



Half-Year Report 2018

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The Vestjysk Bank Half-Year Report 2018 is a translation of the original report in Danish (Vestjysk Bank Halvårsrapport 2018).
In case of discrepancies, the Danish version prevails.

Summary

H1 2018 Highlights

Vestjysk Bank realised a profit after tax of DKK 119 million in H1 2018. The Bank's core operations are sound and core earnings of DKK 224 million before impairment are considered satisfactory. Impairment charges are at a lower level than they were in H1 2017. However, the overall level of impairment charges is still relatively high. The Bank's profit after tax in H1 2018 is considered satisfactory under the given circumstances.

- Profit after tax of DKK 119 million (H1 2017: DKK 108 million), equaling a return on equity after tax of 10.2 per cent.
- Core income of DKK 458 million (H1 2017: DKK 512 million).
- Cost ratio of 51.1 (H1 2017: 49.9).
- Core earnings before impairments of DKK 224 million (H1 2017: DKK 257 million).
- Impairment of loans and receivables, etc. of DKK 95 million (H1 2017: DKK 142 million).
- The total capital ratio stood at 17.8 per cent, corresponding to excess coverage of 5.9 percentage points or DKK 866 million.
- The combined capital requirement stood at 11.9 per cent, which consists of an individual solvency need of 10.0 per cent and a capital conservation buffer of 1.875 percentage point.
- At 30 June 2018 the Bank's LCR was 243 per cent, compared with a requirement of 100 per cent.
- Implementation of the new IFRS 9 rules at 1 January 2018 resulted in additional impairment charges of DKK 225 million. The impact net of tax is recognised directly in the Bank's equity at 1 January 2018, which has thus been reduced by DKK 207 million, equal to 9.0 per cent of shareholders' equity.
- The Bank has decided not to apply the European Commission's transitional arrangement for partial recognition of the IFRS 9 impairment rules in total capital. The DKK 207 million adverse effect of the impairment rules under IFRS 9 did thus have full effect on the Bank's capital ratios at 1 January 2018.

Organisational adjustments

The Bank is currently experiencing positive developments, which include a net inflow of new customers and a generally high level of activity. However, competition is intensifying in a banking market already impacted by several years of historically low interest rates. This has placed the Bank's earnings power under pressure, and in order to maintain its competitive market strength, the Bank is making targeted efforts to keep its cost ratio at around 50. As part of these efforts, the Bank will implement organisational adjustments effective on 1 September 2018 that will reduce its headcount by about 20 FTE, corresponding to a staff reduction of about 5 per cent. Some of the redundancies are expected to be voluntary.

Outlook for 2018

Given an unchanged economic climate and an overall decrease in impairment losses, the Bank's total business volume is expected to have the capacity to generate profit after tax of around DKK 175-250 million.

The agricultural sector has been struck by a long period of drought in 2018 that will reduce the harvest yield. The harvest must be finished before the effects can be quantified, and it is difficult to estimate the effects of the drought at the present time. Currently, the effects are generally expected to be negative, but there will be large differences from region to region and from one farm to the next. Based on its current knowledge, the Bank has reflected these expectations in its current impairment charges involving the agricultural sector.

If the effects of the drought prove to be worse than anticipated and the prolonged downward trend in settlement prices of pork and milk persists or becomes further aggravated, the Bank's significant exposure to agriculture may entail an increase in impairment losses relative to Management's current estimates for 2018.

Management's Review

Financial Highlights

Key figures	H1 2018	H1 2017	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	FY 2017
Statement of income (DKKm)								
Net interest income	266	278	136	130	151	144	148	573
Net fee income	146	191	72	74	75	72	101	338
Dividends on shares, etc.	12	4	12	0	0	0	4	4
Value adjustments	21	35	-5	26	6	-18	11	23
Other operating income	13	4	10	3	2	1	3	7
Core income	458	512	225	233	234	199	267	945
Staff costs and administrative expenses	228	236	113	115	123	123	115	482
Other operating expenses as well as depreciation, amortisation and impairment charges on intangible and tangible assets	6	19	2	4	5	-2	15	22
Operating expenses and operating depreciation and amortisation	234	255	115	119	128	121	130	504
Core earnings before impairments	224	257	110	114	106	78	137	441
Impairment of loans and receivables, etc.	95	142	54	41	93	35	81	270
Profit before tax	129	115	56	73	13	43	56	171
Tax	10	7	8	2	1	0	3	8
Profit after tax	119	108	48	71	12	43	53	163
Statement of financial position (DKKm)								
Assets, total	21,560	22,486	21,560	21,173	21,902	21,981	22,486	21,902
Loans	11,390	12,273	11,390	11,429	11,629	12,140	12,273	11,629
Deposits, including pooled schemes	18,158	18,584	18,158	17,842	18,396	18,299	18,584	18,396
Guarantees etc.	3,414	3,431	3,414	3,323	3,608	3,411	3,431	3,608
Custody accounts	8,094	8,460	8,094	8,161	8,713	8,631	8,460	8,713
Business volume	32,962	34,288	32,962	32,594	33,633	33,850	34,288	33,633
Business volume including custody accounts	41,056	42,748	41,056	40,755	42,346	42,481	42,748	42,346
Equity	2,419	1,596	2,419	2,375	2,515	2,508	1,596	2,515

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 9 at 1 January 2018.

Financial ratios	H1 2018	H1 2017	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	FY 2017
Solvency								
Total capital ratio	17.8%	13.9%	17.8%	17.7%	19.2%	18.7%	13.9%	19.2%
Tier 1 capital ratio	15.4%	12.2%	15.4%	15.3%	16.8%	16.3%	12.2%	16.8%
Common equity tier 1 capital ratio	13.8%	9.7%	13.8%	13.7%	15.2%	14.8%	9.7%	15.2%
Earnings								
Return on equity before tax, annually	11.0%	15.1%	9.3%	12.8%	2.0%	8.3%	14.3%	8.5%
Return on equity after tax, annually	10.2%	14.1%	8.0%	12.4%	2.0%	8.2%	13.5%	8.2%
Income-cost ratio	1.39	1.29	1.33	1.46	1.06	1.28	1.26	1.22
Cost ratio ¹	51.1%	49.9%	51.7%	50.6%	54.7%	60.7%	48.7%	53.3%
Return on assets	0.6%	0.5%	0.2%	0.3%	0.1%	0.2%	0.3%	0.8%
Employees converted to full-time (average)	400.4	431.4	399.1	401.7	407.9	417.0	425.0	421.9
Market risk								
Interest rate risk	-0.8%	-1.9%	-0.8%	-1.0%	-1.2%	-1.5%	-1.9%	-1.2%
Foreign exchange position	0.4%	0.4%	0.4%	0.3%	0.2%	0.5%	0.4%	0.2%
Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LCR	243.4%	239.9%	243.4%	209.8%	255.4%	250.0%	239.9%	255.4%
Credit risk								
Loans plus impairment on loans relative to deposits	79.7%	82.3%	79.7%	81.7%	79.4%	82.9%	82.3%	79.4%
Loans relative to equity	4.7	7.7	4.7	4.8	4.6	4.8	7.7	4.6
Growth in loans	-0.4%	-2.0%	-0.3%	-0.1%	-4.2%	-1.1%	-1.1%	-7.2%
Sum of large exposures	14.0%	28.7%	14.0%	13.6%	11.9%	11.8%	28.7%	11.9%
Accumulated impairment ratio	17.3%	16.2%	17.3%	17.7%	16.5%	16.4%	16.2%	16.5%
Impairment ratio	0.4%	0.8%	0.2%	0.2%	0.5%	0.2%	0.4%	1.5%
Vestjysk Bank share								
Earnings per share for the period	0.1	0.7	0.1	0.1	0.0	0.1	0.3	0.3
Book value per share ²	2.4	10.1	2.4	2.4	2.6	2.5	10.1	2.6
Price of Vestjysk Bank shares, end of the period	2.4	9.1	2.4	2.7	2.7	4.1	9.1	2.7
Share price/book value per share	1.0	0.9	1.0	1.1	1.1	1.6	0.9	1.1

¹ Operating expenses and operating depreciation and amortisation/core income

² The ratio "Book value per share" is adjusted for the portion of equity (additional tier 1 capital), that is not part of the shareholders' share of equity.

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 9 at 1 January 2018.

Management's Review

Financial Review

Income statement

Profit after tax

For H1 2018, the Bank's profit after tax was DKK 119 million, compared with DKK 108 million for H1 2017.

Impairment of loans and receivables, etc. amounted to DKK 95 million in H1 2018. The impairment ratio in H1 2018 was 0.4 per cent, against 0.8 per cent in H1 2017. The level is still above the sector average.

Core income

In H1 2018, Vestjysk Bank realised core income of DKK 458 million, down DKK 54 million compared with H1 2017. The core income decrease was due to significant lower net fee income and lower value adjustments and net interest income.

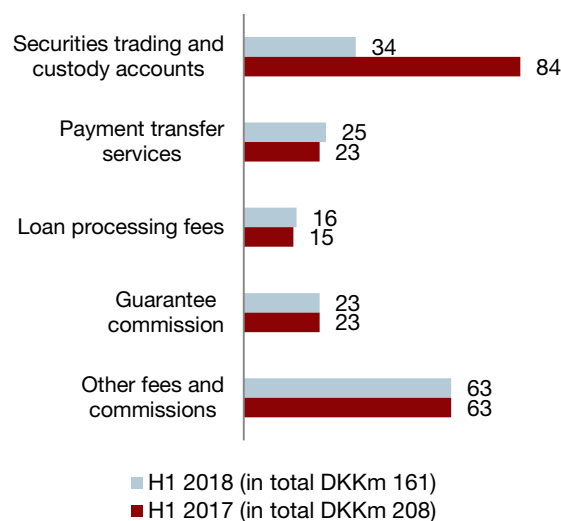
Net interest income totaled DKK 266 million in H1 2018, which was DKK 12 million lower than H1 2017. The lower level of net interest income was due to a DKK 41 million drop in interest income due to a lower lending volume and increased price pressure. The Bank's interest expenses were reduced by DKK 28 million, mainly due to lower deposit rates, and lower interest payments on subordinated debt.

Positive value adjustments represented DKK 21 million, compared with DKK 35 million in H1 2017. Vestjysk Bank recognised a positive market value adjustment of DKK 12 million in connection with the introduction of a new valuation model for BI Holding A/S (Bankinvest).

Net fee and commission income is reduced 24 per cent from DKK 191 million in H1 2017 to DKK 146 million in H1 2018. As expected, the implementation of the MiFID II regulations at 30 June 2017 resulted in a decline in fee income. In addition, the Bank transferred a large proportion of customer pension funds from its own Værdipleje product to Sparinvest's Lokal Puljeinvest in the first half of 2017 with the purpose of securing customers the best possible return under the MiFID II regulations. This caused a decline in fee income from securities trading, which is expected to be only partially matched by increased market value adjustments and dividends on shares in sector companies.

The figure below presents a break-down of the Bank's fee income into sub-groups.

Income from fees and commissions (DKKm)



Other operating income amounted to DKK 13 million in H1 2018, against DKK 4 million in H1 2017.

Operating expenses, depreciation and amortisation

Total operating expenses, depreciation and amortisation is reduced 8 per cent and amounted to DKK 234 million in H1 2018, against DKK 255 million in H1 2017. The decline is the result of the Banks continued focus on adjusting the number of employees and reducing the level of expenses. In H1 2018, the Bank reduced the average number of employees by 31 FTEs compared with H1 2017. In the H1 2017 period, the Bank incurred expenses to legal advisers and consultants in the preparation of the Bank's capital plan.

The distribution of operating expenses and operating depreciation and amortisation is shown in the table below.

Operating expenses and depreciation and amortisation

(DKKm)	H1 2018	H1 2017
Staff costs	147	151
IT costs	47	46
Other administrative expenses	34	38
Operating depreciation and amortisation	5	5
Other operating expenses	1	15
Total	234	255

Organisational adjustments

The Bank is currently experiencing positive developments, which include a net inflow of new customers and a generally high level of activity. However, competition is intensifying in a banking market already impacted by several years of historically low interest rates. This has placed the Bank's earnings power under pressure, and in order to maintain its competitive market strength, the Bank is making targeted efforts to keep its cost ratio at around 50. As part of these efforts, the Bank will implement organisational adjustments effective on 1 September 2018 that will reduce its headcount by about 20 FTE, corresponding to a staff reduction of about 5%. Some of the redundancies are expected to be voluntary.

Core earnings before impairment

For H1 2018, the Bank's core earnings before impairment stood at DKK 224 million, compared with DKK 257 million for H1 2017.

Impairment of loans and receivables, etc.

Impairment charges amounted to DKK 95 million, net in H1 2018, compared with DKK 142 million in H1 2017. The impairment ratio for H1 2018 was 0.4 per cent, against 0.8 per cent in H1 2017. The level of impairment is higher than the sector average.

Impairment losses taken in the first six months of 2018 have been evenly distributed between the agricultural sector, the property sector and other industries (including trading enterprises), whereas the net reversal of impairment charges taken on personal customers continues.

In H1 2018 milk and pork prices has declined to a low level. Milk prices have trended upward recently, whereas pork

prices have continued to fall, which is contrary to the usual seasonal developments for the reporting period.

The agricultural sector has been struck by a long period of drought in 2018 that will reduce the harvest yield. The harvest must be finished before the effects can be quantified, and it is difficult to estimate the effects of the drought at the present time. Currently, the effects are generally expected to be negative, but there will be large differences from region to region and from one farm to the next. Based on its current knowledge, the Bank has reflected these expectations in its current impairment charges involving the agricultural sector.

The Bank is closely monitoring developments in the agricultural sector and will continue to incorporate the consequences of any changes in the calculation of impairment charges. The Bank still expects to recognise net impairment charges for the agricultural sector in 2018.

The property commitments are showing a favourable trend with operating profits and sufficient liquidity to service debt. The Bank's customers have sold assets at acceptable prices. The Bank does, however, have a pre-existing real estate portfolio abroad, on which it in H1 2018 chose to further cover its risk by increasing impairment charges.

The Bank continues to implement further measures to improve the process of managing and monitoring the Bank's loans and guarantees and to develop the skills of account managers.

The Bank's distribution of loans and guarantees to agriculture by sub-sector, real estate, other industries and the private segment is illustrated in the table below.

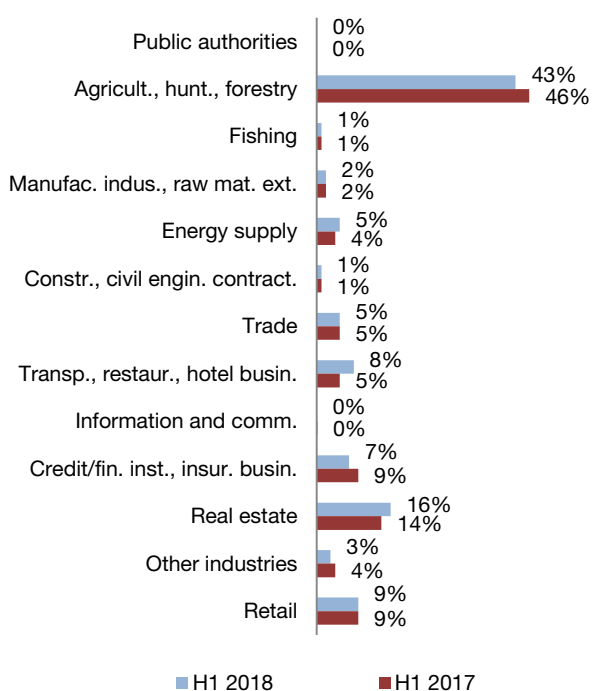
Distribution of loans and guarantees at 30 June 2018 (DKKm)	Loans and guarantees before impairment	Acc. impairment	Loans and guarantees after impairment	Impairment for the period
Dairy farmers	1,797	815	982	23
Pig breeders	1,310	360	950	15
Other agriculture	656	147	509	10
Agriculture, total	3,763	1,322	2,441	48
Real estate	2,511	484	2,027	28
Other business	6,318	1,018	5,317	27
Business, total	12,592	2,824	9,785	103
Personal	5,319	283	5,019	-8
Total	17,911	3,107	14,804	95

Management's Review

Financial Review

The Bank's accumulated impairment ratio at 30 June 2018 stood at 17.3 per cent, compared with 16.2 per cent at 30 June 2017. The increase in the accumulated impairment ratio was due to the transition to the new impairment rules under IFRS 9, which became effective at 1 January 2018, resulting in a DKK 225 million increase in accumulated impairment charges in the Bank's opening balance sheet at 1 January 2018.

Accumulated impairments and provisions by industry segment at 30 June



At 43 per cent, or DKK 1.3 billion, the agricultural sector represents the largest part of the Bank's accumulated impairment charges. The Bank has thus written down approximately 35 per cent of its gross lending to the agricultural sector.

The Bank's lending portfolio is mainly concentrated within the agricultural and real estate sectors, with agriculture accounting for 16 per cent and real estate 14 per cent. The Bank's overall exposure to these sectors thus accounts for approximately 30 per cent of total net loans and guarantees.

Balance Sheet

Vestjysk Bank's total assets amounted to DKK 21.6 billion at 30 June 2018, against DKK 21.9 billion at 31 December 2017, due to a reduction of deposits and the effects of implementing IFRS 9. Based on its liquidity and funding situation, the Bank will now aim to maintain the current business volume.

Loans

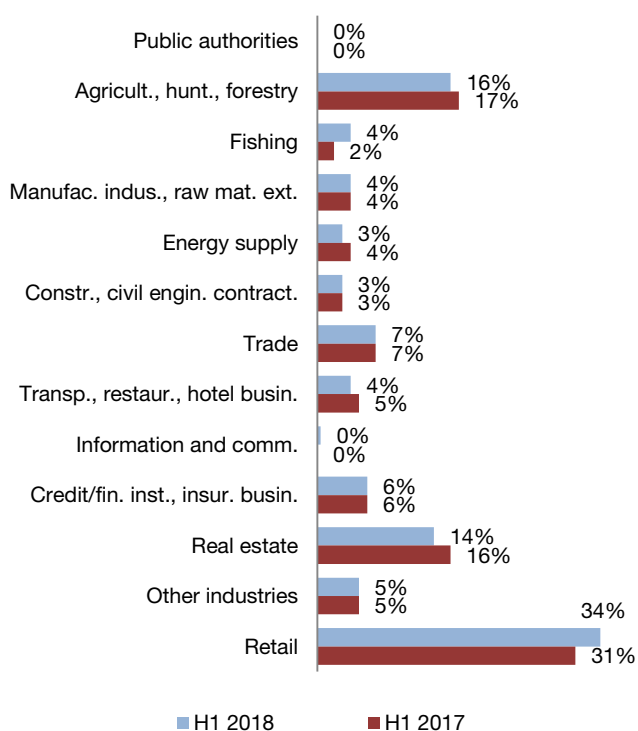
At 30 June 2018, Vestjysk Bank's net lending amounted to DKK 11.4 billion, against DKK 11.6 billion at 31 December 2017, equal to a reduction of DKK 0.2 billion corresponding to the additional loan impairment charges recognised following the implementation of IFRS 9. Accordingly, the Bank managed to maintain the volume of its lending portfolio in 2018 after a number of years with a declining trend.

The credit quality of the Bank's total loans and guarantees improved from 30 June 2017 to 30 June 2018. In H1 2018, 65 per cent of the Bank's customers were of normal credit quality or showed some signs of weakness, against 60 per cent at the same time last year, as illustrated in the table below. This is a satisfactory development, and the efforts to improve credit quality will continue as an important item of the Bank's business plan for 2018 and the coming years.

Loans and guarantees by credit quality	30 June 2018		30 June 2017	
	DKKm	%	DKKm	%
Normal credit quality	5,024	29%	4,444	24%
Some signs of weakness	6,505	36%	6,669	36%
Significant signs of weakness without impairment	1,490	8%	2,105	11%
Impaired loans	4,892	27%	5,527	29%
Total loans and guarantees	17,911	100%	18,745	100%

The distribution of Vestjysk Bank's loans and guarantees by sector is illustrated below.

Loans and guarantees by industry segment at 30 June



The share of loans to retail customers accounts for 34 per cent of the Bank's net loans and guarantees at 30 June 2018. The Bank has thus fulfilled the ambition of strengthening the retail segment to achieve a 30/70 distribution between retail and business customers.

Large exposures

The sum of large exposures, constituting 10 per cent or more of total capital, amounted to 14.0 per cent of total capital at 30 June 2018, consisting of one exposure. The aim is that no exposures should amount to more than 10 per cent and to have a greater diversification of the Bank's portfolio.

Business volume including custody accounts

Vestjysk Bank's business volume – total deposits, loans, guarantees and custody accounts – amounted to DKK 41.1 billion at 30 June 2018, against DKK 42.3 billion at 31 December 2017.

Capital and liquidity

Equity

Vestjysk Bank's equity stood at DKK 2,419 million at 30 June 2018, against DKK 2,515 million at 31 December 2017. The development in equity since 31 December 2017 was negatively affected by the implementation of IFRS 9, being reduced by DKK 207 million, and positively affected by the Bank's profit for H1 2018. The development in equity since 1 January 2017 is detailed in the statement of changes in equity.

Subordinated debt

The Bank's subordinated debt stood at DKK 372 million at 30 June 2018, of which DKK 347 million was eligible for inclusion in total capital.

Total capital

Overall, total capital amounted to DKK 2,581 million at 30 June 2018. With the total risk exposure of DKK 14,489 million, this gives a total capital ratio of 17.8 per cent. At 31 December 2017, the Bank's total capital ratio was 19.2 per cent.

Management's Review

Financial Review

Capital Requirement

Adequate total capital amounted to DKK 1,443 million at 30 June 2018 which, relative to the total risk exposure of DKK 14,489 million, gives an individual solvency need of 10.0 per cent. At 30 June 2018, the capital conservation buffer had been phased in at 1.875 percentage points, resulting in a combined capital requirement of 11.9 per cent corresponding to DKK 1,715 million.

As a result Vestjysk Bank has excess cover relative to the individual solvency need of 7.8 percentage points or DKK 1,138 million while its excess cover relative to the combined capital requirement is 5.9 percentage points or DKK 866 million.

Capital situation

DKKm	30 June 2018	31 Dec 2017
Equity	2,419	2,515
- corr. for profit not recognised in total capital	-109	0
Deductions:		
- Intangible assets	-1	-3
- Prudent valuation	-3	-3
- Holdings in financial sector entities	-71	0
Subordinated debt	347	362
Total capital	2,581	2,871
Total risk exposures	14,489	14,969
Common equity tier 1 capital ratio	13.8%	15.2%
Tier 1 capital ratio	15.4%	16.8%
Total capital ratio	17.8%	19.2%

At 1 January 2018, the Bank's equity was reduced by DKK 207 million after tax as a result of the implementation of IFRS 9. The Bank has not recognised the profit for the period in total capital for H1 2018. Total capital is further negatively impacted by contractually committed investments in shares in sector companies. Accordingly, from 31 December 2017 to 30 June 2018 total capital has been reduced by a total of DKK 290 million.

Liquidity

Vestjysk Bank's liquidity position remains good. At 30 June 2018, the Bank's Liquidity Coverage Ratio (LCR) stood at 243 per cent, relative to the LCR requirement of 100 per cent.

Share capital

Vestjysk Bank's share capital totalled DKK 896 million at 30 June 2018. The share capital consists of 895,981,517 shares with a nominal value of DKK 1 each.

Vestjysk Bank has some 39,000 shareholders. The Bank's major shareholders are:

AP Pension Livsforsikringsaktieselskab	16.74%
Nykredit Realkredit A/S	13.97%
Aktieselskabet Arbejdernes Landsbank	12.24%
Novo Holdings A/S	6.45%

The Bank's shares are listed as a component of the Nasdaq OMX Nordics Mid Cap index.

The Financial Supervisory Authority's Supervisory Diamond

Vestjysk Bank's objective is to remain within the threshold values for the five indicators set out in the FSA's Supervisory Diamond, which all banks should generally comply with. Vestjysk Bank meets this objective.

Vestjysk Bank's values relative to each of these threshold values are set out in the table below.

Realised values at 30 June 2018

Supervisory Diamond Benchmarks	Realised values
Sum of large exposures (< 175 %)	116.2 %
Growth in loans (< 20 %)	-7.2 %
Real estate exposure (< 25%)	14.3 %
Funding ratio (< 1)	0.54
Liquidity benchmark (> 100%)	211.2 %

Effective from 1 January 2018, the large exposures indicator has been changed and will in future be calculated as the sum of the Bank's 20 largest exposures relative to the Bank's common equity tier 1 capital with a threshold value of 175 per cent.

The liquidity benchmark was changed effective at 30 June 2018 and will in future be based on the Bank's ability to withstand a three-month liquidity stress.

Other matters

Business plan 2018

The Bank's business plan was described in the 2017 annual report. The principal target for 2018 is thus for Vestjysk Bank to remain strong and further develop our footprint in the regional and local banking sector. The business plan for 2018 builds on recent years' action plans, remaining focused on earnings through continued business transactions with existing and new customers within the Bank's natural market segment and strict cost management to improve the Bank's competitiveness.

Based on Vestjysk Bank's satisfactory performance for H1 2018 and Management's focus on following the business plan, the Bank's development is on track according to all items of the business plan.

EU Commission

As described in the 2017 annual report the Commission has approved the state aid subject to certain conditions. The Bank is pleased that a decision has been made in the matter and finds the terms of the decision to be in line with the Bank's present action plan.

Outlook for 2018

Given an unchanged economic climate and an overall decrease in impairment charges, the Bank's total business volume is expected to have the capacity to generate a profit after tax of around DKK 175-250 million.

The agricultural sector has been struck by a long period of drought in 2018 that will reduce the harvest yield. The harvest must be finished before the effects can be quantified, and it is difficult to estimate the effects of the drought at the present time. Currently, the effects are generally expected to be negative, but there will be large differences from region to region and from one farm to the next. Based on its current knowledge, the Bank has reflected these expectations in its current impairment charges involving the agricultural sector.

If the effects of the drought prove to be worse than anticipated and the prolonged downward trend in settlement prices of pork and milk persists or becomes further aggravated, the Bank's significant exposure to agriculture may entail an increase in impairment losses relative to Management's current estimates for 2018.

Management's Review

Financial Review

Alternative performance measures

The Bank applies a number of alternative performance measures. These measures are applied where they provide greater informational value about, e.g. the Bank's earnings, or a common denomination for several items. The Bank is aware of the need for the measures to be applied consistently and with comparative figures.

The applied performance measures are defined below.

2018 Financial Calendar

- 21 November Quarterly report for Q1-Q3

Definitions

Core income	The sum of Net interest and fee income, Dividends on shares, etc., Value adjustments and Other operating income.
Operating expenses and operating depreciation and amortisation	The sum of Staff costs and administrative expenses, Depreciation, amortisation and impairment charges on intangible and tangible assets and Other operating expenses.
Core earnings before impairment	Profit/loss before tax less Impairment of loans and receivables, etc.
Business volume including custody accounts	The sum of Loans, Guarantees, Deposits, including pooled funds and Customer custody accounts.

Management's Statement

The Bank's Board of Directors and Executive Board have today considered and approved the Half-Year Report for the period 1 January – 30 June 2018 of Vestjysk Bank A/S.

The Half-Year Report is presented in accordance with the Danish Financial Business Act.

In our opinion, the accounting policies applied are appropriate and the financial statements present a true and fair view of the Company's assets and liabilities and financial position as at 30 June 2018, and of the results of the

Bank's activities for the reporting period 1 January – 30 June 2018.

In our opinion, the management's review includes a fair review of the development and performance of the company and a fair description of the principal risks and uncertainty factors that the Bank faces.

The present Half-Year Report has not been audited or reviewed.

Lemvig, Denmark, 22 August 2018

Executive Board

.....
Jan Ulsø Madsen
Chief Executive Officer

.....
Michael Nelander Petersen
Managing Director

Board of Directors

.....
Vagn Thorsager
Chairman of the Board of Directors

.....
Lars Holst
Deputy Chairman of the Board of Directors

.....
Bent Simonsen

.....
Bolette van Ingen Bro

.....
Claus Okholm

.....
Karina Boldsen

.....
Jacob Møllgaard

.....
Martin Sand Thomsen

.....
Palle Hoffmann

Financial Statements

Statements of Income and Comprehensive Income

Note	H1 2018 DKK'000	H1 2017 DKK'000	Q2 2018 DKK'000	Q2 2017 DKK'000	FY 2017 DKK'000
Statement of Income					
2 Interest income	300,345	340,889	151,993	171,469	682,554
3 Interest expenses	34,451	62,737	15,870	23,190	109,544
Net interest income	265,894	278,152	136,123	148,279	573,010
Dividends on shares etc.	11,770	3,896	11,519	3,636	4,043
4 Income from fees and commissions	160,735	207,524	80,038	110,259	371,100
Fees and commissions paid	14,942	16,304	8,088	9,029	32,773
Net interest and fee income	423,457	473,268	219,592	253,145	915,380
5 Value adjustments	21,409	34,674	-4,568	10,419	23,223
Other operating income	12,729	4,339	10,360	3,154	6,536
6 Staff costs and administrative expenses	227,858	235,709	113,404	114,831	482,332
Depreciation, amortisation and impairment charges on tangible and intangible assets	5,260	4,769	2,659	2,394	9,684
Other operating expenses	779	14,896	416	12,648	12,068
7 Impairment of loans and receivables, etc.	94,554	141,640	53,415	80,986	270,433
Profit before tax	129,144	115,267	55,490	55,859	170,622
Tax	9,793	7,487	7,480	3,106	7,466
Profit after tax	119,351	107,780	48,010	52,753	163,156
Statement of Comprehensive Income					
Profit after tax	119,351	107,780	48,010	52,753	163,156
Other comprehensive income:					
Change in the value of owner-occupied properties	0	0	0	0	-517
Changes in the value of pension obligations	0	1,500	0	1,500	2,585
Other comprehensive income after tax	0	1,500	0	1,500	2,068
Total comprehensive income	119,351	109,280	48,010	54,253	165,224

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Statement of Financial Position

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
Assets			
	391,402	398,262	400,292
	573,840	1,314,804	724,257
8,9	11,389,729	12,273,028	11,628,839
	3,151,557	3,035,274	3,292,780
	419,037	285,372	274,227
	4,949,217	4,489,648	4,890,171
10	1,451	3,419	2,435
	314,107	322,087	317,205
11	5,425	7,386	5,850
12	308,682	314,701	311,355
	7,287	1,785	6,029
	11,673	0	1,686
13	332,699	346,608	348,502
	18,435	16,168	15,977
Assets total	21,560,434	22,486,455	21,902,400

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Statement of Financial Position

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
Equity and liabilities			
Debts			
	27,371	42,697	30,776
	13,208,517	14,094,505	13,505,603
	4,949,217	4,489,648	4,890,171
	0	9,560	0
14	480,059	1,401,633	540,724
	18	11	28
	18,665,182	20,038,054	18,967,302
Provisions			
	14,852	16,849	15,155
	31,649	18,112	27,802
	57,794	2,737	4,903
	104,295	37,698	47,860
15	372,244	814,578	371,906
Equity			
16	895,982	151,008	895,982
	60,605	61,122	60,605
	551,600	551,600	551,600
	680,526	757,395	777,145
	2,188,713	1,521,125	2,285,332
	230,000	75,000	230,000
	2,418,713	1,596,125	2,515,332
	21,560,434	22,486,455	21,902,400
Items not recognised in the statement of financial position			
17	615,634	618,388	608,197
18	3,414,465	3,430,614	3,608,489
18	72,233	34,059	81,135

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Statement of Changes in Equity

DKK'000	Share capital	Revaluation reserves	Reserves provided for in the Bank's Articles of Association	Overført overskud	Shareholder equity, total	Additional tier 1 capital holders *)	Equity, total
Equity, 31 December 2017	895,982	60,605	551,600	777,145	2,285,332	230,000	2,515,332
Changed accounting policy on impairment pursuant to IFRS 9				-224,661	-224,661		-224,661
Tax on changed accounting policy				17,973	17,973		17,973
Equity, 1 January 2018	895,982	60,605	551,600	570,457	2,078,644	230,000	2,308,644
Profit after tax for the period				109,262	109,262	10,089	119,351
Total comprehensive income	0	0	0	109,262	109,262	10,089	119,351
Interest on additional tier 1 capital					0	-10,089	-10,089
Tax on interest on additional tier 1 capital				807	807		807
Additions relating to sale of own shares				14,540	14,540		14,540
Disposals relating to purchase of own shares				-14,540	-14,540		-14,540
Equity, 30 June 2018	895,982	60,605	551,600	680,526	2,188,713	230,000	2,418,713
Equity, 1 January 2017	151,008	61,122	551,600	648,142	1,411,872	75,000	1,486,872
Profit after tax for the period				107,780	107,780	0	107,780
Other comprehensive income after tax				1,500	1,500		1,500
Total comprehensive income	0	0	0	109,280	109,280	0	109,280
Interest on additional tier 1 capital					0	0	0
Additions relating to sale of own shares				49,328	49,328		49,328
Disposals relating to purchase of own shares				-49,355	-49,355		-49,355
Equity, 30 June 2017	151,008	61,122	551,600	757,395	1,521,125	75,000	1,596,125
Equity, 1 January 2017	151,008	61,122	551,600	648,142	1,411,872	75,000	1,486,872
Profit after tax for the period				154,933	154,933	8,223	163,156
Other comprehensive income after tax		-517		2,585	2,068		2,068
Total comprehensive income	0	-517	0	157,518	157,001	8,223	165,224
Issue of shares	744,974			-28,942	716,032		716,032
Issue of additional tier 1 capital				-2,325	-2,325	155,000	152,675
Tax on issue of additional tier 1 capital				99	99		99
Interest on additional tier 1 capital					0	-8,223	-8,223
Tax on interest on additional tier 1 capital				349	349		349
Additions relating to sale of own shares				130,946	130,946		130,946
Disposals relating to purchase of own shares				-128,642	-128,642		-128,642
Equity, 31 December 2017	895,982	60,605	551,600	777,145	2,285,332	230,000	2,515,332

*) On the next page

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Statement of Changes in Equity

*)

Holders of additional tier 1 capital

The additional tier 1 capital has been provided for an indefinite term and Vestjysk Bank has full discretion at all times to omit interest payments, and it is consequently accounted for as equity.

The additional tier 1 capital meets the conditions under CRR/CRD IV.

Additional tier 1 capital DKK 75 million

There is an option of early redemption, subject to approval by the Danish Financial Supervisory Authority, on 1 September 2019. The capital accrues interest at 9.561 per cent. If Vestjysk Bank's common equity tier 1 capital ratio falls below 5.125 per cent the loan will be written down.

Additional tier 1 capital DKK 155 million

There is an option of early redemption, subject to approval by the Danish Financial Supervisory Authority, on 16 August 2022. The capital accrues interest at 8.50 per cent until 16 August 2022, after which it accrues interest at a floating rate of CIBOR6 plus a credit spread. If Vestjysk Bank's common equity tier 1 capital ratio falls below 5.125 per cent, the loan will be written down.

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Note

1 Accounting policies

Vestjysk Bank's Half-Year report for 1 January - 30 June 2018 is presented in accordance with the Danish Financial Business Act, including the Danish Financial Supervisory Authority's executive order on financial reporting for credit institutions and investment companies, et al.

As mentioned in the annual report for 2017, the impairment rules under IFRS 9 have been incorporated in the Danish Executive Order on Financial Reporting at 1 January 2018. The effects of the impairment rules under IFRS 9 on the impairment account amount to DKK 225 million and are fully recognised in the opening balance sheet. The below table shows the effect of IFRS 9 on the opening balance sheet, showing all affected items.

In accordance with the transitional arrangement in the Danish Executive Order on Financial Reporting, comparative figures will not be restated, as retrospective application of the impairment requirements is not practicably possible without the use of hindsight.

DKK'000	31 Dec 2017 before change	1 January 2018 after change	Effect
Loans	11,628,839	11,438,714	-190,125
Current tax assets	0	17,973	17,973
Assets total	21,902,400	21,730,248	-172,152
Provisions for losses on guarantees	27,802	35,811	-8,009
Other provisions	4,902	31,430	-26,527
Equity	2,515,332	2,308,644	-206,688
Liabilities total	21,902,400	21,730,248	-172,152
Other commitments	3,608,489	3,600,480	8,009

In addition to the above, the accounting policies applied in this report remain unchanged from the 2017 Annual Report, which contains a full description of those policies.

Measuring certain assets and liabilities require Management to make an estimate of how future events will affect the value of such assets and liabilities. Estimates considered material in presenting the accounts are, among other things, made by stating impairments of impaired loans, the fair values of unlisted financial instruments as well as provisions, cf. the more detailed discussion in the 2017 Annual Report. The applied estimates are based on assumptions deemed sound by Management but which by their nature are uncertain.

The Bank's significant risks and external conditions that may affect the Bank are described in greater detail in the 2017 Annual Report.

Note	H1 2018 DKK'000	H1 2017 DKK'000	FY 2017 DKK'000
2 Interest income			
Receivables from credit institutions and central banks	-725	-1,153	-2,504
Loans and other receivables	298,567	341,082	683,534
Bonds	2,679	2,743	4,842
Derivative financial instruments	-176	-1,783	-3,318
Total	300,345	340,889	682,554
There is no interest income originating from reverse repo transactions.			
3 Interest expenses			
Credit institutions and central banks	196	171	349
Deposits and other debt	21,217	40,458	71,486
Subordinated debt	13,018	22,073	37,599
Other interest expenses	20	35	110
Total	34,451	62,737	109,544
There is no interest expense originating from repo transactions.			
4 Income from fees and commissions			
Securities trading and custody accounts	34,168	83,583	121,244
Payment services	24,492	23,244	48,998
Loan processing fees	16,350	15,407	36,358
Guarantee commission	22,744	22,793	45,766
Other fees and commissions	62,981	62,497	118,734
Total	160,735	207,524	371,100
5 Value adjustments			
Bonds	-9,483	13,122	11,252
Shares, etc.	23,077	7,645	-9,590
Investment property	0	0	-1,536
Foreign currency	6,255	7,692	14,979
Foreign exchange, interest rate, equity, commodity, and other contracts as well as derivative financial instruments	2,164	3,596	5,131
Assets related to pooled schemes	-48,692	51,743	221,008
Deposits with pooled schemes	48,692	-51,743	-221,008
Other assets	-604	-2,389	-3,391
Other liabilities	0	5,008	6,378
Total	21,409	34,674	23,223

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Note	H1 2018 DKK'000	H1 2017 DKK'000	FY 2017 DKK'000
6 Staff costs and administrative expenses			
Salaries and remuneration of the Board of Directors and Executive Board			
Board of Directors, Fixed remuneration	889	825	1,612
Executive Board			
Contractual remuneration	3,035	2,878	5,758
Pension	150	145	289
Executive Board	3,185	3,023	6,047
Total	4,074	3,848	7,659
Staff costs			
Wages and salaries	110,481	113,295	232,821
Pensions	14,104	14,059	27,940
Payroll tax	17,769	18,278	36,746
Expenses relating to social security contributions etc.	1,039	1,300	2,263
Total	143,393	146,932	299,770
Other administrative expenses	80,391	84,929	174,903
Total	227,858	235,709	482,332
Average number of employees (FTE)	400,4	431,4	421,9
Value of benefits of the Board of Directors	135	97	195
No agreements have been concluded concerning bonus plans, incentive programmes or similar compensation plans. The Bank is exempt from all pension obligations in respect to the departure of members of the Executive Board, whether as a result of age, illness, disability or any other reason.			
7 Impairment of loans and receivables, etc.			
Impairment of loans and receivables recognised in the income statement			
New impairment charges	351,601	349,021	509,723
Reversed impairment charges	-280,128	-204,726	-248,678
Lost, where impairment/provisions have not been made	5,414	3,345	7,376
Amounts received on previously written-off debts	-4,535	-6,548	-10,391
Total	72,352	141,092	258,030
Provisions for losses on guarantees and unused credit commitments recognised in the income statement			
New impairment charges	65,149	5,189	20,835
Reversed impairment charges	-42,947	-4,641	-8,432
Total	22,202	548	12,403
Impairment of loans and other receivables, etc. total	94,554	141,640	270,433
Interest income on impaired loans is offset against impairment in the amount of	39,720	42,125	69,901

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
8 Impairment of loans and receivables, etc. and provisions for losses on guarantees and unused credit commitments			
Impairment of loans and receivables, etc.			
Stage 1			
Impairment, beginning of the reporting period	0	-	-
Changed accounting policy on impairment pursuant to IFRS 9	32,529	-	-
New impairment charges relating to new exposures	6,248	-	-
Reversed impairment charges	-46,319	-	-
Change in impairment charges at 1 January, transfer to/from stage 1	-7,332	-	-
Change in impairment charges at 1 January, transfer to/from stage 2	30,256	-	-
Change in impairment charges at 1 January, transfer to/from stage 3	9,875	-	-
Impairment charges during the year due to change in credit risk	11,657	-	-
Other movements	-	-	-
Impairment at 30 June	36,914	-	-
Stage 2			
Impairment, beginning of the reporting period	0	-	-
Changed accounting policy on impairment pursuant to IFRS 9	124,158	-	-
New impairment charges relating to new exposures	2,927	-	-
Reversed impairment charges	-54,099	-	-
Change in impairment charges at 1 January, transfer to/from stage 1	3,980	-	-
Change in impairment charges at 1 January, transfer to/from stage 2	-38,849	-	-
Change in impairment charges at 1 January, transfer to/from stage 3	30,798	-	-
Impairment charges during the year due to change in credit risk	40,537	-	-
Other movements	-	-	-
Impairment at 30 June	109,452	-	-

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Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
8 Impairment of loans and receivables, etc. and provisions for losses on guarantees and unused credit commitments (continued)			
Impairment of loans and receivables, etc. (continued)			
Stage 3			
Impairment, beginning of the reporting period	0	-	-
Changed accounting policy on impairment pursuant to IFRS 9	2,965,053	-	-
New impairment charges relating to new exposures	29,564	-	-
Reversed impairment charges due to redeemed exposures	-320,682	-	-
Change in impairment charges at 1 January, transfer to/from stage 1	3,352	-	-
Change in impairment charges at 1 January, transfer to/from stage 2	8,593	-	-
Change in impairment charges at 1 January, transfer to/from stage 3	-40,673	-	-
Impairment charges during the year due to change in credit risk	401,906	-	-
Previously impaired, now written off	-272,674	-	-
Other movements	39,720	-	-
Impairment at 30 June	2,814,159	-	-
Loans that were credit-impaired at initial recognition			
Impairment at 1 January	0	-	-
Changed accounting policy on impairment pursuant to IFRS 9	115,083	-	-
New impairment charges	2,734	-	-
Reversed impairment charges	-3,000	-	-
Previously impaired, now written off	-311	-	-
Impairment at 30 June	114,506	-	-
Provisions for losses on guarantees			
Provisions at 1 January	0	-	-
Changed accounting policy on impairment pursuant to IFRS 9	31,430	-	-
New provisions relating to new exposures	1,287	-	-
Provisions during the year made due to change in credit risk	14,947	-	-
Reversal of provisions due to redeemed exposures	-16,015	-	-
Provisions at 30 June	31,649	-	-
Overall accumulated impairment of loans and receivables and provisions for losses on guarantees	3,106,680	3,041,419	3,000,648
Accumulated impairment ratio	17.3%	16.2%	16.5%
Provisions for losses on unused credit commitments			
Provisions at 1 January	0	-	-
Changed accounting policy on impairment pursuant to IFRS 9	35,811	-	-
New provisions relating to new exposures	14,771	-	-
Provisions during the year made due to change in credit risk	34,791	-	-
Reversal of provisions due to repaid exposures	-27,579	-	-
Provisions at 30 June	57,794	-	-

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
8 Impairment of loans and provisions for losses on guarantees and unused credit commitments (IAS 39)			
Individual impairment of loans			
Individual impairment of loans and other receivables, beginning of the reporting period	2,893,255	2,923,237	2,923,237
Changed accounting policy on impairment pursuant to IFRS 9	-2,893,255		
Impairment charges for the period	-	329,429	495,061
Reversal of impairment charges in prior financial years	-	-177,124	-205,362
Other movements	-	39,967	66,528
Previously individually impaired, now written off	-	-191,222	-386,209
Individual impairment of loans and other receivables, end of the reporting period	-	2,924,287	2,893,255
Collective impairment of loans			
Collective impairment of loans and other receivables, beginning of the reporting period	79,591	104,872	104,872
Changed accounting policy on impairment pursuant to IFRS 9	-79,591		
Impairment charges for the period	-	19,592	14,662
Reversal of impairment charges in prior financial years	-	-27,602	-43,316
Other movements	-	2,158	3,373
Collective impairment of loans and other receivables, end of the reporting period	-	99,020	79,591
Impairment of loans, total			
Impairment of loans and other receivables, beginning of the reporting period	2,972,846	3,028,109	3,028,109
Changed accounting policy on impairment pursuant to IFRS 9	-2,972,846		
Impairment charges for the period	-	349,021	509,723
Reversal of impairment charges in prior financial years	-	-204,726	-248,678
Other movements	-	42,125	69,901
Previously individually impaired, now written off	-	-191,222	-386,209
Impairment of loans and other receivables, end of the reporting period	-	3,023,307	2,972,846
Provisions for losses on guarantees and unused credit commitments			
Provisions for losses on guarantees and unused credit commitments, beginning of the reporting period	32,704	20,301	20,301
Changed accounting policy on impairment pursuant to IFRS 9	-32,704		
Provisions for the period	-	5,189	20,835
Reversal of provisions in prior financial years	-	-4,641	-8,432
Provisions for losses on guarantees and unused credit commitments, end of the reporting period	-	20,849	32,704

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Notes

Note		30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
9	Receivables for which accrual of interest has been discontinued			
	Receivables for which accrual of interest has been discontinued, end of the reporting period	1,344,496	1,489,477	1,399,514
	Total impairment charge thereon	1,216,183	1,225,624	1,197,471
	Receivables for which accrual of interest has been discontinued, as a percentage of loans before impairment	9.3%	9.7%	9.6%
10	Intangible assets			
	Customer relationships			
	Total acquisition cost, beginning of the reporting period	14,964	14,964	14,964
	Total acquisition cost, end of the reporting period	14,964	14,964	14,964
	Depreciation and impairment, beginning of the reporting period	13,467	11,971	11,971
	Depreciation and impairment for the period	748	748	1,496
	Depreciation and impairment, end of the reporting period	14,215	12,719	13,467
	Recognised holding, end of the reporting period	749	2,245	1,497
	Other Intangible assets			
	Total acquisition cost, beginning of the reporting period	1,416	810	810
	Additions	0	606	606
	Total acquisition cost, end of the reporting period	1,416	1,416	1,416
	Depreciation and impairment, beginning of the reporting period	478	23	23
	Depreciation and impairment for the period	236	219	455
	Depreciation and impairment, end of the reporting period	714	242	478
	Recognised holding, end of the reporting period	702	1,174	938
	Total	1,451	3,419	2,435
11	Investment property			
	Fair value, beginning of the reporting period	5,850	7,386	7,386
	Disposals	425	0	0
	Fair value adjustment for the reporting period	0	0	-1,536
	Fair value at the end of the reporting period	5,425	7,386	5,850
12	Owner-occupied property			
	Revalued amount, beginning of the period	311,355	317,529	317,529
	Additions	0	0	0
	Disposals	0	0	0
	Depreciations	2,673	2,828	5,657
	Changes in value recognised in other comprehensive income	0	0	-517
	Revalued amount, end of the period	308,682	314,701	311,355
	External valuation experts have been involved in measuring the most important owner-occupied and investment properties.			

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
13 Other assets			
Positive market value of derivative financial instruments	30,957	29,036	26,741
Interest and commission receivable	63,804	79,627	80,279
Investments in BEC	201,267	201,267	201,267
Other assets	36,671	36,678	40,215
Total	332,699	346,608	348,502
14 Other liabilities			
Negative market value of derivative financial instruments	33,653	36,345	30,944
Various creditors	380,534	1,291,092	465,797
Interest and commission payable	41,426	42,168	13,379
Other liabilities	24,446	32,028	30,604
Total	480,059	1,401,633	540,724
15 Subordinated debt			
Tier 2 capital	372,244	349,511	371,906
A nominal DKK 225 million will fall due on 16 August 2027 with an option for early redemption on 16 August 2022 subject to the Financial Supervisory Authority's approval. The capital accrues interest at a fixed 6.50% until 16 August 2022, after which it accrues interest at a floating rate of CI-BOR6 plus a credit spread. The capital meets the tier 2 capital requirements under CRR/CRD IV.			
A nominal DKK 150 million will fall due on 1 September 2022 with an option for early repayment on 1 September 2019 subject to the Financial Supervisory Authority's approval. The capital accrues interest at a floating rate 7.205% with no step-up clause. The capital meets the requirements under CRR/CDR IV.			
Total	372,244	349,511	371,906
Additional tier 1 capital			
Additional tier 1 capital of DKK 100 million.	0	100,000	0
Additional tier 1 capital of DKK 50 million.	0	50,000	0
Additional tier 1 capital of DKK 287.6 million.	0	315,067	0
Total	0	465,067	0
Subordinated debt, total	372,244	814,578	371,906
Charged as an expense under Interest expenses/Subordinated debt:			
Interest expenses	12,681	17,057	29,150
Costs related to incurrence and repayment	337	294	1,171
Value adjustments, etc.	0	4,722	7,278
Total	13,018	22,073	37,599
Subordinated debt that can be included in the total capital	347,435	584,533	361,966

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Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
16 Share capital			
Share capital, beginning of the period	895,982	151,008	151,008
Capital increase through issue of shares	0	0	744,974
Total	895,982	151,008	895,982
Number of shares (units)	895,981,517 of DKK 1	151,008,121 of DKK 1	895,981,517 of DKK 1
Number of own shares, beginning of the period			
Number of own shares (thousands)	173	173	173
Nominal value DKK'000	173	173	173
Percentage of the share capital	0.0%	0.1%	0.1%
Additions			
Purchase of own shares (thousands)	5,421	3,767	32,252
Nominal value DKK'000	5,421	3,767	32,252
Percentage of the share capital	0.6%	2.5%	3.6%
Total purchase price DKK'000	14,540	49,355	128,642
Disposals			
Sold own shares (thousands)	5,421	3,767	32,252
Nominal value DKK'000	5,421	3,767	32,252
Percentage of the share capital	0.6%	2.5%	3.6%
Total selling price DKK'000 *)	14,540	49,328	130,946
Number of own shares, end of reporting period			
Number of own shares (thousands)	173	173	173
Nominal value DKK'000	173	173	173
Percentage of the share capital	0.0%	0.1%	0.0%
Own shares are intermediated, purchased and sold through the securities exchange as part of Vestjysk Bank's normal customer banking transactions. The Bank is not a direct counterparty in such transactions.			
Vestjysk Bank has a constant holding of own shares.			
*) including buying and selling of subscription rights in connection with the September 2017 share issue			

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
17 Contingent assets			
Deferred tax asset at a tax rate of 22%	615,634	618,388	608,197
The deferred tax asset is primarily related to carry forward taxable deficits.			
The Bank assesses that there is presently no basis for full or partial capitalisation of the tax asset. Accordingly, the deferred tax asset is accounted for as a contingent asset and is not recognised in the Bank's balance sheet. This assessment is based on uncertainty as to whether the contingent asset can be utilised within a few years, as increased impairment charges on implementation of IFRS 9 at the beginning of 2018 reduces the possibility of setting off the contingent asset against taxable income. Also, the amount and timing of future impairment charges is subject to uncertainty as impairment is not solely based on incurred losses but on expected losses, as well. The Bank moreover assesses that, in view of the uncertainty related to future earnings in the agricultural sector, its considerable exposure to the agricultural sector contributes to the doubt as to the Bank's ability to utilise the contingent asset. Against this background, the Bank does not believe that sufficiently persuasive evidence can be produced to support the utilisation of the deferred tax asset within a few years.			
18 Contingent liabilities			
Guarantees			
Financial guarantees	514,428	499,720	565,696
Loss guarantees on mortgage loans	2,007,234	1,994,454	2,059,818
Other contingent liabilities	892,803	936,440	982,975
Total	3,414,465	3,430,614	3,608,489
'Other contingent liabilities' include, among other things, performance bonds, delivery guarantees as well as provisions of indemnity in relation to the Guarantee Fund.			
Other commitments			
Irreversible credit commitments	30,870	11,451	39,196
Other liabilities	41,363	22,608	41,939
Total	72,233	34,059	81,135

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Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
19 Capital			
Shareholders equity	2,188,713	1,521,125	2,285,332
Profit not recognised in total capital	-109,262	-	-
Intangible assets	-1,451	-3,419	-2,435
Prudent valuation	-3,238	-3,122	-3,372
Holdings in financial sector entities	-70,797	0	0
Common equity tier 1 capital	2,003,965	1,514,584	2,279,525
Additional tier 1 capital	230,000	390,067	230,000
Tier 1 capital	2,233,965	1,904,651	2,509,525
Tier 2 capital	347,435	269,466	361,966
Total capital	2,581,400	2,174,117	2,871,491
Total risk exposure	14,489,400	15,624,468	14,968,573
Common equity tier 1 capital ratio	13.8%	9.7%	15.2%
Tier 1 capital ratio	15.4%	12.2%	16.8%
Total capital ratio	17.8%	13.9%	19.2%
20 Security pledged			
Credit institutions:			
Margin accounts pledged as security in relation to financial derivatives	21,084	31,025	28,978
Deposited in the Danish Growth Fund	455	455	455
Bonds:			
Pledged as security for credit facility with Danmarks Nationalbank			
Total nominal value	847,920	1,102,052	1,081,580
Total market value	852,190	1,111,765	1,089,707

21 **Fair value of financial assets and liabilities**

Financial assets and liabilities are measured in the statement of financial position at their fair value or at amortised cost.

Fair value is the amount for which a financial asset can be traded or a financial liability settled between parties in an arm's-length transaction.

For financial instruments measured at fair value, the basis for determining fair value is:

Level 1: Listed prices in an active market for identical assets or liabilities.

Level 2: Valuation model based primarily on observable market data.

Level 3: Valuation model that, to a significant degree, is based on non-observable market data.

Shares, bonds, assets in pooled schemes and derivative financial instruments have been measured at their fair value in the financial statements so that the recognised values correspond to fair values.

For listed shares and bonds, the fair value is determined as the officially listed price at the reporting date. For unlisted shares in the form of shares in sector-held enterprises where the shares are redistributed, the fair value is determined as the redistribution price and the shares are included in level 2 (observable). For other unlisted shares in sector-held enterprises, with no observable market data, the valuation involves estimates, based on financial reports from the enterprise, previous trading of shares in the enterprise and input from a qualified external party. A change of 10 percent in the market value of sector-held enterprises in level 3 will result in an income and equity impact before tax of DKK 9.9 million.

For other financial instruments, the fair value is computed - to the greatest extent possible - based on generally accepted valuation methods based on observable market data. The valuation is based on non-observable market data only in exceptional cases.

Impairment of loans and advances is assessed to correspond to changes in credit quality. The difference relative to fair values is computed as received fees and commissions, interest receivable, not falling due until after the end of the financial reporting period, and, for fixed-rate loans, interest rate-dependent value adjustments.

The fair value of receivables from credit institutions and central banks is determined by applying the same method as for loans, although the bank has not made impairments of receivables from credit institutions and central banks.

Subordinated debt is measured at amortised cost. The difference between the carrying amount and the fair value is assessed to be interest payable not falling due until after the end of the financial reporting period and for fixed-rate debt securities in issue, also interest rate-dependent value adjustments for fixed-rate subordinated debt.

For floating-rate financial liabilities in the form of deposits and debt to credit institutions measured at amortised cost, the difference relative to fair values is estimated to be interest payable not falling due until after the end of the financial reporting period.

For fixed-rate financial liabilities in the form of deposits and debt to credit institutions measured at amortised cost, the difference relative to fair values is estimated to be interest payable not falling due until after the end of the financial reporting period and the interest rate-dependent value adjustments.

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Note

21 Fair value of financial assets and liabilities (continued)

30 June 2018 (DKK'000)	Carrying amount	Fair value	Listed prices level 1	Observable prices level 2	Non-observable prices level 3
Financial assets					
Cash on hand and demand deposits with central banks	391,402	391,402	66,245	325,157	0
Receivables from credit institutions and central banks	573,840	573,894	0	573,894	0
Loans at amortised cost	11,389,729	11,465,845	0	0	11,465,845
Bonds at fair value	3,151,557	3,151,557	3,096,369	55,188	0
Shares, etc.	419,037	419,037	20,059	298,430	100,548
Assets related to pooled schemes	4,949,217	4,949,217	4,949,217	0	0
Derivative financial instruments	30,957	30,957	0	30,957	0
Total	20,905,739	20,981,909	8,131,890	1,283,626	11,566,393
Financial liabilities					
Debts to credit institutions and central banks	27,371	27,371	0	27,371	0
Deposits	13,208,517	13,225,896	0	0	13,225,896
Deposits in pooled schemes	4,949,217	4,949,217	0	0	4,949,217
Subordinated debt	372,244	388,653	0	0	388,653
Derivative financial instruments	33,653	33,653	0	33,653	0
Total	18,591,002	18,624,790	0	61,024	18,563,766
Shares measured at fair value based on non-observable inputs (level 3)					
Carrying amount, beginning of the period					98,801
Additions					0
Disposals					0
Value adjustment					1,747
Value, end of the period					100,548
Period's value adjustments relating to financial assets in the portfolio, total					1,858

Note

21	Fair value of financial assets and liabilities (continued)				
30 June 2017 (DKK'000)	Carrying amount	Fair value	Listed prices level 1	Observable prices level 2	Non-observable prices level 3
Financial assets					
Cash on hand and demand deposits with central banks	398.262	398.262	74.099	324.163	0
Receivables from credit institutions and central banks	1.314.804	1.314.937	0	1.314.937	0
Loans at amortised cost	12.273.028	12.316.222	0	0	12.316.222
Bonds at fair value	3.035.274	3.035.274	2.980.086	55.188	0
Shares, etc.	285.372	285.372	21.376	165.815	98.181
Assets related to pooled schemes	4.489.648	4.489.648	4.489.648	0	0
Derivative financial instruments	29.036	29.036	0	29.036	0
Total	21.825.424	21.868.751	7.565.209	1.889.139	12.414.403
Financial liabilities					
Debts to credit institutions and central banks	42.697	42.697	0	42.697	0
Deposits	14.094.505	14.130.582	0	0	14.130.582
Deposits in pooled schemes	4.489.648	4.489.648	0	0	4.489.648
Subordinated debt	814.578	795.000	0	0	795.000
Derivative financial instruments	36.345	36.345	0	36.345	0
Total	19.477.773	19.494.272	0	79.042	19.415.230
Shares measured at fair value based on non-observable inputs (level 3)					
Carrying amount, beginning of the period					92.539
Additions					26
Disposals					0
Value adjustment					5.616
Value, end of the period					98.181
Period's value adjustments relating to financial assets in the portfolio, total					5.615

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Note					
21	Fair value of financial assets and liabilities (continued)				
31 Dec 2017 (DKK'000)	Carrying amount	Fair value	Listed prices level 1	Observable prices level 2	Non-observable prices level 3
Financial assets					
Cash on hand and demand deposits with central banks	400,292	400,292	73,901	326,391	0
Receivables from credit institutions and central banks	724,257	724,257	0	724,257	0
Loans at amortised cost	11,628,839	11,669,059	0	0	11,669,059
Bonds at fair value	3,292,780	3,292,780	3,276,963	15,817	0
Shares, etc.	274,227	274,227	20,179	155,247	98,801
Assets related to pooled schemes	4,890,171	4,890,171	4,890,171	0	0
Derivative financial instruments	26,741	26,741	0	26,741	0
Total	21,237,307	21,277,527	8,261,214	1,248,453	11,767,860
Financial liabilities					
Debts to credit institutions and central banks	30,776	30,776	0	30,776	0
Deposits	13,505,603	13,507,267	0	0	13,507,267
Deposits in pooled schemes	4,890,171	4,890,171	0	0	4,890,171
Subordinated debt	371,906	386,430	0	0	386,430
Derivative financial instruments	30,944	30,944	0	30,944	0
Total	18,829,400	18,845,588	0	61,720	18,783,868
Shares measured at fair value based on non-observable inputs (level 3)					
Carrying amount, beginning of the period					92,539
Additions					26
Disposals					0
Value adjustment					6,236
Value, end of the period					98,801
Period's value adjustments relating to financial assets in the portfolio, total					6,268

Note

22 **Risk and risk management**

Vestjysk Bank is exposed to various types of risk. These risks as well as the Bank's policies and goals for managing such risks are described in Annual report for 2017.

	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
23 Credit exposure			
The Bank's credit exposure is composed of the following assets and items not recognised in the statement of financial position:			
Receivables from central banks	829,157	1,555,163	958,390
Receivables from credit institutions	69,840	83,804	92,257
Bonds	3,151,557	3,035,274	3,292,780
Loans	14,464,760	15,296,335	14,601,685
Items not recognised in the statement of financial position			
Financial guarantees	2,546,778	2,506,917	2,647,545
Credit commitments	5,888,760	5,309,895	5,980,394
Total	26,950,852	27,787,388	27,573,051
Of which recognised in the statement of financial position	18,515,314	19,970,576	18,945,112
Credit institutions			
Receivables from central banks solely pertains to Danmarks Nationalbank.			
Receivables from credit institutions pertains to receivables from a number of credit institutions located in Denmark and abroad.			
Receivables from Non-Danish credit institutions is very limited in amount.			
Receivables from individual institutions in excess of DKK 5 million			
Credit institutions or their subsidiaries rated, at a minimum, A+	16,456	21,346	18,256
Credit institutions or their subsidiaries rated A or lower	41,703	43,280	51,725
Total	58,159	64,626	69,981

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Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
23			
Credit exposure (continued)			
Bonds by rating categories			
AAA	3,123,016	2,980,086	3,237,309
No rating	28,541	55,188	55,471
Total	3,151,557	3,035,274	3,292,780
Bonds by issuer			
Mortgage-credit bonds	2,866,963	2,774,399	2,947,194
Government bonds	0	0	57,010
Other bonds	284,594	260,875	288,576
Total	3,151,557	3,035,274	3,292,780
Loans, financial guarantees and credit commitments by industry segments			
Public authorities	0	0	0
Business:			
Agriculture, hunting, forestry and fishery	5,075,341	5,220,861	5,146,666
Manufacturing industry and raw material extraction	828,760	817,819	806,092
Energy supply	756,754	854,187	826,689
Construction and civil engineering contractors	699,770	702,131	694,242
Trade	1,683,279	1,704,206	1,724,162
Transportation, hotels and restaurant businesses	957,804	994,439	957,724
Information and communication	115,088	99,889	113,029
Credit and financing institutes and insurance businesses	1,110,762	1,145,318	1,035,913
Real estate	3,002,894	3,335,861	3,182,841
Other business	1,156,467	1,126,477	1,124,730
Business, total	15,386,919	16,001,188	15,612,088
Retail	7,513,379	7,111,959	7,617,536
Total	22,900,298	23,113,147	23,229,624

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000	
24	Hedge accounting			
	To manage interest rate risk, the following are hedged (fair value hedge):			
	Bonds	153,450	244,519	154,275
	Hedged with interest rate swaps, maturity 2020-2021:			
	Notional principal	150,000	240,000	150,000
	Fair value	-1,690	-1,803	-2,036
	Loans at amortised cost			
	Hedged with interest rate swaps, maturity 2019-2022:			
	Notional principal	84,597	119,570	93,436
	Fair value	80,605	107,264	88,702
	Fair value	-3,992	-7,022	-4,734
	Hedged with interest rate cap:			
	Notional principal	0	5,290	0
	Fair value	0	6	0
	Total fair value adjustment of hedging instruments	1,088	2,419	2,571
	Total fair value adjustment of the hedged items	-2,542	-1,972	-3,771
	Ineffectiveness recognised in the statement of income	-1,454	447	-1,200
25	Derivative financial instruments			
	Derivative financial instruments are utilised by both the Bank's customers and the Bank to hedge and manage financial risks and positions.			

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26 Interest rate risk

Interest rate risk is the risk of losses incurred in the event of change in the general interest rate level. Vestjysk Banks interest rate risk is related to activities involving normal banking business such as deposits, loans, trading and position-taking in interest-related products.

The interest rate risk is divided into risks inside and outside the Bank's trading book, see below. All else being equal, the direct impact on the income statement from a change in the general interest level will only be related to the interest rate risk inside the trading book. An increase in the interest rate of 1 percentage point would result in a loss before tax of DKK 7.3 million at 30 June 2018.

Outside the trading book a change in the general interest rate level will have an impact on the future earnings and equity, as a change in interest rates will impact the alternative funding and investment options.

Interest rate risk is calculated applying the Financial Supervisory Authority's guidelines.

	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
Interest rate risk inside the Bank's trading book:			
Securities	9,208	10,821	8,214
Futures/forward contracts/forward rate agreements	-342	-1,815	-563
Swaps	-1,533	-6,597	-2,287
Total	7,333	2,409	5,364
Interest rate risk outside the Bank's trading book:			
Loans	3,199	4,300	3,694
Deposits	-10,938	-31,719	-19,756
Subordinated debt	-9,443	-6,606	-10,231
Equity	-7,380	-3,694	-8,217
Total	-24,562	-37,719	-34,510
Total interest rate risk	-17,229	-35,310	-29,146
Measured in relation to the tier 1 capital, the interest rate risk corresponds to	-0,8%	-1,9%	-1,2%
Interest rate risk, by modified duration			
Up to 1 year	2,398	-6,230	-4,150
1 year to 2 years	-5,345	-14,166	-12,485
2 year to 3.6 years	-16,493	-14,588	-1,321
More than 3.6 years	2,211	-326	-11,190
Total	-17,229	-35,310	-29,146

27 Foreign exchange risk

Foreign exchange risk is the risk of losses on foreign exchange positions because of changes in foreign exchange rates.

Foreign exchange Indicator 1 expresses a simplified measure of the scope of the institution's positions in foreign currency and is calculated - according to the guidelines of the Danish Financial Supervisory Authority - as the greater of the sum of the foreign currency positions in which the Bank has net payables (short foreign exchange positions) and the sum of all the currencies in which the Bank has a net receivable (long foreign exchange positions).

Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
27 Foreign exchange risk (continued)			
Assets in foreign currency, total	779,042	1,144,831	881,670
Liabilities in foreign currency, total	114,380	90,678	117,582
Foreign exchange indicator 1	8,447	7,190	5,816
Foreign exchange indicator 1 in percent of tier 1 capital	0.4%	0.4%	0.2%
The foreign exchange position consists primarily of positions in CZK, EUR, GBP, NOK, SEK, THB, TRY and USD. A change unfavourable to the Bank of 2% in EUR and of 10% in other foreign currencies will result in a profit/loss and equity impact before tax of	-857	-719	-591
28 Share risk			
The Bank's share risk is derived from shares and derivatives in the Bank's investment and trading books.			
	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
Shares, etc.			
Shares/unit trust certificates listed on NASDAQ OMX Copenhagen A/S	10,746	11,353	12,200
Shares/unit trust certificates listed on other exchanges	9,313	8,779	7,979
Unlisted shares recognised at fair value	398,978	265,240	254,048
Total	419,037	285,372	274,227
Of which, sector shares	394,840	262,326	251,013
Sensitivity			
An increase in share prices of 10 percentage points will result in a profit/loss and equity impact before tax of	41,904	28,538	27,422
of which sector shares	39,484	26,233	25,101
of which other shares	2,420	2,305	2,321
A decrease in share prices of 10 percentage points will result in a profit/loss and equity impact before tax of	-41,904	-28,538	-27,422
of which sector shares	-39,484	-26,233	-25,101
of which other shares	-2,420	-2,305	-2,321
29 Liquidity risk			
The Banks's liquidity buffer is determined on the basis of the Bank's objective of maintaining an LCR of 100% month by month under a chosen 12-month stress scenario. The stress scenario is based on a standard LCR-based stress situation for the first 30 days and a specific Vestjysk Bank stress scenario for the remaining 11 months.			
The liquidity buffer consists of liquid government and mortgage bonds categorised as level 1a, level 1b or level 2a assets and deposits in the Danish central bank.			
At 31 December 2016, the liquidity requirement of section 152 of the Danish Financial Business Act was phased out. Until 30 June 2018, the Supervisory Diamond's liquidity benchmark was based on the section 152 liquidity requirement of 50 per cent excess cover. The EU has ordered Vestjysk Bank to comply with the liquidity benchmark based on the section 152 liquidity requirement throughout 2018. Accordingly, this measure will continue to be disclosed in the table below.			

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Note	30 June 2018 DKK'000	30 June 2017 DKK'000	31 Dec 2017 DKK'000
29			
Liquidity risk (continued)			
Liquidity buffer			
LCR values	3,782,719	4,369,239	4,032,492
LCR values after adjustment on level 1a assets	3,782,719	4,369,239	4,032,492
Net outflow	1,553,834	1,821,052	1,579,068
Liquidity Coverage Ratio - LCR	243.4%	239.9%	255.4%
Demand deposits with Danmarks Nationalbank as well as demand deposits with other credit institutions	943,703	1,681,586	1,095,116
Liquid securities	3,171,173	3,053,555	3,310,465
Total	4,114,876	4,735,141	4,405,581
Excess coverage in relation to the 10%-requirement set out in section 152 of the Danish Financial Business Act.	85.0%	99.4%	94.3%
30			
Other risks			
Operational risks			
General responsibility for operational risks resides with the Bank's Risk Management.			
Vestjysk Bank considers its reliance on key employees to be a focus area. There are ongoing efforts to minimise the Bank's reliance on key employees, among other things in the form of written business procedures, centralisation of tasks, and the outsourcing of areas that are not significant to the Bank's competitiveness.			
Vestjysk Bank is continuously working on policies and contingency plans for physical catastrophes and IT-related disaster recovery. The Bank is a member of Bankernes EDB Central (BEC), which handles the day-to-day operations of its IT systems. The Bank follows the directions and recommendations issued by BEC and does not perform any independent IT system development.			
The Bank's contingency plans for the IT area cover service interruptions at headquarters and parts of the branch network. In the event of interruptions in one or more branch, operations can still take place from the other branch—and in the event of prolonged interruptions at headquarters, vital functions can be carried out from a department. The Bank's contingency plan is reviewed by the Board of Directors at least once a year.			
The operational risk is minimised by ensuring, among other things, that the execution of activities is organisationally separated from the control of such activities.			
Total capital risk			
Total capital is monitored on an ongoing basis and monthly reporting to the Board of Directors takes place according to established guidelines.			
Compliance			
Vestjysk Bank has a compliance function, whose area of responsibility is to monitor compliance with financial legislation. Instructions and an annual plan for this area, approved by the Executive Board, have been drawn up.			
31			
Pending litigation			
Vestjysk Bank is a party to various lawsuits. The proceedings are evaluated on an ongoing basis, and required provisions are made based on an assessment of the risk of losses.			
The pending proceedings are not expected to have material influence on the Bank's financial position.			

Note	30 June 2018	30 June 2017	31 Dec 2017
32	Financial highlights (continued)		
	Financial ratios		
	Solvency		
Total capital ratio	17.8%	13.9%	19.2%
Tier 1 capital ratio	15.4%	12.2%	16.8%
Common equity tier 1 capital ratio	13.8%	9.7%	15.2%
	Earnings		
Return on equity before tax, annually	11.0%	15.1%	8.5%
Return on equity after tax, annually	10.2%	14.1%	8.2%
Income/cost ratio	1.39	1.29	1.22
Cost ratio ¹	51.1%	49.9%	53.3%
Return on assets	0.6%	0.5%	0.8%
Employees converted to full-time (average)	400.4	431.4	421.9
	Market risk		
Interest rate risk	-0.8%	-1.9%	-1.2%
Foreign exchange position	0.4%	0.4%	0.2%
Foreign exchange risk	0.0%	0.0%	0.0%
LCR	243.4%	239.9%	255.4%
	Credit risk		
Loans plus impairment of loans relative to deposits	79.7%	82.3%	79.4%
Loans relative to equity	4.7	7.7	4.6
Growth in loans for the period	-0.4%	-2.0%	-7.2%
Sum of large exposures	14.0%	28.7%	11.9%
Accumulated impairment ratio	17.3%	16.2%	16.5%
Impairment ratio for the period	0.4%	0.8%	0.5%
	Vestjysk Bank share		
Earnings per share for the period	0.1	0.7	0.3
Book value per share ²	2.4	10.1	2.6
Price of Vestjysk Bank shares, end of the period	2.4	9.1	2.7
Share price/book value per share	1.0	0.9	1.1

1 Operating expenses and operating depreciation and amortisation/core income

2 The ratio "Book value per share" is adjusted for the portion of equity (additional tier 1 capital), that is not part of the shareholders' share of equity.

In accordance with the accounting policies, the comparative figures have not been restated in connection with the implementation of IFRS 9 at 1 January 2018.

