ANNUAL REPORT 2018

SKJERN BANK

Acceptable profit

2018	Profit before taxes increased to DKK 165 million, of which around DKK 60 million was extraordinary capital gains
EQUITY	Equity yielded interest of 19.5 % before tax and 12.1 % excluding extraordinary capital gains
CORE EARNINGS	Core earnings amounted to DKK 119.6 million
NET INTEREST AND FEE INCOME	Increased by 3.9 % to DKK 308 million
IMPAIRMENT	Unchanged level of DKK 19.7 million
LENDING	Lending growth of 11.1 % to DKK 4.4 billion
CAPITAL	Satisfactory capital ratio of 17.6 % and individual solvency requirements unchanged at 9.4 %.
CORE EARNINGS EXPECTATIONS	In 2019, the bank expects core earnings in the range of DKK 130 - 145 million.

Content

Management's financial report for 2018

A profit before tax of DKK 164.6 million is considered satisfactory. Profit was positively affected by the growth in the bank's net interest and fee income and positive exchange rate adjustments, primarily as a result of realised capital gains of approximately DKK 60 million through the sale of the bank's shares in Value Invest Asset Management S.A.

In light of the acceptable profit, the Annual General Meeting recommends that dividends of DKK 3 per share be distributed. For a number of years, the bank has not distributed dividends as a result of the financial crisis and its after-effects, but the bank is now once again in a situation that enables distribution in terms of earnings and capital. The distribution amounts to DKK 28.9 million.

Interest income on customer loans only increased marginally by DKK 1.2 million despite a very satisfactory lending growth of 11.1 %, which is due to the generally low interest rate environment and the fierce competition in the market with the decreasing average lending rate as a result.

Net interest income increased by a satisfactory DKK 13.2 million, which is divided between an increase in interest income of DKK 3.6 million and a decrease in interest expenses of DKK 9.8 million, which is due to the reduced interest on deposits as a result of the general decrease in the market, but also the expiration of the bank's last high-interest deposits over the course of the year.

Net interest and fee income increased by DKK 11.6 million, which is very satisfactory. The main reasons for this are the reduction of deposit interest expenses and the increasing income on fees as a result of increased activity with the bank's many new customers, but also with existing customers.

The bank's goal has been to increase fee earnings compared to interest income through increased activity in the areas of real estate, securities, pension and insurance. The bank's earnings from fees have gone from 27% in 2013 to 38 % in 2018, which is very satisfactory.

The bank's costs have increased in 2018, primarily as a result of strategic activity expansions, including 12 employees with resulting administrative costs in the form of advertising, IT equipment etc. Hirings have primarily been in customer-oriented positions, where the bank is now well equipped to handle the strong influx of customers, but internal positions have also been reinforced to ensure management of the increasingly complicated and highly resource-intensive sets of rules.

In Q4 2018, the bank also defrayed extraordinary expenses of DKK 12 million to the bank's data centre Bankdata as a result of changes in accounting policies and thus passed on the development costs.

The impairment need is at the same level as last year and amounts to DKK 19.7 million, corresponding to 0.3 % of the bank's loans and guarantees. The low impairment need is seen as a strong indication of a good economic trend in society and this includes an increasing quality of the bank's lending portfolio.

The impairments in 2018 are mostly derived from the agricultural segment. After an improvement in conditions in the industry in 2017, 2018 brought a strong drought that reduced harvest yields in several places and also impacted the terms of trade in pig and mink production. The prices of milk in 2018 have been at a level where the bank generally considers most of the bank's customers within this production branch to have an operational balance. The impairments in the agricultural segment have been done according to the applicable guidelines from the Danish Financial Supervisory Authority, though the bank has chosen to add extra management estimates so that additional impairments have been done for the businesses that have been hardest hit by the economic trends. The pork- and mink producers are also expected to be challenged by low settlement prices in 2019, which have been declining towards the end of 2018, whereas milk producers are expected to maintain operational balance.

At the beginning of 2018, the bank expected a core earnings in the range of DKK 135 – 145 million. In the bank's quarterly report for Q3, the expected core earnings were adjusted to the range of DKK 120 – 130 million as a result of extraordinary IT expenses of approximately DKK 12 million. Core earnings were realised at DKK 119.6 million. Core earnings were thus reduced by DKK 17.7 million compared to 2017. This is due to the extraordinary IT expenses of DKK 12 million, as well as the ordinary dividends from Value Invest Asset Management S.A. of DKK 8 million, which the bank received in 2017 but did not realise in 2018 due to the sale of these shares mid-year.

Adjusted for this, a core earnings growth of DKK 2.3 was actually realised, which is considered satisfactory in a year with many expenses for strengthening the organisation and thus the future earning capacity, which has not yet been profitable in 2018 when viewed in isolation.

The expectations for the profit before tax for the year have also been corrected in the quarterly report for Q3 to a range of DKK 170 – 180 million, assuming impairment of DKK 17 – 20 million and exchange rate adjustments of DKK 10 million in addition to the capital gains of DKK 60 million realised through the sale of Value Invest Asset Management S.A. The bank realised negative exchange rate adjustments in Q4 of 2018 and thus only realised positive exchange rate adjustments on bonds and shares of DKK 4.7 million in addition to the capital gains of DKK 60 million from the sale of Value Invest Asset Management. When the difference in the realised capital gains of DKK 4.7 and the announced expectation of DKK 10 million is deducted from the announced range, DKK 5.3 million in total, the range amounts to DKK 164.7 – 174.7 million.

Profit before tax amounted to DKK 164.6 million compared to DKK 144.6 million in 2017. Profit before tax for the year, less interest expenses in the bank's hybrid core capital, which are recorded under equity in the accounts, is DKK 158.0 million, compared with DKK 138.0 million in 2017.

The achieved core earnings and profit before tax are both considered satisfactory, though both are marginally below the announced range.

Despite the acceptable profit, the capital coverage was reduced in the course of 2018 compared to the individual solvency requirements, from 8.4 % points in 2017 to 8.0 % points in 2018. Adjusted capital conservation buffer of 1.25 % points in 2017 and 1.875 % in 2018, the coverage is 7.15 % points in 2017 and 6.125 % points in 2018. In 2018, the bank has increased the capital base by DKK 103.8 million to DKK 923.4 million. The increase in the capital base is due to earnings in 2018 less proposed dividends of DKK 28.9 million.

The bank's capital ratio amounted to 17.4 % at the end of 2018 and has thus decreased by 0.4 % compared to the end of 2017, even though the capital base has increased by DKK 103.9 million. This is due to the bank having increased lending and business volume in general in 2018 and thus having increased the total risk exposure by a total of DKK 705 million which, viewed in isolation, reduces the capital ratio by 2.6 percentage points. The bank's solvency requirements are unchanged from 2017 at 9.4 %.
Overall, the bank's capital base is considered solid and adequate.

With regard to the bank's capital position in general, refer to note 28.

FUTURE CAPITAL RESERVES
At the end of 2018, the bank had a solid capital base, with a capital coverage including capital conservation buffer of 6.125 % points. In the next 5 years, the following capital buffers will be phased in to the bank's capital requirements in the requirement for the bank's capital base:

- 0.625 % points, capital conservation buffer, such that it constitutes 2.50 % points.
- The announced 1.00 percentage points of cyclical buffer in the course of 2019 can at most constitute 2.50 percentage points when fully phased in.
- Up to 6.0 % points, NEP supplement.
- Added to this is the bank's solvency requirements and the bank's own requirements for additional buffers.

The bank thus expects that the requirements for the bank's future capital ratio in 2022, including any Tier III capital raised to cover the NEP supplement, will be at the level of 24 %, corresponding to 6.6 percentage points higher than the current capital ratio of 17.4 %.
It is the bank's expectation that, based on the very satisfactory development in the earnings base in recent years, in the coming years the bank will be in a position to sufficiently increase the capital

base primarily through its own earnings, but also through raising Tier III capital to cover the NEP supplement.

EXPECTATIONS FOR 2019

The bank has had a satisfactory 2018, where expectations for the vast majority of areas have been met and exceeded. In light of this, the bank is optimistic about 2019 and, based on the strengthened organisation in 2018, expects a continued increase in the number of customers and balanced lending growth, an increase from the earning capacity realised in 2018, despite the strong competition in the market.

For this reason, core earnings are expected in the range of DKK 130 - 145 million in 2019 and a profit before tax in the range of DKK 115 - 135 million, assuming positive exchange rate adjustments at the level of DKK 5 million and impairment in the range of DKK 15 - 20 million.

The bank thus expects a lower profit before tax than in 2018, which is solely due to the realised capital gains in 2018 of DKK 60 million through the sale of Value Invest Asset Management S.A. The bank has established the strategic and profit-related goals for the coming year, of which the most significant are listed below.

In light of the very satisfactory customer growth, based on ambassador referrals and personal knowledge of the bank's employees and key values, the management is very confident in terms of continuing to attract new customers and increasing business volume with the many existing and loyal customers. For this reason, the bank expects an organic growth in lending of 3-4 %. The focus is on strengthening the bank's earnings and increasing capital provisioning in order to secure our position as the independent and local West and South Jutland bank, which makes a difference in the local areas where the bank's branches are, as well in the long term.

The bank is pleased to note that the private customers in the bank's local areas still have quite a robust economy, which is supported by stable housing prices and general financial accountability and diligence. The bank is experiencing strong growth in the number of and business volume with private customers and does not expect significant challenges with lending to these customers in 2019 as this has not been the case in previous years. The bank still has close ties to the agricultural industry, which represents a significant customer group.

Easily the largest of the bank's customer groups in agriculture is milk producers, who have generally experienced reasonable profitability in operations in 2018, which is expected to continue in 2019 based on forecast prices from SEGES. In pork and mink production, the forecasts for 2019 are more uncertain. Settlement prices for pork will depend on many factors, particularly the development of hog cholera in Eastern Europe and Brexit in England. The price of mink has reached a level in 2018 that is significantly below the manufacturing price and the forecasts for 2019 are very uncertain. However, the bank's lending to this segment is modest and most of the customers are financially sound.

Overall, the bank expects quite a challenging year in agriculture, but is confident with regard to how the bank's customers will meet the challenges in the coming years. There will still be customers for whom it will be difficult to achieve profitability in 2019 and here the bank will continue, out of loyalty and respect and in close cooperation with individual farmers, to try to find the best possible solutions.

There are still extremely difficult framework conditions in the industry, which place high demands on individual farmers. However, we still assess that the bank's agricultural portfolio very much have the prerequisite skills for being part of the future agricultural industry.

Lending to agriculture accounts for 11.2 % of the total lending, where the distribution is 6.0 % to cattle farming, 1.6 % to mink production, 1.4 % to pig farming, 1.2 % to crop farming and 1.0 % to other forms of production. As with any other industry, the bank has made a careful review of the exposures and the management is confident about these exposures.

The bank's lending within the property segment amounts to 12.8%, compared with 12.6% at year-end 2017. The bank's exposure to properties is primarily within rental for residential purposes and the bank has virtually no project financing.

Financing of alternative energy has led to many new customer relationships in recent years. The share of lending to this was 4.4 % at the end of 2018 and is also expected to be a significant business area in 2019.

The bank's other business segments are generally considered to be in good development, where lending is distributed amongst many small and medium businesses in a wide variety of industries.

The bank's liquidity is solid, and there will be an unchanged focus on maintaining a satisfactory liquidity reserve, primarily via a balanced relationship between the total deposit and lending volumes, since in the future the bank also wants to base liquidity generation on deposits from customers and only to a lesser extent on loans from other institutes, etc.

The satisfactory capital coverage of 6.125 percentage points after the capital conservation buffer is expected to decrease to the level of 4.50 % as a result of the introduction of a cyclical buffer of 1% and the start of the phasing in of the NEP supplement in 2019. This is fully in accordance with the bank's long-term capital plan and the capital coverage is considered to be fully adequate to ensure flexibility in terms of capital for the development of the bank.

NEW ACTIVITIES AND BUSINESS VOLUME

Skjern Bank Leasing was established in 2017 and is purely focused on financial leasing of most types of assets to the bank's business customers. The administrative management of the bank's leasing activities are outsourced to a well-established player in the industry.

The business volume of Skjern Bank Leasing continues to increase and is expected to continue to take in volume and earnings in 2019.

The bank has not established new branches in 2018 and the bank's branches are thus still located in Skjern, Varde, Esbjerg, Bramming, Ribe, Hellerup and Virum. The bank's employees in all branches are strongly anchored and have many years of seniority right in their local areas. The bank's most recent branch opening was in Virum because of the strong local familiarity and an assessment that opening a branch in Virum would create value for the bank in terms of business, strategy and profitability. The branch network is not expected to be expanded in 2019.

Overall, 2019 is expected to lead to a satisfactory increase in the bank's business volume and earnings. It is also expected that the sale of insurance and pension products will continue the positive trend of recent years.

BUSINESS VOLUME IN CONTROLLED DEVELOPMENT

The bank's business model and credit policy were essentially unchanged in 2018. The focus is, and will continue to be, to be ready to participate in our customers' goals for financing etc. when this can be done in a prudent and risk-acceptable manner.

Demand for loans has been increasing during the year. A significant part of the increasing demand for loans comes from new customers who have chosen Skjern Bank, but increasing activity from existing customers has also been noted.

Overall, lending increased by 11.1 % or DKK 435 million to DKK 4.360 million. Deposits from customers increased by 4.1 % or DKK 217 million to DKK 5,457 million.

The total guarantees for customers increased by DKK 418 to DKK 1,543 million.

CAPITAL GOALS AND DIVIDEND POLICY

Due to the satisfactory operating earnings, the bank has achieved a comfortable capital coverage, primarily consisting of a solid core capital of 14.4 % compared with the individual solvency requirements of 9.4 % which, added to the capital conservation buffer of 1.875 %, amounts to total capital requirements of 11.275 %. In the future, the management will also have the utmost focus on ensuring that the bank has a solid capital base to support the continued development of the bank's activities and implementation of current and future regulatory capital requirements.

The capital base will continue to be largely based on actual core capital, but raising foreign capital will also be included in the future capital structure if conditions are deemed favourable.

After many years of solidly increasing earnings without distribution to the bank's many loyal shareholders, the bank has achieved a solid capital coverage. Therefore, it is the management's assessment that there is a sufficient base to reward the bank's shareholders with an appropriate portion of the future operating profit.

The bank's management has therefore decided that the following capital goals and dividend policies will apply from the financial year 2018:

CAPITAL GOALS

It is the bank's goal to be well-capitalised to ensure the bank's strategic goals and also to accommodate regulatory requirements in future recessions. The management will continuously assess the adequacy of the capital base, including the distribution between equity and foreign capital, to ensure the optimal distribution between returns to shareholders and sufficient increase of the bank's actual core capital.

DIVIDEND POLICIES

In light of the bank's capital goals, the bank wants to be stable in payments of dividends. The goal is for distribution, either as share buy-backs or cash distributions, to amount to 30-50 % of the annual profit after tax, which exceeds a return on equity of 6 %.

THE BANK'S IMPORTANT STAKEHOLDERS

The bank's management considers the cooperation with and involvement of the bank's many stakeholders and the running of a well-functioning local bank to be equally important.

The bank has always had a very strong focus on creating value for all of the bank's stakeholders. This focus works and in 2018 led to a satisfactory increase in the business volume of all of the bank's branches, from Skjern, which was established in 1906, to Virum, which was established in 2017.

Controlled growth of good customers is to the benefit of all 4 stakeholder groups. When the customers choose the way Skjern Bank runs the bank, it increases the profits in the form of higher earnings capacity, to the benefit of the shareholders. Local communities benefit from this in the form of the bank's local backing as well as lending services to local businesses and private customers. The employees benefit from this in the form of job retention and an exciting job where they can develop. The customers express that it is valuable to have a local bank that knows their needs and where they have an advisor who knows them.

SHAREHOLDERS
The bank's approximately 16,000 shareholders have been very loyal to the bank and have shown great patience with regard to direct returns on their shares in the bank. As described under the capital and dividend policies, in the future the management wants to distribute portions of the future earnings to the shareholders.

The management recognises the importance of a stable and loyal shareholder community and, taking into account the bank's capital adequacy, aims to give them competitive returns on their investment. The shareholders' loyalty and continued backing, from small shareholders to major professional investors, is extremely important to the continued development of the bank.

The bank's management proposes a cash dividend of DKK 3 per share, a total of DKK 28.9 million, for the financial year 2018.

CUSTOMERS
The bank has a great many private customers in most of the country, though primarily in local areas and small and medium-sized business customers in the bank's local areas. The bank is largely chosen by new customers who, like the bank's many existing customers, want a local bank where they know their adviser and where they have time for them.

Through a close familiarity with individual customers and their needs, the bank wants to make a difference when our customers are facing important financial decisions, but also in daily life when online banking, mobile banking and cards have to work. The bank wants to be close to the customers, to have short response times and to find the financing solutions that work for each customer. At Skjern Bank, we call this presence, drive and individual solutions.

All the employees at the bank are very humbled by the trust shown by the customers when they refer their family, friends and acquaintances to the bank in large numbers via the bank's ambassador concept. The references from satisfied customers is the biggest reason why the bank experiences high and satisfactory customer growth year after year.

EMPLOYEES
The bank currently employs 158 employees, which is an increase of 15 employees in 1 year, or 12 converted to full-time. All employees are offered employment terms that conform to the market as well as relevant training and continuing education in order to always ensure a high level of professionalism.

The employees' job satisfaction is very important for the bank and there are annual measurements of the development in employee satisfaction in each department and the bank as a whole. It is a strategic goal for the bank to have employees who feel the bank is a good place to work and who are proud to work there. There is a very high level of employee satisfaction, which is an important foundation for always being able to offer our many customers advice and service at the high level expected by the customers, the employees and the bank.

LOCAL COMMUNITIES

The bank's goal is to play an important role in all of the bank's local communities, both as a partner for the many business owners, but of course also for the local population in general. It is important for the bank to back local initiatives and the bank helps a great number of new local businesses with counselling and financing, so the entrepreneurs' ideas get the best chance of being realised.

The bank is also a partner for more than 400 of the local communities' associations and organisations and supports both sports and culture and associations in general. The bank's commitment to and support for local communities is largely based on reciprocity, such that financial backing of any size is given in anticipation of and is subject to the bank being rewarded with customer referrals and a generally positive attitude towards the bank.

The foundation for banking operations in Skjern Bank is the many shareholders, customers, talented employees and the local community. The bank is aware that all stakeholders play an important role both now and in the future and the bank views it as an important community role to encourage the many stakeholders to work together for the benefit of both the stakeholders and the bank.

NET INTEREST INCOME

Net interest income increased by 7.7 % compared to last year and amounts to DKK 185.2 million.

Interest income on customer lending has decreased by 0.6 % to DKK 202.4 million. The bank's lending during the same period increased by 11.1 %, and the interest rates did not increase more because the average lending interest rates were reduced during the year as a result of fierce competition.

The bank's proportion of lending where the interest rate calculation was reduced or capped as a result of customers' weak ability to pay was reduced and the interest from this amounts to DKK 9.3 million in 2018 compared with DKK 12.5 million in 2017.

Interest expenses were reduced by 35.7 % to DKK 17.4 million, which is due to lower expenses for ordinary deposits of DKK 9.8 million, where in particular the interest expenses for the bank's discontinued high-interest deposits have reduced the interest expenses significantly.

FEE INCOME

Income from fees and commissions has increased satisfactorily by 3.8 % to DKK 123.0 million. There have been offsets between securities trading and custody accounts and other fees and commissions. The growth in fees is due to an increase in the number of customers and in the activity of the bank's customers. It is not because of fee increases, as the bank has not raised fee rates in 2018. Loan processing fees increased by DKK 0.8 million to DKK 53.7 million. Income from guarantee provisions and payment services increased by DKK 4.1 million.

DIVIDENDS

Dividends in 2018 were reduced by DKK 6.5 million and amounted to DKK 3.5 million. This is due to the bank selling ownership interest in Value Invest Asset Management S.A. in Q1 2018, from which the bank has received annual dividends in the range of DKK 6-8 million in recent years.

Net interest and fee income including dividends increased by 3.9 % to DKK 308.2 million

EXCHANGE RATE ADJUSTMENTS

Securities markets were characterised by major fluctuations in 2018. In the bank's shareholdings, a capital gain of DKK 68.4 million was realised, including capital gains of approximately DKK 60 million from the bank's sale of shares in Value Invest Asset Management S.A. The bank wants a continued low share price exposure and the bank's investment in shares is thus still of a modest size.

Exchange rate adjustments on bond portfolios have been negative in 2018 by DKK 3.6 million. The bank continues to have a cautious investment policy for bonds, which dictates short maturities and low interest rate risk.

The total exchange rate adjustments amount to DKK 69.4 million and, in addition to the exchange rate adjustments on bonds and shares, consists of earnings on currency and financial instruments of DKK 4.6 million. In 2017, the total exchange rate adjustments amounted to DKK 31.0 million.

COSTS

Staff and administration expenses increased by 19.0 % and amount to DKK 191.6 million, compared with DKK 161.1 million in 2017. The increase is partly due to salary expenses having increased by DKK 11.1 million due to an increasing number of employees, collective bargaining wage increases and an increase in payroll tax.

Other administration expenses increased by DKK 19.2 million in 2018 to DKK 84.0 million. This is partly due to an increase in the bank's IT expenses of DKK 15.5 million, of which DKK 12 million is an extraordinary one-time expense for the bank's data centre Bankdata. The expense is due to a change in accounting policies at Bankdata, which has led to development costs in Bankdata for a major capital market project being passed on to member banks in December 2018. The bank has chosen to expense the entire amount in 2018, which means that there will be no depreciation from this in the coming years.

In addition to IT expenses, in 2018 there were also major costs in connection with the expansion of the number of employees as well as the increased rental expenses in the Virum and Hellerup branches.

DEPRECIATION AND WRITE-DOWNS

In 2018, there was depreciation and impairment on tangible fixed assets of DKK 3.0 million, compared with DKK 3.1 million in 2017.

IMPAIRMENT

Impairment on customer receivables amounted to 0.3 % of the total lending and guarantees. Loan impairment etc. is at DKK 19.7 million, compared with DKK 19.9 million the previous year. The level is considered satisfactory. No major decrease in impairment was realised because extra was reserved as a management estimate on the bank's most challenged agricultural exposures.

Impairment is calculated according to IFRS 9 and in connection with the implementation of this, the bank has chosen not to use the transitional scheme for this and the management does not expect to change this decision. The bank's capital base, capital ratio and leverage ratio reflect the full early impact of DKK 23.8 million of the transition to IFRS 9.

Reversal of individual impairment from previous accounting years amounted to DKK 55.7 million, while recorded losses amounted to DKK 43.1 million, of which DKK 41.0 million had not been previously written down. In total, the bank has provisioned DKK 361.0 million to accommodate future losses, which corresponds to 5.8 % of the bank's total lending and guarantees.

Impairment for the year is calculated according to the IFRS 9 impairment rules on lending and guarantees. According to IFRS 9, impairment is done according to principles of expected loss, and thus impairment is attributed to all the bank's exposures regardless of credit quality. Please refer to note 30 for a more detailed specification of the principles for impairment.

UPCOMING ACCOUNTING RULES – NEP SUPPLEMENT

With effect from 1 January 2019, the phasing in of the new NEP requirements begins. Based on the statement of exposures as of 31 December 2017 submitted by the bank, the Danish Financial Supervisory Authority has calculated an NEP supplement of 6 percentage points. The NEP supplement will be recalculated by the Danish Financial Supervisory Authority annually and the requirement will be phased into the bank's capital base during the period of 2019 – 2022.

CORE EARNINGS

At the beginning of 2018, the bank expected a core earnings in the range of DKK 135 – 145 million. With the publication of the quarterly report for Q3, expectations for profit were adjusted downwards to a range of DKK 120 – 130 million as a result of the extraordinary IT expense of approximately DKK 12 million. Core earnings amount to DKK 119.6 million in 2018, compared with DKK 137.3 million in 2017.

The decrease is due to two factors, namely the extraordinary IT expense of DKK 12 million and the lack of dividends of approximately DKK 8 million from Value Invest Asset Management S.A. Corrected for these two factors, the core earnings for 2018 show a growth of DKK 2.3 million compared to 2017, which is considered satisfactory in a year with many strategic initiatives, including an increase in the number of employees.

PROFIT BEFORE TAX

At the beginning of 2018, the Bank expected profit before tax in the range of DKK 125 - 135 million, assuming positive exchange rate adjustments at the level of DKK 10 million and impairment in the range of DKK 15 - 20 million. In the quarterly report for Q1, the expectation was adjusted upwards to the range of DKK 185 – 195 million under the same assumptions as before, though such that there were other exchange rate adjustments of DKK 10 million in addition to the capital gain of DKK 60 million from Value Invest Asset Management S.A. In Q3 2018, the expectation was changed to the range of DKK 170 – 180 million as a result of the extraordinary IT expense of DKK 12 million.

The bank's profit before tax amounted to DKK 164.6 million compared to DKK 144.6 million in 2017. The profit is considered satisfactory and largely realised within the range, as other exchange rate adjustments amounted to DKK 4.7 million and were thus DKK 5.3 million lower than the assumption of DKK 10 million.

CAPITAL

At the end of 2018, the bank's equity amounted to DKK 926.7 million, of which DKK 59.7 million was raised hybrid core capital, which for accounting purposes is included under equity. At the end of 2017, equity was DKK 814.3 million. The increase is due to the realised profit in 2018.

The capital base, which consists of equity and supplemental borrowing, amounted to DKK 923.4 million at the end of 2018 and the total risk exposure amounted to 5.310 million. The capital ratio is calculated at 17.4 % and the core capital at 15.5 %. The solvency requirements amounted to 9.4 %, whereby there is a satisfactory coverage in relation to the solvency requirement of 8.0 percentage points, corresponding to DKK 426 million. At the end of 2018, in addition to the solvency requirements, the bank will also add a capital conservation buffer of 1.875 %. Including this, the solvency coverage can be calculated at 6.125 percentage points, corresponding to DKK 325 million.

The solvency requirements, which are calculated according to the Danish Financial Supervisory Authority's credit reservation method, are recognised at DKK 424.8 million, corresponding to 8.0 % for the Column 1 requirement (Søjle 1-kravet). In addition, DKK 2.9 million was provisioned due to the high lending growth, an additional DKK 55.5 million in credit risk, DKK 1.9 million to interest risk, DKK 0.4 million to share price exposure and DKK 11.6 million to credit spread risk under the market risk. The other risk groups have not given rise to additional solvency reserves.

The bank's goal for the capital coverage is in relation to the calculated solvency need, added at any time phased-in capital requirements are at least 4 percentage points with a long-term target of 5 percentage points. The capital requirements will increase significantly in the coming years, with an additional 0.625 % in capital conservation buffer in 2019, 1 % cyclical buffer in 2019, which can potentially be implemented all the way up to 2.5 %, and up to 6 % in NEP supplement phased in in 2022. At the same time, the bank has a goal of organic growth in business volume of 4-5% in the coming years, which increases the requirements for the capital base.

Over the coming years, the bank wants to increase the capital base with earnings and, depending on growth, also supplement it with foreign capital in the form of either hybrid capital, subordinated capital or Tier III capital, depending on what is most valuable in terms of capital and earnings.

The management considers the bank to have a solid capital foundation, but there is a constant focus on whether the bank currently has an appropriate capital structure and capital coverage. For more information on capital and solvency requirements, please refer to the bank's website: www.skjernbank.dk/banken/investor/solvensbehov

LIQUIDITY

The bank's goal is to maintain liquidity reserves at a continued sufficient and solid level based on deposits from the bank's customers. In 2018, the goal was met by increasing the total deposits to a total of DKK 5.457 million.

The bank's liquidity reserves are solid. The LCR (Liquidity Coverage Ratio) of DKK 1.019 million exceeds both the regulatory requirements and the stricter liquidity goals established by the bank's Board of Directors.

The liquidity coverage ratio shows how the bank is able to meet its payment obligations for an upcoming 30-day period without access to market funding. The ratio is calculated by comparing the bank's cash reserves and liquid assets with the bank's payment obligations for the next 30 days calculated according to certain rules.

Skjern Bank has established an internal limit for the minimum liquidity reserves of 175 %, which exceeds the minimum requirements of 100 % in the Danish Financial Supervisory Authority's Supervisory Diamond. The bank achieved the goal and as of 31 December 2018 has an LCR financial ratio of 247 %.

MAJOR SHAREHOLDERS

The Bank has two major shareholders, Lind Value IIII A/S, Aarhus and Investeringsselskabet of 15 May (AP Pension Livsforsikringsaktieselskab, København Ø.), who, at the last stock exchange announcement, owned 24.77% and 20.75% respectively. Both possess 5% of the voting rights.

LIQUIDATION RESERVE

In connection with establishing the statutory liquidation reserve, the bank has prepared business procedures and implemented tests to ensure compliance with the special requirements resulting from the legislation. This has been done in cooperation with the bank's data centre, and it is the management's assessment that the bank is in compliance with the requirements.

EVENTS OCCURRING AFTER 31 DECEMBER 2018

No events have occurred after 31 December 2018 that significantly affect the bank's circumstances.

Audit

The Danish version of the Annual Report for 2018 is equipped with internal audit statements and independent auditors' statement. The statements are without reservations and complementary information.

Endorsement of the Annual Report by the Management

We have today discussed and approved the annual report for the period 1 January – 31 December 2018 for Skjern Bank A/S.

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

We consider the accounting practice chosen to be appropriate so that the annual report gives a correct impression of the bank's assets, liabilities, financial position as at the 31st December 2018 and of the result of the bank's activities for the accounting year 1 January – 31 December 2018.

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

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

Skjern, the 5 February 2019

The board of Skjern Bank A/S

Per Munck
Manager

Skjern, the 5 February 2019

The board of Skjern Bank A/S

Hans Ladekjær Jeppesen — *Chairman*

Jens Okholm — *Vice-chairman*

Bjørn Jepsen *Finn Erik Kristiansen* *Søren Dalum Tinggaard* *Troels Bülow-Olsen*

Lars Skov Hansen *Lars Lerke* *Carsten Jensen*

Profit and loss account

Note	DKK 1,000	2018	2017
2	Interest receivable	202,618	198,977
3	Interest payable	17,376	27,005
	Net income from interest	**185,242**	**171,972**
	Dividend on shares and other holdings	3,476	10,020
4	Charges and commission receivable	123,024	118,547
	Charges and commission payable	3,509	3,927
	Net income from interest and charges	**308,233**	**296,612**
5	Value adjustments	69,389	31,045
	Other ordinary income	1,503	1,031
6	Staff costs and administrative expenses	191,626	161,052
	Depreciation and write-downs on intangible and tangible assets	3,004	3,071
	Other operating expenses total	127	52
	Contribution to the Guarantee Fund for deposits	52	52
	Other operating expenses	75	0
9	Write-downs	19,729	19,886
	Result before tax	**164,639**	**144,627**
10	Tax	22,126	20,804
	Net-result for the financial year	**142,513**	**123,823**
	Of which are holders of shares of hybrid core capital instruments etc.	6,626	5,168

PROPOSAL FOR DISTRIBUTION OF PROFIT

	2018	2017
Dividends	28,920	-
Holders of hybrid core capital instruments	6,626	6,626
Transferred to/from retained earnings	106,967	117,197
Total distribution of the amount available	**142,513**	**123,823**

STATEMENT OF COMPREHENSIVE INCOME

	2018	2017
Profit for the financial year	142,513	123,823
Total comprehensive income	**142,513**	**123,823**

Balance Sheet

Note	DKK 1,000	2018	2017
	ASSETS		
	Cash in hand and demand deposits with central banks	184,106	148,746
11	Receivables at credit institutions and central banks	795,467	851,222
12	Loans and other receivables at amortised cost	4,359,561	3,924,509
13	Bonds at fair value	1,016,994	1,072,833
14	Shares etc.	220,498	245,686
15	Holdings in associated enterprises and group enterprises	48,488	49,389
	Investment properties	2,961	2,961
	Owner-occupied properties	45,527	46,428
16	Other tangible assets	4,094	5,158
	Current tax assets	11,865	1,099
17	Deferred tax assets	1,922	5,816
	Other assets	58,815	58,053
	Prepayments	1,763	5,125
	Total assets	**6,703,573**	**6,367,636**

Note	DKK 1,000	2018	2017
	LIABILITIES		
	DEBT		
18	Debt to credit institutions and central banks	160,750	158,466
19	Deposits and other debts	5,457,413	5,240,913
	Other liabilities	48,832	50,245
	Prepayments	442	1,305
	Total debt	**5,667,437**	**5,450,929**
	PROVISIONS		
12	Provisions for loss on guarantees	9,420	2,578
	Total provisions	**9,420**	**2,578**
	SUBORDINATED DEBT		
20	Subordinated loan capital	99,976	99,797
	Total subordinated debt	**99,976**	**99,797**
	EQUITY		
21	Share capital	192,800	192,800
	Revaluation reserves	417	417
	Retained earnings	644,923	561,785
	Proposed dividend	28,920	0
	Capital owners share of equity	**867,060**	**755,002**
	Holders of hybrid capital	59,680	59,330
	Total equity	**926,740**	**814,332**
	Total liabilities	**6,703,573**	**6,367,636**

Information on changes in equity

Note	DKK 1,000	2018	2017
	Share capital beginning-of-year	192,800	192,800
	Share capital end-of-year	**192,800**	**192,800**
	Revaluation reserves beginning-of-year	417	417
	Revaluation reserves end-of-year	**417**	**417**
	Retained earnings beginning-of-year	561,785	443,117
	Changed accounting policy for impaiment charges	-23,823	-
	Profit or loss for the financial year	106,967	117,197
	Tax of interest hybrid capital	-	1,458
23	Sale of own funds	21,435	32,730
23	Purchase of own funds	-21,442	-32,717
	Retained earnings end-of-year	**644,923**	**561,785**
	Proposed dividend	**28,920**	**0**
	Holders of hybrid capital beginning-of-year	59,330	58,979
	Net profit or loss for the year (interest hybrid capital)	6,626	6,626
	Paid interest	-6,276	-6,275
	Holders of hybrid capital end-of-year	**59,680**	**59,330**
	Total equity	**926,740**	**814,332**

Notes

1. ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with the Danish Financial Business Act and the Executive Order on financial reports for credit institutions and investment companies, etc.

The Financial Statements have been prepared in accordance with additional Danish legal requirements for Financial Statements for listed financial companies.

The Financial Statements are presented in DKK and rounded to the nearest DKK 1,000.

Change of accounting policies used
The accounting policies used have changed in relation to the financial statements for 2017 as a result of the IFRS 9 accounting standard on financial instruments, which entered into force with effect from 1 January 2018. IFRS 9 introduces a new approach to classification of financial assets based on the financial institute's business model and the asset's underlying cash flows. Simultaneously, a new impairment model was introduced for financial assets, unused credit lines, loan commitments and financial guarantees. The policies for financial commitments are unchanged from before.

The general provisions in IFRS 9 are similarly incorporated into the Danish Executive Order on the Presentation of Financial Statements and supplemented by special Danish impairment rules in appendix 10 of the Executive Order that complete the general principles of IFRS 9.

The changed Danish Executive Order on the Presentation of Financial Statements applies to accounting periods beginning 1 January 2018.

This is in line with the Danish Executive Order on the Presentation of Financial Statements' transitional rules not entailing adjustment of comparative figures, as it is not possible to apply the impairment rules without rationalising after the fact.

Effect of new IFRS 9-compatible impairment rules
The implementation of the new IFRS 9-compatible accounting rules has only led to changes in amounts as a result of the changed method for calculation of impairment and provisions for expected credit losses.

In accordance with the transitional rules of the Danish Executive Order on the Presentation of Financial Statements, Skjern Bank has not implemented the changed impairment rules with retroactive effect, as it is not possible to apply the impairment rules to previous financial years without rationalising after the fact. The cumulative effect of the change is thus recognised in equity on 1 January 2018 and no adjustment is done of comparative figures for 2017.

The calculated total impact as of 1 January 2018 after tax effects is a reduction in equity of DKK 23.8 million.

Phasing in with regard to capital
The Capital Requirements Regulation (CRR) contains a 5-year phasing in of the effect of IFRS 9 impairment on the capital

base, which correspondingly applies to financial institutions that operate under IFRS 9-compatible impairment rules. Skjern Bank has decided not to use the transitional scheme and therefore recognises the full effect of the new IFRS 9-compatible accounting rules in the capital base as of 1 January 2018.

The effect of IFRS 9 on the capital base corresponds to DKK 23.8 million at the time of the rules' entry into force on 1 January 2018, which reduces the capital ratio by 0.50 percentage points.

Classification and measurement
According to the new IFRS 9-compatible accounting regulations, classification and measurement of financial assets is done based on the business model for the financial assets and the contractual cash flows relating to the financial assets. This means that financial assets must be classified into one of the following three categories:

- Financial assets that are held to generate the contractual payments, and where the contractual payments exclusively consist of interest and repayments on the outstanding amount, are measured at amortised cost after the date of first recognition.

- Financial assets that do not meet the above criteria for the business model or where the contractual cash flows do not exclusively consist of interest and repayments on the outstanding amount are initially recognised at fair value through the statement of profit or loss.

Skjern Bank does not have financial assets that are included in the measurement category for recognition of financial assets at fair value through other comprehensive income. Instead, the bank's bond portfolio is measured at fair value through the statement of profit or loss, either because they are included in a trading portfolio or because they are included in a risk management system or an investment strategy that is based on fair values and for this reason is included in the bank's internal management reporting.

Practice for removal of financial assets from the statement of financial position
Financial assets that are measured at amortised cost are wholly or partially removed from the statement of financial position if the bank no longer has reasonable expectations that the outstanding amount will be wholly or partially covered. Recognition ceases based on specific, individual assessment of each exposure. For business customers, the bank will typically base its assessment on indicators such as the customer's liquidity, earnings and equity, as well as the collateral provided for the exposure. The private customers, the bank will typically base its assessment on the customer's liquidity, income and assets, as well as the customer's collateral for the exposure. When a financial asset is remove in whole or in part from the statement of financial position, the impairment on the financial asset is removed from the calculation of accumulated impairment, cf. note 9.

The bank continues its collection efforts after the assets have been removed from the statement of financial position, with the measures depending on the specific situation. The bank essentially tries to enter a voluntary agreement with the customer, including renegotiation of terms or reconstruction of a business, such that debt collection or bankruptcy proceedings are only put to use when other measures have been tried.

Information on rules that have not yet entered into force:
Leasing
The Danish Financial Supervisory Authority's amending Executive Order of 3 December 2018 enters into force for accounting periods beginning 1 January 2020 or later, but with the option of early implementation of the Executive Order.

The amending Executive Order introduces new leasing rules which, compared to the previous rules, means that the way lessees are handled in terms of accounting no longer requires a distinction between financial leasing and operational leasing. All lease agreements must be recognised by the lessee in the form of a leasing asset that represents the value of the right of use. The asset is initially recognised at present value of the lease liability including costs and any prepayments. At the same time, the present value of the agreed lease payments are recognised as a liability. Assets leased on short-term contracts and leased assets of low value are excluded from the requirement for recognition of a lease asset.

The rules for lessors remain unchanged. The way lease agreements are handled by the lessor in terms of accounting thus still requires a distinction between financial leasing and operational leasing.
Skjern Bank has decided to apply the new leasing rules with effect from 1 January 2020. The impact of the upcoming leasing rules is assessed to be insignificant.

General information on recognition and measurement
Assets are recognised in the statement of financial position when it is probable that future economic benefits will flow to the bank and the asset's value can be measured reliably.

Liabilities are recognised in the statement of financial position when they are likely and can be measured reliably.

Assets and liabilities are initially recognised at fair value. However, intangible and tangible assets are measured at cost at the time of initial recognition. Measurement after initial recognition occurs as described for each item below.

Foreseeable risks and losses which may arise before the Financial Statements are reported and which confirm or invalidate conditions existing on the balance date are taken into account in recognition and measurement.

Income is recognised in the statement of profit or loss and other comprehensive income as it is earned, while expenses are recognised at the amounts which relate to the financial year. However, value increases in owner-occupied properties are recognised directly in equity.

Purchases and sales of financial instruments are recognised on the transaction date and are no longer recognised when the right to receive/deliver cash to or from the financial asset or liability has expired or, if it is transferred, the bank has transferred all significant risks and rewards of ownership. The bank has not used the rules for reclassification of certain financial assets at fair value to amortised cost.

Determination of fair value
The fair value is the amount to which an asset can be converted or at which a liability can be settled in a transaction under

normal conditions between knowledgeable, willing and independent parties.

The fair value of financial instruments for which there is an active market is usually determined as the closing price on the Balance Sheet date or, if not available, another published price considered to best correspond to this.

For financial instruments for which there is an active market, fair value is established using generally accepted valuation techniques which are based on relevant observable market data.

Accounting estimates
When determining the carrying amount of certain assets and liabilities, discretion is used as to how future events will affect the value of the assets and liabilities on the balance date.

The estimates used are based on assumptions which the management considers to be reasonable, but which are associated with some uncertainty.

Therefore, the actual final results may differ from the estimates used, because the bank is affected by risk and uncertainty, which can affect this.

The areas which involve a greater degree of assessments/assumptions and estimates are impairment of loans and receivables, determination of fair value of unlisted financial instruments, property and provisions.

Foreign currency
Assets and liabilities in foreign currencies are recognised on the balance date at the National Bank of Denmark's listed rates.

Foreign currency spot transactions are adjusted on the balance date based on the spot rate.

Currency translation adjustments are recognised on an ongoing basis in the statement of profit or loss and other comprehensive income.

STATEMENT OF PROFIT OR LOSS

Interest, fees and commissions, etc.
Interest income and expenses are recognised in the statement of profit or loss and other comprehensive income in the period to which they relate.

Received interest on loans on which impairment has occurred are passed to the impaired part of the loan in question under the item "Impairment of loans and receivables" and are thus offset in impairment for the year.

Commissions and fees which are an integral part of the effective interest rate of a loan are recognised as part of the amortised cost and are therefore part of interest income under loans.

Commissions and fees which are part of an ongoing service are accrued over the loan period.

Other fees and commissions and dividends are recognised in the statement of profit or loss and other comprehensive income when the rights to them are acquired.

Staff and administration expenses
Staff and administration expenses include wages and salaries, social costs, pensions, IT costs and administrative and marketing costs.

Pension schemes
The bank has entered into defined contribution schemes with the employees. In defined contribution schemes, fixed contributions are paid to an independent pension fund. The bank has no obligation to make further contributions.

Tax
Tax for the year, which consists of current tax for the year and movements in deferred tax, is recognised in the statement of profit or loss and other comprehensive income as the portion which is attributable to the net profit for the year and directly in equity as the portion which is attributable to items in equity.
Current tax liabilities and current tax receivables are recognised in the statement of financial position as tax calculated on taxable income for the year adjusted for tax paid on account.

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

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised in the statement of financial position at the value at which the asset is expected to be realised, either against deferred tax liabilities or as net assets.

STATEMENT OF FINANCIAL POSITION

Receivables from credit institutions and central banks
Initially recognised at fair value plus transaction costs and minus origination fees, etc. and subsequently measured at amortised cost.

Loans
The accounting item consists of loans disbursed directly to the borrower.

Loans are measured at amortised cost, which usually corresponds to the nominal value minus origination fees etc. and minus provisions for losses expected but not yet realised.

Model for impairment for expected credit losses
With the IFRS 9-compatible impairment rules, impairment is done for expected credit losses on all financial assets that are recognised at amortised cost and provisions are made according to the same rules for expected credit losses on unused

credit lines, loan commitments and financial guarantees. The impairment rules are based on an expectation-based model that involves an earlier recognition of impairment.

For financial assets recognised at amortised cost, impairment for expected credit losses is recognised in the statement of profit or loss and the value of the asset is reduced in the statement of financial position. Provisions for losses on unused credit lines, loan commitments and financial guarantees are recognised as a liability.

The new expectation-based impairment rules means that a financial asset etc. at the time of first recognition is impaired by an amount corresponding to the expected credit loss over 12 months (stage 1). If there is subsequently a significant increase in the credit risk compared to the time of first recognition, the financial asset is impaired by the amount corresponding to the expected credit loss in the asset's remaining life (stage 2). If impaired credit (stage 3) is discovered for the instrument, the asset is written down by an amount corresponding to the expected credit loss in the asset's remaining life, and interest income is recognised in the statement of profit or loss according to the effective interest method based on the impaired amount.

The expected loss is calculated as a function of the likelihood of OIK (objective indication of impairment), EAD (exposure value on default) and LGD (loss on default), where predictive information is included that represents the management's expectations for the future development.

Placement in stages and calculation of the expected loss is based on the bank's rating models, which were developed by the data centre Bankdata and the bank's internal credit management. In the assessment of the development of credit risk, it is assumed that a significant increase in credit risk has occurred in relation to the time of initial recognition when a downwards adjustment of the bank's internal rating of the debtor corresponds to one rating class in the Danish Financial Supervisory Authority's rating classification guidelines.

If the credit risk on the financial asset is considered to be low on the reporting date, the asset is kept at stage 1, where a significant increase in credit risk has not occurred. Skjern Bank considers the credit risk to be low when the bank's internal rating of the customer corresponds to 2a or better, though an overdraft for more than 30 days for a customer with an internal rating of 2a will lead to a significantly impaired credit risk. The category of assets with low credit risk also includes lending and receivables that meet the rating criterion, as well as Danish government and mortgage bonds and receivables from Danish credit institutions.

An exposure is defined as being impaired (stage 3) and as being in default if it meets at least one of the following criteria:

- The bank assesses that the borrower will not be able to honour their commitments as agreed.
- The borrower is experiencing significant financial difficulties, the borrower has committed a breach of contract, the bank has granted the borrower easier terms than it would have granted were it not for the borrower's financial difficulties or if it is probable that the borrower will go bankrupt or be subject to other financial restructuring.

- The exposure has been in arrears/overdrawn for more than 90 days by an amount that is considered significant.

However, financial assets where the customer has significant financial difficulties or where the bank has offered easier terms due to the customer's financial difficulties are kept at stage 2 if losses are not expected in the most likely scenario.

The definition of credit impairment and default that the bank uses when measuring the expected credit loss and for transfer to stage 3 is in line with the definition used for internal risk management purposes, and the definition is adapted to the Capital Requirements Regulation's (CRR) definition of default. This means that an exposure that is considered to be in default for regulatory purposes is always placed in stage 3.

The calculation of impairment on exposures in stages 1 and 2, except for the weakest exposures in stage 2, are made on a portfolio-based calculation model, while the impairment on the rest of the exposures are made through a manual, individual assessment based on three scenarios (basic scenario, a more positive scenario and a more negative scenario) with the associated likelihood that the scenarios will occur.

The portfolio model calculation is done based on a model which is based on the bank's division of customers into different rating classes and an assessment of the risk of each rating class. The calculation occurs in a setup that is developed and maintained in the bank's data centre, supplemented with a predictive macroeconomic module, which is developed and maintained by LOPI, and which forms the basis for the incorporation of management's expectations for the future.

The macroeconomic module is based on a series of regression models that establish the historical correlation between impairment for the year within a number of sectors and industries and a number of explanatory macroeconomic variables. The regression models are then supplied with estimates for the macroeconomic variables based on forecasts from consistent sources such as Det Økonomiske Råd [The Danish Economic Council], Danmarks Nationalbank etc. where the forecasts are generally for two years in the future and include variables such as increase in public consumption, increase in GDP, interest rates etc. The expected impairment is thereby calculated for up to two years in the future for each sector and industry. For maturities longer than two years and up to year 10, a projection of the impairment percentage is made such that it converges towards a normal level in year 10. Maturities longer than 10 years are given the same impairment percentage as in year 10. The predictive macroeconomic module generates a series of adjustment factors which are multiplied by the data centre's "raw" estimates, which are then adjusted in relation to the starting point.

Please refer to the more detailed description in note 30.

Changes in write-downs are adjusted in the statement of profit or loss and other comprehensive income under the item "Impairment of loans and receivables, etc."

Bonds and shares, etc.
Bonds and shares traded on a listed stock exchange are measured at fair value. Fair value is usually determined as the official closing price on the balance date.

Unlisted securities and other equity investments (including level 3 assets) are also recognised at fair value, calculated based on what the transaction price would be in a trade between independent parties. If there is no current market data, the fair value is determined based on the published financial reports or on a return model which is based on cash flows and other available information.

Value adjustments on bonds and shares, etc. are recognised on an ongoing basis in the statement of profit or loss and other comprehensive income under the item ”Exchange rate adjustments.”

Land and buildings

Land and buildings include

- ”Owner-occupied properties,” which consist of the properties from which the bank conducts banking activities, and
- ”Investment properties,” which consist of all other properties the bank owns.

Owner-occupied properties are measured in the statement of financial position at revalued amount, which is the fair value determined based on the return method with a rate of return in the range of 5.5 - 7 % less accumulated depreciation and any impairment loss.Depreciation is recognised in the statement of profit or loss and revaluation is done so frequently that there are no significant differences in fair value.

Increases in the owner-occupied properties’ revalued amount are recognised under revaluation reserve in equity. If an increase in the revalued amount corresponds to an earlier case and is thus recognised in the statement of profit or loss in a previous year, the increase is recognised in the statement of profit or loss.A decrease in the revalued amount is recognised in the statement of profit or loss and other comprehensive income, unless there is a reversal of previous revaluations.

Owner-occupied properties are depreciated linearly over 50 years based on the cost adjusted for any value adjustments where residual values are not used.Investment properties are measured in the statement of financial position at fair value determined based on the return method. Ongoing changes in fair value of investment properties are recognised in the statement of profit or loss and other comprehensive income.

Other tangible fixed assets

Other tangible fixed assets, including plant and machinery, are recognised at the acquisition at cost.

Then, other tangible assets and conversion of rented premises are recognised at cost minus accumulated depreciation.

A linear amortisation is done over 3-5 years based on the cost and amortisations and impairment losses recognised in the statement of profit or loss.

Other assets

Other assets include interest receivable and provisions and positive market value of derivative financial instruments.

Prepayments and accrued income

Prepayments and accrued income recognised under assets include costs relating to subsequent financial years. Prepayments and accrued income recognised under liabilities include prepaid interest and guarantee provisions relating to subsequent financial years.

Payables to credit institutions and central banks as well as deposits and other debt
The items are measured at amortised cost.

Subordinated debt
Items are measured at amortised cost.

Hybrid core capital under equity
Hybrid core capital that meets the rules in CRR to be classified as additional tier I capital with indefinite maturity and where the payment of interest is voluntary is classified as equity.

Other liabilities
Other liabilities include interest payable and provisions and negative market value of derivative financial instruments.

Provisions
Commitments, guarantees and other liabilities which are uncertain in terms of size or time of settlement are recognised as provisions when it is probable that the liability will result in financial resources flowing out from the bank and the liability can be measured reliably. The liability is calculated at the present value of the costs required to settle the liability.

Treasury shares
Acquisition and disposal and dividends from treasury shares are recognised directly under equity.

Derivative financial instruments
All derivative financial instruments, including forward contracts, futures and options in bonds, shares or currency, as well as interest and currency swaps, are measured at fair value on the balance date.
Exchange rate adjustments are included in the statement of profit or loss and other comprehensive income.

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

Contingent liabilities
The bank's outstanding guarantees are disclosed in the notes under the item ”Contingent liabilities.” The liability relating to outstanding guarantees which are assessed to lead to a loss for the bank is provisioned under the item ”provisions for loss on guarantees.” The liability is expensed in the statement of profit or loss under ”Impairment of loans and receivables, etc.”.

Financial highlights
Key figures and ratios are presented in accordance with the requirements in the Danish Executive Order on the Presentation of Financial Statements.

Notes

Note	DKK 1,000	2018	2017
2	INTEREST INCOME		
	Loans and other receivables	202,458	201,251
	Loans (interest conc. the written-down part of loans)	-9,288	-12,480
	Bonds	8,454	9,484
	Other derivative financial instruments, total of which	994	722
	Interest-rate contracts		448
	Currency contracts	155	274
	Other interest income	839	0
	Total	**202,618**	**198,977**
3	INTEREST EXPENSES		
	Credit institutions and central banks	4,310	4,234
	Deposits	6,330	16,098
	Subordinated debt	6,560	6,613
	Other interest expenses	176	60
	Total	**17,376**	**27,005**
	No income or expenses are entered from genuine purchase or repurchase contracts in notes 2 and 3.		
4	FEES AND COMMISSION INCOME		
	Securities trading and custody accounts	15,489	21,888
	Payment services	11,704	9,828
	Loan fees	53,674	52,865
	Guarantee commission	13,376	11,168
	Other fees and commission	28,781	22,798
	Total	**123,024**	**118,457**

Note	DKK 1,000	2018	2017
5	VALUE ADJUSTMENTS		
	Other loans	0	13
	Bonds	-3,615	3,937
	Total shares	68,361	23,114
	- Shares in sectorcompanies etc	10,413	9,178
	- Other shares	57,948	13,936
	Foreign currency	4,649	3,862
	Other financial instruments	-6	119
	Total	**69,389**	**31,045**

As the bank essentially operates deposits and lending activity in its local areas, the division of market areas is not specified for notes 2-5.

6 STAFF COSTS AND ADMINISTRATIVE EXPENSES

Salaries and remuneration of board of directors, audit committee, managers etc.

	2018	2017
Board of managers (1 person)*	3,013	2,830
Fixed fees	2,978	2,790
Pension contributions	35	40
Management board	1,163	1,053
Audit Committee	58	50
Committee of representatives	180	177
Total salaries and remuneration of board etc	**4,414**	**4,110**

*The Board of manager has a company car

Board of Directors' remuneration

	2018	2017
Hans Ladekjær Jeppesen	268	263
Jens Okholm	191	188
Bjørn Jespsen	107	105
Finn Erik Kristiansen	118	116
Søren Dalum Tinggaard	107	105
Troels Bülow-Olsen	98	0
Lars Skov Hansen	118	116
Lars Lerke	107	105
Carsten Jensen	107	105
Total	**1,221**	**1,103**

Note	DKK 1,000	2018	2017
6	STAFF COSTS AND ADMINISTRATIVE EXPENSES (CONTINUED)		
	Staff costs		
	Wages and salaries	79,875	71,633
	Pensions	8,698	7,843
	Social security costs	919	982
	Payroll tax	13,683	11,644
	Total staff costs	**103,175**	**92,102**
	Salary to special risk takers (11 persons in 2018, 11 persons in 2017)	8,524	8,289
	Pensions to special risk takers (11 persons in 2018, 11 persons in 2017)	938	904
	Other administrative expenses		
	IT expenses	47,808	32,289
	Rent, electricity, heating etc	6,012	5,228
	Postage, telephony etc	1,168	900
	Other administrative expenses	29,049	26,423
	Total other administrative expenses	**84,037**	**64,840**
	Total staff costs and administrative expenses	**191,626**	**161,052**

Pension and severance terms for the executive board

The management received until 1/7 2018 11% of salary grade 31 in annual pension, which is contributionbased through a pension company. Therefore, Skjern Bank has no pension obligations to the management, since there is regular payment to a pension company as indicated. Upon retirement, Skjern Bank pays a severance payment equivalent to 6 months' salary. The management may retire at 62 years. Skjern Bank's notice period to the management is 36 months, but may be 48 months in special circumstances. The management's notice period to the bank is 6 months.

The Board's pension terms

No pension is paid to the Board

Special risk takers' pension terms

The special risk takers receive 11% of their respective salary grades in annual pension, which is contribution-based through a pension company in which the payments are expensed continually.

	2018	2017
Average number of employees during the financial year converted into full-time employees		
Employed in credit institution business	147	135
Total	**147**	**135**

Note	DKK 1,000	2018	2017
7	INCENTIVE AND BONUS SCHEMES		
	The bank does not have any incentive or bonus schemes.		
8	AUDIT FEE		
	Total fee to the firm of accountants, elected by the annual meeting, that perform the statutory audit	**801**	**638**
	Honorariums for statutory audits of financial statements	578	547
	Honorariums for assurance services	31	84
	Honorariums for other services	192	7

Fees for other statements with certainty regarding statutory statements to public authorities. Fees for tax advice include advice on various VAT and tax matters. Fees for other services relate to verification of ongoing recognition of profits in the actual core capital and other ongoing advice.

Note	DKK 1,000	2018	2017
9	WRITE-DOWNS ON LOANS AND RECEIVABLES		
	Write-downs and provisions during the year	84,486	68,360
	Reversal of write-downs made in previous years	-55,706	-38,149
	Finally lost, not previously written down	2,146	4,215
	Interest on the written-down portion of loans	-9,288	-12,480
	Recoveries of previously written off debt	-1,909	-2,060
	Total	**19,729**	**19,886**
10	TAX		
	Calculated tax of income of the year	16,539	12,204
	Adjustment of deferred tax	3,894	8,394
	Adjustment of tax calculated in previous years	1,693	206
	Total	**22,126**	**20,804**
	Tax paid during the year	16,008	10,278
11	RECEIVABLES AT CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Deposits with central banks	763,096	789,099
	Receivables at credit institutions	32,371	62,122
	Total	**795,467**	**851,221**
	Remaining period		
	Demand	795,467	851,221
	Total	**795,467**	**851,221**

No assets related to genuine purchase and resale transactions included.

Note	DKK 1,000	2018	2017
12	LOANS AND OTHER DEBTORS AT AMORTISED COST PRICE		
	Remaining period		
	Claims at call	1,698,592	1,365,208
	Up to 3 months	115,651	100,463
	Over 3 months and up to 1 year	372,104	473,191
	Over 1 year and up to 5 years	883,861	885,014
	Over 5 years	1,289,353	1,100,633
	Total loans and other debtors at amortised cost price	**4,359,561**	**3,924,509**
	DEVELOPMENT IN WRITE-DOWNS AND PROVISIONS RELATING TO FINANCIAL ASSETS AT AMORTIZED COST AND OTHER CREDIT RISKS		
	ASSETS INCLUDED IN IFRS9		
	STAGE 1 IMPAIRMENT CHARGES		
	Stage 1 impairment charges at the end of the previous financial year	0	-
	Changed accounting policy for impairment charges	14,750	-
	Stage 1 impairment charges / value adjustment during the period	10,134	
	-hereby new facilities in the period 6,814 TDKK		
	Stage 1 impairment reversed during the period	-8,116	-
	Cummulative stage 1 impairment total	**16,768**	**-**
	STAGE 2 IMPAIRMENT CHARGES		
	Stage 2 impairment charges at the end of the previous financial year	0	-
	Changed accounting policy for impairment charges	44,112	-
	Stage 2 impairment charges / value adjustment during the period	24,510	-
	Stage 2 impairment reversed during the period	-19,972	-
	Cummulative stage 2 impairment total	**48,650**	**-**
	STAGE 3 IMPAIRMENT CHARGES*		
	Stage 3 impairment charges at the end of the previous financial year	313,345	316,040
	Changed accounting policy for impairment charges	-8.357	-
	Stage 3 and impairment charges / value adjustment during the period	69,360	62,025
	Reversal of stage 3 impairment charges during the period	-47,228	-33,933
	Recognised as a loss, covered by stage 3 impairment charges	-40,980	-30,787
	Cummulative stage 3 impairment total	**286,140**	**313,345**
	Total cumulative impairment charges IFRS9	**351,558**	**313,345**

*The comparative figures for 2017 are the individual write-downs at the end of 2017

Note	DKK 1,000	2018	2017
	GUARANTEES		
	Provisions beginning of the year	2,578	433
	Changed accounting policy for provisions for losses on guarantees	6,556	-
	Loss on guarantees	5,384	2,234
	Transferred to liabilities	-5,098	-89
	Guarantees end of year	**9,420**	**2,578**
	GROUP WRITE-DOWNS AND PROVISIONS		
	Write-downs beginning of the year	26,364	26,391
	Changed accounting policy for provisions for impairment charges	-26,364	-
	Write-downs during the year	0	4,100
	Write-downs reversed the year	0	-4,127
	Group write-downs end of year	**0**	**26,364**
	Total cumulative impairment charges IFRS9 and guarantees	**360,978**	**342,287**
	Loans etc. with suspended calculation of interest	120,839	120,504

The development in stages 1 and 2 is calculated at the facility level, while the development in stage 2 (weak) and stage 3 is calculated at the corporate group level. This is because individual impairment is calculated at the corporate group level.

Impairments that were impaired at initial recognition are thus calculated proportionally based on the facility's maximum credit risk at the end.

The development can be explained by the following development in the distribution in stages of the maximum credit risk and development in the weighted average of the rating.

In addition to this, new parameters for impairment have been calculated in stages 1 and 2, including macro factors that have increased somewhat for several industries under other industries.

Note	DKK 1,000	2018	2017

	Stage 1	Stage 2 (due to migration)	Stage 2 (due to overdraft)	Stage 2 (weak)	Stage 3	Total
Beginning (according to IFRS9)						
Impairment	14.750	24.667	353	19.092	304.988	363.850
- in % of total impairment	4%	7%	0%	5%	84%	100%
Maximum credit risk	5.249.497	1.005.719	74.338	134.824	699.188	7.163.566
- in % of maximum credit risk	72%	14%	1%	2%	11%	100%
Rating, weighted average	3,4	5,8	1,0	10,0	10,0	4,5
End						
Impairment	16.768	26.816	1	21.833	286.140	351.558
- in % of total impairment	5%	8%	0%	6%	81%	100%
Maximum credit risk	6.118.782	813.150	211	164.961	679.984	7.777.088
- in % of maximum credit risk	79%	10%	0%	2%	9%	100%
Rating, weighted average	3,30	5,60	1,40	10,00	10,00	4,30

Note		2018	2017
13	BONDS AT FAIR VALUE		
	Treasuries	5,678	0
	Mortgage credit bonds	903,640	879,471
	Other bonds	107,676	193,362
	Total bonds at fair value	**1,016,994**	**1,072,833**
	The bank has no held-to-maturity assets		
14	SHARES ETC		
	Quoted on Nasdaq OMX Copenhagen A/S	28,756	36,010
	Quoted on other stock exchanges	17,485	20,377
	Sectorshares recorded at fair value	174,257	189,299
	Total shares etc	**220,498**	**245,686**
15	LAND AND BUILDINGS		
	Investment properties		
	Fair value - end of previous financial year	2,961	2,961
	Acquisitions during the year incl. improvements	0	0
	Disposals during the year	0	0
	Adjustment of fair value for the year	0	0
	Fair value end-of-year	**2,961**	**2,961**
	Owner occupied properties		
	Reassessed value - end of previous financial year	46,428	47,202
	Acquisitions during the year incl. improvements	520	647
	Depreciations	-1,421	-1,421
	Reassessed value end-of-year	**45,527**	**46,428**

External experts have not been involved by measurement of investment- and owner-occupied properties.

Return method is used for measurement of investment and owner-occupied properties where used required rate of return between 5.25-7 %.

Note	DKK 1,000	2018	2017
16	**Other tangible assets**		
	Total cost price beginning-of-year	25,553	24,002
	Acquisitions during the year incl. Improvements	880	2,365
	Reduction during the year	-530	-814
	Total cost price beginning-of-year	**25,903**	**25,553**
	Total write-ups/downs and depreciations beginning-of-year	20,395	19,558
	Depreciations during the year	1,583	1,651
	Reversal of depreciations	-169	-814
	Total write-ups/downs and depreciations end-of-year	**21,809**	**20,395**
	Book value end-of-year	**4,094**	**5,158**
17	DEFERRED TAXATION		
	(Tax amount)		
	Tangible assets	-556	1,325
	Loans and other receivables	2,611	2,589
	Other	-133	-250
	Other deficits carried forward	0	2,152
	Total deferred taxation	**1,922**	**5,816**
18	DEBT TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Debt to credit institutions	160,750	158,466
	Total debt to credit institutions and central banks	**160,750**	**158,466**
	Term to maturity		
	Demand	160,750	158,466
	Total debt to credit institutions and central banks	**160,750**	**158,466**
	No liabilities related to genuine sale and repurchase transactions included		
19	DEPOSITS AND OTHER DEBTS		
	Demand	4,810,000	4,599,431
	At notice	18,604	17,393
	Time deposits	1,582	7,737
	Special types of deposits	627,227	616,352
	Total deposits and other debts	**5,457,413**	**5,240,913**
	Term to maturity		
	Demand	4,827,196	4,614,072
	Desposits redeemable at notice:		
	Up to 3 months	100,333	107,608
	Over 3 months and up to 1 year	11,609	19,298
	Over 1 year and up to 5 years	30,141	53,484
	Over 5 years	488,134	446,451
	Total deposits and other debts	**5,457,413**	**5,240,913**

No liabilities related to genuine sale and repurchase transactions included.

Note	DKK 1,000	2018	2017
20	SUBORDINATED DEBT		
	Supplementary capital DKK 100 mio	99,976	99,797
	Rate	6.595 %	6.595 %
	Due date	21.05.2024	21.05.2024

The loan may be paid early with the Danish Financial Supervisory Authority's approval starting on 19 May 2019 and then on each interest payment date.

The interest rate is determined as the 5-year swap rate plus a premium of 5.5 percentage points, valid for 5 years from date of issue. Then the interest rate will be Cibor 3 months with a premium of 5.5 percentage points.

Note	DKK 1,000	2018	2017
	Subordinated debt total	**99,976**	**99,797**
	Subordinated debt that may be included in the capital base	99,976	99,797
	Interest on subordinated liabilities recognised in income	6,560	6,613
21	SHARE CAPITAL	**192,800**	**192,800**
	Number of shares is 9,640,000 at DKK 20 each		

The bank has pr. 31. December 2018 16,071 registered shareholders. 98.55% of the share capital are registered on name

Note	DKK 1,000	2018	2017
22	HOLDERS OF HYBRID CAPITAL		
	Hybrid core capital	**59.680**	**59,330**
	Rate	10.4593 %	10.4593 %
	Due date	No due date	No due date

The loan can be repaid prematurely by the bank on the 15th September 2020
On September 15 2020, the interest rate is changed to a halfyearly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of six months plus 9.75% pa.

Note	DKK 1,000	2018	2017
23	OWN CAPITAL SHARES		
	Purchase and sales of own shares		
	Holdings beginning of the year		
	Number of own shares	10,000	9,447
	Nominal value of holding of own shares (DKK 1,000)	200	189
	Own shares proportion of share capital	0,11	0.10
	Addition		
	Number of own shares	323,683	492,850
	Nominal value of holding of own shares (DKK 1,000)	6.474	9,857
	Own shares proportion of share capital	3,36	5.11
	Purchase price (DKK 1,000)	21,442	32,717
	Disposal		
	Number of own shares	323,683	492,297
	Nominal value of holding of own shares (DKK 1,000)	6.474	9,846
	Own shares proportion of share capital	3,36	5.11
	Sale price (DKK 1,000)	21,435	32,730
	Holdings end of the year		
	Number of own shares	10,000	10,000
	Nominal value of holding of own shares (DKK 1,000)	200	200
	Own shares proportion of share capital	0,10	0.10

At the Annual General Meeting, the bank requests that shareholders be allowed to acquire up to a total nominal value of 3% of the bank's share capital, cf. the provisions in the Danish Budget Act (finansloven), Section 13, paragraph 3. The bank has asked the Danish Financial Supervisory Authority for a framework for holding of treasury shares of 0.25% of the bank's total share capital. The bank wants this authorisation in order to always be able to meet customers' and investors' demand for purchasing and selling Skjern Bank shares and the net acquisitions in 2018 are a consequence of this.

Note		2018	2017
24	CONTINGENT LIABILITIES		
	Guarantees		
	Finance guarantees	327,288	31,905
	Guarantees against losses on mortgage credit loans	555,950	480,478
	Registration and conversion guarantees	126,853	183,440
	Other contingent liabilities	533,233	429,718
	Total	**1,543,324**	**1,125,541**
	Other binding engagements		
	Irrevocable credit-undertakings	185,344	285,731
	Total	**185,344**	**285,731**

Note	DKK 1,000	2018	2017

Assets pledged as collateral

The bank has pledged bonds for a total of DKK 10 million.

Contract Legal obligations

As a member of Bankdata, the bank is due to a possible resgination required to pay a withdrawal benefit with the addition of the bank's part of capitalized development costs.

Like other Danish financial institutions, Skjern Bank is liable for loss sustained by the Deposit Guarantee Fund. The most recent calculation of Skjern Bank's share of the industry's assurances to the Deposit Guarantee Fund is 0.66611 %.

In 2018, Skjern Bank paid 50 TDKK to Afviklingsformuen (Settlement Assets).

The Bank is a tenant in two leases, which can be terminated with 6 months' notice, the yearly lease is 897 TDKK. The Bank is a tenant in one leases, which can be terminated with 12 months' notice, the yearly lease is 154 TDKK. The third lease is irrevocable until 31 December 2021, and the yearly lease is 2,0 mio. DKK.

25 LAWSUITS ETC.

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

26 RELATED PARTIES

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

Transactions with related parties

There have during the year not been transactions with related parties, apart from wages and salaries, etc. and loans and similar.

Wages and considerations to the bank's management board, board of directors, audit commitee and committee of representatves can be found in note no. 6.

There are no related with control of the bank.

Amount of loans, mortgages, guarantees, with accompanying security for members of the management and related parties mentioned below:

Management:	2018	2017
Loans	85	85
Bid Bond	0	0
Rate of interest	6.75 %	6,75 %

Note	DKK 1,000	2018	2017
	Board of directors:		
	Loans	5,933	6,196
	Bid Bond	3,638	5,741
	Rate of interest	0.6459-8.0 %	0.7875-0.8 %
	Holding of shares in Skjern Bank:		
	The board of managers - Per Munck	28,545	28,545
	The board of directors		
	Hans Ladekjær Jeppesen	11,115	11,115
	Jens Okholm	13,022	13,022
	Bjørn Jepsen	5,286	5,286
	Finn Erik Kristiansen	2,748	2,748
	Søren Dalum Tinggaard	1,234	1,234
	Troels Bülow-Olsen	98	0
	Lars Skov Hansen	710	710
	Lars Lerke	6,746	7,246
	Carsten Jensen	1,976	1,976
27	CAPITAL REQUIREMENT		
	Equity	926,740	814,332
	Proposed dividend	-28,920	0
	Revaluation reserves	-417	-417
	Holders of hybrid capital	-59,680	-59,330
	Deferred tax assets	-1,922	-5,816
	Deduction for the sum of equity investments etc. above 10 %	-69,502	-68,120
	CVA deduction	-1,076	-1,131
	Deduction of trading framework for own sharers	-1,470	-1,771
	Core tier 1 capital	**763.753**	**677,747**
	Holders of hybrid capital	59,680	59,068
	Deduction for the sum of equity investments etc. above 10 %	0	-8,515
	Tier 1 capital	**823,433**	**728,300**
	Subordinated loan capital	99,976	99,797
	Deduction for the sum of equity investments etc. above 10 %	0	-8,515
	Capital base	**923,409**	**819,582**
	Weighted items		
	Credit risk	4,306,575	3,661,338
	Market risk	386,226	396,686
	Operational risk	617,429	547,071
	Weigthed items total	**5,310,230**	**4,605,145**
	Core tier 1 capital ratio (excl. hybrid core capital)	**14.4**	**14.7**
	Tier 1 capital ratio	**15.5**	**15.8**
	Solvency ratio - Tier 2	**17.4**	**17.8**

Note

28 CURRENT VALUE OF FINANCIAL INSTRUMENTS

Financial instruments are measured in the statement of financial position at either fair value or at cost.
Fair value is the price which would be received from the sale of an asset or which will be paid to transfer a liability in a normal transaction between market participants on the measurement date. For financial assets and liabilities valued on active markets, the fair value is calculated based on observable market prices on the market date. For financial instruments valued on active markets, the fair value is calculated based on generally accepted valuation methods.

Shares, etc. and derivative financial instruments are measured in the accounts at fair value so that recognised values correspond to fair value. Loans are recorded in the bank's statement of financial position at amortised cost. The difference to fair value is calculated as fees and commissions received, expenses incurred through lending transactions, interest receivable which is first due for payment after the end of the financial year and for fixed-rate loans, also the variable interest rate, which is calculated by comparing the current market rate with the loans' nominal interest rate.

The fair value of receivables from credit institutions and central banks is determined by the same method as for loans, since the bank does not currently recognise impairments on receivables from credit institutions and central banks.

Bonds issued and subordinated liabilities are measured at amortised cost. The difference between the carrying amount and fair value is calculated based on rates in the market of its own listed emissions.

For floating rate financial liabilities in the form of lending and payables to credit institutions measured at amortised cost, the difference fair value is estimated to be interest payable which is first due for payment after the end of the financial year.

For fixed-rate financial liabilities in the form of lending and payables to credit institutions measured at amortised cost, the difference to fair value is estimated to be interest payable which is first due for payment after the end of the financial year and the variable interest rate.

DKK 1,000	2018		2017	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash in hand+claims at call on central banks	184,106	184,106	148,746	148,746
Claims on credit institutes and central banks 1)	795,467	795,467	851,222	851,222
Loans and other debtors at amort. costprice 1)	4,362,392	4,368,636	3,930,616	3,936,623
Bonds at current value 1)	1,020,315	1,020,315	1,075,979	1,075,979
Shares etc.	220,498	220,498	245,686	245,686
Derivative financial instruments	4,513	4,513	7,134	7,134
Total financial assets	**6,587,291**	**6,593,535**	**6,259,383**	**6,265,390**
Financial liabilities				
Debt to credit institutions and central banks 1)	160,750	160,750	158,466	158,466
Deposits and other debts 1)	5,457,439	5,458,488	5,250,044	5,262,037
Derivative financial instruments	1,103	1,103	1,561	1,561
Subordinated debt 1) 2)	104,341	104,341	103,935	103,935
Total financial liabilities	**5,723,633**	**5,724,682**	**5,514,006**	**5,525,999**

1) The entry includes calculated interest on the balance sheet date, which is included in "Other assets" and "Other liabilities".
2) Applied the latest quoted trading price at the balance sheet date

Note	DKK 1,000	2018	2017

29 RISKS AND RISK MANAGEMENT

Skjern Bank is exposed to various types of risks which are controlled at various levels within the organisation. Skjern Bank's financial risks consist of:

Credit risk:
Risk of losses due to debtors' or counterparties' default on payment obligations.

Market risk:
Risk of losses resulting from the fair value of financial instruments and derivative financial instruments fluctuating due to changes in market prices. Skjern Bank classifies three types of risk for the market risk area:
Interest rate risk, equity risk and currency risk.

Liquidity risk:
Risk of losses due to financing costs rising disproportionately, the risk that Skjern Bank is prevented from maintaining the adopted business model due to a lack of financing/funding or ultimately, the risk that Skjern Bank cannot honour incoming payment obligations when due as a result of a lack of financing/funding.

Evaluation of securities:
The bank is exposed to the sectors agriculture and real-estate. The Bank has in the assessment of collateral in agricultural exposures used acres of arable land prices in the range of 90 TDKK - 140 TDKK. In the real-estate sector is used return requirement in the range 4.5% - 10%. Valuations in both agricultural exposures as real-estate exposures are made in accordance with the FSA's current guidance. The Bank notes that estimating the value of collateral is generally associated with uncertainty.

The following notes to the annual report contain some additional information and a more detailed description of the bank's credit- and market risks.

Note	Figures in pct.	2018	2017
30	CREDIT RISKS		
	Loans and guarantees distributed on sectors		
	Public authorities	0,0	0.0
	Business:		
	Agriculture, hunting, forestry & fishing	11.2	13.9
	- Plant production	1.2	1.5
	- Cattle farming	6.0	7.9
	- Pig farming	1.4	1.6
	- Mink production	1.6	1.7
	- Other agriculture	1.0	1.2
	Industry and mining	2.8	3.0
	Energy	7.0	7.1
	Building and constructions	6.7	6.6
	Wholesale	6.4	6.9
	Transport, hotels and restaurants	1.5	1.7
	Information and communication	0.3	0.4
	Financial and insurance business	5.7	5.8
	Real-esate	12.8	12.6
	Other business	5.1	5.6
	Total business	59.5	63.6
	Private persons	40.5	36.4
	Total	**100.0**	**100.0**

The industry breakdown is based on Danmarks Statistik's industry codes etc. Furthermore, an individual assessment is made of the individual exposures, which has resulted in some adjustment. From the above sectoral distribution represents alternative energy 4.4 % in 2018 and 5.8 % in 2017.

Added credit exposures classified by loan, guarantees and credit-undertakings

	2018 (DKK 1,000) Exposure	2018 (DKK 1,000) Guarantees	2018 (DKK 1,000) Credit-under-takings
Public authorities	0	0	0
Business - agriculture	787,029	87,041	10,000
Business - other	3,231,285	568,597	138,814
Private persons	2,165,149	887,686	36,530
	6,183,463	**1,543,324**	**185,344**
Which recognized in the balance after deduction of depreciation	4,359,561		

Note

	2017 (DKK 1,000) Exposure	2017 (DKK 1,000) Guarantees	2017 (DKK 1,000) Credit-under-takings
Public authorities	0	0	0
Business - agriculture	836,371	101,875	23,364
Business - other	2,972,243	482,813	225,517
Private persons	1,861,961	538,668	36,850
	5,670,575	**1,123,356**	**285,731**
Which recognized in the balance after deduction of depreciation	3,924,509		

Description of collateral

Security distributed by type (DKK 1,000)	2018 Business, agriculture	2018 Business, other	2018 Private
Securities	12,464	192,332	77,651
Real property	426,754	993,007	822,582
Chattels, vehicles and rolling stock	60,117	439,240	324,852
Guarantees	13,553	78,461	3,727
Other forms of security	79,792	596,218	355,305
	592,680	**2,299,258**	**1,584,117**

Security distributed by type (DKK 1,000)	2017 Business, agriculture	2017 Business, other	2017 Private
Securities	22,908	168,100	74,919
Real property	432,686	889,763	627,695
Chattels, vehicles and rolling stock	62,744	406,666	263,578
Guarantees	19,685	16,909	7,398
Other forms of security	81,758	558,556	293,285
	619,781	**2,039,994**	**1,266,875**

As a general rule, the bank is secured through financed assets. It is also secured in the form of sureties and mortgages on equity and shares. The above listings reflect the collateral value which can be attributed to individual commitments.

The bank wants to reduce the estimated credit in blank of the entire customer portfolio. In 2018 this led to an increase of estimated credit in blank of DKK 363 million compared to 2017.

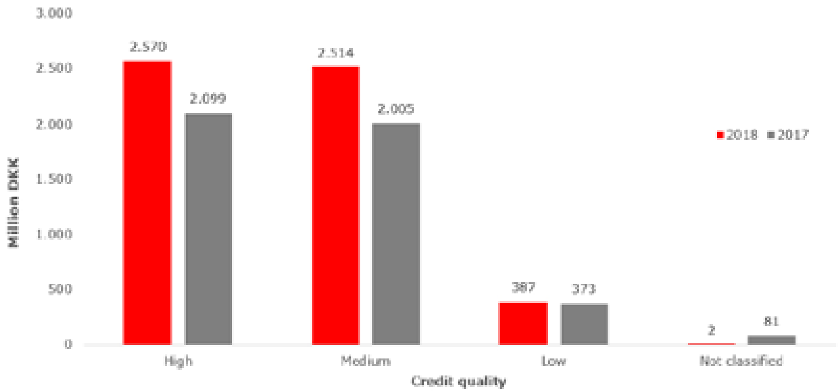
Note Beløb i 1.000 kr.

Financial assets, loan commitments and financial guarantees. Instruments without significant increase in credit risk (stage 1)											
Rating classification	1	2	3	4	5	6	7	8	9	10	I alt
Industry group											
Agriculture	117.802	83.443	74.350	12.188	143.934	41.055	18.176	436	83.202	0	574.586
Property	121.392	241.789	128.830	27.430	167.675	16.960	54.794	9.974	79.071	0	847.915
Other	469.889	792.143	143.453	133.297	272.056	82.539	46.807	19.677	44.390	0	2.004.251
Private	426.848	526.472	298.460	453.212	373.910	173.599	61.846	69.423	56.096	0	2.439.866
Deposits at Danmarks Nationalbank	99.871	0	0	0	0	0	0	0	0	0	99.871
Accounts with other banks	4.053	77.000	71.240	0	0	0	0	0	0	0	152.293
Instruments without significant increase in credit risk (stage 2)	1.239.855	1.720.847	716.333	626.127	957.575	314.153	181.623	99.510	262.759	0	6.118.782
Instruments for which impairment has been recognised corresponding to expected credit losses in their lifetime (stages 2 and)											
Rating classification	1	2	3	4	5	6	7	8	9	10	I alt
Industry group											
Agriculture	0	0	0	8.818	32.508	14.156	4.866	164	24.219	0	84.731
Property	0	0	1	17.821	24.302	3.662	6.272	500	9.771	0	62.329
Other	1	4	0	161.159	54.702	41.394	8.918	3.805	76.660	0	346.643
Private	159	4	61	109.377	115.278	23.085	5.665	4.384	51.295	0	309.308
Accounts with other banks	0	0	0	7.250	3.100	0	0	0	0	0	10.350
Instruments with significant increase in credit risk (stage 2)	160	8	62	304.425	229.890	82.297	25.721	8.853	161.945	0	813.361
Industry group											
Agriculture	0	0	0	0	0	0	0	0	0	259.547	259.547
Property	0	0	0	0	0	0	0	0	0	205.450	205.450
Other	0	0	0	0	0	0	0	0	0	226.677	226.677
Private	0	0	0	0	0	0	0	0	0	153.271	153.271
Credit-impaired instruments (stages 3 and 2 weak)	0	0	0	0	0	0	0	0	0	844.945	844.945
Instruments for which impairment has been recognised corresponding to expected credit losses in their lifetime)	160	8	62	304.425	229.890	82.297	25.721	8.853	161.945	844.945	1.658.306
Total financial assets, loan commitments and financial guarantees.	**1.240.015**	**1.720.855**	**716.395**	**930.552**	**1.187.465**	**396.450**	**207.344**	**108.363**	**424.704**	**844.945**	**7.777.088**
Work guarantees etc. not covered by IFRS9											
Rating classification	1	2	3	4	5	6	7	8	9	10	I alt
Total	**83.342**	**136.357**	**40.768**	**121.807**	**166.989**	**17.868**	**4.916**	**8.776**	**14.665**	**21.750**	**617.238**
Total	**1.323.357**	**1.857.212**	**757.163**	**1.052.359**	**1.354.454**	**414.318**	**212.260**	**117.139**	**439.369**	**866.695**	**8.394.326**

Of which included in the balance	
Receivables from credit institutions and central banks	132,242
Loans and other receivables at amortised cost	4.359.561
Total	**4,491,803**

Note

Credit-quality on loans which are neither in arrears not written down *



*) Calculated based on the guidelines for accounting reports for credit institutions and investment companies, etc. regarding thresholds for reporting credit quality classes. Where high credit quality is the classes 3 and 2a, medium credit quality is class 2b and low credit quality is class 2c.

Reasons for individual write-downs and provisions

	2018 Exposure before write-down	**2018** Write-downs	**2018** Securities
Significant financial difficulties	495,881	222,920	262,753
Breach of contract	12,241	5,893	3,980
Reductions in terms	25,592	8,040	13,532
Probability of bankruptcy	162,524	80,192	99,187
Total	**696,238**	**317,045**	**379,452**

	2017 Exposure before write-down	**2017** Write-downs	**2017** Securities
Significant financial difficulties	524,023	251,190	243,136
Breach of contract	9,823	6,983	1,975
Reductions in terms	23,922	9,606	12,074
Probability of bankruptcy	104,280	48,144	59,577
Total	**662,048**	**315,923**	**316,762**

Note	Beløb i 1.000 kr.	2018	2017

I ovennævnte opgørelse medregnes værdi af kautioner og transporter ikke. Sikkerheder er opgjort på kundeniveau.

Belåningsværdien afspejler dagsværdien opgjort jvf. bankens forretningsgang med en sikkerhedsmargin på 10 - 60 %.

Arrears amount for loans, which have not been written down	2018	2017
0-90 days	13,042	7,228
>90 days	25	20
Total	**13,067**	**7,248**

Loans and arrears amount for loans, which have not been written down	2018	2017
0-90 days	164,958	56,136
>90 days	2,656	0
Total	**167,614**	**56,136**

Practice for managing credit risk

The bank's credit risk is managed by debtors and other counterparties being rated based on various models that are mainly based on the debtor's/counterparty's financial capacity.
In addition to the models, a number of checks are made to ensure a correct rating. The ratings, both in the models and the checks, are largely based on the Danish Financial Supervisory Authority's guidelines on risk classification.
However, the bank uses a 10-step rating scale that can be compared with the Danish Financial Supervisory Authority's scale in the following way:

The bank's rating class	1	2	3	4	5	6	7	8	9	10
The Danish Financial Supervisory Authority's risk class	3	2A	2A	2B	2B	2B	2B	2B	2C	1

Rating 1 is assets with very good credit quality, while rating 10 is impaired assets.
The credit risk is assessed to have increased significantly if the rating has deteriorated since initial recognition corresponding to one step on the Danish Financial Supervisory Authority's risk scale.
However, this does not apply to assets with low credit risk, which are defined as the Danish Financial Supervisory Authority's risk classes 3 and 2A.
Whether or not it is an asset with a low credit risk, the credit risk is considered to have increased significantly if the asset is overdrawn for more than 30 days, though arrears on loans are essentially considered an impairment.
Examples of assets with and without significantly impaired credit risk:

	Example 1	Example 2	Example 3
Starting risk class	3	2A	2A
Current risk class	2A	2A	2B
Overdrawn for 30 days	No	Yes	No
Significantly impaired credit risk	No	Yes	Yes

Note

Assets with and without significantly impaired credit risk, but which are not impaired, are grouped by industry in the following groups based on DS industries:

Industry
Government Agencies
Agriculture etc.
Industry and raw materials
Energy
Building and construction
Transport
Information and communication
Financing
Property etc.
PI and mortgage
Other industries
Private
Private

At least once a year, all assets with a rating of 9 (the Danish Financial Supervisory Authority's risk class 2C) are reviewed to assess whether the asset is impaired. In addition to this, a sample is taken from the other rating classes once a year for the same purpose.

All loan options that are handled in the Credit Department by the bank's Executive Board or Board of Directors are also assessed for any impairment. A financial asset is considered impaired if one or more events have occurred that have a negative impact on the expected cash flows from the asset.

Common to the assets is that the following factors are included in the assessment:

- Arrears, overdrafts and/or the bank has discontinued repayment for the asset
- Other creditors have granted a deferment or other easier terms
- The customer is only in this financial context due to a variable-interest loan or repayment freedom, or because the loan has otherwise been offered on easier terms
- The customer is in RKI (Ribers Credit Information), has significant tax debt or distraint has been levied
- The customer is associated with other customers who have impaired credit

When assessing business customers, the following factors are included:

- Negative or fragile equity ratio
- Negative or decreasing consolidation
- Tight liquidity
- Uncertain/negative future
- The customer applies for reconstruction or an agreement to avert bankruptcy
- The customer is bankrupt

When assessing private customers, the following factors are included:

- Negative assets and/or small available amount
- Uncertain future e.g. due to unemployment, divorce or illness
- The customer takes out loans to cover expenditures
- The customer applies for debt relief or an agreement to avert bankruptcy

Note

Information base, assumptions and assessment methods in assessing expected credit loss
Assets with or without significant increase in credit risk

The bank’s credit losses are measured based on the following formula:
ECL = PD x LGD x EAD

Where:
- PD is the probability that the asset will impaired
- LGD is the expected loss, provided the asset is impaired
- EAD is the expected exposure in terms of loss

The probability that the asset will be impaired (PD) is composed of several factors:

- PD at 12 months of credit loss = PD - 12 months x macro factors
- PD in the asset’s lifetime = PD - 12 months x macro factors x extension factors

Calculation of 12 months of credit loss or credit loss in the asset’s lifetime is determined as described in ”Practice for managing credit risk”. Three factors are used for this: Starting risk class, current risk class and overdraft for 30 days. Information base, assumptions and assessment methods for each factor are described in the overview below.

Factor	**Information base**	**Assumptions**	**Assessment methods**
PD - 12 months	The bank's statistics on cus-tomers for 2017 and the first three quarters of 2018 distributed by rating class and private and business by DS industry codes	The proportion of custom-ers with impaired credit during the period and the selected groups are representative of the upcoming 12 months. However, see "Macro factors".	PD is the proportionate number of customers in the mentioned groups who have impaired credit during the period.
Extension factors	Calculated extension factors from BankData	The factors are representative of the bank's customers. The bank has provided data for the calculations.	Calculated based on historical PD figures from 6 small finan-cial institutions in the years 2010-2016.
The asset's lifetime	Settlement agreements for assets, as well as calculated average maturities from BankData	Loans are settled as agreed (otherwise the loan is im-paired). Credits with renegoti-ation typically run longer than the initial negotiation.	A loan with a calculated residual maturity of 8 years will have loss estimated for 8 years, with the balance ex-pected for each year. A credit with renegotiation of 10 months will be calculated with the size of the credit on the reporting date in 5 years.

Note

Factor	Information base	Assumptions	Assessment methods
Macro factors	Factors calculated with Lo-kale Pengeinstitutter's (The Association of Local Banks, Savings Banks and Coop-era-tive Banks in Denmark) mac-ro-tools based on forecasts.	The factors are representa-tive of the bank's custom-ers in the near future. The factors were phased out of the model over 10 years, as the exten-sion factors are considered to contain suffi-cient cyclical balancing.	The two variables that must be entered in the tool were selected based on the bank's historical loss data in the years 2006-2016. Factor 1 will limit the increase in the macro from year to year. Factor 1 was chosen based on the greatest increase experienced during the period, so there is not actually a limitation. Factor 2 is a conversion factor between the bank's impair-ment and realised loss. Factor 2 is set to 100, as there are indications, but not docu-mentation, that the bank's impairment have historically been greater than the realised loss. Both are thus deter-mined based on a principle of caution.
LGD	The bank's statistics for real-ised loss on assets that were impaired during the period 1/1/2011 to 30/09/2018. The loss rates are divided into private and business according to DS industry codes.	The loss rate is representa-tive of the future loss in the men-tioned groups.	The loss rate is the realised loss in relation to EAD. To the degree possible, EAD is cal-cu-lated based on the expo-sure one year before the asset was found to be im-paired, and the value of the collateral is not deducted so that it is consist-ent with the application of the loss calculation.
EAD	EAD is calculated based on exposures divided by type. Each type is multiplied by a Credit Conversion Factor, which is determined based on the principles of article 11 of CRR. The value of collat-eral is not deducted when calculating expected loss.	EAD in relation to the ex-po-sure's size divided by type of asset is expected to remain unchanged in the future	For example, EAD for a credit will be calculated as: Used part x 100% + unused part x 20%. All exposures except for non-financial guarantees are included in the calculation of EAD.

Note

Factor	Information base	Assumptions	Assessment methods
Starting risk class	The as the asset's initial rec-ognition date is the exposure's establishment date or the date the exposure is subsequently extended by 50% or more. Since June 2017, assets have been labelled with a starting rating. To the degree possible, previous labels are entered based on the bank's methods for rating on the date of initial recognition.	The return on the asset reflects the risk on the date of establishment (and when there are major increases).	Ratings over time are care-ful-ly converted to the current 10-step scale. If there is no initial rating, the loss is rec-ognised in the asset's lifetime, except for assets with low risk (Rating class 1-3)
Current risk class	The customer's rating class on the reporting date	The rating reflects the credit risk	See "Practice for managing credit risk"
Overdrawn for 30 days	The facility's balance and credit facility	If the facility is overdrawn for 30 days or more, the credit risk has increased significantly	There is no minimum thresh-old for overdrafts or off-set-ting of any deposits on the customer's other facilities

When using the mentioned macro factors, predictive information is taken into account.
No changes to important assumptions and assessment methods have occurred during the accounting period.
Assets that are impaired
See "Practice for managing credit risk" regarding assessment of whether the asset is impaired.
When calculating the credit loss, the available existing information on the reporting date is used, as well as expec-tations for future development.

The credit loss on impaired exposures is calculated based on the following criteria:

Exposure in thou-sands of DKK	Industry	Calculation
0-150	Everyone	The entire exposure is written off as a credit loss
150 -	Private	The credit loss is calculated weighted based on a minimum of 3 scenarios determined by the cause of the credit impairment
150-	Industries except agriculture	The credit loss is calculated weighted based on a minimum of 3 scenarios determined by the cause of the credit impairment
150-	Agriculture	The credit loss is calculated weighted based on a minimum of 3 scenarios

IThe calculations include the following parameters:
Cause of credit impairment, scenario weight, EAD, value of collateral, expected settlement ability/dividends.

Information base, assumptions and assessment methods for each parameter are described in the overview below.

Note

Factor	Information base	Assumptions	Assessment methods
Cause of credit impairment	The cause of the customer's credit impairment registered by the bank	The probability of each scenario is the same for each cause: Probability of bankruptcy, breach of contract, easier terms and significant financial difficulties	When stating the reason the guidelines in Appendix 10 of the Executive Order are followed
Scenario weight	Exposures that have impaired credit during the period 1/1/2011 – 30/09/2018 where the case has been closed	The historical distribution of scenarios is representative of the credit loss on custom-ers with similar causes and industries. The number of zero-losses fluctuates with the economic trend.	The distribution of exposures by percentage is calculated based on a placement in one of the three scenarios: Zero-loss, Sale and Collapse. The percentage of zero-losses is then reduced in relation to a cyclical factor calculated based on the bank's impair-ment and provisions during the period 2007-2017.
EAD	Exposure on the reporting date	See under EAD in the table above	See under EAD in the table above
Value of collateral	Current assessments less costs and expected reductions. There are generally greater reductions for a collapse sce-nario than a sales scenario.	The actual assessment is the closest we can get to a real selling price until the sale is final. Less reductions are expected if the customer cooper-ates with a sale than if it is a forced sale	For agriculture, reductions are used based on histori-cal documentation. There are little experience with other exposures. Reduc-tions are thus estimated based on a precautionary principle.
Expected settlement abil-ity/ dividends	Availability calculations for private customers, operating profit and budgets/periodic re-sults for business custom-ers, dividend statements from bankruptcies	The basis indicates something about the ability to settle the expo-sure	Great caution is taken with recognition. If the customer is no longer cooperating with the bank, the settlement abili-ty is generally not recognised

When using the cyclical factors under "Scenario weight", predictive information is taken into account.

The assessed reduction/costs for the sale of agricultural properties has changed significantly during the accounting period.

Note	DKK 1,000	2018	2017

31 **MARKET RISKS AND SENSITIVITY INFORMATION**

In connection with Skjern Bank's monitoring of market risk, a number of sensitivity calculations, which include market risk variables, have been carried out.

Interest rate risk

In the event of a general increase in interest rates by 1 percentage point in the form of a parallel shift of the yield curve, equity is affected as shown below

Note	DKK 1,000	2018	2017
	Interest rate risk on debt instruments etc - total	13,869	13,904
	Interest rate risk in pct of core capital after deductions	1.7	1.9
	Interest rate risk split in currencies with highest risk:		
	DKK	13,019	13,031
	EUR	935	976
	CHF	-75	-87
	SEK	-6	-11
	JPY	-2	-2
	USD	-1	-3
	Others	-1	0
	Total	**13,869**	**13,904**
	Foreign currency risk		
	Total assets in foreign currency	312,653	335,875
	Total liabilities in foreign currency	22,177	81,915
	In the event of a general change in exchange rates of 10%, and in the euro of 2.25%, Currency Indicator 1 will also be increased	1,590	884
	Currency indicator 1 in pct of core capital after deductions	0.2	0.1
	In the event of a general change in exchange rates of 10%, and in the euro of 2.25%, Currency Indicator 2 will also be increased	16	6
	Currency indicator 2 in pct of core capital after deductions	0.0	0.0

Currency Indicator 1 represents the sum of the respective positions in the currencies in which the bank has a net asset position, and currencies where the bank has net debt.

Currency Indicator 2 expresses the bank's currency risk more accurately than indicator 1, as it takes into account the different currencies' volatility and covariation.

A value of indicator 2 of TDKK 25 means that as long as the bank does not change its currency positions in the following 10 days, there is a 1% chance that the institution will get a capital loss greater than TDKK 25, which will affect the bank's profit and equity.

Equity Risk

If stock prices change by 10 percentage points, equity is affected as shown below:

	2018	2017
Quoted on Nasdaq OMX Copenhagen A/S	2,876	3,601
Quoted on other stock exchanges	1,749	2,038
Unquoted shares recorded at fair value	17,426	18,930
Total shares etc.	**22,050**	**24,569**

32 DERIVATE FINANCIAL INSTRUMENTS

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

Note	DKK 1,000	2018 Nominal value	2018 Net market-value	2018 Market-value-positive	2018 Market-value-negative	2017 Nominal value	2017 Net market-value	2017 Market-value-positive	2017 Market-value-negative
	Currency-contracts								
	Up to 3 months	233,535	3,292	3,503	211	283,908	1,724	2,221	497
	Over 3 months and up to 1 year	2,562	30	42	12	30,426	3,603	3,817	214
	Over 1 year and up to 5 years								
	Over 5 years								
	Average market value			5,311	484			5,788	1,012
	Interest-rate contracts								
	Up to 3 months								
	Over 3 months and up to 1 year								
	Over 1 year and up to 5 years								
	Over 5 years	4,204		567	567	4,529		640	640
	Average market value			1,000	943			2,017	1,427

DKK 1,000	2018	2017
Credit risk on derivative financial instruments		
Positive market value, counterparty with risk weighting of 0 %	0	0
Positive market value, counterparty with risk weighting of 20%	650	441
Positive market value, counterparty with risk weighting of 100%	3,863	6,693
Total	**4,513**	**7,134**

Unsettled spot transactions	Nominal value	Market-value-positive	Market-value-negative	Market-value-net
Foreign-exchange transactions, purchase	7,614	3	3	-
Foreign-exchange transactions, sale	1,857	2	7	-5
Interest-rate transactions, purchase	23,984	43	-	43
Interest-rate transactions, sale	3,948	-	25	-25
Share transactions, purchase	3,353	132	38	94
Share transactions, sale	3,353	40	130	-90
Total 2018	**44,109**	**220**	**203**	**17**
Total 2017	**68,067**	**413**	**93**	**320**

Note	DKK 1,000	2018	2017	2016	2015	2014

33 **COPERATIVE AGREEMENTS**

Skjern Bank cooperates with receives commission relating to paymnet transfers from, and is co-owner of some of the following companies: Totalkredit A/S, Nykredit A/S, DLR Kredit A/S, BRF Kredit A/S, Privatsikring A/S, Eurocard, PFA Pension, Sparinvest A/S, Valueinvest Asset Management S.A., BI Asset Management Fondsbørsmæglerselskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, HP Fondsbørsmæglerselskab A/S, Investeringsforeningen Maj Invest, Investeringsforeningen Danske Invest, Stonehenge Fondsmæglerselskab A/S, Codan, Dankort A/S, Nets A/S, Visma Enterprise, Krone Kapital, Købstædernes Forsikring and Visa International.

34 **5 YEARS IN SUMMARY**

DKK 1,000	2018	2017	2016	2015	2014
Profit and loss account					
Net income from interest	185,242	171,972	163,745	162,228	159,926
Dividend on shares	3,476	10,020	12,492	11,692	6,491
Charges and commission, net	119,515	114,620	98,280	81,316	81,608
Income from core business	**308,233**	**296,612**	**274,518**	**255,236**	**248,025**
Value adjustments	69,389	31,045	17,216	11,536	10,770
Other ordinary income	1,503	1,031	1,592	1,610	1,195
Staff cost and admin. expenses	191,626	161,052	148,990	139,680	138,473
Depreciation of intangible and tangible assets	3,004	3,071	3,746	3,924	14,118
Other operating expenses	127	52	255	9,066	9,254
- Contribution to the Guarantee Fund for deposits	52	52	52	8,926	9,018
- Other operating expenses	75	0	203	140	237
Write-downs on loans etc. (net)	19,729	19,886	36,172	63,098	154,386
Profit on equity investments in nonaffiliated and affiliated companies	0	0	490	-760	-507
Operating result	**164,639**	**144,627**	**104,653**	**51,044**	**-56,748**
Taxes	22,126	20,804	22,543	10,929	-712
Profit for the year	**142,513**	**123,823**	**82,110**	**40,115**	**-56,036**
Of which are holders of shares of hybrid core capital instruments etc.	6,626	5,168	6,626	1,831	0
Balance as per 31st December					
Summary					
Total assets	6,703,573	6,367,636	5,860,191	5,424,729	5,384,120
Loans and other receivables	4,359,561	3,924,509	3,687,509	3,511,175	3,643,989
Guarantees etc	1,543,324	1,125,541	841,088	792,047	553,211
Bonds	1,016,994	1,072,833	926,950	707,428	830,645
Shares etc	220,498	245,686	219,447	179,233	245,966
Deposits and other debts	5,457,413	5,240,913	4,871,359	4,483,104	4,485,996
Subordinated debt	99,976	99,797	99,618	169,439	169,260
Total equity	**926,740**	**814,332**	**695,313**	**619,425**	**522,531**
- of which proposed dividend	28,920	0	0	0	0
Capital Base	**923,409**	**819,582**	**703,871**	**663,076**	**486,912**

Note		2018	2017	2016	2015	2014
35	**FINANCIAL RATIO (FIGURES IN PCT.)**					
	Solvency ratio	17.4	17.8	16.5	16.3	12.0
	Core capital ratio	15.5	15.8	14.6	14.4	11.1
	Return on equity before tax*	19.5	19.8	16.4	8.9	-10.3
	Return on equity after tax*	16.8	17.1	12.6	7.0	-10.2
	Return on assets	2.1	1.9	1.4	0.7	-1.0
	Earning/expense ratio in DKK	1.77	1.75	1.52	1.23	0.82
	Interest rate risk	1.7	1.9	0.8	-0.8	-2.1
	Foreign currency position	0.2	0.1	0.2	0.4	2.5
	Foreign currency risk	0.0	0.0	0.0	0.0	0.0
	Loans etc. against deposits	86.3	81.4	82.7	86.4	89.3
	Statutory liquidity surplus	165.1	191.6	185.4	174.8	131.0
	LCR**	247	274	334	355	-
	Total large commitments	144.1	55.1	10.3	23.4	38.4
	Loans and debtors at reduced interest	1.9	2.2	2.5	3.1	4.1
	Accumulated impairment ratio	5.8	6.3	7,0	7.8	7.9
	Impairment ratio for the year	0.3	0.4	0.7	1.4	3.4
	Increase in loans etc. for the year	11.1	6.4	5.0	-3.8	-0.1
	Ratio between loans etc. and capital funds	4.7	4.8	5.8	6.3	7.0
	(value per share 100 DKK)					
	Earnings per share*	70.5	61.5	39.2	19.9	-29.1
	Book value per share*	450	390	330	291	271
	Rate on Copenhagen Stock Exchange	305	368	268	168	190
	Dividend per share	15	0	0	0	0
	Market value/net income per share	4.3	6.0	6.8	8.4	-6.5
	Market value/book value*	0.68	0.94	0.81	0.58	0.70
	(value per share 20 DKK)					
	Earnings per share*	14.1	12.3	7.8	4.0	-5.8
	Book value per share*	90	78	66	58	54
	Rate on Copenhagen Stock Exchange	61.0	73.5	53.6	33.6	38.0

*) Key ratios are calculated as if the hybrid core capital is accounted for as an obligation with which the key figures are calculated based on the shareholders' share of earnings and equity. Shareholders' share of earnings and equity is stated in the equity statement.

**) New calculation formula from the beginning of 2018 cf. the Danish Financial Supervisory Authority's guidance.

FINANCIAL CALENDER 2019

21st January	Deadline for submission of items for the agenda for the Annual General Meeting
7th February	Announcement of Annual Report 2019
4th March	General Meeting – Ringkøbing-Skjern Kulturcenter
9th May	Announcement of quarterly report 1st quarter 2019
15th August	Announcement of half-yearly report 2019
31st Ocotober	Announcement of quarterly report 3rd quarter 2019

AUDIT COMMITTEE

Name	Jobposition	City
Jens Okholm (chairman)	Advisor	Ribe
Troels Bülow-Olsen	Manager	København
Finn Erik Kristiansen	Manager	Varde
Lars Skov Hansen	Advisor	Esbjerg

COMMITTEE OF REPRESENTATIVES

Name	Jobposition	City	Elected	Age
Hans L. Jeppesen (boardchairman)*	Lawyer	Skjern	2011	54
Ole Strandbygaard (vice boardchairman)	Printer	Ringkøbing	2008	46
Michael Albrechtslund	Manager	Rungsted	2016	54
Jørgen Søndergaard Axelsen	Real estate agent	Skjern	2002	58
Jens Bruun	Former manager	Aarhus	2007	66
Troels Bülow-Olsen*	Manager	København	2018	60
Poul Frandsen	Manager	Herning	2012	51
Orla Varridsbøl Hansen	Manufacturer	Tarm	2002	69
Tom Jacobsen	Manager	Tarm	2010	48
Mike Jensen	Bookseller	Skjern	2005	52
Bjørn Jepsen*	Farmer	Borris	2011	54
Niels Erik Kjærgaard	Former city manager	Skjern	2002	64
Birgitte Kloster	Logisticsdirector	Ribe	2018	52
Dorte H. Knudsen	Nurse	Hviding	2006	62
Finn Erik Kristiansen*	Manager	Varde	2005	49
Karsten Skovbjerg Larsen	Entrepreneur	Dejbjerg	2017	39
Tommy Noer	Technical teacher	Esbjerg	2005	64
Torben Ohlsen	Manager	Tjæreborg	2005	53
Jens Okholm*	Advisor	Ribe	2001	70
Jens Christian Ostersen	Farmer	Stauning	1992	64
Jens Kirkegaard Pedersen	Manager	Hemmet	2013	47
Niels Christian Poulsen	Mink farmer	No	2006	55
Jesper Ramskov	Manager	Esbjerg	2005	54
Bente Tang	Farmer	Hanning	2006	49
Birte Bruun Thomsen	Manager	Esbjerg	2014	52
Poul Thomsen	Former trader	Skjern	1993	66
Carsten Thygesen	Manager	Skjern	2003	56
Søren Dalum Tinggaard*	Vice manager	Randers	2013	49
Helle Vingolf	Manager	Esbjerg	2018	50
Jesper Ørnskov	Manager	Skanderborg	2010	46

*Members of the board of directors

BOARD OF DIRECTORS

Hans Ladekjær Jeppesen, lawyer, Skjern

Board chairman
Born 11th September 1964
Elected on the board in 2011
Current term expires in 2019

Other management duties:
Board chairman of ODJ Holding ApS
Board chairman of PE Trading A/S
Board chairman of Grønbjerg Grundinvest A/S
Board chairman of Byggefirmaet Ivan V. Mortensen A/S
Board chairman of LHI Invest A/S
Board chairman of Grey Holding 2 A/S
Board chairman of Specialfabrikken Vinderup A/S
Board chairman of Roslev Trælasthandel A/S
Board chairman of Gråkjær A/S
Board chairman of Gråkjær Holding A/S
Board chairman of Gråkjær Landbrug A/S
Board chairman of Gråkjær Erhverv A/S
Board chairman of Gråkjær Aqua A/S

Board member of Skjern Håndbold A/S
Board member of Carl C A/S
Board member of Carl C Ejendomme ApS
Board member of Grønbjerg Ejendomsselskab A/S
Board member of AA Properties A/S
Board member of AA Ejendomme 1 A/S
Board member of Advokatpartnerselskabet
Kirk Larsen & Ascanius
Board member of Kastrup A/S
Board member of Kastrup Ejendomme ApS
Board member of Kastrup Vinduet Holding ApS

Jens Okholm, advisor, Ribe

Board vice-chairman
Born 11th March 1948
Elected on the board in 2010
Current term expires in 2020

Other management duties:
Board chairman of Hansen & Bay Byg A/S
Board member of it-Craft A/S

Bjørn Jepsen, farmer, Borris

Born 17 October 1963
Elected on the board in 2012
Current term expires in 2020

<u>Other management duties:</u>
Board member of Arla Foods AmbA
Board member of Kvægafgiftsfonden
Board member of Danmarks Kvægforskningscenter
Board member of SEGES- kvæg
Board member of Landbrug og Fødevarer virksomheds-bestyrelse

Finn Erik Kristiansen, manager, Varde

Born 23 April 1969
Elected on the board in 2010
Current term expires in 2020

<u>Other management duties:</u>
Manager of ProVarde S/I
Manager of Bordin Holding ApS
Manager and board member of Kristiansen Ejendomme A/S
Board chairman of Kristiansen Bog & Idé A/S
Board chairman of Flensborg A/S
Board member of Fomars

Søren Dalum Tinggaard, vicemanager, Randers

Born 7 February 1969
Elected on the board in 2013
Current term expires in 2019

Other management duties:
Board member of AP Pension A/S
Board member of AP Pensionsservice A/S
Board member of Foreningen AP Pension FMBA
Board member of Danish Crown China

Troels Bülow-Olsen, manager, København

Born 14 April 1958
Elected on the board in 2018
Current term expires in 2020

Other management duties:
Board chairman of AP Ejendomme
Board chairman of Brickshare A/S
Board chairman of Ajourance
Manager of BO Holding 2018 ApS
Manager of Bülow-Olsen & Co ApS

Lars Skov Hansen, advisor, Esbjerg
Employee-selected

Born 17 May 1973
Elected on the board in 2011
Current term expires in 2019

Lars Lerke, head of finance, Skjern
Employee-selected

Born 19 January 1976
Elected on the board in 2012
Current term expires in 2019

Carsten Jensen, advisor, Skjern
Employee-selected

Born 29 April 1980
Elected on the board in 2015
Current term expires in 2019

Per Munck, banking executive, Skjern

Born 12 November 1954
Hired 1 November 1999

Other management duties:
Board chairman of Value Invest Luxembourg S.A.
Board chairman of Foreningen Bankdata
Board chairman of Forvaltningsinstituttet for Lokale Pengeinstitutter

SKJERN BANK

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Bøgevej 2
6800 Varde
Tlf. 9682 1640

ESBJERG
Kongensgade 58
6700 Esbjerg
Tlf. 9682 1500

BRAMMING
Storegade 20
6740 Bramming
Tlf. 9682 1580

RIBE
J. Lauritzens Plads 1
6760 Ribe
Tlf. 9682 1600

HELLERUP
Strandvejen 143
2900 Hellerup
Tlf. 9682 1450

VIRUM
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