



Annual Report 2016

(Extract)



Very satisfactory results and solid capital base

- Profit before tax of DKK 104.7 million compared to DKK 51.0 million in 2015
- Return on equity before tax of 15.9 %
- Capital ratio of 16.5 % and individual solvency requirements of 10.4 %
- Solid liquidity reserves of DKK 1,219 million, corresponding to 185.4 %.
- Core earnings of DKK 127.7 million, compared with DKK 116.2 million in 2015
- Decrease in impairment to DKK 36.2 million, compared to DKK 63.9 million in 2015
- For 2017 a core earnings in the range of DKK 120 - 130 million is expected



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Management's financial report for 2016

Principal activities

Skjern Bank's main activity is offering financial services to private customers, corporate and institutional customers and public companies. Private customers live throughout Denmark, while business customers are mainly from West and Southwest Jutland, and the Hellerup area north of Copenhagen. The bank wishes to offer its customers a full product range combined with professional consultancy services.

2016 in review

A profit before tax of DKK 104.7 million is considered very satisfactory. Profits were positively affected by the improvement in the bank's net interest and fee income and the significantly reduced impairment need.

Net interest income has increased by DKK 1.5 million. The bank has noticed the fierce competition in the market and has seen a decline in interest income of DKK 18.4. However the bank's interest expenses were further reduced, which is due to significantly reduced interest on deposits of DKK 17.0 million and reduced interest on subordinated debt by DKK 2.9 million.

Net interest and fee income increased by DKK 19.3 million, which is very satisfactory. The reason is increasing loan transaction income and guarantee commissions, which together increased by DKK 10.1 million as a result of increased activity in the provision of mortgage loans to the bank's customers.

The bank's objective has been to increase fee earnings in relation to interest income through increased activity in the areas of securities, pension and insurance. The bank's earnings from these types of business has gone from 27% in 2013 to 36% in 2016, which is a very satisfactory development.

The impairment need has decreased in relation to 2015 and amounts to DKK 36.1 million, corresponding to 0.7 % of the bank's loans and guarantees.

The impairment largely stems from the agricultural segment, as the crisis in agriculture in 2016 led to reduced settlement prices, particularly in pork and milk. Impairments in the segment were made according to current guidelines from the Danish Financial Supervisory Authority. The crisis in agriculture is expected to slow in 2017 as the prices of pork and milk increased substantially during the end of 2016. The price level is expected to continue in 2017.

The total impairment was reduced by DKK 27.7 million to DKK 36.2 million, where the level in 2015 was unsatisfactory and this makes the comparison difficult. The bank's management assesses the impairment need in 2016 to be at a normal level, taking the challenges in agriculture into account.

At the beginning of 2016, the bank expected a base profit in the range of DKK 100–110 million. On 13 January 2017 the bank issued a stock exchange announcement about increasing the expectations for core earnings to the range of DKK 120–125 million, which is realised at DKK 127.7 million. The core earnings have thus increased by DKK 11.6 million compared to 2015, corresponding to an increase of 9.9 %.

Profit before tax amounted to DKK 104.7 million compared to DKK 51.0 million in 2015.

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

The capital coverage was strengthened in the course of 2016 in rela-

tion to the individual solvency requirements, from 4.9 percentage points in 2015 to 6.1 % percentage points in 2016. In 2016 the bank increased its capital base by DKK 41 million, while at the same time in 2016 a nominal DKK 70 million of hybrid core capital was repaid, which on 31/12/2015 was weighted in the capital base as DKK 49 million. Simultaneous with the bank's capital base increasing, the solvency requirement reduced from 11.4 % to 10.4 % as a result of improved credit quality in the bank's larger corporate exposures.

With regard to the bank's capital position in general, refer to note 29 on page 37.

Dividend considerations and future regulation

It is basically the bank's view that excess capital beyond what is used to cover the bank's current activities and any planned new initiatives, plus a sufficient and solid buffer, should be paid to the bank's shareholders in the form of dividends and/or share buybacks.

At the end of 2016 the bank had a fully satisfactory and solid capital basis based on the current regulatory framework, including continued implementation of the additional buffer requirements until the end of 2018. In one scenario, where additional capital-related regulation of the sector was not imminent, it was the management's recommendation to propose that the Annual General Meeting adopt distribution of dividends and/or share buybacks.

However, the situation is that two additional EU regulatory frameworks are taking shape in the Danish Financial Supervisory Authority for phasing in 2018. These have to do with IFRS 9 and the NEP regulatory frameworks, which both enter into force in 2018, but which are still not finally settled and therefore there the capital consequences for the bank cannot be calculated.

However, it is clear that these new regulations will require significant additional capital padding for the banking sector, and because of this it is assessed by the bank's management that it is currently not feasible to propose use of capital for distribution of dividends and/or share buybacks.

It is expected that the additional capital requirements can be quantified in mid-2017, after which the bank's management will assess the capital situation, and possibly define and implement a dividend programme.

Expectations for 2017

The bank's expectations for 2016 were met and exceeded in most areas. Because of this the bank is optimistic about 2017 and expects, based on the increasing number of customers and the continued decline in interest expenses, the earnings level realised in 2016 to be maintained.

The bank has established the strategic and profit-related goals for the coming year, of which the most significant are listed below.

Goals have been established for 2017 based on cautious growth in the bank's current departments and business areas. The focus is on strengthening the bank's earnings and capital provisioning in order to secure the position as the independent and local West and South Jutland bank, which will make a difference in the local areas as well in the long term.

We are still experiencing that private customers in the West and South Jutland areas have a very robust economy, which is supported by relatively low and stable housing prices and general economic caution. The bank does not expect significant challenges in lending to private customers in 2017, nor has this been the case in recent years.

The bank still has close ties to the agricultural industry, which represents a significant customer group.

The crisis in Danish agriculture is expected to slow in 2017 as a result of rising prices of pork and milk. Parts of Danish agriculture are likely to have problems with achieving profitability in 2017 and here the bank will continue — in loyalty and respect — and in close cooperation with individual farmers, to try to find the best possible solutions. Despite the price increases, the extremely difficult framework conditions in the industry still place high demands on individual farmers, and we still assess that the bank's agricultural portfolio very much has the skills that are a prerequisite for being part of the future agricultural industry.

Loans to agriculture constitute 14.4 % of total lending. As with any other business, the bank has made a careful review of the commitments and the management is confident about these commitments.

In recent years, financing of alternative energy has brought in many new customer relationships. The share of loans so far is also expected to be a significant business area for the bank in 2017.

The bank's other business segments are generally considered to be in good development and are distributed amongst many small and medium businesses in the market area.

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

The satisfactory capital coverage of 6.1 % points is expected to continue and expand in 2017, to ensure the capital margins for the development of the bank.

New activities and business volume

At the beginning of 2017 the bank launched Skjern Bank Leasing, which has so far focused on leasing most types of assets to the bank's business customers. The administrative management of the bank's leasing activities are outsourced to a well-established player in the industry.

Leasing is expected to result in significant business volume and earnings.

In 2017 the bank will assess the possibilities of expanding the branch network. The bank is experiencing a significant influx of customers from all over Denmark and therefore it is assessed that it will create business, strategic and profitability value for the bank to expand the branch network.

Overall, 2017 is expected to lead to a satisfactory increase in the bank's business volume and a continued high activity in securities and the foreign sector. It is also expected that the sale of insurance and pension products will continue the positive trend of recent years. Interest expense is expected to be reduced as a result of lower prices on the bank's deposits and particularly on high-interest deposits. A very significant factor in recent years — impairment on trade receivables — is expected to decrease further, such that a satisfactory result and return on the bank's equity is expected.

In 2017 the bank expects core earnings in the range of DKK 120 - 130 million.

Audit

The Danish version of the Annual Report for 2016 is equipped with internal audit statements and independent auditors' statement. The statements are without reservations and complementary information.



Endorsement of the Annual Report by the Management

We have today discussed and approved the annual report for the period 1 January – 31 December 2016 for Skjern Bank A/S.

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

We consider the accounting practice chosen to be appropriate so that the annual report gives a correct impression of the bank's assets, liabilities, financial position as at the 31st December 2016 and of the result of the bank's activities for the accounting year 1 January – 31 December 2016.

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

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

Skjern, the 2nd February 2017
Executed Board of
Skjern Bank A/S

Per Munck

Skjern, the 2nd February 2017

The Board of Skjern Bank A/S

Hans L. Jeppesen
Chairman

Jens Okholm
Vice-Chairman

Bjørn Jepsen

Finn Erik Kristiansen

Søren Dalum Tinggard

Lars Skov Hansen

Lars Lerke

Carsten Jensen

Profit and loss account

2016

2015

Note:		(DKK 1,000)	(DKK1,000)
2	Interest receivable.....	200,058	218,537
3	Interest payable.....	36,313	56,309
	Net income from interest.....	163,745	162,228
	Dividend on shares and other holdings.....	12,493	11,692
4	Charges and commission receivable.....	101,952	93,459
	Charges and commission payable.....	3,672	12,143
	Net income from interest and charges.....	274,518	255,236
5	Value adjustments.....	17,216	11,536
	Other ordinary income.....	1,592	1,610
6	Staff costs and administrative expenses.....	148,990	139,680
	Depreciation and write-downs on intangible and tangible assets.....	3,746	3,924
	Other operating expenses total.....	255	9,066
	Contribution to the Guarantee Fund for deposits.....	52	8,926
	Other operating expenses.....	203	140
9	Write-downs.....	36,172	63,908
10	Profit on equity investments in non-affiliated and affiliated companies.....	490	-760
	Result before tax.....	104,653	51,044
11	Tax.....	22,543	10,929
	Net-result for the financial year.....	82,110	40,115
	Of which are holders of shares of hybrid core capital instruments etc.....	6,626	1,831

Proposal for distribution of profit

Dividends.....	0	0
Holders of hybrid core capital instruments.....	6,626	1,831
Transferred to/from retained earnings.....	75,484	38,284
Total distribution of the amount available.....	82,110	40,115

Statement of comprehensive income

Profit for the financial year.....	82,110	40,115
Other comprehensive income after tax.....	0	0
Total comprehensive income.....	82,110	40,115

Balance Sheet

2016

2015

Note:

(DKK 1,000)

(DKK 1,000)

Assets

	Cash in hand and demand deposits with central banks	120,542	277,630
12	Receivables at credit institutions and central banks	786,764	605,809
13	Loans and other receivables at amortised cost	3,687,509	3,511,175
14	Bonds at fair value	926,950	707,428
15	Shares etc.	219,447	179,233
16	Holdings in associated enterprises	0	0
16	Holdings in group enterprises	0	0
17	Land and buildings (total)	50,163	51,141
	Investment properties	2,961	2,961
	Owner-occupied properties	47,202	48,180
18	Other tangible assets	4,444	5,176
	Current tax assets	0	2,536
19	Deferred tax assets	14,210	28,455
	Other assets	41,520	47,787
	Prepayments	8,642	8,369
	Total assets	5,860,191	5,424,739

Liabilities

	Debt		
20	Debt to credit institutions and central banks	134,199	85,561
21	Deposits and other debts	4,871,359	4,483,104
	Current tax liabilities	1,720	0
	Other liabilities	56,387	66,536
	Prepayments	1,162	612
	Total debt	5,064,827	4,635,813
	Provisions		
13	Provisions for loss on guarantees	433	62
	Total provisions	433	62
22	Subordinated debt		
	Subordinated loan capital	99,618	99,436
	Hybrid core capital	0	70,000
	Total subordinated debt	99,618	169,439
	Equity		
23	Share capital	192,800	192,800
	Revaluation reserves	417	417
	Retained earnings	443,117	367,579
	Proposed dividend	0	0
24	Holder of hybrid capital	58,979	58,629
	Total equity	695,313	619,425
	Total liabilities	5,860,191	5,424,739

Information on changes in equity

2016

2015

Note:		(DKK 1,000)	(DKK 1,000)
23	Share capital beginning-of-year	192,800	192,800
	Share issue	0	0
23	Share capital end-of-year	192,800	192,800
	Revaluation reserves beginning-of-year	417	417
	Additions related to reassessed value	0	0
	Other movements	0	0
	Revaluation reserves end-of-year	417	417
	Retained earnings beginning-of-year	367,579	329,314
	Profit or loss for the financial year	75,484	38,284
25	Sale of own funds	10,626	17,512
25	Purchase of own funds.....	-10,572	-17,530
	Retained earnings end-of-year	443,117	367,579
	Holdings of hybrid capital beginning-of-year	58,629	0
	Net profit or loss for the year (interest hybrid capital)	6,626	1,831
	Paid interest	-6,276	-1,569
	Issue of hybrid core capital, net.....	0	58,367
	Holdings of hybrid capital end-of-year	58,979	58,629
	Total equity	695,313	619,425



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1. Accounting Policies

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

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

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

The accounting practice used is unchanged compared to the previous year.

Upcoming accounting rules

At the time of the publication of this annual report there are a number of provisions being changed in the Danish IFRS-compatible Executive Order on the Presentation of Financial Statements. The reason for this is the emergence of the international accounting standard IFRS 9 Financial Instruments, which is mandatory to use for IFRS preparers from 1 January 2018.

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

The adjusted Danish Executive Order is expected to take effect for the accounting periods beginning 1 January 2018.

The accounting standard IFRS 9, which is incorporated into the Danish accounting rules, is changing significantly with the new impairment rules.

IFRS 9 replaces the current impairment model, which is based on incurred loss (the "incurred loss model") with an impairment model based on expected loss (the "expected loss model"). The new expectation-based impairment model means that a financial asset at the time of first recognition is impaired by an amount corresponding to the expected credit loss over 12 months (stage 1). If there is subsequently a significant increase in the credit risk compared to the time of first recognition, the asset is impaired by the amount corresponding to the expected credit loss in the asset's remaining expected life (stage 2). If impairment need for the asset is discovered (stage 3), the asset is written down unchanged by an amount corresponding to the expected credit loss in the asset's remaining life, but based on an increased risk of loss.

There is ongoing development work anchored in the bank's data centre Bankdata, with the participation of the associated member institutions and LOPI, with the purpose of developing an IFRS 9-compatible impairment model.

The model, which is under development, is particularly intended to be used for customers/facilities in stage 1, and a subset of customers/facilities in stage 2. For weak stage 2 customers/facilities and

stage 3 customers/facilities, the impairment calculation is expected to be made by a manual, individual assessment of the financial assets rather than a model calculation.

It is not possible at this time to make a reasonable estimate of the accounting effect of the initial application of IFRS 9 with regard to depreciation rules. However it is generally expected that the new impairment rules for banks will overall lead to increased impairment and thus a greater allowance account, as according to the new rules all loans and guarantees will be attached to an impairment corresponding to the expected credit loss for 12 months or the expected credit loss in the asset's remaining life if there is a significant increase in the credit risk.

According to the new rules collective impairment will not be continued, which will reduce the impact of IFRS 9 to some extent. In addition to this, there are the special Danish impairment rules in the Danish Executive Order on the Presentation of Financial Statements, appendix 10, which move impairments forward in time, and thus partially offset the effect of the upcoming IFRS 9 impairment rules.

A negative net accounting impact on the new expectation-based IFRS 9 impairment rules will initially have a similar effect on the capital base. To counter an adverse effect on the capital base and thus the bank's opportunities to support credit, the European Commission, as an element of the reform package presented by the Commission on 23 October 2016 (capital requirements package), proposed a 5-year transition period so that a negative impact of the new IFRS 9 impairment rules would not come into full effect until after 5 years.

Overall, the bank assesses the impact of IFRS 9 on the capital coverage to be insignificant at the entry into force of the rules in 2018, while the impact on the capital coverage in the future will be moderately negative as the impact of the transition period is phased out.

General notes on recognition and measurement

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

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

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

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

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

Purchases and sales of financial instruments are recognised on the

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

Determination of fair value

The fair value is the amount to which an asset can be converted or at which a liability can be settled in a transaction under normal conditions between knowledgeable, willing and independent parties. The fair value of financial instruments for which there is an active market is usually determined as the closing price on the Balance Sheet date or, if not available, another published price considered to best correspond to this.

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

Accounting estimates

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

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

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

The areas which involve a greater degree of assessments/assumptions and estimates include impairment of loans and receivables, determination of fair value of unlisted financial instruments, tangible fixed assets, deferred tax assets and provisions.

Foreign currencies

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

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

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

Income statement

Interest, fees and commissions, etc.

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

Received interest on loans on which a write down has occurred are passed to the written-down part of the loan in question under the item "Impairment of loans and receivables" and are thus offset in net write-downs.

Commissions and fees which are an integral part of the effective interest rate of a loan are recognised as part of the amortised cost and

are therefore part of interest income under loans.

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

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

Staff and administrative expenses

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

Pension plans

The bank has entered into defined contribution schemes with the employees.

In defined contribution schemes, fixed contributions are paid to an independent pension fund. The bank has no obligation to make further contributions.

Tax

Tax for the year, which consists of current tax for the year and movements in deferred tax, is recognised in the statement of profit or loss and other comprehensive income as the portion which is attributable to the net profit for the year and directly in equity as the portion which is attributable to items in equity.

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

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

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

The bank is jointly taxed with all Danish companies in which it exercises a controlling interest. The current Danish corporation tax is allocated between jointly taxed Danish companies in proportion to their taxable income (full allocation with tax relief for losses).

Balance sheet

Receivables from credit institutions and central banks

Initially recognised at fair value plus transaction costs and minus origination fees, etc. and subsequently measured at amortised cost.

Loans

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

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

Loans, etc. are written down either individually or on a group basis when there are objective indications of poor credit quality which result in a reduction in the expected future series of payments based on an assessment of the most probable outcome.

For loans and receivables which are not individually written down, a group assessment is made of whether there are objective indications of impairment in the group.

The collective assessment is made for groups of loans and receivables which have similar characteristics in terms of credit risk.

The bank operates with 11 groups: a group of public authorities, a group of private customers and 9 groups of commercial customers, where the commercial customers are divided by industry.

The collective assessment is based on a segmentation model developed by the association Lokale Pengeinstitutter, which is responsible for ongoing maintenance and development. The segmentation model establishes the relationship in each group between recognised loss and a number of significant explanatory macroeconomic variables via a linear regression analysis. The explanatory macroeconomic variables include unemployment, housing prices, interest rates, number of bankruptcies/foreclosures, etc.

The macroeconomic segmentation model is initially calculated based on loss data for the entire banking sector.

The bank has therefore assessed that the model estimates reflect the credit risk for the bank's own lending portfolio.

For each group of loans and receivables, an estimate is made which reflects the percentage of impairment related to a specific group of loans and receivables on the balance date. By comparing the individual loan's current risk of loss with the loan's original risk of loss and the loan's risk of loss at the beginning of the current accounting period, the individual loan's contribution to the group impairment is shown. Impairment is calculated as the difference between the carrying value and the discounted value of expected future payments.

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

Bonds and shares etc.

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

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

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

Investments in associates

Equity investments in associated and group enterprises are recognised and measured according to the book value method, which means that the equity investments are measured at the proportionate share of the companies' book value at the end of the year.

The bank's share of the companies' profit after tax is recognised in the statement of profit or loss and other comprehensive income.

Land and buildings

Land and buildings include

- "Occupied properties", which consists of the properties from which the bank conducts banking activities, and
- "Investment property", which consists of all other properties owned by the bank.

Occupied properties are measured at revalued amounts, which is the fair value measured by the return method on 5.25 - 7 %, less accumulated depreciation and any impairment losses. Depreciation is recognised in the income statement. Reassessments are made so frequently that there are no significant deviations from fair value.

Investment properties are measured at fair value according to the return method.

Ongoing changes in fair value of investment property are recognised in the income statement.

Other tangible fixed assets

Other tangible fixed assets, including assets used in operations, are recognised at cost.

Subsequently, other tangible assets and the conversion of leasehold improvements are valued at cost, less accumulated depreciation.

A linear depreciation is carried out over 3-5 years on the basis of cost. Depreciation and impairment losses are recognised in the income statement.

Other assets

Other assets include outstanding interest and commissions, as well as the positive market value of derivative financial instruments.

Prepayment items

Prepayments posted under assets include costs relating to subsequent financial years.

Prepayments posted under liabilities include prepaid interest and guarantee provisions relating to subsequent financial years.

Amounts owed to credit institutions and central banks/deposits and other debt issued bonds/subordinated debt

These items are measured at amortised cost.

Other liabilities

Other liabilities include due interest and commissions as well as the negative market value of financial instruments.

Provisions

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

However, guarantees are not measured lower than the provision which is received for the guarantee, accrued over the guarantee period.

Treasury shares

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

Derivative financial instruments

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

Exchange rate adjustments are included in the statement of profit or loss and other comprehensive income.

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

Contingent liabilities

The bank's outstanding guarantees are disclosed in the notes under the item "Contingent liabilities."

The liability relating to outstanding guarantees which are assessed to lead to a loss for the bank is provisioned under the item "provisions for loss on guarantees." The liability is expensed in the statement of profit or loss and other comprehensive income under "Impairment of loans and receivables, etc."

Financial highlights

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

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
2 Interest income		
Receivables at credit institutions and central banks	-3,668	-1,766
Loans and other receivables	207,281	222,217
Loans (interest conc. the written-down part of loans)	-13,800	-12,900
Bonds	9,438	10,915
Other derivative financial instruments, total	787	59
of which		
Interest-rate contracts	1,049	416
Currency contracts	-262	-357
Other interest income	20	12
Total	200,058	218,537
3 Interest expenses		
Credit institutions and central banks	26	35
Deposits	28,304	45,338
Bonds, issued	0	0
Subordinated debt	7,967	10,923
Other interest expenses	16	13
Total	36,313	56,309
No income or expenses are entered from genuine purchase or repurchase contracts in notes 2 and 3.		
4 Fees and commission income		
Securities trading and custody accounts	23,118	27,820
Payment services	8,632	7,586
Loan fees	40,880	35,999
Guarantee commission	11,634	6,355
Other fees and commission	17,688	15,699
Total	101,952	96,459
5 Value adjustments		
Other loans	60	0
Bonds	5,867	-13,148
Total shares	6,969	21,892
- Shares in sectorcompanies etc.	5,378	9,422
- Other shares	1,597	12,470
Foreign currency	4,323	2,884
Other financial instruments	-3	-92
Total	17,216	11,536
As the bank essentially operates deposits and lending activity in its local areas, the division of market areas is not specified for notes 2-5.		
6 Staff costs and administrative expenses		
Salaries and remuneration of board of directors, audit committee, managers etc.		
Board of managers (1 person)*	2,830	2,830
Fixed fees	2,790	2,790
Pension contributions	40	40
Management board	1,034	996
Audit Committee	50	50
Committee of representatives	189	165
Total salaries and remuneration of board etc.	4,103	4,041
*The Board of manager has a company car		
Board of Directors' remuneration		
Hans Ladekjær Jeppesen	259	255
Jens Okholm	185	183
Bjørn Jespsen	103	101
Finn Erik Kristiansen	114	112
Søren Dalum Tinggaard	103	101
Lars Skov Hansen	114	112
Lars Lerke	103	101
Carsten Jensen	103	81
Total	1,084	1,046

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
6	Staff costs and administrative expenses (continued)	
	Staff costs	
	Wages and salaries.....	66,747 64,503
	Pensions.....	7,488 7,106
	Social security costs	850 852
	Payroll tax	10,542 9,042
	Total staff costs.....	85,627 81,503
	Salary to special risk takers (11 persons in 2016, 11 persons in 2015)	7,913 7,723
	Pensions to special risk takers (11 persons in 2016, 11 persons in 2015)	857 836
	Other administrative expenses	
	IT expenses	28,360 25,624
	Rent, electricity, heating etc.....	4,262 4,749
	Postage, telephony etc.....	751 852
	Other administrative expenses.....	25,887 22,911
	Total other administrative expenses	59,260 54,136
	Total staff costs and administrative expenses.....	148,990 139,680

Pension and severance terms for the executive board

The management receives 11% of salary grade 31 in annual pension, which is contribution-based through a pension company. Therefore, Skjern Bank has no pension obligations to the management, since there is regular payment to a pension company as indicated. Upon retirement, Skjern Bank pays a severance payment equivalent to 6 months' salary.

The management may retire at 62 years.

Skjern Bank's notice period to the management is 36 months, but may be 48 months in special circumstances.

The management's notice period to the bank is 6 months.

The Board's pension terms

No pension is paid to the Board

Special risk takers' pension terms

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

Average number of employees during the financial year converted into full-time employees

Employed in credit institution business	132	128
Employed in other business	0	0
Total.....	132	128

7 Incentive and bonus schemes

The bank does not have any incentive or bonus schemes.

8 Audit fee

Total fee to the firm of accountants, elected by the annual meeting,

that perform the statutory audit	719	1,026
Honorariums for statutory audits of financial statements	583	657
Honorariums for tax services.....	19	29
Honorariums for assurance services	36	22
Honorariums for other services	81	319

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
9	Write-downs on loans and receivables	
	Write-downs and provisions during the year	90,161
	Reversal of write-downs made in previous years	119,545
	Finally lost, not previously written down	-47,258
	Interest on the written-down portion of loans	10,036
	Recoveries of previously written off debt	4,516
		-13,800
		-2,967
	Total	36,172
10	Profit on equity investments in non-affiliated and affiliated companies	
	Profit on equity investments in non-affiliated companies	490
	Profit on equity investments in affiliated companies	0
	Total	-760
11	Tax	
	Calculated tax of income of the year	8,205
	Adjustment of deferred tax	14,245
	Adjustment of tax calculated in previous years	93
	Total	22,543
	Tax paid during the year	4,180
	Effective tax-rate	(Pct.)
	Current tax rate	22.00
	Non-deductible expenses and non-taxable income	0.58
	Adjustment of prior years' taxes	0.09
	Reduction in future tax rate	0.00
	Other adjustments	0.30
	Total effective tax rate	22.97
12	Receivables at credit institutions and central banks	
	Deposits with central banks	729,092
	Receivables at credit institutions	57,672
	Total	786,764
	Remaining period	
	Demand	786,764
	Over 1 year and up to 5 years	0
	Total	786,764
	No assets related to genuine purchase and resale transactions included.	
13	Loans and other debtors at amortised cost price	
	Remaining period	
	Claims at call	1,273,221
	Up to 3 months	127,213
	Over 3 months and up to 1 year	400,336
	Over 1 year and up to 5 years	864,976
	Over 5 years	1,021,763
	Total loans and other debtors at amortised cost price	3,687,509
	No assets related to genuine purchase and resale transactions included	
	Individual write-downs and provisions	
	Write-downs beginning of the year	340,059
	Write-downs during the year	87,936
	Reversal of write-downs made in previous years	-47,258
	Write-downs in previous years - now lost	-64,264
	Write-downs end of year	316,473
	Group write-downs and provisions	
	Write-downs - beginning of the year	24,166
	Write-downs during the year	2,225
	Group write-downs - end of year	26,391
	Total write-downs	342,864
		364,225

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
13	Loans and other debtors at amortised cost price (continued)	
	Guarantees	
	Provisions beginning of the year	62
	Provisions during the year	433
	Loss on guarantees	0
	Transferred to liabilities	-62
	Guarantees end of year	433
	Loans etc. with suspended calculation of interest	120,504
	Loans and other debtors with an objective indication of impairment included in the balance sheet at a book value greater than zero	144,970
	Individual written-down loan	
	Balance for loans and other debtors before write-downs	664,474
	Write-downs	-316,906
	Balance for loans and other debtors after write-downs	347,568
	Group written-downs loans	
	Balance for loans and other debtors before write-downs	3,366,332
	Write-downs	-26,391
	Balance for loans and other debtors after write-downs	3,339,941
	There are no write-downs of receivables from credit institutions, or any other receivables.	
14	Bonds at fair value	
	Mortgage credit bonds	756,034
	Other bonds	170,916
	Total bonds at fair value	926,950
	The bank has no held-to-maturity assets	
15	Shares etc	
	Quoted on Nasdaq OMX Copenhagen A/S	34,116
	Quoted on other stock exchanges	21,855
	Sectorshares recorded at fair value	163,476
	Total shares etc	219,447
16	Equity investments in associated companies	
	2016 Associated companies (DKK 1,000)	
	Total cost price beginning-of-year	505
	Acquisitions during the year	0
	Reduction during the year	-505
	Total cost price end-of-year	0
	Total write-ups/downs and depreciations beginning-of-year	-505
	Result	0
	Disposals during the year	505
	Total write-ups/downs and depreciations end-of-year	0
	Book value end-of-year	0
	of this credit institutions	0
	Book value beginning-of-year	0
	of this credit institutions	0

All agreements and transactions with affiliated undertakings is entered into on market terms.

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
17 Land and buildings		
Investment properties		
Fair value - end of previous financial year	2,961	6,974
Acquisitions during the year incl. improvements	0	0
Disposals during the year	0	-2,750
Adjustment of fair value for the year	0	-1,263
Fair value end-of-year	<u>2,961</u>	<u>2,961</u>
Owner occupied properties		
Reassessed value - end of previous financial year	48,180	48,367
Acquisitions during the year incl. improvements	442	33
Disposals during the year	0	0
Depreciations	-1,420	-1,420
Adjustment of fair value for the year	0	0
Changes in value recognized in income	0	1,200
Reassessed value end-of-year	<u>47,202</u>	<u>48,180</u>
External experts have not been involved by measurement of investment- and owner-occupied properties. Return method is used for measurement of investment and owner-occupied properties where used required rate of return between 5.25-7 %.		
18 Other tangible assets		
Total cost price beginning-of-year	41,786	41,770
Acquisitions during the year incl. Improvements	2,590	2,044
Reduction during the year	-20,374	-2,028
Total cost price beginning-of-year	<u>24,002</u>	<u>41,786</u>
Total write-ups/downs and depreciations beginning-of-year	36,610	35,873
Depreciations during the year	2,327	2,441
Reversal of depreciations	-19,379	-1,704
Total write-ups/downs and depreciations end-of-year	<u>19,558</u>	<u>36,610</u>
Book value end-of-year	<u>4,444</u>	<u>5,176</u>
19 Deferred taxation (Tax amount)		
Tangible assets	1,799	2,177
Loans and other receivables	2,220	2,144
Other	-366	-483
Other deficits carried forward	10,557	24,617
Total deferred taxation	<u>14,210</u>	<u>28,455</u>
The activated deficit is expected to be utilised within the next 3-5 years.		
20 Debt to credit institutions and central banks		
Debt to credit institutions and central banks		
Debt to central banks	0	33,595
Debt to credit institutions	134,199	51,966
Total debt to credit institutions and central banks	<u>134,199</u>	<u>85,561</u>
Term to maturity		
Demand	134,199	85,561
Total debt to credit institutions and central banks	<u>134,199</u>	<u>85,561</u>
No liabilities related to genuine sale and repurchase transactions included.		

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
21 Deposits and other debts		
Demand.....	4,223,350	3,802,610
At notice.....	20,209	20,897
Time deposits.....	30,204	70,997
Special types of deposits.....	597,596	588,618
Total deposits and other debts	4,871,359	4,483,104
Term to maturity		
Demand.....	4,239,821	3,823,813
Deposits redeemable at notice:		
Up to 3 months.....	100,721	95,205
Over 3 months and up to 1 year.....	36,714	62,547
Over 1 year and up to 5 years.....	62,436	75,112
Over 5 years.....	431,667	426,427
Total deposits and other debts	4,871,359	4,483,104

No liabilities related to genuine sale and repurchase transactions included.

22 Subordinated debt

Supplementary capital DKK 100 mio.	99,618	99,439
Rate.....	6.595%	6.595%
Due date.....	21.05.2024	21.05.2024

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

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

Hybrid core capital DKK 70 mio.	0	70,000
Rate.....		6.09%
Due date.....	Repaid 1st May 2016	No due date

Subordinated debt total	99,618	169,439
Subordinated debt that may be included in the capital base.....	99,618	148,439
Costs related to admission.....	0	0
Interest on subordinated liabilities recognised in income.....	7,967	10,923

23 Share capital	192,800	192,800
Number of shares is 9,640,000 at DKK 20 each		

The bank has pr. 31. December 2016 16,557 registered shareholders. 98.85% of the share capital are registered on name.

24 Holders of hybrid capital		
Hybrid core capital	58,979	58,629
Rate.....	10.4593%	10.4593%
Due date.....	No due date	No due date
The loan can be repaid prematurely by the bank on the 15th September 2020		

On September 15 2020, the interest rate is changed to a halfyearly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of six months plus 9.75% pa.

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
25		
Own capital shares		
Purchase and sales of own shares		
Holdings beginning of the year		
Number of own shares.....	9,979	8,979
Nominal value of holding of own shares (DKK 1,000)	200	180
Own shares proportion of share capital	0.10	0.09
Addition		
Number of own shares.....	286,512	524,660
Nominal value of holding of own shares (DKK 1,000)	5,730	10,493
Own shares proportion of share capital	2.97	5.44
Purchase price (DKK 1,000).....	10,572	17,530
Disposal		
Number of own shares.....	287,044	523,660
Nominal value of holding of own shares (DKK 1,000)	5,741	10,473
Own shares proportion of share capital	2.98	5.43
Sale price (DKK 1,000).....	10,626	17,512
Holdings end of the year		
Number of own shares.....	9,447	9,979
Nominal value of holding of own shares (DKK 1,000)	189	200
Own shares proportion of share capital	0.10	0.10

At the Annual General Meeting, the bank requests that shareholders be allowed to acquire up to a total nominal value of 3% of the bank's share capital, cf. the provisions in the Danish Budget Act (finansloven), Section 13, paragraph 3. The bank has asked the Danish Financial Supervisory Authority for a framework for holding of treasury shares of 0.25% of the bank's total share capital. The bank wants this authorisation in order to always be able to meet customers' and investors' demand for purchasing and selling Skjern Bank shares and the net acquisitions in 2016 are a consequence of this.

26 Contingent liabilities

Contingent liabilities

Finance guarantees.....	25,526	29,136
Guarantees against losses on mortgage credit loans.....	357,902	287,347
Registration and conversion guarantees.....	116,098	108,124
Other contingent liabilities.....	341,562	367,440
Total	841,088	792,047

Other binding engagements

Irrevocable credit-undertakings.....	127,271	67,050
Total	127,271	67,050

Assets pledged as collateral

From the security portfolio, the bank has pr. 31. December 2016 put as collateral for clearing with Danmarks Nationalbank, securities with a total market value of DKK 0 million. In addition, there is pledged bonds for a total of DKK 10 million.

Contract Legal obligations

As a member of Bankdata, the bank is due to a possible resignation required to pay a withdrawal benefit.

Like other Danish financial institutions, Skjern Bank is liable for loss sustained by the Deposit Guarantee Fund. The most recent calculation of Skjern Bank's share of the industry's assurances to the Deposit Guarantee Fund is 0.572 %.

In 2016, Skjern Bank paid 50 TDKK to Afviklingsformuen (Settlement Assets).

The Bank is a tenant in two leases, which can be terminated with 6 months' notice, the yearly lease is 879 TDKK. The third lease is irrevocable until 31 December 2021, and the yearly lease is 1,9 mio. DKK.

Note

2016
(DKK 1,000) **2015**
(DKK 1,000)

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

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

Transactions with related parties

There have during the year not been transactions with related parties, apart from wages and salaries, etc. and loans and similar. Wages and considerations to the bank's management board, board of directors, audit committee and committee of representatives can be found in note no. 6.

There are no related with control of the bank.

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

Management:

Loans	85	10
Bid Bond	0	0
Rate of interest	6.75%	6.75%

Board of directors:

Loans	3,541	3,421
Bid Bond	2,330	2,330
Rate of interest/interest range	1.11-9.00%	1.48-8.00%

Holding of shares in Skjern Bank:

The board of managers		
Per Munck	28,545	28,545
The board of directors		
Hans Ladekjær Jeppesen	11,115	11,115
Jens Okholm	13,022	13,022
Bjørn Jepsen	5,286	4,536
Finn Erik Kristiansen	2,748	2,748
Søren Dalum Tinggaard	1,234	3,234
Lars Sov Hansen	710	710
Lars Lerke	8,246	9,882
Carsten Jensen	1,976	1,976

Note

	2016 (DKK 1,000)	2015 (DKK 1,000)
29 Capital requirement		
Equity	695,313	619,425
Revaluation reserves	-417	-417
Holders of hybrid capital	-58,979	-58,367
Deferred tax assets	-14,210	-28,455
Deduction for the sum of equity investments etc. above 10 %	-44,341	-29,616
CVA deduction	-981	-751
Deduction of trading framework for own sharers	-1,289	-865
Core tier 1 capital (excl. hybrid core capital)	575,096	500,692
Hybrid core capital	0	49,000
Holders of hybrid capital	58,717	58,367
Deduction for equity investments etc. above 10 %	0	0
Deduction for the sum of equity investments etc. above 10 %	-14,780	-22,211
Tier 1 capital	619,033	449,236
Subordinated loan capital	99,618	99,439
Deduction for the sum of equity investments etc. above 10 %	-14,780	-22,211
Capital base	703,871	663,076
Weighted items		
Credit risk	3,388,583	3,260,404
Market risk	358,672	330,563
Operational risk	508,277	484,450
Weighted items total	4,255,532	4,075,417
Core tier 1 capital ratio (excl. hybrid core capital)	13.5	13.5
Tier 1 capital ratio	14.6	14.4
Solvency ratio - Tier 2	16.5	16.3

30 Current value of financial instruments

Financial instruments are measured in the statement of financial position at either fair value or at cost.

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

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

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

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

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

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

Note

30 Current value of financial instruments (continued)

	31. december 2016		31. december 2015	
	Book value (DKK 1,000)	Fair value (DKK 1,000)	Book value (DKK 1,000)	Fair value (DKK 1,000)
Financial assets				
Cash in hand+claims at call on central banks	120,542	120,542	277,630	277,630
Claims on credit institutes and central banks 1)	786,764	786,764	605,809	605,809
Loans and other debtors at amort. costprice 1)	3,693,837	3,703,721	3,517,751	3,533,634
Bonds at current value 1)	930,027	930,027	709,974	709,974
Shares etc.	219,447	219,447	179,233	179,233
Capital shares in associated companies	0	0	0	0
Capital shares in group companies	0	0	0	0
Derivative financial instruments	6,978	6,978	20,640	20,640
Total financial assets	5,757,595	5,767,479	5,311,037	5,326,920
Financial liabilities				
Debt to credit institutions and central banks 1)	90,098	90,098	85,567	85,567
Deposits and other debts	4,886,026	4,914,783	4,501,200	4,644,717
Derivative financial instruments	3,381	3,381	5,346	5,346
Subordinated debt 1) 2)	103,438	103,438	176,449	176,449
Total financial liabilities	5,082,943	5,111,700	4,768,562	4,912,079

1) The entry includes calculated interest on the balance sheet date, which is included in "Other assets" and "Other liabilities".

2) Applied the latest quoted trading price at the balance sheet date

31 Risks and risk management

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

Credit risk:

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

Market risk:

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

Liquidity risk:

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

Evaluation of securities:

The bank is exposed to the sectors agriculture and real-estate. The Bank has in the assessment of collateral in agricultural exposures used acres of arable land prices in the range of 120 TDKK - 135 TDKK. In the real-estate sector is used return requirement in the range 5.25% - 10%. Valuations in both agricultural exposures as real-estate exposures are made in accordance with the FSA's current guidance. The Bank notes that estimating the value of collateral is generally associated with uncertainty.

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

Note

32 Credit risks	2016 (Pct)	2015 (Pct)
Loans and guarantees distributed on sectors		
Public authorities.....	0.0	0.0
Business:		
Agriculture, hunting, forestry & fishing		
- Plant production.....	1.6	1.5
- Cattle farming.....	8.3	8.4
- Pig farming.....	1.9	2.2
- Mink production.....	1.5	1.5
- Other agriculture.....	1.1	1.5
Industry and mining.....	2.4	2.5
Energy.....	6.0	6.8
Building and constructions.....	6.3	6.1
Wholesale.....	8.8	9.0
Transport, hotels and restaurants.....	1.5	1.4
Information and communication.....	0.3	0.3
Financial and insurance business.....	5.8	6.5
Real-estate.....	13.1	12.7
Other business.....	5.2	6.1
Total business.....	63.8	66.5
Private persons.....	36.2	33.5
Total.....	100.0	100.0

The industry breakdown is based on Danmarks Statistik's industry codes etc. Furthermore, an individual assessment is made of the individual exposures, which has resulted in some adjustment. From the above sectoral distribution represents alternative energy 5.6 % in 2016 and 6.3 % in 2015.

Maximum credit exposure classified by loan, guarantees and credit-undertakings

	2016 (DKK 1,000)	2016 (DKK 1,000)	2016 (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities.....	1,010	0	0
Business - agriculture.....	821,168	33,729	2,250
Business - other.....	2,662,574	409,066	107,816
Private persons.....	1,775,027	398,293	17,205
	5,259,779	841,088	127,271
Which recognized in the balance after deduction of depreciation.....	3,687,509		

	2015 (DKK 1,000)	2015 (DKK 1,000)	2015 (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities.....	0	0	0
Business - agriculture.....	818,376	50,242	2,700
Business - other.....	2,597,912	412,492	64,350
Private persons.....	1,611,222	329,313	0
	5,027,510	792,047	67,050
Which recognized in the balance after deduction of depreciation ...	3,511,175		

Note

32 Credit risks (continued)

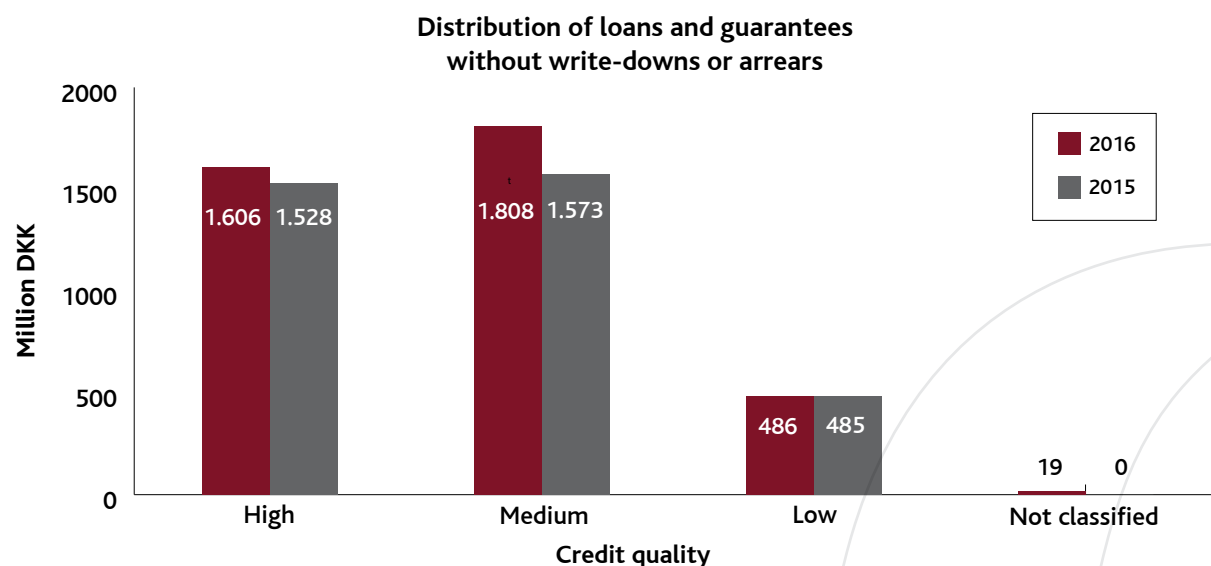
Description of collateral

Security distributed by type	2016 (1,000 kr.) Public authorities	2016 (1,000 kr.) Business, agriculture	2016 (1,000 kr.) Business, other	2016 (1,000 kr.) Private
Securities	0.	19,764	161,114	67,740
Real property	0.	455,499	761,198	529,027
Chattels, vehicles and rolling stock.....	0.	50,790	396,468	207,023
Guarantees	0.	25,483	21,502	7,584
Other forms of security	0	45,861	478,144	220,750
	0	597,397	1,818,426	1,032,124

Security distributed by type	2015 (1,000 kr.) Public authorities	2015 (1,000 kr.) Business, agriculture	2015 (1,000 kr.) Business, other	2015 (1,000 kr.) Private
Securities	0.	32,501	184,112	64,735
Real property	0.	440,431	701,506	432,457
Chattels, vehicles and rolling stock.....	0.	56,737	346,154	172,598
Guarantees	0.	29,996	27,664	14,191
Other forms of security	0	38,990	419,561	160,449
	0	598,655	1,678,997	844,430

As a general rule, the bank is secured through financed assets. It is also secured in the form of sureties and mortgages on equity and shares. The above listings reflect the collateral value which can be attributed to individual commitments. The bank wants to reduce the estimated credit in blank of the entire customer portfolio. In 2016 this led to a reduction of estimated credit in blank of DKK 23 million compared to 2015.

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



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

Note

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Credit risks (continued) Reasons for individual write-downs and provisions

	2016	2016	2016
	Exposure before write-down	Write-downs	Securities
Significant financial difficulties	481,607	235,403	222,860
Breach of contract	17,824	9,904	4,557
Reductions in terms	39,025	15,535	17,569
Probability of bankruptcy	129,910	55,631	73,414
Total	668,366	316,473	318,400

	2015	2015	2015
	Exposure before write-down	Write-downs	Securities
Significant financial difficulties	515,877	219,454	249,338
Breach of contract	23,320	17,095	3,668
Reductions in terms	64,758	16,966	30,555
Probability of bankruptcy	226,589	86,544	135,887
Total	830,544	340,059	419,448

According to the bank's credit policy, all commitments, particularly including commitments which are subject to individual impairment, must be covered by collateral to the greatest extent possible. When determining impairment need, the value of the pledged collateral is compared to the expected net realisable value.

Also refer to the relevant section on the bank's credit risk in the Management's Review in the Danish version.

	2016	2015
	(DKK 1,000)	(DKK 1,000)
Arrears amount for loans, which have not been written down		
0-90 days	13,987	8,945
>90 days	107	44
Total	14,094	8,989
Loans and arrears amount for loans, which have not been written down		
0-90 days	85,813	97,939
>90 days	1,045	33
Total	86,858	97,972

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Market risks and sensitivity information

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

Interest rate risk

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

Interest rate risk on debt instruments etc - total	5,141	-4,869
Interest rate risk in pct of core capital after deductions	0.8	-0.8

Note

	2016	2015
	(DKK 1,000)	(DKK 1,000)
33 Market risks and sensitivity information (continued)		
Interest rate risk split in currencies with highest risk:		
DKK	3,843	-5,756
CHF	1,443	1,031
EUR	-124	-139
JPY	-3	-2
USD	-4	-2
Others	-14	-1
Total	5,141	-4,869
Foreign currency risk		
Total assets in foreign currency.....	381,582	410,193
Total liabilities in foreign currency.....	76,218	34,492
In the event of a general change in exchange rates of 10%, and in the euro of 2.25%, Currency Indicator 1 will also be increased	1,070	2,295
Currency indicator 1 in pct of core capital after deductions.....	0.2	0.4
In the event of a general change in exchange rates of 10%, and in the euro of 2.25%, Currency Indicator 2 will also be increased	10	4
Currency indicator 2 in pct of core capital after deductions.....	0.0	0.0
Currency Indicator 1 represents the sum of the respective positions in the currencies in which the bank has a net asset position, and currencies where the bank has net debt. Currency Indicator 2 expresses the bank's currency risk more accurately than indicator 1, as it takes into account the different currencies' volatility and covariation. A value of indicator 2 of TDKK 25 means that as long as the bank does not change its currency positions in the following 10 days, there is a 1% chance that the institution will get a capital loss greater than TDKK 25, which will affect the bank's profit and equity.		
Equity Risk		
If stock prices change by 10 percentage points, equity is affected as shown below.		
Quoted on Nasdaq OMX Copenhagen A/S	3,412	3,405
Quoted on other stock exchanges	2,186	1,597
Unquoted shares recorded at fair value	16,348	12,921
Total shares etc.	21,945	17,923

Note

34 Derivate financial instruments

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

	2016 Nominal value	2016 Net market- value	2016 Market- value positive	2016 Market- value negative	2015 Nominal value	2015 Net market- value	2015 Market- value positive	2015 Market- value negative
Currency-contracts								
Up to 3 months	360,888	3517	5,089	1,572	545,471	15,252	17,629	2,377
Over 3 months and up to 1 year	11,002	-59	203	262	16,517	-24	384	408
Over 1 year and up to 5 years					3,328	4	74	70
Over 5 years								
Average market value			13,206	2,066			20,429	3,953
Interest-rate contracts								
Up to 3 months								
Over 3 months and up to 1 year	21,508		327	327	29,850		639	639
Over 1 year and up to 5 years					21,491		874	874
Over 5 years	4,843		773	773	5,166		811	811
Average market value			2,032	1,998			3,521	3,495

	2016 (DKK 1,000)	2015 (DKK 1,000)
Credit risk on derivative financial instruments		
Positive market value, counterparty with risk weighting of 0 %	0	0
Positive market value, counterparty with risk weighting of 20%	1,014	2,930
Positive market value, counterparty with risk weighting of 100%	5,964	17,710
Total	6,978	20,640

Unsettled spot transactions

DKK 1,000

	Nominal value	Market- value Positive	Market- value Negative	Net market- value
Foreign-exchange transactions, purchase	2,305	-	7	7
Foreign-exchange transactions, sale	557	-	-	-
Interest-rate transactions, purchase	29,620	139	-	139
Interest-rate transactions, sale	5,690	3	33	-30
Share transactions, purchase	5,390	76	24	52
Share transactions, sale	5,406	25	75	-50
Total 2016	48,928	243	139	104
Total 2015	33,641	114	93	21

35 Cooperative agreements

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

Totalkredit A/S, Nykredit, DLR Kredit A/S, BRF Kredit A/S, Privatsikring A/S, Eurocard, PFA Pension, SparInvest, A/S, Valueinvest Asset Management S.A., BI Asset Management Fondsbørsmæglerelskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, Investeringsforeningen Egns-Invest, HP Fondsbørsmæglerelskab A/S, Investeringsforeningen Danske Invest, Investeringsforeningen Maj Invest, Codan, Dankort A/S, Nets A/S, Bluegarden A/S, Krone Kapital, Købstædernes Forsikring & Visa International

Note

	2016	2015	2014	2013	2013
36	5 years in summary (DKK 1,000)				
Profit and loss account					
Net income from interest	163,745	162,228	159,926	160,505	153,006
Dividend on shares	12,493	11,692	6,491	8,231	5,414
Charges and commission, net	98,280	81,316	81,608	61,861	55,296
Income from core business	274,518	255,236	248,025	230,597	213,716
Value adjustments	17,216	11,536	10,770	16,236	8,096
Other ordinary income	1,592	1,610	1,195	1,745	1,131
Staff cost and admin. expenses	148,990	139,680	138,473	131,117	132,557
Depreciation of intangible and tangible assets.....	3,746	3,924	14,118	4,047	3,709
Other operating expenses	255	9,066	9,254	9,834	5,292
- Contribution to the Guarantee Fund for deposits	52	8,926	9,018	9,127	4,843
- Other operating expenses	203	140	236	707	449
Write-downs on loans etc. (net)	36,172	63,908	154,386	67,073	69,204
Profit on equity investments in non-affiliated and affiliated companies	490	-760	-507	-332	91
Operating result	104,653	51,044	-56,748	36,175	12,272
Taxes	22,543	10,929	-712	11,720	2,433
Profit for the year	82,110	40,115	-56,036	24,455	9,839
Of which are holders of shares of hybrid core capital instruments etc.	6,626	1,831	0	0	0
Balance as per 31st December					
summary					
Total assets	5,861,891	5,424,729	5,384,120	5,322,821	6,004,480
Loans and other receivables	3,687,509	3,511,175	3,643,989	3,647,129	3,498,499
Guarantees etc.....	841,088	792,047	553,311	584,713	482,157
Bonds.....	926,950	707,428	830,645	824,171	1,270,360
Shares etc.	219,447	179,233	245,966	211,354	203,258
Deposits and other debts.	4,871,359	4,483,104	4,485,996	3,856,710	4,499,426
Subordinated debt	99,618	169,439	169,260	269,201	358,475
Total equity	695,313	619,425	522,531	578,596	546,986
- of which proposed dividend	0	0	0	0	0
Capital Base	703,871	663,076	486,912	670,207	747,407

Note

	2016	2015	2014	2013	2012
37 Financial ratio (figures in pct.)					
Solvency ratio	16.5	16.3	12.0	16.9	19.6
Core capital ratio.....	14.6	14.4	11.1	14.2	15.7
Return on equity before tax.....	15.9	8.9	-10.3	6.5	2.7
Return on equity after tax.....	12.4	7.0	-10.2	4.4	2.1
Return on assets.....	1.4	0.7	-1.0	0.5	0.2
Earning/expense ratio in DKK	1.52	1.23	0.82	1.17	1.06
Interest rate risk.....	0.8	-0.8	-2.1	-1.3	-2.8
Foreign currency position.....	0.2	0.4	2.5	0.2	0.9
Foreign currency risk.....	0.0	0.0	0.0	0.0	0.0
Loans etc. against deposits	82.7	86.4	89.3	98.3	83.0
Statutory liquidity surplus.....	182.5	171.8	131.0	144.6	265.6
Total large commitments.....	10.3	23.4	38.4	23.2	13.1
Loans and debtors at reduced interest.....	2.5	3.1	4.1	4.2	4.5
Accumulated impairment ratio	7.0	7.8	7.9	5.4	5.8
Impairment ratio for the year.....	0.7	1.4	3.4	1.5	1.6
Increase in loans etc. for the year.....	5.0	-3.8	-0.1	4.1	-0.8
Ratio between loans etc. and capital funds	5.8	6.3	7.0	6.4	6.4
(value per share 100 DKK)					
Earnings per share	39.2	19.9	-29.1	12.7	5.1
Book value per share	330	291	271	298	286
Rate on Copenhagen Stock Exchange	268	168	190	220	120
Dividend per share	0	0	0	0	0
Market value/net income per share	6.8	8.4	-6.5	17.3	23.5
Market value/book value	0.81	0.58	0.70	0.74	0.42



Financial Calendar 2017

- 23rd January:** Deadline for submission of items for the agenda for the Annual General Meeting
- 2nd February:** Announcement of Annual Report 2016
- 6th March:** General Meeting – Skjern Kulturcenter
- 4th May:** Announcement of quarterly report 1st quarter 2017
- 17th August:** Announcement of half-yearly report 2017
- 26th October:** Announcement of quarterly report 3rd quarter 2017



Committee of representatives

Hans Ladekjær Jeppesen, Skjern, lawyer, board chairman
 Ole Strandbygaard, Ringkøbing, printer, vice-head of the committee of representatives
 Michael Albrechtslund, Rungsted, adviser
 Jørgen Søndergaard Axelsen, Skjern, real estate agent
 Ole Bladt-Hansen, Ribe, city manager
 Jens Bruun, Viby J, Manager
 Jens Chr. Fjord, Skjern, former bicycle dealer
 Poul Frandsen, Herning sales manager
 Børge Lund Hansen, Skjern, manager
 Orla Varridsbøl Hansen, Tarm, manufacturer
 Tom Jacobsen, Tarm, manager
 Mike Jensen, Skjern, bookseller
 Niels Erik Kjærgaard, Skjern, city manager
 Dorte H. Knudsen, Hviding, Ribe, hospital nurse
 Tommy Noer, Esbjerg, technical teacher
 Torben Ohlsen, Tjæreborg, manager
 Jens Christian Ostersen, Stauning, farmer
 Jens Kirkegaard Pedersen, Hemmet self-employee
 Niels Chr. Poulsen, No, Ringkøbing, mink farmer
 Jesper Ramskov, Esbjerg, manager
 Birte Bruun Thomsen, Esbjerg, manager
 Bente Tang, Hanning, Skjern, farmer
 Poul Thomsen, Skjern, trader in men's clothing
 Carsten Thygesen, Skjern, manager
 Jesper Ørnskov, Århus, manager

Audit Committee

Jens Okholm, Ribe, adviser
 Finn Erik Kristiansen, Varde, bookseller
 Lars Skov Hansen, Esbjerg, advisor, employee-selected

Board of directors *)

Hans Ladekjær Jeppesen, 52 years old, Skjern, lawyer, board chairman. Elected in the board of directors in 2011, re-elected in 2013 and 2015, up for election in 2017.

Jens Okholm, 68 years old, Ribe, adviser, board vice-chairman.

Elected in the board of directors in 2010, re-elected in 2012, 2014 and 2016, up for election in 2018.

Bjørn Jepsen, 53 years old, Borris, farmer.

Elected in the board of directors in 2012, re-elected in 2014 and 2016, up for election in 2018.

Finn Erik Kristiansen, 47 years old, Varde, bookseller.

Elected in the board of directors in 2010, re-elected in 2012, 2014 and 2016, up for election in 2018.

Søren Dalum Tinggaard, 47 years old, Randers, vice manager.

Elected in the board of directors in 2013, re-elected in 2015, up for election in 2017.

Lars Skov Hansen, 43 years old, Esbjerg, advisor, employee-selected.

Elected in the board of directors in 2011, re-elected in 2015, up for election in 2019.

Lars Lerke, 40 years old, Skjern, head of finance, employee-selected.

Elected in the board of directors in 2012, re-elected in 2015, up for election in 2019.

Carsten Jensen, 36 years old, Skjern, adviser, employee-selected.

Elected in the board of directors in 2015, up for election in 2019.

Management

Per Munck, 62 years old, banking executive.
 Employed 1st November 1999

*) Shareholder-selected board of directors are a part of the Committee of representatives.



List of board members' managerial offices in companies as per December 31, 2016

Lawyer Hans Ladekjær Jeppesen:

Board chairman of ODJ Holding ApS
 Board chairman of PE Trading A/S
 Board chairman of Grønbjerg Grundinvest A/S
 Board chairman of Byggefirmaet Ivan V. Mortensen A/S
 Board chairman of LHI Invest A/S
 Board chairman of Grey Holding 1 A/S
 Board chairman of Grey Holding 2 A/S
 Board chairman of Specialfabrikken Vinderup A/S
 Board chairman of Roslev Trælasthandel A/S
 Board member of Skjern Håndbold A/S
 Board member of Gråkjær A/S
 Board member of BS Invest af 1992 A/S
 Board member of Carl C A/S
 Board member of Carl C Ejendomme ApS
 Board member of Grønbjerg Ejendomsselskab A/S
 Board member of AA Properties A/S
 Board member of AA Ejendomme 1 A/S
 Board member of Advokatpartnerselskabet Kirk Larsen & Ascanius
 Board member of Kastrup A/S
 Board member of Kastrup Ejendomme ApS
 Board member of Kastrup Vinduet Holding ApS
 Board member of Spray Away A/S

Consultant Jens Okholm:

Board chairman of Hansen & Bay Byg A/S
 Board member of it-Craft A/S

Bookseller Finn Erik Kristiansen:

Manager of ProVarde S/I
 Manager and board member of Kristiansen Ejendomme A/S
 Manager of Bordin Holding ApS
 Board chairman of Kristiansen Bog & Idé A/S
 Board chairman of Flensborg A/S

Farmer Bjørn Jepsen:

Board member of Arla Foods AmbA
 Board member of Kvægafgiftsfonden
 Board member of Kvægbrugets Forsøgscenter
 Board member of SEGES - kvæg

Vice manager Søren Dalum Tinggaard:

Board member of AP Pension A/S

Banking executive Per Munck:


Board member of BankData
 Board member of Value Invest Luxembourg S.A.
 Board member of Forvaltningsinstituttet for Lokale Pengeinstitutter





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