







ÅNNUAL REPORT 2020

ESPECIALLY SATISFACTORY RESULTS

 2020	Profit before tax of DKK 143,8 million
 EQUITY	Equity yielded interest of 13,7 % before tax
 CORE EARNINGS	Core earnings amounted to DKK 154,7 million
 NET INTEREST AND FEE INCOME	Increased by 3,9 % to DKK 347,5 million
 IMPAIRMENT	Increased to DKK 32,9 million, corresponding to 0,4 % of loans and guarantees
 LENDING	Loans amounted to DKK 4,225 million and deposits amounted to DKK 6,464 million
 CAPITAL	Satisfactory capital ratio of 21,2 % and individual solvency requirements of 9,8 %
 CORE EARNINGS EXPECTATIONS	Core profit in 2021 is expected to be in the range of DKK 140 - 155 million



Content

Management's financial report for 2020	7
Endorsement of the Annual Report by the Management	22
Profit and loss account	23
Statement of comprehensive income	23
Proposal for distribution of profit	23
Balance Sheet	24
Information on changes in equity	26
Notes	29
5 years in summary	67
5 years financial ratios	68
Quarterly overviews	69
Financial Calendar 2021	70
Committee of representatives	71
List of board members' managerial offices	72

Management's financial report for 2020

A profit before tax of DKK 143.8 million is considered especially satisfactory. Profits were positively affected by the improvement in the Bank's net interest and fee income and positive exchange rate adjustments, as well as only marginally increased costs. Equity yielded interest of 13.7 % before tax and 10.9 % after tax, which the management considers very satisfactory.

In light of the achieved profit and the adequate capital coverage, it is recommended to the Annual General Meeting that dividends of DKK 2 per share be distributed. As a result of the Danish Financial Supervisory Authority's announcement of restraint in distributing dividends, the Bank has chosen to limit the distribution compared to 2019, when the distribution was DKK 3 per share. The distribution is fully justifiable and follows the Bank's dividend policy, as the Bank has also strengthened its earnings and capital situation in 2020. The distribution amounts to DKK 19.3 million.

The unchanged low interest rate environment has meant that interest income on loans has been reduced by DKK 5.9 million, corresponding to 2.9 %. The net growth of customers has been especially satisfactory, and in particular the proportion of private customers has increased more than expected. Despite this, lending has decreased by DKK 100.8, corresponding to 2.3 %, which, in addition to ordinary repayment of some major business loans, is also due to business customers' receipt of assistance packages, including deferral of payment of VAT and A-tax, which has significantly reduced the need for loans. At the same time, the Bank's existing and new customers have a strong focus on savings, and consequently the demand for loans is limited.

Interest income on deposits increased from DKK 2.1 million in 2019 to DKK 15.1 million in 2020. The low interest rate in society means that the Bank's placement of surplus liquidity in certificates of deposit in Nationalbanken bore a negative interest rate of 0.60 %. Expenses for the Bank in 2020 increased by DKK 4.8 million to DKK 12.2 million as a result of an increasing deposit surplus and thus an increased need for placement of liquidity. For this reason, it has also been necessary to introduce negative deposit rates for the Bank's private customers, after which all customer segments are now covered by negative deposit rates.

Net interest income increased satisfactorily by DKK 4.9 million to DKK 190.2 million, corresponding to 2.7 %. Net interest and fee income increased by a total of DKK 13.1 million. The main reasons for this are the increase in interest income on deposits and the increasing income on fees as a result of increased activity with the Bank's many new and existing customers. Also in 2020, the opportunities for restructuring mortgage financing have been favourable, and many of the Bank's customers have chosen to take advantage of this. The many loan restructurings, combined with the large influx of new customers with mortgage financing, has resulted in an increase in loan case fees of DKK 7.2 million. The Bank's goal 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 have increased from 43 % in 2019 to 45 % in 2020, which is satisfactory.

Expenses for staff and administration increased marginally from DKK 191.9 million to DKK 193.9 million, or by DKK 2.0 million, corresponding to 1%. The Bank's staff costs have increased by DKK 7.5 million as a result of a net of 8 new employees and general collective bargaining increases. Hirings have primarily been in customer-oriented positions, where the Bank is well equipped to handle the strong influx of customers, but internal positions have also been reinforced to ensure management of the continued complicated and highly resource-intensive sets of rules in the sector. The Bank's administrative expenses were reduced by DKK 5.4 million, primarily as a result of lower marketing costs but also a reduction in rental expenses.

Impairment has increased by DKK 16 million to DKK 32.9 million, corresponding to 0.4 % of the Bank's loans and guarantees. As of 31 December 2020, a management estimate of DKK 50.0 was allocated to accommodate any impairment as a result of the COVID-19 pandemic in 2021. The Bank has only realised very limited impairment as a result of COVID-19, and the Bank's customers have generally recovered well financially through the first approximately 10 months of the pandemic.

The COVID-19 pandemic has left its mark on developments in the world economy and GDP has fallen in Denmark. The effect of this desaturation is not reflected in the finances of the Bank's customers, which in particular can be attributed to the aid packages adopted by the government and the postponement of payment deadlines. At the end of 2020, there is thus significant uncertainty regarding the effect of the COVID-19 pandemic on the Bank's corporate customers in 2021. The management estimate of DKK 50.0 million is an expression of this uncertainty.

Without the management estimate of DKK 50.0 million, the impairment for the year would have been an income of DKK 17.1 million, which is a clear indication of the high qu-

ality of the Bank's loan portfolio.

In 2020, there are no industries that have accounted for a larger share of write-downs in isolation. Agriculture has historically had headwinds with weak terms of trade, primarily as a result of low settlement prices, but the industry has generally performed well through 2020. An overriding exception is the mink industry, which the government decided to phase out in Q4. This has been and continues to be an extremely difficult time for the Bank's mink breeders, both financially and on a human level, but in terms of impairment, what this has meant for the Bank has been limited, as the Bank's customers in the segment have been well run and well capitalised.

In addition to the general impairment in the agricultural segment, a management estimate of DKK 7.5 million has been included as a result of the continued significant uncertainty in the industry, particularly in pig and milk production. A buffer has thus been set aside in the form of a pool for write-downs on the hardest-hit farms.

The Bank's other businesses are generally doing well, and the Bank's exposures within the hardest-hit industries in connection with the shutdown of Denmark – e.g. the experience industry, hotels and restaurants etc. – are limited. The Bank's private customers have thus also recovered well through 2020, and thus there has been a larger net reversal of write-downs.

At the beginning of 2020, the Bank expected a core earnings in the range of DKK 125 – 140 million. In the stock exchange announcement of 6 October 2020, the expectation was increased to the range of DKK 140 – 155 million, and on 5 January 2021, it was adjusted to the range of DKK 150 – 155 million.

Core earnings were realised at DKK 154.7 million and were thus increased by a very satisfactory DKK 8.6 million compared to 2019. The increase is due to several different factors, including a large influx of new customers, many conversions of customers' mortgage financing as a result of the low interest level and high activity in the housing market, as well as increased income from negative interest rates on deposit accounts.

The expectations for the profit before tax for the year at the beginning of 2020 was a range of DKK 115 – 130 million, which was adjusted upwards to the range of DKK 125 – 140 million on 6 October. The 2nd upwards adjustment for the financial year to the range of DKK 140 – 145 million followed on 5 January 2021. Expectations were realised at DKK 143.8 million. Both the achieved core earnings and the profit before tax are considered very satisfactory.

As a result of particularly satisfactory profit, the capital coverage was increased in the course of 2020 compared to the individual solvency requirements, from 9.0 % points in 2019 to 11.4 % points in 2020. After deduction of the capital conservation buffer of 2.5 percentage points and NEP supplement of 1.865 %, the capital coverage at the end of 2020 amounted to 7.0 percentage points. The Bank has a goal of a surplus compared to the capital requirement of min. 5 percentage points, which is thus met.

In 2020, the Bank has increased the capital base by DKK 103.2 million to DKK 1,136 million. The increase in the capital base is primarily due to earnings in 2020 less proposed dividends of DKK 19.3 million.

The Bank's capital ratio amounted to 21.2 % at the end of 2020 and has thus increased by 2.6 percentage points compared to the end of 2019. The introduction of changed capital rules, the "Quick-fix" rules and marginally reduced lending as well as increased guarantees, have reduced the risk-weighted assets by a total of DKK 180 million, which in isolation increases the capital ratio by 0.7 percentage points. The bank's solvency requirements are estimated at 9.8 %. Overall, the Bank's capital base is considered solid and adequate.

With regard to the Bank's capital position in general, refer to note 28 on page 50.

FUTURE CAPITAL RESERVES

At the end of 2020, the Bank had a solid capital base with a capital coverage including capital conservation buffer and NEP supplement of 7.0 %. In the next 2 years, the following capital buffers will be phased in to the Bank's requirement for the Bank's capital base:

- The cyclical buffer currently amounts to 0.00 %, as it was suspended in the first half of 2020 as a result of COVID-19. The cyclical buffer can potentially be phased in at 2.5 percentage points.
- Up to 6.0 % points, NEP supplement. In its latest announcement on this, the Danish Financial Supervisory Authority has calculated the supplement for the bank to be 5.6 %, of which 1.865 % has been phased in.

The Bank thus expects that the requirements for the Bank's future capital ratio at the end of 2022, including a buffer of 5 % and fully phased-in cyclical buffer, will be at the level of 25.5 %, corresponding to 4.3 percentage points higher than the current capital ratio of 21.2 %.

It is the Bank's expectation that the continuous improvement in the earnings base will mean that in the coming year, primarily through consolidation from operations, the Bank

will be able to increase the capital base sufficiently to maintain a satisfactory capital coverage. The Bank will increase Tier III capital to partially cover the NEP supplement to the extent deemed appropriate.

EXPECTATIONS FOR 2021

The Bank has had a very satisfactory 2020, where expectations for the vast majority of areas have been met and exceeded. Because of this, the Bank is optimistic about 2021 and expects a continued increase in business volume and a lower lending growth. The profit in 2020 was partly based on high mortgage activity and positive exchange rate adjustments, which are not expected to be at a similar level in 2021. For this reason, earnings are expected to be lower than in 2020.

Core earnings in 2021 are expected to be in the range of DKK 140 – 155 million and profit before tax in the range of DKK 125 – 140 million, assuming positive exchange rate adjustments at a level of DKK 7 million and impairment at a level of DKK 25 million.

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

In light of the very satisfactory customer growth, based on referrals and relations to the Bank and its key values, the management is very confident in terms of continuing to attract new customers and increasing business volume with the many existing and loyal customers. For this reason, we expect an organic growth in lending of up to 2 %. The focus is on strengthening the Bank's earnings and increasing capital provisioning in order to secure our position as the independent and local financial institution, 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 local areas still have a robust economy, which is supported by stable housing prices and general financial accountability and diligence. The bank is experiencing strong growth in the number of and business volume with private customers and does not expect significant challenges with lending to these customers in 2021 as this has not been the case in previous years.

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

Easily the largest of the customer groups in agriculture is milk producers, who have generally had profitability in operations in 2020, and despite an expectation of decreasing settlement prices in 2021, this is expected to continue in 2021. The forecasts for pig producers are not as good in 2021 as they were in 2020, but there are still expected to be

acceptable terms of trade and operating profit, though with the African swine fever as a significant uncertainty factor. The Bank's lending for mink production is mainly expected to be repaid in 2021 in line with the level of compensation being declared politically.

Overall, we expect quite a reasonable year in agriculture, and the Bank is confident with regard to how the industry will meet the challenges in the coming years. There will still be customers for whom it will be difficult to achieve profitability in 2021 and here the Bank will continue, out of loyalty and respect and in close cooperation with individual farmers, to try to find the best possible solutions.

The agricultural industry has historically been associated with major fluctuations in profitability and thus the Bank's risk. Decreasing settlement prices and deteriorating terms of trade have again been seen. Combined with the outbreak of African swine fever in Europe, this increases uncertainty compared to 2021. In light of this, a management estimate of DKK 7.5 million has been made on the agricultural industry as a whole.

Lending to agriculture accounts for 10.8 % of the total lending, where the distribution is 5.8 % to cattle farming, 1.8 % to mink production, 1.2 % to pig farming, 1.2 % to crop farming and 0.8 % to other forms of production. As with any other industry, the Bank has made a careful review of the exposures and the management is confident in the measurement of these exposures.

In 2021, the Bank expects to expand its exposures in the agricultural segment by acquiring well-run and well-capitalised agricultural customers within the various industries.

The bank's loans within the real estate segment amounted to 11.8 %, compared with 13.4 % at the end of 2019. The Bank's exposures in real estate are primarily within rental for residential purposes and the Bank's individual project financings, before initiation, are typically guaranteed to be sold after the completion of the project or where there is sufficient liquid collateral available.

Financing of alternative energy was 0.8 % at the end of 2020, compared with 2.1 % in 2019. In the future, the bank also wants to support green initiatives and invest in sustainability.

The Bank's other business segments are generally assessed to be developing well, although the pandemic will also have a clear impact on many markets and business opportunities well into 2021, which could lead to losses for the Bank.

The Bank's liquidity is solid, and there will be an unchanged focus on maintaining a satis-

factory liquidity reserve, primarily via a balanced relationship between the total deposit and lending volumes. In the future, the Bank wants to base essentially all of its liquidity provision on customer deposits.

The satisfactory capital adequacy ratio of 7.0 percentage points at the end of 2020 after the capital conservation buffer and NEP requirement amounts to 6.8 % at the end of 2021, provided that the profit and growth in the risk-weighted assets is realised as expected. This is fully in accordance with the Bank's long-term capital plan and the capital coverage is considered to be fully adequate to ensure flexibility in terms of capital for the development of the Bank.

ACTIVITIES AND BUSINESS VOLUME

The Bank has not established new branches in 2020 and the Bank's branches are thus still located in Skjern, Varde, Esbjerg, Bramming, Ribe, Hellerup and Virum. The bank's employees in all branches are strongly anchored and have many years of seniority right in their local areas. The branch network is not expected to be expanded in 2021, but if there is an opportunity to start a branch in an attractive area and with the right employees, the Bank will consider this after careful assessment of the growth and earnings potential.

Skjern Bank Leasing is financial leasing of 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 business volume of Skjern Bank Leasing continues to increase and at the end of 2020, a total remaining lease liability of over DKK 120 million was realised. The development is expected to continue and increase in volume and profitability in 2021.

Overall, 2021 is expected to lead to a satisfactory increase in the Bank's business volume and earnings, including an increased focus on the provision of insurance and pension products to strengthen the Bank's earnings.

BUSINESS VOLUME IN CONTROLLED DEVELOPMENT

The bank's business model and credit policy were essentially unchanged in 2020. The focus is, and will continue to be, to be ready to participate in our customers' goals for financing etc. when this can be done in a prudent and risk-acceptable manner.

In total, lending volume decreased by DKK 100.8 million, or 2.3 %, to DKK 4,225 million. Deposits from customers increased by DKK 240.1 million or 3.9 % to DKK 6,464 million. The total guarantees for customers increased by DKK 251 to DKK 2,630 million.

CAPITAL GOALS AND DIVIDEND POLICY

Due to the satisfactory operating earnings, the Bank has achieved a satisfactory capital coverage, primarily consisting of a solid actual core capital of 18.2 % 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 and a capital coverage relative to the capital requirements of 7.0 percentage points.

In the future, the management will also have the utmost focus on ensuring that the Bank has a solid capital base to support 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 may also be included in the future capital structure.

The Bank has a satisfactory capital coverage, and therefore it is the management's assessment that there is a solid base to reward the Bank's many shareholders with an appropriate portion of the realised operating profit. The Danish Financial Supervisory Authority's recommendations for increased caution have been taken into account in the assessing the sufficient capital coverage. The continued uncertainty as a result of the ongoing COVID-19 pandemic has been incorporated, which is why DKK 2 per share has been distributed, which constitutes a lower share of the satisfactory earnings in 2020. The distribution is smaller than the distribution for the financial year 2019, when DKK 3 per share was distributed, and is included in the dividend policy. The Bank's management has decided to maintain the following capital goals and dividend policy:

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, either as share buy-backs or cash distributions, to amount to 30-50 % of the annual profit after tax, 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 has always had a strong focus on creating value for the Bank's stakeholders. This focus works and in 2020 led to a satisfactory increase in the total business volume of all of the Bank's branches.

The bank's goal is controlled growth of good customers, which is to the benefit of all 4 stakeholder groups. When the customers choose the way Skjern Bank runs the Bank, it increases the profits in the form of higher earnings capacity, to the benefit of the shareholders. The local community benefits from this in the form of the Bank's local backing as well as lending services to local businesses and private customers. The employees benefit from this in the form of job retention and an exciting job where they can develop. The customers express that it is valuable to have a local bank that knows their needs and where they have an advisor who knows them and who back the local community's activities.

SHAREHOLDERS

The management recognises the importance of a stable and loyal shareholder community and, taking into account the Bank's capital adequacy, aims to give them competitive returns on their investment. The shareholders' loyalty and continued backing, from small shareholders to major professional investors, is extremely important to the continued development of the Bank.

The bank's management proposes a cash dividend of DKK 2 per share, a total of DKK 19.3 million, for the financial year 2020.

CUSTOMERS

The Bank has a great many private customers in most of the country 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 products and financing solutions that work for each customer. At Skjern Bank, we define this by our key values: customer focus, presence, drive and decency.

All the employees at the Bank are very thankful and humbled by the trust shown by the customers when they refer their family, friends and acquaintances to the Bank in large numbers via the Bank's ambassador concept. The references from satisfied customers is the biggest reason why the Bank experiences high and satisfactory customer growth year after year.

EMPLOYEES

As of 31 December 2020, the Bank employs 172 employees, which is an increase of 8 employees in one 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 feel the bank is a good workplace and who are proud to work there. There is a very high level of employee satisfaction, which is an important foundation for always being able to offer 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 all of the Bank's local communities, both as a partner for the many business owners, but of course also for the local population in general. It is important for the Bank to back local initiatives and the Bank helps a great number of new local businesses with counselling and financing, so that entrepreneurs' ideas have the best opportunity for being realised. The bank is also a partner for more than 400 of the local communities' associations and organisations and supports both sports and culture and associations in general. The Bank's commitment to and support for local communities is largely based on reciprocity, such that financial backing of any size is given in anticipation of and is subject to the Bank being rewarded with customer referrals and a generally positive attitude towards the Bank.

The foundation for banking operations in Skjern Bank is the many shareholders, customers, talented employees and the local community. The Bank is 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 amounts to DKK 190.2 million, which is an increase of 2.7 % compared to last year, when net interest income was DKK 185.3 million.

Interest income on customer lending decreased by DKK 5.9 million to DKK 196.2 million, which is not satisfactory, but unfortunately unavoidable in a year of declining lending and fierce competition in the market with marginally declining average lending rates. Bond interest income decreased by DKK 1.5 million, while there has been an increase of DKK 2.8 million on financial instruments.

In terms of accounting, the Bank's negative interest rates on deposits are placed under interest income in a special line in the statement of profit or loss. The Bank has realised DKK 15.1 million on this in 2020, compared with DKK 2.1 million in 2019. Interest income including interest income from deposits has increased by a total of DKK 8.1 million, corresponding to 4.0 %.

The Bank's proportion of lending where there was impairment, but where interest still continues to be accrued, increased marginally and interest on this amounts to DKK 11.2 million in 2020 compared with DKK 10.5 million in 2019.

Interest expenses decreased by 16.8 % to DKK 8.3 million, which is due to lower interest expenses on deposits of DKK 2.8 million.

The bank's interest expenses for deposits in Nationalbanken increased by DKK 4.8 million to DKK 12.2 million in 2020, and in terms of accounting the expenses were placed in a special line in the statement of profit or loss.

FEE INCOME

Income from fees and commissions has increased very satisfactorily by 9.0 % to DKK 160.1 million. The increase is primarily due to an increase in loan case fees of DKK 7.2 million to a total of DKK 76.1 million as a result of a high number of loan cases in 2020, but also increased volume in mortgage financing.

The Bank's income from guarantee provisions have increased by a satisfactory DKK 4.0 million, primarily as a result of high activity in mortgage brokerage. The number of customers and the activity of the Bank's customers also increased satisfactorily, with an increase in other fees of a total of DKK 1.9 million as a result.

DIVIDENDS

In 2020, the Bank's dividends from shareholdings decreased by DKK 3.8 million and amount to DKK 2.1 million, which is solely due to the partial sale of shares in Sparinvest Holdings SE in 2019.

NET INTEREST AND FEE INCOME

Net interest and fee income including dividends increased by 3.9 % to DKK 347.5 million, which is very satisfactory.

EXCHANGE RATE ADJUSTMENTS

In 2020, securities markets were characterised by optimism and increasing share prices as well as stable bond prices. In the Bank's shareholdings, a capital gain of DKK 23.4 million was realised, compared with DKK 40.0 million in 2019, where the Bank realised capital gains of approximately DKK 21 million from sale of some of the ownership in Sparinvest Holdings SE. The Bank wants a continued low share price exposure and the Bank's investment in shares is thus still of a modest size.

Exchange rate adjustments on bond portfolios have been negative in 2020 by DKK 1.0 million. The bank continues to have a cautious investment policy for bonds, which dictates short maturities and low interest rate risk. The total exchange rate adjustments amount to DKK 26.5 million and, in addition to the exchange rate adjustments on bonds and shares, consist of earnings on currency and financial instruments of DKK 4.1 million.

COSTS

Staff and administration expenses increased by 1.0 % and amount to DKK 193.9 million, compared with DKK 191.9 million in 2019. It is considered satisfactory that this increase only amounts to 1.0 % in a year with 8 new employees. Salary expenses have increased by DKK 7.5 million, corresponding to 6.7 %, due to an increasing number of employees, collective bargaining wage increases and an increase in payroll tax.

In 2020, other administrative expenses decreased by DKK 5.4 million to DKK 74.1 million, which is partly due to lower marketing expenses, but also that the Bank's leased company domiciles were capitalised at the beginning of the year, and the rental expense has thereby been reposted to interest expense and depreciation.

DEPRECIATION AND WRITE-DOWNS

In 2020, there was depreciation and impairment on tangible fixed assets of DKK 5.2 million, compared with DKK 2.8 million in 2019. The increase is solely due to the Bank's leased company domiciles from the beginning of 2020 being capitalised in the statement of financial position and that they must thereafter be depreciated on an ongoing basis.

IMPAIRMENT

Impairment on loans and customer receivables etc. amounted to 0.4 % of the total loans and guarantees, or DKK 32.9 million, compared with DKK 16.8 million in 2019.

The level is considered satisfactory in a year where COVID-19 has taken up a lot of space and the continued uncertainty for the development in 2021 means that as of 31 December 2020, a management estimate of a total of DKK 50.0 million has been expensed as a result of COVID-19, as well as DKK 7.5 million on the Bank's most challenged agricultural exposures as well as on the industry in general.

Reversal of impairment from previous accounting years amounted to DKK 135.0 million, while recorded losses amounted to DKK 23.1 million, of which DKK 18.3 million had not been previously written down. In total, the Bank has provisioned DKK 359.4 million to accommodate future losses, which corresponds to 4.9 % of the Bank's total lending and guarantees.

CORE EARNINGS

At the beginning of 2020, the Bank expected a core earnings in the range of DKK 125 – 140 million. With the stock exchange announcement on 6 October 2020, the expectations for profit have been adjusted upwards to the range of DKK 140 – 155 million, and specified at DKK 150 – 155 million with the stock exchange announcement on 5 January 2021. The realised core earnings amount to DKK 154.7 million in 2020, compared with DKK 146.1 million in 2019, and are considered highly satisfactory. The increase is primarily due to very satisfactory customer growth, increased interest income on deposits and increased loan case fees.

PROFIT BEFORE TAX

At the beginning of 2020, the expectations for profit for the year before tax were in the range of DKK 115 – 130 million, and over the course of the year, this was adjusted upwards two times. The first adjustment was with the stock exchange announcement on 6 October 2020 to the range of DKK 125 – 140 million, and on 5 January 2021, the range was increased to DKK 140 – 145 million.

The bank's profit before tax amounted to DKK 143.7 million compared to DKK 164.9 million in 2019. The profit is considered very satisfactory.

CAPITAL

At the end of 2020, the Bank's equity amounted to DKK 1,108.1 million, of which DKK 60.7 million was raised hybrid core capital, which for accounting purposes is included under equity. At the end of 2019, equity was DKK 1,026.6 million. The increase is due to the realised profit in 2020 less approved and paid dividends for the financial year 2019.

The capital base, which consists of equity and supplemental borrowing, amounted to DKK 1,136 million at the end of 2020 and the total risk exposure amounted to DKK

5,370.5 million. The capital ratio is calculated at 21.2 % and the core capital at 19.3 %. The solvency requirement amounted to 9.8 %, whereby there is a satisfactory coverage in relation to the solvency requirement of 11.4 percentage points, corresponding to DKK 612.2 million. At the end of 2020, in addition to the solvency requirements, the Bank will also add a capital conservation buffer of 2.5 % and a NEP supplement of 1.865 %. Including this capital requirement, the solvency coverage relative to the total capital requirements amounts to 7.0 percentage points, corresponding to DKK 377.8 million.

The solvency requirements, which are calculated according to the Danish Financial Supervisory Authority's credit reservation method, are recognised at DKK 429.6 million, corresponding to 8.0 % for the Column 1 requirement (Søjle 1-kravet). In addition, DKK 54.1 million was provisioned for credit risk, DKK 1.7 million for interest risk, DKK 0.1 million for share risk, and DKK 11.5 million for credit spread risk under the market risk and DKK 12.5 million for reservations under the operational risk.

A new element in the solvency requirement as of 31 December 2020 is the provision for future deductions in the capital base as a result of the "NPE backstop" capital rules. The Bank calculates the supplement to the solvency requirement to be in the range of DKK 5-6 million, but is allocating DKK 18.5 million, as the deduction in capital is increased to this level on 30 June 2021. The other risk groups have not given rise to additional solvency reserves.

The Bank's goal for capital coverage relative to the calculated solvency requirements plus the current phased-in capital requirements is 5 percentage points. Capital requirements will increase significantly in the coming years by a potentially up to 2.5 % cyclical buffer and up to 6 % NEP requirements fully phased in at the end of 2022. At the same time, the Bank has a goal of organic growth in business volume at a level of 2 % in the coming years, which increases the requirements for the capital base.

Over the coming years, the Bank wants to increase the capital base with earnings and, depending on growth, also supplement it with foreign capital in the form of either hybrid capital, subordinated capital or Tier III capital, depending on what is most valuable in terms of capital and earnings.

The management considers the Bank to have a solid capital foundation, but there is a constant focus on always having an appropriate capital structure and coverage.

For more information on capital and solvency requirements, please refer to the Bank's website: www.skjernbank.dk/banken/investor/solvensbehov

LIQUIDITY

The Bank's goal is to maintain liquidity reserves at a continued sufficient and solid level, mainly based on deposits from the Bank's customers. In 2020, the goal was met by increasing the total deposits to a total of DKK 6.464 million.

The bank's liquidity reserves are solid. The LCR (Liquidity Coverage Ratio) of DKK 2.248 million exceeds both the regulatory requirements and the stricter liquidity goals established by the Bank's Board of Directors.

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. The ratio is calculated by comparing the Bank's cash reserves and liquid assets with the Bank's payment obligations for the next 30 days calculated according to certain rules.

Skjern Bank has established an internal limit for the minimum liquidity reserves of 175 %, which exceeds the minimum requirements of 100 % in the Danish Financial Supervisory Authority's Supervisory Diamond. The Bank achieved the goal and as of 31 December 2020 has an LCR financial ratio of 351 %.

MAJOR SHAREHOLDERS

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

LIQUIDATION RESERVE

In connection with establishing the statutory liquidation reserve, the bank has prepared business procedures and implemented tests to ensure compliance with the special requirements resulting from the legislation. This has been done in cooperation with the bank's data centre, and it is the management's assessment that the bank is in compliance with the requirements.

EVENTS OCCURRING AFTER 31 DECEMBER 2020

No events have occurred after 31 December 2020 that significantly affect the bank's circumstances.

AUDIT

The Danish version of the Annual Report for 2020 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 2020 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 2020 and of the result of the bank's activities for the accounting year 1 January – 31 December 2020.

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 3 February 2020

The board of Skjern Bank A/S

*Per Munck
Manager*

Skjern, the 3 February 2020

The board of Skjern Bank A/S

*Hans Ladekjær Jeppesen
Chairman*

*Bjørn Jepsen
Vice-chairman*

Niels Christian Poulsen Niels Erik Kjærgaard Finn Erik Kristiansen

Lars Skov Hansen Carsten Jensen Michael Tang Nielsen

Profit and loss account

Note	DKK 1,000	2020	2019
2	Interest receivable	195.693	200.586
	Interest receivable deposits	15.119	2.157
3	Interest payable	8.344	10.032
	Interest payable central banks	12.224	7.424
	Net income from interest	190.244	185.287
	Dividend on shares and other holdings	2.089	5.863
4	Charges and commission receivable	160.113	146.937
	Charges and commission payable	4.932	3.680
	Net income from interest and charges	347.514	334.407
5	Value adjustments	26.513	40.225
	Other ordinary income	1.977	1.945
6	Staff costs and administrative expenses	193.929	191.861
	Depreciation and write-downs on intangible and tangible assets	5.195	2.821
	Other operating expenses total	234	112
	Contribution to the Guarantee Fund for deposits	194	112
	Other operating expenses	40	0
9	Write-downs	32.874	16.831
	Result before tax	143.772	164.952
10	Tax	28.131	29.469
	Net-result for the financial year	115.640	135.482
	Of which are holders of shares of hybrid core capital instruments etc.	6.487	6.626
PROPOSAL FOR DISTRIBUTION OF PROFIT			
	Dividends	19.280	28.920
	Holders of hybrid core capital instruments	6.487	6.626
	Transferred to/from retained earnings	89.873	99.936
	Total distribution of the amount available	115.640	135.482
STATEMENT OF COMPREHENSIVE INCOME			
	Profit for the financial year	115.640	135.482
	Total comprehensive income	115.640	135.482

Balance Sheet

Note	DKK 1,000	2020	2019
	ASSETS		
	Cash in hand and demand deposits with central banks	192.109	229.494
11	Receivables at credit institutions and central banks	2.225.139	1.673.392
12	Loans and other receivables at amortised cost	4.224.773	4.325.613
13	Bonds at fair value	959.506	1.045.717
14	Shares etc.	201.220	225.094
15	Shares associated with pool schemes	1.039.002	0
16	Holdings in associated enterprises and group enterprises	66.758	47.140
	Investment properties	3.019	2.961
	Owner-occupied properties	43.166	44.179
	Owner-occupied properties, leasing	20.573	0
17	Other tangible assets	4.253	3.323
	Current tax assets	183	4.804
	Other assets	60.806	58.396
	Prepayments	718	1.107
	Total assets	8.974.467	7.614.080

Note	DKK 1,000	2020	2019
	LIABILITIES		
	DEBT		
18	Debt to credit institutions and central banks	181.165	206.536
19	Deposits and other debts	6.463.735	6.223.604
	Deposits in pooled schemes	1.039.002	0
	Other liabilities	71.121	44.386
	Prepayments	1.656	1.386
	Total debt	7.756.679	6.475.912
	PROVISIONS		
20	Provisions for deferred tax	1.423	675
12	Provisions for loss on guarantees	10.472	13.590
	Total provisions	11.895	14.265
	SUBORDINATED DEBT		
21	Subordinated loan capital	97.834	97.334
	Total subordinated debt	97.834	97.334
	EQUITY		
22	Share capital	192.800	192.800
	Revaluation reserves	417	417
	Retained earnings	834.814	744.402
	Proposed dividend	19.280	28.920
	Capital owners share of equity	1.047.311	966.539
23	Holders of hybrid capital	60.748	60.030
	Total equity	1.108.059	1.026.569
	Total liabilities	8.974.467	7.614.080

Information on changes in equity

Note	DKK 1,000	2020	2019
	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	744.402	644.923
	Profit or loss for the financial year	89.873	99.936
	Dividend own shares	30	30
24	Purchase of own funds	509	-487
	Retained earnings end-of-year	834.814	744.402
	Dividend beginning-of-year	28.920	28.920
	Proposed dividend	19.280	28.920
	Dividends paid	-28.920	-28.920
	Dividend end-of-year	19.280	28.920
	Holders of hybrid capital beginning-of-year	60.030	59.680
	Hybrid capital out	-60.030	0
	Hybrid capital in	59.244	0
	Net profit or loss for the year (interest hybrid capital)	6.211	6.626
	Paid interest	-4.707	-6.276
	 Holders of hybrid capital end-of-year	60.748	60.030
	Total equity	1.108.059	1.026.569



Notes

1	Accounting policies	29
2	Interest income	39
3	Interest expenses	39
4	Fees and commission income	39
5	Value adjustments	39
6	Staff costs and administrative expenses	40
7	Incentive and bonus schemes	41
8	Audit fee	41
9	Write-downs on loans and receivables	41
10	Tax	42
11	Receivables at credit institutions and central banks	42
12	Loans and other debtors at amortised cost price	43
13	Bonds at fair value	45
14	Shares etc.	45
15	Shares associated with pool scheme	45
16	Land and buildings	45
17	Other tangible assets	46
18	Debt to credit institutions and central banks	46
19	Deposits and other debts	46
20	Deferred taxation	46
21	Subordinated debt	47
22	Share capital	47
23	Holder of hybrid capital	47
24	Own capital shares	48
25	Contingent liabilities	48
26	Lawsuits etc.	49
27	Related parties	49
28	Capital requirement	50
29	Current value of financial instruments	51
30	Risks and risk management	52
31	Credit Risk	53
32	Market risks and sensitivity information	64
33	Derivate financial instruments	65
34	5 years in summary	67
35	5 years of financial ratio	68
36	Quarterly overviews	69
37	Cooperative agreements	67

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.

Changed accounting policies

All significant lease agreements must be recognised 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 including costs and any prepayments.

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 decision has been made to recognise leasing assets at the beginning of 2020 without correcting comparative figures. Leased properties are recognised at DKK 22.8 million at the beginning of the year, as well as a corresponding amount under liabilities. The effect on the profit for the year is an expense of DKK 0.4 million.

General information 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, 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.

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, 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 are impairment of loans and receivables, determination of fair value of unlisted financial instruments, corporate and investment properties and provisions.

Although the carrying amounts are calculated in accordance with the Danish Executive Order on the Presentation of Financial Statements, particularly including appendices 9 and 10 and related guidelines, there is uncertainty and estimates associated with these carrying amounts, as they are based on a number of assumptions. If these assumptions change, the financial reporting may be affected and the impact may be significant. Changes may occur through a change in practice or interpretation by the authorities and amended principles from the management - for example, the value of collateral may entail changes to the calculations.

Foreign currency

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.

STATEMENT OF PROFIT OR LOSS**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 credit-impaired loans on which impairment has occurred are passed to the impaired part of the loan in question under the item "Impairment of loans and receivables" and are thus offset in impairment for the year.

Commissions and fees which are an integral part of the effective interest rate of a loan are recognised as part of the amortised cost and are therefore part of interest income under loans.

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

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

Staff and administration expenses

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

Pension schemes

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 Balance Sheet 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.

Any 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.

STATEMENT OF FINANCIAL POSITION

Classification and measurement

According to the IFRS 9-compatible accounting regulations, 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 fi-

nancial assets. This means that financial assets must be classified into one of the following two categories:

- 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. This category includes loans at amortised cost and receivables from credit institutions.
- Financial assets that do not meet the above criteria for the business model or where the contractual cash flows do not exclusively consist of interest and repayments on the outstanding amount are initially recognised at fair value through the statement of profit or loss.

Skjern Bank does not have financial assets that are included in the measurement category for recognition of financial assets at fair value through other comprehensive income. Instead, the bank's bond portfolio is measured at fair value through the statement of profit or loss because they are included in a trading portfolio.

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 expected but not yet realised.

Model for impairment for expected credit losses

In accordance with the IFRS 9-compatible impairment rules, impairment is done for expected credit losses on all financial assets that are recognised at amortised cost and provisions are made according to the same rules for expected credit losses on unused credit lines, loan commitments and financial guarantees. The impairment rules are based on an expectation-based model.

For financial assets recognised at amortised cost, impairment for expected credit losses is recognised in the statement of profit or loss and the value of the asset is reduced in the statement of financial position. Provisions for losses on unused credit lines, loan commitments and financial guarantees are recognised as a liability.

Stages of development in credit risk

The expectation-based impairment rules means that a financial asset etc. 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 financial asset is impaired by the amount corresponding to the expected credit loss in the asset's remaining life (stage 2). If

impaired credit (stage 3) is discovered for the instrument, the asset is written down by an amount corresponding to the expected credit loss in the asset's remaining life, and interest income is recognised in the statement of profit or loss according to the effective interest method based on the impaired amount.

Placement in stages and calculation of the expected loss is based on the bank's rating models, which were developed by the data centre Bankdata and the bank's internal credit management.

Assessment of significant increase in credit risk

In the assessment of the development of credit risk, it is assumed that a significant increase in credit risk has occurred in relation to the time of initial recognition when a downwards adjustment of the bank's internal rating of the debtor corresponds to one rating class in the Danish Financial Supervisory Authority's rating classification guidelines.

If the credit risk on the financial asset is considered to be low on the reporting date, the asset is kept at stage 1, where a significant increase in credit risk has not occurred. Skjern Bank considers the credit risk to be low when the bank's internal rating of the customer corresponds to 2a or better, though an overdraft for more than 30 days for a customer with an internal rating of 2a will lead to a significantly impaired credit risk. The category of assets with low credit risk also includes lending and receivables that meet the rating criterion, as well as receivables from Danish credit institutions. New customers are always placed in stage 1 unless they are credit impaired.

Definition of credit impairment and default

An exposure is defined as being impaired and as being in default if it meets at least one of the following criteria:

- The borrower is experiencing significant financial difficulties, and the bank assesses that the borrower will not be able to pay their liabilities as agreed.
- The borrower has committed a breach of contract, such as in the form of non-compliance with payment obligations for principal and interest or repeated overdrafts.
- The bank has granted the borrower easier terms than it would have granted were it not for the borrower's financial difficulties.
- It is likely that the borrower will go bankrupt or be subject to other financial reorganisation.
- The exposure has been in arrears/overdrawn for more than 90 days by an amount that is considered significant.

However, financial assets where the customer has significant financial difficulties or where the bank has offered easier terms due to the customer's financial difficulties are kept at stage 2 if losses are not expected in the most likely scenario.

The definition of credit impairment and default that the bank uses when measuring the expected credit loss and for transfer to stage 3 is in line with the definition used for internal risk management purposes. This means

that an exposure that is considered to be credit impaired is always placed in stage 3.

Calculation of expected loss

The calculation of impairment on exposures in stages 1 and 2, except for the weakest exposures in stage 2, are made on a portfolio-based calculation model, while the impairment on the rest of the exposures are made through a manual, individual assessment based on three scenarios (basic scenario, a more positive scenario and a more negative scenario) with the associated likelihood that the scenarios will occur.

The portfolio model calculation is based on the bank's division of customers into different rating classes and an assessment of the risk of loss in each rating class. The calculation occurs in a setup that is developed and maintained in Bankdata, supplemented with a predictive macroeconomic module, which is developed and maintained by LOPI, and which forms the basis for the incorporation of management's expectations for the future.

The macroeconomic module is based on a series of regression models that establish the historical correlation between impairment for the year within a number of sectors and industries and a number of explanatory macroeconomic variables.

Estimates are then applied to the regression models for the macroeconomic variables based on forecasts from consistent sources such as Det Økonomiske Råd [The Danish Economic Council], Danmarks Nationalbank etc. where the forecasts are generally for two years in the future and include variables such as increase in public consumption, increase in GDP, interest rates etc. The expected impairment is thereby calculated for up to two years in the future for each sector and industry. For maturities longer than two years and up to year 10, a projection of the impairment percentage is made such that it converges towards a normal level in year 10. Maturities longer than 10 years are given the same impairment percentage as in year 10. 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.

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

Accounting estimates and assessments

In General

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 in question on the balance date.

The estimates used are based on assumptions which the management considers to be reasonable, but which are uncertain and unpredictable. Therefore, the actual final results may differ from the estimates used, because the Bank is affected by risk and uncertainty, which can affect this.

Model uncertainty

In addition to establishing expectations for the future, write-downs in stages 1 and 2 are also subject to uncertainty because the model does not account for all relevant circumstances. As there is still limited historical data as a basis for the models, it has been necessary to supplement the model's calculations with management estimates. Assessment of the effect of the long-term probability of default on customers and segments through improved and deteriorated outcomes of macroeconomic scenarios is associated with estimates. Please refer to the more detailed description in note 31.

Statement of collateral values

To reduce the risk on the individual exposures in the Bank, collaterals have been received, primarily in the form of mortgages on physical assets (of which mortgages on real estate are the most significant form), securities etc. Significant management estimates are included in the valuation of the collateral. For a more detailed description of matters relating to collateral, see also note 31.

Fair values of owner-occupied properties

The return method is used to measure owner-occupied properties at fair value. Future cash flows are based on the Bank's best estimate of future ordinary profit and required rate of return for each property, taking into account factors such as location and maintenance. A number of these assumptions and estimates have a significant impact on the calculations. Changes in these parameters as a result of a change in market conditions affect the expected returns and thus the owner-occupied properties' fair value. Also refer to the discussion in note 1 "Accounting policies used etc." under the section "Land and buildings" and note 16 "Land and buildings".

Practice for writing off financial assets from the statement of financial position

Financial assets that are measured at amortised cost are wholly or partially written off from the statement of financial position if the bank no longer has reasonable expectations that the outstanding amount will be wholly or partially covered. Recognition ceases based on specific, individual assessment of each exposure. For private and corporate customers, the bank will typically write off losses when the pledged collateral is realised and the residual receivable is unsustainable. When a financial asset is written off from the statement of financial position in whole or in part, the impairment on the financial asset is removed from the calculation of accumulated impairment, cf. note 9.

The bank continues its collection efforts after the assets have been written off, with the measures depending on the specific situation. The bank essentially tries to enter a voluntary agreement with the customer, including renegotiation of terms or reconstruction of a business, such that debt collection or bankruptcy proceedings are only put to use when other measures have been tried.

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.

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".

Land and buildings

Land and buildings include

- "Owner-occupied properties", which consist of the properties from which the bank conducts banking activities
- "Leased company domiciles", which consist of the leased properties from which the Bank conducts
- "Investment properties", which consist of all other properties the bank owns.

Owner-occupied properties are measured in the statement of financial position at revalued amount, which is the fair value determined based on the return method with a rate of return in the range of 5.6 - 7 % less accumulated depreciation and any impairment loss. Depreciation is recognised in the statement of profit or loss and revaluation is done so frequently that there are no significant differences in fair value. Increases in the owner-occupied properties' revalued amount are recognised under revaluation reserve in equity. If an increase in the revalued amount corresponds to an earlier case and is thus recognised in the statement of profit or loss in a previous year, the increase is recognised in the statement of profit or loss. A decrease in the revalued amount is recognised in the statement of profit or loss and other comprehensive income, unless there is a reversal of previous revaluations. Owner-occupied properties are depreciated linearly over 50 years based on the cost adjusted for any value adjustments where residual values are not used.

Leased company domiciles All lease 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 including costs and any prepayments.

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 comparative figures have not been corrected for recognition at the beginning of 2020. In calculating the properties' value, an internal interest rate in the range of 3.5 % - 5.5 % was used.

Investment properties are measured in the statement of financial position at fair value determined based on the return method. Ongoing changes in fair value of investment properties are recognised in the statement of profit or loss and other comprehensive income.

Establishment of the revalued amount of owner-occupied properties and the fair value of investment properties are associated with significant estimates. The estimates particularly relate to the establishment of required rate of return.

Other tangible fixed assets

Other tangible fixed assets, including plant and machinery, are recognised at the acquisition at cost.

Then, other tangible assets and conversion of rented premises are recognised at cost minus accumulated depreciation.

A linear amortisation is done over 3-5 years based on the cost and amortisations and impairment losses recognised in the statement of profit or loss.

Other assets

Other assets include interest receivable and provisions and positive market value of derivative financial instruments.

Prepayments and accrued income

Prepayments and accrued income recognised under assets include costs relating to subsequent financial years. Prepayments and accrued income recognised under liabilities include prepaid interest and guarantee provisions relating to subsequent financial years.

Payables to credit institutions and central banks as well as deposits and other debt

The items are measured at amortised cost.

Subordinated debt

Items are measured at amortised cost.

Hybrid core capital under equity

Hybrid core capital that meets the rules in CRR to be classified as additional tier I capital with indefinite maturity and where the payment of interest is voluntary is classified as equity.

Interest on hybrid core capital is deducted from equity.

The tax effect of the interest is recognised under current tax in the statement of profit or loss.

Other liabilities

Other liabilities include interest payable and provisions and negative market value of derivative financial instruments.

Provisions

Assurances, 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 financial resources flowing out from the bank and the liability can be measured reliably. The liability is calculated at the present value of the costs required to settle the liability.

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 under "Impairment of loans and receivables etc.". Non-financial guarantees, cf. IFRS 9, are not included in stages 1 and 2.

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	2020	2019
2	INTEREST INCOME		
	Loans and other receivables	196.227	202.138
	Loans (interest conc. the written-down part of loans)	-11.188	-10.512
	Bonds	5.022	6.521
	Other derivative financial instruments, total of which	5.249	2.439
	Interest-rate contracts	5.782	2.755
	Currency contracts	-533	-316
	Other interest income	383	0
	Total	195.693	200.586
3	INTEREST EXPENSES		
	Deposits	640	3.506
	Subordinated debt	6.542	6.525
	Other interest expenses	1.162	1
	Total	8.344	10.032
	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	21.647	16.238
	Payment services	11.098	12.423
	Loan fees	76.106	68.877
	Guarantee commission	20.919	16.918
	Other fees and commission	30.343	32.481
	Total	160.113	146.937
5	VALUE ADJUSTMENTS		
	Bonds	-1.040	-4.551
	Total shares	23.433	39.974
	- Shares in sectorcompanies etc	9.012	8.858
	- Other shares	14.421	31.116
	Foreign currency	4.615	4.587
	Other financial instruments	-219	215
	Assets linked to pooled schemes	-71.313	0
	Deposits in pooled schemes	71.037	0
	Total	26.513	40.225

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.

Note	DKK 1,000	2020	2019
6	STAFF COSTS AND ADMINISTRATIVE EXPENSES		
	Salaries and remuneration of board of directors, audit committee, managers etc.		
	Board of managers (1 person - the board of manager has a company car)	3.378	3.285
	Fixed fees	3.378	3.285
	Management board	1.370	1.303
	Audit Committee	90	80
	Committee of representatives	165	177
	Total salaries and remuneration of board etc	5.003	4.845
	Board of Directors' remuneration		
	Hans Ladekjær Jeppesen	381	349
	Bjørn Jepsen	219	195
	Niels Christian Poulsen	152	105
	Niels Erik Kjærgaard	182	122
	Finn Erik Kristiansen	110	25
	Lars Skov Hansen	152	142
	Carsten Jensen	132	124
	Michael Tang Nielsen	132	102
	Søren Dalum Tinggard	0	132
	Jens Okholm	0	40
	Troels Bülow-Olsen	0	25
	Lars Lerke	0	22
	Total	1.460	1.383
	Staff costs		
	Wages and salaries	88.152	82.245
	Pensions	9.725	9.138
	Social security costs	1.243	1.182
	Payroll tax	15.637	14.859
	Total staff costs	114.757	107.424
	Salary to special risk takers (10 persons in 2020, 11 persons in 2019)	7.707	9.288
	Pensions to special risk takers (10 persons in 2020, 11 persons in 2019)	864	1.022
	Other administrative expenses		
	IT expenses	41.745	41.013
	Rent, electricity, heating etc	2.248	5.396
	Postage, telephony etc	1.038	987
	Other administrative expenses	29.138	32.196
	Total other administrative expenses	74.169	79.592
	Total staff costs and administrative expenses	193.929	191.861

Note DKK 1,000

2020

2019

Pension and severance terms for the executive board

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 11,25 % of their respective salary grades in annual pension, which is contributionbased 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	158	150
---	-----	-----

Total	158	150
--------------	------------	------------

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

665	626
------------	------------

Honorariums for statutory audits of financial statements	482	550
--	-----	-----

Honorariums for assurance services	31	38
------------------------------------	----	----

Honorariums for tax consultancy	115	38
---------------------------------	-----	----

Honorariums for other services	37	0
--------------------------------	----	---

Fees for other statements with certainty regarding statutory statements to public authorities. Fees for tax advice include advice on various VAT and tax matters.

9 WRITE-DOWNS ON LOANS AND RECEIVABLES

Write-downs and provisions during the year	177.716	116.865
--	---------	---------

Reversal of write-downs made in previous years	-135.040	-91.928
--	----------	---------

Finally lost, not previously written down	4.828	3.998
---	-------	-------

Interest on the written-down portion of loans	-11.188	-10.512
---	---------	---------

Recoveries of previously written off debt	-3.442	-1.592
---	--------	--------

Total	32.874	16.831
--------------	---------------	---------------

Note	DKK 1,000	2020	2019
10	TAX		
	Calculated tax of income of the year	28.315	27.076
	Adjustment of deferred tax	783	2.597
	Adjustment of tax calculated in previous years	-967	-204
	Total	28.131	29.469
	Tax paid during the year	28.148	25.814
	EFFECTIVE TAX RATE (%)	(Pct.)	(Pct.)
	Tax rate currently paid by the bank	22,00	22,00
	Non deductible costs and not taxable income	-1,96	-4,19
	Adjustment of tax calculated for previous years	-0,67	-0,12
	Other adjustments	0,20	0,18
	Effective tax rate	19,57	17,87
11	RECEIVABLES AT CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Deposits with central banks	2.171.326	1.632.136
	Receivables at credit institutions	53.813	41.256
	Total	2.225.139	1.673.392
	Remaining period		
	Demand	2.225.139	1.673.392
	Total	2.225.139	1.673.392
	No assets related to genuine purchase and resale transactions included.		

Note	DKK 1,000	2020	2019
12	LOANS AND OTHER DEBTORS AT AMORTISED COST PRICE		
	Remaining period		
	Claims at call	1.404.900	1.558.453
	Up to 3 months	111.271	148.123
	Over 3 months and up to 1 year	526.959	340.160
	Over 1 year and up to 5 years	928.421	864.441
	Over 5 years	1.253.222	1.414.436
	Total loans and other debtors at amortised cost price	4.224.773	4.325.613
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
	Stage 1 impairment charges / value adjustment during the period	12.848	11.997
	-hereby new facilities in the period 10,270 TDKK		
	Stage 1 impairment reversed during the period	-11.582	-8.760
	Cummulative stage 1 impairment total	21.271	20.005
STAGE 2 IMPAIRMENT CHARGES			
	Stage 2 impairment charges at the end of the previous financial year	63.076	48.650
	Stage 2 impairment charges / value adjustment during the period	92.635	36.250
	Stage 2 impairment reversed during the period	-45.938	-21.824
	Cummulative stage 2 impairment total	109.773	63.076
STAGE 3 IMPAIRMENT CHARGES*			
	Stage 3 impairment charges at the end of the previous financial year	240.252	286.140
	Stage 3 and impairment charges / value adjustment during the period	66.707	63.590
	Reversal of stage 3 impairment charges during the period	-70.684	-60.576
	Recognised as a loss, covered by stage 3 impairment charges	-18.389	-48.902
	Cummulative stage 3 impairment total	217.886	240.252
	Total cumulative impairment charges IFRS9	348.930	323.333

Note	DKK 1,000	2020	2019
	PROVISIONS		
	Provisions beginning of the year	13.590	9.420
	Provisions during the year	5.527	9.193
	Reversal af provisions	-6.906	-5.023
	Provisions for losses	-1.739	0
	Guarantees end of year	10.472	13.590
	Total cumulative impairment charges IFRS9 and guarantees	359.402	336.923

	Stage 1	Stage 2	Stage 3
Beginning			
Impairment	20.005	63.076	240.252
- in % of total impairment	6%	20%	74%
Maximum credit risk	6.546.649	1.088.483	571.517
- in % of maximum credit risk	80%	13%	7%
Rating, weighted average	3,3	6,6	10,0
End			
Impairment	21.271	109.773	217.886
- in % of total impairment	6%	31%	62%
Maximum credit risk	7.386.203	1.153.356	332.182
- in % of maximum credit risk	83%	13%	4%
Rating, weighted average	3,2	6,9	10,0

Because of the Corona crisis, an additional amount has been reserved as a management estimate of DKK 50.0 million, of which DKK 25.0 million is in Stage 2 and DKK 25 million is in Stage 3.

The management estimate for the agricultural industry of DKK 7.5 million is placed in Stage 3.

This is a total of DKK 57.5 million in management estimates, divided into DKK 25.0 million in Stage 2 and DKK 32.5 in Stage 3.

Refer to note 31 on page 83 for a description of ratings.

Loans etc. with suspended calculation of interest	61.596	83.586
--	---------------	---------------

Note	DKK 1,000	2020	2019
13	BONDS AT FAIR VALUE		
	Treasuries	942.144	925.108
	Mortgage credit bonds	5.636	5.742
	Other bonds	11.726	114.867
	Total bonds at fair value	959.506	1.045.717
	The bank has no held-to-maturity assets		
14	SHARES ETC		
	Quoted on Nasdaq OMX Copenhagen A/S	29.719	38.881
	Quoted on other stock exchanges	16.943	18.178
	Sectorshares recorded at fair value	154.558	168.035
	Total shares etc	201.220	225.094
15	SHARES ASSOCIATED WITH POOL SCHEMES		
	Investment units	1.037.873	-
	Cash deposits etc.	1.129	-
	Total	1.039.002	-
16	LAND AND BUILDINGS		
	Investment properties		
	Fair value - end of previous financial year	2.961	2.961
	Acquisitions during the year incl. improvements	58	0
	Disposals during the year	0	0
	Adjustment of fair value for the year	0	0
	Fair value end-of-year	3.019	2.961
	Owner occupied properties		
	Reassessed value - end of previous financial year	44.179	45.527
	Acquisitions during the year incl. improvements	408	73
	Depreciations	-1.421	-1.421
	Reassessed value end-of-year	43.166	44.179
	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 5.6-7 %.		
	Owner-occupied properties (leasing)		
	Beginning-of-year	0	-
	Increase from changes in accounting policies at the beginning of the year	22.859	-
	Depreciations	-2.286	-
	End of the year	20.573	-

Note	DKK 1,000	2020	2019
17	OTHER TANGIBLE ASSETS		
	Total cost price beginning-of-year	23.927	25.903
	Acquisitions during the year incl. Improvements	2.418	909
	Reduction during the year	-125	-465
	Total cost price beginning-of-year	26.220	26.347
	Total write-ups/downs and depreciations beginning-of-year	20.604	21.809
	Depreciations during the year	1.489	1.401
	Reversal of depreciations	-125	-186
	Total write-ups/downs and depreciations end-of-year	21.968	23.024
	Book value end-of-year	4.252	3.323
18	DEBT TO CREDIT INSTITUTIONS AND CENTRAL BANKS		
	Debt to credit institutions	181.165	206.536
	Total debt to credit institutions and central banks	181.165	206.536
	Term to maturity		
	Demand	181.165	206.536
	Total debt to credit institutions and central banks	181.165	206.536
	No liabilities related to genuine sale and repurchase transactions included		
19	DEPOSITS AND OTHER DEBTS		
	Demand	5.844.944	5.398.876
	At notice	13.430	18.591
	Time deposits	0	562
	Special types of deposits	605.361	805.575
	Total deposits and other debts	6.463.735	6.223.604
	Term to maturity		
	Demand	5.862.675	5.415.150
	Deposits redeemable at notice:		
	Up to 3 months	87.148	108.404
	Over 3 months and up to 1 year	6.212	11.819
	Over 1 year and up to 5 years	47.383	44.656
	Over 5 years	460.317	643.575
	Total deposits and other debts	6.463.735	6.223.604
	No liabilities related to genuine sale and repurchase transactions included.		
20	DEFERRED TAXATION		
	(Tax amount)		
	Tangible assets	3.847	2.800
	Loans and other receivables	-3.067	-2.762
	Other	643	637
	Total deferred taxation	1.423	675

Note	DKK 1,000	2020	2019
21	SUBORDINATED DEBT		
	Supplementary capital DKK 100 mio	97.834	97.334
	Rate	6,4573%	6,4573%
	Due date	20.05.2030	20.05.2030

The loan may be paid early with the Danish Financial Supervisory Authority's approval starting on 20 May 2025 and then on each interest payment date.

The interest rate is determined as the 6-year swap rate plus a premium of 6.3 percentage points, valid for 6 years from date of issue.

	Subordinated debt total	97.834	97.334
	Subordinated debt that may be included in the capital base	97.834	97.334
	Interest on subordinated liabilities recognised in income	6.542	6.525
22	SHARE CAPITAL	192.800	192.800
	Number of shares is 9,640,000 at DKK 20 each		

The bank has pr. 31. December 2020 15,057 registered shareholders. 96,18 % of the share capital are registered on name

23	HOLDERS OF HYBRID CAPITAL		
	Hybrid core capital	-	60.030
	Rate	-	10,4593%
	Due date	-	None

The loan is 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.

	Hybrid core capital	60.748	-
	Rate	8,6632%	-
	Due date	None	-

The hybrid core capital has an infinite maturity and payment of interest is voluntary, which is why it is treated as equity for accounting purposes. The loan can be repaid early on 14 September 2026 with the approval of the Danish Financial Supervisory Authority.

As of 14 September 2026, the interest rate will be changed to a half-year variable coupon rate corresponding to the CIBOR rate published by Nasdaq OMX for a term of 6 months with the addition of 8.80 % annually.

Note	DKK 1,000	2020	2019
24	OWN CAPITAL SHARES		
	Purchase and sales of own shares		
	Holdings beginning of the year		
	Number of own shares	16.957	10.000
	Nominal value of holding of own shares (DKK 1,000)	339	200
	Own shares proportion of share capital	0,18	0,10
	Addition		
	Number of own shares	57.335	6.957
	Nominal value of holding of own shares (DKK 1,000)	1.147	139
	Own shares proportion of share capital	0,59	0,07
	Purchase price (DKK 1,000)	3.491	488
	Disposal		
	Number of own shares	68.245	0
	Nominal value of holding of own shares (DKK 1,000)	1.365	0
	Own shares proportion of share capital	0,71	0,00
	Sale price (DKK 1,000)	4.093	0
	Holdings end of the year		
	Number of own shares	6.047	16.957
	Nominal value of holding of own shares (DKK 1,000)	121	339
	Own shares proportion of share capital	0,06	0,18

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 2020 are a consequence of this.

25	CONTINGENT LIABILITIES		
	Guarantees		
	Finance guarantees	689.786	512.488
	Guarantees against losses on mortgage credit loans	787.151	663.378
	Registration and conversion guarantees	1.015.910	961.248
	Other contingent liabilities	137.292	242.054
	Total	2.630.139	2.379.168
	Other binding engagements		
	Irrevocable credit-undertakings	466.619	121.121
	Total	466.619	121.121

Note	DKK 1,000	2020	2019
	Assets pledged as collateral		
	The bank has pledged cash 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 0.6295 %.		
	In 2020, Skjern Bank paid 194 TDKK to Afviklingsformuen (Settlement Assets).		
	The Bank is a tenant in one leases, which can be terminated with 6 months' notice, the yearly lease is 225 TDKK. The Bank is a tenant in one leases, which can be terminated with 12 months' notice, the yearly lease is 156 TDKK.		
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	0	0
	Bid Bond	0	0
	Rate of interest	-	-

Note	DKK 1,000	2020	2019
	Board of directors:		
	Loans	25.220	22.228
	Bid Bond	41.513	41.211
	Rate of interest	0,333-12,65%	0,5349-8,0%
	Holding of shares in Skjern Bank:		
	The board of managers - Per Munck	30.199	28.545
	The board of directors		
	Hans Ladekjær Jeppesen	11.115	11.115
	Bjørn Jepsen	5.286	5.286
	Niels Christian Poulsen	32.681	32.681
	Niels Erik Kjærgaard	300	300
	Finn Erik Kristiansen	1.941	2.748
	Lars Skov Hansen	704	710
	Carsten Jensen	2.164	1.976
	Michael Tang Nielsen	140	100
28	CAPITAL REQUIREMENT		
	Equity	1.108.059	1.026.569
	Proposed dividend	-19.280	-28.920
	Revaluation reserves	-417	-417
	Holders of hybrid capital	-60.748	-60.030
	Deduction for the sum of equity investments etc. above 10 %	-46.125	-59.007
	CVA deduction	-1.002	-1.119
	Deduction of trading framework for own sharers	-1.697	-1.499
	Core tier 1 capital	978.790	875.577
	Holders of hybrid capital	59.245	59.768
	Tier 1 capital	1.038.035	935.345
	Subordinated loan capital	97.834	97.334
	Capital base	1.135.869	1.032.679
	Weighted items		
	Credit risk	4.369.781	4.510.623
	Market risk	293.700	367.033
	Operational risk	707.072	673.608
	Weigthed items total	5.370.553	5.551.264
	Core tier 1 capital ratio (excl. hybrid core capital)	18,2	15,8
	Tier 1 capital ratio	19,3	16,9
	Solvency ratio - Tier 2	21,2	18,6

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	2020		2019	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash in hand+claims at call on central banks	192.109	192.109	229.494	229.494
Claims on credit institutes and central banks 1)	2.225.139	2.225.139	1.673.392	1.673.392
Loans and other debtors at amort. costprice 1)	4.225.804	4.231.398	4.326.873	4.332.998
Bonds at current value 1)	961.774	961.774	1.048.316	1.048.316
Shares etc.	201.220	201.220	225.094	225.094
Derivative financial instruments	2.884	2.884	2.764	2.764
Total financial assets	7.808.930	7.814.524	7.505.933	7.512.058
Financial liabilities				
Debt to credit institutions and central banks 1)	181.165	181.165	206.536	206.536
Deposits and other debts 1)	6.463.736	6.465.015	6.223.606	6.224.785
Derivative financial instruments	2.211	2.211	1.157	1.157
Subordinated debt 1) 2)	99.444	99.444	99.649	99.649
Total financial liabilities	6.746.556	6.747.835	6.530.948	6.532.127

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	2020	2019
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 90 TDKK - 160 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.	2020	2019
31	CREDIT RISKS		
	Loans and guarantees distributed on sectors		
	Public authorities	0,0	0,0
	Business:		
	Agriculture, hunting, forestry & fishing	10,8	12,0
	- Plant production	1,2	1,6
	- Cattle farming	5,8	6,7
	- Pig farming	1,2	1,5
	- Mink production	1,8	1,5
	- Other agriculture	0,8	0,7
	Industry and mining	3,6	4,0
	Energy	1,8	2,6
	Building and constructions	4,5	6,2
	Wholesale	6,3	5,9
	Transport, hotels and restaurants	1,4	1,7
	Information and communication	0,8	0,2
	Financial and insurance business	4,0	5,1
	Real-estate	11,8	13,4
	Other business	3,8	4,9
	Total business	48,8	56,0
	Private persons	51,2	44,0
	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.

Earmarked credit limit divided by exposure, guarantees and credit commitments

	2020 (DKK 1,000)	2020 (DKK 1,000)	2020 (DKK 1,000)
	Exposure	Guarantees	Credit-under- takings
Public authorities	0	0	0
Business - agriculture	857.462	146.486	25.260
Business - other	3.261.468	674.946	331.988
Private persons	2.674.527	1.808.706	109.371
Total	6.793.457	2.630.138	466.619

Which recognized in the balance after deduction of depreciation

4.224.773

Note

	2019 (DKK 1,000)	2019 (DKK 1,000)	2019 (DKK 1,000)
	Exposure	Guarantees	Credit-under- takings
Public authorities	0	0	0
Business - agriculture	871.218	174.002	0
Business - other	3.196.503	825.446	87.023
Private persons	2.300.904	1.379.720	34.098
Total	6.368.625	2.379.168	121.121

Which recognized in the balance after deduction of depreciation 4.325.613

Description of collateral

Description of collateral	2020	2020	2020
	Business, agriculture	Business, other	Private
Security distributed by type (DKK 1,000)			
Securities	8.694	161.853	84.255
Real property	457.376	994.372	1.020.113
Chattels, vehicles and rolling stock	76.147	628.293	430.886
Guarantees	8.632	55.160	2.479
Other forms of security	146.560	622.717	820.140
Total	697.409	2.462.395	2.357.873

Security distributed by type (DKK 1,000)	2019	2019	2019
	Business, agriculture	Business, other	Private
Securities	14.678	177.844	75.303
Real property	456.066	987.160	890.612
Chattels, vehicles and rolling stock	59.801	544.676	362.073
Guarantees	11.738	52.658	2.927
Other forms of security	104.189	632.486	446.216
Total	646.472	2.394.824	1.777.131

As a general rule, the bank receives security in the funded asset. In addition, security is taken in the form of guarantees and mortgages in parts and shares. The above list reflects the loan value attributable to the individual exposures.

The loan value reflects the fair value calculated in accordance with the bank's business process with a security margin of 10 - 60%, though less by government bonds.

The bank strives to reduce the calculated balance (maximum credit exposure excluding credit commitments less value of collateral and total write-downs) across the entire customer portfolio.

In 2020, this resulted in a blank of DKK 3,546 million. This is a fall of DKK 47 million. DKK compared to 2019.



Note DKK 1,000

31.12.2020

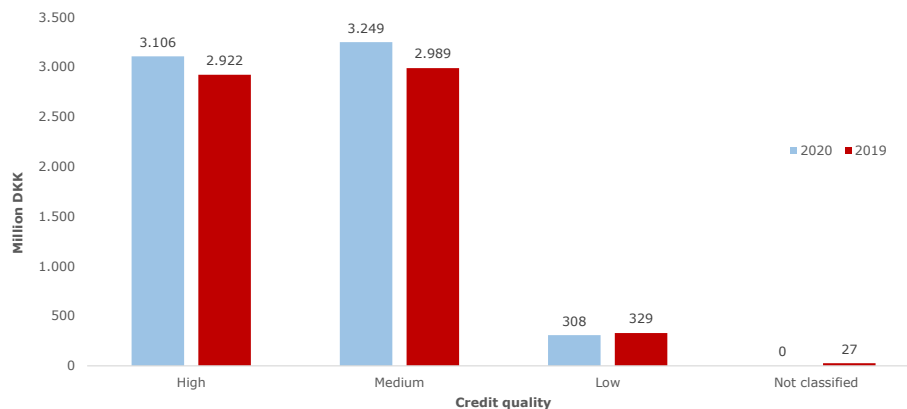
Financial assets, loan commitments and financial guarantees. Instruments without significant increase in credit risk (stage 1)											
Rating classification	1	2	3	4	5	6	7	8	9	10	Total
Industry group											
Agriculture	133.449	112.536	111.990	40.546	157.658	114.137	40.137	1.618	65.763	0	777.834
Property	161.074	286.921	115.083	177.901	53.187	117.898	36.231	45.151	3.700	0	997.147
Other	515.369	889.947	158.367	242.294	262.411	55.423	50.266	44.450	58.756	0	2.277.284
Private	677.727	712.239	393.699	824.201	572.545	130.099	52.434	90.031	54.140	0	3.507.115
Deposits at Danmarks Nationalbank	119.097	0	0	0	0	0	0	0	0	0	119.097
Accounts with other banks	2.771	73.000	88.414	0	0	0	0	0	0	0	164.185
Instruments without significant increase in credit risk (stage 2)	1.609.487	2.074.643	867.553	1.284.943	1.045.802	417.556	179.069	181.250	182.359	0	7.842.661
Instruments for which impairment has been recognised corresponding to expected credit losses in their lifetime (stages 2 and 3)											
Rating classification	1	2	3	4	5	6	7	8	9	10	Total
Industry group											
Agriculture	0	205	0	12.474	18.722	6.755	4.783	0	36.289	0	79.228
Property	0	0	0	27.740	45.259	9.431	3.887	0	12.037	0	98.354
Other	1	521	152	120.102	82.846	58.393	7.466	56.208	95.242	0	420.932
Private	1	156	362	106.292	100.470	15.263	2.546	11.130	49.260	0	285.480
Accounts with other banks	0	0	0	2.250	0	1.000	0	0	0	0	3.250
Instruments with significant increase in credit risk (stage 2)	1	882	514	268.858	247.298	90.842	18.682	67.338	192.829	0	887.244
Industry group											
Agriculture	0	0	0	0	0	0	0	0	0	184.766	184.766
Property	0	0	0	0	0	0	0	0	0	96.672	96.672
Other	0	0	0	0	0	0	0	0	0	187.711	187.711
Private	0	0	0	0	0	0	0	0	0	134.306	134.306
Credit-impaired instruments (stages 3 and 2 weak)	0	0	0	0	0	0	0	0	0	603.455	603.455
Instruments for which impairment has been recognised corresponding to expected credit losses in their lifetime)	1	882	514	268.858	247.298	90.842	18.682	67.338	192.829	603.455	1.490.699
Total financial assets, loan commitments and financial guarantees.	1.291.285	1.705.214	849.919	1.139.782	1.294.629	415.996	175.050	214.614	365.656	754.505	8.206.650
Work guarantees etc. not covered by IFRS9											
Rating classification	1	2	3	4	5	6	7	8	9	10	Total
Total	153.003	221.641	127.699	345.916	141.209	24.549	16.819	17.758	19.852	41.516	1.109.962
Total	1.762.491	2.297.166	995.767	1.899.717	1.434.308	532.948	214.570	266.345	395.039	644.971	10.443.323

Note DKK 1,000

31.12.2019

Financial assets, loan commitments and financial guarantees. Instruments without significant increase in credit risk (stage 1)											
Rating classification	1	2	3	4	5	6	7	8	9	10	Total
Industry group											
Agriculture	133.476	79.357	58.283	24.525	151.757	59.638	42.224	14.144	95.164	0	658.568
Property	116.709	231.639	171.207	181.128	69.313	18.173	30.830	24.657	6.530	0	850.186
Other	446.224	743.755	205.582	176.806	343.816	98.486	36.836	39.943	35.870	0	2.127.318
Private	494.800	620.547	346.085	542.822	447.527	137.236	52.228	86.738	43.926	0	2.771.909
Deposits at Danmarks Nationalbank	111.389	0	0	0	0	0	0	0	0	0	111.389
Accounts with other banks	2.957	75.000	70.443	0	0	0	0	0	0	0	148.400
Instruments without significant increase in credit risk (stage 2)	1.290.269	1.704.876	848.780	888.587	1.000.834	313.533	156.118	162.162	181.490	0	6.546.649
Instruments for which impairment has been recognised corresponding to expected credit losses in their lifetime (stages 2 and 3)											
Rating classification	1	2	3	4	5	6	7	8	9	10	Total
Industry group											
Agriculture	0	0	835	9.925	25.873	14.371	6.850	3.892	71.267	0	133.013
Property	0	0	0	12.432	45.759	10.767	350	330	5.650	0	75.288
Other	117	0	7	125.528	110.651	61.169	9.767	44.280	66.879	0	418.398
Private	899	338	297	96.058	107.512	16.156	1.965	3.950	40.370	0	267.545
Accounts with other banks	0	0	0	7.252	4.000	0	0	0	0	0	11.252
Instruments with significant increase in credit risk (stage 2)	1.016	338	1.139	251.195	293.795	102.463	18.932	52.452	184.166	0	905.496
Industry group											
Agriculture	0	0	0	0	0	0	0	0	0	179.532	179.532
Property	0	0	0	0	0	0	0	0	0	212.277	212.277
Other	0	0	0	0	0	0	0	0	0	224.823	224.823
Private	0	0	0	0	0	0	0	0	0	137.873	137.873
Credit-impaired instruments (stages 3 and 2 weak)	0	0	0	0	0	0	0	0	0	754.505	754.505
Instruments for which impairment has been recognised corresponding to expected credit losses in their lifetime)	1.016	338	1.139	251.195	293.795	102.463	18.932	52.452	184.166	754.505	1.660.001
Total financial assets, loan commitments and financial guarantees.	1.291.285	1.705.214	849.919	1.139.782	1.294.629	415.996	175.050	214.614	365.656	754.505	8.206.650
Work guarantees etc. not covered by IFRS9											
Rating classification	1	2	3	4	5	6	7	8	9	10	Total
Total	133.895	265.862	92.471	239.783	174.410	37.600	16.092	14.580	23.028	37.457	1.035.178
Total	1.425.180	1.971.076	942.390	1.379.565	1.469.039	453.596	191.142	229.194	388.684	791.962	9.241.828

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 incl stage 2 weak

	2020	2020	2020
	Exposure before		
	write-down	Write-downs	Securities
Significant financial difficulties	450.320	202.549	260.806
Breach of contract	7.825	5.477	1.743
Reductions in terms	10.209	4.946	4.041
Probability of bankruptcy	45.265	30.517	21.785
Total	513.619	243.489	288.375
	2019	2019	2019
	Exposure before		
	write-down	Write-downs	Securities
Significant financial difficulties	437.887	205.884	203.303
Breach of contract	7.850	4.930	804
Reductions in terms	14.310	6.378	6.809
Probability of bankruptcy	120.137	41.207	79.628
Total	580.184	258.399	290.544

Note DKK 1,000

2020

2019

The above calculation does not include the value of guarantees and transports. Collateral is calculated at the customer level.

The collateral value reflects the fair value calculated in accordance with the Bank's business process with a security margin of 10 - 60 %.

Arrears amount for loans, which have not been written down

0-90 days	9.138	17.606
>90 days	84	945
Total	9.222	18.551

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

0-90 days	89.453	161.847
>90 days	2.851	5.784
Total	92.304	167.631

Practice for managing credit risk

The bank's credit risk is managed by debtors and other counterparties being rated based on various models that are mainly based on the debtor's/counterparty's financial capacity.

In addition to the models, a number of checks are made to ensure a correct rating. The ratings, both in the models and the checks, are largely based on the Danish Financial Supervisory Authority's guidelines on risk classification.

However, the bank uses a 10-step rating scale that can be compared with the Danish Financial Supervisory Authority's scale in the following way:

The bank's rating class	1	2	3	4	5	6	7	8	9	10
The Danish Financial Supervisory Authority's risk class	3/2A	3/2A	3/2A	2B	2B	2B	2B	2B	2C	1

Rating 1 is assets with very good credit quality, while rating 10 is impaired assets.

The credit risk is assessed to have increased significantly if the rating has deteriorated since initial recognition corresponding to one step on the Danish Financial Supervisory Authority's risk scale.

However, this does not apply to assets with low credit risk, which are defined as the Danish Financial Supervisory Authority's risk classes 3 and 2A.

Whether or not it is an asset with a low credit risk, the credit risk is considered to have increased significantly if the asset is overdrawn for more than 30 days, though arrears on loans are essentially considered an impairment.

Examples of assets with and without significantly impaired credit risk:

	Example 1	Example 2	Example 3
Starting risk class	3	2A	2A
Current risk class	2A	2A	2B
Overdrawn for 30 days	No	Yes	No
Significantly impaired credit risk	No	Yes	Yes

Note

Assets with and without significantly impaired credit risk, but which are not impaired, are grouped by industry in the following groups based on DS industries:

Industry
Government Agencies
Agriculture etc.
Industry and raw materials
Energy
Building and construction
Transport
Information and communication
Financing
Property etc.
PI and mortgage
Other industries
Private

At least once a year, all assets with a rating of 9 (the Danish Financial Supervisory Authority's risk class 2C) are reviewed to assess whether the asset is impaired. In addition to this, a sample is taken from the other rating classes once a year for the same purpose.

All loan options that are handled in the Credit Department by the bank's Executive Board or Board of Directors are also assessed for any impairment. A financial asset is considered impaired if one or more events have occurred that have a negative impact on the expected cash flows from the asset.

Common to the assets is that the following factors are included in the assessment:

- Arrears, overdrafts and/or the bank has discontinued repayment for the asset
- Other creditors have granted a deferment or other easier terms
- The customer is only in this financial context due to a variable-interest loan or repayment freedom, or because the loan has otherwise been offered on easier terms
- The customer is in RKI (Ribers Credit Information), has significant tax debt or distraint has been levied
- The customer is associated with other customers who have impaired credit

When assessing business customers, the following factors are included:

- Negative or fragile equity ratio
- Negative or decreasing consolidation
- Tight liquidity
- Uncertain/negative future
- The customer applies for reconstruction or an agreement to avert bankruptcy
- The customer is bankrupt

When assessing private customers, the following factors are included:

- Negative assets and/or small available amount
- Uncertain future e.g. due to unemployment, divorce or illness
- The customer takes out loans to cover expenditures
- The customer applies for debt relief or an agreement to avert bankruptcy

Note

Information base, assumptions and assessment methods in assessing expected credit loss**Assets with or without significant increase in credit risk**

The bank's credit losses are measured based on the following formula:

$$ECL = PD \times LGD \times EAD$$

Where:

- PD is the probability that the asset will be impaired
- LGD is the expected loss, provided the asset is impaired
- EAD is the expected exposure in terms of loss

The probability that the asset will be impaired (PD) is composed of several factors:

- PD at 12 months of credit loss = PD - 12 months x macro factors
- PD in the asset's lifetime = PD - 12 months x macro factors x extension factors

Calculation of 12 months of credit loss or credit loss in the asset's lifetime is determined as described in "Practice for managing credit risk." Three factors are used for this: Starting risk class, current risk class and overdraft for 30 days. Information base, assumptions and assessment methods for each factor are described in the overview below.

Factor	Information base	Assumptions	Assessment methods
PD - 12 months	The bank's statistics on customers for 01.01.2017 - 30.06.2020 distributed by rating class and private and business by DS industry codes	The proportion of customers with impaired credit during the period and the selected groups are representative of the upcoming 12 months. However, see "Macro factors".	PD is the proportionate number of customers in the mentioned groups who have impaired credit during the period.
Extension factors	Calculated extension factors from BankData	The factors are representative of the bank's customers. The bank has provided data for the calculations.	Calculated based on historical PD figures from 6 small financial institutions in the years 2010-2016.
The asset's lifetime	Settlement agreements for assets, as well as calculated average maturities from BankData	Loans are settled as agreed (otherwise the loan is impaired). Credits with renegotiation typically run longer than the initial negotiation.	A loan with a calculated residual maturity of 8 years will have loss estimated for 8 years, with the balance expected for each year. A credit with renegotiation of 10 months will be calculated with the size of the credit on the reporting date in 5 years.

Note

Factor	Information base	Assumptions	Assessment methods
Macro factors	Factors calculated with Lokale Pengeinstitutter's (The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark) macro-tools based on forecasts.	The factors are representative of the bank's customers in the near future. The factors were phased out of the model over 10 years, as the extension factors are considered to contain sufficient cyclical balancing.	The two variables that must be entered in the tool were selected based on the bank's historical loss data in the years 2010-2019. Factor 1 will limit the increase in the macro from year to year. Factor 1 was chosen based on the greatest increase experienced during the period, so there is not actually a limitation. Factor 2 is a conversion factor between the bank's impairment and realised loss. Factor 2 is set to 100, as there are indications, but not documentation, that the bank's impairment have historically been greater than the realised loss. Both are thus determined based on a principle of caution.
LGD	The bank's statistics for realised loss on assets that were impaired during the period 1/1/2011 to 30/06/2020. The loss rates are divided into private and business according to DS industry codes.	The loss rate is representative of the future loss in the mentioned groups.	The loss rate is the realised loss in relation to EAD. To the degree possible, EAD is calculated based on the exposure one year before the asset was found to be impaired, and the value of the collateral is not deducted so that it is consistent with the application of the loss calculation.
EAD	EAD is calculated based on exposures divided by type. Each type is multiplied by a Credit Conversion Factor, which is determined based on the principles of article 11 of CRR. The value of collateral is not deducted when calculating expected loss.	EAD in relation to the exposure's size divided by type of asset is expected to remain unchanged in the future	For example, EAD for a credit will be calculated as: Used part x 100% + unused part x 20%. All exposures except for non-financial guarantees are included in the calculation of EAD.

Note

Factor	Information base	Assumptions	Assessment methods
Starting risk class	The as the asset's initial recognition date is the exposure's establishment date or the date the exposure is subsequently extended by 50% or more. Since June 2017, assets have been labelled with a starting rating. To the degree possible, previous labels are entered based on the bank's methods for rating on the date of initial recognition.	The return on the asset reflects the risk on the date of establishment (and when there are major increases).	Ratings over time are care-fully converted to the current 10-step scale. If there is no initial rating, the loss is recognised in the asset's lifetime, except for assets with low risk (Rating class 1-3)
Current risk class	The customer's rating class on the reporting date	The rating reflects the credit risk	See "Practice for managing credit risk"
Overdrawn for 30 days	The facility's balance and credit facility	If the facility is overdrawn for more than 30 days, the credit risk has increased significantly	There is no minimum thresh-old for overdrafts or offset-ting of any deposits on the customer's other facilities

When using the mentioned macro factors, predictive information is taken into account. No changes to important assumptions and assessment methods have occurred during the accounting period.

Assets that are impaired

See "Practice for managing credit risk" regarding assessment of whether the asset is impaired. When calculating the credit loss, the available existing information on the reporting date is used, as well as expectations for future development.

The credit loss on impaired exposures is calculated based on the following criteria:

Exposure in thousands of DKK	Industry	Calculation
0-150	Everyone	The entire exposure is written off as a credit loss
150 -	Private	The credit loss is calculated weighted based on a minimum of 3 scenarios determined by the cause of the credit impairment
150-	Industries except agriculture	The credit loss is calculated weighted based on a minimum of 3 scenarios determined by the cause of the credit impairment
150-	Agriculture	The credit loss is calculated weighted based on a minimum of 3 scenarios

The calculations include the following parameters:
Cause of credit impairment, scenario weight, EAD, value of collateral, expected settlement ability/dividends. Information base, assumptions and assessment methods for each parameter are described in the overview below.

Note

Factor	Information base	Assumptions	Assessment methods
Cause of credit impairment	The cause of the customer's credit impairment registered by the bank	The probability of each scenario is the same for each cause: Probability of bankruptcy, breach of contract, easier terms and significant financial difficulties	When stating the reason the guidelines in Appendix 10 of the Executive Order are followed
Scenario weight	Exposures that have impaired credit during the period 1/1/2011 – 30/09/2019 where the case has been closed	The historical distribution of scenarios is representative of the credit loss on customers with similar causes and industries. The number of zero-losses fluctuates with the economic trend.	The distribution of exposures by percentage is calculated based on a placement in one of the three scenarios: Zero-loss, Sale and Collapse. The percentage of zero-losses is then reduced in relation to a cyclical factor calculated based on the bank's impairment and provisions during the period 2007-2018.
EAD	Exposure on the reporting date	See under EAD in the table above	See under EAD in the table above
Value of collateral	Current assessments less costs and expected reductions. There are generally greater reductions for a collapse scenario than a sales scenario.	The actual assessment is the closest we can get to a real selling price until the sale is final. Less reductions are expected if the customer cooperates with a sale than if it is a forced sale	For agriculture, reductions are used based on historical documentation. There are little experience with other exposures. Reductions are thus estimated based on a precautionary principle.
Expected settlement ability/dividends	Availability calculations for private customers, operating profit and budgets/periodic results for business customers, dividend statements from bankruptcies	The basis indicates something about the ability to settle the exposure	Great caution is taken with recognition. If the customer is no longer cooperating with the bank, the settlement ability is generally not recognised

When using the cyclical factors under "Scenario weight", predictive information is taken into account.

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

Note	DKK 1,000	2020	2019
	Interest rate risk on debt instruments etc - total	13.398	15.206
	Interest rate risk in pct of core capital after deductions	1,3	1,6
	Interest rate risk split in currencies with highest risk:		
	DKK	13.560	14.504
	EUR	-75	770
	CHF	-47	-55
	JPY	-2	-2
	USD	-38	-11
	Total	13.398	15.206
	Foreign currency risk		
	Total assets in foreign currency	190.396	270.450
	Total liabilities in foreign currency	103.934	66.419
	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	828	2.022
	Currency indicator 1 in pct of core capital after deductions	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	4	24
	Currency indicator 2 in pct of core capital after deductions	0,0	0,0
	Currency Indicator 1 represents the sum of the respective positions in the currencies in which the bank has a net asset position, and currencies where the bank has net debt.		
	Currency Indicator 2 expresses the bank's currency risk more accurately than indicator 1, as it takes into account the different currencies' volatility and covariation.		
	A value of indicator 2 of TDKK 25 means that as long as the bank does not change its currency positions in the following 10 days, there is a 1% chance that the institution will get a capital loss greater than TDKK 25, which will affect the bank's profit and equity.		
	Equity Risk		
	If stock prices change by 10 percentage points, equity is affected as shown below:		
	Quoted on Nasdaq OMX Copenhagen A/S	2.972	3.888
	Quoted on other stock exchanges	1.694	1.818
	Unquoted shares recorded at fair value	15.456	16.804
	Total shares etc.	20.122	22.509

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	2020				2019			
		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	117.268	-228	240	468	222.510	1.387	1.672	285
	Over 3 months and up to 1 year	16.811	-24	254	278	6.772	28	36	8
	Average market value			350	545			2.418	660
Interest-rate contracts									
	Up to 3 months	232.194	-339	1.282	1.621				
	Over 3 months and up to 1 year	35.564	-54	134	188				
	Over 5 years					3.852	0	519	519
	Average market value			2.881	3.074			1.493	1.311
Shares contracts									
	Up to 3 months	0	0	0	0				
	Average market value			12	0				

DKK 1,000

2020

2019

Credit risk on derivative financial instruments

Positive market value, counterparty with risk weighting of 20 %	1.452	2.346
Positive market value, counterparty with risk weighting of 50%	85	48
Positive market value, counterparty with risk weighting of 75%	1.553	2.318
Positive market value, counterparty with risk weighting of 100%	806	275
Positive market value, counterparty with risk weighting of 150%	0	8
Total	3.896	4.995

Unsettled spot transactions

	Nominal value	Market-value-positive	Market-value-negative	Market-value-net
Foreign-exchange transactions, purchase	573	3	-	3
Foreign-exchange transactions, sale	971	3	-	3
Interest-rate transactions, purchase	18.088	34	3	31
Interest-rate transactions, sale	18.088	16	10	6
Share transactions, purchase	3.689	66	169	-103
Share transactions, sale	3.724	207	108	99
Total 2020	45.133	329	290	39
Total 2019	52.305	134	197	-63

Note	DKK 1,000	2020	2019	2018	2017	2016
34	5 YEARS IN SUMMARY					
	Profit and loss account					
	Net income from interest	190.244	185.287	185.242	171.972	163.745
	Dividend on shares	2.089	5.863	3.476	10.020	12.493
	Charges and commission, net	155.181	143.257	119.515	114.620	98.280
	Income from core business	347.514	334.407	308.233	296.612	274.518
	Value adjustments	26.513	40.225	69.389	31.045	17.216
	Other ordinary income	1.977	1.945	1.503	1.031	1.592
	Staff cost and admin. expenses	193.929	191.861	191.626	161.052	148.990
	Depreciation of intangible and tangible assets	5.195	2.821	3.004	3.071	3.746
	Other operating expenses	234	112	127	52	255
	- Contribution to the Guarantee Fund for deposits	194	112	52	52	52
	- Other operating expenses	40	0	75	0	203
	Write-downs on loans etc. (net)	32.874	16.831	19.729	19.886	36.172
	Profit on equity investments in nonaffiliated and affiliated companies	0	0	0	0	490
	Operating result	143.772	164.952	164.639	144.627	104.653
	Taxes	28.131	29.469	22.126	20.804	22.543
	Profit for the year	115.640	135.482	142.513	123.823	82.110
	Of which are holders of shares of hybrid core capital instruments etc.	6.487	6.626	6.626	5.168	6.626
	Balance as per 31st December					
	Summary					
	Total assets	8.974.467	7.614.080	6.703.573	6.367.636	5.860.191
	Loans and other receivables	4.224.773	4.325.613	4.359.561	3.924.509	3.687.509
	Guarantees etc	2.630.139	2.379.168	1.543.324	1.125.541	841.088
	Bonds	959.506	1.045.717	1.016.994	1.072.833	926.950
	Shares etc	201.220	225.094	220.498	245.686	219.447
	Deposits and other debts	6.463.735	6.223.604	5.457.413	5.240.913	4.871.359
	Subordinated debt	97.834	97.334	99.976	99.797	99.618
	Total equity	1.108.059	1.026.569	926.740	814.332	695.313
	- of which proposed dividend	19.280	28.920	28.920	0	0
	Capital Base	1.135.869	1.032.679	923.409	819.582	703.871

Note	2020	2019	2018	2017	2016	
36	FINANCIAL RATIO (FIGURES IN PCT.)					
	Solvency ratio	21,2	18,6	17,4	17,8	16,5
	Core capital ratio	19,3	16,9	15,5	15,8	14,6
	Return on equity before tax*	13,7	17,3	19,5	19,8	16,4
	Return on equity after tax*	10,9	14,1	16,8	17,1	12,6
	Return on assets	1,3	1,8	2,1	1,9	1,4
	Earning/expense ratio in DKK	1,62	1,78	1,77	1,75	1,52
	Interest rate risk	1,3	1,6	1,7	1,9	0,8
	Foreign currency position	0,1	0,2	0,2	0,1	0,2
	Foreign currency risk	0,0	0,0	0,0	0,0	0,0
	Loans etc. against deposits	60,9	74,6	86,3	81,4	82,7
	Statutory liquidity surplus	-	-	165,1	191,6	185,4
	LCR**	351	357	247	262	334
	Total large commitments	118,3	136,5	144,1	55,1	10,3
	Loans and debtors at reduced interest	0,9	1,2	1,9	2,2	2,5
	Accumulated impairment ratio	4,9	4,7	5,8	6,3	7,0
	Impairment ratio for the year	0,4	0,2	0,3	0,4	0,7
	Increase in loans etc. for the year	-2,3	-0,8	11,1	6,4	5,0
	Ratio between loans etc. and capital funds	3,8	4,2	4,7	4,8	5,8
	(value per share 100 DKK)					
	Earnings per share*	56,8	66,8	70,5	61,5	39,2
	Book value per share*	544	502	450	390	330
	Rate on Copenhagen Stock Exchange	352	311	305	368	268
	Dividend per share	10	15	15	0	0
	Market value/net income per share	6,2	4,7	4,3	6,0	6,8
	Market value/book value*	0,65	0,62	0,68	0,94	0,81
	(value per share 20 DKK)					
	Earnings per share*	11,4	13,4	14,1	12,3	7,8
	Book value per share*	109	100	90	78	66
	Rate on Copenhagen Stock Exchange	70,4	62,2	61,0	73,5	53,6

*) 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.

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

Note	DKK 1,000	4Q 2020	3Q 2020	2Q 2020	1Q 2020	4Q 2019
37	QUARTERLY OVERVIEWS					
	Profit and loss account					
	Net income from interest	47.344	48.183	46.174	48.543	46.713
	Div. on shares and other holdings	51	78	1.672	288	76
	Charges and commissions (net)	40.456	36.304	34.959	43.462	37.368
	Net inc. from int. & charges	87.851	84.565	82.805	92.293	84.157
	Value adjustments	10.002	10.451	15.882	-9.822	3.432
	Other ordinary income	439	953	296	289	593
	Staff costs and administrative expenses	51.973	45.547	47.365	49.044	51.156
	Depreciation of intangible and tangible assets	1.651	1.181	1.598	765	526
	Other operating expenses	40	0	194	0	0
	Operating expenses	0	0	194	0	0
	Guarantee commission first guarantee scheme	40	0	0	0	0
	Write-downs on loans etc. (net)	951	4.767	16.525	10.631	5.629
	Operating profit	43.677	44.474	33.301	22.320	30.871
	Taxes	12.671	3.223	7.327	4.910	4.591
	Profit for the period	31.005	41.251	25.974	17.410	26.279
	Of which are holders of shares of hybrid core capital instruments etc.	1.780	1.569	1.569	1.569	1.919
	Balance					
	Loans and other debts	4.224.773	4.258.988	4.230.606	4.449.383	4.325.613
	Deposits	6.463.735	6.271.667	6.550.184	6.135.817	6.223.604
	Subordinated cap. investments	97.834	97.709	97.584	97.459	97.334
	Equity	1.108.059	1.077.215	1.038.051	1.017.460	1.026.569
	Total assets	8.974.467	8.819.796	8.008.599	7.581.001	7.614.080
	Guarantees etc.	2.630.139	2.553.613	2.308.723	2.519.235	2.379.168
	Core earnings					
	Core income	89.638	86.704	84.105	93.659	85.832
	Total costs	-53.664	-46.728	-49.157	-49.809	-51.682
	Core earnings	35.974	39.976	34.948	43.850	34.150

34

COOPERATIVE AGREEMENTS

Skjern Bank cooperates with and receives commission relating to payment transfers from, and is co-owner of some of the following companies: Totalkredit A/S, Nykredit A/S, DLR Kredit A/S, BRK Kredit A/S, Privatsikring A/S, Eurocard, PFA Pension, Sparinvest A/S, Valueinvest Asset Management S.A., BI Asset Management Fondsbørsmæglerselskab A/S, Jyske Invest, Forvaltningsinstituttet for Lokale Pengeinstitutter, Sydinvest A/S, HP Fondsbørsmæglerselskab A/S, Investeringsforeningen Maj Invest, Stonehenge Fondsmæglerselskab A/S, Investeringsforeningen Falcon Invest, SEB Invest A/S, Investeringsforeningen BIL Danmark, Codan, Dankort A/S, Nets A/S, Visma Enterprise, Krone Kapital, Købstædernes Forsikring og Visa International.

FINANCIAL CALENDER 2021

15 January	Deadline for submission of items for the agenda for the Annual General Meeting
3 February	Announcement of Annual Report 2020
1 March	General Meeting – Ringkøbing-Skjern Kulturcenter
6 May	Announcement of quarterly report 1st quarter 2021
19 August	Announcement of half-yearly report 2021
28 October	Announcement of quarterly report 3rd quarter 2021

AUDIT COMMITTEE

Name	Jobposition	City
Niels Erik Kjærgaard (chairman)	Former city manager	Skjern
Niels Christian Poulsen	Fur breeder	No
Lars Skov Hansen	Advisor	Esbjerg

COMMITTEE OF REPRESENTATIVES

Name	Jobposition	City	Elected	Born
Hans L. Jeppesen (board chairman)*	Lawyer	Skjern	2011	1964
Ole Strandbygaard (board vice-chairman)	Printer	Ringkøbing	2008	1972
Jørgen Søndergaard Axelsen	Real estate agent	Skjern	2002	1960
Ebbe Storgaard Bendixen	Manager	Bramming	2020	1981
Jens Bruun	Former manager	Aarhus	2007	1952
Heine Delbing	Manager	Odense	2019	1953
Poul Frandsen	Manager	Herning	2012	1967
Bjarke Hansen	Manager	Ringkøbing	2020	1977
Kasper Herrestrup	Chief Investment Officer	Brabrand	2019	1982
Tom Jacobsen	Manager	Tarm	2010	1970
Mike Jensen	Bookseller	Skjern	2005	1966
Bjørn Jepsen*	Farmer	Borris	2011	1963
Niels Erik Kjærgaard*	Former city manager	Skjern	2002	1954
Birgitte Kloster	Former logisticdirector	Ribe	2018	1966
Dorte H. Knudsen	Nurse	Hviding	2006	1956
Finn Erik Kristiansen*	Manager	Varde	2020	1969
Karsten Larsen	Manager	Dejbjerg	2020	1979
Tommy Noer	Technical teacher	Esbjerg	2005	1954
Torben Ohlsen	Manager	Esbjerg	2020	1965
Morten Henrik Pedersen	Merchant	Holte	2019	1963
Niels Christian Poulsen*	Mink farmer	No	2006	1963
Jesper Ramskov	Manager	Esbjerg	2005	1964
Bente Tang	Farmer	Hanning	2006	1969
Birte Bruun Thomsen	Manager	Esbjerg	2014	1966
Poul Thomsen	Former trader	Skjern	1993	1952
Torben Tobiasen	Manager	Videbæk	2020	1977
Helle Vingolf	Manager	Esbjerg	2018	1968

*Members of the board of directors

BOARD OF DIRECTORS



Hans Ladekjær Jeppesen, lawyer, Skjern

Board chairman
Born 11th September 1964
Elected on the board in 2011
Current term expires in 2021

Other management duties:

Manager of Poppelstykket 8 ApS
Board chairman of Byggefirmaet Ivan V. Mortensen A/S
Board chairman of Grey Holding 2 A/S
Board chairman of Grønbjerg Grundinvest A/S
Board chairman of Gråkjær A/S
Board chairman of Gråkjær Holding A/S
Board chairman of Gråkjær Aqua A/S
Board chairman of Gråkjær Aqua International A/S
Board chairman of LHI Invest A/S
Board chairman of ODJ Holding ApS
Board chairman of PE Trading A/S
Board chairman of Roslev Trælasthandel A/S
Board chairman of Specialfabrikken Vinderup A/S

Board member of Advokatpartnerselskabet Kirk Larsen & Ascanius
Board member of Carl C A/S
Board member of Carl C Ejendomme ApS
Board member of Gråkjær Landbrug A/S
Board member of Gråkjær Erhverv A/S
Board member of Grønbjerg Ejendomsselskab A/S
Board member of IFN Denmark ApS
Board member of Kastrup A/S
Board member of Kastrup Ejendomme ApS
Board member of Skanva Group A/S
Board member of Skjern Håndbold A/S
Board member of Vinduesgrossisten ApS



Bjørn Jepsen, farmer, Borris

Vice board chairman
Born 17 October 1963
Elected on the board in 2012
Current term expires in 2022

Other management duties:

Vice board chairman of Mejeriforeningen Danish Dairy Board
Board member of Arla Foods AmbA
Board member of Kvægafgiftsfonden
Board member of Mælkeafgiftsfonden
Board member of SEGES- kvæg

**Niels Christian Poulsen, fur breeder, No**

Born 6 February 1963
Elected on the board in 2019
Current term expires in 2022

Other management duties:

Board member of Holstebro Minkfodercentral AmbA
Board member of P/F Hovla Fish - Færøerne
Board member of K/S Holmen Vindmølle 4
Board member of Vindmølle Holmen ApS
Board member of Nørhede-Hjortmose Vind I/S
Board member of Heager Kærs Pumpeinteressentskab

**Niels Erik Kjærgaard, former city manager, Skjern**

Born on 3 July 1954
Elected on the board in 2019
Current term expires in 2022

Other management duties:

Board chairman of Investeringselskabet Lionek A/S
Board chairman of Iværksætterselskabet K&S ApS
Board member of Ringkøbing-Skjern Kulturcenter
Board member of Ejendomsselskabet Husumparken A/S
Board member of Ejendomsselskabet Husumparken af 2000 A/S
Board member of Skjern Udviklingsforum

**Finn Erik Kristiansen**

Born 23 April 1969

Elected on the board 2020

Current term expires 2021

Other management duties:

Manager of ProVarde S/I

Manager of i Bordin Holding ApS

Board chairman of Bog & Idé Aalborg Storcenter ApS

Board chairman of Kristiansen Bog & Idé A/S



**Lars Skov Hansen, advisor, Esbjerg
Employee-selected**

Born 17 May 1973
Elected on the board in 2011
Current term expires in 2023



**Carsten Jensen, advisor, Skjern
Employee-selected**

Born 29 April 1980
Elected on the board in 2015
Current term expires in 2023

MANAGEMENT



**Michael Tang Nielsen, finance manager, Velling
Employee-selected**

Born 17 December 1977
Elected on the board in 2019
Current term expires in 2023



Per Munck, banking executive, Skjern

Born 12 November 1954
Hired 1 November 1999

Other management duties:

Boardmember of Foreningen Bankdata
Boardmember of Forvaltningsinstituttet for Lokale Pengeinsti-
tutter

SKJERN
Banktorvet 3
6900 Skjern
Tlf. 9682 1333

VARDE
Bøgevej 2
6800 Varde
Tlf. 9682 1640

ESBJERG
Kongensgade 58
6700 Esbjerg
Tlf. 9682 1500

BRAMMING
Storegade 20
6740 Bramming
Tlf. 9682 1580

RIBE
J. Lauritzens Plads 1
6760 Ribe
Tlf. 9682 1600

HELLERUP
Strandvejen 143
2900 Hellerup
Tlf. 9682 1450

VIRUM
Frederiksdalsvej 65
2830 Virum
Tlf. 9682 1480

skjernbank.dk