Annual Report 2019

Contents

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The Vestjysk Bank Annual Report for 2019 is a translation of the original report in Danish (Vestjysk Bank Årsrapport 2019).
In case of discrepancies, the Danish version prevails.

Summary

2019 Highlights

Vestjysk Bank realised a profit after tax of DKK 478 million in 2019. The profit was favourably affected by the sale of the Bank's shares in Sparinvest Holdings SE, as detailed in a company announcement dated 30 August 2019, and recognition of additional deferred tax asset at 31 December 2019. A negative value adjustment of owner-occupied properties due to a fall in rental value and increased costs for investment in IT related to stricter statutory requirements in the banking sector detracted from the performance. Impairment allowances were generally at a lower level than in 2018, and the Bank's overall profit after tax for 2019 was very satisfactory.

- Profit after tax of DKK 478 million (2018: DKK 296 million), equalling a return on equity after tax of 17.2%. Excluding the profit from the sale of shares in Sparinvest Holdings SE and the increased deferred tax asset, the profit was DKK 313 million and return on equity after tax was 11.3%.
- Core income of DKK 1,055 million (2018: DKK 909 million), including value adjustments of DKK 185 million (2018: DKK 35 million).
- The proceeds from the sale of shares in Sparinvest Holding SE in Q3 2019 amounted to DKK 142 million.
- Cost ratio of 48.2% (2018: 52.9%). Excluding the income from the sale of shares in Sparinvest Holdings SE, the cost ratio was 55.6%.
- DKK 38 million value adjustment of the Bank's owner-occupied properties, DKK 21 million of which was recognised in the profit for the year.
- Core earnings before impairment of DKK 547 million (2018: DKK 428 million).
- Additional recognition of deferred tax asset of DKK 23 million. The recognised tax asset thus amounted to DKK 98 million, while the deferred tax asset not recognised amounted to DKK 480 million.
- Impairment of loans and receivables, etc. of DKK 64 million (2018: DKK 186 million). Impairment losses on agriculture still accounted for the majority of the Bank's impairment losses.
- The Bank's capital requirement was 13.6%, consisting of an individual solvency need of 10.1%, a general capital conservation buffer of 2.5% and a countercyclical buffer of 1.0%.
- The Bank's total capital ratio was 21.1%, implying an excess cover of 7.5 percentage points or DKK 1,070 million.
- The Bank's MREL ratio was 21.1%. The MREL requirement was phased in at 0.625%, added to the capital requirement. The MREL requirement was 14.2%. This taken into account, the excess cover was 6.9 percentage points, or DKK 980 million.

Outlook for 2020

Vestjysk Bank expects a profit after tax of around DKK 250-300 million. Currently, however, there is some uncertainty as to the global economic outlook and, in particular, the settlement price trend for agricultural products. A significant decline in these could impact the Bank's impairment losses.

Like other banks, Vestjysk Bank is introducing negative deposit rates for retail customers for pension savings in excess of DKK 10,000 effective from 15 February 2020 and for deposits in excess of DKK 500,000 effective from 15 March 2020. The effects of this have been factored into the outlook for 2020, and the bank is closely monitoring sector developments in this respect.

Introduction

Satisfactory performance in 2019
In 2019, we successfully executed a substantial part of the Bank's action plan for the year.

Vestjysk Bank is a well-capitalised regional bank on a par with its peers in the Danish banking market.

Working with the Bank's weak and impaired customers resulted in a continued improvement of the lending book's credit quality and reduced exposure to the real estate and agricultural sectors. The effect of this work was further evidenced by a reduction in the Bank's impairment losses in 2019.

With a net addition of new, financially sound retail customers in 2019, the proportion of loans to retail customers continued to rise and is now above the long-term goal of a 65/35% distribution between business and retail exposures.

The Bank also saw an addition of financially sound business customers from a broad spectrum of business sectors. Furthermore, the Bank noted growing interest from business customers with good credit quality in participating in new commercial projects requiring additional financing from the Bank.

In 2019, Vestjysk Bank continued to focus strongly on digitising the Bank's internal processes. This has been an important tool in our efforts to lower operating expenses and maintain a satisfactory cost ratio.

In 2019, the Bank's business volume, including custody accounts and arranged mortgage loans, increased by just over DKK 3 billion, or by 5%. This was mainly due to growth in mortgage loans arranged by the Bank. Vestjysk Bank arranges mortgage loans from Totalkredit for the Bank's retail customers and mainly from DLR-kredit for business customers. In 2019, the Bank saw an increase in arranged mortgage loans for both customer groups, and the overall volume of arranged mortgage loans grew by DKK 1.6 billion in 2019. During the same period, the Bank's lending declined by DKK 0.6 billion. The drop should be seen in the context of our efforts to create sustainable solutions for financially weak customers and thus improve the Bank's credit quality. The drop was also in part due to conversions to mortgage loans. Deposits were up DKK 0.7 billion in 2019, and custody account deposits were up DKK 1.1 billion. The increase in custody accounts should be seen in the context of the large market value drops towards the end of 2018, which were recovered during 2019. This was another area in which the Bank accomplished the business plan's goal of increasing business volume.

Business plan 2020
The financial statements presented in the 2019 annual report are very satisfactory, and the primary goal for the coming year is to remain strong Vestjysk Bank. The business plan for 2020 builds on the business plan for 2019 and remains focused on generating earnings by entering into business transactions with existing and new customers within the Bank's natural market segment, further improving the Bank's credit quality and keeping up the strict cost management in order to maintain the Bank's competitive strength.

The 2020 business plan focuses on the following action points:

- Ensuring that offering our customers personal contact and service remains a key priority by delivering on our core values – Presence, Simplicity and Action
- Ensuring controlled business volume growth by focusing on the Bank's existing customers' borrowing and credit needs and adding new, financially sound retail customers and solid business customers in the SME segment
- Continuing to work actively with the Bank's weak and credit-impaired customers to reduce overall impairment allowances and further improve the overall customer credit quality
- Realising the ambition of a cost ratio in the 50-55% range
- Growing earnings, particularly in the investment area, by increasing the customers' proportion of pooled and wealth management products
- Continuing to focus on the Bank's digitalisation through effective internal processes and offering new options for customers
- Maintaining a strong liquidity position by balancing the development of gross lending and deposits

Introduction

Based on Vestjysk Bank's very satisfactory performance for 2019 and Management's focus on executing the business plan, the Bank's development is on track, and Management expects to see satisfactory results in the years ahead based on the business plan's execution.

The EU Commission

When the EU Commission temporarily approved the state aid in parts of the capital plan for Vestjysk Bank's merger with Aarhus Lokalbank in the spring of 2012, that approval was predicated upon the EU Commission's prior approval of the Bank's restructuring plan.

On 8 April 2019, the Bank was advised that the EU Commission had approved the termination of the Bank's restructuring period at 31 December 2018.

Outlook for 2020

Since 2015, Vestjysk Bank has posted net profits, which have shown an upward trend. The profit for 2019 was again very positive and higher than in previous years. Uncertainty factors regarding the Bank's financial performance in 2020 are in part linked to the Bank's significant agricultural exposure. In the latter part of 2019, the Bank saw a reduction of impairment on agricultural exposures, and this trend is expected to continue in 2020.

For almost all other sectors, the Bank expects the customers' generally positive financial results to be maintained. Moreover, Vestjysk Bank was very successful in finding long-term solutions for its financially weak customers in 2019, and thus overall impairment losses and the impairment ratio are expected to continue to decrease in 2020.

Vestjysk Bank expects a profit after tax of around DKK 250-300 million in 2020. Currently, however, there is some uncertainty as to the global economic outlook and, in particular, the settlement price trend for agricultural products. Uncertainty regarding the effects of Brexit and the risk of African swine fever spreading to Germany and ultimately Denmark could both potentially have a considerable adverse impact on the Bank's impairment losses.

Like other banks, Vestjysk Bank is introducing negative deposit rates for retail customers for pension savings in excess of DKK 10,000 effective from 15 February 2020 and for deposits in excess of DKK 500,000 effective from 15 March 2020. The effects of this have been factored into the outlook for 2020, and the bank is closely monitoring sector developments in this respect.

Kim Duus
Chairman of the Board of Directors

Jan Ulsø Madsen *Chairman*
Chief Executive Officer

Management's review

Financial highlights

Financial highlights	2019	2018	2017	2016	2015
Statement of income (DKKm)					
Net interest income	510	548	573	595	644
Net fee income	329	297	338	312	305
Dividends on shares, etc.	29	12	4	3	2
Value adjustments	185	35	23	65	17
Other operating income	2	17	7	29	21
Core income	1,055	909	945	1,004	989
Staff costs and administrative expenses	477	470	482	489	513
Other operating expenses and depreciation, amortisation and impairment of property, plant and equipment and intangible assets	31	11	22	16	56
Operating expenses and operating depreciation and amortisation	508	481	504	505	569
Core earnings before impairment	547	428	441	499	420
Impairment of loans and receivables, etc.	64	186	270	416	370
Profit/loss before tax	483	242	171	83	50
Tax	5	-54	8	3	1
Profit/loss after tax	478	296	163	80	49
Statement of financial position (DKKm)					
Total assets	22,192	21,198	21,902	19,895	21,114
Loans	10,221	10,797	11,629	12,529	13,379
Deposits, including pooled schemes	18,276	17,583	18,396	16,971	18,090
Contingent liabilities	3,966	3,487	3,608	3,358	3,213
Custody services	8,708	7,585	8,713	9,860	10,139
Arranged mortgage loans	30,749	29,122	28,381	28,025	28,552
Business volume	32,463	31,867	33,633	32,858	34,682
Business volume including custody services and arranged mortgage loans	71,920	68,574	70,727	70,743	73,373
Equity	2,956	2,589	2,515	1,487	1,404

In accordance with the accounting policies, the comparative figures 2015-2017 have not been restated in connection with the implementation of IFRS 9 at 1 January 2018.

Financial ratios	2019	2018	2017	2016	2015
Capital					
Total capital ratio	21.1%	19.7%	19.2%	13.0%	12.5%
Tier 1 capital ratio	18.6%	17.4%	16.8%	11.2%	10.5%
Common equity tier 1 capital ratio	17.6%	15.7%	15.2%	8.7%	7.9%
Earnings					
Return on equity before tax p.a.	17.4%	9.9%	8.5%	5.7%	3.6%
Return on equity after tax p.a.	17.2%	12.1%	8.2%	5.5%	3.6%
Income/cost ratio	1.84	1.36	1.22	1.09	1.05
Cost ratio [1]	48.2%	52.9%	53.3%	50.3%	57.5%
Return on assets	2.2%	1.4%	0.8%	0.4%	0.2%
Average number of employees (FTE)	377.9	385.8	421.9	458.6	500.1
Market risk					
Interest rate risk	0.7%	-0.5%	-1.2%	-3.0%	-5.1%
Foreign exchange position	0.4%	0.3%	0.2%	0.3%	1.9%
Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%
LCR	259.2%	195.3%	255.4%	318.1%	260.5%
Credit risk					
Loans plus impairment of loans relative to deposits	68.9%	76.3%	79.4%	91.7%	91.0%
Loans relative to equity	3.5	4.2	4.6	8.4	9.5
Lending growth for the year	-5.3%	-5.6%	-7.2%	-6.4%	-9.3%
Sum of large exposures > 10%	0.0%	14.1%	11.9%	36.9%	35.1%
Sum of 20 largest exposures [2]	102.7%	116.4%	-	-	-
Accumulated impairment ratio	14.5%	15.6%	16.5%	16.1%	15.8%
Impairment ratio for the year	0.3%	1.0%	1.5%	2.2%	1.9%
Vestjysk Bank share					
Earnings per share for the year	0.5	0.3	0.3	0.5	0.3
Book value per share [3]	3.1	2.6	2.6	9.4	8.8
Price of Vestjysk Bank shares, end of the year [4]	3.1	2.0	2.7	13.0	7.8
Share price/earnings per share	5.8	5.9	8.7	24.6	23.7
Share price/book value per share	1.0	0.7	1.1	1.4	0.9

In accordance with the accounting policies, the comparative figures for 2015-2017 have not been restated in connection with the implementation of IFRS 9 at 1 January 2018.

1 Operating expenses and operating depreciation and amortisation/core income
2 In 2018, this financial ratio is calculated according to new rules. There is no basis for calculating the key figure from 2015-2017
3 The ratio "Book value per share" is adjusted for the portion of equity (additional tier 1 capital), that is not part of the share-holders' share of equity.
4 It is not possible to compare the key figure from 2015 and 2016 due to share issue in 2017.

Management's review

Financial highlights by quarter

Financial highlights	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Statement of income (DKKm)					
Net interest income	131	127	127	125	143
Net fee income	85	88	81	75	78
Dividends on shares, etc.	0	6	23	0	0
Value adjustments	12	153	0	20	3
Other operating income	0	0	1	1	0
Core income	228	374	232	221	224
Staff costs and administrative expenses	122	119	116	120	110
Other operating expenses and depreciation, amortisation and impairment of property, plant and equipment and intangible assets	19	7	2	3	1
Operating expenses and operating depreciation and amortisation	141	126	118	123	111
Core earnings before impairment	87	248	114	98	113
Impairment of loans and receivables, etc.	20	7	15	22	52
Profit before tax	67	241	99	76	61
Tax	-14	7	8	4	-69
Profit after tax	81	234	91	72	130
Statement of financial position (DKKm)					
Total assets	22,192	22,019	21,592	21,266	21,198
Loans	10,221	10,756	10,613	10,947	10,797
Deposits, including pooled schemes	18,276	18,043	17,800	17,590	17,583
Contingent liabilities	3,966	3,974	3,606	3,326	3,487
Custody services	8,708	8,332	8,338	8,235	7,585
Arranged mortgage loans	30,749	30,060	29,491	29,199	29,122
Business volume	32,463	32,773	32,019	31,863	31,867
Business volume including custody services and arranged mortgage loans	71,920	71,165	69,848	69,297	68,574
Equity	2,956	2,892	2,743	2,656	2,589

Financial ratios	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Capital					
Total capital ratio	21.1%	17.8%	18.6%	18.5%	19.7%
Tier 1 capital ratio	18.6%	15.4%	16.3%	16.2%	17.4%
Common equity tier 1 capital ratio	17.6%	14.3%	14.7%	14.6%	15.7%
Earnings					
Return on equity before tax p.a.	9.1%	33.9%	14.7%	11.7%	9.6%
Return on equity after tax p.a.	11.0%	32.9%	13.5%	11.1%	20.5%
Income/cost ratio	1.42	2.80	1.74	1.52	1.38
Cost ratio [1]	61.5%	34.0%	50.6%	55.8%	49.5%
Return on assets	0.4%	1.1%	0.4%	0.3%	0.3%
Average number of employees (FTE)	390.2	375.0	373.1	370.3	362.1
Market risk					
Interest rate risk	0.7%	0.2%	0.2%	0.3%	-0.5%
Foreign exchange position	0.4%	0.3%	0.4%	0.3%	0.3%
Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%
LCR	259.2%	203.2%	236.5%	173.5%	195.3%
Credit risk					
Loans plus impairment of loans relative to deposits	68.9%	73.1%	73.7%	76.7%	76.3%
Loans relative to equity	3.5	3.7	3.9	4.1	4.2
Lending growth	-5.0%	1.3%	-3.0%	1.4%	-3.1%
Sum of large exposures > 10 %	0.0%	10.5%	10.1%	26.7%	14.1%
Sum of 20 largest exposures	102.7%	126.3%	124.9%	143.5%	116.4%
Accumulated impairment ratio	14.5%	14.3%	15.1%	15.3%	15.6%
Impairment ratio	0.1%	0.1%	0.2%	0.0%	0.3%
The Vestjysk Bank share					
Earnings per share	0.1	0.3	0.1	0.1	0.1
Book value per share [2]	3.1	3.1	2.8	2.7	2.6
Price of Vestjysk Bank shares, end of the year	3.1	3.5	4.2	2.6	2.0
Share price/book value per share	1.0	1.2	1.5	1.0	0.7

1 Operating expenses and operating depreciation and amortisation/core income
2 The ratio "Book value per share" is adjusted for the portion of equity (additional tier 1 capital), that is not part of the shareholders' share of equity.

Management's review

Financial review

Income statement

Profit after tax

For 2019, the Bank's profit after tax was DKK 478 million, compared with DKK 296 million for 2018. The profit for 2019 included recognition of a deferred tax asset at 31 December 2019 in the amount of DKK 23 million and a profit of DKK 142 million on the sale of shares in Sparinvest Holdings SE. Excluding the recognised tax asset and the sale of shares in Sparinvest Holdings SE, the profit for 2019 was DKK 313 million.

Negative interest income and positive interest expenses were previously presented under interest income and expenses due to their immateriality. In 2019, this changed, and their presentation is set out in the notes to the financial statements. The changed presentation has not affected the net amount of interest income.

Impairment of loans and receivables, etc. amounted to DKK 64 million in 2019. The impairment ratio for 2019 was 0.3%, against 1.0% in 2018. This level is assessed to be in line with peer financial institutions.

Core income

In 2019, Vestjysk Bank realised core income of DKK 1,055 million, against DKK 909 million in 2018. The increase in core income was primarily due to the profit from the sale of the Sparinvest Holdings SE shares.

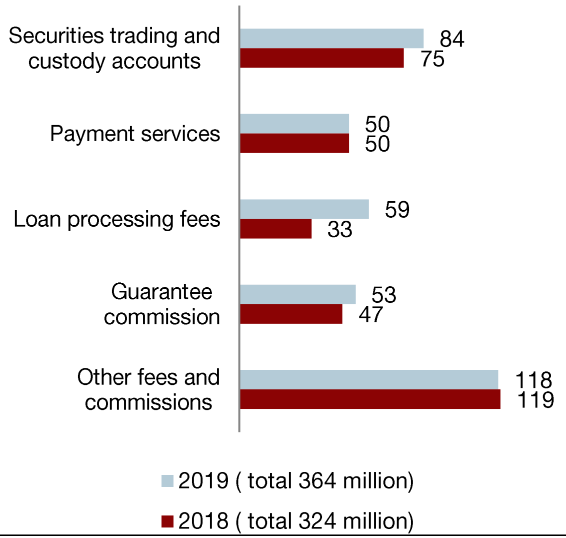
Net interest income amounted to DKK 510 million in 2019, against DKK 548 million in 2018. The lower level was due to a DKK 54 million drop in interest income due to a lower lending volume and increased price pressure. The Bank's interest expenses were reduced by DKK 16 million due to lower deposit rates.

Net value adjustments amounted to DKK 185 million in 2019, against DKK 35 million in 2018. Vestjysk Bank realised a profit of DKK 127 million on the sale of shares in Sparinvest Holdings SE.

Profit from shares amounted to DKK 29 million in 2019, against DKK 12 million in 2018. Due to the sale of shares in Sparinvest Holdings SE has Vestjysk Bank received dividends on shares of DKK 15 million.

Fee income increased from DKK 324 million in 2018 to DKK 364 million in 2019. The increase in fee income was driven by strong remortgaging activity in the mortgage credit area. The distribution of the Bank's fee income is shown in the figure.

Income from fee and commission (DKKm)



Other operating income amounted to DKK 2.4 million in 2019, against DKK 17.2 million in 2018. The decrease was explained by the conclusion of a framework agreement with Nærpension in 2018.

Operating expenses and operating depreciation and amortisation

Total operating expenses, depreciation and amortisation amounted to DKK 508 million in 2019, against DKK 481 million in 2018.

Expenses in 2019 were impacted by an increase relating primarily to investments in IT due to stricter statutory requirements in the banking sector, primarily in the anti-money-laundering area. Vestjysk Bank's expenses relating to the Bank's data centre, Bankernes EDB-Central (BEC), grew by DKK 20 million compared with 2018. The trend of increasing IT costs is expected to continue in the next few years.

In 2019, the Bank reduced the average number of employees by 8 FTEs compared with 2018. Overall, the number of FTEs has been cut by 24% over the past four years, from 500 at the end of 2015 to 378 at the end of 2019. Staff costs were reduced by DKK 25.1 million, equivalent to 8.1%, relative to 2018.

Other administrative expenses excluding IT costs in 2019 increased by DKK 10 million relative to 2018. The increase was driven in part by marketing activities, in part by costs relating to collection of non-performing loans and by costs relating to the closing of the EU case.

In May/June 2019, the Danish Financial Supervisory Authority (the "FSA") conducted an inspection of Vestjysk Bank. The inspection was an ordinary inspection, at which the FSA examined key risk areas according to a risk-based assessment, focusing on the areas involving the greatest risk.

The FSA examined the valuation of a number of the Bank's properties, resulting in a total negative value adjustment of DKK 9 million as a result of changes in rental values. Based on the FSA's valuation, Vestjysk Bank subsequently reassessed the rental value of the Banks' other owner-occupied properties, resulting in a further value adjustment of DKK 29 million in 2019. Part of this value adjustment was taken to the Bank's revaluation reserves. The Bank's profit was reduced by DKK 20.8 million as a result of this value adjustment.

The cost ratio for 2019 was 48.2%, compared with 52.9% in 2018. Excluding the effect of the sale of shares in Sparinvest Holdings SE, the cost ratio was 55.6%.

The table below illustrates the composition of operating expenses and operating depreciation and amortisation.

Operating expenses and operating depreciation and amortisation

(DKKm)	2019	2018
Staff costs	285	311
- Of this amount severance pay	*2*	*30*
IT costs	125	104
- Of this amount BEC	*115*	*95*
Other administrative expenses	66	56
Operating depreciation and amortisation	30	8
Other operating expenses	2	2
Total	**508**	**481**

Core earnings before impairment

For 2019, the Bank's core earnings before impairment stood at DKK 547 million, against DKK 428 million in 2018, which reflects the sale of shares in Sparinvest Holdings SE and the additional value adjustment of the Bank's owner-occupied properties.

Impairment of loans and receivables etc.

Impairment allowances, net amounted to DKK 64 million in 2019, compared with DKK 186 million in 2018. The impairment ratio for 2019 was 0.3%, against 1.0% in 2018. The level of impairment was on par with peer financial institutions. In 2019, the Danish FSA adjusted land prices in north-western Jutland, leading to increased impairment allowances in 2019.

In its May/June 2019 inspection, the FSA examined 102 loans, which resulted in additional impairment losses of DKK 33 million. The additional impairment losses were recognised in the Bank's financial statements at 30 June 2019.

The majority of the impairment losses were in the agricultural sector, and otherwise distributed on other sectors.

Milk settlement prices were stable throughout 2019, and this is expected to continue in 2020. Nonetheless, further impairment losses of DKK 68 million on agricultural exposures were recognised in 2019, principally due to the FSA's lowering of the value of land in north-western Jutland.

Since April 2019, pork settlement prices have risen as a result of an outbreak of African swine fever and subsequent spread in Asia and Eastern and Central Europe. SEGES expects the pork price level to remain high for an extended period of time. In the latter part of 2019, the high prices led to extraordinary debt repayment by pig farmers, which resulted in a significant reversal of impairment losses in the amount of DKK 102 million in 2019. This trend is expected to continue into 2020, provided that the price level remains high. The long-term financial outlook for pig farmers is subject to significant risk and uncertainty, however, in light of the risk of African swine fever spreading to Germany and/or Denmark and the as yet unknown consequences to Danish exports of Britain's exit from the European Union (Brexit).

Other agriculture has resulted in impairment losses of DKK 81 million. Among other things the mink farming sector has been under pressure. Vestjysk Bank reassessed the risks relating to this sector and increased impairment allowances for the segment in 2019. Lending to mink farmers accounted for just over 1% of the Bank's total lending.

Real estate exposures are generally showing a favourable trend with profitable operations and sufficient liquidity, which was reflected in a net reversal of impairment losses in 2019.

At 46%, or DKK 1.1 billion, the agricultural sector as a whole accounted for the largest part of Vestjysk Bank's accumulated impairment losses. The Bank thus recognised impairment losses representing approximately 34% of its gross lending and guarantees to the agricultural sector. The Bank continues to focus on developments in this sector. The distribution of the Bank's loans and guarantees for and impairment losses on agricultural exposures by sub-sectors,

Vestjysk Bank has for the past few years focused on improving on processes for managing and monitoring the Bank's loans and guarantees. This work has now considered to be solved, which is reflected in the impairment level and credit quality.

In 2020 and the coming years, focus will be on the handling of individual customers in the challenged segments.

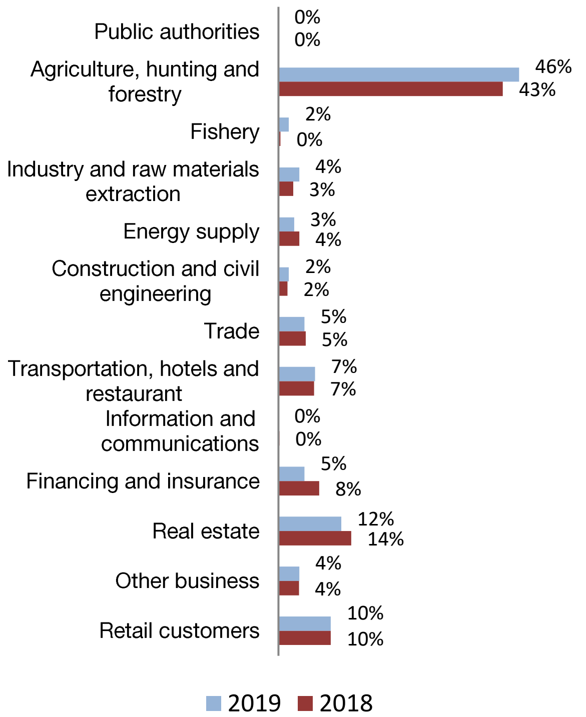
The distribution of the Bank's loans and guarantees for and impairment losses on agricultural exposures by sub-sectors, real estate, other business and the retail segment is shown in the table below.

Distribution of loans and guarantees 2019 (DKKm)	Loans and guarantees before impairment	Acc. Impairment	Loans and guarantees after impairment	Impairment of the year
Dairy farmers	1,546	616	930	68
Pig breeders	1,179	336	843	-102
Other agriculture	519	148	371	81
Agriculture, total	3,244	1,100	2,144	47
Real estate	2,142	281	1,861	-36
Other business	5,569	766	4,803	51
Business, total	10,955	2,147	8,808	62
Retail	5,630	251	5,379	2
Total	16,585	2,398	14,187	64

The Bank's accumulated impairment ratio at the end of 2019 stood at 14.5%, compared with 15.6% at the end of 2018.

The sector distribution of accumulated impairment losses and allowances is shown below.

Accumulated impairment and allowances by sector at 31 December 2019



Statement of financial position

Vestjysk Bank's total assets amounted to DKK 22.2 billion at 31 December 2019, against DKK 21.2 billion at 31 December 2018.

Loans

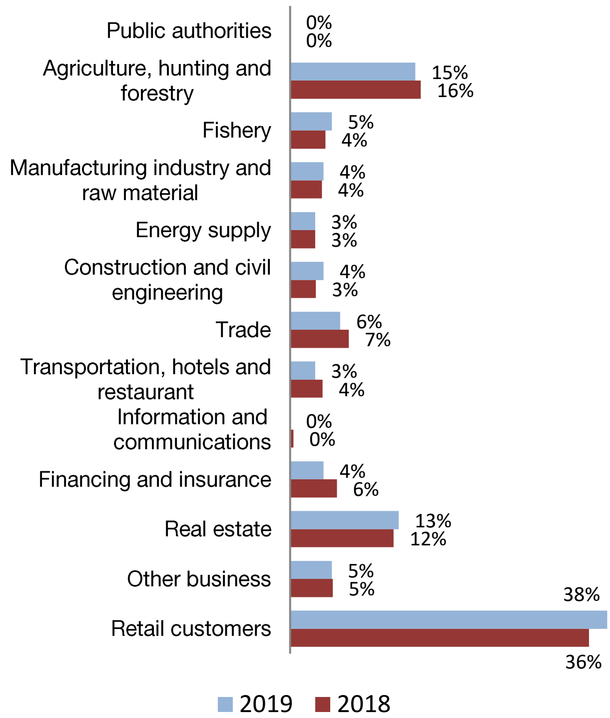
At 31 December 2019, Vestjysk Bank's net lending amounted to DKK 10.2 billion, against DKK 10.8 billion at the end of 2018, a DKK 0.6 billion reduction during the year. In 2019, the Bank saw a reduction of net lending to weak customers as a result of targeted efforts to improve the credit quality of the Bank's lending portfolio.

At 31 December 2019, loans to retail customers accounted for 38% of the Bank's net loans and guarantees.

The Bank's business lending is mainly concentrated within the agricultural and real estate sectors, with agriculture accounting for 15% and real estate 13%. The Bank's overall exposure to these sectors thus accounted for approximately 28% of total net loans and guarantees. At 31 December 2019, the Bank complied with the overall business plan target that no individual sector is to exceed 15% of total net loans and guarantees.

The distribution of Vestjysk Bank's net loans and guarantees by sector is illustrated below.

Loans and guarantees by sector at 31 December 2019



The credit quality of the Bank's total loans and guarantees improved during 2019. At 31 December 2019, 41% of the Bank's customers were of normal credit quality, against 39% at 31 December 2018, as illustrated in the table below. This is a satisfactory development, and the efforts to improve the credit quality will continue as an important part of the Bank's business plan for 2020.

Loans and guarantees by credit quality	2019		2018	
	DKKm	(%)	DKKm	(%)
Normal credit quality	8,399	37%	7,484	34%
Some signs of weakness	8,933	40%	8,698	39%
Significant signs of weakness without impairment	980	4%	960	4%
Impaired loans	4,261	19%	5,058	23%
Total loans and guarantees	22,573	100%	22,200	100%

For more in-depth information on Vestjysk Bank's loans and guarantees, see note 34 to the financial statements.

Large exposures
At 31 December 2019, Vestjysk Bank had no exposures constituting 10% or more of total capital. The Bank thus complied with the business plan target of no exposures exceeding 10% of total capital.

The 20 largest exposures represented 102.7% of the Bank's common equity tier 1 capital, which is within the FSA's supervisory diamond benchmark of a maximum of 175%.

Business volume including custody services
Vestjysk Bank's business volume including custody accounts and arranged mortgage loans amounted to DKK 71.9 billion at 31 December 2019, against DKK 68.6 billion at 31 December 2018.

The increase was mainly due to growth in mortgage loans arranged by the Bank. Vestjysk Bank arranges mortgage loans from Totalkredit for the Bank's retail customers and mainly from DLR-kredit for business customers. In 2019, the Bank saw an increase in arranged mortgage loans for both customer groups, and the overall volume of arranged mortgage loans grew by DKK 1.6 billion in 2019. During the same period, the Bank's lending declined by DKK 0.6 billion. The drop should be seen in the context of the Bank's efforts to create sustainable solutions for financially weak customers, which in turn helps improve the Bank's credit quality. Also, the drop was in part due to conversions to mortgage loans. Deposits were up DKK 0.7 billion in 2019, and custody account deposits were up DKK 1.1 billion. The increase in custody account deposits should be seen in the context of the large market value drops towards the end of 2018, which were recovered during 2019. This was another area in which the Bank accomplished the business plan's goal of increasing business volume.

Deferred tax asset
An additional amount of the Bank's deferred tax asset was recognised in 2019. Vestjysk Bank assessed that part of the deferred tax asset can expectedly be utilised within the next three years based on cautious earnings expectations. DKK 98 million of the deferred tax asset was therefore recognised at 31 December 2019. Of this amount, DKK 84 million related to unutilised tax losses deducted from total capital. The deferred tax asset not recognised subsequently amounted to DKK 480 million.

Capital and liquidity

Change in capital position
In Q3 2019, Vestjysk Bank repaid tier 2 capital in the amount of DKK 150 million with scheduled maturity on 1 September 2024. The Bank also repaid additional tier 1 capital in the amount of DKK 75 million. The Bank subsequently issued new tier 2 capital in the amount of DKK 125 million due for repayment at 28 August 2029.

Equity
Vestjysk Bank's equity stood at DKK 2,956 million at 31 December 2019, against DKK 2,589 million at 31 December 2018. The changes in equity since 31 December 2018 were positively affected by consolidation through the Bank's profit for 2019. The equity development since 1 January 2018 is detailed in the statement of changes in equity.

Subordinated debt
The Bank's subordinated debt amounted to DKK 347 million at 31 December 2019, all of which was eligible for inclusion in total capital.

Total capital
Overall, total capital amounted to DKK 3,016 million at 31 December 2019. With the total risk exposure of DKK 14,316 million, this equalled a total capital ratio of 21.1%. At 31 December 2018, the Bank's total capital ratio was 19.7%.

Capital requirement
Adequate total capital amounted to DKK 1,446 million at 31 December 2019, which, with the total risk exposure of DKK

14,316 million, equals an individual solvency need of 10.1%. At 31 December 2019, the capital conservation buffer had been phased in at 2.5% and the countercyclical buffer had been phased in at 1.0%, resulting in an aggregate capital requirement of 13.6%, corresponding to DKK 1,946 million.

This meant that Vestjysk Bank's excess cover relative to the individual solvency ratio was 11.0 percentage points, corresponding to DKK 1,569 million, while the excess cover relative to the aggregate capital requirements was 7.5 percentage points, corresponding to DKK 1,070 million.

MREL requirement

On 19 December 2019, Vestjysk Bank received the FSA's decision on the Bank's MREL add-on, which was fixed at 6% of risk-weighted assets and will be phased in during the period 2019-2023. The MREL requirement for 2019 was phased in at 0.625%, to be added to the 13.6% capital requirement for a total MREL requirement of 14.2%. At 21.1%, Vestjysk Bank's MREL ratio was equal to the total capital ratio. This taken into account, the excess cover was 6.9 percentage points, or DKK 980 million. When fully phased in in 2023, the effect of the MREL is expected to be in the region of DKK 860 million. Based on current MREL ratio of 21.1% meets the bank future capital requirements fully phased in.

The Bank's capital position is detailed below:

Capital position

DKKm	31 Dec. 2019	31 Dec. 2018
Equity as per statement of financial position	2,956	2,589
Deductions:		
- intangible assets	-0	-1
- prudent valuation	-4	-4
- investments in financial sector entities	-199	-57
- deferred tax assets	-84	-57
Subordinated debt	347	333
Total capital	3,016	2,803
Total risk exposure	14,316	14,226
Common equity tier 1 capital ratio	17.6%	15.7%
Tier 1 capital ratio	18.6%	17.4%
Total capital ratio	21.1%	19.7%
MREL ratio	21.1%	20.0%

Total capital was positively affected by the addition of DKK 460 million profit for the year. Total capital was negatively affected by contractually committed investments in shares in sector companies and the redemption of additional tier 1 capital. In aggregate, total capital increased by DKK 213 million in 2019.

Liquidity

Vestjysk Bank's liquidity position remains good. At 31 December 2019, the Bank's Liquidity Coverage Ratio (LCR) stood at 259.2%, relative to the LCR requirement of 100%.

Uncertainty in recognition and measurement

The most significant uncertainty factors in relation to recognition and measurement concern loan impairment and provisions for guarantees. Other uncertainty factors concern the valuation of the Bank's owner-occupied properties, financial instruments and the measurement of deferred tax assets.

Management believes that assessments made in relation to the determination of impairment allowances at 31 December 2019 reflect FSA's financial reporting rules and guidelines.

The Financial Supervisory Authority's Supervisory Diamond

Vestjysk Bank's is within the threshold values for the five indicators set out in the FSA's Supervisory Diamond, which all banks should comply with.

Vestjysk Bank's values relative to each of these threshold values are set out in the table below.

Realised values at 31 December 2019

Supervisory Diamond benchmarks	Realised Values
Sum of large exposures < 175%	102.7%
Lending growth < 20%	-5.3%
Real estate exposure < 25%	13.5%
Funding ratio < 1	0.47
Liquidity benchmark > 100%	269.1%

Management's review
Financial review

Other matters

Remuneration policy
Vestjysk Bank's policy in this area is described in the Bank's remuneration policy, which is available at Vestjyskbank.dk/english/organisation.

Financial reporting process
The Board of Directors and the Executive Board have the overall responsibility for the Bank's control and risk management in relation to the financial reporting process, including compliance with applicable legislation and other rules and regulations relating to financial reporting. The Board of Directors has established an audit committee, which meets at least four times a year. The Bank's control and risk management systems can provide reasonable, but not absolute, assurance that misappropriation of assets, losses and/or significant errors and omissions in the financial reporting are avoided.

The Board of Directors assesses the Bank's organisational structure, the risk of fraud and the existence of internal rules and guidelines. The Board of Directors and the Executive Board are responsible for approving general procedures and controls in key areas in relation to the financial reporting process. The Executive Board monitors compliance with relevant legislation and other financial reporting regulations and provisions on an ongoing basis and reports its findings to the Board of Directors.

The Board of Directors makes a general assessment of risk in relation to the financial reporting process. As part of its risk assessment, the Board of Directors assesses the risk of fraud and the measures to be taken to reduce and/or eliminate such risks. In connection with this, the Board discusses any incentive/motive Management may have to commit fraudulent financial reporting or other types of fraud

Events after the reporting date
No significant events have occurred after the reporting date, 31 December 2019.

Business plan 2020

The financial statements presented in the 2019 annual report are very satisfactory, and the primary goal for the coming year is to remain strong Vestjysk Bank. The business plan for 2020 builds on the business plan for 2019 and remains focused on generating earnings by entering into business transactions with existing and new customers within the Bank's natural market segment, further improving the Bank's credit quality and keeping up the strict cost management in order to maintain the Bank's competitive strength.

The 2020 business plan focuses on the following action points:

- Ensuring that offering our customers personal contact and service remains a key priority by delivering on our core values – Presence, Simplicity and Action
- Ensuring controlled business volume growth by focusing on the Bank's existing customers' borrowing and credit needs and adding new, financially sound retail customers and solid business customers in the SME segment
- Continuing to work actively with the Bank's weak and credit impaired customers to reduce overall impairment allowances and further improve the Bank's overall credit quality
- Realising the ambition of a cost ratio in the 50-55% range
- Growing earnings, particularly in the investment area, by increasing the customers' proportion of pooled and wealth management products
- Continuing to focus on the Bank's digitalisation through effective internal processes and offering new options for customers
- Maintaining a strong liquidity position by balancing the development of gross lending and deposits

Based on Vestjysk Bank's very satisfactory performance for 2019 and Management's focus on executing the business plan, the Bank's development is on track, and Management expects to see satisfactory results in the years ahead based on the business plan's execution.

Outlook for 2020

Vestjysk Bank expects a profit after tax of around DKK 250-300 million in 2020. Currently, however, there is some uncertainty as to the global economic outlook and, in particular, the settlement price trend for agricultural products. Uncertainty regarding the effects of Brexit and the risk of African swine fever spreading to Germany and ultimately Denmark could both potentially have a considerable adverse impact on the Bank's impairment losses.

The expectations for 2020 does not include positive value adjustments in same level as 2019, where shares in Sparinvest Holdings SE was sold.

The Bank does not expect extraordinary impairments on property in 2020 and the remortgaging activities is expected to be normalized after Q1 2020.

Like other banks, Vestjysk Bank is introducing negative deposit rates for retail customers for pension savings in excess of DKK 10,000 effective from 15 February 2020 and for deposits in excess of DKK 500,000 effective from 15 March 2020. The effects of this have been factored into the outlook for 2020, and the bank is closely monitoring sector developments in this respect.

Risk management

Vestjysk Bank defines risk as any event that may have a material adverse impact on the Bank's ability to achieve its business objectives. The Bank is exposed to various types of risk, which are monitored and managed at various levels in the organisation.

Risk exposure is a key consideration in all the Bank's transactions.

Vestjysk Bank's Board of Directors establishes the overall framework for risk and capital structure and policies under which the Bank's Executive Board and other executives manage the Bank's risks. The Board of Directors is briefed regularly on risk developments and utilisation of allocated risk limits. Day-to-day risk management is performed by Finance, Markets, Treasury and Credit. Middle Office performs independent controls, and Risk Management and Compliance perform independent monitoring.

Moreover, the Bank's risk management is handled by the Risk Committee and Audit Committee. Both committees are compulsory and are made up by members of the Board of Directors. The Audit Committee's duties include examining accounting and audit-related matters as well as monitoring the Bank's internal control system. The Risk Committee's duties include monitoring the Bank's internal risk management systems, advising the Board of Directors on the Bank's general present and future risk profile and strategy and assisting the Board of Directors in ensuring that the Board of Directors' risk strategy is correctly implemented.

As required by law, the Bank has established a risk management function and appointed a general manager with specific responsibility for the risk management function as the Bank's Risk Officer. Organisationally, it has been ensured that the Risk Officer is sufficiently independent of the Bank's functions, in order for the Risk Officer to have the means to appropriately execute his duties. As needed, and at least once annually, the risk management function prepares a report to the Board of Directors on the Bank's risk management. The Risk Officer may express opinions and concerns and warn the Board of Directors, to the extent relevant, when specific risks affect or may affect the Bank. The Risk Officer moreover assists the Risk Committee by providing it with independent analyses and information.

A brief has been drafted by the Executive Board for the Risk Officer. The Risk Officer is charged with preparing a plan each year for the risk areas on which the function wishes to focus.

Vestjysk Bank categorises risk as follows:

Market risk

The risk of changes to the market value of the Bank's financial assets and liabilities as a result of changes in market conditions is collectively referred to as "market risk". Assuming market risk exposure is a natural part of the Bank's activities and it affects the Bank's total earnings.

Vestjysk Bank defines the following risks as market risks: interest rate risk, foreign exchange risk, equity risk and other price risks, including in relation to commodities.

Vestjysk Bank's policy is to maintain a low overall level of market risk.

Vestjysk Bank's ambition is to only assume limited market risks not directly linked to the Bank's ordinary operations.

Vestjysk Bank accepts market risks related to the Bank's ordinary operations. However, where possible, the Bank will endeavour to mitigate a given risk or hedge it to such an extent that it cannot be characterised as high.

In specific areas, the Bank uses derivative financial instruments to hedge and manage market risks. The Bank's customers also use derivative financial instruments. Derivative financial instruments are included in the determination of the Bank's market risk for the underlying risk areas.

The Board of Directors has defined limits for the Bank's market risk. Market risk is monitored, and the defined risk limits controlled on a daily basis by Middle Office, which performs the following controls:

- daily follow-up on compliance with the Board of Directors' instructions to the Executive Board
- daily follow-up on compliance with the Executive Board's delegated instructions to the Markets Director and Treasury
- price verification relative to market prices for in securities and financial instruments trading
- ongoing evaluation and reporting of potential risks related to the Bank's in securities and financial instruments trading

The Board of Directors is briefed regularly on risk developments and utilisation of allocated risk limits.

The Executive Board receives daily reports on developments in material market risks as well as cases where the framework provided by the Board of Directors to the Executive Board has been exceeded. Trades to and from the trading book are monitored daily. Instances of limits being exceeded are reported to the Board of Directors.

Interest rate risk

Interest rate risk is defined as the loss incurred by the Bank in the event of a 1 percentage point rise in general interest rate levels.

In connection with its ordinary operations, the Bank assumes interest rate risk in relation to the following activities: deposits, lending, raising of tier 2 capital and funding as well as investing the Bank's liquidity reserves and trading book in interest rate-dependent instruments. The Bank may use financial instruments to hedge all or part the interest rate risk from these activities.

The Bank accepts a certain degree of interest rate risk on activities related to deposits, lending and raising of tier 2 capital and funding.

However, it is the Bank's policy that the interest rate risk derived from investment of the Bank's liquidity reserves and trading book in interest rate-dependent instruments must be low.

The Bank's overall interest rate exposure amounted to DKK 17.5 million at 31 December 2019. The Bank is thus exposed to a general increase in interest rates.

Outside the trading book, Vestjysk Bank had negative interest rate risk of DKK 12.5 million, primarily related to fixed-interest deposits and subordinated debt, which contributed a negative interest rate risk of DKK 0.7 million and DKK 15.5 million respectively, while fixed-rate loans contributed a positive interest rate risk of DKK 3.7 million.

All other things being equal, the direct profit/loss effect of a change in interest rates will solely be related to the interest rate risk in the trading book, which was a loss of DKK 29.9 million at 31 December 2019 and DKK 3.3 million at 31 December 2018.

Outside the trading book, a change in interest rates would impact future earnings and equity, as a change in interest rates would affect alternative funding and investment options.

The Bank based its calculation of interest rate risk on the FSA's guidelines.

Foreign exchange risk

The Bank assumes foreign exchange risk related to assets and liabilities in foreign currencies.

Vestjysk Bank's policy is to maintain a low overall level of foreign exchange risk. The Bank therefore makes extensive use of financial instruments to hedge foreign exchange risk.

Exchange rate indicators are simplified measures of the amount **of** the Bank's positions relative to tier 1 capital. Exchange rate indicators in respect of foreign currency amounted to DKK 9.9 million at 31 December 2019, against DKK 8.5 million at 31 December 2018.

Equity risk

The Bank’s equity risk arises from shares and derivative instruments in its investment book and in its trading book.

The investment book mainly comprises shares in financial sector companies with which the Bank has a strategic partnership. They are typically shares in companies in which the Bank has an ownership interest equal to its proportionate share of the partnership. The Bank accepts the risk associated with ownership interests in sector companies, while it is its policy that the risk derived from shares and derivative equity instruments in its investment book must be low.

31 December 2019, equity risk as expressed in terms of the invested amount was DKK 502 million. Of this amount, sector company shares amounted to DKK 455 million.

Other market risks

It is the Bank’s policy not to assume market risks via financial instruments other than those specified above. It is therefore the Bank’s policy not to assume commodity risk via financial instruments.

The most important aspects of the Bank’s market risks are set out in notes 36-39 to the financial statements.

Credit risk

Extending credit is a key element of Vestjysk Bank’s business area.

Credit risk is defined as the risk of a counterparty being unable or unwilling to meet an obligation and of any collateral being insufficient to cover the obligations. A reduction of the value of collateral or illiquidity may result in losses and an increase of impairment and provisions.

An increase of the Bank’s credit risks may result in losses for the Bank or impairment allowances, ultimate write-offs of already impaired exposures or it may increase its need for capital coverage.

The Bank's calculation of credit risk greatly relies on case-by-case assessments as to whether customers are able and willing to meet their obligations and whether the requisite value and collateral are present.

In order to ensure adequate risk diversification across sectors and customers, the Bank does not accept exposures to individual sectors in excess of 15% of its total exposure. Similarly, the Bank does not accept exposures in excess of 10% of its total capital. Approved exposures in excess of the 10% must be accompanied by an action plan setting out when and how the amount can be brought below 10%. This way, Vestjysk Bank seeks to continually ensure that no individual exposure, including to groups, poses a threat to the Bank’s future operations. At 31 December 2019, there were not exposures exceeding 10% of total capital.

The Bank's credit policy comprises targets for a number of measures related to the Bank’s exposures.

When performing credit analyses, it is important to Vestjysk Bank that credit decisions are based on a thorough analysis of the customer's financial position and the collateral provided, so that adequate information is available for the assessment of the customer's creditworthiness and the risk attached to the exposure. Decisions should generally be based on the robustness of the customer’s future earnings and liquidity, and less so on the provided collateral, which may decrease in value. Another highly weighted factor is the Bank’s confidence in the credibility and competence of the customer, the company or its management.

For business customers, this means that the Bank must follow the following basic principles when deciding whether to extend credit:

- obtain the customer’s financial statements and budgets, including quarterly reporting and other follow-up
- in groups, gain an insight into all significant financial statements, including personal financial information, on a transparent basis
- in limited partnerships, gain an insight into the incomes and assets of all limited partners and an overview of their liabilities
- critically assess their equity, addressing and describing any matters of doubt
- finance losses only if the customer can substantiate that the financial difficulties are of a temporary nature, or if it serves the purpose of settling the customer's exposure

For business customers, the bank requires that:

- their current and future earnings are expected to result in positive consolidation
- their cash flows reasonably match their repayment commitments seen in relation to the economic lives of the financed assets
- their equity reasonably matches their assets If the equity is small or negative, the earnings of and collateral provided by business customers are given particular weighting

In order to ensure an overview of business customer relationships, the Bank files minutes of meetings, discussions with customers and other documentation electronically. Minutes must be taken of all meetings, and all significant agreements with customers must be confirmed in writing.

For retail customers, the Bank must follow the following basic principles when deciding whether to extend credit:

- have an insight into the customer's annual tax assessment notice
- know the customer's actual disposable amount and stressed disposable amount and loan-to-income
- know and critically assess the size of the customer's assets
- have insight into the customer's historical financial situation, which includes assessing the customer's past payment record and pattern of consumption
- be cautious of new customers' motive when they contact Vestjysk Bank on their own initiative to obtain credit
- both spouses/cohabiting partners must be jointly liable if the financed asset is for their joint use or if settlement is based on their combined income

Segmentation is an important element in the Bank's credit risk management.

It is the Bank's ambition to have exposure strategies for all significant exposures, both retail and business.

Of Vestjysk Bank's loans and guarantees at 31 December 2019, 62% were to business customers and 38% to retail customers.

The Bank's evaluation of collateral in real estate is based on an individual assessment of the property's market value, primarily through a cost-benefit analysis with an estimated factor based on, among other things, the property's location, use as well as potential alternative uses, layout, tenant credit quality and lease duration. The value of the Bank's collateral in real estate is therefore subject to uncertainty, as changes in market conditions may lead to a need to reassess the value of the collateral provided. Even for exposures where the collateral provided is adequate according to the Bank's present evaluation, the Bank's loans and guarantees to the real estate segment are subject to considerable risk going forward, as the value of the collateral provided and any impairment allowances may change if the market changes.

A drop in real estate prices, general economic conditions or other circumstances causing prices of securities or other collateral to decline may cause the value of the collateral provided vis-a-vis the Bank to deteriorate and thus not be sufficient to cover the customer's liabilities. Where collateral is illiquid, it may not be possible to realise the collateral to cover the customer's liabilities.

The Bank is also exposed to significant risk on its loans and guarantees to the agricultural sector. Agriculture is cyclical in nature, and changes in settlement prices, affecting the debtor's ability to pay, can cause major fluctuations in exposure over a span of years.

Generally, the Bank wishes to keep the proportion of agricultural customers in the lending portfolio in line with its target, while continuing to help existing skilled and efficient customers based on an objective risk assessment of the individual farmer's operational capability and earnings.

Vestjysk Bank wishes to maintain the overall exposure to real estate and will increase its credit exposure to customers based on an objective overall risk assessment. The Bank will also continue to finance property purchases for customers' own use (primarily single-family and holiday houses for retail customers and owner-occupied properties for business customers) if the customer's future earnings and assets are assessed to be stable.

The Bank engages in project financing with great caution, carefully assessing each project and the investors behind it. It also imposes stricter requirements for collateral and self-financing.

Weak and potentially impaired exposures must be identified on a timely basis, and any impairment loss recognised must be appropriate. Any warning signs must immediately prompt measures to reduce risk. For all weak and impaired exposures, the Bank must prepare an operational action plan for effective management of the exposure.

Evidence of individual impairment and provisions for credit exposures are assessed on an ongoing basis. The Bank complies with the impairment provisions of IFRS 9.

At Vestjysk Bank, credit approval authority is based on a cautious delegation policy. The authority issued by the Board of Directors to the Executive Board is delegated to the Credit Director, who in turn delegates authority to individual employees. In addition, each branch executive officer is granted credit approval authority according to whether the branch is a retail or a business banking branch. Commitments that exceed the branch manager's credit approval authority are transferred to the Credit Department for processing. Depending on the amount of the commitment, the credit inquiry will be approved by the Credit Department, the Credit Director, the Credit Committee, the Executive Board or, ultimately, the Board of Directors.

An annual review of commitments is carried out according to defined criteria pre-approved by the Board of Directors. In addition to this, Middle Office on a quarterly basis reports to the Executive Board and the Board of Directors on developments and the status of credit-related risks. Middle Office furthermore regularly verifies compliance with the Bank's credit policy.

Operational risk

Operational risk is defined as the risk of losses associated with internal and external conditions resulting from inadequate or failed internal processes, human or system errors as well as external events, including legal risk.

General responsibility for operational risk resides with the Bank's Risk Management and Compliance. Vestjysk Bank considers dependence on key employees a focus area. The Bank continually strives to minimise the dependence on key employees, for example by establishing written business procedures, centralising tasks and outsourcing areas that do not affect the Bank's competitiveness.

In an operational risk policy, the Board of Directors has defined procedures for identification, assessment, monitoring and management of operational risks. The Bank's goal is for operational risks to be continually limited taking into account associated costs.

Vestjysk Bank's policies and contingency plans concerning physical disasters and IT breakdowns are improved on an ongoing basis. The Bank is a member of Bankernes EDB Central (BEC), which handles day-to-day IT system operations. The Bank complies with the directions and recommendations it receives from BEC and does not develop proprietary IT systems.

The Bank's IT contingency plans address breakdowns at the head office and parts of the branch network. In case of a breakdown at one or more branches, operations can be maintained from the remaining branches, and in case of a long-lasting breakdown at the head office, vital functions can be maintained from a branch. The Bank's contingency plan is reviewed by the Board of Directors at least annually.

Among other things, operational risk is minimised by organisational segregation of the performance and control of activities.

The Bank has established a system for registering, categorising and reporting of operational risks. Risk Management and Compliance reports on a quarterly basis to the Executive Board and annually to the Board of Directors on operational risks.

Liquidity risk

Liquidity risk is defined as the risk of the Bank not being able to meet its payment obligations by drawing on its normal liquidity reserves.

Vestjysk Bank pursues a cautious liquidity policy setting out a number of requirements as to the size and composition of the liquidity reserve and Vestjysk Bank's overall financing structure.

The liquidity buffer must be sufficiently robust to provide adequate liquidity under Vestjysk Bank's basic stress scenario to maintain an LCR of 100% month by month over a 12-month period. The Bank's basic stress scenario must consider a standard LCR stress situation for the first 30 days as well as additional stress elements relevant to the Bank. The Bank's liquidity risk and cash resources are detailed in note 39 to the financial statements.

The overriding purpose of Vestjysk Bank's liquidity management is to monitor and manage the development of the Bank's short-term and long-term liquidity and to ensure that the Bank has sufficient liquidity at its disposal at all times in Danish kroner as well as in foreign currency.

The Bank aims to maintain a sound asset structure and focus on strong liquidity. The liquidity must be adequate and sufficiently cautious and support the selected business model.

The liquidity need is planned in both the long and the short term for the purpose of ensuring a sufficient and stable level of cash resources. Liquidity is primarily raised via the Bank's deposit account customers.

Business risk
Business risk is defined as the risk of losses caused by changes in external conditions or events that harm the Bank's reputation or earnings.

Strong relationships with all its stakeholders – shareholders, customers, suppliers, employees and thus also the local communities in which the Bank operates – are considered the foundation of Vestjysk Bank's continued success and opportunities for growth.

Total capital risk
Total capital risk is defined as the risk of losses due to the Bank not having sufficient capital to meet the higher of the total capital requirement and the solvency need. The Board of Directors has adopted a capital coverage policy establishing capital targets for the Bank, with ongoing reporting to the Executive Board and monthly reporting to the Board of Directors.

The Bank's total capital is determined in accordance with the Danish Executive Order on the Calculation of Risk Exposures, Own Funds and Solvency Need (Bekendtgørelse om opgørelse af risikoeksponeringer, kapitalgrundlag og solvensbehov), and at 31 December 2019 total capital amounted to DKK 3,016 million. Risk-weighted exposures amounted to DKK 14,316 million, resulting in a total capital ratio of 21.1%.

Risk report 2019

Pursuant to the Danish Financial Business Act, the CRR disclosure requirements (Pillar III) and other executive orders and guidelines, Vestjysk Bank is required to publish detailed disclosures on risks, capital structure, capital coverage, risk management, etc. To meet these requirements, Vestjysk Bank has prepared "Risk Report 2019". The report is published at the same time as the Annual Report and is available at vestjyskbank.dk/english/reports.

Alternative performance measures

The Bank applies a number of alternative performance measures. These measures are applied where they provide greater informational value about e.g. the Bank's earnings, or if they are a common denomination of several items. The Bank is aware of the need for these to be applied consistently and with comparative figures.

The applied performance measures are defined below.

Definitions	
Core income	The sum of Net interest and fee income, Dividends on shares etc., Value adjustments and Other operating income.
Operating expenses and operating depreciation and amortisation	The sum of Staff costs and administrative expenses, Depreciation, amortisation and impairment losses on intangible and tangible assets and Other operation expenses.
Core earnings before impairment	Profit/loss before tax plus Impairment of loans and receivables, etc.
Business volume including custody services and arranged mortgage loans	The sum of Loans, Deposits, including pooled schemes, Contingent liabilities, Customer services and arranged mortgage loans.

Through its Investor Relations (IR) activities, Vestjysk Bank aims to communicate a true and fair view of the Bank's activities and prospects to investors, analysts and other stakeholders in the capital markets.
Disclosure of information is subject to the rules of Nasdaq Copenhagen.

IR portal at Vestjysk Bank's website

An IR portal is found at Vestjysk Bank's website, where shareholders and other stakeholders can find relevant and up-to-date information. Here, published company announcements, investor presentations, share price data, financial reports and other IR information are available.
Vestjysk Bank's IR policy is accessed at
vestjyskbank.dk/english/announcements/ir-policy

The Vestjysk Bank share

The Vestjysk Bank share is listed on Nasdaq Copenhagen. The 2019 year-end closing price was DKK 3.09 The share price/book value ratio was 1.0. The transaction volume for 2019 was just over 254.8 million shares at a total market value of DKK 837 million.

Share capital

Vestjysk Bank's share capital totalled DKK 896 million at 31 December 2019. The share capital consists of 895,981,517 shares with a nominal value of DKK 1 each.

Vestjysk Bank has some 37,000 registered shareholders. At 31 December 2019, the Bank's major shareholders were:

Aktieselskabet Arbejdernes Landsbank	32.44%
AP Pension Livsforsikringsselskab	19.71%
Nykredit Realkredit A/S	13.97%

The Bank's shares are listed as a component of the Nasdaq Nordics Mid Cap index.

Capital position

At the annual general meeting on 25 March 2019, the Board of Directors was authorised to acquire own shares at a nominal value of up to 10% of the share capital until 20 March 2024. At 31 December 2019, Vestjysk Bank held 173,000 own shares, equivalent to 0.02% of the share capital, which was in line with 2018.

Dividend policy

The Board of Directors proposes that no dividend be distributed in 2020 on the basis of the profit for 2019. The explanation is the prospect of future capital requirements, not least the MREL requirements and the possible additional implementation of the countercyclical buffer. Each year, the Board of Directors considers the possibility of distributing dividend in consideration of the financial results for the year, future capital requirements, etc.

Management's review
Investor relations

Annual general meeting and shareholder meetings

Vestjysk Bank's annual general meeting will be held on Monday, 23 March 2020 at 3 p.m. at Lemvig Idræts- og Kulturcenter, Christinelystvej 8, DK-7620 Lemvig, Denmark.

A shareholder meeting will be held in Holstebro on Wednesday, 25 March 2020 at 6 p.m. at Musikteatret Holstebro, Den Røde Plads 16, DK-7500 Holstebro, Denmark.

A shareholder meeting will be held in Ringkøbing on Thursday, 26 March 2020 at 6 p.m. at the Rofi Centre, Kirkevej 26, DK-6950 Ringkøbing, Denmark.

A shareholder meeting will be held in Aarhus on Monday, 30 March 2020 at 6 p.m. at Turbinehallen, Kalkværksvej 12, DK-8000 Aarhus C, Denmark.

Financial calendar 2020

20 February	2019 Annual report
23 March	Annual general meeting
13 May	Quarterly report for Q1
19 August	Half-year report
18 November	Quarterly report for Q1-Q3

Investor relations

The Bank's Executive Board is responsible for Vestjysk Bank's investor relations activities. Shareholders and other interested parties are welcome to contact the Executive Board with questions or comments. The Bank's communications with equity market stakeholders and inquiries regarding the Bank's IR policy are primarily handled by:

Jan Ulsø Madsen, Chief Executive Officer
Vestjysk Bank
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Company announcements 2019

In 2019, Vestjysk Bank issued the following company announcements:

19 December	Major shareholder announcement
20 November	Vestjysk Bank's Q1-Q3 2019 Quarterly Report
08 October	Upgrade of profit guidance for 2019
30 August	Vestjysk Bank A/S to repay subordinated debt (Tier 1)
30 August	Sale of 75 % of Vestjysk Bank's shares in Sparinvest Holdings SE completed
23 August	Vestjysk Bank A/S issues new tier 2 capital
21 August	Vestjysk Bank's Half-Year Report 2019
14 August	Sale of 75 % of Vestjysk Bank's shares in Sparinvest Holdings SE approved by CSSF and the Danish competition authorities
30 July	Vestjysk Bank A/S to convert Tier 2 capital
28 June	Upward adjustment of profit expectations for 2019 as a result of the upcoming sale of 75 % of Vestjysk Bank's shares in Sparinvest Holdings SE
29 May	Major shareholder announcement
22 May	Major shareholder announcement
15 May	Vestjysk Bank's Q1 2019 Quarterly Report
08 April	State aid case is closed
25 March	Resolutions at Vestjysk Bank A/S' Annual General Meeting on 25 March 2019
04 March	Major shareholder announcement
01 March	Notice of Annual General Meeting from the Board of Directors of Vestjysk Bank A/S
01 March	Conditional agreement concerning the sale of 75 per cent of Sparinvest
26 February	Major shareholder announcement
21 February	Vestjysk Bank's 2018 Annual Report
12 February	Net profit guidance upgraded following recognition of deferred tax asset
21 January	Major shareholder announcement

Corporate Governance

Corporate governance report
Vestjysk Bank's corporate governance is based on the recommendations of the Committee on Corporate Governance in Denmark (Komitéen for god Selskabsledelse) and is thus in line with the principles which listed companies must consider under the rules of Nasdaq Copenhagen. Moreover, the Bank considers its position on the corporate governance code of Finance Denmark.

Vestjysk Bank has decided to publish its statutory corporate governance report at the Bank's website – see vestjyskbank.dk/english/organisation. The report provides details on the Bank's status on each of the recommendations issued by the Committee on Corporate Governance and in the corporate governance code of Finance Denmark.

Corporate social responsibility report
Vestjysk Bank's corporate social responsibility work focuses on three key areas: Customers, the local communities in which the Bank wishes to play an active part, and employees. Through the Bank's vision, mission and values, its social responsibility platform has been an integral part of its business for several years.

Vestjysk Bank supports the Danish government's commitment to giving a high priority to human rights and climate change, including Denmark's backing of the UN's Sustainable Development Goals. The Bank sees these goals as a strategic benchmark that guides its efforts.

As a local and regional bank, it is relevant for Vestjysk Bank to focus on the following Sustainable Development Goals:

Goal 5: Gender equality
Goal 8: Decent Work and Economic Growth
Goal 11: Sustainable Cities and Communities

Vestjysk Bank prioritises involvement in the local community. This is reflected in Vestjysk Bank's many sponsorships of sports, culture and charitable causes. The Bank's sponsorships cover a wide array of organisations – from local sports clubs to elite sports – and employees and executives complement the Bank's donations by performing volunteer work in the various clubs.

It is important to Vestjysk Bank that young people looking for a future in the financial sector are given the opportunity to complete their studies and subsequently find employment in the sector. It is therefore a priority for the Bank to each year give a number of financial economist students and finance undergraduates the opportunity to become trainees with the Bank when they finish their studies. It is the Bank's intention to recruit finance and business trainees once they have completed their financial economist or finance bachelor studies.

The Bank sees diversity as a strength that has the capacity to contribute positively to the Bank's growth, robustness as well as to meet its established strategies and plans. Diversity in terms of age, gender, experience and competencies is highly prioritised.

Vestjysk Bank has decided to publish its statutory corporate social responsibility report at the Bank's website – see vestjyskbank.dk/english/organisation.

Report on the underrepresented gender
It is Vestjysk Bank's ambition to be an attractive workplace for both genders and endeavours to provide equal opportunities to pursue careers and to attain and hold positions of leadership. In relation to this, the Bank attaches importance to managers having the required competencies, regardless of gender.

Vestjysk Bank has decided to publish its statutory report on the under-represented gender at the Bank's website – see vestjyskbank.dk/english/organisation.

Rules on the appointment of members of the Board of Directors
Vestjysk Bank's Board of Directors consists of at least four and not more than eight members elected by the general meeting. The chairman and deputy chairman of the Board are also elected by the general meeting. Members are elected for terms of one year and are eligible for reelection. Rules on the appointment of members of the Board of Directors

Board of Directors and Executive Board

The Bank's Board of Directors

The Board of Directors of Vestjysk Bank consists of eight members, three of whom are elected by the Bank's employees:

Kim Duus, former CEO (born 1956), Chairman

- Gender: Male
- Elected as a member of Vestjysk Bank's Board of Directors in 2019 annual general meeting, when he was also appointed Chairman of the Board.
- Expiry of current term: 2020
- Other directorships:
  Chairman of the boards of directors in Nærpension A/S
- Committee appointments:
  Chairman of the Board of Directors' risk committee
  Chairman of the Board of Directors' remuneration committee
  Chairman of the Board of Directors' nomination committee
  Member of the Board's audit committee
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2019: 0
- Change to shareholding for the year: 0

Lars Holst, CEO (born 1952), Deputy Chairman

- Gender: Male
- Elected to Vestjysk Bank's Board of Directors at the 2014 annual general meeting, when he was also appointed Deputy Chairman of the Board
- Expiry of current term: 2020
- Other directorships:
  Board member in Vækstfonden
  Board member in Grønlandsbanken A/S
  Chairman of the Board in AG Gruppen A/S and following subsidiary companies:
  AG Construction A/S
  AG Development A/S
  Amager Erhvervsforening A/S
  Amager Strandvej 100 A/S
  Ørestad Syd 2015 A/S
  Ørestad Syd A/S
  AG Investments A/S
- Committee appointments:
  Member of the Board of Directors' risk committee.
  Member of the Board of Directors' nomination committee
  Member of the Board of Directors' audit committee
  Member of the Board of Directors' remuneration committee
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2019: 15,000
- Change to shareholding for the year: 0

Bent Simonsen, CEO (born 1961)

- Gender: Male
- First elected to Vestjysk Bank's Board of Directors in 2013
- Expiry of current term: 2020
- Other directorships:
  Group CEO in Det danske Hedeselskab and Dalgas-group A/S.
  Chairman of the Board in Enricom A/S
  Chairman of the Board in DDH Forest Baltic A/S
  Chairman of the Board in Plantningsselskabet Steen Blicher A/S
  Chairman of the Board in Skovselskabet Skov-Sam Holding ApS
  Chairman of the Board in Kongenshus Mindepark for Hedens Opdyrkere
  Chairman of the Board in HedeDanmark A/S
  Board member in Pluss Leadership A/S
  Board member in SIA DDH Forest Latvia (Letland)
  Board member in Enricom Sp. z o.o. (Polen)
  Board member in JCCJS Rindibel (Hviderusland)
  Board member in A/S Plantningsselskabet Sønderjylland
  Board member in Blå Biomasse A/S
  Board member in E.M. Dalgas Mindelegat
  Board member in Edvard og Ane Agerholms Legat
  Board member in Det danske Hedeselskabs Legat
  Board member in Uddannelses- og rejselegat for medarbejdere ved Det danske Hedeselskab
  Board member in Den Sønderjyske Plantagefond
  Board member in APX10 A/S
- Committee appointments:
  Chairman of the Board of Directors' audit committee
  Member of the risk committee
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2019: 50,000
- Change to shareholding for the year: 0

Management's review

Organisation

Bolette van Ingen Bro, CEO (born 1965)

- Gender: Female
- First elected to Vestjysk Bank's Board of Directors in 2018
- Expiry of current term: 2020
- Other directorships:
  CEO in Navigators
  CEO in Cluster Excellence Denmark/Danish Clusters
  Chairman of the foundation West Coast Center Jutland
  Member of the board in Det danske Hedeselskab
  Member of the board in Dalgasgroup A/S
- Committee appointments: None
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2019: 29,500
- Change to shareholding for the year: 0

Karina Boldsen, professional board member (born 1968)

- Gender: Female
- First elected to Vestjysk Bank's Board of Directors in 2015
- Expiry of current term: 2020
- Other directorships:
  Chairman of the board in Aarhus Business College
  Chairman of the board in Campfire og co.
  Chairman of the board in YOUR AGE
  Chairman of the board in Selv Tak
  Chairman of the board in DKPU
  Board member in Himmerlandskød A/S
  Board member in Søren Østergaard A/S
  Board member in AjourCare
  Board member in Radio LOUD
- Committee appointments: None
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2019: 51,649
- Change to shareholding for the year: 0

Nicolai Hansen, CEO (born 1957)

- Gender: Male
- Elected as an employee representative on Vestjysk Bank's Board of Directors in 2019
- Expiry of current term: 2020
- Other directorships:
  Chairman in Forsknings- og Uddannelsesudvalget i Landbrug og Fødevarer
  Board member in Danmarks Erhvervsfremmebestyrelse
  Board member in Dairy 1888
  Board member in Crispy Food/Nakskov Mills
  Board member in Nisco ApS
  Board member in Conrad & Sophus Fuglsangs Fond, Haderslev
  Medlem of the advisory committee Udvalg på fødevarerådet of Aarhus Universitet
- Committee appointments: None
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2019: 0
- Change to shareholding for the year: 0

Jacob Møllgaard, Development employee (born 1976)

- Gender: Male
- Elected as an employee representative on Vestjysk Bank's Board of Directors in 2013.
- Expiry of current term: 2021.
- Other directorships or organisational duties: Deputy Chairman of the Financial Services Union Denmark, district West.
- Committee appointments: Member of the Board of Directors' risk committee.
- Independent: No
- Number of shares in Vestjysk Bank at 31 December 2019: 2,946
- Change to shareholding for the year: 0

Martin Sand Thomsen, Branch Executive Officer (born 1982)

- Gender: Male
- Elected as an employee representative on Vestjysk Bank's Board of Directors in 2017
- Expiry of current term: 2021
- Committee appointments:
  Member of the Board of Directors' audit committee
- Independent: No
- Number of shares in Vestjysk Bank at 31 December 2019: 9,984
- Change to shareholding for the year: 0

Agricultural adviser Mette Holmegaard Nielsen (born 1976)

- Gender: Female
- Elected as an employee representative on Vestjysk Bank's Board of Directors in 2019
- Expiry of current term: 2023
- Committee appointments:
  Member of the Board of Directors' remuneration committee
- Independent: No
- Number of shares in Vestjysk Bank at 31 December 2019: 14,885
- Change to shareholding for the year: 0

The Bank's Executive Board

Jan Ulsø Madsen, Chief Executive Officer (born 1960)

Appointed Chief Executive Officer on 1 February 2015

- Other directorships
  Member of the board of directors of Spar Invest Holdings SE
- Number of shares in Vestjysk Bank at 31 December 2019: 54,000
- Change to shareholding for the year: 0

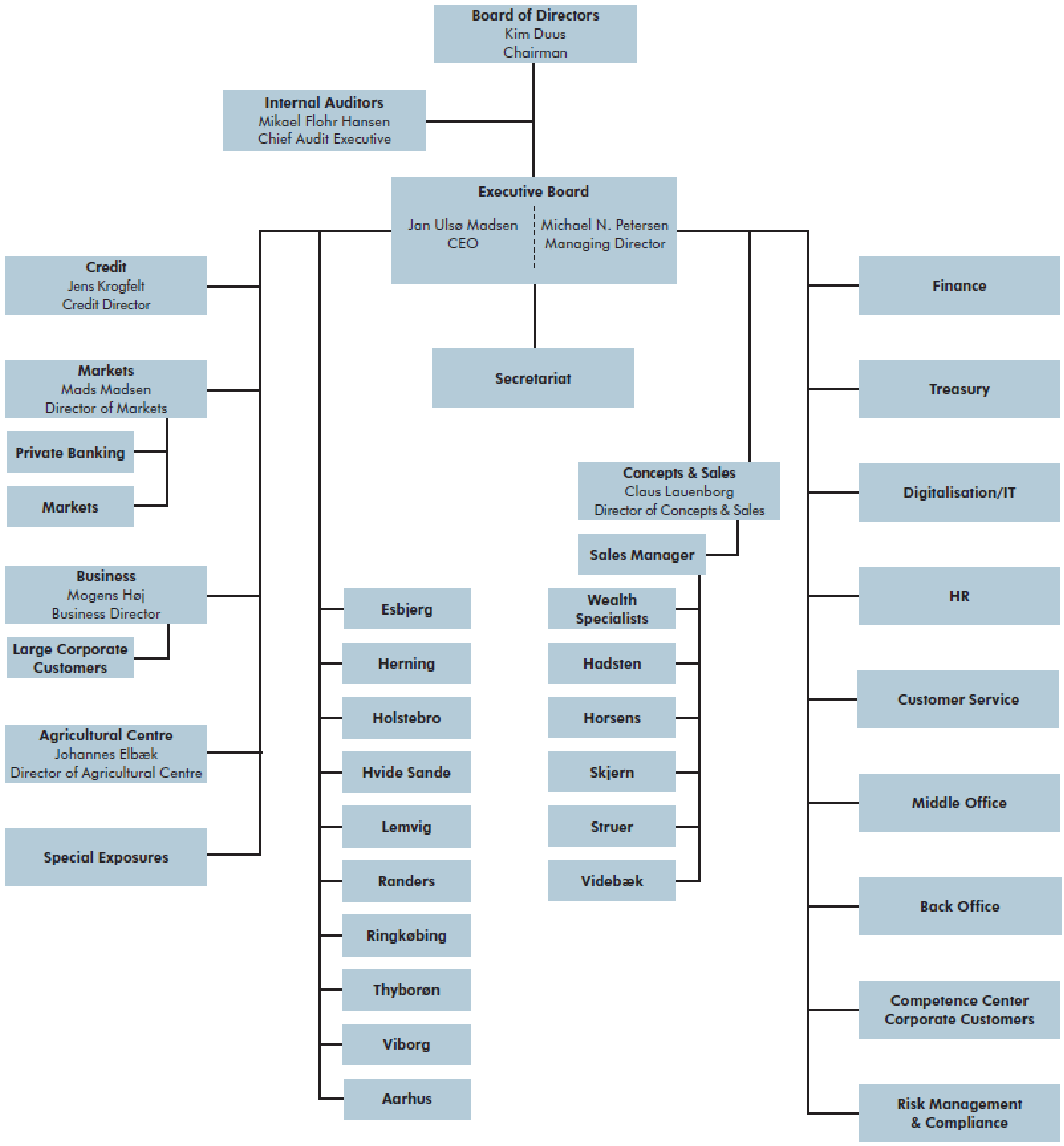
Michael Nelander Petersen, Managing Director (born 1963)

Appointed Managing Director of Vestjysk Bank on 25 September 2012

- Other directorships:
  Board member in BEC (Bankernes EDB Central)
  Board member in Lokal Pulje Invest.
- Number of shares in Vestjysk Bank at 31 December 2019: 59,333
- Change to shareholding for the year: 0

Management's review

Organisation



Organisation of the Bank

Strategy

Our mission remains to be a customer-centric bank advising retail and business customers locally and regionally through a well-established branch network in select locations in Jutland.

Based on the Bank's values – Presence, Simplicity and Action, Vestjysk Bank aims to maintain its strength as a provider of classic banking services for both retail and business customers. We use our strong professional and personal competences to focus on the (current and potential) needs of its revenue-generating customers. We will do this on the strength of our motivated and adaptable employees and with a strong emphasis on personal contact and service. To the greatest possible extent, customers and employees are supported by digital processes, such as digital signatures, video conferences, communication via eBanking, centralised production, etc.

Vestjysk Bank's strategy is to be a business-oriented bank offering products and services in response to our customers' demands and needs. The Bank's aim is to realise a satisfactory return on equity, combined with focus on a healthy sector distribution of the Bank's credit exposures.

Credit management is to continually improve the quality of the Bank's credit book through stringent management of existing vulnerable exposures, focus on increasing business volume with existing financially sound customers and growth through the intake of financially sound new retail and business customers. In the business customer segment, the Bank focuses particularly on customers with a business volume of DKK 3-75 million.

The objective of increasing the business volume must continually be balanced against the Bank's liquidity and capital structure.

We consider central, western and eastern Jutland our core market area. The market strategy is adapted to the general opportunities in the individual market areas. The number of branches is regularly evaluated against current and anticipated market developments.

Vestjysk Bank's core business is conventional retail and business banking with special expertise in lending and financing for agriculture, fishery, real estate, and small and medium-sized enterprises.

We aim to provide a portfolio of products and services designed to meet the needs of ordinary retail and business customers in all core market areas. This portfolio is to ensure a sound business platform for both the customers and the Bank.

The business segment will continue to be the Bank's primary business segment, with agriculture, fishery and real estate as the largest sectors. Considering the Bank's geographical locations and history, the strategy is to continue to have significant business in these areas. The Bank intends to maintain the current 65%/35% ratio of business and retail banking.

The Board of Directors annually defines limits of maximum business volume within individual sectors, and no individual sector may exceed 15% of the Bank's total lending portfolio.

The Bank previously built up a certain portfolio outside its market area in Denmark. Going forward, Vestjysk Bank will seek to primarily retain existing customers and attract new customers within its geographical market area. It will therefore actively maintain the proportion of loans outside its market area at the current level of about 12%.

The Bank has also built up a portfolio abroad. Over a period of several years, the Bank has reduced the proportion of loans abroad, and will now strive to maintain the current level of about 3%.

The Bank's lending portfolio must be characterised by financially sound exposures and a continued healthy diversification on sectors, geography and business areas. Only in exceptional cases and for limited time periods will the Bank accept exposures that exceed 10% of its total capital (31 December 2019: around DKK 300 million).

Organisation

The Bank's organisation is based on four business areas; Business, Retail, Markets and an agricultural centre responsible for sales, management and close customer contact in the credit area.

The four business areas are the link between the customer-centric branches and the central corporate functions of the Bank's senior management. The directors of the business areas and the director of the agricultural centre along with the Executive Board and the Bank's concept and sales director together make up the Bank's management group which undertakes its strategy, results and action plans.

In addition to the four business areas, the Bank has a number of central management forums. For example, a credit committee has been established to handle major credit exposures, and a solvency and market risk committee which assesses the composition of the Bank's funding and liquidity on an ongoing basis. Finally, the development and composition of the Bank's prices and products is assessed by a separate committee.

Enhancing the competencies of Management and employees

Vestjysk Bank aims to maintain a consistently high level of expertise for management and employees alike. With our ambition of doing things right, skill building is a key strategic development area.

This focus is one of the reasons that the Bank is able to retain and attract competent employees with strong general and specialist competencies. The average age and seniority of the Bank's employees are 48.3 and 14.7 years, respectively. The average number of FTEs in 2019 was 378, which is 8 fewer than in 2018.

Management's statement

The Bank's Board of Directors and Executive Board have today considered and approved the Annual Report of Vestjysk Bank A/S for the period 1 January – 31 December 2019.

The annual report is presented in accordance with the Danish Financial Business Act.

In our opinion, the accounting policies applied are appropriate and the financial statements present a true and fair view of the Company's assets and liabilities and financial position as at 31 December 2019, and of the results of the Bank's activities for the reporting period 1 January – 31 December 2019.

In our opinion, the management's review includes a fair review of the development and performance of the company and a fair description of the principal risks and uncertainty factors that the Bank faces. The Bank recommend the annual report for adoption by the shareholders at the annual general meeting.

Lemvig, 20 February 2020

Executive Board

…………………………………………	…………………………………………
Jan Ulsø Madsen	Michael Nelander Petersen
Chief Executive Officer	*Managing Director*

Board of Directors

……………………………………….	…………………………………………	…………………………………………
Kim Duus	Lars Holst	Bent Simonsen
Chairman of the Board of Directors	*Deputy Chairman of the Board of Directors*	
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Bolette van Ingen Bro	Karina Boldsen	Nicolai Hansen
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Jacob Møllgaard	Martin Sand Thomsen	Mette Holmegaard Nielsen

Auditors’ report

Report by the Internal Audit Department

To the Shareholders of Vestjysk Bank A/S

Opinion
In our opinion, the Financial Statements of Vestjysk Bank A/S give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of its operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Business Act

Our opinion is consistent with our Auditor’s Long-form Report to the Audit Committee and the Board of Directors.

Basis of opinion
We have audited the Financial Statements of Vestjysk Bank A/S for the financial year 1 January - 31 December 2019, which comprise an income statement and statement of comprehensive income, a statement of financial position, a statement of changes in equity and notes to the financial statements, including accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Business Act.

We conducted our audit on the basis of the Executive Order of the Danish Financial Supervisory Authority on Auditing Financial Enterprises and Financial Groups and in accordance with International Standards on Auditing with respect to the planning and performing of audits.

We planned and performed the audit to obtain reasonable assurance as to whether the Financial Statements are free from material misstatement. We participated in the audit of all critical audit areas.

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

Statement on the Management's review
Management is responsible for the Management’s review.

Our opinion on the Financial Statements does not cover the Management’s review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the Management’s review and, in doing so, consider whether the Management’s review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management’s review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the Management’s review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatements of the Management’s review.

Lemvig, 20 February 2020

Mikael Flohr Hansen
Chief Audit Executive

Auditors' report

Independent Auditor's Report

To the Shareholders of Vestjysk Bank A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Bank at 31 December 2019 and of the results of the Bank's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

Vestjysk Bank A/S' Financial Statements for the financial year 1 January to 31 December 2019 comprise the income statement and statement of comprehensive income, the balance sheet, the statement of changes in equity and notes to the Financial Statements, including summary of significant accounting policies ("the Financial Statements").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

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

Independence

We are independent of the Bank in accordance with International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment

We were first appointed auditors of Vestjysk Bank A/S on 4 July 1989 for the financial year 1989. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of 31 years including the financial year 2019.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Auditors' report

Key audit matter	*How our audit addressed the key audit matter*
Loans are measured at amortised cost less impairment charges. Impairment of loans constitutes Management's best estimate of expected losses on loans at the balance sheet date in accordance with the provisions of IFRS 9 as incorporated in the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms etc. We refer to note 1 for a detailed description of the accounting policies applied. Despite the positive development in certain segments of the agricultural sector during the latest year, considerable financial challenges continue to face the agricultural sector, and a material part of the Bank's loan impairment charges are related to these loans. The situation for the agricultural sector implies increased uncertainty with respect to the assessment of the required impairment charges for loans relating to the agricultural sector. Impairment of loans constitutes a key focus area as Management makes material estimates with respect to whether impairment charges are to be recorded on loans as well as the amount of the impairment charges. The following areas are central to the calculation of loan impairment charges: • Determination of credit classification on initial and subsequent recognition. • Model-based impairment charges in stages 1 and 2, including Management's determination of model variables adapted to the Bank's loan portfolio. • The Bank's procedures to ensure completeness of the registration of credit-impaired loans (stage 3) or loans with significant increase in credit risk (stage 2). • Material assumptions and estimates applied by Management in the calculations of impairment charges, including principles for the assessment of various outcome of the customer's financial position (scenarios) and for the assessment of collateral values of e.g. agricultural land, stables and other properties included in the calculations of impairment. • Management's assessment of expected credit losses at the balance sheet date as a result of possible changes in market conditions and which are not included in the model-based calculations or individually assessed impairment charges, including the current and expected earnings of agricultural customers. We refer to the Financial Statements, "Accounting Estimates	We reviewed and assessed the impairment charges recognised in the income statement in 2019 and in the balance sheet at 31 December 2019. Our review included an assessment of the impairment model applied prepared by the data centre BEC, including division of responsibilities between BEC and the Bank. BEC's independent auditor has provided the model with a reasonable assurance report as to whether the descriptions comply with the interpretation options regarding the impairment principles according to IFRS 9, and whether the model calculates in accordance with the model descriptions. We assessed whether the contents of the report uncovered a need for adjustment of the Bank's use of the impairment model. We assessed and tested the Bank's calculation of impairment charges in stages 1 and 2, including our assessment of Management's determination and adaptation of model variables to own circumstances. Our review and assessment moreover included the Bank's validation of the methods applied for the calculation of expected credit losses as well as the procedures designed to ensure that credit-impaired loans in stage 3 and in stage 2, underperforming, are identified and recorded on a timely basis. We assessed and tested the principles applied by the Bank for the determination of impairment scenarios and for the measurement of collateral values of e.g. agricultural land, stables and other properties included in the calculations of impairment of credit-impaired loans, and loans that are significantly underperforming. We tested a sample of credit-impaired loans in stage 3 and in stage 2, underperforming, by testing the calculations of impairment charges and applied data to underlying documentation. We tested a sample of other loans by making our own assessment of stage and credit classification. This included more samples of large loans as well as loans relating to segments with generally increased exposure, including the agricultural segments. We reviewed and challenged Management's estimates of expected credit losses relating to agricultural customers not included in the model-based calculations or individually assessed impairment charges based on our knowledge of the portfolio, our sector knowledge and knowledge of current market conditions.

and Assessments" in note 2, note 33, "Risks and Risk Management", and credit notes 34 - 36, where conditions that may affect loan impairment charges are described	

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

Auditors' report

- Evaluate the appropriateness of accounting policies used by Management and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Herning, 20 February 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 3377 1231

Jesper Edelbo
State Authorised Public Accountant
mne10901

Carsten Jensen
State Authorised Public Accountant
mne10954

Financial Statements

Statements of Financial Position

Note		2019 DKK' 000	2018 DKK' 000
	Statement of Income		
3	Interest income	557,775	612,415
4	Interest expenses	47,578	64,410
	Net interest income	510,197	548,005
	Dividends on shares etc.	29,017	11,939
5	Income from fees and commissions	363,594	324,635
	Fees and commissions paid	34,520	27,935
	Net interest and fee income	868,288	856,644
6	Value adjustments	184,939	34,623
	Other operating income	2,433	17,181
7,8	Staff costs and administrative expenses	477,417	470,128
	Depreciation, amortisation and impairment of tangible and intangible assets	29,547	8,178
	Other operating expenses	1,569	2,021
9,10,11	Impairment of loans and receivables, etc.	64,425	185,862
	Profit before tax	482,702	242,259
13	Tax	4,957	-53,895
	Profit after tax	477,745	296,154
	Statement of Comprehensive Income		
	Profit after tax	477,745	296,154
	Other comprehensive income:		
	Change in the value of owner-occupied properties	-16,955	3,958
	Changes in the value of pension obligations	-801	-1,249
	Other comprehensive income after tax	-17,756	2,709
	Total comprehensive income	459,989	298,863
	Proposed distribution of net profit		
	Additional tier 1 capital holders	18,539	20,310
	Retained earnings	441,450	278,553
	Total	459,989	298,863

Financial Statements

Statements of Financial Position

Note		2019	2018
		DKK' 000	DKK' 000
	Assets		
	Cash in hand and demand deposits with central banks	395,706	386,781
14	Receivables from credit institutions and central banks	775,266	580,779
15	Loans and other receivables at amortised cost	10,220,920	10,797,340
	Bonds at fair value	4,268,252	3,533,714
	Shares, etc.	502,314	441,928
16	Assets related to pooled schemes	5,232,977	4,681,410
17	Intangible assets	17	466
	Land and buildings, total	261,684	310,806
18	Investment property	0	425
19	Owner-occupied property	261,684	310,381
20	Other property, plant and equipment	4,831	5,910
	Current tax assets	0	1,094
	Deferred tax assets	98,000	75,000
21	Other assets	415,928	367,203
	Prepayments	16,004	15,781
	Assets Total	22,191,899	21,198,212

Financial Statements

Statements of Financial Position

Note		2019 DKK' 000	2018 DKK' 000
	Equity and liabilities		
	Debts		
22	Debts to credit institutions and central banks	13,001	28,956
23	Deposits and other debt	13,042,817	12,901,985
	Deposits with pooled schemes	5,232,977	4,681,410
	Current taxobligations	3,715	
24	Other liabilities	495,429	529,523
	Prepayments	18	37
	Debts, total	18,787,957	18,141,911
	Provisions		
	Provision for pensions and similar liabilities	15,532	15,479
	Provisions for losses on guarantees	25,762	32,814
	Other provisions	59,466	46,604
	Provisions, total	100,760	94,897
25	**Subordinated debt**	347,015	372,581
	Equity		
26	Share capital	895,982	895,982
	Revaluation reserves	47,449	64,563
	Reserves provided for in the Bank's Articles of Association	551,600	551,600
	Retained earnings	1,306,136	846,678
	Shareholder equity, total	2,801,167	2,358,823
	Additional tier 1 capital holders	155,000	230,000
	Equity, total	2,956,167	2,588,823
	Equity and liabilities, total	22,191,899	21,198,212

Financial Statements

Statements of Changes in Equity

DKK' 000	Share capital	Revalua-tion re-serves	Reserves pro-vided for in the Bank's Articles of Association	Retained earnings	Total	Addi-tional tier 1 capital*)	Equity total
Equity 1 January 2019	895,982	64,563	551,600	846,678	2,358,823	230,000	2,588,823
Profit after tax for the year				459,206	459,206	18,539	477,745
Other comprehensive income after tax		-16,955		-801	-17,756		-17,756
Total comprehensive income	0	-16,955	0	458,405	441,450	18,539	459,989
Redemption of additional tier 1 capital						-75,000	-75,000
Interest on additional tier 1 capital						-18,539	-18,539
Tax on interest on additional tier 1 capital				894	894		894
Additions relating to sale of own shares				131,720	131,720		131,720
Disposals relating to purchase of own shares				-131,720	-131,720		-131,720
Profits brought forward		-159		159	0		0
Equity, 31 December 2019	895,982	47,449	551,600	1,306,136	2,801,167	155,000	2,956,167
Equity, 1 January 2018	895,982	60,605	551,600	570,457	2,078,644	230,000	2,308,644
Profit after tax for the year				275,844	275,844	20,310	296,154
Other comprehensive income after tax		3,958		-1,249	2,709		2,709
Total comprehensive income	0	3,958	0	274,595	278,553	20,310	298,863
Interest on tier 1 capital					0	-20,310	-20,310
Tax on interest on additional tier 1 capital				1,625	1,625		1,625
Additions relating to sale of own shares				21,605	21,605		21,605
Disposals relating to purchase of own shares				-21,604	-21,604		-21,604
Equity, 31 December 2018	895,982	64,563	551,600	846,678	2,358,823	230,000	2,588,823

***) Holders of additional tier 1 capital**

The additional tier 1 capital has been provided for an indefinite term and Vestjysk Bank has full discretion at all times to omit interest payments, and it is consequently accounted for as equity.

The additional tier 1 capital meets the conditions under CRR/CRD IV

Additional tier 1 capital DKK 155 million

There is an option of early redemption, subject to approval by the Danish Financial Supervisory Authority, on 16 August 2022. The capital accrues interest at 8.50% until 16 August 2022, after which it accrues interest at a floating rate of CIBOR6 plus a credit spread. If Vestjysk Bank's common equity tier 1 capital ratio falls below 5.125%, the loan will be written down

Financial Statements

Statements of Financial Position

1	Accounting policies
2	Accounting estimates and assessments
3	Interest income
4	Interest expenses
5	Income from fees and commissions
6	Value adjustments
7	Staff costs and administrative expenses
8	Auditors' fees
9	Impairment of loans and receivables, etc.
10	Impairment of loans and receivables and provisions on guarantees and unutilised credit lines
11	I Receivables for whichaccrual of interest has been discontinued
12	Tax
13	Receivables from credit institutions and central banks
14	Loans and other receivables, by term to maturity
15	Assets related to pooled schemes
16	Intangible assets
17	Investment property
18	Owner-occupied property
19	Other property, plant and equipment
20	Deffered tax assets
21	Other assets
22	Debts to credit Institutions and central banks
23	Deposits and other debt
24	Other liabilities
25	Subordinated debt
26	Share capital
27	Capital requirements
28	Contingent assets
29	Contingent liabilities and security pledge
30	Hedge accounting
31	Derivative financial instruments
32	Fair value of financial assets and liabilities
33	Risk and risk management
34	Loans and guarantees, by sector (net)
35	Loans etc, by rating and IFRS 9 stages
36	Maximum credit exposure before impairment and allowances
37	Interest rate risk
38	Foreign exchange risk
39	Share risk
40	Liquidity risk
41	Other risks
42	Related parties
43	Pending litigation
44	Events after the balance sheet date
45	Financial highlights

Note

1 **Accounting policies**

General remarks

Vestjysk Bank's annual report is presented in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. as well as the disclosure requirements for listed companies issued by NASDAQ Copenhagen A/S.

The accounting policies remain unchanged in relation to the 2018 Annual Report.

Changed accounting treatment of negative interest income and expenses

Negative interest income and negative interest expenses were previously presented under interest income and interest expenses, respectively, due to their immateriality. In 2019 this changed, however, and as from 2019 they will therefore be presented separately in the notes to the financial statements under negative interest income and negative interest expenses, respectively. The changed presentation of interest income and interest expenses has no effect on the net profit.

Recognition and measurement

Assets are recognised in the statement of financial position when, as a result of a past event, it is probable that future economic benefits will flow to the Bank and the value of the asset can be reliably measured.

Liabilities are recognised in the statement of financial position when, as a result of a past event, the Bank has a legal or constructive obligation, and it is probable that future economic benefits will flow from the Bank, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at fair value. However, property, plant and equipment are initially measured at cost. Subsequently, assets and liabilities are measured as described below in respect of each individual item.

Recognition and measurement take into account foreseeable risks and losses arising prior to the presentation of the annual report and which confirm or invalidate matters existing at the reporting date.

Income is recognised in the statement of income as earned, while expenses are recognised at the amounts that pertain to the reporting period. However, increases in the value of owner-occupied properties are recognised directly in equity.

Financial instruments are recognised at the settlement date.

Segment information is not provided as neither the activities nor geographic markets differ substantially from one another.

Note

1 **Accounting policies (continued)**

Description of accounting policies

Foreign currency translation
On initial recognition, transactions denominated in foreign currency are translated at the exchange rates at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the reporting date are translated at the exchange rates at the reporting date. Any foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment or the reporting date, respectively, are recognised in the statement of income as value adjustments.

Determination of fair value for measurement and disclosure purposes
Derivative financial instruments and unsettled spot transactions are recognised and measured at fair value, which is generally based on listed market prices. For unlisted instruments, fair value is determined according to generally accepted principles based on market parameters.

Bonds traded in active, regulated markets are measured at fair value. Fair value is determined using the most recently observed market price at the reporting date.

Shares traded in active, regulated markets are measured at fair value. Fair value is determined using the most recently observed market price at the reporting date.
Unlisted shares in companies that the Bank owns jointly with a number of other banks are measured at fair value. If no current market data are available, fair value is determined on the basis of the companies' most recently presented and adopted financial statements and other available information.

For floating-rate loans, impairment write-downs in stage 2 and 3 are generally assumed to correspond to the fair value of the credit risk with the following adjustments:

Credit margin changes for a given risk are taken into account by adjusting for the difference between the current credit premium and the credit premium that would be required if a loan was granted at the reporting date.

Fixed-rate loans not subject to hedge accounting are furthermore adjusted by the change in value arising from the difference between the fixed interest rate and the current market rate.

The fair value of issued bonds traded in an active market is determined using the most recently observed market price at the reporting date. The fair value of issued bonds and subordinated debt not traded in an active market is determined on the basis of the terms that would have applied if the loan in question had been raised at the reporting date.

Hedge accounting
The Bank applies the special rules on hedge accounting to avoid the inconsistency of certain financial assets or financial liabilities being measured at amortised cost while derivative financial instruments are measured at fair value when the documentation and effectiveness requirements are met.

Note	
1	**Accounting policies (continued)**

Hedging has been established for the following items: Fixed-rate loans, foreign currency loans, subordinated debt and fixed-rate deposits. When hedging the fair value of recognised fixed rate assets and liabilities, the hedged items are adjusted to fair value as regards the hedged risk.

The hedging instruments used are options, forward contracts, swaps and caps.

Statements of income and comprehensive income

Interest, fees and commissions
Interest income and interest expenses are recognised in the statement of income in the period to which they pertain. Commissions and fees that are an integral part of the effective interest on a loan are recognised as part of amortised cost.

Interest income on stage 3 credit-impaired loans is recognised in interest income only in the amount of the effective interest calculated on the impaired value of the loan. Any additional interest income is recognised in the item Impairment of loans and receivables, etc. Commissions and fees that form part of an annuity are accrued over the term of the annuity.

Other fees are recognised in the statement of income in the period to which they pertain.

Other operating income
Other operating income comprises items of a secondary nature in relation to the Bank's activities, including gains and losses on the sale of acquired assets, as well as investment and owner-occupied property.

Gains and losses on sales are calculated as the selling price less selling costs and the carrying amount at the date of the sale.

Staff costs and administrative expenses
Staff costs comprise employee salaries and social security costs, pension contributions, etc. Costs of goods and services provided to employees, including anniversary bonuses, are recognised as the employees perform the services that entitle them to the goods and services in question.

Defined contribution plans have been established for most of the employees. For the defined contribution plans, fixed contributions are paid to an independent pension fund, and the Bank has no obligation to make any further contributions.

Other operating expenses
Other operating expenses comprise items of a secondary nature in relation to the Bank's activities, including contributions to the Resolution Fund.

Tax
Tax for the year, consisting of the year's current tax and changes in deferred tax, is recognised in the statement of

Note

1 **Accounting policies (continued)**

income with respect to the part that can be attributed to the profit for the year and directly in other comprehensive income and equity, respectively, as regards the part that can be attributed thereto.

Current tax liabilities and current tax receivables are recognised in the statement of financial position as calculated tax on the taxable income for the reporting period adjusted for tax paid on account.

Deferred tax is recognised for all temporary differences between the carrying amount and tax base of assets and liabilities, apart from goodwill and temporary differences arising on acquisition of assets or assumption of liabilities that, at the time of acquisition, affect neither taxable income nor the profit.

Deferred tax is recognised in the statement of financial position under Deferred tax liabilities or, if the net value is an asset and it is considered probable that the tax asset will be realised, under Deferred tax assets.

Statement of financial position

Financial assets – general
Purchases and sales of financial assets are recognised at fair value at the settlement date. Between the transaction date and the settlement date, changes are included in the fair value of the financial instrument that has not been settled.

On initial recognition of financial assets not subsequently measured at fair value through profit or loss, transaction costs are added.

Financial assets are measured at fair value through profit or loss.

Loans and receivables are measured at amortised cost, which usually corresponds to nominal value less opening fees constituting part of the effective interest rate and allowances for losses.

Cash in hand and demand deposits with central banks
Cash in hand and demand deposits comprise the Bank's holdings of domestic and foreign physical notes and coins, as well as demand deposits with central banks.

Receivables from credit institutions and central banks
Receivables from credit institutions and central banks comprise amounts receivable from other credit institutions and term deposits with central banks.

Loans and other receivables
Under the new IFRS 9-compatible financial reporting rules, classification and measurement of financial assets is based on the business model for the financial assets and the contractual cash flow characteristics of the financial assets. As a result, financial assets are classified in one of the following three categories:

- Financial assets held with the objective of collecting contractual cash flows, and where the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, are subsequent to initial recognition measured at amortised cost.

Note

1 **Accounting policies (continued)**

- Financial assets held within a combined business model where some financial assets are held with the objective of collecting contractual cash flows and other financial assets are sold, and where the contractual cash flows from the financial assets in the combined business model are solely payments of principal and interest on the principal amount outstanding, are initially measured at fair value through other comprehensive income.

- Financial assets that do not meet the above-mentioned business model criteria, or where the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding, are subsequent to initial recognition measured at fair value through profit or loss.

Vestjysk Bank has no financial assets falling within the category of financial assets measured at fair value through other comprehensive income. Vestjysk Bank's bond portfolio is measured at fair value through profit or loss, because they are included in a trading portfolio.

Expected credit loss impairment model
Under IFRS 9-compatible impairment rules, a loss allowance is recognised for expected credit losses on all financial assets recognised at amortised cost, and under the same rules provision is made for expected credit losses on undrawn credit lines, loan commitments and financial guarantees. The impairment rules are based on an expected loss model which implies earlier recognition of impairment losses than the impairment model from before 1. January 2018, under which there had to be objective evidence of impairment before an impairment loss could and must be recognised.

For financial assets recognised at amortised cost, an allowance for expected credit losses is recognised in the statement of income and as a reduction of the carrying amount of the asset in the statement of financial position. Provision for loss-es on undrawn credit lines, loan commitments and guarantees are recognised as a liability.

Stages of change in credit risk
The expected loss model, on initial recognition of a financial asset, etc., a loss allowance is recognised in an amount equivalent to the 12-month expected credit losses (stage 1). If, on measurement subsequent to initial recognition, the credit risk increases significantly, a loss allowance is recognised at an amount equal to the lifetime expected credit loss-es of the financial asset (stage 2). Where it is established that the asset is credit-impaired (stage 3), a loss allowance is recognised at an amount equal to the lifetime expected credit losses of the asset, and interest revenue is recognised in the statement of income using the effective interest method relative to the impairment loss.

The expected loss is calculated as a function of PD (probability of default), EAD (exposure at default) and LGD (loss given default) and incorporating forward-looking information reflecting Management's expectations of future developments. The placing into stages and calculation of the expected loss are based on Vestjysk Bank's rating models, which are PD models developed by the BEC data centre and Vestjysk Bank's internal credit management department.

Assessment of change in credit risk
The assessment of the change in credit risk assumes a significant increase in credit risk relative to the initial recognition in the following situations:

- A 100 per cent increase in the expected lifetime PD of the financial asset and a 0.5 percentage point increase in the 12-month PD, where the 12-month PD was below 1.0 per cent at initial recognition.

Note

1 **Accounting policies (continued)**

- A 100 per cent increase in the expected lifetime PD of the financial asset or a 2.0 percentage point increase in the 12-month PD, where the 12-month PD was 1.0 per cent or higher at initial recognition.
- If a financial asset is more than 30 days past due, the credit risk will be considered to have increased significantly as well.

However, if the credit risk of the financial asset is considered to be low at the reporting date, the asset will remain at stage 1, characterised by no significant increase in credit risk. Credit risk is considered to be low when the customer's 12-month PD is lower than 0.2 per cent. In addition to loans and receivables satisfying the PD criterion, the category of assets with low credit risk comprises Danish government bonds and mortgage bonds and receivables from Danish credit institutions.

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

- The borrower is experiencing significant financial difficulty and Vestjysk Bank estimates that the borrower will not be able to honor its obligations as agreed.
- The borrower is experiencing in breach of contract. For example, in form of noncompliance with payment for obligations and interests and repeated overdrafts.
- Vestjysk Bank has granted the borrower relief from terms and conditions which would not have been considered due to the borrower's financial difficulties.
- It is probable that the borrower will enter into bankruptcy or other financial reconstruction.
- Acquisition of a financial asset at a substantial discount, reflecting incurred credit losses.
- The exposure is more than 90 days past due/overdrawn by an amount considered to be substantial.

The definition of credit impaired assets and default applied by Vestjysk Bank in the measurement of the expected credit loss and on transition to stage 3 is in accordance with the definition applied for internal risk management purposes, and the definition is also aligned with the definition of default in the Capital Requirements Regulation (CRR). This implies that an exposure which is deemed to be in default for regulatory purposes will always be placed in stage 3.

Expected losses
The calculation of impairment losses on exposures in stages 1 and 2, is made on the basis of a collective model, where-as the calculation of impairment losses on the remaining part of the exposures is made by means of a manual, individual assessment based on three scenarios (a base scenario, an upside scenario and a downside scenario) including the like-lihood of the scenarios occurring.

Note

1 **Accounting policies (continued)**

The collective model calculation is based on a PD (probability of default) model developed and maintained by Vestjysk Bank's data centre, supplemented by a forward-looking macroeconomic module developed and maintained by LOPI, which forms the basis of the incorporation of Management's expectations for the future.

The macroeconomic module is based on a number of regression models that establish the historical correlation between the year's impairment losses in a number of sectors and industries and a number of explanatory macroeconomic varia-bles. Estimates of the macroeconomic variables are then fed into the regression models, based on forecasts from con-sistent sources, such as the Danish Economic Council, the Danish central bank and others, whose forecasts generally look two years ahead and comprise variables such as increases in public spending, increases in GDP, interest rates, etc. This produces a calculation of expected impairment losses for up to two years ahead in the individual sectors and industries. For maturities beyond two years and until year ten, a projection of the impairment ratio is made so that it con-verges toward a normal level in year ten. Maturities beyond ten years are assigned the same impairment ratio as in year ten. The forward-looking macroeconomic module generates a number of adjustment factors, which are multiplied by the data centre's "raw" PD values, which are thus adjusted.

Removal of financial assets from statement of financial position
Financial assets measured at amortised cost are removed in full or in part from the statement of financial position if Vestjysk Bank no longer has reasonable expectations of full or partial recovery of the outstanding amount. Inclusion ceases on the basis of a specific, case-by-case assessment of the individual exposures. For business customers, the Bank will typically base the assessment on the customer's liquidity, earnings and equity and the collateral security provided for the exposure. For private customers, Vestjysk Bank will typically base the assessment on the customer's liquidity, income and assets as well as any collateral security provided for the exposure. When a financial asset is removed in full or in part from the statement of financial position, any impairment loss on the financial asset is also removed from the calculation of accumulated impairment losses, see note 11.

Vestjysk Bank continues its collection efforts after the assets have been removed from the statement of financial position, the measures taken depending on the specific situation. Vestjysk Bank generally seeks to enter into a voluntary agree-ment with the customer, including renegotiation of terms or reconstruction of a business, so that debt collection or petition for bankruptcy is first brought into play when all other measures have been exhausted.

Note

1 **Accounting policies (continued)**

Shares

Shares comprise shares traded in active markets as well as unlisted shares in enterprises owned jointly by the Bank and a number of other financial institutions.

Bonds

The item comprises bonds traded in an active market.

Pooled pension funds

Assets forming part of pooled pension funds and customers' deposits in pooled pension funds are presented in separate items in the statement of financial position. Returns on pooled assets and deposits are presented jointly under value adjustments.

Land and buildings

Investment property is property owned primarily to earn rental income and/or capital gains.

Investment property is recognised at cost on acquisition and subsequently measured at fair value. Fair value adjustments and rental income are recognised in the statement of income as Value adjustments and Other operating income, respectively.

The fair value of investment property is determined based on a systematic assessment based on the property's expected return, as this method is deemed to reflect how similar property is valued in the market. Such property is not depreciated.

Owner-occupied property is real property occupied by the Bank's administrative departments, branches and other service units.

Owner-occupied properties are measured at their revalued amounts, which is the fair value at the date of revaluation less subsequent accumulated depreciation and impairment. The revalued amount constitutes the depreciation basis. Revaluation and reversal to an amount that exceeds cost less accumulated depreciation is recognised in other comprehensive income and is tied up under revaluation reserves in equity. Revaluation to an amount that is lower than cost less accumulated depreciation is recognised in the statement of income.

An assessment of the carrying amounts is obtained from external valuation experts periodically.

Intangible assets

Intangible assets relate to the value of customer relationships acquired in connection with the acquisition of Bonusbanken, as well as IT systems and software. The value of acquired customer relationships is measured at cost less accumulated amortisation and impairment. The value of the acquired customer relationships is amortised on a straight-line basis over their expected useful life, which is 10 years.IT systems and software are measured at cost less accumulated amortisation and impairment. Amortisation is provided on a straight-line basis over the expected useful life, which is 3 years.

Note

1 **Accounting policies (continued)**

Other property, plant and equipment
Other property, plant and equipment is measured at cost less accumulated depreciation and impairment. Depreciation is performed on a straight-line basis, based on the following assessed useful lives of other property, plant and equipment:

- IT equipment 2-3 years
- Machinery and equipment 3 years
- Vehicles 3-4 years

Other property, plant and equipment is tested for impairment when there is evidence of impairment.

Other assets
The item comprises assets not comprised by other asset items, including positive market values of spot transactions and derivative financial instruments, as well as interest receivable.

Financial liabilities
Financial liabilities are recognised at fair value at the settlement date. Transaction costs are deducted upon initial recognition of financial liabilities not subsequently measured at fair value.

Other liabilities
The item comprises liabilities not comprised by other liability items, including negative market values of spot transactions and derivative financial instruments, as well as interest payable.

Amounts owed to credit institutions and central banks/deposits
Amounts owed to credit institutions and central banks as well as deposits are measured at amortised cost.

Subordinated debt
Subordinated debt is measured at amortised cost.

Additional tier 1 capital
The Bank has additional tier 1 capital totalling DKK 155 million. The loans are not subject to any contractual obligations to deliver cash and cash equivalents or other financial assets, as their principal amounts have an indefinite term and the Bank has discretion to omit interest payments. Pursuant to the Danish Executive Order on Financial Reporting, the issue is therefore classified as equity rather than as debt. Accordingly, the equity has been increased by the amount of the loan proceeds and the loan is accounted for as additional tier 1 capital in the calculation of total capital. If the Bank resolves to repay the loan in full or in part, the equity will be reduced accordingly at the repayment date. Interest is accounted for as dividend and taken directly to equity and thus does not impact profit/loss.

Offsetting financial assets and liabilities
Financial assets and liabilities are presented as a net item, provided offsetting is legally permitted and the Bank intends to offset or sell the asset and the liability simultaneously.

Note

1 **Accounting policies (continued)**

Own shares

Purchase and selling prices of and dividends on own shares are recognised directly in equity under retained earnings.

Future financial reporting regulation

The Danish Financial Supervisory Authority's Amending Executive Order of 3 December 2018 is effective for financial years beginning on or after 1 January 2020.

The Amending Executive Order introduces new rules on leases, which depart from the existing rules in that when accounting for leases the lessee is no longer required to distinguish between finance leases and operating leases. All leases are to be recognised by the lessee as a right-of-use asset representing the value of right to use the asset. On initial recognition, the asset is measured at the present value of the lease liability, including costs and any advance payment. At the same time, the present value of the agreed lease payments is recognised as a liability. Exempt from the requirement for recognition of a lease asset are short-term leases and leases of low-value assets.

Vestjysk Bank has decided to defer implementation of the new rules on leases until 1 January 2020. The new rules on leases are assessed to have an insignificant effect.

Note

2 **Accounting estimates and assessments**

The calculation of the carrying amount of certain assets and liabilities is based on an estimate of the effect of future events on the values of such assets and liabilities at the reporting date.
The estimates and judgments applied by Management are based on assumptions that it considers reasonable, but which are inherently uncertain and unpredictable. Such assumptions may be incomplete or inaccurate, and unexpected future events or circumstances may arise. Therefore, estimates and judgments are inherently difficult to make and will always entail uncertainty when they involve transactions with customers and other counterparties. It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or as a result of new information or subsequent events.
The principles for making accounting estimates and judgments material to the financial reporting include an assessment of:

- Loan impairment charges and provisions for guarantees
- Revaluation of owner-occupied properties
- Fair value of financial instruments
- Measurement of deferred tax assets

Loan impairment charges and provisions for guarantees
Impairment losses on loans and receivables are calculated in accordance with the accounting policies and based on a number of assumptions. The rules were changed effective at 1 January 2018, after which date impairment losses are based on an expected loss model, under which impairment is recognised at an earlier stage than under the previous impairment model. As a result, Management made a number of new estimates in connection with the calculation of impairment losses at 1 January 2018 and for 2018.

Provisions for losses on guarantees also entail uncertainty where the quantification of the risk of a payment having to be made on a guarantee is substantially based on estimates.

Calculation and recognition of impairment is based on a number of factors, several of which are estimated, and as such contain an element of uncertainty.
For example, impairment losses are strongly affected by macroeconomic trends, including the following factors:

Scenarios
The determination of losses under the new expected loss model is based on Management's forecasts of future economic developments. Preparing such forecasts involves estimates made by Management. The estimates are based on different scenarios (a base scenario, an upside scenario and a downside scenario), each of which is given a probability weighting reflecting Management's assessment of current forecasts. The determination and probability weighting of scenarios entail uncertainty.

Value of collateral
Determining the value of collateral also involves estimates. Such estimates relate to the assessment of whether all future payments will be received and the determination of the amount of future payments, including realisable values of any collateral and expected dividend payments from estates.

Note

2 **Accounting estimates and assessments (continued)**

Model uncertainty and management estimates
In addition to the use of forward-looking elements, impairment losses in stages 1 and 2 are also subject to uncertainty due to the fact that the models do not take into account all relevant factors. As the historical data underlying the models is still limited, it has been necessary to apply management estimates in supplement to the model calculations. These management estimates relate particularly to agriculture. Management estimates have been based on individual assessments of each segment and the borrowers concerned. Assessing the effects of the long-term probability of default of these borrowers and segments in an upside and a downside scenario, respectively, involves estimates.

Agriculture
The Bank must stress the risk of additional impairment losses in case of a continued adverse trend, particularly in the agricultural sector, including in case of changes in the estimates and assumptions used to calculate impairment allowances in this sector.

The Bank is closely monitoring developments in the agricultural sector, including milk and pork settlement prices, and will continue to incorporate the consequences of any changes in the calculation of impairment.

Management is aware that the Bank has a relatively high proportion of credit-impaired customers. Consequently, loan impairment losses and provisions for guarantees are subject to considerable uncertainty. If the economic climate deteriorates significantly, particularly in the agricultural sector, this could have a material adverse impact on the Bank's results of operation and financial position.

Note

2 **Accounting estimates and assessments (continued)**

Revaluation of owner-occupied properties
The rate of return method is applied when measuring owner-occupied properties at revalued amount. The uncertainty related to the measurement is mainly linked to the rate of return and rental value used in the valuation.

The carrying amount of owner-occupied properties is specified in note 19.

Fair value measurement of financial instruments
Vestjysk Bank measures a number of financial instruments at fair value, including all derivative financial instruments, as well as shares and bonds.

Assessments are made in connection with determining the fair value of financial instruments in the following areas:

- Choice of valuation method
- Determination of when available listed prices do not reflect the fair value
- Calculation of fair value adjustments to provide for relevant risk factors, such as credit, model and liquidity risk
- Assessment of which market parameters are to be monitored
- Estimate of future cash flows and return requirements for unlisted shares.

As part of its operations, Vestjysk Bank has acquired strategic investments. These are measured at fair value based on the available information about trading in the relevant company's shares or, alternatively, a valuation model based on accepted and current market data, including an assessment of expected future earnings and cash flows. The valuation will also be influenced by co-ownership, trading and other available information.

The carrying amount of securities measured at fair value is specified in note 31.

Measurement of deferred tax assets
Deferred tax assets are recognised for all unutilised tax losses to the extent that it is considered probable that the Bank will realise taxable profits within the next three years against which the tax losses can be set off.
Determining the amount to be recognised is based on an estimate of the probable timing and amount of future taxable profits. Budgets of the Bank's performance are based on an estimate of the probable timing and amount of future taxable profits, including time and size of impairments. This and the application of a budget period of 3 years in consideration of the bank's significant exposure to the agricultural industry compared with the current uncertainty about future earnings in the agricultural industry. At the reporting date, the Bank’s Management assessed that a deferred tax asset of DKK 98 million concerning the tax loss can be realised within a three-year period. If the budgets are not realised as expected, the deferred tax asset may prove to have been overestimated.

Note		2019 DKK ' 000	2018 DKK ' 000
3	**Interest income**		
	Receivables from credit institutions and central banks	43	26
	Loans and other receivables	543,366	603,733
	Deposits and other debt	3,393	0
	Bonds	9,023	9,220
	Derivative financial instruments	1,950	-564
	Total	557,775	612,415
	Negative interest in interest income:		
	Negative interest income from deposits included in deposits and other debt	3,393	0
4	**Interest expenses**		
	Credit institutions and central banks	2,426	2,252
	Deposits and other debt	16,086	35,878
	Bonds	4,355	0
	Subordinated debt	24,327	26,210
	Other interest expenses	384	70
	Total	47,578	64,410
	Negative interest in interest expenses:		
	Negative interest expenses from credit institutions and central banks included in credit institutions and central banks	2,426	1,877
	Negative interest expenses included in bonds	4,355	0
5	**Income from fees and commissions**		
	Securities trading and custody services	83,175	74,892
	Payment services	50,245	50,396
	Loan processing fees	58,671	33,189
	Guarantee commission	53,164	47,034
	Other fees and commissions	118,339	119,124
	Total	363,594	324,635
6	**Value adjustments**		
	Bonds	5,046	-18,620
	Shares, etc.	162,604	38,496
	Investment property	0	-1,000
	Foreign currency	13,586	13,188
	Foreign exchange, interest rate, equity, commodity, and other contracts as well as derivative financial instruments	4,927	3,874
	Assets related to pooled schemes	581,559	-411,232
	Deposits with pooled schemes	-581,559	411,232
	Other assets	-1,224	-1,315
	Total	184,939	34,623

Financial Statements

Notes

Note		2019 DKK ' 000	2018 DKK ' 000
7	**Staff costs and administrative expenses**		
	Staff costs		
	Wages and salaries	220,307	243,118
	Pensions	26,670	28,322
	Payroll tax	35,894	36,307
	Expenses relating to social security contributions etc.	2,583	2,758
	Total	285,454	310,505
	Average number of employees (FTE)	377,9	385,8
	Other administrative expenses		
	IT expenses	124,853	104,409
	Rent, electricity and heat	11,365	11,765
	Postage, telephone etc.	2,136	2,909
	Other administrative expenses	53,609	40,540
	Total	191,963	159,623
	Total	477,417	470,128
	Salaries and remuneration of the Board of Directors and Executive Board and major risk takers are included in staff costs in the following amounts		
	Board of Directors		
	Kim Rønnow Duus, chairman, joined 1 April 2019	394	0
	Lars Holst, Deputy Chairman	320	302
	Bent Simonsen, Chairman of the audit committee	225	219
	Bolette van Ingen Bro, joined 1 April 2018	150	112
	Karina Boldsen	150	150
	Nicolai Hansen, joined 1 April 2019	112	0
	Jacob Møllgaard	171	157
	Martin Sand Thomsen	175	169
	Mette Holmegaard Nielsen, joined 1 April 2019	120	0
	Vagn Thorsager, chairman, resigned 31 March 2019	131	469
	Claus Okholm, joined 1 April 2019, resigned 31 March 2019	44	131
	Palle Hoffmann, resigned 31 March 2019	44	169
	Anders Bech, resigned 31 March 2018	0	38
	Total	2,036	1,916

The Board of Directors receive a fixed fee and have no variable remuneration elements.

Note		2019 DKK ' 000	2018 DKK ' 000
7	**Executive Board**		
	Jan Ulsø Madsen, Chief Executive Officer		
	Fixed remuneration	3,775	3,623
	Pension	2	2
	Total	3,777	3,625
	Michael N. Petersen, Managing Director		
	Fixed remuneration	2,682	2,544
	Pension	320	304
	Total	3,002	2,848
	Total	6,779	6,473
	Other employees with significant influence on the Bank's risk profile		
	Fixed remuneration	12,506	11,650
	Pension	1,518	1,407
	Total	14,024	13,057
	Number of employees with material influence on the Bank's risk profile, end of the reporting period	15	14
	Annual pension:		
	Executive Board		
	Jan Ulsø Madsen: No pension plan		
	Michael N. Petersen: Defined contribution plan through pension fund. Vestjysk Bank deposits 12.25% of salary.		
	Value of benefits	302	287
	No agreements have been concluded concerning bonus plans, incentive programmes or similar compensation plans.		
	The Bank is exempt from all pension obligations in respect of the departure of members of the Executive Board, whether as a result of age, illness, disability or any other reason.		
	Other employees with significant influence on the Bank's risk profile		
	Defined contribution plan through pension fund as well as annuity pension.		
	Vestjysk Bank contributes 12.25% of salary		
8	**Auditors' fees**		
	Fees for statutory audit of the financial statements	761	772
	Fees for other assurance engagements	113	123
	Fees for tax consulting	237	180
	Fees for other services	604	658
	Total	1,715	1,733
	Fees for other assurance engagements mainly relate to reports to public authorities and review of the Bank's tax statements. Fees for tax consulting relate to consulting on the Bank's tax statements for previous years. Fees for other services relate to work as result anti-money laundering and other accounting and consultancy.		

Note		2019 DKK ' 000	2018 DKK ' 000
9	**Impairment of loans and receivables, etc.**		
	Impairment of loans and other receivables in the statement of income		
	New impairments, new and increased exposures	400,647	491,246
	Reversal of impairment, new and redeemed exposures	-339,743	-341,739
	Loans with no prior individual impairment/provisions, written off	10,545	19,953
	Recovered on previously written-off debts	-12,834	-9,209
	Total	5,615	160,251
	Provisions for losses on guarantees and unused credit commitments		
	in the statement of income		
	Impairments for the period	49,167	58,486
	Reversal of provisions in prior financial years	-43,357	-32,875
	Total	5,810	25,611
	Impairment of loans and other receivables, end of the reporting period	64,425	185,862
	Interest income on impaired loans is offset against impairment in the amount of	58,463	61,079

Note		2019 DKK ' 000	2018 DKK ' 000
10	**Impairments of loans and receivables and provisions on guarantees and unutilised credit lines - Impairment of loans and receivables**		
	Stage 1 (absence of significant increase in risk assessment)		
	Impairment 1 January	29,938	32,529
	New impairments, new and increased exposures	15,178	6,802
	Reversed impairments repaid accounts	-48,166	-63,100
	Change in impairments at 1 January to/from stage 1	-4,943	-7,929
	Change in impairments at 1 January to/from stage 2	23,758	37,943
	Change in impairments at 1 January to/from stage 3	19,055	15,399
	Impairments during the year due to change in credit risk	10,291	8,294
	Impairments at 31 December	45,111	29,938
	Stage 2 (significant increase in risk assessment)		
	Impairment 1 January	91,895	124,158
	New impairments, new and increased exposures	11,033	13,935
	Reversed impairments repaid accounts	-67,431	-82,632
	Change in impairments at 1 January to/from stage 1	4,241	4,162
	Change in impairments at 1 January to/from stage 2	-28,602	-54,964
	Change in impairments at 1 January to/from stage 3	35,502	52,886
	Impairments during the year due to change in credit risk	29,207	34,350
	Impairments at 31 December	75,845	91,895
	Stage 3 (credit-impaired)		
	Impairment 1 January	2,445,023	2,965,053
	New impairments, new and increased exposures	38,309	57,330
	Reversed impairments repaid accounts	-350,232	-382,782
	Change in impairments at 1 January to/from stage 1	702	3,767
	Change in impairments at 1 January to/from stage 2	4,844	17,021
	Change in impairments at 1 January to/from stage 3	-54,557	-68,285
	Impairments during the year due to change in credit risk	418,441	559,115
	Impairments lost during the year	-359,480	-767,275
	Other movements	58,463	61,079
	Impairments at 31 December	2,201,513	2,445,023
	Loans, credit-impaired at initial recognition		
	Impairment 1 January (acquired impairment)	47,972	115,083
	New impairments, new and increased exposures	8,627	4,554
	Reversed impairments repaid accounts	-4,353	-6,360
	Impairments lost during the year	-2,870	-65,305
	Impairments at 31 December	49,376	47,972

Financial Statements

Notes

Note		2019 DKK ' 000	2018 DKK ' 000
10	**Provision for losses guarantees**		
	Impairment 1 January	32,814	31,430
	New provisions, new and increased exposures	2,220	2,149
	Reversed provisions for losses at repaid accounts	-14,247	-15,718
	Provision during the year due to change in credit risk	4,975	18,188
	Impairments lost during the year	0	-3,235
	Provisions for losses at 31 December	25,762	32,814
	Total accumulated impairments at loans and advances, provisions and unutilised credit lines and receivables	2,397,607	2,647,642
	Accumulated impairment ratio	14.5%	15.6%
	Provision for losses, unused credit commitments		
	Impairment 1 January	46,604	35,811
	New provisions, new and increased exposures	11,615	7,746
	Reversed provisions for losses at repaid exposures	-30,178	-19,742
	Provision during the year due to change in credit risk	31,425	32,989
	Impairments lost during the year	0	-10,200
	Provisions for losses on guarantees and unused credit commitments at 31 December	59,466	46,604
11	**Receivables for which accrual of interest has been discontinued**		
	Receivables for which accrual of interest has been discontinued, end of the reporting period	966,895	1,050,853
	Total impairment charge thereon	743,191	901,157
	Receivables for which accrual of interest has been discontinued, as a percentage of loans before impairment	7.7%	9.7%
12	**Tax**		
	Current tax	26,803	20,448
	Deffered tax	-23,000	-75,000
	Adjustment of current tax for prior years	1,154	657
	Total	4,957	-53,895
	Applicable tax rate reduced from 22% to 1%		
	Applicable tax rate	22%	22%
	Use of losses from previous years	-7.6%	0.0%
	Tax-free value adjustments	-7.0%	-3.5%
	Deferred tax asset	-4.8%	-30.9%
	Other adjustments	-1.8%	-10.1%
	Adjustment of current tax for prior years	0.2%	0.3%
	Effective tax rate	1.0%	-22.2%

Note		2019	2018
		DKK ' 000	DKK ' 000
13	**Receivables from credit institutions and central banks**		
	Receivables at notice from central banks	708,000	487,000
	Receivables from credit institutions	67,266	93,779
	Total	775,266	580,779
	Distributed by term to maturity		
	On demand	67,266	93,779
	Up to and including 3 months	708,000	487,000
	Total	775,266	580,779
14	**Loans and other receivables, by term to maturity**		
	Distributed by term to maturity		
	On demand	1,361,060	1,815,964
	Up to and including 3 months	2,803,001	2,889,187
	3 months to 1 year	1,209,856	1,093,355
	1 year to 5 years	3,106,094	3,144,283
	More than 5 years	1,740,909	1,854,551
	Total	10,220,920	10,797,340
15	**Assets related to pooled schemes**		
	Cash deposits	70,971	20,087
	Investment associations	5,162,006	4,661,323
	Total	5,232,977	4,681,410
16	**Intangible assets**		
	Customer relationships		
	Total acquisition cost, beginning of the reporting period	14,964	14,964
	Total acquisition cost, end of the reporting period	14,964	14,964
	Depreciation and impairment, beginning of the reporting period	14,964	13,467
	Depreciation and impairment for the period	0	1,497
	Depreciation and impairment, end of the reporting period	14,964	14,964
	Recognised holding, end of the reporting period	0	0
	Other Intangible assets		
	Total acquisition cost, beginning of the reporting period	1,416	1,416
	Total acquisition cost, end of the reporting period	1,416	1,416
	Depreciation and impairment, beginning of the reporting period	950	478
	Depreciation and impairment for the period	449	472
	Depreciation and impairment, end of the reporting period	1,399	950
	Recognised holding, end of the reporting period	17	466
	Total	17	466
17	**Investment property**		
	Fair value, beginning of the reporting period	425	5,850
	Disposals	425	4,425
	Fair value adjustment for the reporting period	0	-1,000
	Revalued amount, end of the period	0	425

Financial Statements

Notes

Note		2019 DKK ' 000	2018 DKK ' 000
18	**Owner-occupied property**		
	Revalued amount, beginning of the period	310,381	311,355
	Additions	1,483	0
	Disposals	7,488	2,670
	Depreciations	4,971	5,346
	Changes in value recognised in other comprehensive income	-16,955	4,633
	Changes in value recognised in the statement of income	-20,766	2,409
	Revalued amount, end of the period	261,684	310,381
	External valuation experts have been involved in measuring the most important owner-occupied and investment properties.		
19	**Other property, plant and equipment**		
	Cost		
	Cost, beginning of the reporting period	15,815	17,099
	Additions	2,282	3,470
	Disposals	7,008	4,754
	Total cost, end of the reporting period	11,089	15,815
	Impairment and depreciation		
	Impairment and depreciation, beginning of the reporting period	9,905	11,070
	Depreciation for the reporting period	3,361	3,094
	Impairments and depreciation for the period on sold and scrapped assets	0	178
	Reversals for impairment charges for previous years and reversal of total impairment and depreciation on assets sold or retired from operations during the reporting period	7,008	4,437
	Impairment and depreciation, end of the reporting period	6,258	9,905
	Carrying amount, end of the reporting period	4,831	5,910
20	**Deffered tax asset** The bank reassessed the possibilities of utilizing the deffered tax asset in 2012, which resulted in a impairment to DKK 0. Vestjysk Bank assesses that the deferred tax asset is expected to be partly used within the next tree years, based on a cautious expectation of earnings, which is why, per 31 December 2019 further DKK 23 million is recognized in the annual report. Of this, DKK 84 million (2018: 57 million) relates to DKK the unutilised tax losses, which will be set off in the total capital.		
21	**Other assets**		
	Positive market value of derivative financial instruments	13,801	16,857
	Interest and commission receivable	104,750	108,953
	Investments in BEC	242,278	201,267
	Other assets	55,099	40,126
	Total	415,928	367,203
22	**Debts to credit institutions and central banks**		
	Distributed by term to maturity:		
	On demand	12,591	28,536
	More than 5 years	410	420
	Total	13,001	28,956

Note		2019 DKK ' 000	2018 DKK ' 000
23	**Deposits and other debt**		
	On demand	11,537,718	10,839,518
	At notice	0	0
	Term deposits	176,387	688,807
	Special deposit forms	1,328,712	1,373,660
	Total	13,042,817	12,901,985
	Distributed by term to maturity:		
	On demand	11,934,303	11,219,167
	Up to and including 3 months	188,620	380,493
	3 months to 1 year	93,419	277,334
	1 year to 5 years	218,260	435,389
	More than 5 years	608,215	589,602
	Total	13,042,817	12,901,985
24	**Other liabilities**		
	Negative market value of derivative financial instruments	15,852	22,361
	Various creditors	447,057	462,140
	Interest and commission payable	15,751	13,185
	Other liabilities	16,769	31,837
	Total	495,429	529,523
25	**Subordinated debt**		
	Supplementary capital	347,015	372,581
	A nominal DKK 225 million will fall due on 16 August 2027 with an option for early redemption on 16 August 2022 subject to the Financial Supervisory Authority's approval. The capital accrues interest at a fixed 6.50% until 16 August 2022, after which it accrues interest at a floating rate of CIBOR6 plus a credit spread. The capital meets the tier 2 capital requirements under CRR/CRD IV.		
	A nominal DKK 125 million will fall due on 28 August 2029 with an option for early repayment on 28 August 2024 subject to the Financial Supervisory Authority's approval. The capital accrues interest at a fixed 3.75% until 28 August 2024, after which it accrues interest at a floating rate of CIBOR6 plus a credit spread. The capital meets the tier 2 capital requirements under CRR/CRD IV.		
	Total	347,015	372,581
	Charged as an expense under interest expenses/subordinated debt:		
	Interest expenses	23,539	25,535
	Costs related to incurrence and repayment	788	675
	Total	24,327	26,210
	Subordinated debt that can be included in the total capital	347,015	332,658

Financial Statements

Notes

Note		2018 DKK ' 000	2017 DKK ' 000
26	**Share capital**		
	Share capital, beginning of the period	895,982	895,982
	Total	895,982	895,982
	Number of shares (units)	895,981,517 á DKK, 1	895,981,517 á DKK 1
	Number of own shares, beginning of the period		
	Number of own shares (thousands)	173	173
	Nominal value DKK'000	173	173
	Percentage of the share capital	0.0%	0.0%
	Additions		
	Purchase of own shares (thousands)	38,103	8,815
	Nominal value DKK'000	38,103	8,815
	Percentage of the share capital	4.3%	1.0%
	Total purchase price DKK'000	131,720	21,604
	Disposals		
	Sold own shares (thousands)	38,103	8,815
	Nominal value DKK'000	38,103	8,815
	Percentage of the share capital	4.3%	1.0%
	Total selling price DKK'000	131,720	21,605
	Number of own shares, end of reporting period		
	Number of own shares (thousands)	173	173
	Nominal value DKK'000	173	173
	Percentage of the share capital	0.0%	0.0%
	Own shares are intermediated, purchased and sold through the securities exchange as part of Vestjysk Bank's normal customer banking transactions. The Bank is not a direct counter-party in such transactions.		
	Vestjysk Bank has a constant holding of own shares.		

Note		2019 DKK ' 000	2018 DKK ' 000
27	**Capital requirements**		
	Shareholders Equity	2,801,167	2,358,823
	Intangible assets	-17	-466
	Prudent valuation	-4,343	-3,599
	Capital in the sector	-199,573	-57,159
	Deferred taxes	-83,707	-57,201
	Common equity tier 1 capital	2,513,527	2,240,398
	Additional tier 1 capital	155,000	230,000
	Tier 1 capital	2,668,527	2,470,398
	Tier 2 capital	347,015	332,658
	Total capital	3,015,542	2,803,056
	Total exposure to risk	14,316,337	14,226,170
	Common equity tier 1 capital ratio	17.6%	15.7%
	Tier 1 capital ratio	18.6%	17.4%
	Total capital ratio	21.1%	19.7%
	MREL-capital		
	Total capital	3,015,542	2,803,056
	MREL-capital	0	39,923
	Total MREL-capital	3,015,542	2,842,979
	MREL ratio	21.1%	20.0%
28	**Contingent assets**		
	Deferred tax asset at a tax rate of 22%	480,480	546,264
	The deferred tax asset is primarily related to carry forward taxable deficits.		
	It is the Banks assessment that there is no basis for recognition of all of the deffered tax asset presently. Therefore, the deferred tax is partly recognised at DKK 98 million in the financial statement.		
	The remaining deffered tax asset is treated as a contingent asset which is not recognised in the Statement of Financial Position.		

Note		2019 DKK ' 000	2018 DKK ' 000
29	**Items not recognised in the statement of financial position**		
	Guarantees		
	Financial guarantees	741,057	515,516
	Loss guarantees on mortgage loans	2,172,001	2,036,019
	Other contingent liabilities	1,052,605	935,096
	Total	3,965,663	3,486,631
	Other contingent liabilities' include, among other things, performance bonds, delivery guarantees as well as provisions of indemnity in relation to the Guarantee Fund.		
	Other commitments		
	Irreversible credit commitments	144,799	14,289
	Other liabilities	12,554	39,573
	Total	157,353	53,862
	Security pledged		
	Credit institutions:		
	Margin accounts pledged as security in relation to financial derivatives	14,391	19,140
	Deposited in the Danish Growth Fund	455	455
	Bonds:		
	Pledged as security for credit facility with Danmarks Nationalbank		
	Total nominal value	942,470	914,662
	Total market value	948,682	917,178
30	**Hedge accounting**		
	To manage interest rate risk, the following are hedged (fair value hedge):		
	Bonds	0	152,295
	Hedged with interest rate swaps, maturity 2020:		
	Notional principal	0	150,000
	Fair value	0	-1,121
	Loans at amortised cost	57,962	75,764
	Hedged with interest rate swaps, maturity 2019-2022:		
	Notional principal	56,178	72,562
	Fair value	-1,784	-3,202
	Total fair value adjustment of hedging instruments	1,357	2,448
	Total fair value adjustment of the hedged items	-1,357	-3,512
	Recognised in the statement of Income	0	-1,064

Note

31 **Derivative financial instruments**

Derivative financial instruments are utilised by both the Bank's customers and the Bank to hedge and manage financial risks and positions.

2019 (DKK'000)	Nominal value	Net market value	Positive market value	Negative market value
Foreign exchange contracts				
Up to 3 months	838,668	349	1,830	1,481
3 months to 1 year	172,260	-51	1,700	1,751
1 year to 5 years	10,596	-142	129	271
More than 5 years	0	0	0	0
Average market value		478	4,975	4,497
Interest rate contracts				
Up to 3 months	920,957	-435	1,570	2,005
3 months to 1 year	51,567	-30	354	384
1 year to 5 years	34,734	-1,595	10	1,605
More than 5 years	41,041	301	7,975	7,674
Average market value		-574	15,757	16,331
Share contracts				
Up to 3 months	87,640	-115	233	348
3 months to 1 year	250	-333	0	333
1 year to 5 years	0	0	0	0
More than 5 years	0	0	0	0
Average market value		-1,010	312	1,322

Note

31 **Derivative financial instruments (continued)**

2018 (DKK'000)	Nominal value	Net market value	Positive market value	Negative market value
Foreign exchange contracts				
Up to 3 months	1,204,188	-894	2,020	2,914
3 months to 1 year	233,313	781	2,510	1,729
1 year to 5 years	16,216	-259	67	326
More than 5 years	0	0	0	0
Average market value		1,946	11,179	9,233
Interest rate contracts				
Up to 3 months	244,051	359	951	592
3 months to 1 year	143,403	119	1,884	1,765
1 year to 5 years	233,454	-5,036	1,774	6,810
More than 5 years	41,401	325	7,398	7,073
Average market value		-4,521	14,185	18,706
Share contracts				
Up to 3 months	46,603	-298	253	551
3 months to 1 year	88	-602	0	602
1 year to 5 years	0	0	0	0
More than 5 years	0	0	0	0
Average market value		-1,106	211	1,317

Note

32 **Fair value of financial assets and liabilities**

Financial assets and liabilities are measured in the statement of financial position at their fair value or at amortised cost.

Fair value is the amount for which a financial asset can be traded or a financial liability settled between parties in an arm's-length transaction.
For financial instruments measured at fair value, the basis for determining fair value is:

Level 1: Listed prices in an active market for identical assets or liabilities

Level 2: Valuation model based primarily on observable market data.

Level 3: Valuation model that, to a significant degree, is based on non-observable market data.

Shares, bonds, assets in pooled schemes and derivative financial instruments have been measured at their fair value in the financial statements so that the recognised values correspond to fair values.

For listed shares and bonds, the fair value is determined as the officially listed price at the reporting date. For unlisted shares in the form of shares in sector-held enterprises where the shares are redistributed, the fair value is determined as the redistribution price and the shares are included in level 2 (observable). For other unlisted shares in sector-held enter-prises, with no observable market data, the valuation is involving estimates, based on financial reports from the enterprise, previous trading of shares in the enterprise and input from qualified external party. A change of 10 percent in the market value of sector-held enterprises in level 3 will result in an income and equity impact before tax of DKK 11.0 million.

For other financial instruments, the fair value is computed - to the greatest extent possible - based on generally accepted valuation methods based on observable market data. The valuation is based on non-observable market data only in exceptional cases.

For of loans and impairments in stage 2 and 3 are assessed to correspond to changes in credit quality. The difference relative to fair values is assessed to be impairments in stage 1, received fees and commissions, interest receivable, not falling due until after the end of the financial reporting period, and, for fixed-rate loans, interest rate-dependent value adjustments.

The fair value of receivables from credit institutions and central banks is determined by applying the same method as for loans, although the bank has not made impairments of receivables from credit institutions and central banks.

Subordinated debt are measured at amortised cost. The difference between the carrying amount and the fair value is assessed to be interest payable not falling due until after the end of the financial reporting period as well as costs amortised over the term of the loan and for fixed-rate debt securities in issue, also interest rate-dependent value adjustments for fixed-rate subordinated debt.

For floating-rate financial liabilities in the form of deposits and debt to credit institutions measured at amortised cost, the difference relative to fair values is estimated to be interest payable not falling due until after the end of the financial reporting period.

For fixed-rate financial liabilities in the form of deposits and debt to credit institutions measured at amortised cost, the difference relative to fair values is estimated to be interest payable not falling due until after the end of the financial reporting period and the interest rate-dependent value adjustments.

Note

32 **Fair value of financial assets and liabilities (continued)**

31 Dec 2019 (DKK'000)	Carrying amount	Fair value	Listed Prices level 1	Observable prices level 2	Non-observable prices level 3
Financial assets					
Cash on hand and demand deposits with central banks	395,706	395,706	60,112	335,594	0
Receivables from credit institutions and central banks	775,266	775,266	0	775,266	0
Loans at amortised cost	10,220,920	10,297,765	0	0	10,297,765
Bonds at fair value	4,268,252	4,268,252	4,220,323	47,929	0
Shares, etc.	502,314	502,314	43,383	347,612	111,319
Assets related to pooled schemes	5,232,977	5,232,977	5,232,977	0	0
Derivative financial instruments	13,801	13,801	0	13,801	0
Total	21,409,236	21,486,081	9,556,795	1,520,202	10,409,084
Financial liabilities					
Debts to credit institutions and central banks	13,001	13,001	0	13,001	0
Deposits	13,042,817	13,044,046	0	0	13,044,046
Deposits in pooled schemes	5,232,977	5,232,977	0	0	5,232,977
Subordinated debt	347,015	357,108	0	0	357,108
Derivative financial instruments	15,852	15,852	0	15,852	0
Total	18,651,662	18,662,984	0	28,853	18,634,131
Shares measured at fair value based on non-observable inputs (level 3)					
Carrying amount, beginning of the period					104,422
Additions					0
Disposals					0
Value adjustment					6,897
Value, end of the period					111,319
Period's value adjustments relating to financial assets in the portfolio, total					6,926

Note

32	Fair value of financial assets and liabilities (continued)					
	31 Dec 2018 (DKK'000)	Carrying amount	Fair value	Listed Prices level 1	Observable prices level 2	Non-observable prices level 3
	Financial assets					
	Cash on hand and demand deposits with central banks	386,781	386,781	0	386,781	0
	Receivables from credit institutions and central banks	580,779	580,779	0	580,779	0
	Loans at amortised cost	10,797,340	10,868,552	0	0	10,868,552
	Bonds at fair value	3,533,714	3,533,714	3,504,878	28,836	0
	Shares, etc.	441,928	441,928	23,379	314,127	104,422
	Assets related to pooled schemes	4,681,410	4,681,410	4,681,410	0	0
	Derivative financial instruments	16,857	16,857	0	16,857	0
	Total	20,438,809	20,510,021	8,209,667	1,327,380	10,972,974
	Financial liabilities					
	Debts to credit institutions and central banks	28,956	28,956	0	28,956	0
	Deposits	12,901,985	12,902,861	0	0	12,902,861
	Deposits in pooled schemes	4,681,410	4,681,410	0	0	4,681,410
	Subordinated debt	372,581	386,354	0	0	386,354
	Derivative financial instruments	22,361	22,361	0	22,361	0
	Total	18,007,293	18,021,942	0	51,317	17,970,625

Shares measured at fair value based on non-observable inputs (level 3)

Carrying amount, beginning of the period	98,801
Additions	0
Disposals	0
Value adjustment	5,621
Value, end of the period	104,422
Period's value adjustments relating to financial assets in the portfolio, total	5,732

Note

33 **Risk and risk management**

Vestjysk Bank is exposed to various types of risk. These risks as well as the Bank's policies and goals for managing such risks are described in the Management Review's sections on risk:

Market Risk, p. 19
Interest Rate Risk, p. 18
Foreign Exchange Risk, p. 18
Share Risk, p. 18
Credit Risk, p 19
Operational risk, p 21
Liquidity Risk, p. 21

Note	Loans and guarantees, by sector	2019 DKK'000	2019 pct.	2018 DKK'000	2018 pct.
34					
	Public authorities	0	0%	0	0%
	Business:				
	Agriculture, hunting, forestry and fishery	2,893,210	20%	2,840,380	20%
	Manufacturing industry and raw material extraction	493,006	4%	549,279	4%
	Energy supply	359,366	3%	421,767	3%
	Construction and civil engineering contractors	502,881	4%	447,956	3%
	Trade	881,614	6%	1,004,636	7%
	Transportation, hotels and restaurant businesses	456,111	3%	550,259	4%
	Information and communication	58,659	0%	51,171	0%
	Credit and financing institutes and insurance businesses	602,421	4%	792,946	6%
	Real estate	1,861,000	13%	1,773,221	12%
	Other businesses	699,660	5%	732,972	5%
	Business, total	8,807,928	62%	9,164,587	64%
	Retail	5,378,655	38%	5,119,384	36%
	Total	14,186,583	100%	14,283,971	100%

Note

35 **Loans by rating, sectors and IFRS9- stages**

Loans at amortised cost, unused credit commitments and financial guarantees, by rating and IFRS 9 stages

	2019 DKK' 000				
	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Normal credit quality	7,722,096	676,486	0	0	8,398,582
Some signs of weakness	7,328,980	1,604,293	0	0	8,933,273
Significant signs of weakness	432,910	546,707	0	0	979,617
Impaired loans	0	0	4,168,137	92,968	4,261,105
Total	15,483,986	2,827,486	4,168,137	92,968	22,572,577

	2018 DKK' 000				
	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Normal credit quality	7,031,106	453,471	0	0	7,484,577
Some signs of weakness	6,851,654	1,846,387	77	0	8,698,118
Significant signs of weakness	366,688	592,908	0	0	959,596
Impaired loans	0	0	4,941,841	115,941	5,057,782
Total	14,249,448	2,892,766	4,941,918	115,941	22,200,073

The banks credit risk is managed using a segmentation model to describe customers in classes by credit risk. The model can be directly translated into FSA's classification model.

	Normal credit quality	Normal credit quality	Some signs of weakness	Some signs of weakness	Significant signs of weakness	Impaired loans
Vestjysk Bank's segmentation model	E1/P1	E2/P2	E3/P3	E4/P4	E5/P5	E6/P6
Vestjysk Bank customer rating model	1-3	1-3	4-6	4-6	7-8	9-11
FSA classification model	3-2a	2a	2b	2b	2c	1

Note

35 **Loans at amortised cost, unused credit commitments and financial guarantees, by sector and IFRS 9 stage**

	2019 DKK' 000				
	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	2,025,594	959,403	1,801,808	63,284	4,850,089
Manufacturing industry and raw material extraction	614,164	78,307	134,598	5,507	832,576
Energy supply	472,737	9,348	133,654	0	615,739
Construction and civil engineering contractors	643,191	176,193	82,087	600	902,071
Trade	1,010,470	267,533	204,177	251	1,482,431
Transportation, hotels and restau-rant businesses	401,054	118,289	262,578	0	781,921
Information and communication	99,404	12,019	6,299	0	117,722
Credit and financing institutes and insurance businesses	474,360	47,890	223,470	36	745,756
Real estate	1,818,590	350,489	856,812	10,753	3,036,644
Other businesses	783,510	233,920	122,091	9,404	1,148,925
Business, total	8,343,074	2,253,391	3,827,574	89,835	14,513,874
Retail	7,140,912	574,095	340,563	3,133	8,058,703
Total	15,483,986	2,827,486	4,168,137	92,968	22,572,577

	2018 DKK' 000				
	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	1,968,130	797,079	2,002,444	60,483	4,828,136
Manufacturing industry and raw material extraction	505,333	123,973	142,847	5,507	777,660
Energy supply	402,950	25,934	215,215	0	644,099
Construction and civil engineering contractors	655,626	125,205	55,659	9,030	845,520
Trade	1,119,524	329,090	216,233	257	1,665,104
Transportation, hotels and restau-rant businesses	435,234	143,788	299,391	0	878,413
Information and communication	69,592	17,342	5,271	0	92,205
Credit and financing institutes and insurance businesses	596,531	52,627	414,847	36	1,064,041
Real estate	1,248,866	458,108	1,070,904	24,782	2,802,660
Other businesses	734,840	250,624	148,031	9,559	1,143,054
Business, total	7,736,626	2,323,770	4,570,842	109,654	14,740,892
Retail	6,512,822	568,996	371,076	6,287	7,459,181
Total	14,249,448	2,892,766	4,941,918	115,941	22,200,073

Note		2019 DKK'000	2018 DKK'000
36	**Maximum credit exposure before impairment and allowances**		
	Loans measured at amortised cost	12,592,765	13,412,168
	Unused credit commitments	7,043,115	6,209,899
	Guarantees	3,991,425	3,519,444
	Loans, guarantees etc.	23,627,305	23,141,511
	Receivables from credit institutions and central banks	1,110,860	908,404
	Bonds at fair value	4,268,252	3,533,714
	Positive market value of derivative financial instruments	13,801	16,857
	Total	29,020,218	27,600,486
	Maximum credit exposure after impairment and allowances		
	Loans measured at amortised cost	10,220,920	10,797,340
	Unused credit commitments	6,983,649	5,975,491
	Guarantees	3,965,663	3,486,683
	Loans, guarantees etc.	21,170,232	20,447,266
	Receivables from credit institutions and central banks	1,110,860	908,404
	Bonds at fair value	4,268,252	3,533,714
	Positive market value of derivative financial instruments	13,801	16,857
	Total	26,563,145	24,906,241
	Collateral for loans, credit commitments and guarantees		
	Bank accounts	98,389	87,189
	Securities	998,769	907,251
	Mortgages on properties and wind turbines	8,750,749	9,109,249
	Right of subrogation for mortgages secured in real property	2,193,247	2,067,859
	Charges held in movable property, motor vehicles, operating equipment, ships etc.	2,591,198	2,465,397
	Other	274,680	298,820
	Total	14,907,032	14,935,765
	Of this amount collateral for loans, credit commitments and guarantees (stage 3)	2,083,060	2,563,889

The Bank holds a charge on the financed asset for most of its business exposures, which is the reason the most common types of collateral are mortgages secured in real property, ships, wind turbines, motor vehicles, movable property, securities as well as floating charges. Owner's sureties and personal insurance also constitute a large share of the collateral held by the Bank.

For the majority of retail customer exposures it is also the case that the Bank holds a charge in the financed asset—which is the reason the most common types of collateral are mortgages secured in real property and in motor vehicles.

The Bank continuously performs assessments of pledged collateral. Valuations are performed based on the fair value of the asset, less the margin for covering costs related to realisation, selling period costs as well as rebates.

A number of exposures are secured by collateral in excess of the amount of the exposure. The excess collateral is not included in the calculation

Note	
37	**Interest rate risk** Interest rate risk is the risk of losses incurred in the event of change in the general interest rate level. Vestjysk Banks interest rate risk is related to activities involving normal banking business such as deposits, loans, trading and position-taking in interest-related products. The interest rate risk is divided into risks inside and outside the Bank's trading book, see below. All else being equal, the direct impact on the income statement from a change in the general interest level will only be related to the interest rate risk inside the trading book. An increase in the interest rate of 1 percentage point would result in an loss before tax of DKK 29.9 million in 2019. Outside the trading book a change in the general interest rate level will have an impact on the future earnings and equity, as a change in interest rates will impact the alternative funding and investment options. Interest rate risk is calculated applying the Financial Supervisory Authority's guidelines.

	2019 DKK'000	2018 DKK'000
Interest rate risk inside the Bank's trading book:		
Securities	29,510	4,135
Futures/forward contracts/forward rate agreements	421	-44
Swaps	14	-744
Total	29,945	3,347
Interest rate risk outside the Bank's trading book:		
Loans	3,723	3,033
Deposits	-744	-5,338
Subordinated debt	-11,448	-8,033
Equity	-3,990	-5,978
Total	-12,459	-16,316
Total interest rate risk	17,486	-12,969
Measured in relation to the tier 1 capital, the interest rate risk corresponds to	0.7%	-0.5%
Interest rate risk, by modified duration		
Up to 1 year	318	441
1 year to 2 years	2,649	-2,574
2 year to 3.6 years	9,614	-12,997
More than 3.6 years	4,905	2,161
Total	17,486	-12,969

Note			
38	**Foreign exchange risk**		
	Foreign exchange risk is the risk of losses on foreign exchange positions because of changes in foreign exchange rates.		
	Foreign exchange Indicator 1 expresses a simplified measure of the scope of the institution's positions in foreign currency and is calculated - according to the guidelines of the Danish Financial Supervisory Authority - as the greater of the sum of the foreign currency positions in which the Bank has net payables (short foreign exchange positions) and the sum of all the currencies in which the Bank has a net receivable (long foreign exchange positions).		
		2019 DKK'000	2018 DKK'000
	Assets in foreign currency, total	531,424	679,645
	Liabilities in foreign currency, total	83,249	128,091
	Foreign exchange indicator 1	9,902	8,487
	Foreign exchange indicator 1 in percent of tier 1 capital	0.4%	0.3%
	The foreign exchange position consists primarily of positions in EUR, GBP, NOK, SEK and USD.		
	A change unfavourable to the Bank of 2% in EUR and of 10% in other foreign currencies will result in a profit/loss and equity impact before tax of	-990	-851
39	**Share risk**		
	The Bank's share risk is derived from shares and derivatives in the Bank's investment and trading books.		
		2019 DKK'000	2018 DKK'000
	Shares, etc.		
	Shares/unit trust certificates listed on NASDAQ Copenhagen A/S	30,206	11,593
	Shares/unit trust certificates listed on other exchanges	13,178	12,215
	Unlisted shares recognised at fair value	458,930	418,120
	Total	502,314	441,928
	Of which, sector shares	455,437	414,391
	Sensitivity		
	An increase in share prices of 10 percentage points will result in a profit/loss and equity impact before tax of	50,232	44,193
	of which sector shares	45,544	41,439
	of which other shares	4,688	2,754
	A decrease in share prices of 10 percentage points will result in a profit/loss and equity impact before tax of	-50,232	-44,193
	of which sector shares	-45,544	-44,439
	of which other shares	-4,688	-2.754
	Interest rate risk, foreign exchange risk and share risk are stated before tax due to current tax situation.		

Note

40 **Liquidity risk**

The liquidity buffer is determined on the basis of the Bank's objective of maintaining an LCR of 100% month by month under a chosen 12-month stress scenario. The stress scenario is based on a standard LCR-based stress situation for the first 30 days and a specific Vestjysk Bank stress scenario for the remaining 11 months.

The liquidity buffer consists of liquid government and mortgage bonds categorised as level 1a, level 1b or level 2a assets and deposits held with the Danish central bank.

	2019	2018
	DKK'000	DKK'000
Liquidity buffer		
LCR values	4,908,648	4,059,452
LCR values after adjustment on level 1a assets	4,729,023	3,526,043
Net outflow	1,824,172	1,805,409
Liquidity Coverage Ratio - LCR	259.2%	195.3%

41 **Other risks**

Operational risks

The general responsibility for operational risk resides with the Bank's Risk Management and Compliance.

Vestjysk Bank considers dependence on key employees as a focus area. The Bank continually strives to minimise the dependence on key employees, for example by establishing written business procedures, centralising tasks and out-sourcing areas that do not affect the Bank's competitiveness.

Vestjysk Bank continually enhances policies and contingency plans regarding physical disasters and IT breakdowns. The Bank is a member of Bankernes EDB Central (BEC), which handles day-to-day IT system operations. The Bank com-plies with the directions and recommendations it receives from BEC and does not develop proprietary IT systems.

The Bank's IT contingency plans address breakdowns at the head office and parts of the branch network. In case of a breakdown at one or more branches, operations can be maintained from the remaining branches, and in case of a long-lasting breakdown at the head office, vital functions can be maintained from a branch. The Bank's contingency plan is reviewed by the Board of Directors at least annually.

Total capital risk

Total capital is monitored on an ongoing basis and monthly reporting to the Board of Directors takes place according to established guidelines.

Compliance

Vestjysk Bank has an independent compliance function, whose area of responsibility is to monitor the bank is compliant with existing legislation, market standards and internal rules.

Note		2019 DKK'000	2018 DKK'000
42	**Related parties** Vestjysk Bank's related parties comprise the members of the Board of Directors and Executive Board as well as these persons' relatives.		
	Size of loans, pledges, sureties or guarantees made for members of the institution's		
	Executive Board	300	300
	Board of Directors	6,344	6,372
	In 2018, the Executive Board and the Board of Directors was granted a commitment increase of DKK'000 100		
	All commitments are provided on arm's-length terms		
	Interest rate:		
	Executive Board	0% *	0% *
	Board of Directors	2.0% - 3.5%	2.0% - 3.5%
	* MasterCard		
	Security pledges made for commitments issued to members of the institute's:		
	Executive Board	0	0
	Board of Directors	1,235	880
	Apart from what is considered normal management remuneration, no transactions have been carried out with related parties during the period.		

43 **Pending litigation**

Vestjysk Bank is a part in various lawsuits. The proceedings are evaluated on an ongoing basis, and requisite provisions are made based on an assessment of the risk of losses.

The pending proceedings are not expected to have material influence on the bank's financial position.

44 **Events after the balance sheet date**

No significant events have occurred after the reporting date, 31 December 2019.

Financial Statements

Notes

Note		2019	2018	2017	2016	2015
45	**Financial highlights**					
	Statement of Income (DKKm)					
	Net interest income	510	548	573	595	644
	Net fee income	329	297	338	312	305
	Dividends on shares, etc.	29	12	4	3	2
	Value adjustments	185	35	23	65	17
	Other operating income	2	17	7	29	21
	Core Income	1,055	909	945	1,004	989
	Staff costs and administrative expenses	477	470	482	489	513
	Other operating expenses and depreciation, amortisation and im-pairment of property, plant and equipment and intangible assets	31	11	22	16	56
	Operating expenses and operating deprecia-tion and amortisation	508	481	504	505	569
	Core Earnings Before Impairment	**547**	**428**	**441**	**499**	**420**
	Impairment of loans and receivables, etc.	64	186	270	416	370
	Profit/loss Before Tax	483	242	171	83	50
	Tax	5	-54	8	3	1
	Profit/loss After Tax	478	296	163	80	49
	Statement of financial position (DKKm)					
	Assets, total	22,192	21,198	21,902	19,895	21,114
	Loans	10,221	10,797	11,629	12,529	13,379
	Deposits, including pooled schemes	18,276	17,583	18,396	16,971	18,090
	Contingent liabilities	3,966	3,487	3,608	3,358	3,213
	Custody services	8,708	7,585	8,713	9,860	10,139
	Arranged mortgage loans	30,749	29,122	28,381	28,025	28,552
	Business volume	32,463	31,867	33,633	32,858	34,682
	Business volume including custody services and arranged mortgage loans	71,920	68,574	70,727	70,743	73,373
	Equity	2,956	2,589	2,515	1,487	1,404

In accordance with the accounting policies, the comparative figures 2015-2017 have not been restated in connection with the implementation of IFRS 9 at 1 January 2018

Note		2019	2018	2017	2016	2015
45	**Financial ratios**					
	Capital					
	Total capital ratio	21.1%	19.7%	19.2%	13.0%	12.5%
	Tier 1 capital ratio	18.6%	17.4%	16.8%	11.2%	10.5%
	Common equity tier 1 capital ratio	17.6%	15.7%	15.2%	8.7%	7.9%
	Earnings					
	Return on equity before tax p.a.	17.4%	9.9%	8.5%	5.7%	3.6%
	Return on equity after tax p.a.	17.2%	12.1%	8.2%	5.5%	3.6%
	Income-cost ratio	1.84	1.36	1.22	1.09	1.05
	Cost ratio [1]	48.2%	52.9%	53.3%	50.3%	57.5%
	Return on assets	2.2%	1.4%	0.8%	0.4%	0.2%
	Average number of employees (FTE)	377.9	385.8	421.9	458.6	500.1
	Market Risk					
	Interest rate risk	0.7%	-0.5%	-1.2%	-3.0%	-5.1%
	Foreign exchange position	0.4%	0.3%	0.2%	0.3%	1.9%
	Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%
	LCR	259.2%	195.3%	255.4%	318.1%	260.5%
	Credit Risk					
	Loans plus impairment on loans relative to deposits	68.9%	76.3%	79.4%	91.7%	91.0%
	Loans relative to equity	3.5	4.2	4.6	8.4	9.5
	Lending growth for the year	-5.3%	-5.6%	-7.2%	-6.4%	-9.3%
	Sum of large exposures > 10%	0.0%	14.1%	11.9%	36.9%	35.1%
	Sum of 20 largest exposures [2]	102.7%	116.4%	-	-	-
	Accumulated impairment ratio	14.5%	15.6%	16.5%	16.1%	15.8%
	Impairment ratio for the year	0.3%	1.0%	1.5%	2.2%	1.9%
	Vestjysk Bank Share					
	Earnings per share for the year	0.5	0.3	0.3	0.5	0.3
	Book value per share [3]	3.1	2.6	2.6	9.4	8.8
	Price of Vestjysk Bank shares, end of the year[4]	3.1	2.0	2.7	13.0	7.8
	Share price/earnings per share	5.8	5.9	8.7	24.6	23.7
	Share price/book value per share	1.0	0.7	1.1	1.4	0.9

In accordance with the accounting policies, the comparative figures for 2015-2017 have not been restated in connection with the implementation of IFRS 9 at 1 January 2018.

1 Operating expenses and operating depreciation and amortisation/core income
2 In 2018, this financial ratio is calculated according to new rules. There is no basis for calculating the key figure from 2015-2017
3 The ratio "Book value per share" is adjusted for the portion of equity (additional tier 1 capital), that is not part of the shareholders' share of equity.
4 It is not possible to compare the key figure from 2015 and 2016 due to share issue in 2017.

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