

Interim report 2020



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Acceptable profit

	30/6 2020	Profit before tax amounts to DKK 55.6 million
	CORE EARNINGS	Increased to DKK 78.8 million, compared with DKK 76.1 million as of 30 June 2019
	NET INTEREST AND FEE INCOME	Increased by 4.9 % to DKK 175.1 million
	IMPAIRMENT	Impairment of DKK 27.2 million after reservation of DKK 40 million for Corona-related risk
	LENDING	Deposits increased 12% to DKK 6.5 billion and lending decreased 2.3% to DKK 4.2 billion
	CAPITAL	Capital ratio of 19.6 % and core capital ratio of 17.8 % Solvency requirements are 9.8 %.
	CORE EARNINGS EXPECTATIONS	Core earnings are expected to be unchanged in the range of DKK 125 – 140 million for the entire year of 2020
	EXPECTATIONS ANNUAL PROFIT BEFORE TAX	Profit before tax for 2020 is expected to be in the range of DKK 115 – 130 million

5 years in summary

1,000 DKK	YEAR					
	2020	2019	2018	2017	2016	2019
PROFIT AND LOSS ACCOUNT						
Net income from interest	94.717	93.149	91.479	86.136	80.297	185.287
Div. on shares and other holdings	1.960	4.806	2.910	9.744	11.753	5.863
Charges and commissions (net)	78.421	68.915	60.613	58.929	45.960	143.257
Net inc. from int. & charges	175.098	166.870	155.002	154.809	138.010	334.407
Value adjustments	6.060	14.206	69.368	20.629	6.534	40.225
Other ordinary income	585	984	503	722	699	1.945
Staff costs and administrative expenses	96.409	92.385	83.683	74.537	72.233	191.861
Depreciation of intangible and tangible assets	2.363	1.530	1.530	1.530	1.932	2.821
Other operating expenses	194	112	52	52	52	112
Operating expenses	194	112	52	52	52	112
Guarantee commission first guarantee scheme	0	0	0	0	0	0
Write-downs on loans etc. (net)	27.156	7.193	10.127	10.819	19.176	16.831
Operating profit	55.621	80.840	129.481	89.222	51.850	164.952
Taxes	12.237	17.785	14.172	9.484	10.840	29.469
Profit for the period	43.384	63.055	115.309	79.738	41.010	135.483
Of which are holders of shares of hybrid core capital instruments etc.	3.138	3.138	3.138	3.138	3.138	6.626
BALANCE SHEET AS PER JUNI 30TH						
summary						
Total assets	8.008.599	7.192.148	6.588.065	6.213.070	5.663.036	7.614.080
Loans and other debtors	4.230.606	4.330.603	4.154.581	3.683.454	3.668.106	4.325.613
Guarantees etc.	2.308.723	2.048.683	1.184.971	1.025.876	784.090	2.379.168
Bonds	986.787	1.125.116	948.333	1.021.759	775.596	1.045.717
Shares etc.	213.708	226.744	249.587	240.981	216.833	225.094
Deposits	6.550.184	5.821.940	5.384.055	5.137.815	4.666.404	6.223.604
Subordinated cap. investments	97.584	97.083	99.877	99.697	99.519	97.334
Capital funds	1.038.051	957.456	902.849	772.038	657.473	1.026.569
Dividends						28.920
Capital Base	1.073.751	960.130	930.212	772.816	654.297	1.032.679
Total weighted items	5.488.289	5.342.575	4.868.055	4.333.555	4.224.968	5.551.264
CORE EARNINGS						
Core income	177.764	170.081	157.634	157.371	140.709	340.939
Total costs etc.	-98.966	-94.027	-85.265	-76.119	-74.217	-194.794
Core earnings	78.798	76.054	72.369	81.252	66.492	146.145

Financial ratios - 30th June

Figures in pct.

	2020	2019	2018	2017	2016
Solvency ratio	19,6	18,0	19,1	17,8	15,5
Core capital ratio	17,8	16,2	17,1	15,7	13,5
Return on own funds before tax*	5,4	8,8	15,8	12,5	8,7
Return on own funds after tax*	4,1	6,8	14,0	11,2	6,9
Earning/expense ratio in DKK	1,44	1,80	2,36	1,99	1,52
Interest rate risk	1,1	1,7	2,3	1,2	0,5
Foreign currency position	0,2	0,5	0,5	0,3	0,2
Foreign currency risk	0,0	0,0	0	0,0	0,0
Advances against deposits	68,6	80,4	82,8	78,3	86,3
LCR	378	269	277	302	286
Total large commitments**)	133,5	137,8	125,4	16,0	34,5
Accumulated impairment ratio	4,9	5,3	6,2	6,7	7,5
Impairment ratio for the period	0,3	0,1	0,2	0,2	0,4
Increase in loans etc. for the period	-2,2	-0,7	5,9	-0,1	4,3
Ratio between loans etc. and capital funds	4,1	4,5	4,6	5,2	6,1
(value pr share 100 DKK)					
Earnings per share (result period)*	20,9	31,1	58,1	39,7	19,6
Book value pr share*	508	467	438	369	311
Market value/earning per share	2,9	2,0	1,2	1,7	1,5
Market value/book value*	0,59	0,67	0,77	0,90	0,46
(value pr share 20 DKK)					
Earnings per share (result period)*	4,2	6,2	11,6	7,9	3,9
Book value pr share*	101,6	93,4	87,6	73,9	62,0
Market value	60,0	62,8	67,8	66,5	28,9

*) Financial ratios are calculated as if the hybrid core capital were treated as an obligation for accounting purposes, whereby the financial ratios are calculated based on the shareholders' share of profit and equity. The shareholders' share of profit and equity is shown in the Statement of Changes in Equity.

**) New calculation formula from the beginning of 2018, cf. the Danish Financial Supervisory Authority's guidance



Quarterly overviews

1,000 DKK	2Q 2020	1Q 2020	4Q 2019	3Q 2019	2Q 2019
PROFIT AND LOSS ACCOUNT					
Net income from interest	46.174	48.543	46.713	45.425	46.196
Div. on shares and other holdings	1.672	288	76	981	4.471
Charges and commissions (net)	34.959	43.462	37.368	36.974	33.759
Net inc. from int. & charges	82.805	92.293	84.157	83.380	84.426
Value adjustments	15.882	-9.822	3.432	22.587	2.615
Other ordinary income	296	289	593	368	720
Staff costs and administrative expenses	47.365	49.044	51.156	48.320	46.750
Depreciation of intangible and tangible assets	1.598	765	526	765	765
Other operating expenses	194	0	0	0	112
Operating expenses	194	0	0	0	112
Guarantee commission first guarantee scheme	0	0	0	0	0
Write-downs on loans etc. (net)	16.525	10.631	5.629	4.009	3.463
Operating profit	33.301	22.320	30.871	53.241	36.671
Taxes	7.327	4.910	4.591	7.093	8.068
Profit for the period	25.974	17.410	26.280	46.148	28.603
Of which are holders of shares of hybrid core capital instruments etc.	1.569	1.569	1.919	1.569	1.569
BALANCE					
Loans and other debts	4.230.606	4.449.383	4.325.613	4.289.001	4.330.603
Deposits	6.550.184	6.135.817	6.223.604	5.772.673	5.821.940
Subordinated cap. investments	97.584	97.459	97.334	99.209	97.083
Equity	1.038.051	1.017.460	1.026.569	1.002.122	957.456
Total assets	8.008.599	7.581.001	7.614.080	7.332.658	7.192.148
Guarantees etc.	2.308.723	2.519.235	2.379.168	2.262.047	2.048.683
CORE EARNINGS					
Core income	84.105	93.659	85.832	85.026	86.360
Total costs	-49.157	-49.809	-51.682	-49.085	-47.627
Core earnings	34.948	43.850	34.150	35.941	38.733

Management's report

The Bank is reintroducing the expectation of the profit for the year before tax in the originally announced range of DKK 115 – 130 million, with an expectation of write-downs in the range of DKK 35 – 40 million and an assumption of exchange rate adjustments in the range of DKK 5 – 10 million.

It is very satisfactory that the generation of profit in the Bank has become strong enough for the expectation for the profit for the year before tax to be announced in the same range as was originally announced, despite additional write-downs in the range of DKK 20 million relative to the originally announced range.

The first half of the year has been challenging for everyone as a result of the global Corona epidemic. Skjern Bank, like most other companies, has also been heavily impacted by this, but notes that the first half of the year has had satisfactory progress in several areas, primarily including interest and fee income. Net interest and fee income increased by DKK 8.2 million, corresponding to 4.9 %, with growth in both interest income and fee income. In a competitive market, it is considered satisfactory to raise the level of interest income, while the increase in fee income is very satisfactory and is due to increases in loan fees, brokerage on securities trading and other fees as a result of a generally high activity amongst existing customers and very satisfactory customer growth in recent years.

Exchange rate adjustments on the Bank's treasury portfolio of securities were negative by DKK 9.8 million after Q1 2020, but a strong development in the securities market in Q2 has led to exchange rate adjustments being positive by DKK 6.0 million after the first half of 2020.

In an uncertain market as a result of the Corona epidemic, the Bank's strategy of low interest risk and short maturity in the bond portfolio has led to a limited negative exchange rate adjustment of DKK 1.8 million in the bond portfolio. The trading portfolio of shares is also limited, though a positive exchange rate adjustment of DKK 6.0 million was realised in the first half of the year.

Profit before tax was strongly affected by impairment of DKK 27.1 million. In Q2, the Bank has write-downs of DKK 10 million related to the Corona crisis and has chosen to increase the management estimate to DKK 40 million, such that a total of DKK 50 million has been allocated for Corona-related risk. It is estimated that there will still be considerable uncertainty in the second half of the year, primarily in corporate lending as aid packages expire, but that the uncertainty is within the provisioned DKK 40 million.

Core earnings grew by DKK 2.7 million to DKK 78.8 million compared with DKK 76.1 million in

2019, which is very satisfactory considering the increased costs of DKK 4.0 million, primarily for more employees and increased expenses for IT.

The growth in business volume and stricter compliance requirements increase the need for recruiting in the Bank. It is very satisfactory that the Bank is being chosen by highly qualified employees, including an increasing number of young people, for many exciting positions in the Bank.

Profit before tax amounted to DKK 55.6 million as of 30 June 2020, which is a reduction of DKK 25.2 million compared to the same period in 2019. The decrease is despite a growth in net interest and fee income of DKK 8.2 million and is due to reduced exchange rate adjustments of DKK 6.1 million, increased costs of DKK 4.0 million and increased write-downs of DKK 19.9 million, primarily as a result of Corona provisions.

Without the provision of the extraordinary managerial estimate of DKK 40 million, the Bank would have had an income under impairment of DKK 12.9 million for the first half of the year.

The impairment need was negatively affected by the Corona epidemic, but there is still a generally positive development in all of the Bank's segments, including the agricultural industry, which has generally positive operations and consolidation. However, mink breeders, as the only production industry within agriculture, still have very low settlement prices and exchange rates, and in light of this, positive consolidation is not possible. Most of the Bank's limited number of customers within mink are very well consolidated, so there is not considered to be a significant risk associated with this.

The Bank has a very limited exposure within the hotel, restaurant, retail and tourism industries, which are still being hit hard by the Corona epidemic. The Bank is generally in close dialogue with all customers on the challenges and is closely monitoring the situation in all industries.

The Bank is still ready to help our customers through the Corona crisis in cases where it makes business sense for the customer and thus also the Bank.

The Bank's customers in the private segment are generally doing well and the average private household is strongly equipped to withstand the ongoing crisis. Obviously, there will be impairment need for individual private customers, but the expectation is that there will not be a major impairment need at the portfolio level.

The demand for loans has been declining in Q2, and the lending portfolio was reduced by DKK 218.8 million in Q2 2020. In the first half of the year, there was a decrease of DKK 95.0 million, corresponding to 2.2%. The influx of new customers remains very satisfactory, but planned

repayment of major exposures combined with the demand for loans from existing customers has been declining, meaning that the lending has decreased for the first half of the year. For the full year, there is not expected to be a lending growth exceeding 2 %.

The Bank's guarantees remain at a high level of DKK 2,308 million as of 30 June 2020 compared with DKK 2,379 million as of the end of 2019. The high level of guarantees reflects a high level of activity amongst the Bank's customers.

The proportion of lending and guarantees to private customers increased by 1.6 percentage points to 46.6 % during 2020, which is nicely in line with the Bank's goal of increasing the proportion of lending and guarantees to private customers. This development is expected to continue. It has been strategically decided that the exposure to individual business segments must not exceed 15 %.

The Bank offers financial leasing to the Bank's business customers via Skjern Bank Leasing. The development is satisfactory, and as of 30 June 2020, well over 400 leasing contracts were established with a remaining leasing debt of approximately DKK 120 million.

The bank's loans and collaterals for guarantees divided by segments as of 30 June 2020 amounted to:

LOANS AND GUARANTEES DISTRIBUTED ON SECTORS

	30.06.2020	31.12.2019	30.06.2019
Public authorities	0,00%	0,0 %	0,0%
Agriculture, hunting, forestry & fishing	10,3%	12,0 %	11,6%
Plant production	1,6%	1,6 %	1,3%
Cattle farming	5,8%	6,7 %	6,2%
Pig farming	0,9%	1,5 %	1,8%
Mink production	1,3%	1,5 %	1,4%
Other agriculture	0,7%	0,7 %	0,9%
Industry and mining	4,5%	4,0 %	4,1%
Energy	2,5%	2,6 %	3,1%
Building and constructions	5,9%	6,2 %	6,4%
Wholesale	6,3%	5,9 %	6,8%
Transport, hotels and restaurants	1,4%	1,7 %	1,4%
Information and communication	0,3%	0,2 %	0,3%
Financial and insurance business	5,4%	5,1 %	4,5%
Real-estate	12,1%	13,4 %	13,0%
Other business	4,7%	4,9 %	5,2%
Private	46,6%	44,0 %	43,6%

The liquidity surplus amounts to 378 % after LCR, which is a small increase compared to the end of 2019, when it was 357 %. The increase is primarily due to reduced lending volumes and increased deposit volumes, which follows the Bank's strategy of maintaining a solid liquidity coverage ratio based on stable customer deposits. The Bank thus has approximately DKK 1,265 million in liquidity surplus relative to the internal goal of always having a minimum LCR of 225 %.

The Bank's capital ratio increased during the first half of 2020 from 18.6 % to 19.6 %, while the core capital ratio increased from 16.9 % to 17.8 %. The increase is due to a combination of recognised profit after tax of DKK 40.2 million and decreasing lending and guarantees and thus decreasing risk-weighted items of DKK 63 million. With effect from 30 June 2020, changed capital rules, called CRR Quick-Fix, were introduced, which, amongst other things, led to an increased SME reduction in the calculation of risk-weighted items. The Bank has not been able to recognise the effect in the calculation of the Bank's capital ratio, but estimates the effect on the capital ratio to be an increase of 0.8 percentage points. The recognition in accordance with the new rules will take place in Q3 2020.

The individual solvency requirement is calculated at 9.8 %, and the Bank thus has a solvency coverage relative to the solvency requirements of 9.8 %. Compared with the actual capital base of DKK 1,073.7 million, there was a surplus of DKK 534.7 million at the end of the first six months of 2020.

Relative to the necessary capital, expressed as the Bank's calculated solvency requirements plus the phased-in capital conservation buffer of 2.5 % and the phased-in NEP supplement of 1.865 %, the coverage can be calculated at 5.435 % points, corresponding to a solvency coverage of 138.4 %, or DKK 298.3 million. The cyclical buffer, which was phased in at 1 % as of 31 December 2019, was suspended in March 2020 as a result of the Corona epidemic in order to ensure an increased capital buffer in the banking sector.

If the Bank had been able to recognise the estimated effect of 0.8 percentage points of the increased SME reduction – CRR-Quick-fix - in the risk-weighted items, the coverage relative to the necessary capital would amount to 6.235 percentage points, corresponding to a capital coverage requirements of DKK 328.5 million.

CAPITAL GOALS AND DIVIDEND POLICY

The Bank has achieved a solid capital coverage, primarily consisting of a core capital of 16.7 % compared with the individual solvency requirements of 9.8 %, which, added to the capital conservation buffer of 2.5% and NEP requirement of 1.865 %, amounts to total capital requirements of 14.165 percentage points.

The Bank has an unchanged goal of maintaining a solid capital base to ensure the continued development of the Bank's activities and implementation of current and future regulatory capital requirements. The capital base will continue to be largely based on actual core capital, but raising foreign capital will also be included in the capital structure if conditions are deemed favourable and it is deemed appropriate.

Based on the dividend policy, the Bank distributed dividends of DKK 28.9 million for the financial year 2019 on 5 March 2020 after its adoption at the Annual General Meeting on 2 March 2020. The Bank's distribution was thus made before the outbreak of the Corona epidemic and the Danish Financial Supervisory Authority and Danish government's request to avoid paying dividends.

It is the Bank's unchanged assessment that the capital resources of the Bank were and are still fully adequate and sound after the distribution of dividends, but the Bank will of course follow the impact of the Corona crisis on the Bank's customers and capital resources very closely and will act accordingly. In Q4 2020, the Bank's Board of Directors will make the initial assessment of whether to distribute dividends for the financial year 2020, cf. the dividend policy. Consideration for the Bank's adequate capitalisation will weigh heavily in making the decision and the Board of Directors will naturally take any recommendations from the authorities into account.

The Bank's capital goals and dividend policy are unchanged:

Capital goals

It is the Bank's goal to be well capitalised to ensure the Bank's strategic goals and also to accommodate regulatory requirements in future recessions. The management will continuously assess the adequacy of the capital base, including the distribution between equity and foreign capital, to ensure the optimal distribution between returns to shareholders and sufficient increase of the Bank's actual core capital.

Dividend policies

In light of the Bank's capital goals, the Bank wants to be stable in payments of dividends. The goal is for distribution to amount to 30-50 % of the annual profit after tax, either as share buy-backs and/or cash distributions, which exceeds a return on equity of 6 %.

THE BANK'S IMPORTANT STAKEHOLDERS

The Bank's management considers the cooperation with and involvement of the Bank's many stakeholders and the running of a well-functioning local Bank to be equally important.

The Bank believes that stakeholders' interests closely coincide.



Shareholders

The Bank is owned by almost 15,600 shareholders. As described under the capital goals and dividend policies, in the future the management wants the Bank to be stable in distributing dividends, such that portions of the future earnings are distributed to the shareholders when this can be done safely relative to the capital goals.

As a local bank, the management recognises the importance of a stable and loyal shareholder community and aims to always give them competitive returns on their investment. The shareholders' loyalty and continued backing, from small shareholders to major professional investors, is important to the continued development of the Bank.

Customers

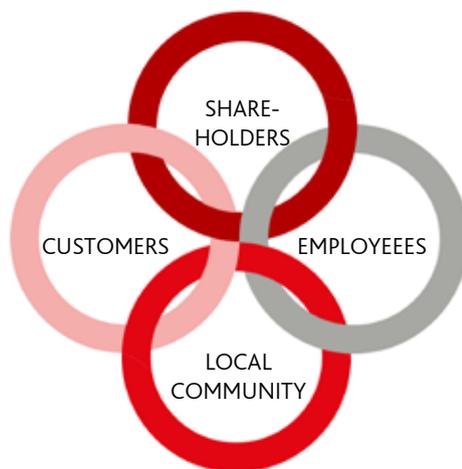
The Bank has a great many private customers in most of the country, though primarily in local areas and small and medium-sized business customers in the Bank's local areas. The Bank is largely chosen by new customers who, like the Bank's many existing customers, want a local Bank where they know their adviser and where they have time for them.

Through a close familiarity with individual customers and their needs, the Bank wants to make a difference when our customers are facing important financial decisions, but also in daily life when online banking, mobile banking and cards have to work. The Bank wants to be close to the customers, to have short response times and to find the financing solutions that work for each customer.

This is what we at Skjern Bank call

customer focus, presence, drive and decency.

All the employees at the Bank are very humbled by the trust shown by the customers. This is true when it comes to managing their own finances but also when they refer family, friends and acquaintances to the bank in large numbers via the Bank's customer referral concept. The references from satisfied customers is the biggest reason why the bank experiences high and very satisfactory customer growth year after year.



Employees

The Bank currently employs 167 employees, which is an increase of 7 employees in the last year. All employees are offered employment terms that conform to the market as well as relevant training and continuing education in order to always ensure a high level of professionalism.

Employee job satisfaction is very important for the Bank and there are annual measurements of the development in employee satisfaction in each department and the Bank as a whole. It is a strategic goal for the bank to have employees who are passionate about the Bank's values, who give their utmost every day and are happy and proud to be part of the employee team.

Employee satisfaction is very high, which is an important foundation for always being able to offer our many customers advice and service at the high level expected by the customers, the employees and the Bank.

Local communities

The Bank's goal is to play an important role in the local communities, both as a partner for the many small business owners but of course also for many private customers who have entrusted the Bank with their business.

The Bank is a partner for a wide range of local community associations and organisations and supports both sports and culture and associations in general. The Bank has been very well received by the association community and the Bank has had a wide range of very productive mutual partnerships to the benefit of the specific association and its members as well as the Bank.

Skjern Bank's foundation is the many shareholders, customers, talented employees and the local community. The Bank is very aware that all stakeholders play an important role both now and in the future and the Bank views it as an important community role to encourage the many stakeholders to work together for the benefit of both the stakeholders and the Bank.

NET INTEREST INCOME

Net interest income amounted to DKK 94.7 million as of 30 June 2020, which is an increase of DKK 1.6 million, corresponding to 1.7 % compared to 30 June 2019.

Total interest income, including interest income on deposits, increased by DKK 4.3 million, corresponding to 4.2 % compared to 30 June 2019. The increase is due to an increase in interest income from deposits, but also to an increase in derivative financial instruments, while the interest income

from lending has decreased by 2.0%, corresponding to DKK 1.9 million.

The interest expense amounted to DKK 10.6 million and has increased by DKK 2.7 million as a result of a sharp increase in interest expense to Danmarks Nationalbank of DKK 3.2 million, while the interest expense for customer deposits has decreased by DKK 0.8 million. The increase in interest expense to Danmarks Nationalbank is due to a major increase in customer deposits, which increases the Bank's liquidity reserves, which to a significant extent is invested in certificates of deposit with Danmarks Nationalbank.

NET FEE AND COMMISSION INCOME

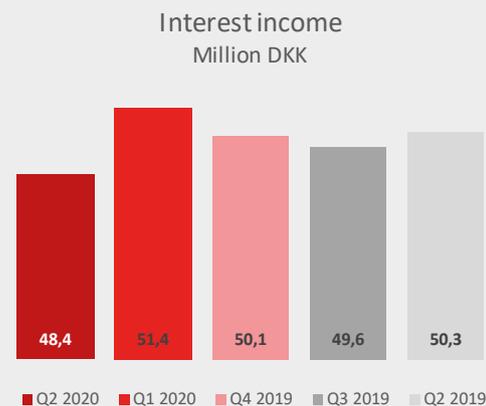
Net income from fees and commissions amounted to DKK 78.4 million, compared to DKK 68.9 million in 2019, and thus increased by a very satisfactory DKK 9.5 million. The increase in fee income is primarily due to a major influx of customers, who contribute to the increase of general fees and brokerage income. The high activity in the loan area has led to an income growth of DKK 5.4 million in loan fees compared with Q1 2019.

Dividends of DKK 2.0 million were realised, which is DKK 2.8 million higher than last year.

Net interest and fee income amounted to DKK 175.1 million, which is DKK 8.2 million or 4.9 % higher than the first half of 2019.

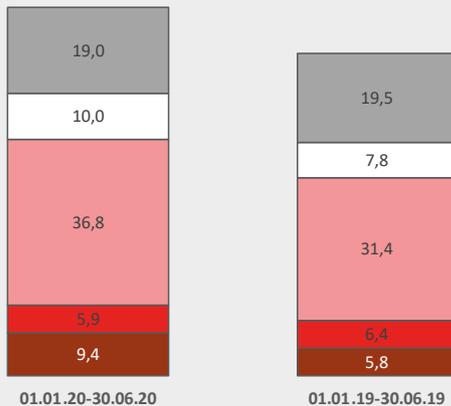
EXCHANGE RATE ADJUSTMENTS

In the first half of the year, the securities market was characterised by major price fluctuations in both the stock market and the bond market. However, the development in the market has stabilised during Q2, which has contributed to the total exchange rate adjustments being positive by DKK 6.1 million as of 30 June 2020 compared with positive exchange rate adjustments of DKK 14.2 million as of 30 June 2019. Despite a decrease in exchange rate adjustments of DKK 8.1 million, the profit for the first half of 2020 is considered satisfactory

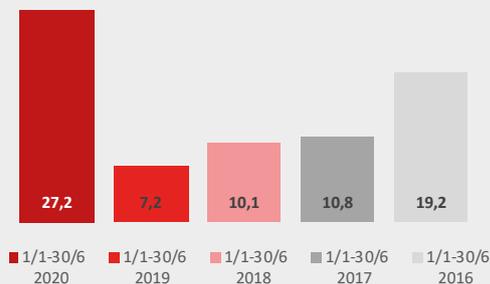


Charges and commissions receivable (Million DKK)

- Securities trading and custodies
- Payment management
- Charges from loan on guaranties
- Commissions on guaranties
- Other charges and commissions



Write-downs on loans etc. (Million DKK)



considering the negative impact of the Corona epidemic.

As of 30 June 2020, exchange rate adjustments were divided into DKK -1.8 million in the bond portfolio and DKK 5.9 million in the shareholdings, of which sectoral shares comprise DKK 3.1 million. In addition, exchange rates and derivative financial instruments achieved an income of DKK 1.8 million in the same period.

EXPENSES

Staff and administration expenses etc. increased by DKK 4.0 million, corresponding to 4.4 %, and amounted to DKK 96.4 million compared with DKK 92.4 million in the same period in 2019.

With regard to the organic growth and handling the increased regulation in the sector, the number of employees increased and staff costs increased by DKK 6.0 million compared to 30 June 2019. This also includes increased payroll tax of DKK 0.8 million as well as collective agreement wage increases.

Administration costs decreased by DKK 2.1 million, distributed between IT expenses, marketing and other administrative costs.

IMPAIRMENT

Net impairment for the period of DKK 27.2 million compared with DKK 7.2 million in 2019.

In Q2, the Bank made Corona-related provisions for a total of DKK 10 million and increased the management estimate to DKK 40 million for any future impairment need as a result of Corona, after which a total of DKK 50 million has been expensed as a result of the Corona epidemic.

The Bank's lending to the hardest-hit industries, including the hotel, restaurant and retail industries and industries within tourism, is very limited, and the Bank's customers are generally economically strong

and considered to be able to get through the crisis, though with the use of state aid packages and the necessary backing from the Bank for some. In light of this, the Bank expects an increased impairment need in 2020, but not a scenario with major increase in impairment need as during the financial crisis. Devaluations on loans, etc. for the period correspond to 0.3 % of the total loans and guarantees.

PROFIT FOR THE PERIOD

Profit before tax amounted to DKK 55.6 million compared with DKK 80.8 million as of 30 June 2019. After taxes, profit for the period amounted to DKK 43.4 million. The management is pleased to note that profit before tax, despite lower exchange rate adjustments and an increased level of impairment of an estimated DKK 40 million as a result of the Corona crisis, is at a satisfactory level and also considers business development to be satisfactory.

Core earnings of DKK 78.8 million were realised, which is DKK 2.7 million higher than 30 June 2019. The results are very satisfactory despite the increased costs, primarily for personnel and IT.

CORE EARNINGS 1 JANUARY - 30 JUNE

Beløb i 1.000 kr.	2020	2019	1.1-31.12 2019
Net income from interest	94.717	93.149	185.287
Net charges and commission	78.421	68.915	143.257
Dividend on shares and other holdings	1.960	4.806	5.863
Foreign currency value adjustments*	2.081	2.227	4.587
Other ordinary income	585	984	1.945
Core income	177.764	170.081	340.939
Staff costs and administrative expenses	96.409	92.385	191.861
Depreciation and write-downs on intangible and tangible assets	2.363	1.530	2.821
Other operating expenses	194	112	112
Costs	98.966	94.027	194.794
Core earnings	78.798	76.054	146.145
Write-downs	-27.156	-7.193	-16.831
Value adjustments*	3.979	11.979	35.638
Result before tax	55.621	80.840	164.952
Tax	12.237	17.785	29.469
Net-result for the financial year	43.384	63.055	135.483

*) Foreign currency value adjustments and value adjustments specificeres i noten "Value adjustments" on page 34.

CAPITAL

Equity amounted to DKK 1,038.1 million compared to DKK 1,026.6 million at the end of the previous year. Despite the recognition of profit of DKK 40.2 million after deduction of interest for hybrid core capital, equity has only increased by DKK 11.5 million as a result of the distributed dividends of DKK 28.9 million in March 2020. An unchanged hybrid core capital of DKK 60 million was recognised in the Bank's equity.

After addition of subordinated capital contributions of DKK 100 million and adjustments for reduction in weighting and other deductions, the Bank's capital base amounted to DKK 1,073.7 million. The realised profit after tax of DKK 43.4 million less interest on hybrid core capital of DKK 3.2 million, corresponding to a total of DKK 40.2 million, is recognised in the Bank's capital base as of 30 June 2020.

In the first half of the year, the Bank has reduced risk-weighted items by DKK 63 million to DKK 5,488 billion. The capital ratio was estimated at 19.6 % after recognition of profit after tax for the quarter, which is an increase of 1.0 % points since 31 December 2019.

The necessary capital of 14.165 % is comprised of the individual solvency requirement of 9.8 % plus the capital conservation buffer of 2.5 % and phased-in NEP supplement of 1.865 %. At the end of 2019, the necessary capital was 13.725 %, consisting of an individual solvency requirement of 9.6 %, a capital reservation buffer of 2.5 %, cyclical buffer of 1% and an NEP supplement of 0.625 %.

The Bank has applied for and received permission from the Danish Financial Supervisory Authority to repay hybrid core capital of nominally DKK 60 million early on 15 September 2020 against taking out a corresponding hybrid core capital loan of nominally DKK 60 million no later than at the same time. The transaction thus does not affect the capital coverage and is made to reduce the interest expense on the hybrid core capital.

The Bank thus still has foundation capital with a coverage of 5.435 % points, corresponding to a surplus of 138.4 % relative to the necessary capital. The surplus adds up to DKK 298.3 million.

If the Bank had been able to recognise the effect of the increased SME reduction in the risk-weighted items, the coverage relative to the necessary capital would amount to 6.235 percentage points, corresponding to a capital coverage relative to the necessary capital of 144.0 % or DKK 328.5 million.

MAJOR SHAREHOLDERS

The Bank has one major shareholder - Investeringselskabet af 15. maj (AP Pension Livsforsikringsaktieselskab, København Ø.) - who possessed 20.75 % of the shares in Skjern Bank and 5 % of the voting rights at the last ownership announcement.

LIQUIDITY

Customer deposits amount to DKK 6,550 million, of which DKK 4,996 million is covered by the Danish Deposit Guarantee Scheme. The deposits are considered stable, since most of them come from core customer relationships.

The liquidity coverage ratio shows how the Bank is able to meet its payment obligations for an upcoming 30-day period without access to market funding. All institutions must have a coverage of at least 100%.

The Bank fulfils this requirement and as of 30 June 2020 has an LCR financial ratio of 378 %.

SKJERN BANK SHARES

As of 30 June 2020, the Bank was owned by 15,571 shareholders and the price of the Bank's shares was 60.0 compared with 62.2 at the beginning of the year.

The market price thus amounts to DKK 578.4 million as of 30 June 2020, corresponding to an intrinsic value of 0.59.

EXPECTATIONS

The Bank expects core earnings in 2020 in the range of DKK 125 - 140 million. The expectation is the same as expectation expressed in the Annual Report for 2019.

The Bank is reintroducing the expectation of the profit for the year before tax in the originally announced range of DKK 115 – 130 million, with an expectation of write-downs in the range of DKK 35 – 40 million and an assumption of exchange rate adjustments in the range of DKK 5 – 10 million.

"THE SUPERVISORY DIAMOND"

The Danish Financial Supervisory Authority's mandatory Supervisory Diamond specifies five indicators for banking activities with increased risk.

The Bank's status for each indicator as of 30 June 2020 is calculated in the figure below, where the indicators established by the Danish Financial Supervisory Authority are also shown.

Skjern Bank complies with all limit values as of 30 June 2020 and has not exceeded any of the limit values at any time during the Supervisory Diamond's existence.

Liquidity reserve (minimum 100 %):

Skjern Bank's liquidity reserve is reduced, but still sufficient and amounts to 376 % as of 30 June 2020 compared to 357 % as of 31 December 2019.

Funding ratio (maximum 100 percent):

The current funding situation leaves room for significantly more lending, as the Bank's lending compared to deposits, equity and debt securities is only 55 %. As of 31 December 2019, the funding ratio amounted to 62 %.

Property exposure (maximum 25 percent):

Skjern Bank has a good industry spread, and it can be noted that the exposure to the real estate sector is 12.1 % compared with 13.2% at the end of 2019.

Large exposures (maximum of 175 per cent):

Large exposures are defined as the total of the Bank's 20 largest exposures compared to the actual core capital and the financial ratio was 133.5 % as of 30 June 2020, compared to 136.5 % as of 31 December 2019.

Property exposure (maximum 20 percent):

The Bank realised a decrease in lending of 2.3 % as of 30 June 2020 compared with a decrease in lending of 0.78 % for the full year of 2019.

TRANSACTIONS WITH RELATED PARTIES

As of 30 June 2020, there have not been major transactions between Skjern Bank and the Bank's related parties.

CONTRIBUTION TO THE SETTLEMENT FUND

The Bank's annual contribution to the Settlement Fund of DKK 194 thousand was paid in Q2 2020.

ACCOUNTING POLICIES USED

The semi-annual report was prepared in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's Executive Order on financial reports for credit institutions and investment companies, etc. and additional Danish disclosure requirement for interim reports for listed companies.

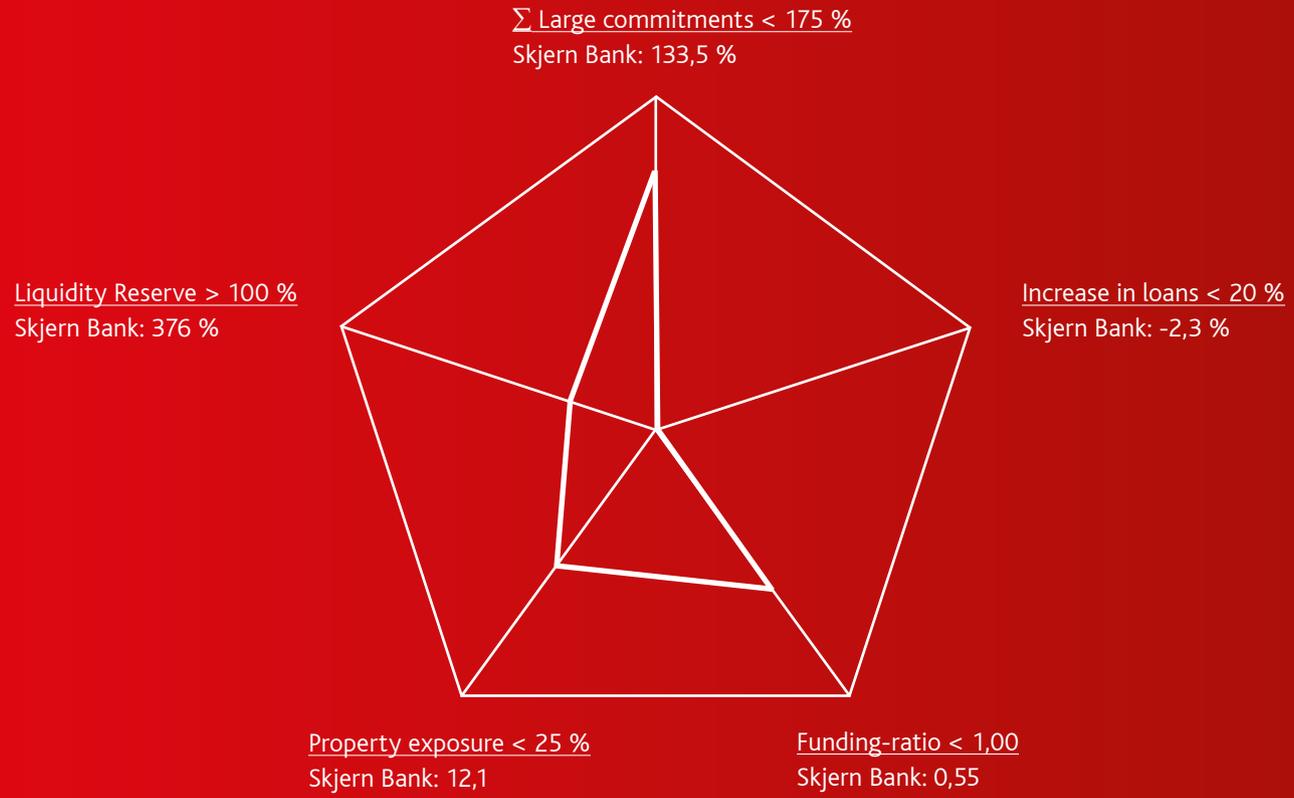
At the beginning of 2020, the Bank changed its accounting policies, as IFRS 16 - Leasing Contracts has come into force.

The change in rules and policies means that the way lessees are handled in terms of accounting no longer requires a distinction between financial leasing and operational leasing. All lease agreements, including rental agreements, must be recognised by the lessee in the form of a leasing asset that represents the value of the right of use. The asset is initially recognised at present value of the lease liability. At the same time, the present value of the agreed lease payments are recognised as a liability. Assets leased on short-term contracts and leased assets of low value are excluded from the requirement for recognition of a lease asset.

The change in rules and policies thus means that the Bank's tangible assets and liabilities at the beginning of 2020 have been increased by DKK 16.6 million. The operational impact is insignificant, as the Bank has only entered a limited number of lease agreements/rentals, primarily for rentals where two of the Bank's branches are housed.

In addition, the accounting practice used is unchanged compared to the annual report for 2019. The accounting practice used is unchanged compared to the annual report for 2019.

The Supervisory Diamond



EVENTS AFTER 30 JUNE 2020

No events have occurred after the balance date that are of significance for the assessment of the profit for the period.

LITIGATION

The Bank is involved in disputes and litigation as part of its normal operations. The Bank's risk in these cases is regularly assessed by the Bank's lawyers and management. Provisions are made based on an assessment of risk of loss.

Sincerely,
Skjern Bank

Hans Ladekjær Jeppesen
Chair of the Board

Per Munck
Director



Management's statement

We have on today's date discussed and approved the quarterly report for the period of 1 January–30 June 2020 for Skjern Bank A/S.

The quarterly report was prepared in accordance with the Danish Financial Business Act, including the Executive Order on financial reports for credit institutions and investment companies etc. and additional Danish disclosure requirements for interim reports for listed financial institutions.

We consider the accounting policies chosen to be appropriate such that the accounts provide a true and fair view of the Bank's assets and liabilities, financial position and profit.

We consider the management's review to contain a true and fair view of the development in the Bank's activities and economic conditions and a description of the significant risks and uncertainty factors by which the Bank may be affected.

No audit or review of the semi-annual report has been conducted, but an external audit has verified that the conditions for ongoing recognition of the period's earnings in core capital are met.

Skjern, 13 August 2020

Skjern Bank A/S
Per Munck
Director

BOARD OF SKJERN BANK A/S

Hans Ladekjær Jeppesen
Board chairman

Bjørn Jepsen
Board vice-chairman

Finn Erik Kristiansen

Niels Christian Poulsen

Niels Erik Kjærgaard

Lars Skov Hansen

Carsten Jensen

Michael Tang Nielsen

Profit and loss account and Statement of comprehensive income

January 1st - June 30th

1,000 DKK	2020	2019	1.1-31.12 2019
Interest receivable	99.821	100.881	200.586
Interest receivable deposits	5.501	0	2.157
Interest receivable	4.949	5.238	10.032
Interest payable central banks	5.656	2.494	7.424
Net income from interest	94.717	93.149	185.287
Dividend on shares and other holdings	1.960	4.806	5.863
Charges and commission receivable	81.160	70.937	146.937
Charges and commission payable	2.739	2.022	3.680
Net income from interest and charges	175.098	166.870	334.407
Value adjustments	6.060	14.206	40.225
Other ordinary income	585	984	1.945
Staff costs and administrative expenses	96.409	92.385	191.861
Depreciation and write-downs on intangible and tangible assets	2.363	1.530	2.821
Other operating expenses	194	112	112
Contribution to the Guarantee Fund for deposits	194	112	112
Guarantee commission first guarantee scheme	0	0	0
Write-downs	27.156	7.193	16.831
Result before tax	55.621	80.840	164.952
Tax	12.237	17.785	29.469
Net-result for the financial year	43.384	63.055	135.483
Of which are holders of shares of hybrid core capital instruments etc.	3.138	3.138	5.168
STATEMENT OF COMPREHENSIVE INCOME			
Profit for the financial year	43.384	63.055	135.483
Other comprehensive income after tax	0	0	0
Total comprehensive income	43.384	63.055	135.483



Balance by June 30

1,000 DKK	2020	2019	1.1-31.12 2019
ASSETS			
Cash in hand and demand deposits with central banks	225.868	232.889	229.494
Receivables at credit institutions and central banks	2.215.727	1.149.817	1.673.392
Loans and other receivables at amortised cost	4.230.606	4.330.603	4.325.613
Bonds at fair value	986.787	1.125.116	1.045.717
Shares etc.	213.708	226.744	225.094
Land and buildings (total)	62.358	47.774	47.140
Investment properties	3.019	2.961	2.961
Owner-occupied properties	43.521	44.813	44.179
Owner-occupied properties, leasing	15.818	0	0
Other tangible assets	4.346	3.385	3.323
Current tax assets	14.641	18.488	4.804
Deferred tax assets	0	1.922	0
Assets in temporary possession	3.300	0	0
Other assets	50.296	53.682	58.396
Prepayments	962	1.728	1.107
Total assets	8.008.599	7.192.148	7.614.080



1,000 DKK	2020	2019	1.1-31.12 2019
LIABILITIES			
DEBT			
Debt to credit institutions and central banks	237.727	254.442	206.536
Deposits and other debts	6.550.184	5.821.940	6.223.604
Other liabilities	72.490	45.782	44.386
Prepayments	1.646	1.173	1.386
Total debt	6.862.047	6.123.337	6.475.912
PROVISIONS			
Provisions for deferred tax	675	0	675
Provisions for loss on guarantees	10.242	14.272	13.590
Total provisions	10.917	14.272	14.265
SUBORDINATED DEBT			
Subordinated loan capital	97.584	97.083	97.334
Total subordinated debt	97.584	97.083	97.334
EQUITY			
Share capital	192.800	192.800	192.800
Revaluation reserves	417	417	417
Statutory reserves	0	0	0
Retained earnings	784.628	704.384	744.402
Capital owners share of equity	977.845	897.601	966.539
Holders of hybrid capital Total equity	60.206 1.038.051	59.855 957.456	59.330 1.025.869
Total liabilities	8.008.599	7.192.148	7.613.380

Off-balance-sheet items by June 30

1,000 DKK	2020	2019	1.1-31.12 2019
CONTINGENT LIABILITIES			
Contingent liabilities			
Finance guarantees	482.038	430.952	512.488
Guarantees against losses on mortgage credit loans	731.011	609.790	663.378
Registration and conversion guarantees	945.918	870.939	961.248
Other contingent liabilities	149.756	137.003	242.054
Total	2.308.723	2.048.684	2.379.168
Other binding engagements			
Irrevocable credit-undertakings	157.360	350.894	121.121
Total	157.360	350.894	121.121

Information on changes in equity

June 30

1,000 DKK	2020	2019	1.1-31.12 2019
Share capital beginning-of-year	192.800	192.800	192.800
Share capital end-of-year	192.800	192.800	192.800
Revaluation reserves beginning-of-year	417	417	417
Additions related to reassessed value	0	0	0
Other movements	0	0	0
Revaluation reserves end-of-year	417	417	417
Retained earnings beginning-of-year	773.322	673.813	644.923
Profit or loss for the financial year	40.246	59.917	99.936
Dividends	-28.890	-28.890	0
Dividends own shares	30	30	30
Purchase of own funds	-80	-487	-487
Retained earnings end-of-year	784.628	704.383	744.402
Dividends	0	0	28.920
Holders of hybrid capital beginning-of-year	60.030	59.680	59.680
Net profit or loss for the year (interest hybrid capital)	3.138	3.138	6.626
Paid interest	-2.962	-2.962	-6.276
Holders of hybrid capital end-of-year	60.206	59.856	60.030
Total equity	1.038.051	957.456	1.026.569

Notes per June 30

1,000 DKK	2020	2019	1.1-31.12 2019
INTEREST INCOME			
Loans and other receivables	94.974	96.904	191.626
Bonds	2.583	3.513	6.521
Other derivative financial instruments, total	2.264	464	2.439
of which			
Currency contracts	-492	-92	2.755
Interest-rate contracts	2.756	556	-316
Other interest income	0	0	0
Total	99.821	100.881	200.586
INTEREST EXPENSES			
Credit institutions and central banks	0	0	0
Deposits	1.282	1.932	3.506
Subordinated debt	3.201	3.305	6.525
Other interest expenses	466	1	1
Total	4.949	5.238	10.032
FEEES AND COMMISSION INCOME			
Securities trading and custody accounts	9.426	5.822	16.238
Payment services	5.875	6.405	12.423
Loan fees	36.792	31.396	68.877
Guarantee commission	10.020	7.808	16.918
Other fees and commission	19.047	19.506	32.481
Total	81.160	70.937	146.937
VALUE ADJUSTMENTS			
Bonds	-1.769	453	-4.551
Total shares	5.993	11.262	39.974
Shares in sectorcompanies etc.	3.144	4.936	8.858
Other shares	2.849	6.326	31.116
Foreign currency	2.081	2.227	4.587
Other financial instruments	-245	264	215
Total	6.060	14.206	40.225

1,000 DKK	2020	2019	1.1-31.12 2019
STAFF COSTS AND ADMINISTRATIVE EXPENSES			
SALARIES AND REMUNERATION OF BOARD OF DIRECTORS, MANAGERS ETC.			
Board of managers	1.621	1.621	3.285
Fixed fees	1.621	1.621	3.285
Pension contributions	0	0	0
Management board	674	576	1.303
Audit Committee	0	0	80
Committee of representatives	0	0	177
Total salaries and remuneration of board etc.	2.295	2.197	4.845
STAFF COSTS			
Wages and salaries	47.004	42.188	82.245
Pensions	4.842	4.504	9.138
Social security costs	614	530	1.182
Payroll tax	8.118	7.318	14.859
Total staff costs	60.578	54.540	107.424
OTHER ADMINISTRATIVE EXPENSES	33.536	35.648	79.592
Total staff costs and administrative expenses	96.409	92.385	191.861
EMPLOYEES			
Average number of employees converted into full-time employees	159	149	150
WRITE-DOWNS ON LOANS AND RECEIVABLES			
Write-downs and provisions during the year	100.134	70.115	116.865
Reversal of write-downs made in previous years	-66.367	-60.431	-91.928
Finally lost, not previously written down	2.078	2.518	3.998
Interest on the written-down portion of loans	-5.663	-4.223	-10.512
Recoveries of previously written off debt	-3.026	-786	-1.592
Total	27.156	7.193	16.831

Notes per June 30 (continued)

1,000 DKK	2020	2019	1.1-31.12 2019
DEVELOPMENT IN WRITE-DOWNS AND PROVISIONS RELATING TO FINANCIAL ASSETS AT AMORTIZED COST AND OTHER CREDIT RISKS, ASSETS INCLUDED IN IFRS9			
STAGE 1 IMPAIRMENT CHARGES			
Stage 1 impairment charges at the end of the previous financial year	20.005	16.768	16.768
Stage 1 impairment charges / value adjustment during the period	0	5.629	11.997
-hereby new facilities in the period: 5,495 TDKK	7.541		
Stage 1 impairment reversed during the period	-8.622	-5.244	-8.760
Cummulative stage 1 impairment total	18.924	17.153	20.005
STAGE 2 IMPAIRMENT CHARGES			
Stage 2 impairment charges at the end of the previous financial year	63.076	48.650	48.650
Stage 2 impairment charges / value adjustment during the period	37.543	20.173	36.250
Stage 2 impairment reversed during the period	-19.465	-18.701	-21.824
Cummulative stage 2 impairment total	81.154	50.122	63.076
STAGE 3 IMPAIRMENT CHARGES			
Stage 3 impairment charges at the end of the previous financial year	240.252	286.140	286.140
Stage 3 and impairment charges / value adjustment during the period	52.115	46.443	63.590
Reversal of stage 3 impairment charges during the period	-33.735	-39.304	-60.576
Recognised as a loss, covered by stage 3 impairment charges	-12.921	-9.387	-48.902
Cummulative stage 3 impairment total	245.711	283.892	240.252
Total cumulative impairment charges IFRS9	345.789	351.167	323.333
GUARANTEES			
Provisions beginning of the year	13.590	9.420	9.420
Loss on guarantees	2.935	-	9.193
Reversal of provisions	-4.545	1.667	0
Provisions for losses	-1.739	-978	-5.023
Guarantees end of year	10.241	10.109	13.590
Total cumulative impairment charges IFRS9 and guarantees	356.030	361.276	336.923

1,000 DKK

	2020	2019	1.1-31.12 2019
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The development can be explained by the following development in the distribution in stages of the maximum credit risk and development in the weighted average of the rating:

	Stage 1	Stage 2 (due to migration)	Stage 2 (due to overdraft)	Stage 2 (weak)	Stage 3	Total
Beginning						
Impairment	20.005	44.916	13	18.147	240.252	323.333
- in % of total impairment	6%	14%	0%	6%	74%	100%
Maximum credit risk	6.546.649	903.469	2.026	182.988	571.517	8.206.649
- in % of maximum credit risk	80%	11%	0%	2%	7%	100%
Rating, weighted average	3,3	5,9	2,0	10,0	10,0	4,2
End						
Impairment	18.924	60.926	1	20.227	245.711	345.789
- in % of total impairment	5%	18%	0%	6%	71%	100%
Maximum credit risk	6.909.864	895.213	677	171.411	548.540	8.525.705
- in % of maximum credit risk	81%	11%	0%	2%	6%	100%
Rating, weighted average	3,3	6,0	1,5	10,0	10,0	4,1

The development in Stage 3 is mainly due to the fact that an extra amount of DKK 35 million has been reserved. DKK to a management estimate based on the Corona crisis.

LOANS ETC. WITH SUSPENDED CALCULATION OF INTEREST	90.443	112.961	83.586
SHARE CAPITAL			
Number of shares at 20 DKK each	9.640.000	9.640.000	9.640.000
Share capital	192.800	192.800	192.800
OWN CAPITAL SHARES			
Number of shares (pcs)	10.927	16.957	16.957
Nominal value hereof	218	339	339
Market value hereof	656	1.065	1.055
Own shares proportion of share capital (pct.)	0,11%	0,20%	0,18%

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