and advances, etc. are written down either individually or on a group basis when an objective indication of deterioration in the debtor's ability to pay has been ascertained and this will result in a decrease in the estimated cash flow.

The write-down is reversed if there is no longer an objective indication of deterioration in the debtor's ability to pay.

Specific information regarding group write-downs

For loans and advances which have not been written down individually, a group estimate is made to establish whether an objective indication of a deterioration of the value has occurred.

The group estimate is made for groups of loans and advances with similar characteristics as far as credit risks are concerned. The bank uses eleven groups: one group consisting of public authorities, one group of private customers and nine groups consisting of commercial customers, such commercial customers being divided among lines of business.

The group estimate is made through a segmentation model developed by the association Lokale Pengeinstitutter which is in charge of the current maintenance and development. The segmentation model establishes the connection in the individual groups between established losses and a number of significant explaining macro-economic variables via a linear regression analysis. The explaining macro-economic variables include unemployment, housing prices, interest rates, number of bankruptcies/forced sales, etc.

The macro-economic segmentation model is in principle based on loss data for the entire financial institution sector. Consequently, the bank has assessed whether the model estimates reflect to the credit risk for the bank's own loan portfolio.

This estimate has led to an adaptation of the model estimates to the bank's own conditions for most groups, after which the adapted estimates will form the basis of the calculation of the group write-downs. For each group of loans and advances, an estimate is calculated as an expression of the percentage of deterioration involved in a specific group of loans and advances on the date of the balance sheet. By comparing the actual loss risk of the loan with the original loss risk of the individual loan and the loss risk of the loan at the start of the accounting period in question, the individual loan's contribution to the group write-down is calculated. The write-down is calculated as the difference between the book value and the discounted value of the expected future payments.

Tax

Tax on the annual results, which is calculated on the basis of the on-account taxation scheme, includes the calculated tax that must be paid on the taxable profit for the year, changes in deferred tax, tax on provisions, and the adjustment of calculated tax for previous years.

That part of tax that can be attributed to entries directly in equity is booked directly in equity.

Provisions have been made for deferred tax at 25 % of all timing differences between the net profit or loss and taxable result.

Balance sheet

Loans

Loans are measured at amortised cost, which normally corresponds to nominal value with the deduction of initial expenses and deductions for write-down for losses.

Write-down is carried out individually and on a group basis.

Bonds and shares, etc.

Bonds traded on active markets are measured at fair value. Fair value is calculated in accordance with the officially listed prices at the end of the year (closing prices). Bonds and mortgages that are held to maturity are measured at amortised cost.

Listed shares are stated in accordance with the officially listed prices at the end of the year (closing prices).

Unlisted shares are stated in accordance with fair value at the end of the year.

Value adjustments on bonds and shares are continuous carried out in the profit and loss account.

Equity investments in non-affiliated companies

Equity investments in non-affiliated companies are recognised and measured at equity value, which means that the equity investments is recognised and measured as the proportionate share of each company's equity value at the end of the year.

The bank's share of the companies results after taxes are recognised in the profit and loss account.

Land and buildings

Land and buildings includes

- owner-occupied properties comprising the properties from which the bank operates its banking activities, and
- investment properties comprising all other properties owned by the bank.

Owner-occupied properties are measured in the balance sheet as revalued, which is fair value calculated in accordance with the annual rate of return method with the deduction of accumulated depreciation and any loss in connection with impairment.

Depreciation is booked in the profit and loss account.

Revaluation is carried out frequently enough to ensure that there is no significant difference between this and fair value.

External experts were involved in measuring the owner-occupied properties as far as the bank's head office at Skjern is concerned.

Increases in the revaluation of the owner-occupied properties are booked under revaluation reserves under equity.

If an increase in the reassessed value is balanced by a previous decline and thereby included in the profit and loss account for previous years, the increase is included in the profit and loss account.

Decreases in the revaluation are booked in the profit and loss account unless this is a question of reversals of prior revaluations.

Owner-occupied properties are depreciated on a straight line basis over 50 years on the basis of the cost price adjusted for write-ups, if any.

Investment properties are measured in the balance sheet at fair value calculated in accordance with the annual rate of return method.

Ongoing changes in fair value for investment properties are booked in the profit and loss account.

External experts were not involved in measuring the investment properties.

Other tangible fixed assets

Other tangible fixed assets are measured at cost with the deduction of accumulated depreciation, amortisation, and write-down's.

Amortisation is carried out on a straight line basis over three to five years on the basis of the purchase price.

Depreciations are recognised in the profit and loss accounts.

Derivative financial instruments

All derivative financial instruments, including forward transactions, futures, and options in bonds, shares, currency, interest rate and currency swaps are measured at fair value.

Translation adjustments are included in the profit and loss account.

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

Hedge accounting

The bank has not established hedging measures for hedge accounting.

Tax assets and tax liabilities

Current tax liabilities and current tax receivables respectively are recognised in the balance sheet as computed tax on the taxable profit for the year adjusted for on-account tax paid.

Deferred tax is recognised on all taxable temporary differences between the carrying amount and the tax base on assets and liabilities.

Deferred tax assets, including the tax base of tax loss carry forwards, are recognised in the balance sheet at the value at which it is expected they can be realised, either by offsetting against deferred tax liabilities, or as net assets.

Prepayments

Prepayments recognised under assets include incurred costs for the following financial year.

Prepayments recognised under liabilities include prepaid interest and warranty commission for the following financial year.

Dividends

Dividends are recognised as debts on the date they are adopted by the general meeting.

The proposed dividend for the financial year is shown as a separate item under the note "Information on changes in equity".

Provisions

Provisions, warranties, and other liabilities regarding which there is doubt as to their amount or the date for settlement, are recognised as provisions when it is probable that the liability will mean drawing on the bank's financial resources and the liability can be reliably measured. The liability is calculated at the present value of the costs that are necessary to repay the liability.

Warranties are not measured lower than the commission received for the warranty accrued during the warranty period.

Bond issues

Bond issues are recognised at fair value or at amortised cost dependent on the kind of bond issued.

Other financial liabilities

Financial liabilities are recognised at amortised cost, which usually corresponds to nominal value.

Own holdings

Acquisition costs and considerations and dividends on own shares are recognised directly in equity.

Profit and loss account

Note:

		2008	2007
		(DKK 1,000)	(DKK 1,000)
1	Interest receivable	357.935	276.073
2	Interest payable	201.065	140.827
	Net income from interest	156.870	135.246
	Dividend on shares and other holdings	8.254	3.909
3	Charges and commission receivable	50.889	56.365
	Charges and commission payable	4.217	4.824
	Net income from interest and charges	211.796	190.696
4	Value adjustments	-60.948	7.920
	Other ordinary income	1.958	1.216
5, 8	Staff costs and administrative expenses	139.684	129.356
	Depreciation and write-downs on intangible and tangible assets	9.138	153
	Other operating expenses	6.399	0
	Write-downs on loans and outstanding accounts etc.	69.572	19.439
9	Profit on equity investments in non-affiliated and affiliated companies	-4.636	1.687
	Result before tax	-76.623	52.571
10	Tax	-18.471	9.320
	Net-result for the financial year	-58.152	43.251

Proposal for distribution of profit

Result for the financial year	-58.152	43.251
Total amount available for distribution	-58.152	43.251
Dividends	0	5.640
Transferred to statutory reserves	0	-1
Transferred to/from retained earnings	-58.152	37.612
Total distribution of the amount available	-58.152	43.251

Balance Sheet

Note:

2008

2007

(1.000 DKK)

(1.000 DKK)

Assets

11, 22	Cash in hand and demand deposits with central banks	30.032	105.808
11, 22, 23	Receivables at credit institutions and central banks	976.478	736.666
12, 23, 26	Loans and other receivables at amortised cost	3.770.132	3.919.134
13, 23	Bonds at fair value	383.051	253.271
14, 22	Shares etc.	184.695	213.388
15	Equity investments in non-affiliated companies	7.699	3.273
16	Land and buildings (total)	94.000	73.218
	Investment properties	10.062	7.586
	Owner-occupied properties	83.938	65.632
17	Other tangible assets	9.517	8.139
	Current tax assets	10.692	14.327
	Deferred tax assets	25.496	0
	Assets temporarily acquired	239	239
22	Other assets	126.586	30.246
	Prepayments	0	428
Total assets		5.618.617	5.358.137

Liabilities

Debt

18, 22, 27	Debt to credit institutions and central banks	1.658.800	1.836.943
19, 22, 23	Deposits and other debts	3.087.535	2.677.095
20, 23	Bonds issued at fair value	4.233	0
21	Bonds issued at amortised cost	5.145	3.445
22	Other liabilities	200.559	81.615
	Prepayments	189	124
Total debt		4.956.461	4.599.222

Provisions

Provisions for deferred tax	0	1.639
Provisions for loss on guarantees	3.495	1.000
Total provisions	3.495	2.639

Subordinated debt

Subordinated debt	195.000	220.000
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Equity

24, 25	Share capital	22.560	22.560
	Revaluation reserves	7.992	2.293
	Other reserves	0	480
	Statutory reserves	0	480
	Retained earnings	433.109	510.943
Total equity		463.661	536.276
	of this proposed dividend	0	5.640
Total liabilities		5.618.617	5.358.137

Information on changes in equity

Note:

		2008	2007
		(1.000 DKK)	(1.000 DKK)
24	Share capital beginning-of-year	22.560	18.800
	New paid-up share capital	0	3.760
	Share capital end-of-year	22.560	22.560
	Premium at issue beginning-of year	0	0
	Increase by premium	0	89.995
	Other movements	0	89.995
	Premium at issue end-of year	0	0
	Revaluation reserves beginning-of-year	2.293	2.293
	Additions related to reassessed value	5.699	0
	Revaluation reserves end-of-year	7.992	2.293
	Other reserves beginning-of-year	480	481
	Reserve for net reval. under the intrinsic value method	0	-1
	Other movements	480	0
	Other reserves end-of-year	0	480
25	Retained earnings beginning-of-year	510.943	402.518
	Profit or loss for the financial year	-58.152	43.252
	Sale of own funds	20.252	168.004
	Other increase	480	0
	Additions relating to sales of own equity investments	0	89.995
	Purchase of own funds	43.614	190.129
	Distributed dividend (net)	5.288	4.635
	Taxation concerning own shares	-8.488	-1.938
	Retained earnings end-of-year	433.109	510.943
	Total equity	463.661	536.276
	of which proposed dividend	0	5.640

Capital requirement and solvency

Core capital

Equity	463.661	536.276
Revaluation reserve	-7.992	-2.293
Proposed dividend	0	-5.640
Deferred tax assets	-25.496	0
Hybrid core capital	70.000	70.000
Half of equity investments in other financial companies in compliance with law concerning financial activity	-32.337	-32.228
Core capital after statutory deduction	467.836	566.115
Subordinated debt	125.000	150.000
Revaluation reserves	7.992	2.293
Half of equity investments in other financial companies in compliance with law concerning financial activity	-32.337	-32.228
Capital base after deductions	568.491	686.180
Legal capital adequacy requirements	368.268	407.242

Solvency

Note:

Weighted items ref. to the standard method

Risk weighted exposure

Exposure against

the public sector	1.451	116
institutions	84.013	6.721
companies etc.	2.261.654	180.932
retail customers	1.335.599	106.848

Exposure

secured by mortgage on property	174.341	13.947
on which arrears or overdraw	25.923	2.074
other items	107.166	8.574

Total risk weighted exposure	3.990.147	319.212
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Weighted items with market risk

Bonds etc.	201.918	16.153
Shares	42.417	3.393
Foreign Currency	13.090	1.048

Total market risk	257.425	20.594
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Weighted items with operational risk

Basic indicator method	360.914	28.873
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Total operational risk	360.914	28.873
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Total weighted items at the standard method

before group write-down deductions	4.608.486	
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Capital demand		368.679
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Group write-downs	5.138	411
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Total weighted items	4.603.348	
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Total capital demand		368.268
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Total exposure after write-downs and before

consideration of the effect from credit risk deduction	7.386.932	
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	2008	2007
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Weighted items ref. to the standard method	3.990.147	4.392.161
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Weighted items with market risk	257.425	328.051
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Weighted items ref. to the standard method	360.914	372.140
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Group write-downs	-5.138	-1.828
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Total weighted items	4.603.348	5.090.524
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Core capital after deduction as a percentage of total weighted items	10,2	11,1
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Solvency ratio	12,4	13,5
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Legal solvency requirement	8,0	8,0
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Contingent liabilities

	2008 (1.000 DKK)	2007 (1.000 DKK)
Guarantees etc.		
Finance guarantees	438.412	271.334
Guarantees against losses on mortgage credit loans	21.092	513.000
Registration and conversion guarantees	318.680	731.277
Other contingent liabilities	289.201	220.006
Total	1.067.385	1.735.617
Other binding engagements		
Irrevocable credit-undertakings	31.916	0
Total	31.916	0

Notes

1	Interest income		
	Receivables at credit institutions and central banks	31.143	17.782
	Loans and other receivables	311.566	251.338
	Loans (interest conc. the written-down part of loans)	-5.000	-3.960
	Bonds	14.472	9.929
	Other derivative financial instruments, total	5.430	545
	of which		
	Currency contracts	5.358	222
	Interest-rate contracts	72	323
	Other interest income	324	439
	Total interest income	357.935	276.073
	Of which interest related to genuine purchase and resale transactions	0	0
2	Interest expenses		
	Credit institutions and central banks	84.968	56.802
	Deposits	103.014	76.294
	Bonds, issued	171	92
	Subordinated debt	12.713	7.523
	Other interest expenses	199	116
	Total interest payable	201.065	140.827
	Of which interest related to genuine sale and repurchase transactions	0	0
3	Fees and commission income		
	Securities trading and custody accounts	16.923	26.786
	Payment services	4.772	4.875
	Loan fees	10.733	8.579
	Guarantee commission	15.239	13.052
	Other fees and commission	3.222	3.073
	Total fees and commission receivable	50.889	56.365
4	Value adjustments		
	Bonds	-29.462	-1.880
	Shares	-33.890	8.173
	Foreign currency	3.742	4.768
	Other financial instruments	-1.338	-3.141
	Total value adjustments	-60.948	7.920
5	Staff costs and administrative expenses		
	Salaries and remuneration of board of directors, managers etc.		
	Board of managers	2.478	2.177
	Management board	541	526
	Committee of representatives	153	163
	Total salaries and remuneration of board etc.	3.172	2.866
	Staff costs		
	Wages and salaries	65.844	56.840
	Pensions	7.004	5.600
	Social security costs and payroll tax	7.018	6.438
	Total staff costs	79.866	68.878

		2008 (1.000 DKK)	2007 (1.000 DKK)
	Other administrative expenses	56.646	57.612
	Total staff costs and administrative expenses	139.684	129.356
6	Average number of employees during the financial year converted into full-time employees		
	Employed in credit institution business	150	131
	Employed in other business	4	4
	Total	154	135
7	Number of employees at year end converted into full-time employees		
	Employed in credit institution business	149	136
	Employed in other business	3	5
	Total	152	141
8	Audit fee		
	Total fee to the firms of accountants, elected by the annual meeting, that perform the statutory audit	979	1262
	of which, services other than auditing for 2008	357	624
	The bank has no internal audit as per 31st December 2008		
9	Profit on equity investments in non-affiliated and affiliated companies		
	Profit on equity investments in non-affiliated companies	-4.636	1.687
	Total profit on equity investments in non-affiliated and affiliated companies	-4.636	1.687
10	Tax		
	Calculated tax of the income for year	-2.749	14.946
	Adjustment of deferred tax	-15.279	-5.450
	Adjustment of tax calculated in previous years	-443	-176
	Total tax	-18.471	9.320
	Tax paid during the year	-2.922	6.690
	Deferred taxation		
	(Tax amount)		
	Loans and debtors	-1.861	-211
	Bonds	-7.709	-434
	Shares	-12.167	1.770
	Properties	1.408	1.102
	Other tangible assets	-705	-588
	Other deficits carried forward	-4.462	0
	Total deferred taxation	-25.496	1.639
	Effective tax rate	Pct.	Pct.
	Current tax rate	25,00	25,00
	Adjustment with ref. to decrease og tax rate from 28 to 25	0,00	-1,41
	Non-liable income relating from increasing in reassessed value	0,97	0,00
	Non-deductible write-downs and depreciations	-1,92	-1,46
	Non-liable income	1,89	-4,86
	Non-deductible costs etc.	-1,83	0,46
	Total effective tax rate	24,11	17,73
	The re-adjustment of tax for previous years is not incorporated in this statement		
11	Receivables at credit institutions and central banks		
	Deposits with central banks	774.754	599.504
	Receivables at credit institutions	201.724	137.162
	Total receivables at credit institutions and central banks	976.478	736.666
	Remaining period		
	Demand	801.895	717.768
	Up to 3 months	150.000	4.734
	Over 1 year and up to 5 years	24.583	14.164
	Total receivables at credit institutions and central banks	976.478	736.666

No assets related to genuine purchase and resale transactions included

Loans and other debtors at amortised cost price

	2008 (1.000 DKK)	2007 (1.000 DKK)
Remaining period		
Claims at call	546.850	541.790
Up to 3 months	261.188	303.119
Over 3 months and up to 1 year	631.892	682.299
Over 1 year and up to 5 years	1.781.017	1.823.804
Over 5 years	549.185	568.122
Total loans and other debtors at amortised cost price	<u>3.770.132</u>	<u>3.919.134</u>

No assets related to genuine purchase and resale transactions included

Individual write-downs and provisions**Loans and receivables**

Write-downs - beginning of the year	82.632	65.348
Write-downs during the year	84.425	53.351
Reversal of write-downs made in previous years	-22.712	-26.834
Write-downs in previous years - now lost	-5.588	-9.233
Write-downs - end of year	<u>138.757</u>	<u>82.632</u>

Sum of loans and receivables on which individual write-downs have been made 289.736 160.382

Guarantees

Provisions beginning of the year	0	0
Provisions during the year	3.495	0
Provisions - end of year	<u>3.495</u>	<u>0</u>

Sum of guarantees on which individual provisions have been made 69.540 0

Group write-downs and provisions**Loans and receivables**

Write-downs - beginning of the year	828	0
Write-downs during the year	4.310	828
Group write-downs - end of year	<u>5.138</u>	<u>828</u>

Sum of loans and receivables on which group write-downs have been made 3.638.053 3.419.123

Guarantees

Provisions beginning of the year	1.000	5.000
Reversal of provisions made in previous years	-1.000	-4.000
Provisions end of year	<u>0</u>	<u>1.000</u>

Sum of guarantees on which group-provisions have been made 0 513.000

Total loss (depreciation) on loan and guarantees on which individual write-down/provision has not earlier been made 6.438 476

Paid on loan writed-down (lost) in earlier years 5.385 4.382
of which interest deducted in interest receivable 5.000 3.960

Write-downs on receivables at credit institutions **0** **0**

Write-downs on other receivables, which carry a credit risk **0** **0**

Loans etc. with suspended calculation of interest

Loans etc. with suspended calculation of interest amounts to 88.756 20.318

Bonds

Bonds at fair value	383.051	253.271
Total bonds at fair value	<u>383.051</u>	<u>253.271</u>

Bonds at fair value

Mortgage credit bonds	295.981	140.978
State bonds	2	0
Other bonds	87.068	112.293
Total bonds at fair value	<u>383.051</u>	<u>253.271</u>

The bank has deposited bonds with Danmarks Nationalbank at the fair value of 0 0

The bank has no held-to-maturity assets

		2008 (1.000 DKK)	2007 (1.000 DKK)
14	Shares etc.		
	Quoted on Nasdaq OMX Copenhagen A/S	45.188	92.279
	Quoted on other stock exchanges	2.843	9.944
	Unquoted shares recorded at fair value	126.718	104.576
	Unquoted shares recorded at cost price	9.946	6.589
	Total shares etc.	184.695	213.388
15	Kapitalandele i tilknyttede og associerede virksomheder	2008 Affiliated companies (1.000 DKK)	
	Total cost price beginning-of-year	2.792	
	Acquisitions during the year	9.500	
	Reduction during the year	437	
	Total cost price end-of-year	11.855	
	Total write-ups/downs and depreciations beginning-of-year	480	
	Result	-4.636	
	Difference in value by acquisition	0	
	Reversal of write-ups/downs	0	
	Total write-ups/downs and depreciations end-of-year	-4.156	
	Book value end-of-year	7.699	
	of this credit institutions	0	
	Book value beginning-of-year	3.272	
	of this credit institutions	0	
16	Land and buildings	Investment properties (1.000 DKK)	Owner occupied properties (1.000 DKK)
	Fair value - end of previous financial year	7.586	
	Reassessed value - end of previous financial year		65.632
	Acquisitions during the year incl. improvements	0	19.282
	Depreciations		1.330
	Increasing in reassessed value		7.053
	Decreasing by reassessment of value		6.699
	Adjustment of fair value for the year	2.475	
	Fair value / reassessed value end-of-year	10.061	83.938
	External experts have been involved by measurement of owner-occupied properties in so far as the banks headquarter.		
17	Other tangible assets		
	Total cost price beginning-of-year	27.362	
	Acquisitions during the year incl. Improvements	5.466	
	Reduction during the year	2.158	
	Total cost price beginning-of-year	30.670	
	Total write-ups/downs and depreciations beginning-of-year	19.223	
	Depreciations during the year	4.088	
	Reversal of depreciations	2.158	
	Total write-ups/downs and depreciations end-of-year	21.153	
	Book value end-of-year	9.517	
	Book value beginning-of-year	8.139	

		2008 (1.000 DKK)	2007 (1.000 DKK)
18	Debt to credit institutions and central banks		
	Credit institutions	1.658.800	1.836.943
	Total debt to credit institutions and central banks	1.658.800	1.836.943
	Term to maturity		
	Demand	220.598	217.485
	Up to 3 months	386.265	170.129
	Over 3 months and up to 1 year	858.794	499.592
	Over 1 year and up to 5 years	113.143	869.737
	Over 5 years	80.000	80.000
	Total debt to credit institutions and central banks	1.658.800	1.836.943
	No liabilities related to genuine sale and repurchase transactions included		
19	Deposits and other debts		
	Demand	1.621.817	1.784.349
	At notice	69.436	83.412
	Time deposits	919.300	461.835
	Special types of deposits	476.982	347.499
	Total deposits and other debts	3.087.535	2.677.095
	Term to maturity		
	Demand	1.706.801	1.882.432
	Up to 3 months	708.474	448.590
	Over 3 months and up to 1 year	194.609	48.731
	Over 1 year and up to 5 years	109.825	40.238
	Over 5 years	367.826	257.104
	Total deposits and other debts	3.087.535	2.677.095
	No liabilities related to genuine sale and repurchase transactions included		
20	Bonds issued at fair value		
	Term to maturity		
	Over 1 year and up to 5 years	4.233	0
	Total bonds issued at amortised cost	4.233	0
21	Bonds issued at amortised cost		
	Term to maturity		
	Over 1 year and up to 5 years	3.445	1.797
	Over 5 years	1.701	1.648
	Total bonds issued at amortised cost	5.146	3.445
	Accumulated change of value of commitments to fair value because of change in own credit risk	0	0

Market risks

22	Foreign currency exposure		
	Assets in foreign currency		
	Cash in hand and claims at call on central banks	6.812	12.598
	Claims on credit institutions and central banks	17.346	87.704
	Loans and other debtors at amortised cost price	969.869	577.629
	Bonds at current value	15.818	25.144
	Shares etc.	23.759	26.378
	Other assets	97.412	12.969
	Total assets in foreign currency	1.131.016	742.422
	Liabilities in foreign currency		
	Debt to credit institutions and central banks	861.014	1.290.512
	Deposits and other debts	26.989	30.656
	Other liabilities	113.454	12.196
	Total liabilities in foreign currency	1.001.457	1.333.364

	2008 (1.000 DKK)	2007 (1.000 DKK)
Foreign currency holdings in main currencies (negative sign - net debt)		
EUR	-1.670	65.856
USD	-7.884	2.390
GBP	164	2.113
SEK	-3.484	5.462
NOK	344	-3.647
CHF	2.816	-6.687
CAD	138	122
JPY	171	96
Foreign currency risk		
Currency indicator 1	13.090	83.864
Currency indicator 1 in pct of core capital after deductions	2,8	14,8
Currency indicator 2	322	200
Currency indicator 2 in pct of core capital after deductions	0,1	0,0
23 Interest rate risk		
Interest rate risk on debt instruments etc - total	2.129	2.056
Interest rate risk in pct of core capital after deductions	0,7	0,4
Interest rate risk split in currencies with highest risk		
Currency		
DKK	3.145	1.452
CHF	-1.200	-395
EUR	1.068	1.012
USD	98	20
TRY	60	0

Share capital

24	Share capital	22.560	22.560
	Number of shares is 1.128,000 at DKK 20 each		
	The bank have 13,550 registered shareholders.		
	94,6 % of the share capital are registered on name.		

Own capital shares

25	Purchase and sales of own shares		
	Holdings beginning of the year		
	Number of own shares	44.242	14.060
	Nominal value of holding of own shares (DKK 1,000)	885	281
	Own shares proportion of share capital	3,92	1,50
	Addition		
	Number of own shares	122.628	261.695
	Nominal value of holding of own shares (DKK 1,000)	2.453	5.234
	Own shares proportion of share capital	10,87	23,20
	Purchase price (DKK 1,000)	43.615	190.129
	Disposal		
	Number of own shares	59.644	231.513
	Nominal value of holding of own shares (DKK 1,000)	1.193	4.630
	Own shares proportion of share capital	5,29	20,52
	Sale price (DKK 1,000)	20.252	168.004
	Holdings end of the year		
	Number of own shares	107.226	44.242
	Nominal value of holding of own shares (DKK 1,000)	2.145	885
	Own shares proportion of share capital	9,51	3,92

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

The bank wishes to receive this power, in order that the bank always is able to grant the requests from our customers and investors to buy respectively to sell shares in Skjern Bank, and the net-purchase during 2007 is only in consequence hereof.

The board of managers' and the board of directors' holdings of shares in Skjern Bank - end of year

(nominal value)	2008 (1.000 DKK)	2007 (1.000 DKK)
The board of managers		
Per Munck.....	66	62
The board of directors		
Carsten Thygesen.....	42	42
Jens Christian Ostensen	21	17
Børge Lund Hansen	14	14
Holger Larsen.....	82	82
Lars Andresen.....	2	2
Metha Thomsen	5	5

Management, board and committee of representatives

26	Amount of loans, mortgages, guarantees, or guarantees with accompanying security for members of the management mentioned below and related parties				
	Rate of interest/ interest range	2008 Loans etc. (1.000 DKK)	2007 Loans etc. (1.000 DKK)	2008 Security granted (1.000 DKK)	2007 Security granted (1.000 DKK)
	Management	370	215	0	0
	Board	48.928	48.816	3100	1630
	Committee of representatives	39.144	32.017	-	-

Related parties

Transactions with related parties:

Wages and considerations to the bank's management board, board of directors, and committee of representatives can be found in note no. 5.

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

Commitments as of the 31st December 2008 can be found in note no. 26.

Incentive and bonus

The Bank has no incentive or bonus schemes.

Affiliated companies

Vestjydsk Invest ApS, Skjern.

The company invests in mortgage bonds in real property, and the bank's share of the capital amounts to 49 %.

The company's net result for the accounting year 2008 amounts to DKK -2,487,283.

The company's equity as at the 31st December 2008 amounts to DKK 24,563.

Value Estate A/S, Esbjerg.

The company invests in real property, and the bank's share of the capital amounts to 46,09 %.

The company's net result for the accounting year 2008 amounts to DKK -5,892,764.

The company's equity as at the 31st December 2008 amounts to DKK 16,702,678.

Lawsuits, etc.

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

Subordinated debt

Subordinated debt as supplementary capital

Nominal DKK 25,000,000 with a term from the 6th June 2003 to the 6th June 2011.

The loan was repaid prematurely by the bank by the 6th June 2008.

The loan was at a floating rate.

Interest payable in 2008 DKK 805,000.

Subordinated debt as supplementary capital

Nominal DKK 25,000,000 with a term from the 16th December 2005 to the 1st November 2014.

The loan is at a fixed rate of 4.33 % p.a. until the 1st November 2011, from which date the loan is at a floating rate.

The loan can be repaid prematurely by the bank on the 1st November 2011.

Interest payable in 2008 DKK 1,080,000.

Subordinated debt as hybrid core capital

Nominal DKK 70,000,000 with an endless duration.

The loan is at a fixed rate of 6.09 % p.a. until the 1st May 2016, from which date the loan is at a floating rate.

The bank can at the earliest repay the loan by the 1st May 2016, however by the 1st May 2011 in case special circumstances should occur.

Interest payable in 2008 DKK 4,265,000.

Subordinated debt as supplementary capital

Nominal DKK 100,000,000 with term from the 3rd December 2007 to the 3rd December 2015.

The loan is at a floating rate and the rate of interest as at the 31st December 2008 has been fixed at 7.3 % p.a.

The bank is entitled to repay the loan prematurely as at the 3rd December 2012.

Interest payable in 2008 DKK 6,565,000.

The loans are incorporated in the capital base with

DKK 70,000,000 as hybrid core capital, and

DKK 125,000,000 as supplementary capital.

Cooperative agreements

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

Totalkredit A/S / Nykredit, DLR Kredit A/S, Privatsikring A/S, Eurocard, PFA Pension, BankInvest, Sparinvest A/S, Investeringsforeningen Valueinvest Danmark, Investerings- og Special-foreningen Dexia Invest, BI Asset Management Fondsbørsmæglerselskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, Garanti Invest A/S, Atrium Fondsmæglerselskab A/S, Investeringsforeningen Egns-Invest, HP Fondsbørsmæglerselskab A/S, Tiedemann Independent A/S, Codan, Dankort A/S, PBS A/S, PBS International A/S, Multi-data A/S, Visa International, Dansk Lokalleasing A/S and Deltaq A/S.

The board's comments on good corporate governance

The board of Skjern Bank discusses developments in the field of good corporate governance on an ongoing basis.

Views and evaluations are published on the bank's web site: www.skjernbank.dk.

Nasdaq OMX Copenhagen A/S has set up a committee for good corporate governance (the Nørby committee), that works with the point of departure in promoting good corporate governance in Danish companies listed on the stock exchange.

The committee's reports can be seen on the web site: www.corporategovernance.dk.

Endorsement of the Annual Report by the Management

We have today discussed and approved the annual report for the period 1 January - 31 December 2008 for Skjern Bank A/S.

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

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

We consider the accounting practice chosen to be appropriate so that the annual report gives a correct impression of the bank's assets, liabilities, financial position as at the 31st December 2008, and of the result of the bank's activities for the accounting year 1 January – 31 December 2008.

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

Skjern, the 20th February 2009

*Executed Board of
SKJERN BANK A/S
Per Munck*

/

*Jens Peder Larsen
Chief Accounting Executive*

Skjern, the 20th February 2009.

*The Board of Skjern Bank A/S
Carsten Thygesen Jens Chr. Ostensen
Chairman Vice-Chairman*

Børge Lund Hansen Holger Larsen Lars Andresen Metha Thomsen

The Independent Auditor's Report

For the shareholders of Skjern Bank A/S

We have audited the annual report for Skjern Bank A/S for the accounting year 1 January – 31 December 2008 including Letter of Representation, Management Report, accounting practice used, profit and loss account, balance sheet, equity statement and notes. The annual report has been prepared in accordance with the Danish legislation on financial activities, including executive order on financial reports for credit institutes and stock broker companies, etc. Furthermore, the annual report has been prepared in accordance with additional Danish requirements regarding information in annual reports for financial companies listed on the Stock Exchange.

Management responsibility for the annual report

The Management is responsible for preparing and presenting an annual report giving a correct impression in accordance with the legislation on financial activities, including the order on financial reports for credit institutions and stock broker companies, etc., and additional Danish requirements regarding information in annual reports for financial companies listed on the Stock Exchange. This responsibility includes the creation, implementation and maintenance of internal control measures relevant for the preparation and presentation of an annual report giving a correct impression without material misinformation, regardless whether such misinformation is due to fraud or errors, and the selection and use of appropriate accounting practice and the exercising of accounting estimates which are reasonable in the given circumstances.

The auditor's responsibility and the audit implemented

It is our responsibility to express a conclusion regarding the annual report on the basis of our audit. We have carried out our audit in accordance with Danish auditing standards. The above standards demand that we meet ethical requirements and plan and carry out the audit with a view to obtaining a high degree of certainty that the annual report does not include material misinformation.

An audit includes actions to obtain documentation for the amounts and information included in the annual report. The actions chosen depend on the auditor's assessment, including the assessment of the risk of material misinformation in the annual report, regardless whether such misinformation is due to fraud or errors. In connection with the risk assessment, the auditor considers internal control measures relevant to Skjern Bank A/S' preparation and presentation of an annual report which gives a correct impression with a view to preparing audit actions which are appropriate in the given circumstances, but not with a view to expressing a conclusion regarding the effectiveness of the company's internal control measures. An audit also includes a decision as to the appropriateness of the accounting practice chosen by the management, as to whether the accounting estimates made by the management are reasonable, and an assessment of the overall presentation of the annual report.

It is our opinion that the audit documentation obtained is sufficient and suitable as a basis for our conclusion.

The audit has not given rise to reservations.

Conclusion

It is our opinion that the annual report gives a correct impression of the financial institution's assets, liabilities and financial position as at the 31st December 2008, and of the result of the financial institution's activities for the accounting year 1 January - 31 December 2008 in accordance with the legislation on financial activities, including executive order on financial reports for credit institutions and stock broker companies, etc., and additional Danish requirements for annual reports for financial companies listed on the stock exchange.

Skjern, the 20th February 2009
PricewaterhouseCoopers
Kim Rune Brarup Alex Nyholm
State-Authorised Public Accountants

Silkeborg, the 20th February 2009
DELOITTE
Henrik A. Laursen Klaus Skovsen
State-Authorised Public Accountants



Financial Calendar 2009

23th February	Announcement of Annual Report 2008
2nd Marts	General Meeting – Skjern Kulturcenter
7th May	Announcement of Quarterly Report 1st quarter 2009
20th August	Announcement of Half-yearly Report 2009
6th November	Announcement of Quarterly Report after 3rd quarter 2009



Committee of representatives

Jørgen Søndergaard Axelsen, Skjern, real estate agent, head of the committee of representatives
Jens Bruun, Viby J, Manager
Carsten Thybo Christensen, Esbjerg, accounting manager
Kaj Eriksen, Vemb, police officer
Jens Chr. Fjord, Skjern, bicycle dealer
Elmo Flaskager Hansen, Skjern, senior teacher
Orla Varridsbøl Hansen, Tarm, manufacturer
Helle Svenstrup Husted, Skjern, manager
Mike Jensen, Skjern, bookseller
Niels Erik Kjærgaard, Skjern, city manager
Dorte H. Knudsen, Hviding, Ribe, hospital nurse
Finn Erik Kristiansen, Varde, bookseller
Hans Juul Mikkelsen, Skjern, master carpenter
Lars Aage Sandfeldt Nielsen, Borris, Skjern, farmer
Niels-Henrik Skovsgaard Nielsen, Skjern, financial adviser
Viggo Nielsen, Borris, Skjern, region council member
Tommy Noer, Esbjerg, technical teacher
Torben Ohlsen, Tjæreborg, manager

Jens Okholm, Esbjerg, adviser
Niels Chr. Poulsen, No, Ringkøbing, mink farmer
Jesper Ramskov, Esbjerg, manager
Ole Strandbygaard, Skjern, printer
Christen Spangsberg Sørensen, Hanning, Skjern, farmer
Bente Tang, Hanning, Skjern, farmer
Poul Thomsen, Skjern, trader in men's clothing

Board of directors

Carsten Thygesen, Skjern, manager, board chairman
Jens Christian Ostensen, Stauning, farmer, board vice-chairman
Børge Lund Hansen, Skjern, manufacturer
Holger Larsen, Dejbjerg, master builder
Lars Andresen, Varde, deputy manager, employee-selected
Metha Kirstine Thomsen, Skjern, agriculture advisor, employee-selected

Management

Per Munck, banking executive



List of board members' managerial offices in Danish limited companies as per December 31, 2008

Manufacturer Børge Lund Hansen:
Manager and board member of Vestjysk Industrilakering A/S, Skjern.

Master builder Holger Larsen:
Manager and board member of Hansen & Larsen A/S, Dejbjerg, Skjern,
Manager and board member of Skjern Huse A/S, Skjern,
Board member of H & L Udlejning A/S, Skjern,
Board member of Skjern Installationsforretning A/S, Skjern,
Board member of Skjern Vinduer A/S, Skjern,

Manager Carsten Thygesen:
Manager and board member of Hecto A/S, Videbæk,
Manager and board member of Rehborg A/S, Skjern,
Board chairman of MBT Danmark A/S, Århus,
Board chairman of Skjern Håndbold A/S, Skjern,
Board chairman of Trinity A/S, Erritsø,
Board chairman of Vest Detail A/S, Skjern,
Board member of Agro Korn A/S, Videbæk,
Board member of Compu-Game Holding A/S, Esbjerg, *)
Board member of Conset A/S, Skjern,
Board member of Indura A/S, Vildbjerg,
Board member of Letbæk Plast A/S, Tistrup,
Board member of Mogis A/S, Skjern, *)
Board member of Restaurant Stauning Havn A/S, Skjern
Board member of Rolighed – Humania A/S, Vinderup
Board member of Skjern Installationsforretning A/S, Skjern,
Board member of Strandbygaard Grafisk A/S, Skjern, and
Board member of VenSet A/S, Skjern.

*) together with one subsidiary in each

Banking executive Per Munck,
has no managerial office in any other Danish limited company



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