



# Annual Report 2013

(Extract)





## Improved results and positive development in key areas

- Profit before tax of DKK 36.2 million compared to DKK 12.3 million in 2012
- Solvency of 16.8% and individual solvency requirement of 11.6%, corresponding to 145% coverage
- Solid liquidity reserve of DKK 750 million
- Core earnings of DKK 99.1 million compared with DKK 81.2 million in 2012
- Loan impairment of DKK 67.1 million compared with DKK 69.2 million in 2012
- Loan growth of DKK 149 million in 2013
- Core profit in 2014 is expected to be in the range of DKK 100 – 110 million



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## Management's financial report for 2013

### Main activity

Skjern Bank's principal activity is offering bank products to private customers, corporate and institutional customers and public companies. The customers are primarily based in West and South Jutland and the Hellerup area north of Copenhagen. The bank wants to offer the customers a wide assortment of products combined with professional consulting.

### 2013 in brief

A profit before tax of DKK 36.2 million is satisfactory in light of the continued high level of impairment. Profits are significantly better than in 2012 in line with the bank's outlook for the year. The bank's development was generally deemed very satisfactory by the bank's management, who has approved the Annual Accounts for 2013 and notes that the bank is on the right track in the most important areas.

At the beginning of 2013, the bank expected a base profit in the interval of DKK 90 – 100 million. In the third quarterly report, the expectation was adjusted upwards to a range of DKK 95 – 100 million, which was realised as DKK 101.0 million before the underwriting commission to the state and DKK 99.1 million after the underwriting commission.

In 2013, the bank had repaid capital of a total of DKK 90 million and the bank is thus sufficiently padded and equipped for future regulatory capital requirements, with a capital adequacy ratio of 16.8. The individual solvency requirement is calculated in accordance with the Danish Financial Supervisory Authority's credit reservation method (the 8+ method) and amounts to 11.6%, therefore the bank has a capital coverage of 145%.

There were also targeted efforts in 2013 to maintain a solid liquidity based on stable customer deposits. This is why it is very satisfying to report that at the end of the year there was a deposit surplus of DKK 310 million. Customer deposit increases were DKK 203 million in 2013. In the course of 2013, the bank repaid state-guaranteed loans of a total of DKK 844 million and with the current liquidity reserve of 144.6%, corresponding to DKK 750 million, the bank is solidly padded. In 2013, the bank realised a major increase in core earnings from DKK 81.2 million in 2012 to DKK 99.1 million in 2013. The bank's profitability is positively affected by increased lending, rising fee income and falling interest expenses as a result of the large repayment of capital and state-guaranteed loans.

Compared to 2012, the bank's net interest and fee income increased by DKK 17 million, while the cost level was marginally reduced.

Impairment fell by DKK 2 million to DKK 67 million. This level is considered a high level by the management. Some of the impairments relating to the bank's identified weak commitments fell by DKK 12.8 million and amounted to DKK 58.2 million in 2013, compared with DKK 71 million in 2012. The rest of the impairments related to the bank's collective impairments, which are regulated based on the general community situation. In 2013, DKK 8.8 million was recognised as expenses and in 2012, DKK 1.8 million was recognised as income. Several of the bank's identified weak commitments have developed negatively in the course of 2013, but some commitments also showed small signs of improvement. Against this background, it is the management's assessment that the need for impairment in 2014 will be significantly lower.

The Supervisory Diamond, which is a benchmark for the status of the health of financial institutions, was calculated as of 31 December 2013 and shows that the bank is still within the established limit values in all five areas.

### Expectations for 2014

Based on the observed loan growth and the improved profitability, the bank is optimistic about 2014 and expects a marked profit increase compared to 2013.

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

Ambitious goals have been set for 2014 based on careful organic growth with a focus on strengthening the bank's position as an independent and local West and South Jutland bank that makes a difference in its local areas.

The repressed Danish competitiveness and restrained domestic consumption discourage willingness to invest in both industrial and private consumers. Job creation in the bank's market area is expected to remain at its current level in 2014.

Private customers in the West and South Jutland areas have continued with 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 2014.

The bank has and always has had close ties to the agricultural industry, which represents a significant loan exposure. Over time, credit lending to the industry has been relatively unproblematic and has only led to loss for the bank to a limited extent. However, in 2013 a small number of commitments were settled for which continued operation was deemed futile. These commitments have contributed heavily to impairments for the year.

Although parts of the Danish agricultural industry have continued to suffer in 2013, the bank sees a clearly improved profitability in the sector compared to 2012. The trend is estimated to continue into 2014, when it is expected that a smaller number of farms will have difficulty achieving overall profitability. The bank will continue – out of loyalty and respect – and in close cooperation with individual farmers, to aim to find the best possible solutions to the challenges that may arise.

The bank has loans to agriculture of 12.2% of the total loans. As with any other business, the bank has made a careful review of agricultural commitments, which makes the management confident about these commitments.

The bank's activities are progressing well, based on the addition of new customers and particularly due to the fact that existing customers are increasingly entrusting more of their banking transactions to the bank.

A focus on financing alternative energy has meant many new customer relationships. The share of loans so far, both for the construction of facilities and for end investors, is increasing and is also expected to be a significant business area for the bank in 2014.

There will be a focus on maintaining a balanced ratio between the total deposit and lending volumes, since the bank wants to strategically promote independence from significant external funding.

Overall, 2014 is expected to lead to a moderate increase in the bank's business volume and increased activity in securities and the foreign sector. Interest expenses were reduced as a result of lower prices for the bank's high-interest deposits, while at the same time there are no expenses for state-guaranteed funding throughout 2014. A very important factor in recent years - impairment needs - are still expected to be considerable, but significantly lower compared to 2013, such that the profit before tax is expected to be at a significantly higher level than in 2013.

The bank expects core earnings in the range of DKK 100 – 110 million in 2014.

### Audit

The Danish version of the Annual Report for 2013 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 2013 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 2013 and of the result of the bank's activities for the accounting year 1 January – 31 December 2013.

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 6th February 2014*  
Executed Board of  
Skjern Bank A/S

*Per Munck*

/

*Thomas Baun*  
Chief Financial Officer

*Skjern, the 6th February 2014*

*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*

## Profit and loss account

2013

2012

Note:		(DKK 1,000)	(DKK1,000)
2	Interest receivable.....	249,506	262,374
3	Interest payable.....	<u>89,001</u>	<u>109,368</u>
	<b>Net income from interest.....</b>	<b><u>160,505</u></b>	<b><u>153,006</u></b>
	Dividend on shares and other holdings.....	8,231	5,414
4	Charges and commission receivable.....	66,794	61,215
	Charges and commission payable.....	<u>4,933</u>	<u>5,919</u>
	<b>Net income from interest and charges.....</b>	<b><u>230,597</u></b>	<b><u>213,716</u></b>
5	Value adjustments.....	16,236	8,096
	Other ordinary income.....	1,745	1,130
6	Staff costs and administrative expenses.....	131,117	132,557
	Depreciation and write-downs on intangible and tangible assets.....	4,047	3,709
	Other operating expenses total.....	9,834	5,292
	Contribution to the Guarantee Fund for deposits.....	9,127	4,843
	Other operating expenses.....	707	449
9	Write-downs.....	67,073	69,204
10	Profit on equity investments in non-affiliated and affiliated companies.....	<u>-332</u>	<u>91</u>
	<b>Result before tax.....</b>	<b><u>36,175</u></b>	<b><u>12,272</u></b>
11	Tax.....	11,720	2,433
	<b>Net-result for the financial year.....</b>	<b><u>24,455</u></b>	<b><u>9,839</u></b>

## Statement of comprehensive income

Profit for the financial year.....	24,455	9,839
Other comprehensive income after tax.....	<u>0</u>	<u>0</u>
<b>Total comprehensive income.....</b>	<b><u>24,455</u></b>	<b><u>9,839</u></b>

## Proposal for distribution of profit

Dividends.....	0	0
Transferred to/from retained earnings.....	<u>24,455</u>	<u>9,839</u>
<b>Total distribution of the amount available.....</b>	<b><u>24,455</u></b>	<b><u>9,839</u></b>

# Balance Sheet

**2013**

**2012**

Note:

(DKK 1,000)

(DKK 1,000)

## Assets

	Cash in hand and demand deposits with central banks .....	437,505	805,863
12	Receivables at credit institutions and central banks .....	16,573	22,094
13	Loans and other receivables at amortised cost .....	3,647,129	3,498,499
14	Bonds at fair value .....	824,171	1,270,360
15	Shares etc. ....	211,354	203,258
16	Holdings in associated enterprises .....	361	633
16	Holdings in group enterprises .....	3,171	3,233
17	Land and buildings (total) .....	66,889	69,429
	Investment properties .....	8,361	9,361
	Owner-occupied properties .....	58,528	60,068
18	Other tangible assets .....	6,517	8,276
19	Deferred tax assets .....	35,984	44,198
	Other assets .....	62,020	75,207
	Prepayments .....	6,308	3,430
	<b>Total assets</b> .....	<b>5,317,982</b>	<b>6,004,480</b>

## Liabilities

	<b>Debt</b>		
20	Debt to credit institutions and central banks .....	416,006	399,806
21	Deposits and other debts .....	3,956,740	4,499,426
	Deposits .....	3,956,740	3,753,560
	Other debts .....	0	745,866
22	Bonds issued at amortised cost .....	3,051	102,640
xxx	.....	2,218	318
	Other liabilities .....	96,565	86,115
	Prepayments .....	444	197
	<b>Total debt</b> .....	<b>4,475,024</b>	<b>5,088,502</b>
	<b>Provisions</b>		
13	Provisions for loss on guarantees .....	0	10,517
	<b>Total provisions</b> .....	<b>0</b>	<b>10,517</b>
23	<b>Subordinated debt</b>		
	Subordinated loan capital .....	199,201	223,475
	Hybrid core capital .....	70,000	135,000
	<b>Total subordinated debt</b> .....	<b>269,201</b>	<b>358,475</b>
	<b>Equity</b>		
24	Share capital .....	192,800	192,800
	Revaluation reserves .....	417	417
	Proposed dividend .....	0	0
	Retained earnings .....	380,540	353,769
	<b>Total equity</b> .....	<b>573,757</b>	<b>546,986</b>
	<b>Total liabilities</b> .....	<b>5,317,982</b>	<b>6,004,480</b>

## Information on changes in equity

**2013**

**2012**

Note:		(DKK 1,000)	(DKK 1,000)
24	Share capital beginning-of-year .....	192,800	22,560
	Share issue .....	0	170,240
<b>24</b>	<b>Share capital end-of-year .....</b>	<b>192,800</b>	<b>192,800</b>
	Revaluation reserves beginning-of-year .....	417	417
	Additions related to reassessed value .....	0	0
	Other movements .....	0	0
	<b>Revaluation reserves end-of-year .....</b>	<b>417</b>	<b>417</b>
	Retained earnings beginning-of-year .....	353,769	357,740
25	Profit or loss for the financial year .....	24,455	9,839
	Sale of own funds .....	24,187	7,123
25	Purchase of own funds .....	-21,871	-5,483
	Costs share issue .....	0	-15,450
	<b>Retained earnings end-of-year .....</b>	<b>380,540</b>	<b>353,769</b>
	<b>Total equity .....</b>	<b>573,757</b>	<b>546,986</b>





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## 1. Accounting Policies

The annual report is prepared in accordance with the Financial Business Act, including the notes on financial reports for credit institutions and investment companies, etc. The financial statements have been prepared in accordance with additional Danish disclosure requirements that apply to listed financial companies. The annual reports are presented in Danish kroner and rounded to the nearest DKK 1,000. The accounting policies remain unchanged since last fiscal year. In connection with the amendment of the notice of financial reports of credit institutions and investment companies, etc., on January 11, 2011, the bank has not fully applied the new notice for the Annual Report 2010. The bank has applied only § 93a, § 134 and § 129 for the presentation of the Annual Report 2010, even though the changes are only effective for Annual Reports filed on January 1, 2011 onward.

### General notes on recognition and measurement

Assets are recognised on the balance sheet when it is probable that future economic assets will come to the bank and the assets can be measured reliably.

Liabilities are recognised on the balance sheet when they are probable and can be measured reliably.

On initial recognition, assets and liabilities are measured at fair value. However, intangible and tangible activities at the time of initial recognition are measured at cost. Measuring after initial recognition is done as described below for each item.

The recognition and measurement methods take into account foreseeable risks and losses that arise before the Annual Report is presented, and which confirm or deny conditions that existed on the balance sheet date.

In the income statement, income is measured as it is earned, while expenses are recognised at the amounts that apply to the financial year. Increases in value in occupied properties are accounted for directly to equity.

Purchases and sale of financial instruments are recognised on the day of the trade, and the recognition ends when the right to receive/deliver the cash flows from the financial asset or liability expires, or if it is transferred, and the bank in all material respects has transferred all risks and rewards of ownership. The Bank has not applied the rules for reclassification of certain financial assets from fair value to amortised cost price.

### Determination of fair value

Fair value is the amount at which an asset could be exchanged or a liability settled in a trade under normal circumstances, and between informed, willing and non-related parties.

The fair value of financial instruments for which an active market exists is set at the closing price on the balance date, or, if there is no such price, another publicly available rate that can be assumed to be the closest equivalent.

For financial instruments where no active market exists, fair value is found using generally accepted valuation techniques based on observable current market data.

### Accounting estimates

When determining the carrying amounts of certain assets and liabilities, estimates are used with regards to how future events may affect the value of the assets and liabilities at the balance sheet date.

The estimates are based on assumptions which management believes

are reasonable, although not certain. Final actual results can therefore differ from the estimates, since the bank is exposed to risks and uncertainties which may affect them.

Areas involving a higher degree of assessments/assumptions and estimates include write-downs on loans and receivables, unlisted financial instruments, and provisions.

### Foreign currencies

Assets and liabilities in foreign currencies are listed at the Danish National Bank exchange rate on the balance sheet date.

Currency spot transactions are revalued at spot price on the balance sheet date.

Currency translation adjustments are made as needed throughout the income statement.

## Income statement

### Interest, fees and commissions, etc.

Income and expenses from interest are recognised in the income statement for the period to which they belong.

Interest received on loans in which a write-down has been made is listed for the written-own portion of the loan under the item "Impairment losses on loans and receivables", and is depreciated and deducted in the following year's write-downs.

Provision and fees that are an integral part of the effective interest rate on a loan are recognised as part of the amortised cost, and therefore as a proportion of interest income from loans.

Provisions and fees that are part of continuous service are accrued over the term.

Other fees and commissions, as well as dividends, are recognised as income when they are received.

### Staff and administrative expenses

Expenses for staff and administration include expenditure on wages and salaries, social charges, pension plans, computer costs etc.

### Pension plans

The bank has entered into defined pension plans with the majority of employees. For the plans based on contribution, fixed contributions are paid to an independent pension fund. The bank is under no obligation to make further contributions.

### Tax

Income tax for the year, which is made up of current tax and deferred tax expenses, is accounted for in the annual accounts with the portion attributable to the year's results, and directly to owners' equity for income that can be attributed directly to owners' equity.

Current tax payable, or unpaid current tax, is included in the balance sheet as tax calculated on the taxable income adjusted for prepaid tax.

Deferred tax is recognised on all temporary differences between the book and tax values of assets and liabilities. Deferred tax assets, including the tax value of tax loss carry forwards, are recognised in the balance sheet using the value that is expected to be realised, either against deferred tax liabilities or against net assets.

The bank is taxed jointly with all Danish companies where it has a controlling influence. Current Danish corporate tax is allocated between the jointly taxed Danish companies in proportion to their taxable income (full allocation with reimbursement for tax losses).

## Balance sheet

### Dues with credit institutions and central banks

Receivables are measured at current value.

### Loans

The "Loan" item consists of loans on which payment has been made directly to the borrower.

Loans are measured at amortised cost, which normally corresponds to the nominal value less front fees, etc., and write-downs for that have been incurred but not yet realised.

Loans, etc. are written down either individually or on a group basis when there is objective evidence suggesting inability to pay, resulting in a reduction in the expected future cash flows, established from an assessment of the most likely outcome.

For loans and receivables that are not individually written down, a collective assessment is made of whether the group is subject to an objective indication of impairment.

The group assessment is made based on groups of loans and receivables with similar credit risk characteristics. There are 11 groups divided into one group of public authorities, one group of residential customers and 9 groups of business customers, where the business customers are broken down by industry.

The group assessment is made by a segmentation model developed by the Association of Local Banks, which is responsible for its ongoing maintenance and development. The segmentation model determines the connection within each group between actual losses and a number of significant explanatory macroeconomic variables through linear regression analysis. The explanatory macroeconomic variables include unemployment rates, housing prices, interest rates, and number of bankruptcies/forced sales etc.

The macroeconomic segmentation model is basically calculated on the basis of loss data for the entire banking sector. The bank has therefore concluded that the model estimates accurately reflect the credit risk of the bank's lending portfolio.

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

Changes in impairment charges are regulated in the income statement under "Impairment of loans and receivables, etc."

### Bonds and shares etc.

Bonds and shares traded on a registered stock exchange are measured at market rate. The market rate is the official closing price on the balance sheet date.

Mortgages held to maturity are measured at amortised cost.

Unlisted shares are taken at fair value on the balance sheet date.

Value adjustments on bonds and equities are recognised in the income statement under "Adjustments".

### Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured under the equity method, which means that investments are measured at the proportionate share of the net asset value at the end of the year.

The balance sheet includes the bank's share of corporate profit.

### 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 5-7 %, 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. Increases in occupied properties are revalued by the amount recognised in the revaluation reserve under equity. If an increase in the revalued amount is matched by an earlier fall, and thus is recognised in income in prior years, the increase is included in the income statement.

A decrease in the revalued value is included in the income statement, unless it is a reversal of previous revaluations.

Occupied properties are depreciated over 50 years on the basis of cost, adjusted for any value changes.

**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 whose size and timing are uncertain are recognised as provisions when it is probable that the obligation will require an outflow of the bank's financial resources, and the obligation can be reliably measured. The liability is determined as the present value of the costs that must be incurred to meet the obligation.

Guarantees are not measured lower than the commission received for guarantee accrued over the guarantee period.

**Treasury shares**

Purchase and sales prices and dividends on shares are recognised directly under equity.

**Derivative financial instruments**

All derivative financial instruments, including forwards, futures and options in both bonds, shares as currency and interest rate and currency swaps are measured at their fair value on the balance sheet date.

Adjustments are included in the income statement.

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

**Contingent obligations**

The bank's outstanding guarantees are reported under "Contingency obligations". Outstanding guarantees, which are believed to lead to a loss for the bank, are listed under "Provisions for losses on guarantees" and expensed in the income statement under "Impairment losses on loans and receivables".

**Financial highlights**

Financial highlights are presented in accordance with accounting order requirements.

## Note

	2013 (DKK 1,000)	2012 (DKK 1,000)
<b>2 Interest income</b>		
Receivables at credit institutions and central banks .....	47	1,366
Loans and other receivables .....	237,774	247,138
Loans (interest conc. the written-down part of loans) .....	-9,000	-9,200
Bonds .....	18,518	21,266
Other derivative financial instruments, total .....	-778	1,804
of which		
Currency contracts .....	-778	1,184
Interest-rate contracts .....	0	620
Other interest income .....	945	0
<b>Total</b> .....	<b>249,506</b>	<b>262,374</b>
<b>3 Interest expenses</b>		
Credit institutions and central banks .....	1,225	1,396
Deposits .....	70,159	76,069
Bonds, issued .....	596	9,215
Subordinated debt .....	17,014	22,683
Other interest expenses .....	7	5
<b>Total</b> .....	<b>89,001</b>	<b>109,368</b>
<b>4 Fees and commission income</b>		
Securities trading and custody accounts .....	19,278	15,976
Payment services.....	6,476	6,201
Loan fees.....	22,209	21,970
Guarantee commission .....	8,742	7,497
Other fees and commission .....	10,089	9,571
<b>Total</b> .....	<b>66,794</b>	<b>61,215</b>
<b>5 Value adjustments</b>		
Bonds .....	482	-745
Total shares.....	14,220	5,451
- Shares in sectorcompanies etc. ....	6,952	4,406
- Other shares.....	7,268	1,045
Foreign currency .....	1,504	3,676
Other financial instruments .....	30	-286
<b>Total</b> .....	<b>16,236</b>	<b>8,096</b>
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.		
No income or expenses are entered from genuine purchase or repurchase contracts in notes 2 and 3.		
<b>6 Staff costs and administrative expenses</b>		
<b>Salaries and remuneration of board of directors, managers etc.</b>		
Board of managers (1 person)*.....	2,830	2,830
Fixed fees.....	2,790	2,790
Pension contributions .....	40	40
Management board .....	697	606
Audit Committee.....	50	50
Committee of representatives .....	176	168
<b>Total salaries and remuneration of board etc.</b> .....	<b>3,753</b>	<b>3,654</b>
*The Board of manager has a company car		
<b>Board of Directors' remuneration</b>		
Hans Ladekjær Jeppesen.....	145	143
Jens Okholm .....	133	131
Bjørn Jespsen .....	93	77
Finn Erik Kristiansen.....	103	100
Søren Dalum Tinggaard.....	77	0
Lars Skov Hansen .....	103	100
Lars Lerke .....	93	69
Jens Christian Ostersen .....	0	19
Metha Thomsen.....	0	17
<b>Total</b> .....	<b>747</b>	<b>656</b>

## Note

	2013 (DKK 1,000)	2012 (DKK 1,000)
<b>6 Staff costs and administrative expenses (continued)</b>		
<b>Staff costs</b>		
Wages and salaries .....	60,318	59,891
Pensions .....	6,751	6,739
Social security costs .....	869	776
Payroll tax .....	7,757	7,406
<b>Total staff costs</b> .....	<b>75,695</b>	<b>74,812</b>
Salary to special risk takers (6 persons in 2013, 6 persons in 2012) .....	4,705	4,627
Pensions to special risk takers (6 persons in 2013, 6 persons in 2012) .....	504	495
<b>Other administrative expenses</b>		
IT expenses .....	23,540	25,935
Rent, electricity, heating etc. ....	4,453	4,177
Postage, telephony etc. ....	1,201	1,607
Other administrative expenses .....	22,475	22,372
<b>Total other administrative expenses</b> .....	<b>51,669</b>	<b>54,091</b>
<b>Total staff costs and administrative expenses</b> .....	<b>131,117</b>	<b>132,557</b>

With reference to the conditions for participation in the second guarantee scheme for banks in Denmark, it should be noted that tax has been deducted from remuneration of the executive board in the amount of DKK 1,415 in connection with the preliminary statement of taxable income for the 2013 accounting period. This is unchanged compared to the 2012 accounting period.

### 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 and must retire at 70 years in accordance with the applicable contract. 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 .....	122	122
Employed in other business .....	1	1
<b>Total</b> .....	<b>123</b>	<b>123</b>

## 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 .....	966	2,068
Honorariums for statutory audits of financial statements .....	513	500
Honorariums for assurance services .....	295	20
Honorariums for services other than audits .....	158	1,548



## Note

	2013 (DKK 1,000)	2012 (DKK 1,000)
9	<b>Write-downs on loans and receivables</b>	
	Write-downs and provisions during the year .....	99,995
	Reversal of write-downs made in previous years .....	123,490
	Finally lost, not previously written down .....	-28,535
	Interest on the written-down portion of loans .....	4,111
	Recoveries of previously written off debt .....	5,799
		-9,000
		-1,186
	<b>Total</b> .....	<b>67,073</b>
10	<b>Profit on equity investments in non-affiliated and affiliated companies</b>	
	Profit on equity investments in non-affiliated companies .....	-271
	Profit on equity investments in affiliated companies .....	224
	<b>Total</b> .....	<b>-332</b>
11	<b>Tax</b>	
	Calculated tax of income of the year .....	3,278
	Adjustment of deferred tax .....	7,512
	Adjustment of tax calculated in previous years .....	930
	<b>Total</b> .....	<b>11,720</b>
	Tax paid during the year .....	1,060
	<b>Effective tax-rate</b> .....	(Pct.)
	Current tax rate .....	25.00
	Non-deductible expenses and non-taxable income .....	-0.88
	Adjustment of prior years' taxes .....	2.57
	Reduction in future tax rate .....	5.22
	Other adjustments .....	0.49
	<b>Total effective tax rate</b> .....	<b>32.40</b>
12	<b>Receivables at credit institutions and central banks</b>	
	Deposits with central banks .....	0
	Receivables at credit institutions .....	16,573
	<b>Total</b> .....	<b>16,573</b>
	<b>Remaining period</b>	
	Demand .....	15,463
	Over 1 year and up to 5 years .....	1,110
	<b>Total</b> .....	<b>16,573</b>
	No assets related to genuine purchase and resale transactions included.	
13	<b>Loans and other debtors at amortised cost price</b>	
	<b>Remaining period</b>	
	Claims at call .....	1,612,387
	Up to 3 months .....	58,628
	Over 3 months and up to 1 year .....	375,123
	Over 1 year and up to 5 years .....	673,327
	Over 5 years .....	927,664
	<b>Total loans and other debtors at amortised cost price</b> .....	<b>3,647,129</b>
	No assets related to genuine purchase and resale transactions included	
	<b>Individual write-downs and provisions</b>	
	Write-downs beginning of the year .....	223,512
	Write-downs during the year .....	91,499
	Reversal of write-downs made in previous years .....	-28,535
	Write-downs in previous years - now lost .....	-65,029
	<b>Write-downs end of year</b> .....	<b>221,447</b>
	<b>Group write-downs and provisions</b>	
	Write-downs - beginning of the year .....	12,883
	Write-downs during the year .....	8,806
	<b>Group write-downs - end of year</b> .....	<b>21,689</b>
	<b>Total write-downs</b> .....	<b>243,136</b>
		<b>236,395</b>

## Note

	2013 (DKK 1,000)	2012 (DKK 1,000)
13	<b>Loans and other debtors at amortised cost price (continued)</b>	
	<b>Guarantees</b>	
	Provisions beginning of the year.....	10,517
	Provisions during the year*.....	12
	Loss on guarantees.....	-10,000
	Transferred to liabilities.....	-529
	<b>Guarantees end of year</b> .....	<b>0</b>
		<b>5,208</b>
		<b>8,660</b>
		<b>0</b>
		<b>-3,351</b>
		<b>10,517</b>
	*) Provisions to the Guarantee Fund for deposits represents 0 TDKK in 2013 and 517 TDKK in 20112.	
	<b>Loans etc. with suspended calculation of interest</b> .....	<b>187,895</b>
		<b>189,831</b>
	<b>Loans and other debtors with an objective indication of impairment included in the balance sheet at a book value greater than zero</b>	
	<b>Individual written-down loan</b>	
	Balance for loans and other debtors before write-downs.....	623,703
	Write-downs.....	-221,447
	<b>Balance for loans and other debtors after write-downs</b> .....	<b>402,256</b>
		<b>618,925</b>
		<b>-233,512</b>
		<b>395,413</b>
	<b>Group written-downs loans</b>	
	Balance for loans and other debtors before write-downs.....	3,266,562
	Write-downs.....	-21,689
	<b>Balance for loans and other debtors after write-downs</b> .....	<b>3,244,873</b>
		<b>3,115,969</b>
		<b>-12,883</b>
		<b>3,104,086</b>
	There are no write-downs of receivables from credit institutions, or any other receivables.	
14	<b>Bonds at fair value</b>	
	Mortgage credit bonds.....	656,713
	Other bonds.....	167,458
	<b>Total bonds at fair value</b> .....	<b>824,171</b>
		<b>1,128,519</b>
		<b>141,841</b>
		<b>1,270,360</b>
	The bank has no held-to-maturity assets	
15	<b>Shares etc</b>	
	Quoted on Nasdaq OMX Copenhagen A/S .....	29,095
	Quoted on other stock exchanges .....	14,024
	Unquoted shares recorded at fair value .....	166,211
	Other shares.....	2,024
	<b>Total shares etc.</b> .....	<b>211,354</b>
		<b>19,912</b>
		<b>10,923</b>
		<b>162,409</b>
		<b>10,015</b>
		<b>203,259</b>
16	<b>Equity investments in associated and affiliated companies</b>	
	<b>2013</b>	<b>2013</b>
	Associated companies	Affiliated companies
	(DKK 1,000)	(DKK 1,000)
	<b>Total cost price beginning-of-year</b> .....	19,860
	Acquisitions during the year .....	0
	Reduction during the year .....	19,355
	<b>Total cost price end-of-year</b> .....	<b>505</b>
		<b>6,988</b>
		<b>0</b>
		<b>0</b>
	<b>Total write-ups/downs and depreciations beginning-of-year</b> .....	-19,227
	Result .....	0
	Disposals during the year .....	-19,084
	<b>Total write-ups/downs and depreciations end-of-year</b> .....	<b>-143</b>
		<b>-3,755</b>
		<b>-61</b>
		<b>0</b>
	<b>Book value end-of-year</b> .....	<b>362</b>
	of this credit institutions .....	0
	Book value beginning-of-year .....	633
	of this credit institutions .....	0
		<b>3,172</b>
		<b>0</b>
		<b>3,233</b>
		<b>0</b>
	All agreements and transactions with affiliated undertakings is entered into on market terms.	

**Note**

	<b>2013</b> (DKK 1,000)	<b>2012</b> (DKK 1,000)
<b>17 Land and buildings</b>		
Investment properties		
Fair value - end of previous financial year .....	9,361	9,361
Acquisitions during the year incl. improvements .....	52	6
Disposals during the year .....	0	0
Adjustment of fair value for the year .....	-1,052	-6
<b>Fair value end-of-year .....</b>	<b>8,361</b>	<b>9,361</b>
<b>Owner occupied properties</b>		
Reassessed value - end of previous financial year .....	60,068	60,177
Acquisitions during the year incl. improvements .....	166	524
Disposals during the year .....	-935	0
Depreciations .....	-1,420	-1,420
Changes in value recognized in income .....	649	787
<b>Reassessed value end-of-year .....</b>	<b>58,528</b>	<b>60,068</b>
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 5-7 %.		
<b>18 Other tangible assets</b>		
Total cost price beginning-of-year .....	40,154	39,736
Acquisitions during the year incl. Improvements .....	479	888
Reduction during the year .....	0	-470
<b>Total cost price beginning-of-year .....</b>	<b>40,633</b>	<b>40,154</b>
Total write-ups/downs and depreciations beginning-of-year .....	31,878	28,981
Depreciations during the year .....	2,238	3,071
Reversal of depreciations .....	0	-174
<b>Total write-ups/downs and depreciations end-of-year .....</b>	<b>34,116</b>	<b>31,878</b>
Book value end-of-year .....	<b>6,517</b>	<b>8,276</b>
<b>19 Deferred taxation</b> (Tax amount)		
Tangible assets .....	1,164	470
Loans and other receivables .....	1,843	1,918
Other .....	-176	-353
Other deficits carried forward .....	33,154	42,163
<b>Total deferred taxation .....</b>	<b>35,984</b>	<b>44,198</b>
The activated deficit is expected to be utilised within the next 5 years.		
<b>20 Debt to credit institutions and central banks</b>		
<b>Debt to credit institutions and central banks</b>		
Debt to central banks .....	250,701	250,126
Debt to credit institutions .....	165,305	149,680
<b>Total debt to credit institutions and central banks .....</b>	<b>416,006</b>	<b>399,806</b>
<b>Term to maturity</b>		
Demand .....	85,305	69,680
Over 3 months and up to 1 year .....	80,000	0
Over 1 year and up to 5 years .....	250,701	330,126
<b>Total debt to credit institutions and central banks .....</b>	<b>416,006</b>	<b>399,806</b>
No liabilities related to genuine sale and repurchase transactions included.		



**Note**

	<b>2013</b> (DKK 1,000)	<b>2012</b> (DKK 1,000)
<b>21 Deposits and other debts</b>		
Demand.....	3,105,816	2,898,183
At notice.....	18,818	18,174
Time deposits.....	196,256	969,004
Special types of deposits.....	635,850	614,065
<b>Total deposits and other debts</b> .....	<b><u>3,956,740</u></b>	<b><u>4,499,426</u></b>
<b>Term to maturity</b>		
Demand.....	3,119,267	2,912,101
Deposits redeemable at notice:		
Up to 3 months.....	97,685	809,613
Over 3 months and up to 1 year.....	63,310	51,681
Over 1 year and up to 5 years.....	211,279	261,118
Over 5 years.....	465,199	464,913
<b>Total deposits and other debts</b> .....	<b><u>3,956,740</u></b>	<b><u>4,499,426</u></b>
No liabilities related to genuine sale and repurchase transactions included.		
<b>22 Bonds issued at fair value</b>		
<b>Term to maturity</b>		
Up to 3 months.....	1,700	1,648
Over 3 months and up to 1 year.....	0	97,940
Over 1 year and up to 5 years.....	1,351	3,052
<b>Total bonds issued at amortised cost</b> .....	<b><u>3,051</u></b>	<b><u>102,640</u></b>
<b>23 Subordinated debt</b>		
<b>Supplementary capital DKK 25 mio.</b> .....	0	25,000
Rate.....	0%	2.876%
Due date.....		01.11.2014
The loan is repaid on 1st August 2013		
<b>Supplementary capital DKK 100 mio.</b> .....	100,000	100,000
Rate.....	3.26%	3.30%
Due date.....	03.12.2015	03.12.2015
The loan can be repaid prematurely by the bank at each interest payment date The interest rate is a halfyearly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of 6 months plus 2,80% pa.		
<b>Supplementary capital DKK 100 mio.</b> .....	99,201	97,749
Rate.....	8.00%	8.00%
Due date.....	14.12.2017	14.12.2017
With FSA approval, bonds can be redeemed before maturity on 14 December 2014 On December 14, 2014, the interest rate is changed to a quarterly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of three months plus 6,442% pa		
<b>Hybrid core capital DKK 70 mio.</b> .....	70,000	70,000
Rate.....	6.09%	6.09%
Due date.....	No due date	No due date
The loan can be repaid prematurely by the bank on the 1st May 2016. On May 1 2016, the interest rate is changed to a quarterly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of three months plus 2.73% pa.		
<b>Hybrid core capital DKK 65 mio.</b> .....	0	65,000
Rate.....	0%	10.82%
Due date.....		No due date
The loan has been repaid prematurely by the bank on the 21st February 2013.		

Note	2013 (DKK 1,000)	2012 (DKK 1,000)
23		
<b>Subordinated debt (continued)</b>		
<b>Subordinated debt total</b> .....	<b>269,201</b>	<b>358,475</b>
Subordinated debt that may be included in the capital base .....	219,201	320,975
Costs related to admission .....	0	0
Interest on subordinated liabilities recognised in income .....	17,014	22,683
24		
<b>Share capital</b> .....	<b>192,800</b>	<b>192,800</b>
Number of shares is 9,640,000 at DKK 20 each		
The bank has pr. 31. December 2013 16,044 registered shareholders. 98.09 % of the share capital are registered on name.		
Due to the optional Bank Package II, the bank has restricted dividends in the period with added government hybrid capital. Dividends may only be paid to the extent that the benefits can be financed by the bank's net profits after taxes, which constitute the distributable reserves, generated in the period after October 1, 2010.		
25		
<b>Own capital shares</b>		
<b>Purchase and sales of own shares</b>		
<b>Holdings beginning of the year</b>		
Number of own shares .....	79,890	97,102
Nominal value of holding of own shares (DKK 1,000) .....	1,598	1,942
Own shares proportion of share capital .....	0.83	8.61
<b>Addition</b>		
Number of own shares .....	714,411	77,223
Nominal value of holding of own shares (DKK 1,000) .....	14,288	1,544
Own shares proportion of share capital .....	7.41	0.80
Purchase price (DKK 1,000) .....	21,871	5,483
<b>Disposal</b>		
Number of own shares .....	785,451	94,435
Nominal value of holding of own shares (DKK 1,000) .....	15,709	1,889
Own shares proportion of share capital .....	8.15	0.98
Sale price (DKK 1,000) .....	21,187	7,123
<b>Holdings end of the year</b>		
Number of own shares .....	8,850	78,890
Nominal value of holding of own shares (DKK 1,000) .....	177	1,598
Own shares proportion of share capital .....	0.09	0.83
At the annual meeting the bank asks the shareholders the permission to acquire up to a total nominal value of 3 % of the banks share capital, refer to the regulations in the Companies Act § 48. The bank wish to receive this power, in order that the bank always is able to grant the requests from our customers and investors to buy respectively to sell shares in Skjern Bank, and the net-purchase during 2013 is only in consequence hereof.		
26		
<b>Contingent liabilities</b>		
<b>Contingent liabilities</b>		
Finance guarantees .....	55,338	56,694
Guarantees against losses on mortgage credit loans .....	164,208	154,992
Registration and conversion guarantees .....	81,976	82,309
Other contingent liabilities .....	283,191	198,161
<b>Total</b> .....	<b>584,713</b>	<b>492,156</b>

## Note

		2013 (DKK 1,000)	2012 (DKK 1,000)
26	<b>Contingent liabilities (continued)</b>		
	<b>Other binding engagements</b>		
	Irrevocable credit-undertakings .....	75,767	22,085
	<b>Total</b> .....	<b>75,767</b>	<b>22,085</b>
	<b>Assets pledged as collateral</b>		
	From the security portfolio, the bank has pr. 31. December 2013 put as collateral for clearing with Danmarks Nationalbank, securities with a total market value of DKK 167 million. In addition, there is pledged loans for a total of DKK 134 million.		
	<b>Contract Legal obligations</b>		
	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 0.421 %.		
	The Bank is a tenant in three leases, two of which can be terminated with 6 months' notice, the yearly lease is 848 TDKK. The third lease is irrevocable until 31 December 2021, and the yearly lease is 1,807 TDKK.		
27	<b>Lawsuits etc.</b>		
	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	<b>Related parties</b>		
	Loans and warranties provided to members of the bank's management board, board of directors and committee of representatives are on marked-based terms.		
	<b>Transactions with related parties</b>		
	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.		
	<b>Management:</b>		
	Loans .....	0	0
	Bid Bond .....	0	0
	Rate of interest .....	0.00%	0.00%
	<b>Board of directors:</b>		
	Loans .....	3,155	3,207
	Bid Bond .....	2,240	2,240
	Rate of interest/interest range .....	2.206-6.7325%	2.2595-6.72%
	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 .....	4,536	4,536
	Finn Erik Kristiansen .....	2,748	2,748
	Søren Dalum Tinggaard .....	955	0
	Lars Sov Hansen .....	710	710
	Lars Lerke .....	10,382	10,832



## Note

	2013 (DKK 1,000)	2012 (DKK 1,000)
29		
<b>Capital requirement</b>		
<b>Core capital</b>		
Equity .....	573,757	546,986
Revaluation reserve .....	-417	-417
Deferred tax assets .....	-35,984	-44,198
Hybrid core capital (applied) .....	70,000	135,000
Half of equity investments in other financial companies in compliance with law concerning financial activity .....	-43,383	-38,180
<b>Core capital after statutory deduction .....</b>	<b>563,973</b>	<b>599,191</b>
Subordinated debt .....	149,201	185,974
Hybrid core capital (remainder) .....	0	0
Revaluation reserves .....	417	417
Half of equity investments in other financial companies in compliance with law concerning financial activity .....	-43,383	-38,180
<b>Capital base after deduction .....</b>	<b>670,207</b>	<b>747,404</b>
<b>Weighted items</b>		
Risk-weighted exposure in total .....	3,306,875	3,141,679
Weighted items with market risk .....	285,537	268,129
Weighted items with operational risk .....	429,598	419,148
Group write-downs .....	-21,689	-12,883
<b>Weighted items total .....</b>	<b>4,000,321</b>	<b>3,816,073</b>
<b>Core capital .....</b>	<b>14.1</b>	<b>15.7</b>
<b>Solcency ratio .....</b>	<b>16.8</b>	<b>19.6</b>

## 30 Current value of financial instruments

Financial instruments are measured in the balance sheet at either current value or amortised cost price. The current value is the amount at which a financial asset can be sold or the amount at which a financial liability can be redeemed between agreed independent parties.

The current values of financial assets and liabilities valued on active markets are calculated on the basis of observed market prices on the balance sheet date. The current values of financial instruments which are not valued on active markets are calculated on the basis of generally recognised methods of valuation.

Shares etc. and derivative financial instruments are measured in the accounts at market value such that included book values correspond to current values.

The write-downs on loans are assessed such that they correspond to changes in credit quality. The difference from current value is assessed as fees and commissions received, costs incurred in lending activities, and, for fixed-interest loans, the value adjustment which is independent of the interest level and which can be calculated by comparing the actual market interest rate with the nominal rate applying to the loans.

The current value of claims on credit institutions and central banks is determined under the same method as for loans, but the bank has not currently made any write-downs on claims on credit institutions and central banks.

Issued bonds and subordinated debt are measured at amortised cost price. The difference between book and current values is calculated on the basis of prices on the market for own listed issues.

For variable-interest financial liabilities in the form of deposits and debts to credit institutions measured at amortised cost price, it is estimated that the book value corresponds to the current value.

For fixed-interest financial liabilities in the form of deposits and debts to credit institutions measured at amortised cost price, the difference from current values is estimated to be the value adjustment which is independent of interest level.

## Note

### 30 Current value of financial instruments (continued)

	31. december 2013		31. december 2012	
	Book value (DKK 1,000)	Fair value (DKK 1,000)	Book value (DKK 1,000)	Fair value (DKK 1,000)
<b>Financial assets</b>				
Cash in hand+claims at call on central banks	437,505	437,505	805,863	805,863
Claims on credit institutes and central banks 1)	16,573	16,573	22,094	22,094
Loans and other debtors at amort. costprice 1)	3,654,827	3,666,891	3,506,255	3,511,536
Bonds at current value 1) .....	829,219	829,219	1,282,909	1,282,909
Shares etc. ....	219,516	219,516	203,258	203,258
Capital shares in associated companies .....	361	361	633	633
Capital shares in group companies .....	3,137	3,137	3,233	3,233
Derivative financial instruments .....	40,177	40,177	42,448	42,448
<b>Total financial assets</b> .....	<b>5,201,315</b>	<b>5,213,379</b>	<b>5,866,693</b>	<b>5,871,974</b>
<b>Financial liabilities</b>				
Debt to credit institutions and central banks 1)	416,095	416,396	399,899	400,213
Deposits and other debts .....	3,989,220	4,063,490	4,524,153	4,605,059
Issued bonds at amortised cost price 1) 2)....	3,136	3,136	102,787	102,787
Derivative financial instruments .....	14,828	14,828	16,857	16,587
Subordinated debt 1) 2) .....	272,630	273,630	363,190	362,190
<b>Total financial liabilities</b> .....	<b>4,695,909</b>	<b>4,771,480</b>	<b>5,406,616</b>	<b>5,486,836</b>

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 90 TDKK - 125 TDKK. In the real-estate sector is used return requirement in the range 5% - 9%. 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 <b>Credit risks</b>	<b>2013 (Pct)</b>	<b>2012 (Pct)</b>
Loans and guarantees distributed on sectors		
Public authorities.....	2.4	1.5
Business:		
Agriculture, hunting, forestry & fishing		
- Plant production.....	1.4	1.6
- Cattle farming.....	6.7	7.1
- Pig farming.....	2.4	3.3
- Mink production.....	1.1	0.6
- Other agriculture.....	0.6	1.8
Industry and mining.....	5.3	4.8
Energy.....	5.5	2.7
Building and constructions.....	6.9	4.0
Wholesale.....	8.4	7.2
Transport, hotels and restaurants.....	1.8	2.0
Information and communication.....	0.2	0.3
Financial and insurance business.....	7.7	7.7
Real-estate.....	15.5	20.4
Other business.....	4.1	4.9
<b>Total business.....</b>	<b>67.6</b>	<b>68.4</b>
Private persons.....	30.0	30.1
<b>Total.....</b>	<b>100.0</b>	<b>100.0</b>

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 8.0 % in 2013 and 6.13 % in 2012.

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

	<b>2013</b> (DKK 1,000)	<b>2013</b> (DKK 1,000)	<b>2013</b> (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities.....	92,955	14,075	0
Business.....	2,612,635	416,946	75,767
Private persons.....	941,539	153,691	0
	<b>3,498,499</b>	<b>584,713</b>	<b>75,767</b>

Which recognized in the balance after deduction of depreciation..... 4.231.842

	<b>2012</b> (DKK 1,000)	<b>2012</b> (DKK 1,000)	<b>2012</b> (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities.....	48,168	10,22	0
Business.....	2,326,860	389,621	22,085
Private persons.....	1,123,471	92,513	0
	<b>3,498,499</b>	<b>492,157</b>	<b>22,085</b>

Which recognized in the balance after deduction of depreciation ... 3,990,655

## Note

### 32 Credit risks (continued)

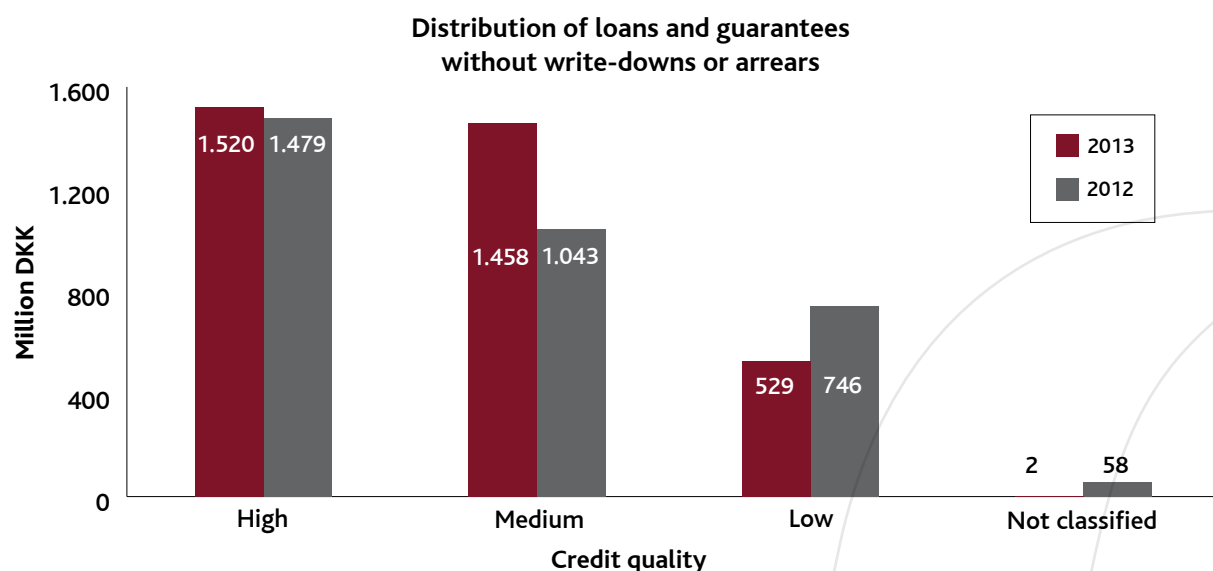
#### Description of collateral

Security distributed by type	2013	2013	2013
	(DKK 1,000)	(DKK 1,000)	(DKK 1,000)
	Public authorities	Business	Private
Securities .....	1,326	114,944	52,935
Real property .....	40,386	2,186,323	1,186,906
Chattels, vehicles and rolling stock .....	8,287	158,096	209,738
Other chattels .....	800	440,238	6,000
Guarantees .....	967	86,421	21,348
Other forms of security .....	2,567	71,374	53,396
	<b>54,333</b>	<b>3,057,396</b>	<b>1,530,323</b>

Security distributed by type	2012	2012	2012
	(DKK 1,000)	(DKK 1,000)	(DKK 1,000)
	Public authorities	Business	Private
Securities .....	2,783	105,839	45,180
Real property .....	35,608	2,145,600	1,065,030
Chattels, vehicles and rolling stock .....	9,181	138,973	181,415
Other chattels .....	800	404,055	2,500
Guarantees .....	967	97,445	21,399
Other forms of security .....	2,167	131,656	63,264
	<b>51,506</b>	<b>3,023,568</b>	<b>1,348,788</b>

As a general rule, the bank is secured by financed assets and is also secured by sureties, mortgages and shares. The above listing refers to nominal securities, but transferable securities are recorded at fair value.

#### 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.



## Note

		<b>2013</b>	<b>2012</b>
		(DKK 1,000)	(DKK 1,000)

32 **Credit risks (continued)**

**Reasons for individual write-downs and provisions**

	<b>2013</b>	<b>2013</b>	<b>2013</b>
	<b>Exposure before</b>	<b>Write-downs</b>	<b>Securities</b>
	<b>write-down</b>		
Significant financial difficulties .....	341,871	110,831	132,170
Breach of contract .....	30,987	19,664	9,134
Reductions in terms .....	39,349	11,325	17,432
Probability of bankruptcy .....	.251,277	79,627	130,213
<b>Total</b> .....	<b>663,484</b>	<b>221,447</b>	<b>288,949</b>

Reference is made to relevant sections on the bank's credit risk on loans on page 9 in the Danish management report.

	<b>2012</b>	<b>2012</b>	<b>2012</b>
	<b>Exposure before</b>	<b>Write-downs</b>	<b>Securities</b>
	<b>write-down</b>		
Significant financial difficulties .....	328,174	103,642	182,924
Breach of contract .....	. 43,958	23,834	32,846
Reductions in terms .....	. 39,677	15,005	23,774
Probability of bankruptcy .....	.234,653	91,032	131,867
<b>Total</b> .....	<b>646,462</b>	<b>233,513</b>	<b>371,411</b>

**Arrears amount for loans, which have not been written down**

0-90 days .....	18,525	42,827
>90 days .....	16,117	11,181
<b>Total</b> .....	<b>34,642</b>	<b>54,008</b>

33 **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	-7,356	-16,508
Interest rate risk in pct of core capital after deductions .....	-1.3	-2.8
Interest rate risk split in currencies with highest risk:		
DKK .....	-9,158	-15,406
CHF .....	-142	-188
EUR .....	1,989	-874
JPY .....	-43	-16
USD .....	0	-23
Others .....	-2	1
<b>Total</b> .....	<b>-7,356</b>	<b>-16,506</b>

**Foreign currency risk**

Total assets in foreign currency .....	653,569	743,506
Total liabilities in foreign currency .....	36,212	822,952

## Note

		2013 (DKK 1,000)	2012 (DKK 1,000)
33	<b>Market risks and sensitivity information (continued)</b>		
	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 .....	903	5,405
	Currency indicator 1 in pct of core capital after deductions.....	0.2	0.9
	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 .....	4	5
	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 .....	2,909	1,992
Quoted on other stock exchanges .....	1,402	1,092
Unquoted shares recorded at fair value .....	16,621	16,240
Other shares .....	202	1,001
<b>Total shares etc. ....</b>	<b>21,134</b>	<b>20,325</b>

### 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.

	2013 Nominal value	2013 Net market- value	2013 Market- value positive	2013 Market- value negative	2012 Nominal value	2012 Net market- value	2012 Market- value postive	2011 Market- value negative
<b>Currency-contracts</b>								
Up to 3 months	918,741	24,325	28,502	4,177	790,641	26,011	39,157	13,146
Over 3 months and up to 1 year	39,233	1,111	1,326	215				
Over 1 year and up to 5 years					2,264	193	193	
Over 5 years								
Average market value			27,821	3,547			29,611	2,863
<b>Interest-rate contracts</b>								
Up to 3 months		2	20	18				
Over 3 months and up to 1 year	58,293	-108	3,277	3,385	17,185	15	811	796
Over 1 year and up to 5 years	133,063	8	6,193	6,185	219,974	-187	12,496	12,683
Over 5 years	5,730	-2	670	672	5,994	-1	890	891
Average market value			10,882	11,012			13,031	13,300
<b>Share contracts</b>								
Up to 3 months								
Over 3 months and up to 1 year								
Over 1 year and up to 5 years								
Over 5 years								
Average market value			6					

## Note

	2013 (DKK 1,000)	2012 (DKK 1,000)
34 <b>Derivate financial instruments (continued)</b>		
<b>Credit risk on derivative financial instruments</b>		
Positive market value, counterparty with risk weighting of 0 % .....	0	0
Positive market value, counterparty with risk weighting of 20% .....	1,598	4,031
Positive market value, counterparty with risk weighting of 100% .....	38,579	38,417
<b>Total</b> .....	<b>40,177</b>	<b>42,448</b>

### Unsettled spot transactions

DKK 1,000

	Nominal value	Market- value Positive	Market- value Negative	Net market- value
Foreign-exchange transactions, purchase .....	599	5	-	5
Foreign-exchange transactions, sale .....	604	-	4	-4
Interest-rate transactions, purchase .....	5,331	10	-	10
Interest-rate transactions, sale .....	431	-	5	-5
Share transactions, purchase .....	4,159	47	70	-23
Share transactions, sale .....	4,172	64	51	13
<b>Total 2013</b> .....	<b>15,296</b>	<b>126</b>	<b>130</b>	<b>-4</b>
<b>Total 2012</b> .....	<b>35,637</b>	<b>154</b>	<b>320</b>	<b>-166</b>

### 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, Privatsikring A/S, Eurocard, PFA Pension, SparInvest, A/S, Valueinvest Asset Management S.A., Investeringsforeningen Dexia Invest, BI Asset Management Fondsbørsmæglerelskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, Garanti Invest 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, Visa International, Dansk Lokalleasing A/S and Deltaq A/S.

## Note

	2013	2012	2011	2010	2009
36	<b>5 years in summary (DKK 1,000)</b>				
<b>Profit and loss account</b>					
Net income from interest .....	160,505	153,006	161,046	158,120	167,948
Dividend on shares .....	8,231	5,414	3,287	2,053	3,405
Charges and commission, net .....	61,861	55,296	49,725	48,654	46,637
<b>Income from core business .....</b>	<b>230,597</b>	<b>213,716</b>	<b>214,048</b>	<b>208,827</b>	<b>217,990</b>
Value adjustments .....	16,236	8,096	94	21,835	29,311
Other ordinary income .....	1,745	1,131	1,683	1,199	18,825
Staff cost and admin. expenses .....	131,117	132,557	134,124	131,507	129,711
Depreciation of intangible and tangible assets.....	4,047	3,709	3,578	2,535	4,078
Other operating expenses .....	9,834	5,292	1,052	19,434	15,615
- Contribution to the Guarantee Fund for deposits	9,127	4,843	1,052	6,148	85
- Other operating expenses .....	707	449	0	13,286	15,530
Write-downs on loans etc. (net) .....	67,073	69,204	52,181	73,085	218,119
- Write-downs on loans and outstanding accounts etc.	67,073	69,204	52,181	62,831	207,868
- Write-downs regarding first guarantee scheme...	0	0	0	10,254	10,251
Profit on equity investments in non-affiliated and affiliated companies	-332	91	-14,208	-1,117	-892
<b>Operating result .....</b>	<b>36,175</b>	<b>12,272</b>	<b>10,692</b>	<b>4,183</b>	<b>-119,286</b>
Taxes .....	11,720	2,433	5,838	982	-28,443
<b>Profit for the year .....</b>	<b>24,455</b>	<b>9,839</b>	<b>4,854</b>	<b>3,201</b>	<b>-90,849</b>
<b>Balance as per 31st December</b>					
summary					
Total assets .....	5,317,982	6,004,480	5,249,140	5,496,049	4,988,301
Loans and other receivables .....	3,647,129	3,498,499	3,526,544	3,623,212	3,677,046
Guarantees etc.....	584,713	482,156	484,656	465,178	626,997
Bonds.....	824,171	1,270,360	887,607	843,058	424,626
Shares etc. ....	211,354	203,258	167,857	185,014	186,323
Deposits and other debts. ....	3,956,740	4,499,426	3,509,897	6,569,671	2,990,783
Subordinated debt .....	269,201	358,475	357,521	356,546	355,625
<b>Total equity .....</b>	<b>573,757</b>	<b>546,986</b>	<b>380,717</b>	<b>380,421</b>	<b>373,387</b>
- of which proposed dividend .....	0	0	0	0	0
<b>Capital Base .....</b>	<b>670,207</b>	<b>747,407</b>	<b>610,283</b>	<b>612,597</b>	<b>613,285</b>



**Note**

	2013	2012	2011	2010	2009
<b>37 Financial ratio (figures in pct.)</b>					
Solvency ratio .....	16.8	19.6	15.8	16.1	15.6
Core capital ratio .....	14.1	15.7	11.1	11.2	10.4
Return on equity before tax .....	6.5	2.7	2.8	1.1	-28.5
Return on equity after tax .....	4.4	2.1	1.3	0.9	-21.7
Earning/expense ratio in DKK .....	1.17	1.06	1.06	1.02	0.68
Interest rate risk .....	-1.3	-2.8	0.0	1.0	1.3
Foreign currency position .....	0.2	0.9	2.6	1.5	2.6
Foreign currency risk .....	0.0	0.0	0.0	0.0	0.0
Loans etc. against deposits .....	98.3	83.0	108.7	109.3	132.4
Statutory liquidity surplus .....	144.6	265.6	159.8	198.3	124.3
Total large commitments .....	23.2	13.1	34.8	38.5	88.2
Loans and debtors at reduced interest .....	4.2	4.5	4.7	5.2	4.0
Accumulated impairment ratio .....	5.4	5.8	6.8	6.4	6.4
Impairment ratio for the year .....	1.5	1.6	1.2	1.7	4.7
Increase in loans etc. for the year .....	4.1	-0.8	-1.8	-1.5	-2.5
Ratio between loans etc. and capital funds .....	6.4	6.4	9.4	9.5	9.8
(value per share 100 DKK) .....					
Earnings per share .....	12.7	5.1	21.5	14.2	-439.6
Book value per share .....	298	286	1,847	1,778	1,810
Rate on Copenhagen Stock Exchange .....	220	120	403	800	900
Dividend per share .....	0	0	0	0	0
Market value/net income per share .....	17.3	23.5	18.7	56.4	-2.0
Market value/book value .....	0.74	0.42	0.22	0.45	0.50



## Financial Calendar 2014

<b>6th February</b>	<b>Announcement of Annual Report 2013</b>
<b>3th March:</b>	<b>General Meeting – Skjern Kulturcenter</b>
<b>1st May:</b>	<b>Announcement of quarterly report 1st quarter 2014</b>
<b>14th August:</b>	<b>Announcement of half-yearly report 2014</b>
<b>30th October:</b>	<b>Announcement of quarterly report 3rd quarter 2014</b>



#### Committee of representatives

Bente Tang, Hanning, Skjern, farmer, head of the committee of representatives  
 Ole Strandbygaard, Ringkøbing, printer, vice-head of the committee of representatives  
 Jørgen Søndergaard Axelsen, Skjern, real estate agent  
 Jens Bruun, Viby J, Manager  
 Ole Eg, Varde, consultant  
 Kaj Eriksen, Vemb, police officer  
 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 Ostensen, Stauning, farmer  
 Jens Kirkegaard Pedersen, Hemmet self-employee  
 Niels Chr. Poulsen, No, Ringkøbing, mink farmer  
 Jesper Ramskov, Esbjerg, manager  
 Christen Spangsberg Sørensen, 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**, 59 years old, Skjern, lawyer, board chairman.  
 Elected in the board of directors in 2011, re-elected in 2013, up for election in 2015.

**Jens Okholm**, 65 years old, Ribe, adviser, board vice-chairman.  
 Elected in the board of directors in 2010, re-elected in 2012, up for election in 2014.

**Bjørn Jepsen**, 50 years old, Borris, farmer.  
 Elected in the board of directors in 2012, up for election in 2015.

**Finn Erik Kristiansen**, 44 years old, Varde, bookseller.  
 Elected in the board of directors in 2010, re-elected in 2012, up for election in 2014.

**Søren Dalum Tinggaard**, 44 years old, Randers, vice manager.  
 Elected in the board of directors in 2013, up for election in 2015.

**Lars Skov Hansen**, 40 years old, Esbjerg, advisor, employee-selected.  
 Elected in the board of directors in 2011, up for election in 2015.

**Lars Lerke**, 37 years old, Skjern, head of finance, employee-selected.  
 Elected in the board of directors in 2012, up for election in 2015.

#### Management

Per Munck, 59 years old, banking executive.  
 Employed 1st November 1999



#### List of board members' managerial offices in companies as per December 31, 2013

Lawyer Hans Ladekjær Jeppesen:  
 Manager of BVLHLJ Holding ApS  
 Boardchairman of Gråkjær Retail A/S  
 Boardchairman of PE Trading A/S  
 Boardchairman of Skautrup Holding A/S  
 Boardchairman of Grønbjerg Grundinvest A/S  
 Boardchairman of Byggefirmaet Ivan V. Mortensen A/S  
 Boardchairman of LHI Invest A/S  
 Boardchairman of Grey Holding 1 A/S  
 Boardchairman of Grey Holding 2 A/S  
 Boardchairman of Grey Partner A/S  
 Boardchairman of Krogsgaard Kompagni A/S  
 Boardchairman of Specialfabrikken Vinderup A/S  
 Boardchairman of AP Company A/S  
 Board member of Skjern Håndbold A/S  
 Board member of Gråkjær A/S  
 Board member of Gråkjær Ejendomme A/S  
 Board member of Gråkjær Industribyg A/S  
 Board member of Gråkjær Staldbyg 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 Actona Company A/S  
 Board member of AA Holding, Herning A/S  
 Board member of Dahlholm Holding ApS  
 Board member of Grønbjerg Ejendomsselskab A/S  
 Board member of Spizy A/S  
 Board member of AA Properties A/S  
 Board member of AA Ejendomme 1 A/S  
 Board member of A/S VQX af 8. november 1986  
 Board member of Advokatpartnerselskabet Kirk Larsen & Ascanius

Consultant Jens Okholm:

Boardchairman af CN Maskinfabrik A/S  
 Boardchairman of Logitrans A/S  
 Boardchairman of Dansk Halbyggeri A/S  
 Boardchairman of Dansk Halbyggeri Holding ApS  
 Boardchairman of Hansen & Bay Byg A/S  
 Boardchairman of Kalmargården A/S  
 Board member of it-craft A/S

Bookseller Finn Erik Kristiansen:  
 Manager and board member of Kristiansen Ejendomme A/S  
 Manager of Bordin Holding ApS  
 Boardchairman of Kristiansen Bog & Idé A/S  
 Boardchairman 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 Videnscenter for Landbrug - kvæg


Vice manager Søren Dalum Tinggaard  
 Board member of AP Pension A/S  
 Board member of Dan-list A/S


Banking executive Per Munck,  
 Boardchairman of Knud Eskildsen Ejendomme A/S  
 Board member of BankData  
 Board member of Dansk Lokalleasing A/S, Bøgen  
 Board member of Value Invest Luxembourg S.A.  
 Board member of Forvaltningsinstituttet for Lokale Pengeinstitutter  
 Board member of Den erhvervsdrivende Fond Ringkøbing Fjord Innovationscenter





CVR NR. 45 80 10 12


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 **Skjern Bank, Varde:**  
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tlf. 9682 1640

 **Skjern Bank, Bramming:**  
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tlf. 9682 1580

 **Skjern Bank, Hellerup:**  
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tlf. 9682 1450