Vestjysk Bank 2018 Annual Report

Contents

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The Vestjysk Bank Annual Report for 2018 is a translation of the original report in Danish (Vestjysk Bank Årsrapport 2018).
In case of discrepancies, the Danish version prevails.

Summary

2018 Highlights

Vestjysk Bank realised a profit after tax of DKK 296 million in 2018. The profit was positively affected in the amount of DKK 75 million by the recognition of a deferred tax asset at 31 December 2018 (see company announcement dated 12 February 2019). The Bank's core operations remain sound, producing earnings before impairment of DKK 428 million. Impairment losses were generally at a lower level than in 2017, and in light of the severe financial challenges that the agricultural sector still faced in 2018, the Bank’s overall profit after tax for 2018 is considered very satisfactory.

- Profit after tax of DKK 296 million (2017: DKK 163 million), equalling a return on equity after tax of 12.1 per cent. Excluding the recognition of the deferred tax asset, the profit after tax was DKK 221 million and return on equity after tax was 9.2 per cent.
- Core income of DKK 909 million (2017: DKK 945 million), including value adjustments of DKK 35 million (2017: DKK 23 million).
- Cost ratio of 52.9 (2017: 53.3).
- Core earnings before impairment of DKK 428 million (2017: DKK 441 million).
- Impairment of loans and receivables, etc. of DKK 186 million (2017: DKK 270 million). Impairment losses on agriculture still accounted for the majority of the Bank’s impairment losses.
- Recognition of a deferred tax asset of DKK 75 million. Not capitalized deferred taxes are subsequently DKK 546 million.
- The Bank's capital requirement was 13.0 per cent, consisting of an individual solvency need of 11.1 per cent and a general capital conservation buffer of 1.875 percent.
- The Bank’s total capital ratio was 19.7, implying an excess coverage of 6.7 percentage points or DKK 955 million.
- The Bank’s LCR was 195.3 per cent compared with a requirement of 100 per cent.
- Implementation of the new IFRS 9 rules at 1 January 2018 resulted in additional impairment losses of DKK 225 million. The impact net of tax was recognised directly in the Bank’s equity at 1 January 2018, which was thus reduced by DKK 207 million, equal to 9.0 per cent of shareholders’ equity.
- The Bank has decided not to apply the European Commission’s transitional arrangement for partial recognition in total capital of the impairment losses resulting from IFRS 9. The DKK 207 million adverse effect of the impairment rules under IFRS 9 thus has full effect on the Bank’s capital ratios from 1 January 2018.

Organisational adjustments

The Bank implemented organisational adjustments effective at 1 September 2018, reducing its headcount by about 24 FTEs, corresponding to a staff reduction of 6 per cent. Non-recurring expenses in connection with these redundancies amounted to approximately DKK 30 million, which affected staff costs and administrative expenses for the year and, by extension, the Bank's profit for 2018.

Impairment losses in 2018

In the course of 2018, the Bank recognised an add-on on the calculation of impairment allowances on agricultural customers. This was in response to last summer’s drought and the currently depressed settlement prices of agricultural products. On an ongoing basis, the Bank has thus addressed the Danish FSA's demand that banks calculate an add-on on impairment allowances based on a qualified estimate of the financial consequences to agricultural customers, and the Bank has recognised an add-on which, based on available facts, is expected to be sufficient to cover the extraordinary consequences of last summer’s drought and the depressed settlement prices of milk and especially pork.

Summary

The EU Commission

In 2017, the Commission approved the state aid subject to certain terms, which included the implementation of the overall solution announced by the Bank in a company announcement of 12 June 2017 and the Bank complying with a number of conditions, as described in greater detail in a separate section of the Management's review. If the Bank generates a specified minimum return on equity after tax in the 7-11 per cent interval in 2018, the restructuring period will end at 31 December 2018. The Commission has yet to approve the Bank's compliance with this requirement. The Bank has not incorporated any Commission restrictions in 2019 and thus does not expect the pending approval to give rise to any amendment of the Bank's strategy or outlook for 2019.

Outlook for 2019

Given an unchanged economic climate and an overall decrease in impairment losses, the Bank's total business volume is expected to have the capacity to generate a profit after tax of around DKK 225-275 million. These expectations are based on an assumption of an unchanged economic climate. Currently, however, there is some uncertainty as to the global economic outlook and, in particular, the settlement price trend for agricultural products. A decline in these could impact the Bank's impairment losses.

Introduction

Satisfactory performance in 2018
In 2018, The Bank successfully executed a substantial part of the Bank's action plan.

After its recapitalisation by a group of investors in 2017, Vestjysk Bank is now a well-capitalised regional bank on par with its peers in the Danish banking market. This was reflected in the Bank's business focus in 2018.

Working with the Bank's weak and impaired customers resulted in a continued improvement of the credit quality in the banks lending 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 for 2018.

With a net addition of new, financially sound retail customers in 2018, the proportion of loans to retail customers continued to rise and is now above the long-term goal of a 70/30 distribution between business and retail exposures.

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

In 2018, Vestjysk Bank continued to focus strongly on digitalising the Bank's internal processes. This has been an important tool in our efforts to lower recurring operating expenses and maintain a satisfactory cost ratio level, excluding non-recurring expenses.

The Bank was unable to fulfil the action plan goal of maintaining the business volume. A major contributing factor was that Vestjysk Bank's lending was reduced as a result of the efforts to create sustainable solutions for financially weak customers and thus improve the Bank's credit quality. This despite the above-mentioned addition of new business customers and growing volume with existing business customers. While the drop in the Bank's business customers with poor credit quality is generally positive, it does result in a lower business volume.

Business plan
With the 2018 annual report, Vestjysk Bank presents very satisfactory financial statements, and the primary aim for the coming year is to remain strong and further develop our footprint in the Danish banking sector. The business plan for 2019 builds on the business plan for 2018 and remains focused on generating earnings by entering into business transactions with existing and new customers within the Bank's natural market segment, improving the Bank's credit quality and keeping up the strict cost management in order to maintain the Bank's competitiveness.

The business plan for 2019 is characterised by the following key elements:

- Ensuring that offering our customers personal contact and service remains a key priority by delivering on our core values – Presence, Simplicity and Action
- Maintaining the Bank's current business volume by focusing on existing customers' borrowing and credit needs and adding new, financially sound retail customers and solid business customers in the SME segment
- Ongoing adjustment of the Bank's total agricultural exposures
- Continuing to work actively with the Bank's weak and credit impaired customers in order to reduce overall impairment losses and further improve the Bank's overall credit quality
- Focusing on maintaining a cost ratio in the 52 - 55 interval
- 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 streamline internal processes and offering new options for the customers
- Maintaining a strong liquidity position by balancing the development of gross lending and deposits

Introduction

With continued strong core earnings and the above measures, Management expects to see a continued satisfactory development of the Bank's results in the coming years.

The EU Commission

When the EU Commission temporarily approved the state aid in parts of the capital plan for the 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.

The Bank utilised the state aid facility in the amount of DKK 7,142 million, comprising a capital increase to which the Danish State contributed DKK 167 million, relief of the solvency-related capital charge through the sale of sector shares of DKK 175 million and guarantees in the amount of DKK 6,800 million. The state-guaranteed borrowing facility was repaid in early 2015, 18 months ahead of its expiry.

As announced in a company announcement of 18 July 2017, the Commission approved the state aid subject to certain conditions, including the implementation of the overall solution announced by the Bank in a company announcement of 12 June 2017 and the Bank complying with certain conditions, as described in greater detail in the Management's review.

The restructuring period ends on 31 December 2019 at the latest. If the Bank has generated a specific minimum return on equity after tax in the 7-11 per cent interval in 2018, the restructuring period will end on 31 December 2018. The Eu Commission has regularly monitored the terms and the development of the restructuring plan through an independent monitoring trustee approved by the Commission.

At year-end closing, the Bank has yet to receive the Commission's approval of the restructuring period ending at 31 December 2018.

Outlook for 2019

The Bank's performance since 2012 has shown a positive trend and for 2018 the Bank realised a very satisfactory profit and continued progress relative to previous years. The Bank is currently in a phase of annually increasing operating profits. The uncertainty factors regarding the Bank's ability to sustain this momentum is in part linked to the Bank's significant agricultural exposures. In 2018, the Bank once again recognised considerable impairment losses on agricultural exposures, and in 2019 impairment losses on agricultural exposures are expected to remain high. On the whole, however, the Bank expects a lower level of impairment on agricultural exposures, as long termed solutions are found for a number of financially weak farms.

For almost all other sectors, the Bank is seeing a continuation of the customers' generally positive financial results. Moreover, Vestjysk Bank has been very successful in finding long termed solutions for its financially weak customers in 2018, and thus overall impairment losses and the impairment ratio are expected to continue to decrease in 2019.

Vestjysk Bank's conscious strategic development towards becoming a more diverse business bank with a sound retail customer base is to improve the Bank's resilience against cyclical fluctuations.

Given an unchanged economic climate and an overall decrease in impairment losses, the Bank's total business volume is expected to have the capacity to generate a profit after tax of around DKK 225-275 million in 2019. These expectations are based on an assumption of an unchanged economic climate. Currently, however, there is some uncertainty as to the global economic outlook and, in particular, the settlement price trend for agricultural products. A continued decline in these could affect the Bank's impairment losses.

Vagn Thorsager *Chairman of the Board of Directors*	Jan Ulsø Madsen *Chairman* *Chief Executive Officer*

Management's review

Financial highlights

Financial highlights	2018	2017	2016	2015	2014
Statement of income (DKKm)					
Net interest income	548	573	595	644	699
Net fee income	297	338	312	305	290
Dividends on shares, etc.	12	4	3	2	6
Value adjustments	35	23	65	17	56
Other operating income	17	7	29	21	4
Core income	909	945	1,004	989	1,055
Staff costs and administrative expenses	470	482	489	513	509
Other operating expenses and depreciation, amortisation and impairment of property, plant and equipment and intangible assets	11	22	16	56	51
Operating expenses and operating depreciation and amortisation	481	504	505	569	560
Core earnings before impairment	428	441	499	420	495
Impairment of loans and receivables, etc.	186	270	416	370	683
Profit/loss before tax	242	171	83	50	-188
Tax	-54	8	3	1	0
Profit/loss after tax	296	163	80	49	-188
Statement of financial position (DKKm)					
Total assets	21,198	21,902	19,895	21,114	21,804
Loans	10,797	11,629	12,529	13,379	14,756
Deposits, including pooled schemes	17,583	18,396	16,971	18,090	18,768
Contingent liabilities	3,487	3,608	3,358	3,213	3,036
Custody services	7,585	8,713	9,860	10,139	9,207
Business volume	31,867	33,633	32,858	34,682	36,560
Business volume including custody services	39,452	42,346	42,718	44,821	45,767
Equity	2,589	2,515	1,487	1,404	1,362

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

Financial ratios	2018	2017	2016	2015	2014
Solvency					
Total capital ratio	19.7%	19.2%	13.0%	12.5%	12.1%
Tier 1 capital ratio	17.4%	16.8%	11.2%	10.5%	9.9%
Common equity tier 1 capital ratio	15.7%	15.2%	8.7%	7.9%	7.1%
Earnings					
Return on equity before tax p.a.	9.9%	8.5%	5.7%	3.6%	-16.7%
Return on equity after tax p.a.	12.1%	8.2%	5.5%	3.6%	-16.7%
Income/cost ratio	1.36	1.22	1.09	1.05	0.85
Cost ratio [1]	52.9%	53.3%	50.3%	57.5%	53.1%
Return on assets	1.4%	0.8%	0.4%	0.2%	-0.8%
Average number of employees (FTE)	385.8	421.9	458.6	500.1	523.1
Market risk					
Interest rate risk	-0.5%	-1.2%	-3.0%	-5.1%	-4.7%
Foreign exchange position	0.3%	0.2%	0.3%	1.9%	1.4%
Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%
LCR	195.3%	255.4%	318.1%	260.5%	213.0%
Credit risk					
Loans plus impairment of loans relative to deposits	76.3%	79.4%	91.7%	91.0%	97.5%
Loans relative to equity	4.2	4.6	8.4	9.5	10.8
Lending growth for the year	-5.6%	-7.2%	-6.4%	-9.3%	-15.2%
Sum of large exposures > 10%	14.1%	11.9%	36.9%	35.1%	22.3%
Sum of 20 largest exposures [2]	116.4%	-	-	-	-
Accumulated impairment ratio	15.6%	16.5%	16.1%	15.8%	16.7%
Impairment ratio for the year	1.0%	1.5%	2.2%	1.9%	3.2%
Vestjysk Bank share					
Earnings per share for the year	0.3	0.3	0.5	0.3	-1.6
Book value per share [3]	2.6	2.6	9.4	8.8	8.5
Price of Vestjysk Bank shares, end of the year	2.0	2.7	13.0	7.8	9.3
Share price/earnings per share [4]	5.9	8.7	24.6	23.7	-
Share price/book value per share	0.7	1.1	1.4	0.9	1.1

In accordance with the accounting policies, the comparative figures 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
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 due to share issue in 2017.

Management's review

Financial highlights by quarter

Financial highlights	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Statement of income (DKKm)					
Net interest income	143	139	136	130	151
Net fee income	78	73	72	74	75
Dividends on shares, etc.	0	0	12	0	0
Value adjustments	3	11	-5	26	6
Other operating income	0	4	10	3	2
Core income	224	227	225	233	234
Staff costs and administrative expenses	110	132	113	115	123
Other operating expenses and depreciation, amortisation and impairment of property, plant and equipment and intangible assets	1	4	2	4	5
Operating expenses and operating depreciation and amortisation	111	136	115	119	128
Core earnings before impairment	113	91	110	114	106
Impairment of loans and receivables, etc.	52	39	54	41	93
Profit before tax	61	52	56	73	13
Tax	-69	5	8	2	1
Profit after tax	130	47	48	71	12
Statement of financial position (DKKm)					
Total assets	21,198	21,535	21,560	21,173	21,902
Loans	10,797	11,144	11,390	11,429	11,629
Deposits, including pooled schemes	17,583	17,980	18,158	17,842	18,396
Contingent liabilities	3,487	3,522	3,414	3,323	3,608
Custody services	7,585	8,230	8,094	8,161	8,713
Business volume	31,867	32,646	32,962	32,594	33,633
Business volume including custody services	39,452	40,876	41,056	40,755	42,346
Equity	2,589	2,461	2,419	2,375	2,515

In accordance with the accounting policies, the comparative figures for Q4 2017 have not been restated in connection with the implementation of IFRS 9 at 1 January 2018.

Financial ratios	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Solvency					
Total capital ratio	19.7%	17.8%	17.8%	17.7%	19.2%
Tier 1 capital ratio	17.4%	15.5%	15.4%	15.3%	16.8%
Common equity tier 1 capital ratio	15.7%	13.9%	13.8%	13.7%	15.2%
Earnings					
Return on equity before tax p.a.	9.6%	8.5%	9.3%	12.8%	2.0%
Return on equity after tax p.a.	20.5%	7.6%	8.0%	12.4%	2.0%
Income/cost ratio	1.38	1.30	1.33	1.46	1.06
Cost ratio [1]	49.5%	59.7%	51.7%	50.6%	54.7%
Return on assets	0.3%	0.2%	0.2%	0.3%	0.1%
Average number of employees (FTE)	362.1	380.4	399.1	401.7	407.9
Market risk					
Interest rate risk	-0.5%	-0.7%	-0.8%	-1.0%	-1.2%
Foreign exchange position	0.3%	0.4%	0.4%	0.3%	0.2%
Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%
LCR	195.3%	212.6%	243.4%	209.8%	255.4%
Credit risk					
Loans plus impairment of loans relative to deposits	76.3%	78.1%	79.7%	81.7%	79.4%
Loans relative to equity	4.2	4.5	4.7	4.8	4.6
Lending growth	-3.1%	-2.2%	-0.3%	-0.1%	-4.2%
Sum of large exposures > 10 %	14.1%	14.4%	14.0%	13.6%	11.9%
Sum of 20 largest exposures [2]	116.4%	134.9%	116.2%	120.5%	-
Accumulated impairment ratio	15.6%	16.6%	17.3%	17.7%	16.5%
Impairment ratio	0.3%	0.2%	0.2%	0.2%	0.5%
The Vestjysk Bank share					
Earnings per share	0.1	0.1	0.1	0.1	0.0
Book value per share [3]	2.6	2.5	2.4	2.4	2.6
Price of Vestjysk Bank shares, end of the year	2.0	2.1	2.4	2.7	2.7
Share price/book value per share	0.7	0.8	1.0	1.1	1.1

In accordance with the accounting policies, the comparative figures for Q4 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

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.

Management's review

Financial review

Income statement

Profit after tax

For 2018, the Bank's profit after tax was DKK 296 million, compared with DKK 163 million for 2017. The profit for 2018 included recognition of a deferred tax asset at 31 December 2018 in the amount of DKK 75 million. Excluding recognition of the tax asset, the net profit for 2018 was DKK 221 million.

Impairment of loans and receivables, etc. amounted to DKK 186 million in 2018. The impairment ratio for 2018 was 1.0 per cent, against 1.5 per cent in 2017. The level is still above the sector average.

Core income

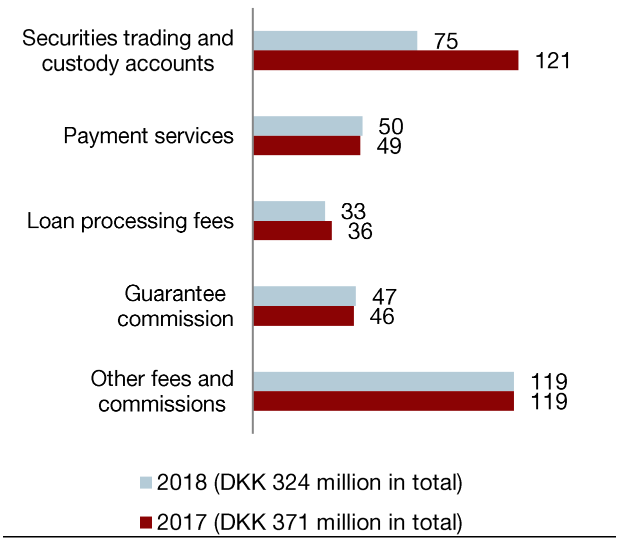
In 2018, Vestjysk Bank realised core income of DKK 909 million, down DKK 36 million compared with 2017. The core income decrease was due to significantly lower net fee income and lower net interest income.

Net interest income amounted to DKK 548 million in 2018, against DKK 573 million in 2017. The lower level was due to a DKK 72 million drop in interest income due to a lower lending volume and increased price pressure. The Bank's interest expenses were reduced by DKK 47 million due to lower deposit rates and lower interest paid on subordinated debt.

Positive value adjustments amounted to DKK 35 million, net, compared with DKK 23 million in 2017. Vestjysk Bank recognised a positive value adjustment of DKK 12 million in connection with the introduction of a new valuation model for BI Holding A/S (Bankinvest). This was countered by a negative value adjustment of the Bank's proprietary bond portfolio as a result of a very conservative investment strategy and the continued very low interest rate levels. In 2017, the Bank recognised an impairment loss totalling 29 million on Vestjysk Bank's investments in BEC.

Fee income fell from DKK 371 million in 2017 to DKK 324 million in 2018. As expected, the implementation of the MiFID II regulations at 30 June 2017 resulted in a decline in fee income. Vestjysk Bank moreover transferred a large proportion of customer pension funds from its own Værdipleje product to Sparinvest's Lokal Puljeinvest in the first half of 2017 for the purpose of securing customers the best possible return under the MiFID II regulations. This caused a decline in fee income from securities trading, which was only partially countered by increased value adjustments and dividends on shares in sector companies. The distribution of the Bank's fee income is shown in the figure below.

Income from fee and commission (DKKm)



Other operating income amounted to DKK 17 million in 2018, against DKK 7 million in 2017. The increase was attributable to income from a framework agreement entered into with Nærpension in 2018.

Operating expenses and operating depreciation and amortisation

Total operating expenses, depreciation and amortisation amounted to DKK 481 million in 2018, against DKK 504 million in 2017. Operating expenses for 2018 were impacted by non-recurring expenses relating to the implementation of IFRS 9 and a new strategy plan. In addition to this, the Bank recognised non-recurring expenses of approximately DKK 30 million relating to severance pay in connection with organisational changes. Adjusted for these non-recurring expenses, total operating expenses and operating depreciation and amortisation for 2018 amounted to DKK 442 million against DKK 474 million in 2017, representing a DKK 32 million reduction of the Bank's general expense level. In 2018, the Bank reduced the average number of employees by 36 FTEs compared with 2017. In aggregate, the number of employees has thus been reduced by more than 25 per cent over the past four years, from 523 at the end of 2014 to 386 at the end of 2018. The cost ratio for 2018 was 52.9, compared with 53.3 in 2017. The Bank will continue its committed efforts to maintain a low level of expenses with a cost ratio of around 52 - 55. Adjusted for non-recurring expenses, the cost ratio in 2018 was 48.7. The table below illustrates the composition of operating expenses and operating depreciation and amortisation.

Operating expenses and operating depreciation and amortisation

(DKKm)	2018	2017
Staff costs	311	307
- Of this amount severance pay	*30*	*11*
IT costs	104	102
Other administrative expenses	56	73
Operating depreciation and amortisation	8	10
Other operating expenses	2	12
Total	**481**	**504**

Core earnings before impairment

For 2018, the Bank's core earnings before impairment stood at DKK 428 million, compared with DKK 441 million in 2017, which reflects the DKK 30 million non-recurring expenses related to the organisational change.

Impairment of loans and receivables etc.

Impairment losses, net amounted to DKK 186 million in 2018, compared with DKK 270 million in 2017. The impairment ratio for 2018 was 1.0 per cent, against 1.5 per cent in 2017. The level of impairment is higher than the sector average.

In 2018, impairment losses mainly related to the agricultural sector and, to a lesser extent, the real estate sector, whereas a net reversal of impairment losses was recorded for retail customers and other business.

Milk and especially pork settlement prices fell to very low levels in 2018. Recently, milk prices have stabilised, however.

After a continual decline in pork settlement prices throughout the period, pork prices are now historically low. This makes for a worrying outlook for the Bank's pig breeders, and the Bank is closely monitoring developments in this sector.

In the course of 2018, the Bank recognised an odd-on on the calculation of impairment allowances on agricultural customers. This was in response to last summer's drought and the currently depressed settlement prices of agricultural products. On an ongoing basis, the Bank addressed the Danish FSA's demand that banks calculate an add-on on impairment allowances based on a qualified estimate of the financial consequences to agricultural customers, and the Bank recognised an add-on which, based on available facts, is expected to be sufficient to cover the extraordinary consequences of last summer's drought and the depressed settlement prices of milk and especially pork.

Real estate exposures are generally showing a favourable trend with profitable operations and sufficient liquidity to service debt. The Bank's customers sold assets at acceptable prices. The Bank does, however, have a small number of customers with a pre-existing real estate portfolio abroad, on which in 2018 was deemed necessary to cover the Bank's exposure by increasing the impairment allowance.

The Bank continues to implement further measures to improve the process of managing and monitoring the Bank's loans and guarantees and to develop the competencies of account managers.

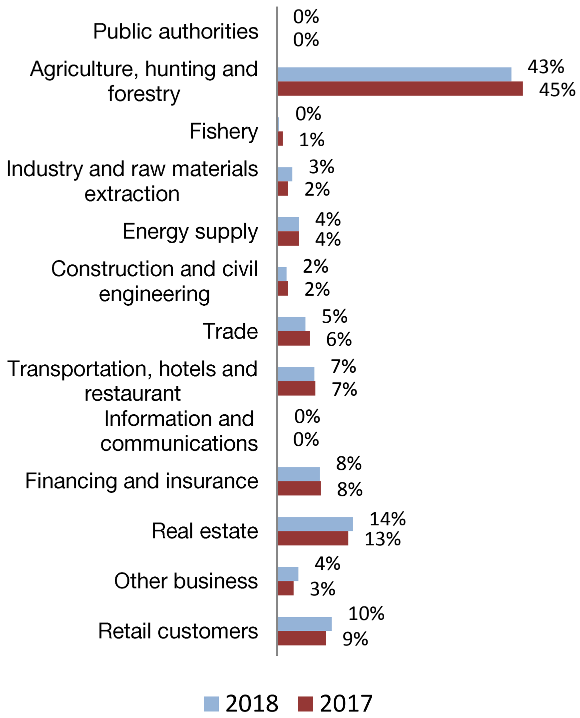
The distribution of the Bank's loans and guarantees for and impairment losses on agricultural exposures by sub-sectors,

Distribution of loans and guarantees 2018 (DKKm)	Loans and guarantees before impairment	Acc. Impairment	Loans and guarantees after impairment	Impairment for the year
Dairy farmers	1,581	578	1,003	30
Pig breeders	1,176	432	744	161
Other agriculture	617	126	491	4
Agriculture, total	**3,374**	**1,136**	**2,238**	**195**
Real estate	2,140	367	1,773	28
Other business	6,033	879	5,154	-22
Business, total	**11,547**	**2,382**	**9,165**	**201**
Retail	5,385	266	5,119	-15
Total	**16,932**	**2,648**	**14,284**	**186**

real estate, other business and the retail segment is shown on the previous page.

The Bank's accumulated impairment ratio at the end of 2018 stood at 15.6 per cent, compared with 16.5 per cent at the end of 2017. The accumulated impairment ratio was affected by the transition to the new impairment rules under IFRS 9, which became effective at 1 January 2018, resulting in a DKK 225 million increase in accumulated impairment and provisions in the Bank's opening balance sheet at 1 January 2018.

Accumulated impairment and provisions by sector at 31 December 2018



At 43 per cent, or DKK 1.1 billion, the agricultural sector represents the largest part of the Bank's accumulated impairment A. The Bank thus recognised impairment losses representing approximately 34% of its gross lending and guarantees to the agricultural sector.

Statement of financial position

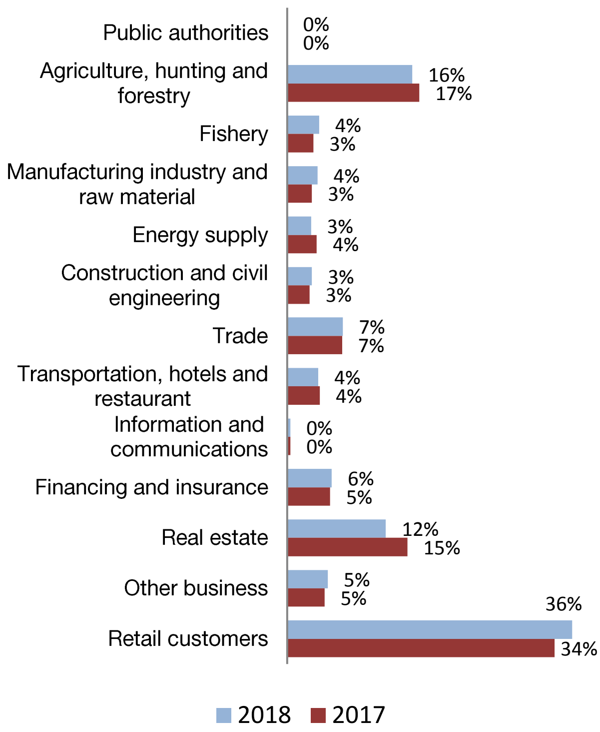
Vestjysk Bank's total assets amounted to DKK 21.2 billion at 31 December 2018, against DKK 21.9 billion at 31 December 2017. The decline was due to a reduction of deposits and the effects of the implementation of IFRS 9. Based on its liquidity and funding situation, the Bank in 2018 focused on maintaining the existing business volume.

Loans

At 31 December 2018, Vestjysk Bank's net lending amounted to DKK 10.8 billion, against DKK 11.6 billion at the end of 2017, a DKK 0.8 billion reduction during the year. Of this, DKK 190 million related to loan impairment charges following the implementation of IFRS 9 at 1 January 2018. In 2018, the Bank saw a decrease of approximately DKK 800 million in loans to financially challenged customers, typically impaired, whereas lending to new customers and the Bank's customers with good financial standings increased by approximately DKK 200 million.

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

Loans and guarantees by sector at 31 December 2018



At 31 December 2018, loans to retail customers accounted for 36 per cent of the Bank's net loans and guarantees. The Bank has thus fulfilled the ambition set out in the business model of strengthening the retail segment.

The Bank’s business lending is mainly concentrated within the agricultural and real estate sectors, with agriculture accounting for 16 per cent and real estate 12 per cent. The Bank’s overall exposure to these sectors thus accounted for approximately 28 per cent of total net loans and guarantees.

The credit quality of the Bank's total loans and guarantees improved in 2018. At the end of 2018, 39 per cent of the Bank's customers were of normal credit quality, against 30 per cent at the same time last year, as illustrated in the table next column. 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 2019.

Loans and guarantees by credit quality	2018		2017	
	DKKm	(%)	DKKm	(%)
Normal credit quality	8,717	39%	6,882	30%
Some signs of weakness	7,091	32%	9,011	39%
Significant signs of weakness without impairment	1,159	5%	1,048	4%
Impaired loans	5,233	24%	6,362	27%
Total loans and guarantees	22,200	100%	23,303	100%

Further explanation of loans and guarantees are shown in note 35.

Large exposures

The sum of large exposures, constituting 10 percent or more of total capital, amounted to 14.1 per cent of total capital at 31 December 2018, consisting of a single exposure. The aim is to have no exposures constituting 10 per cent or more of total capital and to achieve greater diversification of the Bank’s portfolio. The 20 largest exposures represent 116.4 per cent of the Bank’s common equity tier 1 capital, which is below Vestjysk Banks aim about being below the supervisory diamond benchmark.

Business volume including custody services

Vestjysk Bank’s business volume – total deposits, loans, contingent liabilities etc. and custody services – amounted to DKK 39.5 billion at 31 December 2018, against DKK 42.3 billion at 31 December 2017.

Deferred tax asset

Part of the banks deferred tax asset is recognised at 31 December 2018. Vestjysk Bank assses that part of the deferred tax asset can expectedly be utilised within the next three years based on a cautious earnings expectation. DKK 75 million of the deferred tax asset was therefore recognised at 31 December 2018. Of this amount, DKK 57 million related to unutilised tax losses, which will be deducted in the total capital. The deferred tax asset at 31 December 2018 is DKK 546 million.

Management's review
Financial review

Capital and liquidity

Equity

Vestjysk Bank's equity stood at DKK 2,589 million at 31 December 2018, against DKK 2,515 million at 31 December 2017. The development in equity since 1 January 2017 is detailed in the statement of changes in equity.

Subordinated debt

The Bank's subordinated debt amounted to DKK 373 million at 31 December 2018, of which DKK 333 million was eligible for inclusion in total capital.

Total capital

Overall, total capital amounted to DKK 2,803 million at 31 December 2018. With the total risk exposure of DKK 14,226 million, this equals a total capital ratio of 19.7 per cent. At 31 December 2017, the Bank's total capital ratio was 19.2 per cent.

Capital requirement

Adequate total capital amounted to DKK 1,580 million at 31 December 2018 which, with the total risk exposure of DKK 14,226 million, results in an individual solvency need of 11.1 per cent. At 31 December 2018, the capital conservation buffer had been phased in at 1.875 percentage points, resulting in an aggregate capital requirement of 13.0 per cent, corresponding to DKK 1,848 million.

This meant that Vestjysk Bank's excess cover relative to the individual solvency need was 8.6 percentage points, or DKK 1,223 million, while its excess cover relative to the aggregate capital requirement was 6.7 per cent, or DKK 955 million.

Capital position

DKKm	31 Dec. 2018	31 Dec. 2017
Equity as per statement of financial position	2,589	2,515
Deductions:		
- intangible assets	-1	-3
- prudent valuation	-4	-3
- investments in financial sector entities	-57	0
- deferred tax assets	-57	0
Subordinated debt	333	362
Total capital	2,803	2,871
Total risk exposure	14,226	14,969
Common equity tier 1 capital ratio	15.7%	15.2%
Tier 1 capital ratio	17.4%	16.8%
Total capital ratio	19.7%	19.2%

At 1 January 2018, the Bank's capital was negatively affected in the amount of DKK 207 million after tax by the implementation of IFRS 9. Total capital was further negatively impacted by contractually committed investments in shares in sector companies. Despite the positive impact of the profit for 2018, total capital was thus reduced by DKK 68 million between 31 December 2017 and 31 December 2018.

At 1 January 2019, additional implementation of the capital conservation buffer and phasing in of the MREL requirement negatively affected the Bank's capital position by an aggregate of 1.25 percentage points or DKK 175 million.

MREL requirement

On 19 December 2018, Vestjysk Bank received the Danish FSA's decision on the Bank's MREL add-on, which was fixed at 6 per cent of risk-weighted assets and will be phased in over the period 2019-2023. The Bank expects to be able to meet the requirement through ordinary earnings during the phase-in period, all other things being equal. When fully phased in in 2023, the effect of the MREL is expected to be in the level of DKK 850 million.

Comparing this effect with the Bank's current excess cover of DKK 1.0 billion at 31 December 2018, the Bank expect to meet the current and known future capital requirements.

Liquidity

Vestjysk Bank's liquidity position remains good. At 31 December 2018, the Bank's Liquidity Coverage Ratio (LCR) stood at 195.3 per cent, relative to the LCR requirement of 100 per cent.

Uncertainty in recognition and measurement

The most significant uncertainty factors in relation to recognition and measurement concern loan impairment and provisions for guarantees. To this should be added uncertainty concerning 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 2018 reflect the financial reporting rules and guidelines of the FSA.

The Financial Supervisory Authority's Supervisory Diamond

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

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

Realised values at 31 December 2018

Supervisory Diamond benchmarks	Realised values
Sum of large exposures < 175%	116.4%
Lending growth (< 20%)	-5.6%
Real estate exposure (< 25%)	13.0%
Funding ratio (< 1)	0.53
Liquidity benchmark > 100%	223.7%

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. On an ongoing basis, the Executive Board monitors compliance with relevant legislation and other financial reporting regulations and provisions 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 2018.

Management's review

Financial review

Business plan 2019

The principal target for 2018 was for Vestjysk Bank to remain strong and further develop our footprint in the regional and local banking sector. The business plan for 2019 builds on the business plan for 2018 and remains focused on 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 competitiveness.

The business plan for 2019 is characterised by 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
- Maintaining the Bank's current business volume by focusing on existing customers' borrowing and credit needs and adding new, financially sound retail customers and solid business customers in the SME segment
- Ongoing adjustment of the Bank's total agricultural exposures
- Continuing to work actively with the Bank's weak and credit impaired customers to reduce overall impairment losses and further improve the Bank's overall credit quality
- Focusing on maintaining a cost ratio in the 52 - 55 interval
- Growing earnings, particularly in the investment area, by increasing the customers' proportion of pooled and wealth management products
- Increasing focus on the Bank's digitalisation by streamlining internal processes and broadening the offering to the Bank's customers
- Maintaining a strong liquidity position by balancing the development of gross lending and deposits

With continued strong core earnings and the above measures, Management expects to see a continued satisfactory development of the Bank's results in the coming years.

The EU Commission

When the EU Commission temporarily approved the state aid in parts of the capital plan for the 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.

The Bank utilised the state aid facility in the amount of DKK 7,142 million, comprising a capital increase to which the Danish State contributed DKK 167 million, relief of the solvency-related capital charge through the sale of sector shares of DKK 175 million and guarantees in the amount of DKK 6,800 million. The state-guaranteed borrowing facility was repaid in early 2015, 18 months ahead of its expiry.

In 2017, the Commission approved the state aid subject to certain terms, which included the implementation of the overall solution announced by the Bank in a company announcement of 12 June 2017 and the Bank complying with a number of conditions, as described below:

- The Bank must have total capital corresponding to the higher of (i) 2 per cent of the total risk exposure and (ii) DKK 325 million in addition to the solvency requirement and the combined capital buffer requirement under applicable law.
- The Bank must maintain an LCR of at least 100 per cent, surplus liquidity coverage of at least 50 per cent and a funding ratio not exceeding 1; all measured in compliance with applicable rules.
- The Bank's total assets for 2017 were not to exceed those of 2016 and are not to exceed DKK 20,300 million for 2018 and DKK 21,000 million for 2019 (if applicable).
- The Bank must re-balance its lending with specific caps on lending in respect of real estate (25 per cent of total lending) and agriculture, hunting, forestry and fishery (a total of 20 per cent of all lending).
- The Bank may not provide new lending outside the Jutland region, unless the customer self-finances a specific minimum part at a level to be fixed in the 35-45 per cent interval and the loan is collateralised. The Bank may not provide new lending outside Denmark
- The Bank may not assume exposures with new customers individually constituting more than 10 per cent of the Bank's total capital.
- With certain limited exceptions, the Bank is subject to an acquisition ban and advertising restrictions.
- The Bank must restructure its risk management and in relation to pricing comply with certain requirements for average gross income and return on equity before tax (at

- a specified level in the interval of 8-12 per cent for business customers) for new loans in 2018 and for all customer relationships in 2019 (if applicable).
- The Bank is subject to certain restrictions with respect to its cost base, to the effect that current operating expenses may not exceed specified levels in the intervals of DKK 435-475 million in 2017, DKK 420-460 million in 2018 and DKK 405-445 million in 2019 (if applicable).
- The Bank must redeem its state hybrids within six months following the Commission's decision.

The restructuring period ends on 31 December 2019 at the latest. If the Bank has generated a specific minimum return on equity after tax in the 7-11 per cent interval in 2018, the restructuring period will end on 31 December 2018. The European Commission has regularly monitored the terms and the development of the restructuring plan through an independent monitoring trustee approved by the Commission.

At year-end closing, the Bank has yet to receive the Commission's approval of the restructuring period ending at 31 December 2018. The Bank has not incorporated any Commission restrictions in 2019, which thus do not give rise to any amendment of the Bank's strategy or outlook for 2019.

Outlook for 2019

Given an unchanged economic climate and an overall decrease in impairment losses, the Bank's total business volume is expected to have the capacity to generate profit after tax of around DKK 225-275 million. This expectation is based on an assumption of an unchanged economic climate.
Currently, however, there is some uncertainty as to the global economic outlook and, in particular, the settlement price trend for agricultural products. A continued decline in these could affect the Bank's impairment losses.

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 Middle Office, Finance, Markets, Treasury and Credit. Risk Management and Compliance perform independent monitoring.

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 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.

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.

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 was negative in the amount of DKK 13 million at 31 December 2018. The Bank thus has a positive exposure in the event of a general increase in interest rates. The negative interest rate risk was primarily the result of fixed-interest deposits and subordinated debt, which contributed a negative interest rate risk of DKK 5.3 million and DKK 8.0 million respectively, while fixed-rate loans contributed a positive interest rate risk of DKK 3.0 million. Interest rate risk is subdivided into risks in and outside the trading book. 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 3.3 million at 31 December 2018 and DKK 5.4 million at 31 December 2017.

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 indicator 1, which is a simplified measure of the Bank's foreign exchange positions, amounted to DKK 8.5 million at 31 December 2018, against DKK 5.8 million in 2017.

Equity risk
The Bank's equity risk is derived 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 2018, equity risk as expressed in terms of the invested amount was DKK 442 million, of which sector company shares amounted to DKK 414 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 also the Bank's policy not to assume commodity risk via financial instruments.

The most important aspects of the various types are set out in notes 37-39 to the Annual Report.

Credit risk

Extending credit is a key factor in 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, ultimate write-offs on already impaired exposures or it may increase the need for capital coverage.

The Bank's calculation of 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 industries in excess of 15 per cent of its total exposure. Similarly, the Bank does not accept exposures in excess of 10 per cent of its total capital. Approved commitments greater than the 10 per cent must be accompanied by an action plan for when and how the amount can be reduced to less than 10 per cent. This way, Vestjysk Bank seeks to continually ensure that no individual exposure, including groups, poses a threat to the Bank's existence. The sum of large exposures amounted to 14.1 per cent of total capital at 31 December 2018, consisting of a single exposure.

In compliance of the EU requirement, the Bank's credit policy was in 2018 tightened with respect to financing assets outside the Bank's ordinary market area as well as the use of foreign currency loans and financial instruments. When the EU Commission's restructuring plan ends, the Bank expects to relax its credit policy for certain retail customer segments outside the local market area. In other areas, the Bank's tighter credit policy will be maintained.

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

In performing credit analyses of business exposures, Vestjysk Bank emphasises that decisions on whether to extend credit are based on a thorough analysis of the customer's financial position and the collateral provided, so that Vestjysk Bank has an adequate understanding of the risk involved. When extending credit, the Bank must have sufficient knowledge of the customer's financial circumstances. 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 considering extending credit:

- obtain the customer's financial statements and budgets. This includes obtaining 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 assumes 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, this means that the Bank must follow the following basic principles when considering extending credit:

- have an insight into the customer's annual tax statement
- know about the customer's actual disposable amount and stressed disposable amount and loan-to-income
- know about 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 2018, 64 per cent were to business customers and 36 per cent 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 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.

There is also significant risk associated with the Bank's loans and guarantees to the agricultural sector, for example in case of an economic slump in the sector, including a decline in prices and debtors’ ability to pay.

The Bank's general objective is to adjust the proportion of agricultural customers in the lending portfolio while continuing to help skilled, solid existing customers based on an objective risk assessment of the individual farmer's operational capability and earnings. Agricultural customers able to demonstrate a likely development from negative to positive operating results, and whose need for additional bank financing is accommodated, will also entail increased risk for the Bank.

Vestjysk Bank’s objective is to maintain its 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, provided the following two conditions are met:

1. The customer must provide self-financing of at least 20 per cent of the investment/acquisition price
2. The project must have been sold or let before the project is commenced

The bank may grant an exemption from the second condition, provided that:

a) The group of owners provide additional self-financing or, alternatively, a guarantee, and it is substantiated that the group of owners have sufficient funds to cover any lack of actual self-financing
b) The market conditions are such that subsequent sale/letting of the property is subject to low risk, and that this is supported by a statement by a reputable local estate agent
c) A combination of a) and b)

The Bank may depart from the above conditions if it assesses that doing so will benefit its credit position. Such departure must be authorised by the credit committee/the Board of Directors.

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.

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.

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

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 that sets a number of requirements as to the size and composition of the liquidity reserve and as to 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 per cent month by month for 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 40 to the financial statements.

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 its 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 Bank's total capital is determined in accordance with the Danish Executive Order "Bekendtgørelse om opgørelse af risikoeksponeringer, kapitalgrundlag og solvensbehov" (Executive Order on the Calculation of Risk Exposures, Own Funds and Solvency Need), and at 31 December 2018 total capital amounted to DKK 2,803 million. Risk-weighted exposures amounted to DKK 14,226 million, resulting in a total capital ratio of 19.7 per cent.

Management's review
Financial review

Risk report 2018

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 2018". 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	The sum of Loans, Deposits, including pooled schemes, Contingent liabilities and Customer services.

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 is available. Vestjysk Bank's IR policy is accessed at vestjyskbank.dk/English/reports.

The Vestjysk Bank share

The Vestjysk Bank share is listed on NASDAQ Copenhagen. The 2018 year-end closing price was DKK 2.0 The share price/book value ratio is 0.7. The transaction volume for 2018 was just over 59.5 million shares at a total market value of DKK 142 million.

Share capital

Vestjysk Bank's share capital totalled DKK 896 million at 31 December 2018. The share capital consists of 895,981,517 shares with a nominal value of DKK 1 each.

Vestjysk Bank has approximately 37,000 registered shareholders. At 31 December 2018, the Bank's major shareholders were:

AP Pension Livsforsikringsselskab	16.74 per cent
Nykredit Realkredit A/S	13.97 per cent
Aktieselskabet Arbejdernes Landsbank	12.25 per cent
Novo Holdings A/S	6.44 per cent

After the end of the financial year, Aktieselskabet Arbejdernes Landsbank announced (company announcement of 21 January 2019) that its holding of the Bank's shares has increased to 15.49 percent.

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

Capital position

At the annual general meeting on 20 March 2018, the Board of Directors was authorised to acquire own shares of a nominal value of up to 10 per cent of the share capital until 20 March 2023. At 31 December 2018, Vestjysk Bank held 173,000 own shares, equivalent to 0.02 per cent of the share capital, which was in line with 2017.

Dividend policy

The Board of Directors holds the view that, considering the future capital requirements, not least the MREL requirements and the possible implementation of the countercyclical capital buffer, no dividend will be distributed in the next few years. In the longer term, the Board will propose up to a maximum distribution of 50 per cent of the profit for the year after tax.

Management's review
Investor Relations

Annual general meeting and shareholder meetings

Vestjysk Bank's annual general meeting will be held on Monday, 25 March 2019 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, 27 March 2019 at 6 p.m. at Musikteatret, Den Røde Plads 16, DK-7500 Holstebro, Denmark.

A shareholder meeting will be held in Ringkøbing on Thursday, 28 March 2019 at 6 p.m. at the ROFI Centre, Kirkevej 26, DK-6950 Ringkøbing, Denmark.

A shareholder meeting will be held in Aarhus on Monday, 1 April 2019 at 6 p.m. at Ceres Park & Arena, Stadion Allé 70, DK-8000 Aarhus C, Denmark.

Financial calendar 2019

21 February	2018 Annual report
25 March	Annual general meeting
15 May	Quarterly report for Q1
21 August	Half-year report
20 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 2018

In 2018, Vestjysk Bank issued the following company announcements:

21 November	Vestjysk Bank's Q1-Q3 2018 Quarterly Report
22 August	Vestjysk Bank's Half-Year Report 2018
17 May	Notification and public disclosure of transactions with shares in Vestjysk Bank A/S
16 May	Vestjysk Bank's Q1 2018 quarterly report
20 March	Resolutions at Vestjysk Bank A/S' Annual General Meeting on 20 March 2018
22 February	Vestjysk Bank's 2017 Annual Report
22 February	Notice of Annual General Meeting 2018

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

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/investor-relations/csr.

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 re-election.

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:

Vagn Thorsager, former CEO (born 1948), Chairman

Thorsager was Chief Executive Officer of Aarhus Lokalbank from 2011 and continued on as Managing Director of Vestjysk Bank after the merger in 2012. He was appointed Chief Executive Officer of Vestjysk Bank on 25 September 2012.

- Gender: Male
- Elected as a member of Vestjysk Bank's Board of Directors at the 2014 annual general meeting, when he was also appointed Chairman of the Board. At the same annual general meeting, he stepped down as Chief Executive Officer
- Expiry of current term: 2019
- Other directorships or organisational duties: Chairman of the boards of directors of FP Aluglas A/S and Cetonia A/S and member of the boards of directors of BKG Finans A/S and CPU af 11/11 1986 A/S
- Committee appointments: Chairman of the Board of Directors' remuneration committee, nomination committee and risk committee and member of the Board's audit committee
- Independent: No
- Number of shares in Vestjysk Bank at 31 December 2018: 116,512
- 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: 2019
- Other directorships or organisational duties: Board member of the Danish Growth Fund, Grønlandsbanken and Arkitektgruppen A/S.
- Committee appointments: Member of the Board of Directors' remuneration committee, nomination committee, audit committee and risk committee.
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2018: 15,000
- Change to shareholding for the year: 15,000

Bent Simonsen, CEO (born 1961)

- Gender: Male
- First elected to Vestjysk Bank's Board of Directors in 2013
- Expiry of current term: 2019
- Other directorships or organisational duties: Group CEO in Det danske Hedeselskab and Dalgasgroup A/S. Board member of HedeDanmark A/S, Orbicon A/S and one subsidiary, Enricom A/S, DDH Forest Baltic A/S and one subsidiary, Enricom Sp. Z o.o. (Poland), JCCJS Rindibel (Belarus), Plantningsselskabet Steen Blicher A/S and A/S Plantningsselskabet Sønderjylland and Blå Biomasse A/S.
- Committee appointments: Chairman of the Board of Directors' audit committee and member of the risk committee
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2018: 50,000
- Change to shareholding for the year: 50,000

Bolette van Ingen Bro, CEO (born 1965)

- Gender: Female
- First elected to Vestjysk Bank's Board of Directors in 2018
- Expiry of current term: 2019
- Other directorships or organisational duties: CEO of Navigators and Danish Clusters, Chairman of the foundation West Coast Center Jutland, member of the boards of directors of Det danske Hedeselskab and Dalgasgroup A/S
- Committee appointments: None
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2018: 29,500
- Change to shareholding for the year: 27,127

Claus Okholm, CEO (born 1962)

- Gender: Male
- First elected to Vestjysk Bank's Board of Directors in 2018
- Expiry of current term: 2019
- Other directorships or organisational duties: Owner of HC Okholm, member of the boards of directors of CEJ property management and CEJ Aarhus
- Committee appointments: Member of the Board of Directors' audit committee
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2018: 200,000
- Change to shareholding for the year: 200,000

Karina Boldsen, Chief Commercial Advisor (born 1968)

- Gender: Female
- First elected to Vestjysk Bank's Board of Directors in 2015
- Expiry of current term: 2019
- Other directorships or organisational duties: Chief Commercial advisor at Solitwork, Chairman of the boards of Aarhus Business College and Selv Tak. Board member at Himmerlandskød A/S, Søren Østergaard A/S, Studenterhus Aarhus, Otto Mønsted Kollegiet and Erhverv Aarhus.
- Committee appointments: None
- Independent: Yes
- Number of shares in Vestjysk Bank at 31 December 2018: 51,649

- Change to shareholding for the year: 51,649

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' remuneration committee.
- Independent: No
- Number of shares in Vestjysk Bank at 31 December 2018: 2,946
- Change to shareholding for the year: None

Martin Sand Thomsen, Business Account Adviser (born 1982)

- Gender: Male
- Elected as an employee representative on Vestjysk Bank's Board of Directors in 2017
- Expiry of current term: 2021
- Other directorships or organisational duties: Owner of Kirstinesand
- Committee appointments: Member of the Board of Directors' risk committee
- Independent: No
- Number of shares in Vestjysk Bank at 31 December 2018: 9,984
- Change to shareholding for the year: 4,000

Palle Hoffmann, Branch Executive Officer (born 1972)

- Gender: Male
- Elected as an employee representative on Vestjysk Bank's Board of Directors in 2011.
- Expiry of current term: 2019.
- Other directorships or organisational duties: Branch Executive Officer of Vestjysk Bank, Holstebro.
- Committee appointments: Member of the Board of Directors' audit committee.
- Independent: No
- Number of shares in Vestjysk Bank at 31 December 2018: 24,332.
- Change to shareholding for the year: None

The Bank's Executive Board

Jan Ulsø Madsen, Chief Executive Officer (born 1960)

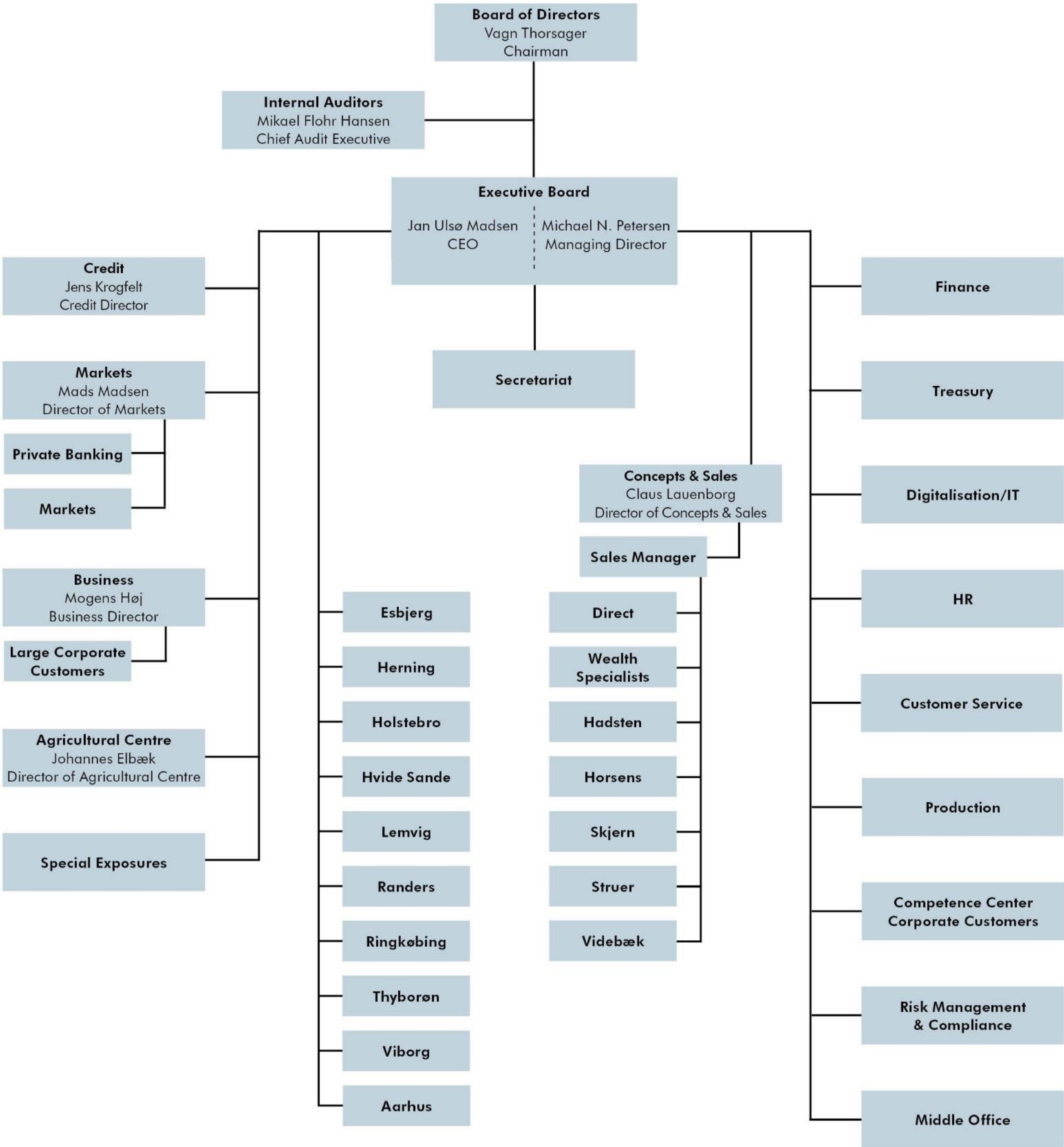
Appointed Chief Executive Officer on 1 February 2015

- Other directorships or organisational duties: Member of the board of directors of Spar Invest.
- Number of shares in Vestjysk Bank at 31 December 2018: 54,000
- Change to shareholding for the year: None

Michael Nelander Petersen, Managing Director (born 1963)

Appointed Managing Director of Vestjysk Bank on 25 September 2012

- Other directorships or organisational duties: Board member of BEC (Bankernes EDB Central) and Lokal Pulje Invest.
- Number of shares in Vestjysk Bank at 31 December 2018: 59,333
- Change to shareholding for the year: None



Board of Directors
Vagn Thorsager
Chairman
Internal Auditors
Mikael Flohr Hansen
Chief Audit Executive
Executive Board
Jan Ulsø Madsen
CEO
Michael N. Petersen
Managing Director
Secretariat
Credit
Jens Krogfelt
Credit Director
Markets
Mads Madsen
Director of Markets
Private Banking
Markets
Business
Mogens Høj
Business Director
Large Corporate Customers
Agricultural Centre
Johannes Elbæk
Director of Agricultural Centre
Special Exposures
Esbjerg
Herning
Holstebro
Hvide Sande
Lemvig
Randers
Ringkøbing
Thyborøn
Viborg
Aarhus
Concepts & Sales
Claus Lauenborg
Director of Concepts & Sales
Sales Manager
Direct
Wealth Specialists
Hadsten
Horsens
Skjern
Struer
Videbæk
Finance
Treasury
Digitalisation/IT
HR
Customer Service
Production
Competence Center Corporate Customers
Risk Management & Compliance
Middle Office

Organisation of the Bank

Strategy

Vestjysk Bank is dedicated to remaining a customer-focused bank advising retail and business customers locally and regionally via a well-functioning branch network in select locations in Jutland.

Based on the core values of Presence, Simplicity and Action, the Bank aims to maintain its strength as a provider of classic banking services for both retail and business customers. The Bank applies its strong professional and personal capabilities to focus on the (current and potential) needs of its revenue-generating customers. This is achieved through the Bank's competent and committed 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 electronic 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 its customers' demands and needs. The Bank's aim is to realise solid core earnings combined with a focus on a healthy sector distribution of credit exposures.

The Bank considers central, western and eastern Jutland as its 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 and small and medium-sized enterprises.

The Bank aims 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 aim of 70/30 ratio of business and retail banking.

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 10-75 million. The objective of increasing the business volume must continually be balanced against the Bank's liquidity and capital structure.

The Board of Directors annually defines maximum limits of business volume of individual sectors, and no individual sector may exceed 15 per cent 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 15 per cent.

The Bank has also built up a portfolio abroad. The Bank will seek to reduce the proportion of international lending from the present level of about 5 per cent to about 3 per cent over a three-year period.

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 per cent of its total capital (December 2018: around DKK 280 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 sales and concept director together make up the Bank's management group which undertakes its strategy, results and action plans.

In addition to the 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, competency enhancement 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 45.4 and 15.2 years, respectively. The average number of FTEs in 2018 was 386, which is 36 fewer than in 2017.

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 2018.

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 2018, and of the results of the Bank's activities for the reporting period 1 January – 31 December 2018.

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, 21 February 2019

Executive Board

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

Board of Directors

…………………………………………….	………………………………………………	………………………………………………
Vagn Thorsager	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	Claus Okholm	Karina Boldsen
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Jacob Møllgaard	Martin Sand Thomsen	Palle Hoffmann

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 2018 and of the results of its operations for the financial year 1 January – 31 December 2018 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 2018, 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, 21 February 2019

Mikael Flohr Hansen
Chief Audit Executive

Auditors’ report

Independent auditors’ 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 2018 and of the results of the Bank’s operations for the financial year 1 January to 31 December 2018 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 2018 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 30 years including the financial year 2018.

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 2018. 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.

Key audit matter	*How our audit addressed the key audit matter*
Loan impairment charges Loans are measured at amortised cost less impairment charges. As a result of the implementation of IFRS 9, as from 1 January 2018, impairment charges are made on expected credit losses instead of, as previously, only on incurred losses. The accumulated effect of the change compared to previous years has been recognised in equity at 1 January 2018, whereas impairment charges for the year 2018 have been currently recognised in the income statement. 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. The Bank has a relatively large proportion of loans in the agricultural segment, and a material part of the Bank's loan impairment charges are related to these loans. Due to the continuing considerable financial challenges facing certain segments of the agricultural sector, there is uncertainty with respect to the assessment of the required impairment 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.	We reviewed and assessed the accumulated effect of the Bank's impairment charges at 1 January 2018 recognised in equity as well as current impairment charges recognised in the income statement in 2018. 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 use of the model took into consideration any comments in the report. 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 an our own assessment of stage and credit

Auditors’ report

• 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 and Assessments" in note 2, note 31, "Risks and Risk Management", and credit notes 34 - 36, where conditions that may affect loan impairment charges are described.	classification. This included more samples of large loans as well as loans relating to segments with generally increased exposure, including the agricultural segment. 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.

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.
- 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, 21 February 2019
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 Income and Comprehensive Income

Note		2018 DKK' 000	2017 DKK' 000
	Statement of Income		
3	Interest income	610,538	682,554
4	Interest expenses	62,533	109,544
	Net interest income	548,005	573,010
	Dividends on shares etc.	11,939	4,043
5	Income from fees and commissions	324,635	371,100
	Fees and commissions paid	27,935	32,773
	Net interest and fee income	856,644	915,380
6	Value adjustments	34,623	23,223
	Other operating income	17,181	6,536
7,8	Staff costs and administrative expenses	470,128	482,332
	Depreciation, amortisation and impairment of tangible and intangible assets	8,178	9,684
	Other operating expenses	2,021	12,068
9,10,11	Impairment of loans and receivables, etc.	185,862	270,433
	Profit before tax	242,259	170,622
13	Tax	-53,895	7,466
	Profit after tax	296,154	163,156
	Statement of Comprehensive Income		
	Profit after tax	296,154	163,156
	Other comprehensive income:		
	Change in the value of owner-occupied properties	3,958	-517
	Changes in the value of pension obligations	-1,249	2,585
	Other comprehensive income after tax	2,709	2,068
	Total comprehensive income	298,863	165,224
	Proposed distribution of net profit		
	Additional tier 1 capital holders	20,310	8,223
	Retained earnings	278,553	157,001
	Total	298,863	165,224

Financial Statements

Statements of Financial Position

Note		2018 DKK' 000	2017 DKK' 000
	Assets		
	Cash in hand and demand deposits with central banks	386,781	400,292
14	Receivables from credit institutions and central banks	580,779	724,257
15	Loans and other receivables at amortised cost	10,797,340	11,628,839
	Bonds at fair value	3,533,714	3,292,780
	Shares, etc.	441,928	274,227
16	Assets related to pooled schemes	4,681,410	4,890,171
17	Intangible assets	466	2,435
	Land and buildings, total	310,806	317,205
18	Investment property	425	5,850
19	Owner-occupied property	310,381	311,355
20	Other property, plant and equipment	5,910	6,029
	Current tax assets	1,094	1,686
	Deferred tax assets	75,000	0
21	Other assets	367,203	348,502
	Prepayments	15,781	15,977
	Assets Total	21,198,212	21,902,400

Financial Statements

Statements of Financial Position

Note		2018 DKK' 000	2017 DKK' 000
	Equity and liabilities		
	Debts		
22	Debts to credit institutions and central banks	28,956	30,776
23	Deposits and other debt	12,901,985	13,505,603
	Deposits with pooled schemes	4,681,410	4,890,171
24	Other liabilities	529,523	540,724
	Prepayments	37	28
	Debts, total	18,141,911	18,967,302
	Provisions		
	Provision for pensions and similar liabilities	15,479	15,155
	Provisions for losses on guarantees	32,814	27,802
	Other provisions	46,604	4,903
	Provisions, total	94,897	47,860
25	**Subordinated debt**	372,581	371,906
	Equity		
26	Share capital	895,982	895,982
	Revaluation reserves	64,563	60,605
	Reserves provided for in the Bank’s Articles of Association	551,600	551,600
	Retained earnings	846,678	777,145
	Shareholder equity, total	2,358,823	2,285,332
	Additional tier 1 capital holders	230,000	230,000
	Equity, total	2,588,823	2,515,332
	Equity and liabilities, total	21,198,212	21,902,400

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, 31 December 2017	895,982	60,605	551,600	777,145	2,285,332	230,000	2,515,332
Changed accounting policy on impairment pursuant to IFRS 9				-224,661	-224,661		-224,661
Tax on changed accounting policy **)				17,973	17,973		17,973
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 period				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 additional 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
Equity, 1 January 2017	151,008	61,122	551,600	648,142	1,411,872	75,000	1,486,872
Profit after tax for the period				154,933	154,933	8,223	163,156
Other comprehensive income after tax		-517		2,585	2,068		2,068
Total comprehensive income	0	-517	0	157,518	157,001	8,223	165,224
Issue of shares	744,974			-28,942	716,032		716,032
Issue of additional tier 1 capital				-2,325	-2,325	155,000	152,675
Tax on issue of additional tier 1 capital				99	99		99
Interest on tier 1 capital				0	0	-8,223	-8,223
Tax on interest on additional tier 1 capital				349	349		349
Additions relating to sale of own shares				130,946	130,946		130,946
Disposals relating to purchase of own shares				-128,642	-128,642		-128,642
Equity, 31 December 2017	895,982	60,605	551,600	777,145	2,285,332	230,000	2,515,332

***) 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 75 million
There is an option of early redemption, subject to approval by the Danish Financial Supervisory Authority, on 1 September 2019. The capital accrues interest at 9.561%. If Vestjysk Bank's common equity tier 1 capital ratio falls below 5.125%, the loan will be written down.

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

****) Tax effect change to IFRS 9**

Tax effect is explained in note 13

Financial Statements

Notes

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	Akkumulated impairmentss and provisions at transition from IAS39 to IFRS 9
10	Impairment of loans and receivables, etc.
11	Impairment of loans and receivables and provisions on guarantees and unutilised credit lines
12	Receivables for whichaccrual of interest has been discontinued
13	Tax
14	Receivables from credit institutions and central banks
15	Loans and other receivables, by term to maturity
16	Assets related to pooled schemes
17	Intangible assets
18	Investment property
19	Owner-occupied property
20	Other property, plant and equipment
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 provisions
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 OMX Copenhagen A/S.

Changes in accounting policies

The accounting policies have been changed compared with those applied in the 2017 financial statements due to the financial reporting standard IFRS 9, Financial Statements, which is effective from 1 January 2018. IFRS 9 introduces a new approach to classifying financial assets based on the Bank's business model and the asset's underlying cash flows. It also introduces a new impairment model for financial assets, undrawn credit lines, loan commitments and guarantees. The principles applicable to financial liabilities are largely unchanged. The general provisions of IFRS 9 have been incorporated in the Danish Executive Order and supplemented by the special Danish rules on impairment in Annex 10 of the Danish Executive Order. The amended Danish Executive Order is effective for financial years starting on 1 January 2018.

Effects of new IFRS 9-compatible impairment rules

The financial effects of the implementation of the new IFRS 9-compatible financial reporting rules solely result from the changed method of calculating impairment loss allowances and provision for expected credit losses.

In accordance with the transitional provisions of the Danish Executive Order, Vestjysk Bank has decided not to implement the changed impairment rules retrospectively, is it is not possible to apply the impairment rules to previous financial years without post-rationalising. Accordingly, the accumulated effect of the change was recognised in equity at 1 January 2018, and comparative figures for 2017 have not been restated. The accounting effect is shown in the table below.

(DKK'000)	31/12 -2017 before change	1/1 -2018 after change	Effect
Loans	11,628,839	11,438,714	-190,125
Current tax assets	0	17,973	17,973
Total assets	**21,902,400**	**21,730,248**	**-172,152**
Provision for losses on guarantees	27,802	31,430	3,628
Other provisions	4,903	35,811	30,908
Equity	**2,515,332**	**2,308,644**	**-206,688**
Total equity and liabilities	**21,902,400**	**21,730,248**	**-172,152**
Contingent liabilities	3,608,489	3,604,861	-3,628

Note	
1	**Accounting policies (continued)**

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.

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.

Note	
1	**Accounting policies (continued)**

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.

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.

Note

Accounting policies (continued)

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 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.

Note

Accounting policies (continued)

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 provision 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.

- 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.

Note	

1 **Accounting policies (continued)**

Expected credit loss impairment model
Under the new 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 previous impairment model, 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 losses on undrawn credit lines, loan commitments and guarantees is recognised as a liability.

Under the new 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 losses 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. 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.
- 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.

Note

Accounting policies (continued)

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.

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

- Vestjysk Bank assesses that the borrower will not be able to honour his or her obligations as agreed.
- The borrower is experiencing significant financial difficulty, the borrower is in breach of contract, Vestjysk Bank has granted the borrower relief from terms and conditions due to the borrower's financial difficulties, or it is probable that the borrower will enter into bankruptcy or other financial reconstruction.
- 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.

The calculation of impairment losses on exposures in stages 1 and 2, is made on the basis of a collective model, whereas 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 likelihood of the scenarios occurring.

All impairment losses are considered individual impairment losses, and under the IFRS 9-compatible impairment rules Vestjysk Bank has ceased to recognise collective impairment losses.

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.

Note

1 **Accounting policies (continued)**

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 variables. Estimates of the macroeconomic variables are then fed into the regression models, based on forecasts from consistent 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 converges 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 agreement 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 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 230 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 2019, but optional early implementation is permitted.

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.

Implementation of the rules on recognition and measurement of leases in the statement of financial position may be deferred until 1 January 2020. 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 judgments (continued)**

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:

Forward-looking macroeconomic 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 judgments (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 judgments (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 30.

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 75 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		2018 DKK ' 000	2017 DKK ' 000
3	**Interest income**		
	Receivables from credit institutions and central banks	-1,851	-2,504
	Loans and other receivables	603,733	683,534
	Bonds	9,220	4,842
	Derivative financial instruments	-564	-3,318
	Total	610,538	682,554
4	**Interest expenses**		
	Credit institutions and central banks	375	349
	Deposits and other debt	35,878	71,486
	Subordinated debt	26,210	37,599
	Other interest expenses	70	110
	Total	62,533	109,544
5	**Income from fees and commissions**		
	Securities trading and custody services	74,892	121,244
	Payment services	50,396	48,998
	Loan processing fees	33,189	36,358
	Guarantee commission	47,034	45,766
	Other fees and commissions	119,124	118,734
	Total	324,635	371,100
6	**Value adjustments**		
	Bonds	-18,620	11,252
	Shares, etc.	38,496	-9,590
	Investment property	-1,000	-1,536
	Foreign currency	13,188	14,979
	Foreign exchange, interest rate, equity, commodity, and other contracts as well as derivative financial instruments	3,874	5,131
	Assets related to pooled schemes	-411,232	221,008
	Deposits with pooled schemes	411,232	-221,008
	Other assets	-1,315	-3,391
	Other liabilities	0	6,378
	Total	34,623	23,223

Financial Statements

Notes

Note		2018 DKK ' 000	2017 DKK ' 000
7	**Staff costs and administrative expenses**		
	Staff costs		
	Wages and salaries	243,118	240,191
	Pensions	28,322	28,229
	Payroll tax	36,307	36,746
	Expenses relating to social security contributions etc.	2,758	2,263
	Total	310,505	307,429
	Average number of employees (FTE)	385.8	421.9
	Other administrative expenses		
	IT expenses	104,409	101,697
	Rent, electricity and heat	11,765	12,510
	Postage, telephone etc.	2,909	3,313
	Other administrative expenses	40,540	57,383
	Total	159,623	174,903
	Total	470,128	482,332
	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		
	Vagn Thorsager, Chairman	469	300
	Lars Holst, Deputy Chairman	302	250
	Bent Simonsen, Chairman of the audit committee	219	200
	Bolette van Ingen Bro, joined 1 April 2018	112	0
	Claus Okholm, joined 1 April 2018	131	0
	Karina Boldsen	150	150
	Jacob Mølgaard	157	150
	Martin Sand Thomsen, joined 1 April 2017	169	112
	Palle Hoffmann	169	150
	Anders Bech, resigned 31 March 2018	38	150
	Jens Erik Christensen, resigned 30 September 2017	0	112
	Malene Rønø, resigned 31 March 2017	0	38
	Total	1,916	1,612

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

Note		2018 DKK ' 000	2017 DKK ' 000
7	**Executive Board**		
	Jan Ulsø Madsen, Chief Executive Officer		
	Contractual remuneration	3,623	3,354
	Pension	2	2
	Total	3,625	3,356
	Michael N. Petersen, Managing Director		
	Contractual remuneration	2,544	2,404
	Pension	304	287
	Total	2,848	2,691
	Total	6,473	6,047
	Other employees with significant influence on the Bank's risk profile		
	Fixed remuneration	11,650	12,226
	Pension	1,407	1,483
	Total	13,057	13,709
	Number of employees with material influence on the Bank's risk profile, end of the report-ing period	14	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	287	195
	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	772	938
	Fees for other assurance engagements	123	322
	Fees for tax consulting	180	8
	Fees for other services	658	1,445
	Total	1,733	2,713
	Fees for other assurance engagements mainly relate to reports to public authoritiesand 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 of the implemtation of IFRS 9 and other matters.		

Note						
9	**Accumulated impairments and provisions at transition from IAS39 to IFRS9**	Individual impairment 31.12.2017	Collective impairment 31.12.2017	Total 31.12.2017	IFRS 9 adjustments 01.01.2018	Total 01.01.2018
	Loans and other receivables measured at amortised cost	2,967,106	79,591	3,046,697	190,125	3,236,822
	Guarantees	27,802	0	27,802	3,628	31,430
	Unused credit commitments	4,903	0	4,903	30,908	35,811
	Total	2,999,811	79,591	3,079,402	224,661	3,304,063

		2018 DKK ' 000	2017 DKK ' 000
10	**Impairment of loans and receivables, etc.**		
	Impairment of loans and other receivables in the statement of income		
	Impairment charges for the period	491,246	509,723
	Reversal of impairment charges in prior financial years	-341,739	-248,678
	Loans with no prior individual impairment/provisions, written off	19,953	7,376
	Recovered on previously written-off debts	-9,209	-10,391
	Total	160,251	258,030
	Provisions for losses on guarantees and unused credit commitments in the statement of income		
	Impairments for the period	58,486	20,835
	Reversal of provisions in prior financial years	-32,875	-8,432
	Total	25,611	12,403
	Impairment of loans and other receivables, end of the reporting period	185,862	270,433
	Interest income on impaired loans is offset against impairment in the amount of	61,079	69,901

Note		2018 DKK ' 000	2017 DKK ' 000
11	**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 2018	0	-
	Amendments accounting policies in accordance with IFRS 9	32,529	-
	New impairments, new exposures	6,802	-
	Reversed impairments repaid accounts	-63,100	-
	Change in impairments at 1 January to/from stage 1	-7,929	-
	Change in impairments at 1 January to/from stage 2	37,943	-
	Change in impairments at 1 January to/from stage 3	15,399	-
	Impairments during the year due to change in credit risk	8,294	-
	Other movements	0	
	Impairments at 31 December 2018	29,938	-
	Stage 2 (significant increase in risk assessment)		
	Impairment 1 January 2018	0	-
	Amendments accounting policies in accordance with IFRS 9	124,158	-
	New impairments, new exposures	13,935	-
	Reversed impairments repaid accounts	-82,632	-
	Change in impairments at 1 January to/from stage 1	4,162	-
	Change in impairments at 1 January to/from stage 2	-54,964	-
	Change in impairments at 1 January to/from stage 3	52,886	-
	Impairments during the year due to change in credit risk	34,350	-
	Other movements	0	
	Impairments at 31 December 2018	91,895	-
	Stage 3 (credit-impaired)		
	Impairment 1 January 2018	0	-
	Amendments accounting policies in accordance with IFRS 9	2,965,053	-
	New impairments, new exposures	57,330	-
	Reversed impairments repaid accounts	-382,782	-
	Change in impairments at 1 January to/from stage 1	3,767	-
	Change in impairments at 1 January to/from stage 2	17,021	-
	Change in impairments at 1 January to/from stage 3	-68,285	-
	Impairments during the year due to change in credit risk	559,115	-
	Impairments lost during the year	-767,275	-
	Other movements	61,079	-
	Impairments at 31 December 2018	2,445,023	-
	Loans, credit-impaired at initial recognition		
	Impairment 1 january 2018 (acquired impairment)	73,851	-
	Amendments accounting policies in accordance with IFRS 9	41,232	-
	New impairments, new exposures	4,554	-
	Reversed impairments repaid accounts	-6,360	-
	Impairments lost during the year	-65,305	-
	Other movements	0	-
	Impairments at 31 December 2018	47,972	-

Note		2018 DKK ' 000	2017 DKK ' 000
11	**Provision for losses guarantees**		
	Impairment 1 January 2018	0	-
	Amendments accounding policies in accordance with IFRS 9	31,430	-
	New provisions, new exposures	2,149	-
	Reversed provisions for losses at repaid accounts	-15,718	-
	Provision during the year due to change in credit risk	18,188	-
	Impairments lost during the year	-3,235	
	Provisions for losses at 31 December 2018	32,814	-
	Total accumulated impaiments at loans and advances, provisions and unutilised credit lines and receivables	2,647,642	3,000,648
	Accumulated impairment ratio	15.6%	16.5%
	Provision for losses, unused credit commitments		
	Impairment 1 January 2018	0	-
	Amendments accounding policies in accordance with IFRS 9	35,811	-
	New provisions, new exposures	7,746	
	Reversed provisions for losses at repaid exposures	-19,742	
	Provision during the year due to change in credit risk	32,989	
	Impairments lost during the year	-10,200	
	Provisions for losses at 31 december 2018	46,604	-
	Impairment of loans and receivables, etc. (IAS 39)		
	Individual impairment of loans		
	Individual impairment of loans and other receivables 1 January	2,893,255	2,923,237
	Amendments accounding policies in accordance with IFRS 9	-2,893,255	
	Impairment charges for the period	-	495,061
	Reversal of impairment charges in prior financial years	-	-205,362
	Other movements	-	66,528
	Previously individually impaired, now written off	-	-386,209
	Individual impairment of loans and other receivables, end of the reporting period	-	2,893,255
	Collective impairment of loans		
	Collective impairment of loans and other receivables 1 January	79,591	104,872
	Amendments accounding policies in accordance with IFRS 9	-79,591	
	Impairment charges for the period	-	14,662
	Reversal of impairment charges in prior financial years	-	-43,316
	Other movements	-	3,373
	Impairment of loans and other receivables in groups, end of the reporting period	-	79,591

Note		2018 DKK ' 000	2017 DKK ' 000
11	**Impairment of loans, total**		
	Impairment of loans and other receivables 1 January	2,972,846	3,028,109
	Amendments accounting policies in accordance with IFRS 9	-2,972,846	
	Impairment charges for the period	-	509,723
	Reversal of impairment charges in prior financial years	-	-248,678
	Other movements	-	69,901
	Previously individually impaired, now written off	-	-386,209
	Impairment of loans and other receivables, end of the reporting period	-	2,972,846
	Provisions for losses on guarantees and unused credit commitments		
	Provisions for losses on guarantees and unused credit commitments, beginning of the reporting period	32,704	20,301
	Amendments accounting policies in accordance with IFRS 9	-32,704	
	Impairments for the period	-	20,835
	Reversal of provisions in prior financial years	-	-8,432
	Provisions for losses on guarantees and unused credit commitments, end of the reporting period	-	32,704
12	**Receivables for which accrual of interest has been discontinued**		
	Receivables for which accrual of interest has been discontinued, end of the reporting period	1,050,853	1,399,514
	Total impairment charge thereon	901,157	1,197,471
	Receivables for which accrual of interest has been discontinued, as a percentage of loans before impairment	9.7%	9.6%
13	**Tax**		
	Current tax	20,448	7,364
	Deffered tax	-75,000	0
	Adjustment of current tax for prior years	657	102
	Total	-53,895	7,466
	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 2018, DKK 75 million is recognized in the annual report. Of this, DKK 57 million relates to DKK the unutilised tax losses, which will be set off in the total capital.		
	Current tax rate 8,4%		
14	**Receivables from credit institutions and central banks**		
	Receivables at notice from central banks	487,000	632,000
	Receivables from credit institutions	93,779	92,257
	Total	580,779	724,257
	Distributed by term to maturity		
	On demand	93,779	92,257
	Up to and including 3 months	487,000	632,000
	Total	580,779	724,257

Financial Statements

Notes

Note		2018 DKK ' 000	2017 DKK ' 000
15	**Loans and other receivables, by term to maturity**		
	Distributed by term to maturity		
	On demand	1,815,964	1,964,487
	Up to and including 3 months	2,889,187	3,475,494
	3 months to 1 year	1,093,355	1,099,964
	1 year to 5 years	3,144,283	3,259,547
	More than 5 years	1,854,551	1,829,347
	Total	10,797,340	11,628,839
16	**Assets related to pooled schemes**		
	Cash deposits	20,087	23,019
	Investment associations	4,661,323	4,859,582
	Other assets	0	7,570
	Total	4,681,410	4,890,171
17	**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	13,467	11,971
	Depreciation and impairment for the period	1,497	1,496
	Depreciation and impairment, end of the reporting period	14,964	13,467
	Recognised holding, end of the reporting period	0	1,497
	Other Intangible assets		
	Total acquisition cost, beginning of the reporting period	1,416	810
	Additions	0	606
	Total acquisition cost, end of the reporting period	1,416	1,416
	Depreciation and impairment, beginning of the reporting period	478	23
	Depreciation and impairment for the period	472	455
	Depreciation and impairment, end of the reporting period	950	478
	Recognised holding, end of the reporting period	466	938
	Total	466	2,435
18	**Investment property**		
	Fair value, beginning of the reporting period	5,850	7,386
	Disposals	4,425	0
	Fair value adjustment for the reporting period	-1,000	-1,536
	Revalued amount, end of the period	425	5,850
19	**Owner-occupied property**		
	Revalued amount, beginning of the period	311,355	317,529
	Disposals	2,670	0
	Depreciations	5,346	5,657
	Changes in value recognised in other comprehensive income	4,633	-517
	Changes in value recognised in the statement of income	2,409	0
	Revalued amount, end of the period	310,381	311,355
	External valuation experts have been involved in measuring the most important owner-occupied and investment properties.		

Note		2018 DKK ' 000	2017 DKK ' 000
20	**Other property, plant and equipment**		
	Cost		
	Cost, beginning of the reporting period	17,099	12,859
	Additions	3,470	5,972
	Disposals	4,754	1,732
	Total cost, end of the reporting period	15,815	17,099
	Impairment and depreciation		
	Impairment and depreciation, beginning of the reporting period	11,070	10,726
	Depreciation for the reporting period	3,094	2,076
	Impairments and depreciation for the period on sold and scrapped assets	178	0
	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	4,437	1,732
	Impairment and depreciation, end of the reporting period	9,905	11,070
	Carrying amount, end of the reporting period	5,910	6,029
21	**Other assets**		
	Positive market value of derivative financial instruments	16,857	26,741
	Interest and commission receivable	108,953	80,279
	Investments in BEC	201,267	201,267
	Other assets	40,126	40,215
	Total	367,203	348,502
22	**Debts to credit institutions and central banks**		
	Distributed by term to maturity:		
	On demand	28,536	30,349
	More than 5 years	420	427
	Total	28,956	30,776
23	**Deposits and other debt**		
	On demand	10,839,518	9,647,286
	At notice	0	488,633
	Term deposits	688,807	1,674,554
	Special deposit forms	1,373,660	1,695,130
	Total	12,901,985	13,505,603
	Distributed by term to maturity:		
	On demand	11,219,167	10,403,867
	Up to and including 3 months	380,493	755,615
	3 months to 1 year	277,334	633,480
	1 year to 5 years	435,389	1,074,368
	More than 5 years	589,602	638,273
	Total	12,901,985	13,505,603
24	**Other liabilities**		
	Negative market value of derivative financial instruments	22,361	30,944
	Various creditors	462,140	465,797
	Interest and commission payable	13,185	13,379
	Other liabilities	31,837	30,604
	Total	529,523	540,724

Note		2018 DKK ' 000	2017 DKK ' 000
25	**Subordinated debt**		
	Supplementary capital	372,581	371,906
	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 150 million will fall due on 1 September 2022 with an option for early repayment on 1 September 2019 subject to the Financial Supervisory Authority's approval. The capital accrues interest at a floating rate 7.195% with no step-up clause. The capital meets the requirements under CRR/CDR IV.		
	Total	372,581	371,906
	Charged as an expense under interest expenses/subordinated debt:		
	Interest expenses	25,535	29,150
	Costs related to incurrence and repayment	675	1,171
	Value adjustments, etc.	0	7,278
	Total	26,210	37,599
	Subordinated debt that can be included in the total capital	332,658	361,966

Note		2018 DKK ' 000	2017 DKK ' 000
26	**Share capital**		
	Share capital, beginning of the period	895,982	151,008
	Capital increase through issue of shares	0	744,974
	Total	895,982	895,982
	Number of shares (units)	895,981,517 of DKK 1	895,981,517 of 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%	0.1%
	Additions		
	Purchase of own shares (thousands)	8,815	32,252
	Nominal value DKK'000	8,815	32,252
	Percentage of the share capital	1.0%	3.6%
	Total purchase price DKK'000	21,604	128,642
	Disposals		
	Sold own shares (thousands)	8,815	32,252
	Nominal value DKK'000	8,815	32,252
	Percentage of the share capital	1.0%	3.6%
	Total selling price DKK'000	21,605	130,946
	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 counterparty in such transactions.		
	Vestjysk Bank has a constant holding of own shares.		
	*) including buying and selling of subscription rights in connection with the September 2017 share issue		

Financial Statements

Notes

Note		2018 DKK ' 000	2017 DKK ' 000
27	**Capital requirements**		
	Shareholders Equity	2,358,823	2,285,332
	Intangible assets	-466	-2,435
	Prudent valuation	-3,599	-3,372
	Capital in the sector	-57,159	0
	Deferred taxes	-57,201	0
	Common equity tier 1 capital	2,240,398	2,279,525
	Additional tier 1 capital	230,000	230,000
	Tier 1 capital	2,470,398	2,509,525
	Tier 2 capital	332,658	361,966
	Total capital	2,803,056	2,871,491
	Total exposure to risk	14,226,170	14,968,573
	Common equity tier 1 capital ratio	15.7%	15.2%
	Tier 1 capital ratio	17.4%	16.8%
	Total capital ratio	19.7%	19.2%
28	**Contingent assets**		
	Deferred tax asset at a tax rate of 22%	546,264	608,197
	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 75 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		2018 DKK ' 000	2017 DKK ' 000
29	**Items not recognised in the statement of financial position**		
	Guarantees		
	Financial guarantees	515,516	565,696
	Loss guarantees on mortgage loans	2,036,019	2,059,818
	Other contingent liabilities	935,096	982,975
	Total	3,486,631	3,608,489
	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	14,289	39,196
	Other liabilities	39,573	41,939
	Total	53,862	81,135
	Security pledged		
	Credit institutions:		
	Margin accounts pledged as security in relation to financial derivatives	19,140	28,978
	Deposited in the Danish Growth Fund	455	455
	Bonds:		
	Pledged as security for credit facility with Danmarks Nationalbank		
	Total nominal value	914,662	1,081,580
	Total market value	917,178	1,089,707
30	**Hedge accounting**		
	To manage interest rate risk, the following are hedged (fair value hedge):		
	Bonds	152,295	154,275
	Hedged with interest rate swaps, maturity 2020:		
	Notional principal	150,000	150,000
	Fair value	-1,121	-2,036
	Loans at amortised cost	75,764	93,436
	Afdækket med renteswap, udløb 2019-2022:		
	Notional principal	72,562	88,702
	Fair value	-3,202	-4,734
	Total fair value adjustment of hedging instruments	2,448	2,571
	Total fair value adjustment of the hedged items	-3,512	-3,771
	Recognised in the statement of Income	-1,064	-1,200

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.				
	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

31	2017 (DKK'000)	Nominal value	Net market value	Positive market value	Negative market value
	Foreign exchange contracts				
	Up to 3 months	1,529,363	983	4,488	3,505
	3 months to 1 year	208,609	1,482	3,321	1,839
	1 year to 5 years	26,809	-356	631	987
	More than 5 years	0	0		0
	Average market value		659	7,626	6,967
	Interest rate contracts				
	Up to 3 months	471,548	873	1,232	359
	3 months to 1 year	68,693	39	1,373	1,334
	1 year to 5 years	421,371	-6,779	7,741	14,520
	More than 5 years	41,738	356	7,734	7,378
	Average market value		-7,032	20,138	27,170
	Share contracts				
	Up to 3 months	72,955	-386	221	607
	3 months to 1 year	152	-415	0	415
	1 year to 5 years	0	0	0	0
	More than 5 years	0	0	0	0
	Average market value		-819	342	1,161

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 10.3 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	**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

Financial Statements
Notes

Note	31 Dec 2017 (DKK'000)	Carrying amount	Fair value	Listed Prices level 1	Observable prices level 2	Non-observable prices level 3
32	**Financial assets**					
	Cash on hand and demand deposits with central banks	400,292	400,292	73901	326,391	0
	Receivables from credit institutions and central banks	724,257	724,257	0	724,257	0
	Loans at amortised cost	11,628,839	11,669,059	0	0	11,669,059
	Bonds at fair value	3,292,780	3,292,780	3,237,309	55,471	0
	Shares, etc.	274,227	274,227	20,179	155,247	98,801
	Assets related to pooled schemes	4,890,171	4,890,171	4,890,171	0	0
	Derivative financial instruments	26,741	26,741	0	26,741	0
	Total	21,237,307	21,277,527	8,221,560	1,288,107	11,767,860
	Financial liabilities					
	Debts to credit institutions and central banks	30,776	30,776	0	30,776	0
	Deposits	13,505,603	13,507,267	0	0	13,507,267
	Deposits in pooled schemes	4,890,171	4,890,171	0	0	4,890,171
	Subordinated debt	371,906	386,430	0	0	386,430
	Derivative financial instruments	30,944	30,944	0	30,944	0
	Total	18,829,400	18,845,588	0	61,720	18,783,868

Shares measured at fair value based on non-observable inputs (level 3)	
Carrying amount, beginning of the period	92,539
Additions	26
Disposals	0
Value adjustment	6,236
Value, end of the period	98,801
Period's value adjustments relating to financial assets in the portfolio, total	6,268

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:

Credit Risk, p 20

Market Risk, p. 20

Interest Rate Risk, p. 21

Foreign Exchange Risk, p. 21

Share Risk, p. 21

Liquidity Risk, p. 23

Operational risk, p 23

34	**Loans and guarantees, by c**	2018 DKK'000	2018 pct.	2017 DKK'000	2017 pct.
	Public authorities	0	0%	0	0%
	Business:				
	Agriculture, hunting, forestry and fishery	2,840,380	20%	3,040,399	20%
	Manufacturing industry and raw material extraction	549,279	4%	477,831	3%
	Energy supply	421,767	3%	558,249	4%
	Construction and civil engineering contractors	447,956	3%	433,590	3%
	Trade	1,004,636	7%	1,054,978	7%
	Transportation, hotels and restaurant businesses	550,259	4%	620,636	4%
	Information and communication	51,171	0%	58,952	0%
	Credit and financing institutes and insurance businesses	792,946	6%	846,972	5%
	Real estate	1,773,221	12%	2,306,317	15%
	Other businesses	732,972	5%	722,807	5%
	Business, total	9,164,587	64%	10,120,731	66%
	Retail	5,119,384	36%	5,116,597	34%
	Total	14,283,971	100%	15,237,328	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

	2018 DKK' 000					**2017**
	Stage 1	Stage 2	Stage 3	credit-im-paired at in-itial recog-nition	Total	Total
Normal credit quality	8,631,706	80,988	4,391	0	8,717,085	6,882,181
Some signs of weakness	5,265,888	1,498,259	326,611	0	7,090,758	9,011,492
Significant signs of weakness	284,533	848,741	26,302	0	1,159,576	1,048,167
Impaired loans	67,321	464,778	4,584,614	115,941	5,232,654	6,361,635
Total	14,249,448	2,892,766	4,941,918	115,941	22,200,073	23,303,475

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

	2018 DKK' 000					**2017**
	Stage 1	Stage 2	Stage 3	credit-im-paired at in-itial recog-nition	Total	Total
Public authorities	0	0	0	0	0	0
Business:						
Agriculture, hunting, forestry and fishery	1,968,130	797,079	2,002,444	60,483	4,828,136	5,157,605
Manufacturing industry and raw material extraction	505,333	123,973	142,847	5,507	777,660	806,592
Energy supply	402,950	25,934	215,215	0	644,099	826,689
Construction and civil engineer-ing contractors	655,626	125,205	55,659	9,030	845,520	696,614
Trade	1,119,524	329,090	216,233	257	1,665,104	1,724,312
Transportation, hotels and res-taurant businesses	435,234	143,788	299,391	0	878,413	957,723
Information and communication	69,592	17,342	5,271	0	92,205	113,029
Credit and financing institutes and insurance businesses	596,531	52,627	414,847	36	1,064,041	1,035,925
Real estate	1,248,866	458,108	1,070,904	24,782	2,802,660	3,233,240
Other businesses	734,840	250,624	148,031	9,559	1,143,054	1,129,249
Business, total	7,736,626	2,323,770	4,570,842	109,654	14,740,892	15,680,978
Retail	6,512,822	568,996	371,076	6,287	7,459,181	7,622,497
Total	14,249,448	2,892,766	4,941,918	115,941	22,200,073	23,303,475

Note		2018 DKK'000	2017 DKK'000
36	**Maximum credit exposure before impairment and provisions**		
	Loans mesured at amortised cost	13,412,168	14,601,685
	Unused credit commit-ments	6,209,899	5,980,394
	Guarantees	3,519,444	3,636,291
	Loans, guarantees ect.	23,141,511	24,218,370
	Receivables from credit institutions and central banks	908,404	1,050,647
	Bonds at fair value	3,533,714	3,292,780
	Positive market value of derivative financial instruments	16,857	26,741
	Total	27,600,486	28,588,538
	Maximum credit exposure after impairment and provisions		
	Loans mesured at amortised cost	10,797,340	11,628,839
	Unused credit commit-ments	6,163,295	5,975,491
	Guarantees	3,486,631	3,608,489
	Loans, guarantees ect.	20,447,266	21,212,819
	Receivables from credit institutions and central banks	908,404	1,050,647
	Bonds at fair value	3,533,714	3,292,780
	Positive market value of derivative financial instruments	16,857	26,741
	Total	24,906,241	25,582,987
	Collateral for loans, credit commitments and guarantees		
	Bank accounts	87,189	90,193
	Securities	907,251	1,066,866
	Mortgages on properties and wind tur-bines	9,109,249	8,382,118
	Right of subrogation for mortgages secured in real property	2,067,859	2,078,125
	Charges held in movable property, motor vehicles, operating equipment, ships etc.	2,465,397	2,181,322
	Other	298,820	318,835
	Total	14,935,765	14,117,459
	Of this amcunt collateral for loans, credit commitments and guarantees (stage 3)	2,563,889	2,134,628

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, securi-ties 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 inter-est 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 3.3 million in 2018

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.

	2018 DKK'000	2017 DKK'000
Interest rate risk inside the Bank's trading book:		
Securities	4,135	8,214
Futures/forward contracts/forward rate agreements	-44	-563
Swaps	-744	-2,287
Total	3,347	5,364
Interest rate risk outside the Bank's trading book:		
Loans	3,033	3,694
Deposits	-5,338	-19,756
Subordinated debt	-8,033	-10,231
Equity	-5,978	-8,217
Total	-16,316	-34,510
Total interest rate risk	-12,969	-29,146
Measured in relation to the tier 1 capital, the interest rate risk corresponds to	-0.6%	-1.3%
Interest rate risk, by modified duration		
Up to 1 year	441	-4,150
1 year to 2 years	-2,574	-12,485
2 year to 3.6 years	-12,997	-1,321
More than 3.6 years	2,161	-11,190
Total	-12,969	-29,146

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).		

	2018 DKK'000	2017 DKK'000
Assets in foreign currency, total	679,645	881,670
Liabilities in foreign currency, total	128,091	117,582
Foreign exchange indicator 1	8,487	5,816
Foreign exchange indicator 1 in percent of tier 1 capital	0.9%	0.6%
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 cur-ren-cies will result in a profit/loss and equity impact before tax of	-851	-591

39 **Share risk**

The Bank's share risk is derived from shares and derivatives in the Bank's investment and trading books.

	2018 DKK'000	2017 DKK'000
Shares, etc.		
Shares/unit trust certificates listed on NASDAQ OMX Copenhagen A/S	11,593	12,200
Shares/unit trust certificates listed on other exchanges	12,215	7,979
Unlisted shares recognised at fair value	418,120	254,048
Unlisted shares, etc. recognised at cost	0	0
Total	441,928	274,227
Of which, sector shares	414,391	251,013
Sensitivity		
An increase in share prices of 10 percentage points will result in a profit/loss and equity impact before tax of	44,193	27,422
of which sector shares	41,439	25,101
of which other shares	2,754	2,321
A decrease in share prices of 10 percentage points will result in a profit/loss and equity impact before tax of	-44,193	-27,422
of which sector shares	-41,439	-25,101
of which other shares	-2,754	-2,321

Note	
40	**Liquidity risk**

Pursuant to Regulation (EU) No 575/2013 of 26 June 2013, the LCR requirement is phased in with 100% at 1 January 2018.

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.

At 31 December 2016, the liquidity requirement of section 152 of the Danish Financial Business Act was phased out. However, the Danish FSA has stated that the Supervisory Diamond's liquidity benchmark will continue to be based on the section 152 liquidity requirement until 30 June 2018. At 31 December 2017, the Bank's excess liquidity cover relative to the section 152 requirement was 94.3 per cent, against the 50 per cent excess cover required by the Supervisory Diamond.

	2018 DKK'000	2017 DKK'000
Liquidity buffer		
LCR values	4,059,452	4,032,492
LCR values after adjustment on level 1a assets	3,526,043	4,032,492
Net outflow	1,805,409	1,579,068
Liquidity Coverage Ratio - LCR	195.3%	255.4%
Demand deposits with Danmarks Nationalbank as well as demand deposits with other credit institutions	947,965	1,095,116
Liquid securities	3,556,411	3,310,465
Total	4,504,376	4,405,581
Excess coverage in relation to the 10%-requirement set out in section 152 of the Danish Financial Business Act.	106.8%	94.3%

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.

Among other things, operational risk is minimised by organi-sational segregation of the performance and control of activi-ties.

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.

Note			
41	**Compliance** Vestjysk Bank has an independent compliance function, whose area of responsibility is to monitor and assess whether the Bank has established methods and procedures suitable for identifying and mitigating the risk of non-compliance with exist-ing legislation, market standards and internal rules. Instructions and an annual plan, approved by the Executive Board, have been drawn up.		

		2018 DKK'000	2017 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	200
	Board of Directors	6,372	8,689
	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% - 4,25%
	* MasterCard		
	Security pledges made for commitments issued to members of the institute's:		
	Executive Board	0	0
	Board of Directors	880	880
	Apart from what is considered normal management remuneration, no transactions have been carried out with related parties during the period.		
	The Bank has had the following transactions with the Danish State:		
	Redemption of additional tier 1 capital at price 110		316,360
	Interest rate		9.561%
	Charged interest for additional tier 1 capital totalled		2,018

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 2018.

Financial Statements

Notes

Note		2018	2017	2016	2015	2014
45	**Financial highlights**					
	Statement of Income (DKKm)					
	Net interest income	548	573	595	644	699
	Net fee income	297	338	312	305	290
	Dividends on shares, etc.	12	4	3	2	6
	Value adjustments	35	23	65	17	56
	Other operating income	17	7	29	21	4
	Core Income	909	945	1,004	989	1,055
	Staff costs and administrative expenses	470	482	489	513	509
	Other operating expenses and depreciation, amortisation and im-pairment of property, plant and equipment and intangible assets	11	22	16	56	51
	Operating expenses and operating deprecia-tion and amortisation	481	504	505	569	560
	Core Earnings Before Impairment	428	441	499	420	495
	Impairment of loans and receivables, etc.	186	270	416	370	683
	Profit/loss Before Tax	242	171	83	50	-188
	Tax	-54	8	3	1	0
	Profit/loss After Tax	296	163	80	49	-188
	Statement of financial position (DKKm)					
	Assets, total	21,198	21,902	19,895	21,114	21,804
	Loans	10,797	11,629	12,529	13,379	14,756
	Deposits, including pooled schemes	17,583	18,396	16,971	18,090	18,768
	Contingent liabilities	3,487	3,608	3,358	3,213	3,036
	Custody services	7,585	8,713	9,860	10,139	9,207
	Business volume	31,867	33,633	32,858	34,682	36,560
	Business volume including custody services	39,452	42,346	42,718	44,821	45,767
	Equity	2,589	2,515	1,487	1,404	1,362

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

Note		2018	2017	2016	2015	2014
45	**Financial ratios**					
	Solvency					
	Total capital ratio	19.7%	19.2%	13.0%	12.5%	12.1%
	Tier 1 capital ratio	17.4%	16.8%	11.2%	10.5%	9.9%
	Common equity tier 1 capital ratio	15.7%	15.2%	8.7%	7.9%	7.1%
	Earnings					
	Return on equity before tax p.a.	9.9%	8.5%	5.7%	3.6%	-16.7%
	Return on equity after tax p.a.	12.1%	8.2%	5.5%	3.6%	-16.7%
	Income-cost ratio	1.36	1.22	1.09	1.05	0.85
	Expense ratio [1]	52.9%	53.3%	50.3%	57.5%	53.1%
	Return on assets	1.4%	0.8%	0.4%	0.2%	-0.8%
	Average number of employees (FTE)	385.8	421.9	458.6	500.1	523.1
	Market Risk					
	Interest rate risk	-0.5%	-1.2%	-3.0%	-5.1%	-4.7%
	Foreign exchange position	0.3%	0.2%	0.3%	1.9%	1.4%
	Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%
	LCR	195.3%	255.4%	318.1%	260.5%	213.0%
	Credit Risk					
	Loans plus impairment on loans relative to deposits	76.3%	79.4%	91.7%	91.0%	97.5%
	Loans relative to equity	4.2	4.6	8.4	9.5	10.8
	Lending growth for the year	-5.6%	-7.2%	-6.4%	-9.3%	-15.2%
	Sum of large exposures > 10%	14.1%	11.9%	36.9%	35.1%	22.3%
	Sum of 20 largest exposures [2]	116.4%	-	-	-	-
	Accumulated impairment ratio	15.6%	16.5%	16.1%	15.8%	16.7%
	Impairment ratio for the year	1.0%	1.5%	2.2%	1.9%	3.2%
	Vestjysk Bank Share					
	Earnings per share for the year	0.3	0.3	0.5	0.3	-1.6
	Book value per share [3]	2.6	2.6	9.4	8.8	8.5
	Price of Vestjysk Bank shares, end of the year	2.0	2.7	13.0	7.8	9.3
	Share price/earnings per share	5.9	8.7	24.6	23.7	
	Share price/book value per share	0.7	1.1	1.4	0.9	1.1

In accordance with the accounting policies, the comparative figures 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
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 due to share issue in 2017.

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