ANNUAL REPORT 2019

SKJERN BANK

Especially satisfactory results

2019	Profit before tax of DKK 165 million of which are extraordinary capital gains of DKK 21 million relating to sale of shares in Sparinvest Holdings SE
EQUITY	Equity yielded interest of 17.3 % before tax and 15.0 % excluding extraordinary capital gains
CORE EARNINGS	Core earnings amounted to DKK 146 million
NET INTEREST AND FEE INCOME	Increased by 8.5 % to DKK 334 million
IMPAIRMENT	Reduced to DKK 17 million, corresponding to 0.2 % of loans and guarantees
LENDING	Loans amounted to DKK 4,326 million and deposits amounted to DKK 6,224
CAPITAL	Satisfactory capital ratio of 18.6 % and individual solvency requirements of 9.6 %
CORE EARNINGS EXPECTATIONS	Core profit in 2020 is expected to be in the range of DKK 125 - 140 million

Content

Management's financial report for 2019

MANAGEMENT'S FINANCIAL REPORT FOR 2019

A profit before tax of DKK 165 million is considered especially satisfactory. Profit was positively affected by the growth in the bank's net interest and fee income and positive exchange rate adjustments, partially as a result of realised capital gains of approximately DKK 21 million through the sale of some of the bank's shares in Sparinvest Holdings SE.

In light of the acceptable profit, the Annual General Meeting recommends that dividends of DKK 3 per share be distributed. The bank also paid dividends of DKK 3 per share due to acceptable profit in 2018. Dividend payments follow the bank's dividend policy, and have been made, as the bank is now in an earnings and capital situation that enables dividend payments. The distribution amounts to DKK 28.9 million.

Interest income on lending was marginally reduced by DKK 0.3 million, corresponding to 0.16 %, while lending was reduced by DKK 33.9 million, corresponding to 0.8 %. The number of customers has successfully been significantly increased, and in particular the share of private customers has increased satisfactorily. Despite this, lending has declined, which is primarily due to ordinary repayment of some large business loans and a strong focus on savings, resulting in limited demand for loans with the bank's many existing and new customers.

Interest income on deposits increased from DKK 0.2 million in 2018 to DKK 2.1 million in 2019. The low interest rate in society means that the bank's placement of surplus liquidity in certificates of deposit in Nationalbanken bore a negative interest rate of 0.75 %. Because of this, at the end of the year it was necessary to impose negative interest rates of up to 0.75 % on many of the bank's corporate customers and associations' deposits in the bank. In 2020, negative interest rates were also announced to the bank's private customers without a NEM account, which has also limited placement of bank transactions in Skjern Bank that could not create positive profitability in the customer relationship.

Net interest income has been maintained at DKK 185.2 million. That it has not increased is largely due to the Bank's interest expenses for placing surplus liquidity in Nationalbanken increasing by DKK 3.1 million, amounting to DKK 7.4 million in 2019.

Net interest and fee income increased by DKK 26.2 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 and existing customers. In 2019, the opportunities for restructuring mortgage financing have been favourable, and many of the bank's customers

have chosen to take advantage of this. The high number of conversions, combined with the large influx of new customers with mortgage financing, has resulted in an increase in loan case fees of DKK 15.2 million.
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 43 % in 2019, which is very satisfactory.

The bank's expenses were unchanged at DKK 191.8 million, though this is due to the bank having an extraordinary IT expense of DKK 12 million in 2018. Disregarding this, expenses have increased by about 12 million in 2019, corresponding to an increase of 6.7 %. The increase is due to higher IT expenses of about DKK 6 million as well as strategic activity expansions, including more 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 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.

The impairment need has decreased to DKK 16.8 million, corresponding to 0.2 % 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 impairment in 2019 is largely attributable to the agricultural segment, despite the terms of trade having significantly improved in 2019, particularly in pig farming. The prices of milk in 2019 have also been at a level where the bank generally considers most of the bank's customers within this production branch to have an operational balance. On the other hand, the prices of mink have been so low that it has been very difficult to create an operational balance in this segment.

However, agriculture continues to be challenged in connection with previous years' poor settlement prices and the high indebtedness in the industry in previous years, as well as the relatively low turnover of agricultural property. 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. Mink producers are also expected to be challenged by low settlement prices in 2020, whereas dairy and pig producers are expected to be able to maintain a sound operating balance.

At the beginning of 2019, the bank expected a core earnings in the range of DKK 130 – 145 million. In the half-year report, the expected core earnings were adjusted to the upper part of the range of DKK 135 – 150 million. Core earnings were realised at DKK 146.1 million. The core earnings have thus increased by DKK 26.5 million compared to 2018, though this has been negatively affected by the extraordinary IT expense of DKK 12 million. Adjusted for this, the profit increase amounted to DKK 14.5 million. This is very satisfactory and is due to several different factors, though primarily an extraordinarily high number of conversions of customers' mortgage financing due to the low interest level.

At the beginning of 2019, the expectations for profit for the year before tax were in the range of DKK 115 – 130 million, and over the course of the year this was adjusted upwards three times, the first time in June 2019 to the range of DKK 135 – 150 million, in October to the range of DKK 150 – 160 million and in January 2020, it was adjusted upwards to the middle of the range of DKK 160 – 170 million. The announced profit expectations were met with DKK 165 million.

Profit before tax amounted to DKK 164.9 million compared to DKK 164.6 million in 2018. 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 158.3 million, compared with DKK 158.0 million in 2018.

Both the achieved core earnings and the profit before tax are considered especially satisfactory.

As a result of particularly satisfactory profit, the capital coverage was increased in the course of 2019 compared to the individual solvency requirements, from 8.0 % points in 2018 to 9.0 % points in 2019. After deduction of the capital conservation buffer of 2.5 percentage points, cyclical buffer of 1.0 % and NEP supplement of 0.625 %, the capital coverage at the end of 2019 amounted to 4.875 percentage points. The bank has a goal of a coverage relative to the capital requirements of at least 4 percentage points with a long-term goal of 5 percentage points.
In 2019, the bank has increased the capital base by DKK 109.3 million to DKK 1,032.7 million. The increase in the capital base is due to earnings in 2019 less proposed dividends of DKK 28.9 million.

The bank's capital ratio amounted to 18.6 % at the end of 2019 and has thus increased by 1.2 percentage points compared to the end of 2018. Primarily as a result of the increasing guarantees and despite the marginally reduced lending volume, the bank has increased the risk-weighted assets by a total of DKK 241 million which, viewed in isolation, reduces the capital ratio by 0.85 percentage points. The bank's solvency requirements are estimated at 9.6 %. 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 2019, the bank had a solid capital base with a capital coverage including capital conservation buffer, cyclical buffer and NEP supplement of 4.875 %. In the next 3 years, the following capital buffers will be phased in to the bank's capital requirements in the requirement for the bank's capital base:

- 1.00 percentage point is the announcement that the cyclical buffer will increase during 2020 and will then be phased in with 2.0 % and can at most constitute 2.5 percentage points when fully phased in.
- Up to 6.0 % points, NEP supplement. In its latest announcement on this, the Danish Financial Supervisory Authority has calculated the supplement for the bank to be 5.6 %.
- Added to this is the bank's solvency requirements, the already fully phased-in capital conservation buffer of 2.5 % 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 and including a buffer of 5 %, will be at the level of 24 - 25 %, corresponding to 5.4 - 6.4 percentage points higher than the current capital ratio of 18.6 %. 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 to maintain a satisfactory capital coverage, primarily through its own earnings, but also through raising Tier III capital to partially cover the NEP supplement.

EXPECTATIONS FOR 2020

The bank has had a particularly satisfactory 2019, where expectations for the vast majority of areas have been met and exceeded. Because of this, the bank is optimistic about 2020 and expects a continued increase in business volume and balanced lending growth. Partly due to the high activity with conversion of customers' mortgage financing and extraordinarily positive exchange rate adjustments, the profit in 2019 was very satisfactory, and for this reason a lower earnings in 2020 is expected to be realised than in 2019.

Core earnings in 2020 are expected in the range of DKK 125 – 140 million and a profit before tax in the range of DKK 115 – 130 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's expectation of a lower profit in 2020 than in 2019 is due to expectations of lower fee income from loan cases and lower exchange rate adjustments.

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 at a level of 2 %. 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 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 2020 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 had profitability in operations in 2019, which is expected to continue in 2020. The forecasts for pig producers in 2020 are very positive and because of this, there is expected to be continued positive terms of trade and solid operating profit. In mink production, the forecasts for 2020 are also more uncertain and the price of mink has reached a level in 2019 that is significantly below the production price. However, the bank's lending to this segment is modest and most of the customers are financially sound.

Overall, the bank expects quite a reasonable year in agriculture, and is confident with regard to how the bank's customers will meet the challenges in the coming years. However, there will still be customers for whom it will be difficult to achieve profitability in 2020 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.

The framework conditions in agriculture can fluctuate strongly and quickly and this places 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 12 % of the total lending, where the distribution is 6.7 % to cattle farming, 1.5 % to mink production, 1.5 % to pig farming, 1.6 % to crop farming and 0.7 % 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 in the measurement of these exposures.

The bank's loans within the real estate segment amounted to 13.4 %, compared with 12.8 % at the end of 2018. The bank's exposures in real estate are primarily within rental for residential purposes and the bank's individual project financing, before initiation, are typically guaranteed to be sold after the completion of the project or where there is sufficient liquid collateral available.

Financing of alternative energy has been a positive and important business area for the bank. The share of lending to this was 2.1 % at the end of 2019, compared with 4.4 % in 2018. In the future, the bank also wants to support green initiatives and invest in sustainability through its financing.

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. In the future, the bank wants to base essentially all of its liquidity provision on customer deposits.

The satisfactory capital coverage of 4.875 percentage points after the capital conservation buffer is expected to decrease marginally to the level of 4.75 % at the end of 2020, provided that the profit is realised as reported under expectations for 2020 and provided that TIER III capital is raised of nominally DKK 50 million. The fact that the capital reserves are not expected to increase as a result of this is due to the increase of the cyclical buffer of 1 % to 2 % and the increase of the NEP supplement by 1.25 % to a total of 1.875 % in 2020. 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.

ACTIVITIES AND BUSINESS VOLUME

SkThe bank has not established new branches in 2019 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 branch network is not expected to be expanded in 2020.

Skjern Bank Leasing is 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 at the end of 2019, a total remaining lease liability of over DKK 100 million was realised and the development is expected to continue to take in volume and earnings in 2020.

Overall, 2020 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 2019. 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 satisfactory during the year, even though there has not been success in increasing the net lending volume, primarily due to the ordinary repayments of individual corporate loans. 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 decreased by 0.8 % or DKK 33.9 million to DKK 4.326 million. Deposits from customers increased by 14.0 % or DKK 766 million to DKK 6,224 million. The total guarantees for customers increased by DKK 836 to DKK 2,379 million.

CAPITAL GOALS AND DIVIDEND POLICY

Due to the satisfactory operating earnings, the Bank has achieved a satisfactory capital coverage, primarily consisting of a solid actual core capital of 15.8 % compared with the individual solvency requirements of 9.6 %, which, added to the capital conservation buffer of 2.5%, cyclical buffer of 1 % and NEP requirement of 0.625%, amounts to total capital requirements of 13.425 percentage points and a capital coverage relative to the capital requirements of 4.875 percentage points. 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.

After a number of years of satisfactory and increasing earnings, the bank paid dividends of DKK 3 per share to shareholders, corresponding to DKK 28.9 million, based on the financial year 2018. The bank still has a satisfactory capital coverage, and therefore it is the management's assessment that there is a sufficient base to also reward the bank's many shareholders with an appropriate portion of the realised operating profit going forward.

Therefore, the bank's management has decided to maintain the following capital goals and dividend policy:

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 the bank's stakeholders. This focus works and in 2019 led to a satisfactory increase in the business volume of all of the bank's branches.

The bank's goal is controlled growth of good customers, which 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. The local community benefits 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 and who back the local community's activities.

SHAREHOLDERS

he 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 2019.

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 products and financing solutions that work for each customer.

At Skjern Bank, we define this by our key values: customer focus, presence, drive and decency.

All the employees at the bank are very thankful and 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
As of 31 December 2019, the bank employs 164 employees, which is an increase of 7 employees in 1 year. 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.

Employee 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 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 that entrepreneurs' ideas have 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 is at the same level as last year and amounts to DKK 185.3 million.

Interest income on customer lending is maintained at DKK 202 million, which is satisfactory for a year in which lending has gone down marginally. On the other hand, bond interest income decreased by DKK 1.9 million. In total, interest income including other adjustments was reduced by DKK 2 million, corresponding to 1 %. 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 10.5 million in 2019 compared with DKK 9.3 million in 2018.

In terms of accounting, the bank's negative interest rates on deposits are placed under interest income in a special line in the statement of profit or loss. The bank has realised DKK 2.1 million on this in 2019, compared with DKK 0.2 million in 2018. Interest expenses decreased by 24.6 % to DKK 10.0 million, which is due to lower interest expenses on deposits of DKK 3.1 million.

The bank's interest expenses for deposits in Nationalbanken increased by DKK 3.1 million to DKK 7.4 million in 2019, and in terms of accounting the expenses were placed in a special line in the statement of profit or loss.

FEE INCOME

Income from fees and commissions has increased satisfactorily by 19.4 % to DKK 146.9 million. The increase in fees is primarily due to an increase in loan case fees of DKK 15.2 million to a total of DKK 68.9 million as a result of the increased number of loan cases in 2019, but also increased volume in mortgage financing. The number of customers and the activity of the bank's customers also increased satisfactorily, with an increase in other fees of a total of DKK 3.7 million as a result.

The bank's income from guarantee provisions are partly due to the increased number of loan cases for converting mortgage loans, increased by a satisfactory DKK 3.5 million.

DIVIDENDS

Dividends in 2019 increased by DKK 2.4 million and amounted to DKK 5.9 million.

NET INTEREST AND FEE INCOME

Net interest and fee income including dividends increased by 8.5 % to DKK 334.4 million, which is very satisfactory.

EXCHANGE RATE ADJUSTMENTS

In 2019, securities markets were characterised by optimism and increasing share prices as well as stable bond prices. In the bank's shareholdings, a capital gain of DKK 40.0 million was realised, including capital gains of approximately DKK 21 million from the bank's sale of some of the ownership of Sparinvest Holdings SE. 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 2019 by DKK 4.6 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 40.2 million and, in addition to the exchange rate adjustments on bonds and shares, consist of earnings on currency and financial instruments of DKK 4.8 million. In 2018, the total exchange rate adjustments amounted to DKK 69.3 million, of which approximately DKK 60 million consisted of capital gains from the bank's sale of shares in Value Invest Asset Management S.A.

COSTS

Staff and administration expenses are at the same level as last year and amount to DKK 191.9 million, compared with DKK 191.6 million in 2018.

Salary expenses have increased by DKK 4.7 million, corresponding to 4.3 %, due to an increasing number of employees, collective bargaining wage increases and an increase in payroll tax.

Other administration expenses decreased by DKK 4.3 million in 2019 to DKK 79.5 million. This is due to the bank having an extraordinary one-time expense to the bank's data centre Bankdata of DKK 12 million in 2018, adjusted for this, the bank's other administrative expenses increased by DKK 7.7 million.

DEPRECIATION AND WRITE-DOWNS

In 2019, there was depreciation and impairment on tangible fixed assets of DKK 2.8 million, compared with DKK 3.0 million in 2018.

IMPAIRMENT

Impairment on loans and customer receivables etc. amounted to 0.2 % of the total loans and guarantees, which corresponds to DKK 16.8 million, compared with DKK 19.7 million the previous year. The level is considered satisfactory and no major decrease in impairment was realised because extra was reserved as a management estimate on the bank's most challenged agricultural exposures and on the industry in general.

Reversal of impairment from previous accounting years amounted to DKK 91.9 million, while recorded losses amounted to DKK 52.9 million, of which DKK 48.9 million had not been previously written down. In total, the bank has provisioned DKK 336 million to accommodate future losses, which corresponds to 4.7 % 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 accounting policies used and note 31 for a more detailed specification of the principles for impairment.

CORE EARNINGS

At the beginning of 2019, the bank expected a core earnings in the range of DKK 130 – 145 million. With the publication of the half-year report, earnings forecasts were adjusted upwards to the upper part of the range of DKK 135 – 150 million. Core earnings amount to DKK 146.1 million in 2019, compared with DKK 119.6 million in 2018. However, in 2018 an extraordinary IT expense of DKK 12 million was realised.

The increase is primarily due to very satisfactory customer growth and increased loan case fees. In addition, there were no extraordinary IT expenses in 2019. Core earnings are considered to be very satisfactory.

PROFIT BEFORE TAX

At the beginning of 2019, the expectations for profit for the year before tax were in the range of DKK 115 – 130 million, and over the course of the year this was adjusted upwards three times. The first upwards adjustment occurred in June 2019 to the range of DKK 135 – 150 million. In October, the range was raised to DKK 150 – 160 million and in January 2020, it was adjusted upwards to the middle of the range of DKK 160 – 170 million, assuming that impairment of DKK 15-20 million and exchange rate adjustments of DKK 5 million, in addition to capital gains of DKK 21 million, were realised through the sale of Sparinvest Holdings SE.

The bank's profit before tax amounted to DKK 165 million compared to DKK 164.6 million in 2018. The profit is considered to be particularly satisfactory and, as announced in the upwards adjustment on 6 January 2020, was realised in the middle of the range of DKK 160 – 170 million.

CAPITAL

At the end of 2019, the bank's equity amounted to DKK 1,026.6 million, of which DKK 60.0 million was raised hybrid core capital, which for accounting purposes is included under equity. At the end of 2018, equity was DKK 926.7 million. The increase is due to the realised profit in 2019, after deduction of proposed dividends.

The capital base, which consists of equity and supplemental borrowing, amounted to DKK 1,032.6 million at the end of 2019 and the total risk exposure amounted to DKK 5.551.2 million. The capital ratio is calculated at 18.6 % and the core capital at 16.9 %. The solvency requirements amounted to 9.6 %, whereby there is a satisfactory coverage in relation to the solvency requirement of 9.0 percentage points, corresponding to DKK 499 million. At the end of 2019, in addition to the solvency requirements, the bank will also add a capital conservation buffer of 2.5 %, a cyclical buffer of 1 % and a NEP supplement of 0.625 %. Including this, the solvency coverage relative to the total capital requirements amounts to 4.875 percentage points, corresponding to DKK 271 million.

The solvency requirements, which are calculated according to the Danish Financial Supervisory Authority's credit reservation method, are recognised at DKK 444.1 million, corresponding to 8.0 % for the Column 1 requirement (Søjle 1-kravet). In addition, DKK 69.6 million was provisioned for credit risk, DKK 1.6 million for interest risk, DKK 0.4 million for share risk, DKK 13.8 million for credit spread risk under the market risk and DKK 5.0 million for reservations under the operational risk. The other risk groups have not given rise to additional solvency reserves.

The bank's goal for capital coverage relative to the calculated solvency requirements plus the current phased-in capital requirements is at least 4 percentage points with a long-term goal of 5 percentage points. The capital requirements will increase significantly in the coming years, with an additional 1 % cyclical buffer in 2020, which constitutes 2 % and can potentially be up to 2.5 %, as well as 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 at a level of 2 % 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 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, mainly based on deposits from the bank's customers. In 2019, the goal was met by increasing the total deposits to a total of DKK 6.224 million.

The bank's liquidity reserves are solid. The LCR (Liquidity Coverage Ratio) of DKK 1.847 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 2019 has an LCR financial ratio of 357 %.

MAJOR SHAREHOLDERS

The Bank has a major shareholder - Investeringsselskabet af 15. maj (AP Pension Livsforsikringsaktieselskab, København Ø.) - who at the last ownership announcement possessed 20.75% and 5 % of the voting rights.

LIQUIDATION RESERVE

n 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.

UPCOMING ACCOUNTING RULES – IFRS 16

As of 1 January 2020, all of the bank's significant leased and rented assets must be recognised in the statement of financial position. The asset is initially recognised at present value of the lease liability and the present value of lease payments is recognised as a liability. The exception is short-term leases. As of 1 January 2020, the present value of the bank's rentals and leases amounts to a total of DKK 14.2 million.

EVENTS OCCURRING AFTER 31 DECEMBER 2019

No events have occurred after 31 December 2019 that significantly affect the bank's circumstances.

AUDIT

The Danish version of the Annual Report for 2019 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 2019 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 2019 and of the result of the bank's activities for the accounting year 1 January – 31 December 2019.

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 30 January 2020

The board of Skjern Bank A/S

Per Munck
Manager

Skjern, the 30 January 2020

The board of Skjern Bank A/S

Hans Ladekjær Jeppesen — *Chairman*

Bjørn Jepsen — *Vice-chairman*

Niels Christian Poulsen *Niels Erik Kjærgaard*

Lars Skov Hansen *Carsten Jensen* *Michael Tang Nielsen*

Profit and loss account

Note	DKK 1,000	2019	2018
2	Interest receivable	200.586	202.618
	Interest receivable deposits	2.157	245
3	Interest payable	10.032	13.311
	Interest payable central banks	7.424	4.310
	Net income from interest	**185.287**	**185.242**
	Dividend on shares and other holdings	5.863	3.476
4	Charges and commission receivable	146.937	123.024
	Charges and commission payable	3.680	3.509
	Net income from interest and charges	**334.407**	**308.233**
5	Value adjustments	40.225	69.389
	Other ordinary income	1.945	1.503
6	Staff costs and administrative expenses	191.861	191.626
	Depreciation and write-downs on intangible and tangible assets	2.821	3.004
	Other operating expenses total	112	127
	Contribution to the Guarantee Fund for deposits	112	52
	Other operating expenses	0	75
9	Write-downs	16.831	19.729
	Result before tax	**164.952**	**164.639**
10	Tax	29.469	22.126
	Net-result for the financial year	**135.482**	**142.513**
	Of which are holders of shares of hybrid core capital instruments etc.	6.626	6.626
PROPOSAL FOR DISTRIBUTION OF PROFIT			
	Dividends	28.920	28.920
	Holders of hybrid core capital instruments	6.626	6.626
	Transferred to/from retained earnings	99.936	106.967
	Total distribution of the amount available	**135.482**	**142.513**
STATEMENT OF COMPREHENSIVE INCOME			
	Profit for the financial year	135.482	142.513
	Total comprehensive income	**135.482**	**142.513**

Balance Sheet

Note	DKK 1,000	2019	2018
	ASSETS		
	Cash in hand and demand deposits with central banks	229.494	184.106
11	Receivables at credit institutions and central banks	1.673.392	795.467
12	Loans and other receivables at amortised cost	4.325.613	4.359.561
13	Bonds at fair value	1.045.717	1.016.994
14	Shares etc.	225.094	220.498
15	Holdings in associated enterprises and group enterprises	47.140	48.488
	Investment properties	2.961	2.961
	Owner-occupied properties	44.179	45.527
16	Other tangible assets	3.323	4.094
	Current tax assets	4.804	11.865
17	Deferred tax assets	0	1.922
	Other assets	58.396	58.815
	Prepayments	1.107	1.763
	Total assets	**7.614.080**	**6.703.573**

Note	DKK 1,000	2019	2018
	LIABILITIES		
	DEBT		
18	Debt to credit institutions and central banks	206.536	160.750
19	Deposits and other debts	6.223.604	5.457.413
	Other liabilities	44.386	48.832
	Prepayments	1.386	442
	Total debt	**6.475.912**	**5.667.437**
	PROVISIONS		
20	Provisions for deferred tax	675	0
12	Provisions for loss on guarantees	13.590	9.420
	Total provisions	**14.265**	**9.420**
	SUBORDINATED DEBT		
21	Subordinated loan capital	97.334	99.976
	Total subordinated debt	**97.334**	**99.976**
	EQUITY		
22	Share capital	192.800	192.800
	Revaluation reserves	417	417
	Retained earnings	744.402	644.923
	Proposed dividend	28.920	28.920
	Capital owners share of equity	**966.539**	**867.060**
	Holders of hybrid capital	60.030	59.680
	Total equity	**1.026.569**	**926.740**
	Total liabilities	**7.614.080**	**6.703.573**

Information on changes in equity

Note	DKK 1,000	2019	2018
	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	644.923	561.785
	Changed accounting policy for impaiment charges	0	-23.823
	Profit or loss for the financial year	99.936	106.967
	Dividend own shares	30	0
24	Purchase of own funds	-487	-6
	Retained earnings end-of-year	**744.402**	**644.923**
	Dividend beginning-of-year	28.920	-
	Proposed dividend	28.920	28.920
	Dividends paid	-28.920	0
	Dividend end-of-year	**28.920**	**28.920**
	Holders of hybrid capital beginning-of-year	59.680	59.330
	Net profit or loss for the year (interest hybrid capital)	6.626	6.626
	Paid interest	-6.276	-6.276
	Holders of hybrid capital end-of-year	**60.030**	**59.680**
	Total equity	**1.026.569**	**926.740**

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.

Changed accounting treatment of interest income deposits and interest expenses central banks
Interest income deposits and interest expenses central banks have previously been presented under interest expenses due to their insignificant nature. Interest income deposits have been offset in interest expenses deposits and other debt, and interest expenses central banks have been presented separately in the note under interest expenses.

Both items will now be separately presented in the statement of profit or loss under interest income deposits and interest expenses central banks. The change in the presentation of interest income and interest expense has no effect on profit.

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.

Skjern Bank has decided to apply the new leasing rules with effect from 1 January 2020. The effect of the upcoming leasing rules is estimated to be DKK 14.2 million.

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, tangible assets are measured at cost at the time of ini-

tial 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.

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, corporate and investment properties and provisions.

Although the carrying amounts are calculated in accordance with the Danish Executive Order on the Presentation of Financial Statements, particularly including appendices 9 and 10 and related guidelines, there is uncertainty and estimates associated with these carrying amounts, as they are based on a number of assumptions. If these assumptions change, the financial reporting may be affected and the impact may be significant. Changes may occur through a change in practice or interpretation by the authorities and amended principles from the management - for example, the value of collateral may entail changes to the calculations.

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 credit-impaired 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 Balance Sheet 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

Classification and measurement

According to the 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 two 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. This category includes loans at amortised cost and receivables from credit institutions.

- 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 because they are included in a trading portfolio.

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

In accordance 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.

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.

Stages of development in credit risk

The 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.

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.

Assessment of significant increase in credit risk

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 receivables from Danish credit institutions. New customers are always placed in stage 1 unless they are credit impaired.

Definition of credit impairment and default

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

- The borrower is experiencing significant financial difficulties, and the bank assesses that the borrower will not be able to pay their liabilities as agreed.
- The borrower has committed a breach of contract, such as in the form of non-compliance with payment obligations for principal and interest or repeated overdrafts.
- The bank has granted the borrower easier terms than it would have granted were it not for the borrower's financial difficulties.
- It is likely that the borrower will go bankrupt or be subject to other financial reorganisation.
- 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. This means that an exposure that is considered to be credit impaired is always placed in stage 3.

Calculation of expected loss
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 based on the bank's division of customers into different rating classes and an assessment of the risk of loss in each rating class. The calculation occurs in a setup that is developed and maintained in Bankdata, 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. Estimates are then applied to the regression models 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.

Model uncertainty and managerial estimates
In addition to establishing expectations for the future, write-downs in stages 1 and 2 are also subject to uncertainty because the model does not account for all relevant circumstances. As there is still limited historical data as a basis for the models, it has been necessary to supplement the model's calculations with management estimates. Assessment of the effect of the long-term probability of default on customers and segments through improved and deteriorated outcomes of macroeconomic scenarios is associated with estimates.

Please refer to the more detailed description in note 31.

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".

Practice for writing off financial assets from the statement of financial position
Financial assets that are measured at amortised cost are wholly or partially written off 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 private and corporate customers, the bank will typically write off losses when the pledged collateral is realised and the residual receivable is unsustainable. When a financial asset is written off from the statement of financial position in whole or in part, 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 written off, 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.

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 5.6 - 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.

Establishment of the revalued amount of owner-occupied properties and the fair value of investment properties are associated with significant estimates. The estimates particularly relate to the establishment of required rate of return.

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.

Interest on hybrid core capital is deducted from equity.

The tax effect of the interest is recognised under current tax in the statement of profit or loss.

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

Provisions
Assurances, 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.

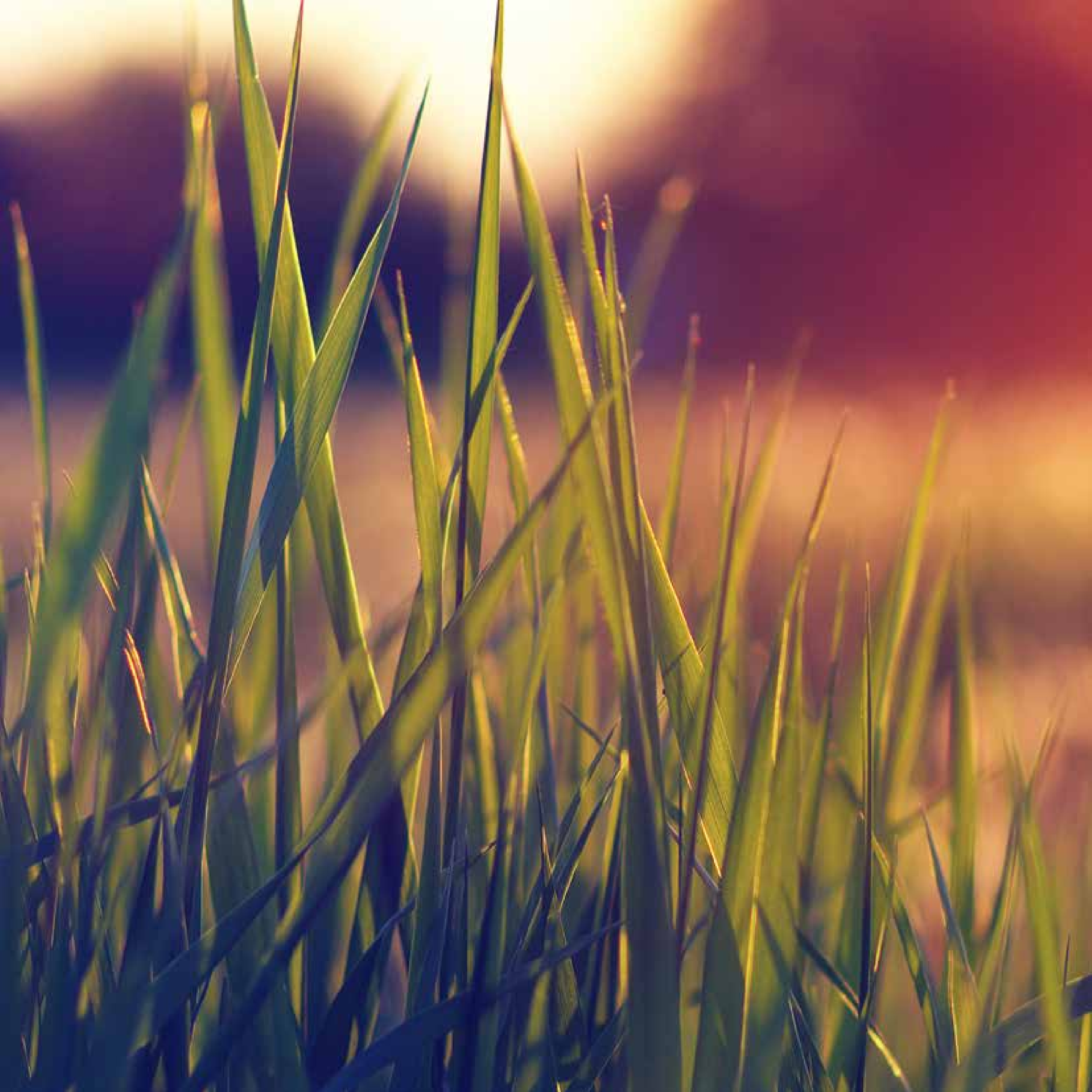
Derivative financial instruments
All derivative financial instruments, including forward contracts, futures and options in bonds, shares or currency, as well as interest and currency swaps, are measured at fair value on the balance date.

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". Non-financial guarantees, cf. IFRS 9, are not included in stages 1 and 2.

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	2019	2018
2	INTEREST INCOME		
	Loans and other receivables	202.138	202.458
	Loans (interest conc. the written-down part of loans)	-10.512	-9.288
	Bonds	6.521	8.454
	Other derivative financial instruments, total of which	2.439	994
	Interest-rate contracts		
	Currency contracts	2.755	155
	Other interest income	-316	839
	Total	**200.586**	**202.618**
3	INTEREST EXPENSES		
	Deposits	3.506	6.575
	Subordinated debt	6.525	6.560
	Other interest expenses	1	176
	Total	**10.032**	**13.311**

No income or expenses are entered from genuine purchase or repurchase contracts in notes 2 and 3.

Note	DKK 1,000	2019	2018
4	FEES AND COMMISSION INCOME		
	Securities trading and custody accounts	16.238	15.489
	Payment services	12.423	11.704
	Loan fees	68.877	53.674
	Guarantee commission	16.918	13.376
	Other fees and commission	32.481	28.781
	Total	**146.937**	**123.024**
5	VALUE ADJUSTMENTS		
	Other loans	0	0
	Bonds	-3,615	-3,615
	Total shares	68,361	68,361
	- Shares in sectorcompanies etc	10,413	10,413
	- Other shares	57,948	57,948
	Foreign currency	4,649	4,649
	Other financial instruments	-6	-6
	Total	**69,389**	**69,389**

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.

Note	DKK 1,000	2019	2018
6	STAFF COSTS AND ADMINISTRATIVE EXPENSES		
	Salaries and remuneration of board of directors, audit committee, managers etc.		
	Board of managers (1 person - the board of manager has a company car)	3.285	3.013
	Fixed fees	3.285	2.978
	Pension contributions	0	35
	Management board	1.303	1.163
	Audit Committee	80	58
	Committee of representatives	177	180
	Total salaries and remuneration of board etc	**4.845**	**4.414**
	Board of Directors' remuneration		
	Hans Ladekjær Jeppesen	349	268
	Bjørn Jepsen	195	107
	Niels Christian Poulsen	105	0
	Niels Erik Kjærgaard	122	0
	Lars Skov Hansen	142	118
	Carsten Jensen	124	107
	Michael Tang Nielsen	102	0
	Søren Dalum Tinggard	132	107
	Jens Okholm	40	191
	Finn Erik Kristiansen	25	118
	Troels Bülow-Olsen	25	98
	Lars Lerke	22	107
	I alt	**1.383**	**1.221**
	Staff costs		
	Wages and salaries	82.245	79.875
	Pensions	9.138	8.698
	Social security costs	1.182	919
	Payroll tax	14.859	13.683
	Total staff costs	**107.424**	**103.175**
	Salary to special risk takers (11 persons in 2019, 11 persons in 2018)	9.288	8.524
	Pensions to special risk takers (11 persons in 2019, 11 persons in 2018)	1.022	938
	Other administrative expenses		
	IT expenses	41.013	47.808
	Rent, electricity, heating etc	5.396	6.012
	Postage, telephony etc	987	1.168
	Other administrative expenses	32.196	29.049
	Total other administrative expenses	**79.592**	**84.037**
	Total staff costs and administrative expenses	**191,626**	**191,626**

Note	DKK 1,000	2019	2018

Pension and severance terms for the executive board
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 contributionbased through a pension company in which the payments are expensed continually.

Average number of employees during the financial year converted into full-time employees		
Employed in credit institution business	150	147
Total	**150**	**147**

7 INCENTIVE AND BONUS SCHEMES

The bank does not have any incentive or bonus schemes.

8 AUDIT FEE

	2019	2018
Total fee to the firm of accountants, elected by the annual meeting, that perform the statutory audit	**626**	**796**
Honorariums for statutory audits of financial statements	550	685
Honorariums for assurance services	38	18
Honorariums for tax consultancy	38	31
Honorariums for other services	0	62

Fees for other statements with certainty regarding statutory statements to public authorities. Fees for tax advice include advice on various VAT and tax matters.

9 WRITE-DOWNS ON LOANS AND RECEIVABLES

	2019	2018
Write-downs and provisions during the year	116.865	84.486
Reversal of write-downs made in previous years	-91.928	-55.706
Finally lost, not previously written down	3.998	2.146
Interest on the written-down portion of loans	-10.512	-9.288
Recoveries of previously written off debt	-1.592	-1.909
Total	**16.831**	**19.729**

Note	DKK 1,000	2019	2018
10	TAX		
	Calculated tax of income of the year	27.076	16.539
	Adjustment of deferred tax	2.597	3.894
	Adjustment of tax calculated in previous years	-204	1.693
	Total	**29.469**	**22.126**
	Tax paid during the year	25.814	16.008
	EFFECTIVE TAX RATE (%)	(Pct.)	(Pct.)
	Tax rate currently paid by the bank	22,00	22,00
	Non deductable costs and not taxable income	-4,19	-10,27
	Adjustment of tax calculated for previous years	-0,12	1,53
	Deferred tax activation	0,00	0,00
	Other adjustments	0,18	0,18
	Effective tax rate	**17,87**	**13,44**
11	RECEIVABLES AT CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Deposits with central banks	1.632.136	763.096
	Receivables at credit institutions	41.256	32.371
	Total	**1.673.392**	**795.467**
	Remaining period		
	Demand	1.673.392	795.467
	Total	**1.673.392**	**795.467**
	No assets related to genuine purchase and resale transactions included.		

Note	DKK 1,000	2019	2018
12	LOANS AND OTHER DEBTORS AT AMORTISED COST PRICE		
	Remaining period		
	Claims at call	1.558.453	1.698.592
	Up to 3 months	148.123	115.651
	Over 3 months and up to 1 year	340.160	372.104
	Over 1 year and up to 5 years	864.441	883.861
	Over 5 years	1.414.436	1.289.353
	Total loans and other debtors at amortised cost price	**4.325.613**	**4.359.561**
	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	16.768	-
	Changed accounting policy for impairment charges	-	14.750
	Stage 1 impairment charges / value adjustment during the period	11.997	10.134
	-hereby new facilities in the period 8,209 TDKK		
	Stage 1 impairment reversed during the period	-8.760	-8.116
	Cummulative stage 1 impairment total	**20.005**	**16.768**
	STAGE 2 IMPAIRMENT CHARGES		
	Stage 2 impairment charges at the end of the previous financial year	48.650	-
	Changed accounting policy for impairment charges	-	44.112
	Stage 2 impairment charges / value adjustment during the period	36.250	24.510
	Stage 2 impairment reversed during the period	-21.824	-19.972
	Cummulative stage 2 impairment total	**63.076**	**48.650**
	STAGE 3 IMPAIRMENT CHARGES*		
	Stage 3 impairment charges at the end of the previous financial year	286.140	313.345
	Changed accounting policy for impairment charges	-	-8,357
	Stage 3 and impairment charges / value adjustment during the period	63.590	69.360
	Reversal of stage 3 impairment charges during the period	-60.576	-47.228
	Recognised as a loss, covered by stage 3 impairment charges	-48.902	-40.980
	Cummulative stage 3 impairment total	**240.252**	**286.140**
	Total cumulative impairment charges IFRS9	**323.333**	**351.558**

Note	DKK 1,000	2019	2018
	GUARANTEES		
	Provisions beginning of the year	9.420	2.578
	Changed accounting policy for provisions for losses on guarantees	0	6.556
	Loss on guarantees	9.193	5.384
	Transferred to liabilities	-5.023	-5.098
	Guarantees end of year	**13.590**	**9.420**
	Total cumulative impairment charges IFRS9 and guarantees	**336.923**	**360.978**
	Loans etc. with suspended calculation of interest	**83.586**	**120.839**

The development in Stadie 2 is mainly due to the fact that some large exposures have improved from being credit impaired in Stadie 3 to being rated 2C-RedT, and thus included in Stadie 2.

In addition, the macro factor has increased significantly and a management estimate has been allocated, both of which increase the impairment in Stage 2.

The development in Stage 3 is mainly due to write-offs of 44 million in the operating year of previously written-down receivables. The amount is thus deducted from write-downs at year-end.

Note	DKK 1,000	2019	2018

	Stage 1	Stage 2 (due to migration)	Stage 2 (due to overdraft)	Stage 2 (weak)	Stage 3	Total
Beginning						
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	3,3	5,6	1,4	10,0	10,0	4,3
End						
Impairment	20.005	44.916	13	18.147	240.252	323.333
- in % of total impairment	6%	14%	0%	6%	74%	100%
Maximum credit risk	6.546.649	903.469	2.026	182.988	571.517	8.206.649
- in % of maximum credit risk	80%	11%	0%	2%	7%	100%
Rating, weighted average	3,3	5,9	2,0	10,0	10,0	4,2

Note		2019	2018
13	BONDS AT FAIR VALUE		
	Treasuries	5.742	5.678
	Mortgage credit bonds	925.108	903.640
	Other bonds	114.867	107.676
	Total bonds at fair value	**1.045.717**	**1.016.994**
	The bank has no held-to-maturity assets		
14	SHARES ETC		
	Quoted on Nasdaq OMX Copenhagen A/S	38.881	28.756
	Quoted on other stock exchanges	18.178	17.485
	Sectorshares recorded at fair value	168.035	174.257
	Total shares etc	**225.094**	**220.498**
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	45.527	46.428
	Acquisitions during the year incl. improvements	73	520
	Depreciations	-1.421	-1.421
	Reassessed value end-of-year	**44.179**	**45.527**

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 5.6-7 %.

Note	DKK 1,000	2019	2018
16	OTHER TANGIBLE ASSETS		
	Total cost price beginning-of-year	25.903	25.553
	Acquisitions during the year incl. Improvements	909	880
	Reduction during the year	-465	-530
	Total cost price beginning-of-year	**26.347**	**25.903**
	Total write-ups/downs and depreciations beginning-of-year	21.809	20.395
	Depreciations during the year	1.401	1.583
	Reversal of depreciations	-186	-169
	Total write-ups/downs and depreciations end-of-year	**23.024**	**21.809**
	Book value end-of-year	**3.323**	**4.094**
17	DEFERRED TAXATION		
	(Tax amount)		
	Tangible assets	0	-556
	Loans and other receivables	0	2.611
	Other	0	-133
	Other deficits carried forward	0	0
	Total deferred taxation	**0**	**1.922**
18	DEBT TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Debt to credit institutions	206.536	160.750
	Total debt to credit institutions and central banks	**206.536**	**160.750**
	Term to maturity		
	Demand	206.536	160.750
	Total debt to credit institutions and central banks	**206.536**	**160.750**
	No liabilities related to genuine sale and repurchase transactions included		
19	DEPOSITS AND OTHER DEBTS		
	Demand	5.398.876	4.810.000
	At notice	18.591	18.604
	Time deposits	562	1.582
	Special types of deposits	805.575	627.227
	Total deposits and other debts	**6.223.604**	**5.457.413**
	Term to maturity		
	Demand	5.415.150	4.827.196
	Desposits redeemable at notice:		
	Up to 3 months	108.404	100.333
	Over 3 months and up to 1 year	11.819	11.609
	Over 1 year and up to 5 years	44.656	30.141
	Over 5 years	643.575	488.134
	Total deposits and other debts	**6.223.604**	**5.457.413**

No liabilities related to genuine sale and repurchase transactions included.

Note	DKK 1,000	2019	2018
20	DEFERRED TAXATION		
	(Tax amount)		
	Tangible assets	2.800	0
	Loans and other receivables	-2.762	0
	Other	637	0
	Total deferred taxation	**0**	**1.922**
21	SUBORDINATED DEBT		
	Supplementary capital DKK 100 mio	97.334	-
	Rate	6,4573%	-
	Due date	20.05.2030	-

The loan may be paid early with the Danish Financial Supervisory Authority's approval starting on 20 May 2025 and then on each interest payment date.

The interest rate is determined as the 6-year swap rate plus a premium of 6.3 percentage points, valid for 6 years from date of issue.

		2019	2018
	Supplementary capital DKK 100 mio	-	99.976
	Rate	-	6,595 %
	Due date	-	21.05.2024

The loan is paid early with the Danish Financial Supervisory Authority's approval on 21 May 2019

		2019	2018
	Subordinated debt total	**97.334**	**99.976**
	Subordinated debt that may be included in the capital base	97.334	99.976
	Interest on subordinated liabilities recognised in income	6.525	6.560
22	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

23 HOLDERS OF HYBRID CAPITAL

		2019	2018
	Hybrid core capital	**60.030**	**59.680**
	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	2019	2018
24	OWN CAPITAL SHARES		
	Purchase and sales of own shares		
	Holdings beginning 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	0,11
	Addition		
	Number of own shares	6.957	0
	Nominal value of holding of own shares (DKK 1,000)	139	0
	Own shares proportion of share capital	0,07	0,00
	Purchase price (DKK 1,000)	488	0
	Disposal		
	Number of own shares	0	0
	Nominal value of holding of own shares (DKK 1,000)	0	0
	Own shares proportion of share capital	0,00	0,00
	Sale price (DKK 1,000)	0	0
	Holdings end of the year		
	Number of own shares	16.957	10.000
	Nominal value of holding of own shares (DKK 1,000)	339	200
	Own shares proportion of share capital	0,18	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 2019 are a consequence of this.

Note		2019	2018
25	CONTINGENT LIABILITIES		
	Guarantees		
	Finance guarantees	512.488	327.288
	Guarantees against losses on mortgage credit loans	663.378	555.950
	Registration and conversion guarantees	961.248	492.324
	Other contingent liabilities	242.054	167.762
	Total	**2.379.168**	**1.543.324**
	Other binding engagements		
	Irrevocable credit-undertakings	121.121	185.344
	Total	**121.121**	**185.344**

Note	DKK 1,000	2019	2018

Assets pledged as collateral
The bank has pledged cash 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 0.467 %.

In 2019, Skjern Bank paid 120 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 888 TDKK.
The Bank is a tenant in one leases, which can be terminated with 12 months' notice, the yearly lease is 155 TDKK.
The third lease is irrevocable until 31 December 2021, and the yearly lease is 1,8 mio. DKK.

26 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.

27 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:	2019	2018
Loans	0	85
Bid Bond	0	0
Rate of interest	-	6,75 %

Note	DKK 1,000	2019	2018
	Board of directors:		
	Loans	22.228	5.933
	Bid Bond	41.211	3.638
	Rate of interest	0,5349-8,0 %	0,6459-8,0 %
	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
	Bjørn Jepsen	5.286	5.286
	Niels Christian Poulsen	32.681	32.681
	Niels Erik Kjærgaard	300	300
	Lars Skov Hansen	710	710
	Carsten Jensen	1.976	1.976
	Michael Tang Nielsen	100	100
28	CAPITAL REQUIREMENT		
	Equity	1.026.569	926.740
	Proposed dividend	-28.920	-28.920
	Revaluation reserves	-417	-417
	Holders of hybrid capital	-60.030	-59.680
	Deferred tax assets	0	-1.922
	Deduction for the sum of equity investments etc. above 10 %	-59.007	-69.502
	CVA deduction	-1.119	-1.076
	Deduction of trading framework for own sharers	-1.499	-1.470
	Core tier 1 capital	**875.577**	**763.753**
	Holders of hybrid capital	59.768	59.680
	Tier 1 capital	**935.345**	**823.433**
	Subordinated loan capital	97.334	99.976
	Capital base	**1.032.679**	**923.409**
	Weighted items		
	Credit risk	4.510.623	4.306.575
	Market risk	367.033	386.226
	Operational risk	673.608	617.429
	Weigthed items total	**5.551.264**	**5.310.230**
	Core tier 1 capital ratio (excl. hybrid core capital)	**15,8**	**14,4**
	Tier 1 capital ratio	**16,9**	**15,5**
	Solvency ratio - Tier 2	**18,6**	**17,4**

Note

29 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	2019		2018	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash in hand+claims at call on central banks	229.494	229.494	184.106	184.106
Claims on credit institutes and central banks 1)	1.673.392	1.673.392	795.467	795.467
Loans and other debtors at amort. costprice 1)	4.326.873	4.332.998	4.362.392	4.368.636
Bonds at current value 1)	1.048.316	1.048.316	1.020.315	1.020.315
Shares etc.	225.094	225.094	220.498	220.498
Derivative financial instruments	2.764	2.764	4.513	4.513
Total financial assets	**7.505.933**	**7.512.058**	**6.587.291**	**6.593.535**
Financial liabilities				
Debt to credit institutions and central banks 1)	206.536	206.536	160.750	160.750
Deposits and other debts 1)	6.223.606	6.224.785	5.457.439	5.458.488
Derivative financial instruments	1.157	1.157	1.103	1.103
Subordinated debt 1) 2)	99.649	99.649	104.341	104.341
Total financial liabilities	**6.530.948**	**6.532.127**	**5.723.633**	**5.724.682**

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

30 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.	2019	2018
31	CREDIT RISKS		
	Loans and guarantees distributed on sectors		
	Public authorities	0,0	0,0
	Business:		
	Agriculture, hunting, forestry & fishing	12,0	11,2
	- Plant production	1,6	1,2
	- Cattle farming	6,7	6,0
	- Pig farming	1,5	1,4
	- Mink production	1,5	1,6
	- Other agriculture	0,7	1,0
	Industry and mining	4,0	2,8
	Energy	2,6	7,0
	Building and constructions	6,2	6,7
	Wholesale	5,9	6,4
	Transport, hotels and restaurants	1,7	1,5
	Information and communication	0,2	0,3
	Financial and insurance business	5,1	5,7
	Real-esate	13,4	12,8
	Other business	4,9	5,1
	Total business	56,0	59,5
	Private persons	44,0	40,5
	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.

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

	2019 (DKK 1,000) Exposure	2019 (DKK 1,000) Guarantees	2019 (DKK 1,000) Credit-under-takings
Public authorities	0	0	0
Business - agriculture	871.218	174.002	0
Business - other	3.196.503	825.446	87.023
Private persons	2.300.904	1.379.720	34.098
	6.368.625	**2.379.168**	**121.121**
Which recognized in the balance after deduction of depreciation	4.325.613		

Note

	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		

Description of collateral

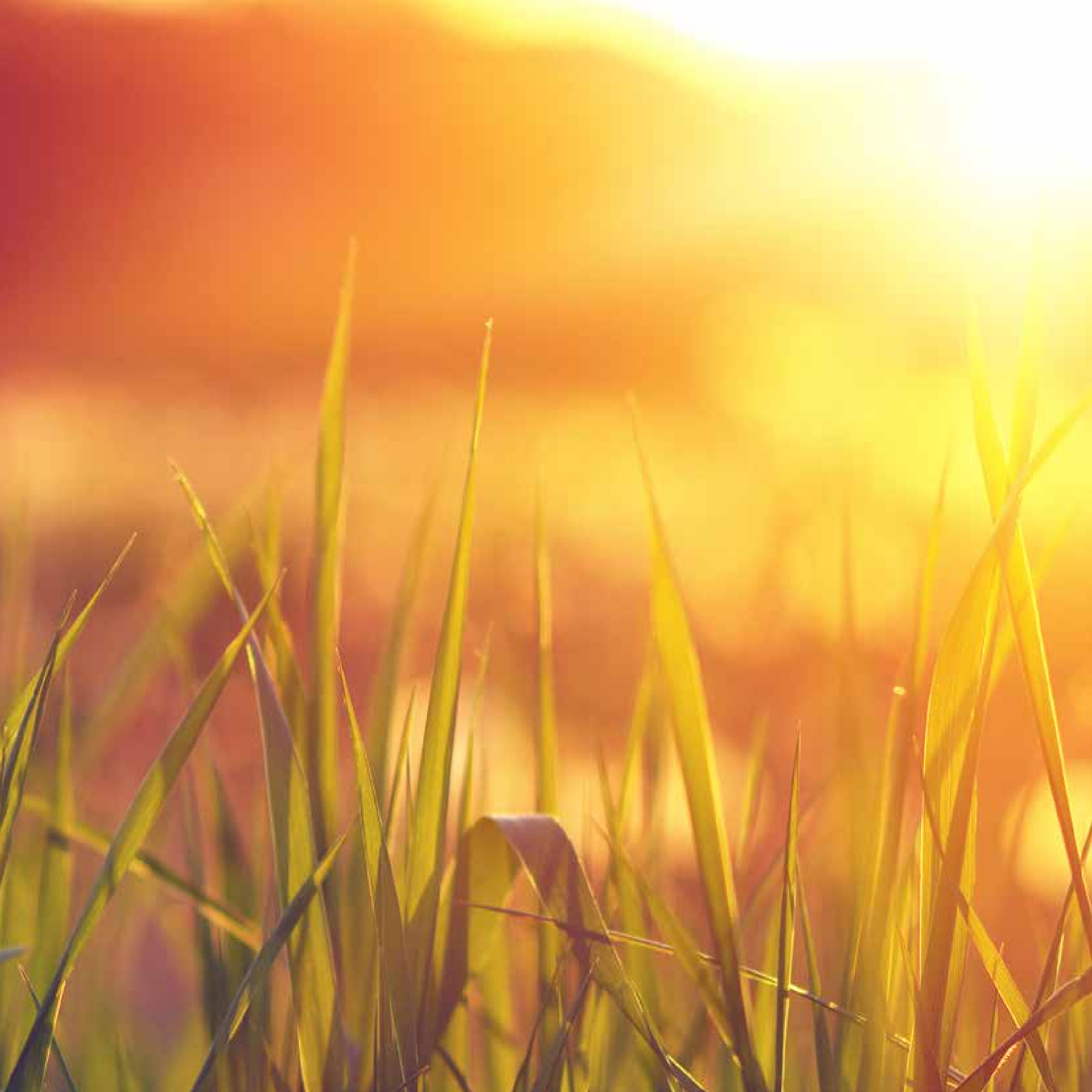
Security distributed by type (DKK 1,000)	2019 Business, agriculture	2019 Business, other	2019 Private
Securities	14.678	177.844	75.303
Real property	456.066	987.160	890.612
Chattels, vehicles and rolling stock	59.801	544.676	362.073
Guarantees	11.738	52.658	2.927
Other forms of security	104.189	632.486	446.216
	646.472	**2.394.824**	**1.777.131**

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**

As a general rule, the bank receives security in the funded asset. In addition, security is taken in the form of guarantees and mortgagesin parts and shares. The above list reflects the loan value attributable to the individual exposures.

The loan value reflects the fair value calculated in accordance with the bank's business process with a security margin of 10 - 60%,though less by government bonds.

The bank strives to reduce the calculated balance (maximum credit exposure excluding credit commitments less value of collateral andtotal write-downs) across the entire customer portfolio.In 2019, this resulted in a blank of DKK 3,.593 million. This is an increase of DKK 704 million. DKK compared to 2018.



Note DKK 1,000

31.12.2019

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	Total
Industry group											
Agriculture	133.476	79.357	58.283	24.525	151.757	59.638	42.224	14.144	95.164	0	658.568
Property	116.709	231.639	171.207	181.128	69.313	18.173	30.830	24.657	6.530	0	850.186
Other	446.224	743.755	205.582	176.806	343.816	98.486	36.836	39.943	35.870	0	2.127.318
Private	494.800	620.547	346.085	542.822	447.527	137.236	52.228	86.738	43.926	0	2.771.909
Deposits at Danmarks Nationalbank	111.389	0	0	0	0	0	0	0	0	0	111.389
Accounts with other banks	2.957	75.000	70.443	0	0	0	0	0	0	0	148.400
Instruments without significant increase in credit risk (stage 2)	1.290.269	1.704.876	848.780	888.587	1.000.834	313.533	156.118	162.162	181.490	0	6.546.649
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	Total
Industry group											
Agriculture	0	0	835	9.925	25.873	14.371	6.850	3.892	71.267	0	133.013
Property	0	0	0	12.432	45.759	10.767	350	330	5.650	0	75.288
Other	117	0	7	125.528	110.651	61.169	9.767	44.280	66.879	0	418.398
Private	899	338	297	96.058	107.512	16.156	1.965	3.950	40.370	0	267.545
Accounts with other banks	0	0	0	7.252	4.000	0	0	0	0	0	11.252
Instruments with significant increase in credit risk (stage 2)	1.016	338	1.139	251.195	293.795	102.463	18.932	52.452	184.166	0	905.496
Industry group											
Agriculture	0	0	0	0	0	0	0	0	0	179.532	179.532
Property	0	0	0	0	0	0	0	0	0	212.277	212.277
Other	0	0	0	0	0	0	0	0	0	224.823	224.823
Private	0	0	0	0	0	0	0	0	0	137.873	137.873
Credit-impaired instruments (stages 3 and 2 weak)	0	0	0	0	0	0	0	0	0	754.505	754.505
Instruments for which impairment has been recognised corresponding to expected credit losses in their lifetime)	1.016	338	1.139	251.195	293.795	102.463	18.932	52.452	184.166	754.505	1.660.001
Total financial assets, loan commitments and financial guarantees.	**1.291.285**	**1.705.214**	**849.919**	**1.139.782**	**1.294.629**	**415.996**	**175.050**	**214.614**	**365.656**	**754.505**	**8.206.650**
Work guarantees etc. not covered by IFRS9											
Rating classification	1	2	3	4	5	6	7	8	9	10	Total
Total	**133.895**	**265.862**	**92.471**	**239.783**	**174.410**	**37.600**	**16.092**	**14.580**	**23.028**	**37.457**	**1.035.178**
Total	**1.425.180**	**1.971.076**	**942.390**	**1.379.565**	**1.469.039**	**453.596**	**191.142**	**229.194**	**388.684**	**791.962**	**9.241.828**

Of which included in the balance	
Receivables from credit institutions and central banks	111.389
Loans and other receivables at amortised cost	4.325.613
Total	**4.437.002**

Note DKK 1,000

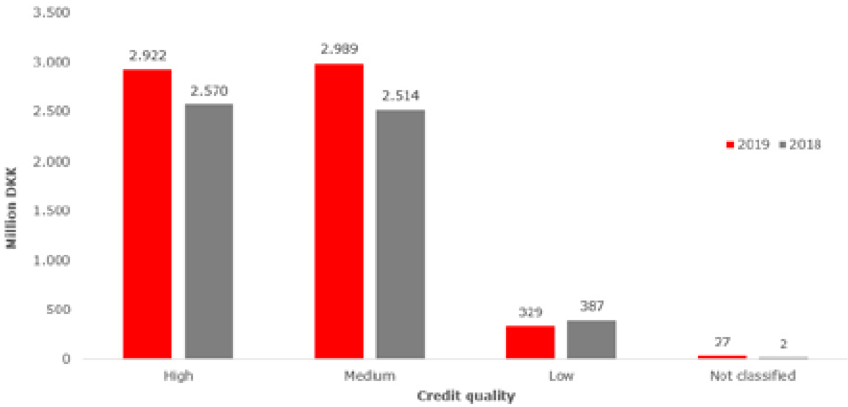
31.12.2018

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

	2019 Exposure before write-down	**2019** Write-downs	**2019** Securities
Significant financial difficulties	437.887	205.884	203.303
Breach of contract	7.850	4.930	804
Reductions in terms	14.310	6.378	6.809
Probability of bankruptcy	120.137	41.207	79.628
Total	**580.184**	**258.399**	**290.544**

	2018 Exposure before write-down	**2018** Write-downs	**2018** Securities
Significant financial difficulties	491.937	217.563	258.810
Breach of contract	11.689	5.667	3.428
Reductions in terms	25.318	7.286	13.258
Probability of bankruptcy	161.993	77.457	98.655
Total	**690.937**	**307.973**	**374.151**

Note	Beløb i 1.000 kr.	2019	2018

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	2019	2018
0-90 days	17.606	13.042
>90 days	945	25
Total	**18.551**	**13.067**

Loans and arrears amount for loans, which have not been written down	2019	2018
0-90 days	161.847	164.958
>90 days	5.784	2.656
Total	**167.631**	**167.614**

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	3/2A	3/2A	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 2018 and the first to quarters of 2019 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 repre-sentative of the upcoming 12 months. However, see "Macro factors".	PD is the proportionate num-ber of customers in the men-tioned groups who have impaired credit during the period.
Extension factors	Calculated extension factors from BankData	The factors are representa-tive of the bank's custom-ers. The bank has provided data for the calculations.	Calculated based on histori-cal 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 2006-2018. 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 recognition 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 carefully converted to the current 10-step scale. If there is no initial rating, the loss is recognised 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 threshold 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 expectations 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

The 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 – 30/09/2019 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 2007-2018.
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.

32 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	2019	2018
	Interest rate risk on debt instruments etc - total	15.206	13.869
	Interest rate risk in pct of core capital after deductions	1,6	1,7
	Interest rate risk split in currencies with highest risk:		
	DKK	14.504	13.019
	EUR	770	935
	CHF	-55	-75
	SEK	0	-6
	JPY	-2	-2
	USD	-11	-1
	Others	0	-1
	Total	**15.206**	**13.869**
	Foreign currency risk		
	Total assets in foreign currency	270.450	312.653
	Total liabilities in foreign currency	66.419	22.177
	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	2.022	1.590
	Currency indicator 1 in pct of core capital after deductions	0,2	0,2
	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	24	16
	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:

	2019	2018
Quoted on Nasdaq OMX Copenhagen A/S	3.888	2.876
Quoted on other stock exchanges	1.818	1.749
Unquoted shares recorded at fair value	16.804	17.426
Total shares etc.	**22.509**	**22.050**

33 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	2019 Nominal value	2019 Net market-value	2019 Market-value-positive	2019 Market-value-negative	2018 Nominal value	2018 Net market-value	2018 Market-value-positive	2018 Market-value-negative
Currency-contracts								
Up to 3 months	222.510	1.387	1.672	285	233.535	3.292	3.503	211
Over 3 months and up to 1 year	6.772	28	36	8	2.562	30	42	12
Over 1 year and up to 5 years								
Over 5 years								
Average market value			2.418	660			5.311	484
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	3.852		519	519	4.204		567	567
Average market value			1.493	1.311			1.000	943

DKK 1,000	2019	2018
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%	430	650
Positive market value, counterparty with risk weighting of 100%	2.334	3.863
Total	**2.764**	**4.513**

Unsettled spot transactions	Nominal value	Market-value-positive	Market-value-negative	Market-value-net
Foreign-exchange transactions, purchase	13.712	1	2	-1
Foreign-exchange transactions, sale	3.562	5	1	4
Interest-rate transactions, purchase	15.743	5	116	-111
Interest-rate transactions, sale	10.793	24	2	22
Share transactions, purchase	3.934	19	57	-38
Share transactions, sale	4.561	80	19	61
Total 2019	**52.305**	**134**	**197**	**-63**
Total 2018	**44.109**	**220**	**203**	**17**

Note	DKK 1,000	2019	2018	2017	2016	2015

34 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, Stonehenge Fondsmæglerselskab A/S, Investeringsforeningen Falcon Invest, SEB Invest A/S, Investeringsforeningen BIL Danmark, Codan, Dankort A/S, Nets A/S, Visma Enterprise, Krone Kapital, Købstædernes Forsikring og Visa International.

35 5 YEARS IN SUMMARY

DKK 1,000	2019	2018	2017	2016	2015
Profit and loss account					
Net income from interest	185.287	185.242	171.972	163.745	162.228
Dividend on shares	5.863	3.476	10.020	12.493	11.692
Charges and commission, net	143.257	119.515	114.620	98.280	81.316
Income from core business	**334.407**	**308.233**	**296.612**	**274.518**	**255.236**
Value adjustments	40.225	69.389	31.045	17.216	11.536
Other ordinary income	1.945	1.503	1.031	1.592	1.610
Staff cost and admin. expenses	191.861	191.626	161.052	148.990	139.680
Depreciation of intangible and tangible assets	2.821	3.004	3.071	3.746	3.924
Other operating expenses	112	127	52	255	9.066
- Contribution to the Guarantee Fund for deposits	112	52	52	52	8.926
- Other operating expenses	0	75	0	203	140
Write-downs on loans etc. (net)	16.831	19.729	19.886	36.172	63.098
Profit on equity investments in nonaffiliated and affiliated companies	0	0	0	490	-760
Operating result	**164.952**	**164.639**	**144.627**	**104.653**	**51.044**
Taxes	29.469	22.126	20.804	22.543	10.929
Profit for the year	**135.482**	**142.513**	**123.823**	**82.110**	**40.115**
Of which are holders of shares of hybrid core capital instruments etc.	6.626	6.626	5.168	6.626	1.831
Balance as per 31st December					
Summary					
Total assets	7.614.080	6.703.573	6.367.636	5.860.191	5.424.729
Loans and other receivables	4.325.613	4.359.561	3.924.509	3.687.509	3.511.175
Guarantees etc	2.379.168	1.543.324	1.125.541	841.088	792.047
Bonds	1.045.717	1.016.994	1.072.833	926.950	707.428
Shares etc	225.094	220.498	245.686	219.447	179.233
Deposits and other debts	6.223.604	5.457.413	5.240.913	4.871.359	4.483.104
Subordinated debt	97.334	99.976	99.797	99.618	169.439
Total equity	**1.026.569**	**926.740**	**814.332**	**695.313**	**619.425**
- of which proposed dividend	28.920	28.920	0	0	0
Capital Base	**1.032.679**	**923.409**	**819.582**	**703.871**	**663.076**

Note		2019	2018	2017	2016	2015
36	FINANCIAL RATIO (FIGURES IN PCT.)					
	Solvency ratio	18,6	17,4	17,8	16,5	16,3
	Core capital ratio	16,9	15,5	15,8	14,6	14,4
	Return on equity before tax*	17,3	19,5	19,8	16,4	9,1
	Return on equity after tax*	14,1	16,8	17,1	12,6	7,1
	Return on assets	1,8	2,1	1,9	1,4	0,7
	Earning/expense ratio in DKK	1,78	1,77	1,75	1,52	1,23
	Interest rate risk	1,6	1,7	1,9	0,8	-0,8
	Foreign currency position	0,2	0,2	0,1	0,2	0,4
	Foreign currency risk	0,0	0,0	0,0	0,0	0,0
	Loans etc. against deposits	74,6	86,3	81,4	82,7	86,4
	Statutory liquidity surplus	-	165,1	191,6	185,4	174,8
	LCR**	357	247	262	334	355
	Total large commitments	136,5	144,1	55,1	10,3	23,4
	Loans and debtors at reduced interest	1,2	1,9	2,2	2,5	3,1
	Accumulated impairment ratio	4,7	5,8	6,3	7,0	7,8
	Impairment ratio for the year	0,2	0,3	0,4	0,7	1,4
	Increase in loans etc. for the year	-0,8	11,1	6,4	5,0	-3,8
	Ratio between loans etc. and capital funds	4,2	4,7	4,8	5,8	6,3
	(value per share 100 DKK)					
	Earnings per share*	66,8	70,5	61,5	39,2	19,9
	Book value per share*	502	450	390	330	291
	Rate on Copenhagen Stock Exchange	311	305	368	268	168
	Dividend per share	15	15	0	0	0
	Market value/net income per share	4,7	4,3	6,0	6,8	8,4
	Market value/book value*	0,62	0,68	0,94	0,81	0,58
	(value per share 20 DKK)					
	Earnings per share*	13,4	14,1	12,3	7,8	4,0
	Book value per share*	100	90	78	66	58
	Rate on Copenhagen Stock Exchange	62,2	61,0	73,5	53,6	33,6

*) 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.

Note	DKK 1,000	4Q 2019	3Q 2019	2Q 2019	1Q 2018	4Q 2018
37	QUARTERLY OVERVIEWS					
	Profit and loss account					
	Net income from interest	46.713	45.425	46.196	46.953	46.633
	Div. on shares and other holdings	76	981	4.471	335	79
	Charges and commissions (net)	37.368	36.974	33.759	35.156	31.487
	Net inc. from int. & charges	**84.157**	**83.380**	**84.426**	**82.444**	**78.199**
	Value adjustments	3.432	22.587	2.615	11.591	-3.196
	Other ordinary income	593	368	720	264	514
	Staff costs and administrative expenses	51.156	48.320	46.750	45.635	63.833
	Depreciation of intangible and tangible assets	526	765	765	765	709
	Other operating expenses	0	0	112	0	75
	Operating expenses	0	0	112	0	0
	Guarantee commission first guarantee scheme	0	0	0	0	75
	Write-downs on loans etc. (net)	5.629	4.009	3.463	3.730	5.790
	Operating profit	**30.871**	**53.241**	**36.671**	**44.169**	**5.110**
	Taxes	4.591	7.093	8.068	9.717	1.688
	Profit for the period	**26.279**	**46.148**	**28.603**	**34.452**	**3.422**
	Of which are holders of shares of hybrid core capital instruments etc.	1.919	1.569	1.569	1.569	1.919
	Balance					
	Loans and other debts	4.325.613	4.289.001	4.330.603	4.331.256	4.359.561
	Deposits	6.223.604	5.772.673	5.821.940	5.495.332	5.457.413
	Subordinated cap. investments	97.334	99.209	97.083	100.000	99.976
	Equity	1.026.569	1.002.122	957.456	935.940	926.740
	Total assets	7.614.080	7.332.658	7.192.148	6.761.185	6.703.573
	Guarantees etc.	2.379.168	2.262.047	2.048.683	1.669.526	1.543.324
	Core earnings					
	Core income	85.832	85.026	86.360	83.721	79.964
	Total costs	-51.682	-49.085	-47.627	-46.400	-64.617
	Core earnings	**34.150**	**35.941**	**38.733**	**37.321**	**15.347**

FINANCIAL CALENDER 2020

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
Niels Erik Kjærgaard (chairman)	Former city manager	Skjern
Niels Christian Poulsen	Mink farmer	No
Lars Skov Hansen	Advisor	Esbjerg

COMMITTEE OF REPRESENTATIVES

Name	Jobposition	City	Elected	Born
Hans L. Jeppesen (board chairman)*	Lawyer	Skjern	2011	1964
Ole Strandbygaard (board vice-chairman)	Printer	Ringkøbing	2008	1972
Michael Albrechtslund	Manager	Rungsted	2016	1964
Jørgen Søndergaard Axelsen	Real estate agent	Skjern	2002	1960
Nicolai Berg	Equity Analyst	Aahus	2019	1993
Jens Bruun	Former manager	Aarhus	2007	1952
Heine Delbing	Manager	Odense	2019	1953
Poul Frandsen	Manager	Herning	2012	1967
Orla Varridsbøl Hansen	Manufacturer	Tarm	2002	1949
Christian Hede	Nationaløkonom	Silkeborg	2019	1977
Kasper Herrestrup	Chief Investmest Officer	Brabrand	2019	1982
Tom Jacobsen	Manager	Tarm	2010	1970
Mike Jensen	Bookseller	Skjern	2005	1966
Jonas Højhus Jeppesen	Finance Manager	Morud	2019	1989
Bjørn Jepsen*	Farmer	Borris	2011	1964
Niels Erik Kjærgaard*	Former city manager	Skjern	2002	1954
Birgitte Kloster	Former logisticdirector	Ribe	2018	1966
Dorte H. Knudsen	Nurse	Hviding	2006	1956
Jakob Møller	Investment Manager	Vejle	2019	1988
Tommy Noer	Technical teacher	Esbjerg	2005	1954
Jens Christian Ostersen	Farmer	Stauning	1992	1954
Morten Henrik Pedersen	Merchant	Holte	2019	1963
Jens Kirkegaard Pedersen	Manager	Hemmet	2013	1971
Niels Christian Poulsen*	Mink farmer	No	2006	1963
Jesper Ramskov	Manager	Esbjerg	2005	1964
Bente Tang	Farmer	Hanning	2006	1969
Birte Bruun Thomsen	Manager	Esbjerg	2014	1966
Poul Thomsen	Former trader	Skjern	1993	1952
Helle Vingolf	Manager	Esbjerg	2018	1968

*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

Bjørn Jepsen, farmer, Borris

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

Other management duties:
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

Niels Christian Poulsen, mink farmer, No

Born 6 February 1963
Elected on the board in 2019
Current term expires in 2020

Other management duties:
Board member of Holstebro Minkfodercentral AmbA
Board member ofP/F Hovla Fish - Færøerne
Board member of K/S Holmen Vindmølle 4
Board member of Vindmølle Holmen ApS
Board member of Nørhede-Hjortmose Vind I/S
Board member of Heager Kærs Pumpeinteressentskab

Niels Erik Kjærgaard, former city manager, Skjern

Born on 3 July 1954
Elected on the board in 2019
Current term expires in 2020

Other management duties:
Board chairman of Ejendomsfonden for oplevelsesparken Natur-kraft
Board chairman of Investeringsselskabet Lionek A/S
Board chairman of Iværksætterselskabet K&S ApS
Board chairman of Ringkøbing-Skjern Kulturcenter

Board member of Ejendomsselskabet Husumparken A/S
Board member of Ejendomsselskabet Husumparken af 2000 A/S
Board member of Skjern Udviklingsforum

Lars Skov Hansen, advisor, Esbjerg
Employee-selected

Born 17 May 1973
Elected on the board in 2011
Current term expires in 2023

Carsten Jensen, advisor, Skjern
Employee-selected

Born 29 April 1980
Elected on the board in 2015
Current term expires in 2023

Michael Tang Nielsen, finance manager, Velling
Employee-selected

Born 17 December 1977
Elected on the board in 2019
Current term expires in 2023

MANAGEMENT

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

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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
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2900 Hellerup
Tlf. 9682 1450

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