

Annual report 2017

 **SKJERN BANK**

Very satisfactory results

 2017	Profit before tax increased by 38 % to DKK 145 million
 EQUITY	Return on primo equity before tax of 21.7 %
 CORE EARNINGS	Core earnings increased by 7.8 % to DKK 137 million
 NET INTEREST AND FEE INCOME	Net interest increased by 5 %, while net fee income increased by 17 %. Total increase of 9 % from DKK 262 million to DKK 287 million
 IMPAIRMENT	Impairment decreased by 45 % or DKK 16.3 million. Primarily due to fewer write-downs in the agricultural segment
 LENDING	Lending growth increased by 6.4 % to DKK 3.9 billion
 CAPITAL	Satisfactory capital ratio of 17.8 % and individual solvency requirements reduced to 9.4 %.
 CORE EARNINGS EXPECTATIONS	In 2018, the bank expects core earnings in the range of DKK 135 - 145 million

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Management's financial report for 2017

PRINCIPAL ACTIVITIES

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

2017 IN REVIEW

EA profit before tax of DKK 144.6 million is considered especially satisfactory. Profits were positively affected by the growth in the bank's net interest and fee income, significantly reduced impairment need and positive exchange rate adjustments.

Net interest income has increased by DKK 8.2 million. The bank has noted the fierce competition in the market and has seen a decline in interest income of DKK 1.1 million. However the bank's interest expenses were further reduced by DKK 9.3 million, which is due to significantly reduced interest on deposits of DKK 12.2 million and reduced interest on subordinated debt by DKK 1.3 million. The negative interest on the bank's deposits in Nationalbanken of DKK 4.2 million was expensed under interest expenses in 2017, while the total expenses in 2016 of DKK 3.7 million were included in the bank's interest income.

Net interest and fee income increased by DKK 22.1 million, which is very satisfactory. The main reasons for the growth are the reduction of deposit interest expenses as well as the increasing income from loan transaction fees and other fees and commissions, which altogether have increased by DKK 17.1 million as a result of increased activity in the provision of mortgage loans to the bank's many new customers, but also to existing customers.

The bank's objective has been to increase fee earnings compared to interest income through increased activity in the areas of real estate, securities, pension and insurance. The bank's earnings from fees has gone from 27% in 2013 to 37 % in 2017, which is a very satisfactory development.

The impairment need has decreased by DKK 16.3 million compared to 2016 and amounts to DKK 19.9 million, corresponding to 0.4 % of the bank's loans and guarantees.

The impairment in 2017 is also in part due to the agricultural segment, though the situation in agriculture in 2017 has significantly improved compared to 2016. The terms of trade have also been good, as a result of improved settlement prices, particularly for pork and milk, but also due to low feed prices. Impairments in the segment were made according to current guidelines from the Da-

nish Financial Supervisory Authority. The situation in agriculture unfortunately looks worse in the coming years compared to 2017, as prices on pork and milk have decreased since the end of 2017, and there is not expected to be any significant increase in settlement prices in 2018.

At the beginning of 2017, the bank expected a core earnings in the range of DKK 120 – 130 million. In the bank's interim report for 2017, which was published on 17 August 2017, the expected core earnings were adjusted upwards to the range of DKK 135 – 145 million, which was realised as DKK 137.3 million. The core earnings have increased by DKK 9.9 million compared to 2016, corresponding to an increase of 7.8 %.

Profit before tax amounted to DKK 144.6 million compared to DKK 104.6 million in 2016. Adjusted for interest expenses in the bank's hybrid core capital, which is recorded under equity in the accounts, profit before tax for the year is DKK 138 million, compared with DKK 98 million in 2016.

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

The capital coverage was strengthened in the course of 2017 compared to the individual solvency requirements, from 6.1 % points in 2016 to 8.4 % points in 2017. Adjusted capital conservation buffer of 0.625 % points in 2016 and 1.25 % in 2017, the coverage is 5.5 % points in 2016 and 7.15 % points in 2017. In 2017, the bank has increased the capital base by DKK 116 million to DKK 819.5 million. The increase in the capital base is due to earnings in 2017. Simultaneous with the bank's capital base increasing, the solvency requirement reduced from 10.4 % to 9.4 % 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 28 on page 41.

In 2017, the bank opened a new department in Virum and, in connection with this, the bank welcomed 5 new employees. The department in Hellerup has expanded the premises so that there is room for further growth in the coming years. In 2017, the bank has finally established its own leasing company, so that the bank's business customers can be offered leasing on advantageous terms.

Future capital reserves

At the end of 2017, the bank had a solid capital base, with a capital coverage including capital conservation buffer of 7.15 % points. In the next 5 years, the following capital buffers will be phased in to the bank's capital requirements in the requirement for the bank's capital base:

- 1.25 % points, capital conservation buffer, such that it constitutes 2.50 % points.
- 1.00 % points, cyclical buffer, such that it constitutes 2.50 % points if it is introduced
- Up to 6.0 % points, NEP supplement
- To this is added the bank's solvency requirements and own requirements for additional buffers.

Thus, in 2017 there will be further clarification of the requirements for the bank's future capital ratio, which in 2022 is expected to be in the range of 24-25 %, corresponding to 6-7 % points higher than the current capital ratio of 17.8 %.

It is the bank's clear expectation, based on the very satisfactory development in the earnings base in recent years that in the coming years the bank will be in a position to sufficiently increase the capital base through its own earnings. If, against expectations, the bank's own earnings are not sufficient, there are a number of options for strengthening the capital base, including through loan financing via taking up hybrid core capital and subordinated loan capital to reinforce the capital base or Tier II capital to cover the NEP supplement.

DIVIDEND CONSIDERATIONS

It is essentially the bank's view that excess capital beyond what is used to cover mandatory capital requirements, 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.

The bank has prepared a dividend policy that satisfies the above position, but that simultaneously ensures a sound and sufficient capital coverage. It is the bank's policy that the requirements for the capital base shall be covered by actual core capital to the greatest extent possible. To the extent that the bank achieves earnings in the coming year that are beyond the established expectations in the capital plan, the bank will propose that a portion of the earnings be distributed as dividends and/or share buybacks made.

When the bank's capital base is sufficient to cover the phased-in capital requirements and the bank's expected growth, it is the bank's expectation to be able to distribute significantly more of the bank's earnings than will be the case for the coming 3 - 5 years.

EXPECTATIONS FOR 2018

The bank has had a particularly satisfactory 2017 and so far expectations for most areas have been met and exceeded. In light of this, the bank is optimistic about 2018 and expects, based on the increasing number of customers, the new branch in Virum and the continued decline in interest expenses, for the earnings level realised in 2017 to be maintained despite the increased competition in the market.

For this reason, the bank expects a core earnings in 2018 in the range of DKK 135 - 145 million and a profit before tax in the range of DKK 125 - 135 million, assuming positive exchange rate adjustments in the range of DKK 10 million and impairment in the range of DKK 15 - 20 million.

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

Due to the very satisfactory customer satisfaction surveys, the management is very optimistic in terms of retaining and attracting many new customers and sees a growth potential in this. Due to this, the bank expects a cautiously organic growth in the bank's current branches and business areas. The focus is on strengthening the bank's earnings and increasing capital provisioning in order to secure our position as the independent and local West and South Jutland bank, which makes a difference in the local areas where the bank's branches are, as well in the long term.

The bank is pleased to note that the private customers in the bank's local areas still have quite a robust economy, which is supported by stable housing prices and general economic accountability and diligence. The bank does not expect significant challenges in lending to private customers in 2018, 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.

Danish agriculture has generally had a very reasonable 2017, due to increasing prices in pork and milk. The forecasts for terms of trade between settlement prices and feed prices are decreasing in 2018 compared to 2017, and for a portion of Danish agriculture, this is expected to result in problems achieving profitability in 2018. In these situations, the bank will continue – out of loyalty and respect – and in close cooperation with individual farmers, to aim to find the best possible solutions.

Despite the price increases in 2017, the continued extremely difficult framework conditions in the industry place high demands on individual farmers. 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 13.9 % 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 2018.

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 deposits 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 7.15 % points after the capital conservation buffer is expected to continue and expand in 2018, 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 focuses 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.

The start-up of Skjern Bank Leasing has been satisfactory and a large number of leases have been established over the year. The development is expected to continue and increase in volume and earnings in 2018.

In 2017, the bank expanded its branch network with a branch in Virum. 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 number of departments. The branch network is not expected to expand in 2018, as it is prioritised to create profitability in the new department before any more departments are established.

Overall, 2018 is expected to lead to a satisfactory increase in the bank's business volume and earnings, and 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, where the bank's last high-interest deposit expired in 2018. A very significant factor in recent years - impairment on trade receivables - is expected to decrease further, such that an acceptable profit and return on the bank's equity is also expected in 2018.

Audit

The Danish version of the Annual Report for 2017 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 2017 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 2017 and of the result of the bank's activities for the accounting year 1 January – 31 December 2017.

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 8 February 2018

The board of Skjern Bank A/S

*Per Munck
Manager*

Skjern, the 8 February 2018

The board of Skjern Bank A/S

*Hans Ladekjær Jeppesen
Chairman*

*Jens Okholm
Vice-chairman*

Bjørn Jepsen Finn Erik Kristiansen Søren Dalum Tinggaard Lars Skov Hansen Lars Lerke Carsten Jensen



Profit and loss account

Note	DKK 1,000	2017	2016
2	Interest receivable	198,977	200,058
3	Interest payable	27,005	36,313
	Net income from interest	171,972	163,745
	Dividend on shares and other holdings	10,020	12,493
4	Charges and commission receivable	118,547	101,952
	Charges and commission payable	3,927	3,672
	Net income from interest and charges	296,612	274,518
5	Value adjustments	31,045	17,216
	Other ordinary income	1,031	1,592
6	Staff costs and administrative expenses	161,052	148,990
	Depreciation and write-downs on intangible and tangible assets	3,071	3,746
	Other operating expenses total	52	255
	Contribution to the Guarantee Fund for deposits	52	52
	Other operating expenses	0	203
9	Write-downs	19,886	36,172
10	Profit on equity investments in non-affiliated and affiliated companies	0	490
	Result before tax	144,627	104,653
11	Tax	20,804	22,543
	Net-result for the financial year	123,823	82,110
	Of which are holders of shares of hybrid core capital instruments etc.	5,168	6,626
PROPOSAL FOR DISTRIBUTION OF PROFIT			
	Dividends	0	0
	Holders of hybrid core capital instruments	6,626	6,626
	Transferred to/from retained earnings	117,197	75,484
	Total distribution of the amount available	123,823	82,110
STATEMENT OF COMPREHENSIVE INCOME			
	Profit for the financial year	123,823	82,110
	Other comprehensive income after tax	0	0
	Total comprehensive income	123,823	82,110

Core earnings

DKK 1,000	2017	2016
Net income from interest	171,972	163,745
Net charges and commission	114,620	98,280
Dividend on shares and other holdings	10,020	12,493
Foreign currency value adjustments	3,862	4,323
Other ordinary income	1,031	1,592
Core income	301,505	280,433
Staff costs and administrative expenses	161,052	148,990
Depreciation and write-downs on intangible and tangible assets	3,071	3,746
Other operating expenses	52	255
Costs	164,175	152,991
Core earnings	137,330	127,442
Write-downs	-19,886	-36,172
Value adjustments	27,183	12,893
Profit on equity investments in non-affiliated and affiliated companies	0	490
Result before tax	144,627	104,653
Tax	20,804	22,543
Net-result for the financial year	123,823	82,110

Balance Sheet

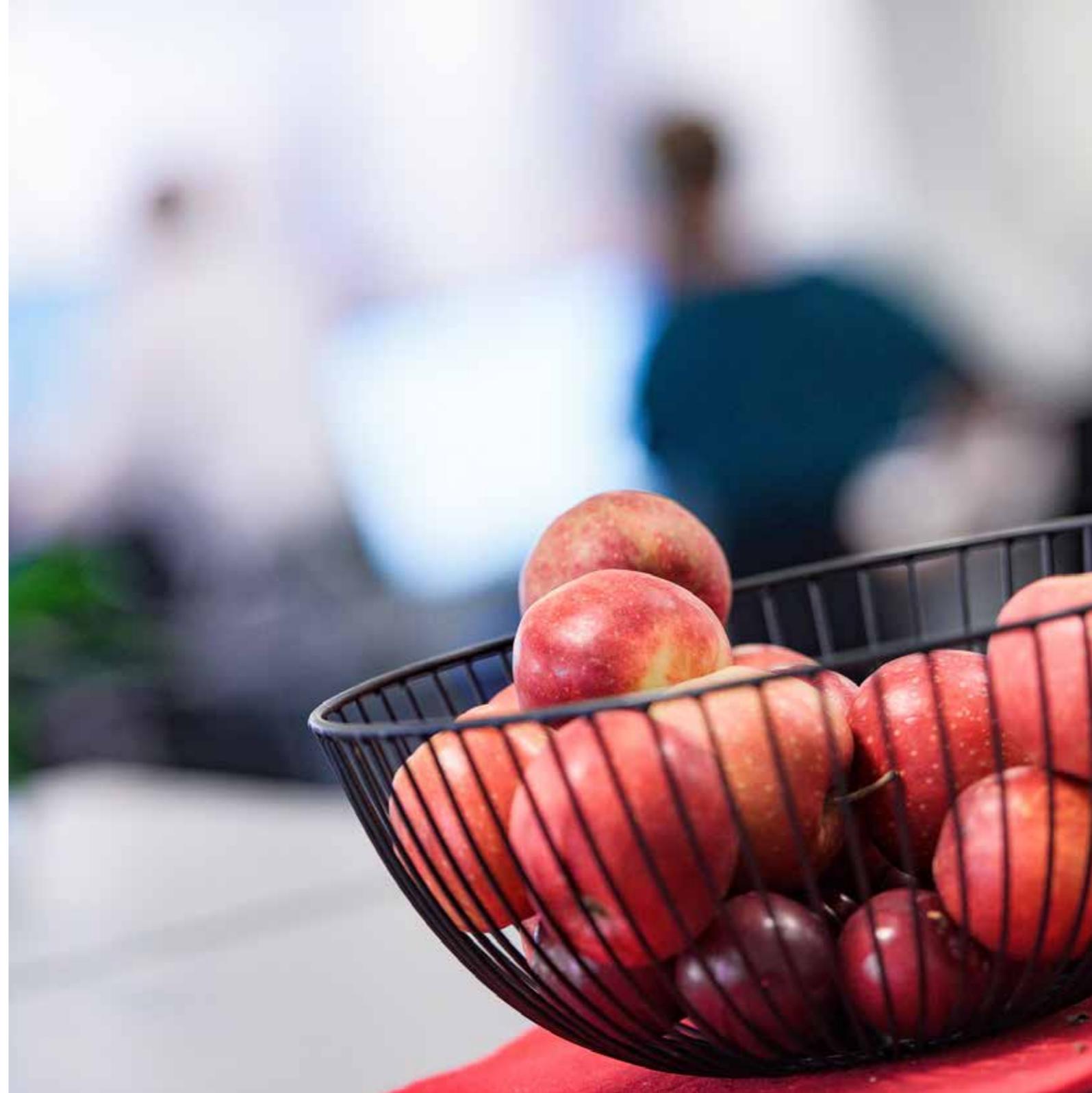
Note	DKK 1,000	2017	2016
ASSETS			
	Cash in hand and demand deposits with central banks	148,746	120,542
12	Receivables at credit institutions and central banks	851,222	786,764
13	Loans and other receivables at amortised cost	3,924,509	3,687,509
14	Bonds at fair value	1,072,833	926,950
15	Shares etc.	245,686	219,447
16	Holdings in associated enterprises and group enterprises	49,389	50,163
	Investment properties	2,961	2,961
	Owner-occupied properties	46,428	47,202
17	Other tangible assets	5,158	4,444
	Current tax assets	1,099	0
18	Deferred tax assets	5,816	14,210
	Other assets	58,053	41,520
	Prepayments	5,125	8,642
	Total assets	6,367,636	5,860,191

Note	DKK 1,000	2017	2016
LIABILITIES			
DEBT			
	Debt to credit institutions and central banks	158,466	134,99
	Deposits and other debts	5,240,913	4,871,359
	Current tax liabilities	0	1,720
	Other liabilities	50,245	56,387
	Prepayments	1,305	1,162
	Total debt	5,450,929	5,064,827
PROVISIONS			
	Provisions for loss on guarantees	2,578	433
	Total provisions	2,578	433
SUBORDINATED DEBT			
	Subordinated loan capital	99,797	99,618
	Total subordinated debt	99,797	99,618
EQUITY			
	Share capital	192,800	192,800
	Revaluation reserves	417	417
	Retained earnings	561,785	443,117
	Capital owners share of equity	755,002	636,334
	Holders of hybrid capital	59,330	58,979
	Total equity	814,332	695,313
	Total liabilities	6,367,636	5,860,191



Information on changes in equity

Note	DKK 1,000	2017	2016
Share capital beginning-of-year		192,800	192,800
Share capital end-of-year		192,800	192,800
Revaluation reserves beginning-of-year		417	417
Revaluation reserves end-of-year		417	417
Retained earnings beginning-of-year		443,117	367,579
Profit or loss for the financial year		117,197	75,484
Tax of interest hybrid capital		1,458	10,626
Sale of own funds		32,730	10,626
Purchase of own funds		-32,717	-10,572
Retained earnings end-of-year		561,785	443,117
Holders of hybrid capital beginning-of-year		58,979	58,629
Net profit or loss for the year (interest hybrid capital)		6,626	6,626
Paid interest		-6,275	-6,276
Holders of hybrid capital end-of-year		59,330	58,979
Total equity		814,332	695,313



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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 report, the accounting standard IFRS 9, which replaces standard IAS 39, came into force on 1 January 2018. Accounting standard IFRS 9 significantly changes the applicable rules for classification and measurement of financial assets, impairments and to some extent the rules on hedge accounting.

The general provisions in IFRS 9 are similarly 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 changed Danish Executive Order on the Presentation of Financial Statements comes into force simultaneous with IFRS 9, i.e. for the accounting periods beginning 1 January 2018.

The IFRS 9 rules on financial instruments, which are incorporated into the Danish Executive Order on the Presentation of Financial Statements, establishes the following on classification, measurement and impairment on financial assets:

IFRS 9 classification and measurement:

According to IFRS 9, classification and measurement of financial assets is done based on the business model for the financial assets and the contractual cash flows relating to the financial assets.

Financial assets that are held to generate the contractual payments, and where the contractual payments exclusively consist of interest and repayments on the outstanding amount, are measured at amortised cost after the date of first recognition.

IFRS 9 – impairment:

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 life (stage 2). If impairment need for the asset is discovered (stage 3), the asset is written down unchanged by an amount corre-

sponding to the expected credit loss in the asset's remaining life, but interest income is recognised in the statement of profit or loss according to the effective interest method based on the impaired amount.

Impairments on customers/facilities in stage 1 and 2, except for the weak part of stage 2, are calculated based on a portfolio model calculation, while the impairments for weak stage 2 customers/facilities and stage 3 customers/facilities are done through a manual, individual assessment.

The portfolio model calculation is done based on a simpler model, which is based on the bank's division of customers into different rating classes and an assessment of the risk of each rating class. The calculation occurs in a setup that is developed and maintained in the bank's data centre, supplemented with a predictive macroeconomic module, which is developed and maintained by LOPI. The predictive macroeconomic module generates a series of adjustment factors which are multiplied by the data centre's "raw" estimates, which are then adjusted in relation to the starting point.

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 in-

come 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.

Notes

Note	DKK 1,000	2017	2016
2	INTEREST INCOME		
	Receivables at credit institutions and central banks	0	-3,668
	Loans and other receivables	201,251	207,281
	Loans (interest conc. the written-down part of loans)	-12,480	-13,800
	Bonds	9,484	9,438
	Other derivative financial instruments, total of which	722	787
	Interest-rate contracts	448	1,049
	Currency contracts	274	-262
	Other interest income	0	20
	Total	198,977	200,058
3	INTEREST EXPENSES		
	Credit institutions and central banks	4,234	26
	Deposits	16,098	28,304
	Subordinated debt	6,613	7,967
	Other interest expenses	60	16
	Total	27,005	36,313
	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	21,888	23,118
	Payment services	9,828	8,632
	Loan fees	52,865	40,880
	Guarantee commission	11,168	11,634
	Other fees and commission	22,798	17,688
	Total	118,457	101,952

Note	DKK 1,000	2017	2016
5	VALUE ADJUSTMENTS		
	Other loans	13	60
	Bonds	3,937	5,867
	Total shares	23,114	6,969
	- Shares in sector companies etc	9,178	5,378
	- Other shares	13,936	1,597
	Foreign currency	3,862	4,323
	Other financial instruments	119	-3
	Total	31,045	17,216
	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	1,053	1,034
	Audit Committee	50	50
	Committee of representatives	177	189
	Total salaries and remuneration of board etc	4,110	4,103
	*The Board of manager has a company car		
	Board of Directors' remuneration		
	Hans Ladekjær Jeppesen	263	259
	Jens Okholm	188	185
	Bjørn Jespsen	105	103
	Finn Erik Kristiansen	116	114
	Søren Dalum Tinggaard	105	103
	Lars Skov Hansen	116	103
	Lars Lerke	105	103
	Carsten Jensen	105	103
	Total	1,101	1,084

Note	DKK 1,000	2017	2016
6	STAFF COSTS AND ADMINISTRATIVE EXPENSES (CONTINUED)		
	Staff costs		
	Wages and salaries	71,633	66,747
	Pensions	7,843	7,488
	Social security costs	982	850
	Payroll tax	11,644	10,542
	Total staff costs	92,102	85,627
	Salary to special risk takers (11 persons in 2017, 11 persons in 2016)	8,289	7,913
	Pensions to special risk takers (11 persons in 2017, 11 persons in 2016)	904	857
	Other administrative expenses		
	IT expenses	32,289	28,360
	Rent, electricity, heating etc	5,228	4,262
	Postage, telephony etc	900	751
	Other administrative expenses	26,423	25,887
	Total other administrative expenses	64,840	59,260
	Total staff costs and administrative expenses	161,052	148,990
	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	135	132
	Total	135	132

Note	DKK 1,000	2017	2016
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	638	719
	Honorariums for statutory audits of financial statements	547	583
	Honorariums for tax services	0	19
	Honorariums for assurance services	84	36
	Honorariums for other services	7	81
9	WRITE-DOWNS ON LOANS AND RECEIVABLES		
	Write-downs and provisions during the year	68,360	90,161
	Reversal of write-downs made in previous years	-38,149	-47,258
	Finally lost, not previously written down	4,215	10,036
	Interest on the written-down portion of loans	-12,480	-13,800
	Recoveries of previously written off debt	-2,060	-2,967
	Total	19,886	36,172
10	PROFIT ON EQUITY INVESTMENTS IN NON-AFFILIATED AND AFFILIATED COMPANIES		
	Profit on equity investments in non-affiliated companies	0	490
	Profit on equity investments in affiliated companies	0	0
	Total	0	490
11	TAX		
	Calculated tax of income of the year	12,204	8,205
	Adjustment of deferred tax	8,394	14,245
	Adjustment of tax calculated in previous years	206	93
	Total	20,804	22,543
	Tax paid during the year	10,278	4,180
12	RECEIVABLES AT CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Deposits with central banks	789,099	729,092
	Receivables at credit institutions	62,122	57,672
	Total	851,221	786,764
	Remaining period		
	Demand	851,221	786,764
	Total	851,221	786,764

No assets related to genuine purchase and resale transactions included.

Note	DKK 1,000	2017	2016
13	LOANS AND OTHER DEBTORS AT AMORTISED COST PRICE		
	Remaining period		
	Claims at call	1,365,208	1,273,221
	Up to 3 months	100,463	127,213
	Over 3 months and up to 1 year	473,191	400,336
	Over 1 year and up to 5 years	885,014	864,976
	Over 5 years	1,100,633	1,021,763
	Total loans and other debtors at amortised cost price	3,924,509	3,687,509
	Individual write-downs and provisions		
	Write-downs beginning of the year	316,040	340,059
	Write-downs during the year	62,025	87,503
	Reversal of write-downs made in previous years	-33,933	-47,258
	Write-downs in previous years - now lost	-30,787	-64,264
	Write-downs end of year	313,345	316,040
	Group write-downs and provisions		
	Write-downs - beginning of the year	26,391	24,166
	Write-downs during the year	4,100	2,225
	Reversal of write-downs made in previous years	-4,127	0
	Group write-downs - end of year	26,364	26,391
	Total write-downs	342,287	342,864
	Guarantees		
	Provisions beginning of the year	433	62
	PROVISIONS DURING THE YEAR	2,234	433
	Loss on guarantees	0	0
	Transferred to liabilities	-89	-62
	Guarantees end of year	2,578	433
	Loans etc. with suspended calculation of interest	117,440	120,504
	Loans and other debtors with an objective indication of impairment INCLUDED IN THE BALANCE SHEET AT A BOOK VALUE GREATER THAN ZERO		
	Individual written-down loan		
	Balance for loans and other debtors before write-downs	657,322	664,041
	Write-downs	-315,923	-316,473
	Balance for loans and other debtors after write-downs	341,399	347,568

Note	DKK 1,000	2017	2016
GROUP WRITTEN-DOWNS LOANS			
	Balance for loans and other debtors before write-downs	3,609,474	3,366,332
	Write-downs	-26,364	-26,391
	Balance for loans and other debtors after write-downs	3,583,110	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	879,471	756,034
	Other bonds	193,362	170,916
	Total bonds at fair value	1,072,833	926,950
The bank has no held-to-maturity assets			
15	SHARES ETC		
	Quoted on Nasdaq OMX Copenhagen A/S	36,010	34,116
	Quoted on other stock exchanges	20,377	21,855
	Sectorshares recorded at fair value	189,299	163,476
	Total shares etc	245,686	219,447
16	LAND AND BUILDINGS		
Investment properties			
	Fair value - end of previous financial year	2,961	2,961
	Acquisitions during the year incl. improvements	0	0
	Disposals during the year	0	0
	Adjustment of fair value for the year	0	0
	Fair value end-of-year	2,961	2,961
Owner occupied properties			
	Reassessed value - end of previous financial year	47,202	48,180
	Acquisitions during the year incl. improvements	647	442
	Depreciations	-1,421	-1,420
	Changes in value recognized in income	0	0
	Reassessed value end-of-year	46,428	47,202

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 %.

Note	DKK 1,000	2017	2016
17	Other tangible assets		
	Total cost price beginning-of-year	24,002	41,786
	Acquisitions during the year incl. Improvements	2,365	2,590
	Reduction during the year	-814	-20,374
	Total cost price beginning-of-year	25,553	24,002
	Total write-ups/downs and depreciations beginning-of-year	19,558	36,610
	Depreciations during the year	1,651	2,327
	Reversal of depreciations	-814	-19,379
	Total write-ups/downs and depreciations end-of-year	20,395	19,558
	Book value end-of-year	5,158	4,444
18	DEFERRED TAXATION		
	(Tax amount)		
	Tangible assets	1,325	1,799
	Loans and other receivables	2,589	2,220
	Other	-250	-366
	Other deficits carried forward	2,152	10,557
	Total deferred taxation	5,816	14,210
The activated deficit is expected to be utilised within the next 3-5 years.			
19	DEBT TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Debt to credit institutions	158,466	134,199
	Total debt to credit institutions and central banks	158,466	134,199
	Term to maturity		
	Demand	158,466	134,199
	Total debt to credit institutions and central banks	158,466	134,199
No liabilities related to genuine sale and repurchase transactions included			
20	DEPOSITS AND OTHER DEBTS		
	Demand	4,599,431	4,223,350
	At notice	17,393	20,209
	Time deposits	7,737	30,204
	Special types of deposits	616,352	597,596
	Total deposits and other debts	5,240,913	4,871,359

Note	DKK 1,000	2017	2016
	Term to maturity		
	Demand	4,614,072	4,239,821
	Deposits redeemable at notice:		
	Up to 3 months	107,608	100,721
	Over 3 months and up to 1 year	19,298	36,714
	Over 1 year and up to 5 years	53,484	62,436
	Over 5 years	446,451	431,667
	Total deposits and other debts	5,240,913	4,871,359
	No liabilities related to genuine sale and repurchase transactions included.		
21	SUBORDINATED DEBT		
	Supplementary capital DKK 100 mio	99,797	99,618
	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 Cibar 3 months with a premium of 5.5 percentage points.		
	Subordinated debt total	99,797	99,618
	Subordinated debt that may be included in the capital base	99,797	99,618
	Interest on subordinated liabilities recognised in income	6,613	7,967
22	SHARE CAPITAL	192,800	192,800
	Number of shares is 9,640,000 at DKK 20 each		
	The bank has pr. 31. December 2017 16,215 registered shareholders. 97.74% of the share capital are registered on name		
23	HOLDERS OF HYBRID CAPITAL		
	Hybrid core capital	59,330	58,979
	Rate	10.4593 %	10.4593 %
	Due date	No due date	No due date
	The loan can be repaid prematurely by the bank on the 15th September 2020		
	On September 15 2020, the interest rate is changed to a halfyearly variable coupon rate equal to the CIBOR rate published by Nasdaq OMX for a maturity of six months plus 9.75% pa.		

Note	DKK 1,000	2017	2016
24	OWN CAPITAL SHARES		
	Purchase and sales of own shares		
	Holdings beginning 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
	Addition		
	Number of own shares	492,850	286,512
	Nominal value of holding of own shares (DKK 1,000)	9,857	5,730
	Own shares proportion of share capital	5.11	2.97
	Purchase price (DKK 1,000)	32,717	10,572
	Disposal		
	Number of own shares	492,297	287,044
	Nominal value of holding of own shares (DKK 1,000)	9,846	5,741
	Own shares proportion of share capital	5.11	2.98
	Sale price (DKK 1,000)	32,730	10,626
	Holdings end of the year		
	Number of own shares	10,000	9,447
	Nominal value of holding of own shares (DKK 1,000)	200	189
	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 2017 are a consequence of this.		
25	CONTINGENT LIABILITIES		
	Guarantees		
	Finance guarantees	31,905	25,526
	Guarantees against losses on mortgage credit loans	480,478	357,902
	Registration and conversion guarantees	183,440	116,098
	Other contingent liabilities	429,718	341,562
	Total	1,125,541	841,088
	Other binding engagements		
	Irrevocable credit-undertakings	285,731	127,271
	Total	285,731	127,271

Note	DKK 1,000	2017	2016
	Assets pledged as collateral		
	The bank has 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 with the addition of the bank's part of capitalized development costs.		
	Like other Danish financial institutions, Skjern Bank is liable for loss sustained by the Deposit Guarantee Fund. The most recent calculation of Skjern Bank's share of the industry's assurances to the Deposit Guarantee Fund is 0.696 %.		
	In 2017, 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 914 TDKK. The third lease is irrevocable until 31 December 2021, and the yearly lease is 1,9 mio. DKK.		
26	LAWSUITS ETC.		
	As part of ordinary operations, the bank is involved in disputes and lawsuits. The bank's risk in these cases are evaluated by the bank's solicitors and management on an ongoing basis, and provisions are made on the basis of an evaluation of the risk of loss.		
27	RELATED PARTIES		
	Loans and warranties provided to members of the bank's management board, board of directors and committee of representatives are on marked-based terms.		
	Transactions with related parties		
	There have during the year not been transactions with related parties, apart from wages and salaries, etc. and loans and similar.		
	Wages and considerations to the bank's management board, board of directors, audit 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	85
	Bid Bond	0	0
	Rate of interest	6.75 %	6.75 %

Note	DKK 1,000	2017	2016
	Board of directors:		
	Loans	6,196	3,541
	Bid Bond	5,741	2,330
	Rate of interest	0.7875-0.8 %	1.11 - 9.00 %
	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	5,286
	Finn Erik Kristiansen	2,748	2,748
	Søren Dalum Tinggaard	1,234	1,234
	Lars Skov Hansen	710	710
	Lars Lerke	7,246	8,246
	Carsten Jensen	1,976	1,976
28	CAPITAL REQUIREMENT		
	Equity	814,332	695,313
	Revaluation reserves	-417	-417
	Holders of hybrid capital	-59,330	-58,979
	Deferred tax assets	-5,816	-14,210
	Deduction for the sum of equity investments etc. above 10 %	-68,120	-44,341
	CVA deduction	-1,131	-981
	Deduction of trading framework for own sharers	1,771	-1,289
	Core tier 1 capital (excl. hybrid core capital)	677,747	575,096
	Holders of hybrid capital	59,068	58,17
	Deduction for the sum of equity investments etc. above 10 %	-8,515	-14,780
	Tier 1 capital	728,300	619,033
	Subordinated loan capital	99,797	99,618
	Deduction for the sum of equity investments etc. above 10 %	-8,515	-14,780
	Capital base	819,582	703,871
	Weighted items		
	Credit risk	3,661,338	3,388,583
	Market risk	396,686	358,672
	Operational risk	547,071	508,277
	Weighted items total	4,605,145	4,255,532
	Core tier 1 capital ratio (excl. hybrid core capital)	14.7	13.5
	Tier 1 capital ratio	15.8	14.6
	Solvency ratio - Tier 2	17.8	16.5

Note	
29	CURRENT VALUE OF FINANCIAL INSTRUMENTS
	Financial instruments are measured in the statement of financial position at either fair value or at cost. Fair value is the price which would be received from the sale of an asset or which will be paid to transfer a liability in a normal transaction between market participants on the measurement date. For financial assets and liabilities valued on active markets, the fair value is calculated based on observable market prices on the market date. For financial instruments valued on active markets, the fair value is calculated based on generally accepted valuation methods.
	Shares, etc. and derivative financial instruments are measured in the accounts at fair value so that recognised values correspond to fair value. Loans are recorded in the bank's statement of financial position at amortised cost. The difference to fair value is calculated as fees and commissions received, expenses incurred through lending transactions, interest receivable which is first due for payment after the end of the financial year and for fixed-rate loans, also the variable interest rate, which is calculated by comparing the current market rate with the loans' nominal interest rate.
	The fair value of receivables from credit institutions and central banks is determined by the same method as for loans, since the bank does not currently recognise impairments on receivables from credit institutions and central banks.
	Bonds issued and subordinated liabilities are measured at amortised cost. The difference between the carrying amount and fair value is calculated based on rates in the market of its own listed emissions.
	For floating rate financial liabilities in the form of lending and payables to credit institutions measured at amortised cost, the difference fair value is estimated to be interest payable which is first due for payment after the end of the financial year.
	For fixed-rate financial liabilities in the form of lending and payables to credit institutions measured at amortised cost, the difference to fair value is estimated to be interest payable which is first due for payment after the end of the financial year and the variable interest rate.

DKK 1,000	2017		2016	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash in hand+claims at call on central banks	148,746	148,746	120,542	120,542
Claims on credit institutes and central banks 1)	851,222	851,222	786,764	786,764
Loans and other debtors at amort. costprice 1)	3,930,616	3,936,623	3,693,837	3,703,721
Bonds at current value 1)	1,075,979	1,075,979	930,027	930,027
Shares etc.	245,686	245,686	219,447	219,447
Derivative financial instruments	7,134	7,134	6,978	6,978
Total financial assets	6,259,383	6,265,390	5,757,595	5,767,479
Financial liabilities				
Debt to credit institutions and central banks 1)	158,466	158,466	90,098	90,098
Deposits and other debts 1)	5,250,044	5,262,037	4,886,026	4,914,783
Derivative financial instruments	1,561	1,561	3,381	3,381
Subordinated debt 1) 2)	103,935	103,935	103,438	103,438
Total financial liabilities	5,514,006	5,525,999	5,082,943	5,111,700

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

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

Note	DKK 1,000	2017	2016
30	RISKS AND RISK MANAGEMENT		
	Skjern Bank is exposed to various types of risks which are controlled at various levels within the organisation. Skjern Bank's financial risks consist of:		
	Credit risk: Risk of losses due to debtors' or counterparties' default on payment obligations.		
	Market risk: Risk of losses resulting from the fair value of financial instruments and derivative financial instruments fluctuating due to changes in market prices. Skjern Bank classifies three types of risk for the market risk area: Interest rate risk, equity risk and currency risk.		
	Liquidity risk: Risk of losses due to financing costs rising disproportionately, the risk that Skjern Bank is prevented from maintaining the adopted business model due to a lack of financing/funding or ultimately, the risk that Skjern Bank cannot honour incoming payment obligations when due as a result of a lack of financing/funding.		
	Evaluation of securities: The bank is exposed to the sectors agriculture and real-estate. The Bank has in the assessment of collateral in agricultural exposures used acres of arable land prices in the range of 125 TDKK - 140 TDKK. In the real-estate sector is used return requirement in the range 4.5% - 10%. Valuations in both agricultural exposures as real-estate exposures are made in accordance with the FSA's current guidance. The Bank notes that estimating the value of collateral is generally associated with uncertainty.		
	The following notes to the annual report contain some additional information and a more detailed description of the bank's credit- and market risks.		

Note	Figures in pct.	2017	2016
31	CREDIT RISKS		
	Loans and guarantees distributed on sectors		
	Public authorities	0.0	0.0
	Business:		
	Agriculture, hunting, forestry & fishing	13.9	14.4
	- Plant production	1.5	1.6
	- Cattle farming	7.9	8.3
	- Pig farming	1.6	1.9
	- Mink production	1.7	1.5
	- Other agriculture	1.2	1.1
	Industry and mining	3.0	2.4
	Energy	7.1	6.0
	Building and constructions	6.6	6.3
	Wholesale	6.9	8.8
	Transport, hotels and restaurants	1.7	1.5
	Information and communication	0.4	0.3
	Financial and insurance business	5.8	5.8
	Real-estate	12.6	13.1
	Other business	5.6	5.2
	Total business	63.6	63.8
	Private persons	36.4	36.2
	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 5.8 % in 2017 and 5.6 % in 2016.

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

	2017 (DKK 1,000)	2017 (DKK 1,000)	2017 (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities	0	0	0
Business - agriculture	836,371	101,875	23,364
Business - other	2,972,243	482,813	225,517
Private persons	1,861,961	538,668	36,850
	5,670,575	1,123,356	285,731
Which recognized in the balance after deduction of depreciation	3,924,509		

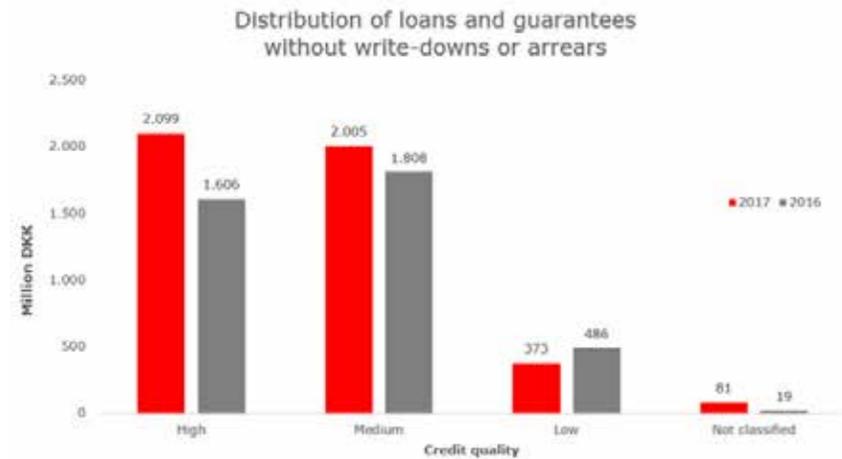
Note	2016 (DKK 1,000)	2016 (DKK 1,000)	2016 (DKK 1,000)
	Loans	Guarantees	Credit-undertakings
Public authorities	1,010	0	0
Business - agriculture	821,168	33,729	2,250
Business - other	2,662,574	409,066	107,816
Private persons	1,775,027	398,293	17,205
	5,259,779	5,259,779	127,271
Which recognized in the balance after deduction of depreciation	3,687,509		
Description of collateral			
	2017 Business, agriculture	2017 Business, other	2017 Private
Security distributed by type (DKK 1,000)			
Securities	22,908	168,100	74,919
Real property	432,686	889,763	627,695
Chattels, vehicles and rolling stock	62,744	406,666	263,578
Guarantees	19,685	16,909	7,398
Other forms of security	81,758	558,556	293,285
	619,781	2,039,994	1,266,875
	2016 Business, agriculture	2016 Business, other	2016 Private
Security distributed by type (DKK 1,000)			
Securities	19,764	161,114	67,740
Real property	455,499	761,198	529,027
Chattels, vehicles and rolling stock	50,790	396,468	207,023
Guarantees	25,483	21,502	7,584
Other forms of security	45,861	478,144	220,750
	597,397	1,818,426	1,032,124

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 2017 this led to an increase of estimated credit in blank of DKK 216 million compared to 2016.

Note

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



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

Reasons for individual write-downs and provisions

	2017	2017	2017
	Exposure before	Write-downs	Securities
Significant financial difficulties	524,023	251,190	243,136
Breach of contract	9,823	6,983	1,975
Reductions in terms	23,922	9,606	12,074
Probability of bankruptcy	104,280	48,144	59,577
Total	662,048	315,923	316,762
	2016	2016	2016
	Exposure before	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

Note DKK 1,000

2017 2016

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.

Arrears amount for loans, which have not been written down

0-90 days	7,228	13,987
>90 days	20	107
Total	7,248	14,094

Loans and arrears amount for loans, which have not been written down

0-90 days	56,136	85,813
>90 days	0	1,045
Total	56,136	86,858

32 MARKET RISKS AND SENSITIVITY INFORMATION

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

Interest rate risk

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

Interest rate risk on debt instruments etc - total	13,904	5,141
Interest rate risk in pct of core capital after deductions	1.9	0.8

Interest rate risk split in currencies with highest risk:

DKK	13,031	3,843
EUR	976	1,443
CHF	-87	-124
SEK	-11	-13
JPY	-2	-3
USD	-3	-4
Others	0	-1
I alt	13,904	5,141

Note	DKK 1,000	2017	2016
Foreign currency risk			
Total assets in foreign currency		335,875	381,582
Total liabilities in foreign currency		81,915	76,218
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			
Currency indicator 1 in pct of core capital after deductions		884	1,070
		0.1	0.2
In the event of a general change in exchange rates of 10%, and in the euro of 2.25%, Currency Indicator 2 will also be increased			
Currency indicator 2 in pct of core capital after deductions		6	10
		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		3,601	3,412
Quoted on other stock exchanges		2,038	2,186
Unquoted shares recorded at fair value		18,930	16,348
Total shares etc.		24,569	21,945

33 DERIVATE FINANCIAL INSTRUMENTS

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

Note	DKK 1,000	2017	2017	2017	2017	2016	2016	2016	2016
		Nominal value	Net market-value	Market-value-positive	Market-value-negative	Nominal value	Net market-value	Market-value-positive	Market-value-negative
Currency-contracts									
Up to 3 months		283,908	1,724	2,221	497	360,888	3,517	5,089	1,572
Over 3 months and up to 1 year		30,426	3,603	3,817	214	11,002	-59	203	262
Over 1 year and up to 5 years									
Over 5 years									
Average market value				5,788	1,012			13,206	2,066
Interest-rate contracts									
Up to 3 months									
Over 3 months and up to 1 year						21,508		327	327
Over 1 year and up to 5 years									
Over 5 years		4,529		640	640	4,843		773	773
Average market value				2,017	1,427			2,032	1,998
DKK 1,000						2017			
Credit risk on derivative financial instruments									
Positive market value, counterparty with risk weighting of 0 %						0			
Positive market value, counterparty with risk weighting of 20%						441			
Positive market value, counterparty with risk weighting of 100%						6,693			
Total						7,134			
Unsettled spot transactions									
						Nominal value	Market-value-positive	Market-value-negative	Market-value-net
Foreign-exchange transactions, purchase						5,160	111	-	111
Foreign-exchange transactions, sale						5,075	1	10	-9
Interest-rate transactions, purchase						41,830	205	6	199
Interest-rate transactions, sale						11,330	17	1	16
Share transactions, purchase						2,336	49	28	21
Share transactions, sale						2,336	30	48	-18
Total 2017						68,067	413	93	320
Total 2016						48,928	243	139	104

34 COOPERATIVE AGREEMENTS

Skjern Bank cooperates with receives commission relating to paymnet transfers from, and is co-owner of some of the following companies: Totalkredit A/S, Nykredit A/S, DLR Kredit A/S, BRF Kredit A/S, Privatsikring A/S, Eurocard, PFA Pension, Sparinvest A/S, Valueinvest Asset Management S.A., BI Asset Management Fondsbørsmæglerelskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, HP Fondsbørsmæglerelskab A/S, Investeringsforeningen Maj Invest, Investeringsforeningen Danske Invest, Codan, Dankort A/S, Nets A/S, Bluegarden A/S, Krone Kapital, Købstædernes Forsikring og Visa International.

Note	DKK 1,000	2017	2016	2015	2014	2013
35	5 YEARS IN SUMMARY					
	Profit and loss account					
	Net income from interest	171,972	163,745	162,228	159,926	160,505
	Dividend on shares	10,020	12,492	11,692	6,491	8,231
	Charges and commission, net	114,620	98,280	81,316	81,608	61,861
	Income from core business	296,612	274,518	255,236	248,025	230,597
	Value adjustments	31,045	17,216	11,536	10,770	16,236
	Other ordinary income	1,031	1,592	1,610	1,195	1,745
	Staff cost and admin. expenses	161,052	148,990	139,680	138,473	131,117
	Depreciation of intangible and tangible assets	3,071	3,746	3,924	14,118	4,047
	Other operating expenses	52	255	9,066	9,254	9,834
	- Contribution to the Guarantee Fund for deposits	52	52	8,926	9,018	9,127
	- Other operating expenses	0	203	140	237	707
	Write-downs on loans etc. (net)	19,886	36,172	63,098	154,386	67,073
	Profit on equity investments in nonaffiliated and affiliated companies	0	490	-760	-507	-332
	Operating result	144,627	104,653	51,044	-56,748	36,175
	Taxes	20,804	22,543	10,929	-712	11,720
	Profit for the year	123,823	82,110	40,115	-56,036	24,455
	Of which are holders of shares of hybrid core capital instruments etc.	5,168	6,626	1,831	0	0
	Balance as per 31st December					
	Summary					
	Total assets	6,367,636	5,860,191	5,424,729	5,384,120	5,322,821
	Loans and other receivables	3,924,509	3,687,509	3,511,175	3,643,989	3,647,129
	Guarantees etc	1,125,541	841,088	792,047	553,211	584,713
	Bonds	1,072,833	926,950	707,428	830,645	824,171
	Shares etc	245,686	219,447	179,233	245,966	211,354
	Deposits and other debts	5,240,913	4,871,359	4,483,104	4,485,996	3,956,740
	Subordinated debt	99,797	99,618	169,439	169,260	269,201
	Total equity	814,332	695,313	619,425	522,531	578,596
	- of which proposed dividend	0	0	0	0	0
	Capital Base	819,582	703,871	663,076	486,912	670,207

Note	2017	2016	2015	2014	2013	
36	FINANCIAL RATIO (FIGURES IN PCT.)					
	Solvency ratio	17.8	16.5	16.3	12.0	16.9
	Core capital ratio	15.8	14.6	14.4	11.1	14.2
	Return on equity before tax*	19.8	16.4	8.9	-10.3	6.3
	Return on equity after tax*	17.1	12.6	7.0	-10.2	4.2
	Return on assets	1.9	1.4	0.7	-1.0	0.5
	Earning/expense ratio in DKK	1.75	1.52	1.23	0.82	1.17
	Interest rate risk	1.9	0.8	-0.8	-2.1	-1.3
	Foreign currency position	0.1	0.2	0.4	2.5	0.2
	Foreign currency risk	0.0	0.0	0.0	0.0	0.0
	Loans etc. against deposits	81.4	82.7	86.4	89.3	98.3
	Statutory liquidity surplus	191.6	185.4	174.8	131.0	144.6
	LCR	274	334	355	-	-
	Total large commitments	55.1	10.3	23.4	38.4	23.2
	Loans and debtors at reduced interest	2.2	2.5	3.1	4.1	4.2
	Accumulated impairment ratio	6.3	7.0	7.8	7.9	5.4
	Impairment ratio for the year	0.4	0.7	1.4	3.4	1.5
	Increase in loans etc. for the year	6.4	5.0	-3.8	-0.1	4.1
	Ratio between loans etc. and capital funds	4.8	5.8	6.3	7.0	6.4
	(value per share 100 DKK)					
	Earnings per share*	61.5	39.2	19.9	-29.1	12.7
	Book value per share*	390	330	291	271	298
	Rate on Copenhagen Stock Exchange	368	268	168	190	220
	Dividend per share	0	0	0	0	0
	Market value/net income per share	6.0	6.8	8.4	-6.5	17.3
	Market value/book value*	0.94	0.81	0.58	0.70	0.74
	(value per share 20 DKK)					
	Earnings per share*	12.3	7.8	4.0	-5.8	2.5
	Book value per share*	78	66	58	54	60
	Rate on Copenhagen Stock Exchange	73.5	53.6	33.6	38.0	44.0

*) Key ratios are calculated as if the hybrid core capital is accounted for as an obligation with which the key figures are calculated based on the shareholders' share of earnings and equity. Shareholders' share of earnings and equity is stated in the equity statement.

Financial Calendar 2018

22nd January	Deadline for submission of items for the agenda for the Annual General Meeting
8th February	Announcement of Annual Report 2017
5th March	General Meeting – Ringkøbing-Skjern Kulturcenter
2nd May	Announcement of quarterly report 1st quarter 2018
16th August	Announcement of half-yearly report 2018
8th November	Announcement of quarterly report 3rd quarter 2018

Committee of representatives

Hans Ladekjær Jeppesen, Skjern, lawyer, boardchairman
 Ole Strandbygaard, Ringkøbing, printer, vice-head of the committee of representatives
 Michael Albrechtslund, Rungsted, manager
 Jørgen Søndergaard Axelsen, Skjern, real estate agent
 Ole Bladt-Hansen, Ribe, city manager
 Jens Bruun, Aarhus, former manager
 Jens Chr. Fjord, Skjern, former bicycle dealer
 Poul Frandsen, Herning, manager
 Børge Lund Hansen, Skjern, manager
 Orla Varridsbøl Hansen, Tarm, manufacturer
 Tom Jacobsen, Tarm, manager
 Mike Jensen, Skjern, bookseller
 Niels Erik Kjærgaard, Skjern, former city manager
 Dorte H. Knudsen, Hviding, Ribe, hospital nurse
 Karsten S. Larsen, Dejbjerg, Skjern, manager

Tommy Noer, Esbjerg, technical teacher
 Torben Ohlsen, Tjæreborg, manager
 Jens Christian Ostensen, Stauning, Skjern, farmer
 Jens Kirkegaard Pedersen, Hemmet, manager
 Niels Chr. Poulsen, No, Ringkøbing, mink farmer
 Jesper Ramskov, Esbjerg, manager
 Birte Bruun Thomsen, Esbjerg, manager
 Bente Tang, Hanning, Skjern, farmer
 Poul Thomsen, Skjern, former trader in men's clothing
 Carsten Thygesen, Skjern, manager
 Jesper Ørnkov, Skanderborg, manager

Audit Committee

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

Board of directors *)

Hans Ladekjær Jeppesen, 53 years old, Skjern, lawyer, board chairman. Elected in the board of directors in 2011, re-elected in 2013, 2015 and 2017, up for election in 2019.

Jens Okholm, 69 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, 54 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, 48 years old, Varde, manager. Elected in the board of directors in 2010, re-elected in 2012, 2014 and 2016, up for election in 2018.

Søren Dalum Tinggaard, 48 years old, Randers, vice manager. Elected in the board of directors in 2013, re-elected in 2015 and 2017, up for election in 2019.

Lars Skov Hansen, 44 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, 41 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, 37 years old, Skjern, adviser, employee-selected. Elected in the board of directors in 2015, up for election in 2019.

Management

Per Munck, 63 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, 2017

Lawyer Hans Ladekjær Jeppesen:

Boardchairman of ODJ Holding ApS
 Boardchairman of PE Trading 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 Specialfabrikken Vinderup A/S
 Boardchairman of Roslev Trælasthandel A/S
 Board member of Skjern Håndbold A/S
 Board member of Gråkjær 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

Adviser Jens Okholm:

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

Farmer Bjørn Jepsen:

Board member of Arla Foods AmbA
 Board member of Kvægafgiftsfonden
 Board member of Danmarks Kvægforskningscenter
 Board member of SEGES- kvæg
 Board member of Landbrug og Fødevarer virksomhedsbestyrelse

Manager Finn Erik Kristiansen:

Manger of ProVarde S/I
 Manager of Bordin Holding ApS
 Manager and Board member of Kristiansen Ejendomme A/S
 Boardchairman i Kristiansen Bog & Idé A/S
 Boardchairman i Flensborg A/S

Vice manager Søren Dalum Tinggaard:

Board member of AP Pension A/S

Banking executive Per Munck:

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

SKJERN

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6760 Ribe
Tlf. 9682 1600

VIRUM

Frederiksdalsvej 65
2830 Virum
Tlf. 9682 1480

VARDE

Bøgevej 2
6800 Varde
Tlf. 9682 1640

BRAMMING

Storegade 20
6740 Bramming
Tlf. 9682 1580

HELLERUP

Strandvejen 143
2900 Hellerup
Tlf. 9682 1450

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