



Quarterly Report

1 January – 30 September 2020

Summary

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The Vestjysk Bank Quarterly Report 2020 is a translation of the original report in Danish (Vestjysk Bank Kvartalsrapport 1. Januar – 30. September 20202020).
In case of discrepancies, the Danish version prevails.

Summary

Q1-Q3 2020 Highlights

Vestjysk Bank reported a profit after tax of DKK 250 million for Q1-Q3 2020. The performance was adversely affected by economic uncertainty caused by the Coronavirus crisis, African swine fever in Germany and the Brexit situation. These factors impacted the Bank's impairment provisions based on a management estimate. In Q3 2020, the Bank made an additional DKK 50 million loss provision for the risks related to Britain's exit from the European Union (Brexit) and the current uncertainty regarding African swine fever. With this, the Bank has made total impairment provisions of DKK 250 million in response to the economic uncertainty, corresponding to 2.6% of the Bank's net loans and advances.

The figures below were for 2019 affected by a transaction in Sparinvest, where the Bank realized an earning at DKK 142 million.

- Profit after tax was DKK 250 million, Q1-Q3 2019: DKK 397 million, for an annualised return on equity after tax of 10.9%.
- Core income of DKK 653 million, Q1-Q3 2019: DKK 827 million (Excl. Sparinvest DKK 685 million).
- Market value adjustments amounted to DKK 42 million, Q1-Q3 2019: DKK 173 million (Excl. Sparinvest DKK 46 million).
- Cost ratio of 58.1, Q1-Q3 2019: 44.5 Excl. Sparinvest DKK 127 million).
- Core earnings before impairment allowances amounted to DKK 274 million, (Q1-Q3 2019: DKK 460 million (Excl. Sparinvest DKK 318 million).
- Impairment of loans and receivables, etc. of DKK 4 million (Q1-Q3 2019: DKK 44 million). Impairment allowances on agriculture amounted to a net reversal.
- The Bank's capital requirements totalled 13.0%, consisting of an individual solvency need of 10.5% and a general capital conservation buffer of 2.5%. The MREL was phased in at 1.875%, which was added to the capital requirement. The individual solvency need included a management estimate concerning the economic situation of DKK 50 million, or 0.38 of a percentage point.
- The Bank's capital ratio was 23.8. The excess cover was 10.8 percentage points, or DKK 1,420 million.
- The Bank's MREL ratio was 23.8. The excess cover was 8.9 percentage points, or DKK 1,172 million.

Special circumstances in the period – including effects of the Coronavirus crisis on Vestjysk Bank until the reporting date

Like the rest of Denmark, the Bank was impacted by the official lockdown of the country from 12 March until 1 May 2020. The Bank follows the government's current recommendation that employees who can work from home do so from 18 September until at least 2 January 2021. So far, the Bank has been able to maintain a reasonable level of operations during both periods, and the level of customer activity has been high.

The Bank's advisers have contacted all business customers several times to arrange how the Bank can help them through the Coronavirus crisis and to advise them on how to apply the rescue packages provided by the Danish government and parliament. So far, the crisis has not directly impacted the Bank's lending or individual impairment losses.

For retail customers, Vestjysk Bank has provided a range of borrowing facilities in the form of permission to skip instalments, temporary overdraft facilities and increased credit facilities to support customers hit by the lockdown. These measures have also had a limited impact on the Bank, so far.

The sector distribution of the Bank's lending plays a positive part in this. Most of the Bank's lending is within sectors that have not been particularly badly affected by the Coronavirus crisis. The hotel, restaurant, transport and retail sectors are the hardest hit, and these sectors only account for some 10% of the Bank's total lending.

Vestjysk Bank's two main sectors, agriculture and real estate, have so far been relatively unaffected by the Coronavirus crisis. However, the Coronavirus pandemic has devastated the mink industry, bringing an end to mink farming in Denmark. The Bank's

Summary

exposure to the mink industry is 0.8% of total gross lending, or DKK 121 million. The exposure has been written down to DKK 53 million, which is considered fully secured.

Until now, the crisis has not affected dairy farmers.

Pork prices dropped during the period, but remain at a satisfactory level. Because of the relatively high pork prices in the first half, pig farmers, some of which are credit-impaired, were able to repay debt to the Bank. This resulted in reversals of impairment allowances within this sector in Q3 2020. The current outbreak of African swine fever in Germany has made it difficult for the Bank's piglet producing customers to sell their output in Germany. This caused prices of piglets to fall sharply, and a downward trend was also seen in prices of pigs for slaughter. Vestjysk Bank monitors these developments closely and made the necessary provisions for their preliminary impact on customers in the Q1-Q3 financial statements. The Bank also made an additional impairment provision for economic uncertainty to cover the increased risk.

The Bank assesses that a Brexit without a trade agreement between the UK and Denmark may also affect the fisheries sector.

In the real estate sector, we are so far seeing an effect on commercial leases, where agreements have been made to defer rent payments. Depending on the duration and depth of the crisis, this effect could widen. Private residential rentals have not been affected at this point, and this is not expected to change significantly.

Our retail customers are generally doing well and are in a strong position to withstand the consequences of the Coronavirus crisis. In the long term, we expect to see an increase in impairment allowances, but on a manageable level overall.

We assess that the Bank's DKK 250 million impairment provisions due to economic uncertainty concerning the Coronavirus crisis, African swine fever in Germany and Brexit uncertainties and the DKK 50 million capital reservation in the individual solvency need will be sufficient to cover the Bank's current risk exposure. Projections about the future consequences of the Coronavirus crisis, African swine fever and Brexit are subject to considerable uncertainty.

Outlook for 2020

On the basis of the preliminary impact of the Coronavirus situation, Vestjysk Bank released revised full-year 2020 profit guidance on 13 May 2020. At that date, the guidance was a profit after tax in the range of DKK 160-240 million.

In an announcement released on 14 July 2020, Vestjysk Bank raised and specified its profit guidance after tax for full year 2020 to a range of DKK 200-260 million.

On 8 October 2020, the Bank released another announcement raising its profit guidance for 2020.

Vestjysk Bank saw a continued high level of activity among both retail and business customers.

Moreover, the trend in individual impairment losses was better than expected in all customer segments. Consequently, the Bank raised its profit guidance for 2020 to DKK 260-320 million after tax, and this guidance is maintained.

Management's review

Financial highlights

Key figures	Q1-Q3 2020	Q1-Q3 2019	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	FY 2019
Statement of income (DKKm)								
Net interest income	363	379	122	123	118	131	127	510
Net fee income	239	244	78	77	84	85	88	329
Dividends on shares, etc.	9	29	0	9	0	0	6	29
Value adjustments	42	173	28	18	-4	12	153	185
Other operating income	0	2	0	0	0	0	0	2
Core income	653	827	228	227	198	228	374	1,055
Staff costs and administrative expenses	369	355	128	118	123	122	119	477
Other operating expenses and depreciation, amortisation and impairment of property, plant and equipment and intangible assets	10	12	3	4	3	19	7	31
Operating expenses and operating depreciation and amortisation	379	367	131	122	126	141	126	508
Core earnings before impairment	274	460	97	105	72	87	248	547
Impairment of loans and receivables, etc.	4	44	-20	12	12	20	7	64
Profit before tax	270	416	117	93	60	67	241	483
Tax	20	19	9	8	3	-14	7	5
Profit after tax	250	397	108	85	57	81	234	478
Statement of financial position (DKKm)								
Total assets	22,308	22,019	22,308	21,871	21,102	22,192	22,019	22,192
Loans	9,684	10,756	9,684	9,507	9,966	10,221	10,756	10,221
Deposits, including pooled schemes	18,000	18,043	18,000	17,644	16,602	18,276	18,043	18,276
Contingent liabilities	4,118	3,974	4,118	3,830	3,791	3,966	3,974	3,966
Custody services	9,169	8,332	9,169	8,562	7,720	8,708	8,332	8,708
Arranged mortgage loans	32,663	30,060	32,663	31,696	31,297	30,749	30,060	30,749
Business volume	31,802	32,773	31,802	30,981	30,359	32,463	32,773	32,463
Business volume including custody services and arranged mortgage loans	73,634	71,165	73,634	71,239	69,376	71,920	71,165	71,920
Equity	3,196	2,892	3,196	3,092	3,010	2,956	2,892	2,956

Management's review

Financial highlights

Financial ratios	Q1-Q3 2020	Q1-Q3 2019	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	FY 2019
Solvency								
Total capital ratio	23.8%	17.8%	23.8%	23.3%	22.1%	21.1%	17.8%	21.1%
Tier 1 capital ratio	21.1%	15.4%	21.1%	20.7%	19.5%	18.6%	15.4%	18.6%
Common equity tier 1 capital ratio	20.0%	14.3%	20.0%	19.6%	18.4%	17.6%	14.3%	17.6%
Earnings								
Return on equity before tax, p.a.	11.7%	20.3%	14.7%	12.3%	8.1%	9.1%	33.9%	17.4%
Return on equity after tax, p.a.	10.9%	19.4%	13.6%	11.3%	7.7%	11.0%	32.9%	17.2%
Income-cost ratio	1.70	2.01	2.03	1.70	1.43	1.42	2.80	1.84
Cost ratio ¹	58.1%	44.5%	57.7%	53.6%	63.7%	61.5%	34.0%	48.2%
Return on assets	1.1%	1.8%	0.5%	0.4%	0.3%	0.4%	1.1%	2.2%
Average number of employees (FTE)	395.5	372.8	398.7	396.3	391.5	390.2	375.0	377.9
Market risk								
Interest rate risk	1.4%	0.2%	1.4%	1.6%	0.8%	0.7%	0.2%	0.7%
Foreign exchange position	0.4%	0.3%	0.4%	0.3%	0.4%	0.4%	0.3%	0.4%
Foreign exchange risk	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
LCR	219.2%	203.2%	219.2%	195.8%	170.8%	259.2%	203.2%	259.2%
Credit risk								
Loans plus impairment on loans relative to deposits	66.2%	73.1%	66.2%	66.7%	74.3%	68.9%	73.1%	68.9%
Loans relative to equity	3.0	3.7	3.0	3.1	3.3	3.5	3.7	3.5
Lending growth for the period	-5.3%	-0.4%	1.9%	-4.6%	-2.5%	-5.0%	1.3%	-5.3%
Sum of 20 largest exposures	110.2%	126.3%	110.2%	108.7%	113.9%	102.7%	126.3%	102.7%
Accumulated impairment ratio	14.0%	14.3%	14.0%	14.6%	14.8%	14.5%	14.3%	14.5%
Impairment ratio	0.1%	0.2%	-0.1%	0.0%	0.1%	0.1%	0.1%	0.3%
Vestjysk Bank share								
Earnings per share for the period	0.3	0.4	0.1	0.1	0.1	0.1	0.3	0.5
Book value per share ²	3.4	3.1	3.4	3.3	3.2	3.1	3.1	3.1
Price of Vestjysk Bank shares, end of the period	2.8	3.5	2.8	2.9	2.8	3.1	3.5	3.1
Share price/book value per share	0.8	1.2	0.8	0.9	0.9	1.0	1.2	1.0

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.

Management's review

Financial review

Statement of income

Profit after tax

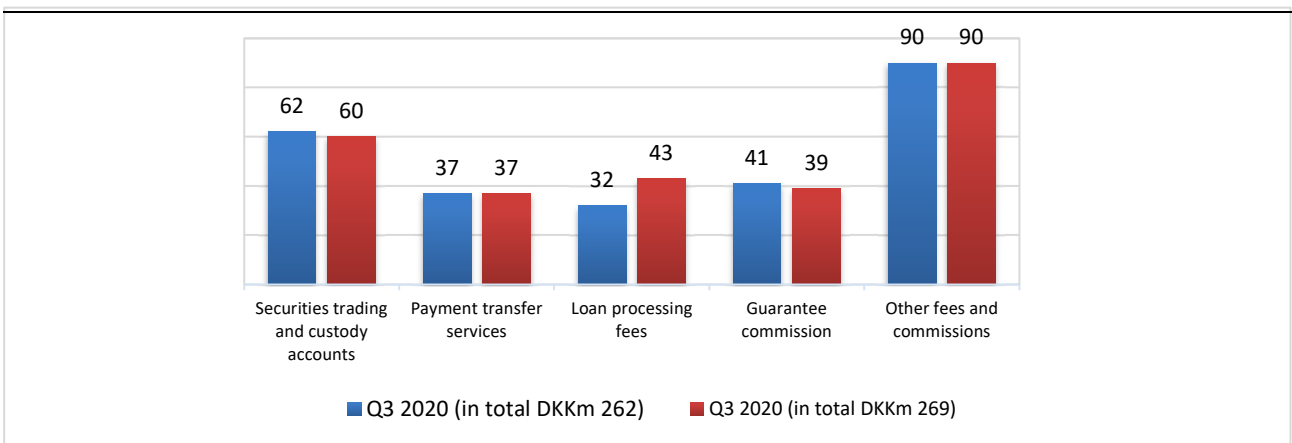
The Bank's profit after tax for Q1-Q3 2020 was DKK 250 million, compared with DKK 397 million in Q1-Q3 2019.

Core income

In Q1-Q3 2020, Vestjysk Bank recorded core income of DKK 653 million, against DKK 827 million in Q1-Q3 2019. The lower core income was mainly due to the fact that the financial performance for Q1-Q3 2019 was lifted by DKK 142 million due to the sale of shares in Sparinvest Holdings SE. The lower core income was moreover affected by a drop in interest income as a consequence of a lower lending volume and a drop in dividends received after the sale of shares in Sparinvest Holdings SE in 2019.

Net interest income amounted to DKK 363 million in Q1-Q3 2020, against DKK 378 million in Q1-Q3 2019. The drop resulted from a DKK 49 million decline in interest income from the Bank's loans and advances and other receivables as a result of the lower lending volume and increased price pressure. The Bank's interest expenses were down DKK 10 million as a result of the expiry of deposits and the redemption of subordinated capital at the end of 2019. Furthermore, the Bank recorded a DKK 22 million increase in income from negative deposit rates.

Fee and commission income for Q1-Q3 2020 amounted to DKK 262 million, down from DKK 269 million in Q1-Q3 2019. The decline was principally driven by lower remortgaging activity in Q3 2020 compared with Q3 2019, although the level remained higher than anticipated. The distribution of the Bank's fee income is shown in the figure below.



Share dividends for Q1-Q3 2020 amounted to DKK 9 million, compared with DKK 29 million in Q1-Q3 2019. The decline was due to lower dividends after the Bank reduced its ownership interest in Sparinvest Holdings SE and extraordinary dividend of DKK 15 million in 2019.

Market value adjustments amounted to DKK 42 million in Q1-Q3 2020, against DKK 173 million in Q1-Q3 2019. In 2019, a profit from the sale of shares in Sparinvest Holdings SE lifted market value adjustments by DKK 127 million.

The negative market value adjustments of DKK 24 million in Q1 2020 resulting from financial market turmoil related to the Coronavirus crisis were replaced by positive adjustments of DKK 42 million in Q3 2020. The Bank's investment portfolio generated a negative return of DKK 3 million in Q1-Q3, whereas the portfolio of sector shares generated a positive return of DKK 24 million. Securities trading activities and currency transactions with the Bank's customers contributed DKK 21 million.

Management's review

Financial review

Operating expenses, depreciation and amortisation

Total operating expenses, depreciation and amortisation amounted to DKK 379 million in Q1-Q3 2020, against DKK 367 million in Q1-Q3 2019.

The increase was mainly attributable to IT investments related to stricter statutory requirements in the banking sector, primarily in the anti-money-laundering area, and an increased headcount.

The number of employees in Q1-Q3 2020 was 395.5 FTEs, compared with 372.8 FTEs in Q1-Q3 2019. The increase of 22.7 FTEs caused staff costs to increase by DKK 13 million compared with Q1-Q3 2019. Approximately half of this increase was attributable to annual pay increases according to the collective agreement and increased payroll tax rates. The increase in the number of FTEs was due to the hiring of temporary staff to handle the remortgaging activity. Also, Vestjysk Bank has hired more trainees in the Bank's branches to secure a pool of skilled staff and a recruitment base for the future.

Other administrative expenses excluding IT costs amounted to DKK 41 million in Q1-Q3 2020, against DKK 52 million in Q1-Q3 2019. The DKK 11 million reduction was explained by a high level of expenses in 2019.

The expense ratio for Q1-Q3 2020 was 58.1%, compared with 44.5% in Q1-Q3 2019.

The table below illustrates the composition of operating expenses, depreciation and amortisation.

DKKm	Q1-Q3 2020	Q1-Q3 2019	FY 2019
Staff costs	226	213	285
IT costs	102	91	125
- Of this amount BEC	96	84	115
Other administrative expenses	41	52	66
Operating depreciation and amortisa-	8	11	30
Other operating expenses	2	1	2
Total	379	368	508

Core earnings before impairment

For Q1-Q3 2020, the Bank's core earnings before impairment stood at DKK 274 million, compared with DKK 460 million in Q1-Q3 2019.

Impairment of loans and guarantees etc.

Impairment losses, net amounted to DKK 4 million in Q1-Q3 2020, compared with DKK 44 million in Q1-Q3 2019. The impairment ratio for Q1-Q3 2020 was 0.1%, compared with 0.2% in Q1-Q3 2019.

Since April 2019, pork settlement prices have risen sharply as a result of an outbreak and subsequent spread of African swine fever in Asia and Eastern and Central Europe. Due to market fluctuations in the wake of the Coronavirus crisis, pork prices fell towards the end of Q1 2020, and this trend persisted in Q2 2020. Prices settled at a relatively stable and satisfactory level in Q3 2020.

The satisfactory settlement prices throughout 2020 led to extraordinary debt repayment by pig farmers, which has resulted in a significant reduction of agricultural customers' debt and a reversal of impairment allowances in the amount of DKK 55 million in 2020.

However, the long-term financial outlook for pig farmers is still subject to significant risk and uncertainty in light of the ongoing Coronavirus crisis, the current outbreak of African swine fever in Germany and the risk of an outbreak in Denmark and the as yet unknown consequences to Danish exports of Britain's exit from the European Union (Brexit).

The Coronavirus pandemic has devastated the mink industry, bringing an end to mink farming in Denmark. The Bank's exposure to the mink industry is 0.8% of total gross lending, or DKK 121 million. The exposure has been written down to DKK 53 million, which is considered fully secured.

At 42%, or approximately DKK 950 million, the agricultural sector in general accounted for the greater part of Vestjysk Bank's accumulated impairment allowances. The Bank has recorded impairment allowances on some 32% of gross loans and guarantees to the agricultural sector. The Bank continues to focus on developments in this sector.

The Bank assesses that a Brexit without a trade agreement between the UK and Denmark may also affect the fisheries sector.

As a result of the Coronavirus crisis, African swine fever in Germany and uncertainty about Brexit, Vestjysk Bank increased its impairment provisions by an additional DKK 50 million in Q3 2020 based on a management estimate due to economic uncertainty. The Bank currently has impairment provisions in an amount of DKK 250 million, or 2.6% of the Bank's net loans, in response to the current economic uncertainty.

The table below shows the distribution of the Bank's loans and guarantees for and impairment allowances on agricultural exposures by sub-sectors, real estate, other business and the retail segment.

Distribution of loans and guarantees at 30 September 2020 (DKKm)	Loans and guarantees before impairment	Acc. impairment	Loans and guarantees after impairment	Impairment for the period
Dairy farmers	1,468	528	940	-27
Pig breeders	966	286	680	-55
Other agriculture	545	137	408	2
Agriculture, total	2,979	951	2,028	-80
Real estate	1,948	282	1,666	10
Other business	5,270	770	4,500	56
Business, total	10,197	2,003	8,194	-14
Retail	5,860	252	5,608	18
Total	16,057	2,255	13,802	4

The Bank's accumulated impairment ratio at 30 September 2020 stood at 14.0%, compared with 14.3% at 30 September 2019.

The sector distribution of accumulated impairment and provisions is shown below:

Accumulated Impairments and provisions by sector	30 September 2020 DKKm	30 September 2020 %	30 September 2019 DKKm	30 September 2019 %
Public authorities	0	0%	0	0%
Agricult., hunt., forestry	951	42%	1,164	47%
Fishing	105	5%	10	1%
Manufac. indus., raw mat. Ext.	62	3%	85	4%
Energy supply	65	3%	73	3%
Constr., civil engin. contract.	49	2%	59	2%
Trade	100	4%	124	5%
Transp., restaur., hotel busin.	143	6%	156	6%
Information and comm.	7	0%	4	0%
Financing and insurance	148	7%	148	6%
Real estate	282	13%	315	13%
Other industries	91	4%	93	4%
Retail	252	11%	232	9%
Accumulated Impairments and provisions total	2,255	100%	2,463	100%

Management's review

Financial review

Statement of financial position

Vestjysk Bank's total assets stood at DKK 22.3 billion at 30 September 2020, against DKK 22.2 billion at 31 December 2019.

Loans

At 30 September 2020, Vestjysk Bank's net lending amounted to DKK 9.7 billion, down DKK 0.5 billion from DKK 10.2 billion at 31 December 2019. Q3 2020 saw an increase in net lending of DKK 0.2 billion, or 2%. The decline in net lending in 2020 was mainly attributable to the agricultural segment, due to extraordinary repayment of debt driven by favourable settlement prices, to the real estate segment, due to reduced exposure to foreign properties, and to the trade segment.

At 30 September 2020, loans to retail customers accounted for 41% of the Bank's net loans and guarantees.

The Bank's business lending is mainly concentrated within the agricultural and real estate sectors. Of total net loans and guarantees, agriculture accounted for 15% and real estate accounted for 12%. The Bank's overall exposure to these sectors thus amounted to 27% of total net loans and guarantees. At 30 September 2020, the Bank met the overall business plan target that no individual sector is to exceed 15% of total net loans and guarantees.

The sector distribution of net loans and guarantees is shown below:

Loans and guarantees by sector	30 September 2020	30 September 2020	30 September 2019	30 September 2019
	DKKm	%	DKKm	%
Public authorities	0	0%	0	0%
Agricult., hunt., forestry	2,029	15%	2216	15%
Fishing	703	5%	773	5%
Manufac. indus., raw mat. Ext.	449	3%	501	3%
Energy supply	352	3%	370	3%
Constr., civil engin. contract.	509	4%	511	3%
Trade	697	5%	1,016	7%
Transp., restaur., hotel busin.	444	3%	464	3%
Information and comm.	51	0%	50	0%
Financing and insurance	570	4%	669	5%
Real estate	1,666	12%	1,857	13%
Other industries	725	5%	745	5%
Retail	5,607	41%	5,558	38%
Loans and guarantees, Total	13,802	100%	14,730	100%

The credit quality of the Bank's total loans and guarantees improved from 30 September 2019 to 30 September 2020. At 30 September 2020, 52% of the Bank's customers were of normal credit quality, against 45% in 2019. The proportion of credit-impaired customers was 15%, against 19% at 30 September 2019. The distribution is illustrated in the table below. This development is satisfactory, and the Bank will continue to focus on individual customers in the challenged segments.

Loans and guarantees by credit quality	30 September 2020		30 September 2019	
	DKKm	%	DKKm	%
Normal credit quality	11,741	52%	10,494	45%
Some signs of weakness	6,557	29%	7,499	32%
Significant signs of weakness without impairment	860	4%	962	4%
Impaired loans	3,556	15%	4,471	19%
	22,714	100%	23,429	100%

At 30 June 2020, Vestjysk Bank replaced the previous internal segmentation model with a behavioural rating model for retail customers. The Bank's credit risk in relation to retail customers is managed by rating customers from 1 to 11 using a rating system developed by the BEC data centre together with member banks. The Bank's credit risk in relation to business customers is managed using an internal segmentation model classifying customers according to credit risk.

As a result, customers showing some signs of weakness were recategorised to customers with normal credit quality.

In aggregate, customers with normal credit quality and customers showing some signs of weakness represented 81% of the Bank's customers at 30 September 2020, against 77% at 30 September 2019.

Both models are directly compatible with the Danish FSA's classification model. The correlation between the models is set out in the table below.

	Normal credit quality	Some signs of weakness	Significant signs of weakness	Credit-impaired customers
The Bank's segmentation model (business)	E1+E2	E3+E4	E5	E6
The Bank's customer rating model (retail)	1-3	4-6	7-8	9-11
The Danish FSA's classification model	3-2a	2b	2c	1

Large exposures

The 20 largest exposures represented 110.2% of the Bank's common equity tier 1 capital, which is below the FSA's supervisory diamond benchmark of 175%.

Business volume including custody services

Vestjysk Bank's business volume including custody accounts and arranged mortgage loans amounted to DKK 73.6 billion at 30 September 2020, against DKK 71.9 billion at 31 December 2019.

The Bank's deposits at 30 September 2020 were on a level with deposits at 31 December 2019.

Pooled schemes and custody accounts increased by a total of DKK 260 million despite securities price falls due to the Coronavirus crisis.

The positive trend in arranged mortgage loans continued. Mortgage lending to both business customers and retail customers grew, by DKK 967 million in Q3 2020 alone, and by DKK 1,914 million for 2020 as a whole.

Management's review

Financial review

	30 September 2020	31 December 2019
Business volume	DKK m	DKK m
Net loans	9,684	10,221
Deposits	12,968	13,043
Pools	5,032	5,233
Contingent liabilities	4,118	3,966
Custody services	9,169	8,708
Arranged mortgage loans	32,663	30,749
Business volume, including custody accounts and arranged mortgaged loans	73,634	71,920

Deferred tax asset

An additional amount of the Bank's deferred tax asset was recognised in 2019. Vestjysk Bank remains confident that part of the deferred tax asset can expectedly be utilised within the next three years based on cautious earnings expectations, and DKK 98 million of the deferred tax asset was therefore recognised. Of this amount, DKK 84 million related to unutilised tax losses set off against total capital. The deferred tax asset not recognised subsequently amounted to DKK 446 million.

Capital and liquidity

Equity

Vestjysk Bank's equity stood at DKK 3,196 million at 30 September 2020, against DKK 2,956 million at 31 December 2019. The positive development in equity since 31 December 2019 was the result of consolidation via the Bank's profit for Q1-Q3 2020. The equity development since 1 January 2019 is detailed in the statement of changes in equity.

Subordinated debt

The Bank's subordinated debt amounted to DKK 348 million at 30 September 2020 and was eligible for full inclusion in total capital.

Total capital

Overall, total capital amounted to DKK 3,139 million at 30 September 2020. With a total risk exposure of DKK 13,210 million, this equalled a total capital ratio of 23.3%. At 31 December 2019, the Bank's total capital ratio was 21.1%.

As of 30 September 2020, the Bank's risk-weighted exposures were affected by changed capital rules (SME discount). On recognition, the effect on risk-weighted exposures was calculated at DKK 595 million, equalling a 1.0 percentage point increase in the total capital ratio.

Capital requirements

Adequate own funds amounted to DKK 1,388 million at 30 September 2020. With a total risk exposure of DKK 13,210 million, this equalled an individual solvency need of 10.5%. At 30 September 2020, the capital conservation buffer had been fully phased in at 2.5 percentage points and the countercyclical buffer has been reduced to 0% due to the Coronavirus crisis.

DKK 50 million, or 0.38 of a percentage point, has been added to the individual solvency need in response to the uncertainty about the long-term consequences of the Coronavirus crisis. The amount has been reserved to mitigate the negative effects on customers who are not currently credit-impaired, but who are expected to see their credit quality reduced as a consequence of the Coronavirus crisis.

The aggregate capital requirements amounted to 13.0%, corresponding to DKK 1,718 million.

This meant that Vestjysk Bank's excess cover relative to the individual solvency need was 13.3 percentage points, corresponding to DKK 1,750 million, while the excess cover relative to the aggregate capital requirements was 10.8 percentage points or DKK 1,420 million.

MREL

The MREL add-on is being phased in during the period to 1 July 2023. The period has been extended due to the Coronavirus crisis.

The MREL add-on, determined annually by the Danish FSA, has been fixed at 6% of risk-weighted assets. The MREL is added on top of the capital requirement and at 30 September 2020 had been phased in at 14.9%. Vestjysk Bank's MREL ratio was equal to the total capital ratio of 23.8% at 30 September 2020. The excess cover was thus 8.9%, or DKK 1,172 million. In 2023, when fully phased in, the effect of the MREL add-on is expected to be in the region of DKK 790 million. Based on the current MREL ratio of 23.8%, the Bank complies with the coming fully-phased in capital requirements at 30 September 2020.

Capital position

DKKm	30 September 2020	31 December 2019
Equity	3,196	2,956
- correction for Q3 profit not included in total capital	-104	0
Deductions:		
- prudent valuation	-6	-4
- holdings in financial sector entities	-211	-199
- deferred tax assets	-84	-84
Subordinated debt	348	347
Total capital	3,139	3,016
- Credit risk	10,442	11,684
- Market risk	1,050	861
- Operational risk	1,718	1,771
Total risk exposures	13,210	14,316
Common equity tier 1 capital ratio	20.0%	17.6%
Tier 1 capital ratio	21.1%	18.6%
Total capital ratio	23.8%	21.1%
MREL capital ratio	23.8%	21.1%

Vestjysk Bank obtained the Danish FSA's approval to recognise the profit for H1 2020 in total capital for Q3 2020. The profit for Q3 has not been recognised in total capital.

Total capital was negatively impacted by investments in shares in sector companies. Accordingly, total capital increased by DKK 123 million from 31 December 2019 to 30 September 2020.

Liquidity

At 30 September 2020, the Bank's Liquidity Coverage Ratio (LCR) stood at 219.2%, relative to the LCR requirement of 100%.

Vestjysk Bank has some 37,000 registered shareholders. The Bank's major shareholders are:

Aktieselskabet Arbejdernes Landsbank	32.44%
AP Pension Livsforsikringsselskab	19.71%
Nykredit Realkredit A/S	13.97%

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

Management's review

Financial review

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.

Supervisory Diamond Benchmarks	Danish FSA's requirements	Vestjysk Bank
Sum of large exposures	< 175%	110.2%
Lending growth	< 20%	-10.0%
Real estate exposure	< 25%	12.8%
Funding ratio	< 1	0.45
Liquidity benchmark	>100%	208.9%

Other matters

Business plan 2020

The Bank's business plan was described in the annual report for 2019. The business plan for 2020 is based on the objective of ensuring that Vestjysk Bank remains strong and grows even stronger. The business plan for 2020 builds on the business plan for 2019 and remains focused on generating earnings by entering into business transactions with existing and new customers within the Bank's natural market segment, further improving the Bank's credit quality and maintaining strict cost control in order to maintain the Bank's competitive strength.

Special circumstances in the period – including effects of the Coronavirus crisis on Vestjysk Bank until the reporting date

Like the rest of Denmark, the Bank was impacted by the official lockdown of the country from 12 March until 1 May 2020. The Bank follows the government's current recommendation that employees who can work from home do so from 18 September until at least 2 January 2021. So far, the Bank has been able to maintain a reasonable level of operations during both periods, and the level of customer activity has been high.

The Bank's advisers have contacted all business customers several times to arrange how the Bank can help them through the Coronavirus crisis and to advise them on how to apply the rescue packages provided by the Danish government and parliament. So far, the crisis has not directly impacted the Bank's lending or individual impairment losses.

For retail customers, Vestjysk Bank has provided a range of borrowing facilities in the form of permission to skip instalments, temporary overdraft facilities and increased credit facilities to support customers hit by the lockdown. These measures have also had a limited impact on the Bank, so far.

The sector distribution of the Bank's lending plays a positive part in this. Most of the Bank's lending is within sectors that have not been particularly badly affected by the Coronavirus crisis. The hotel, restaurant, transport and retail sectors are the hardest hit, and these sectors only account for some 10% of the Bank's total lending.

Vestjysk Bank's two main sectors, agriculture and real estate, have so far been relatively unaffected by the Coronavirus crisis. However, the Coronavirus pandemic has devastated the mink industry, bringing an end to mink farming in Denmark. The Bank's exposure to the mink industry is 0.8% of total gross lending, or DKK 121 million. The exposure has been written down to DKK 53 million, which is considered fully secured.

Pork prices dropped during the period, but remain at a satisfactory level. Because of the relatively high pork prices in the first half, pig farmers, some of which are credit-impaired, were able to repay debt to the Bank. This resulted in reversals of impairment allowances within this sector in Q3 2020. The current outbreak of African swine fever in Germany has made it difficult for the Bank's piglet producing customers to sell their output in Germany. This caused prices of piglets to fall sharply, and a downward trend was also seen in prices of pigs for slaughter. Vestjysk Bank monitors these developments closely and made the necessary provisions for their preliminary impact on customers in the Q1-Q3 financial statements. The Bank also made an additional impairment provision for economic uncertainty to cover the increased risk.

The Bank assesses that a Brexit without a trade agreement between the UK and Denmark may also affect the fisheries sector.

In the real estate sector, we are so far seeing an effect on commercial leases, where agreements have been made to defer rent payments. Depending on the duration and depth of the crisis, this effect could widen. Private residential rentals have not been affected at this point, and this is not expected to change significantly.

Our retail customers are generally doing well and are in a strong position to withstand the consequences of the Coronavirus crisis. In the long term, we expect to see an increase in impairment allowances, but on a manageable level overall.

We assess that the Bank's DKK 250 million impairment provisions due to economic uncertainty concerning the Coronavirus crisis, African swine fever in Germany and Brexit uncertainties and the DKK 50 million capital reservation in the individual solvency need will be sufficient to cover the Bank's current risk exposure. Projections about the future consequences of the Coronavirus crisis, African swine fever and Brexit are subject to considerable uncertainty. In particular, the above-mentioned potential risks to pig farmers could lead to an increase in impairment allowances.

Outlook for 2020

On the basis of the preliminary impact of the Coronavirus situation, Vestjysk Bank released revised full-year 2020 profit guidance on 13 May 2020. At that date, the guidance was a profit after tax in the range of DKK 160-240 million.

In an announcement released on 14 July 2020, Vestjysk Bank raised and specified its profit guidance after tax for full year 2020 to a range of DKK 200-260 million.

On 8 October 2020, the Bank released another announcement raising its profit guidance for 2020.

Vestjysk Bank saw a continued high level of activity among both retail and business customers.

Moreover, the trend in individual impairment losses was better than expected in all customer segments. Consequently, the Bank raised its profit guidance for 2020 to DKK 260-320 million after tax, and this guidance is maintained.

Financial calendar

■ 18 February	deadline for receipt of shareholder's request for items to be included on the agenda for the Annual General Meeting
■ 23 February	Annual Report 2020
■ 22 March	Annual General Meeting
■ 19 May	Quarterly Report, Q1
■ 17 August	Half Year Report, H1
■ 18 November	Quarterly Report, Q1-Q3

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 calculations to be applied consistently and with comparative figures.

The applied performance measures are defined below.

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 losses 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 services and arranged mortgage loans	The sum of Loans, Guarantees, Deposits, including pooled funds, Customer services and arranged mortgage loans.

Management's statement

The Bank's Board of Directors and Executive Board have today considered and approved the Quarterly report for the period 1 January – 30 September 2020 of Vestjysk Bank A/S.

The quarterly 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 2020, and of the results of the Bank's activities for the reporting period 1 January – 30 September 2020.

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 Quarterly Report has not been audited or reviewed.

Lemvig, 18 November 2020

Executive Board

.....
Jan Ulsø Madsen
Chief Executive Officer

.....
Michael Nelander Petersen
Managing Director

Board of Directors

.....
Kim Duus
Chairman of the Board of Directors

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

.....
Bent Simonsen

.....
Bolette van Ingen Bro

.....
Claus Jensen

.....
Karina Boldsen

.....
Nicolai Hansen

.....
Jacob Møllgaard

.....
Martin Sand Thomsen

.....
Mette Holmegaard Nielsen

Financial statements

Statements of income and comprehensive income

Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	Q3 2020 DKK'000	Q3 2019 DKK'000	FY 2019 DKK'000
Statement of income					
2 Interest income	367,486	414,259	121,543	138,188	554,382
2a Negative interest income	5,866	4,870	1,553	2,377	6,781
3 Interest expenses	22,750	32,297	7,491	10,155	40,797
3a Negative interest expenses	24,030	1,493	9,732	619	3,393
Net interest income	362,900	378,585	122,231	126,275	510,197
Dividends on shares etc.	8,715	28,970	24	5,760	29,017
4 Income from fees and commissions	262,470	269,454	86,418	96,817	363,594
Fees and commissions paid	23,192	25,216	7,924	8,337	34,520
Net interest and fee income	610,893	651,793	200,749	220,515	868,288
5 Value adjustments	42,044	172,774	27,706	153,305	184,939
Other operating income	249	2,380	14	233	2,433
6 Staff costs and administrative expenses	369,240	355,293	128,199	119,754	477,417
Depreciation, amortisation and impairment charges on tangible assets	8,379	11,318	3,014	7,026	29,547
Other operating expenses	2,005	1,218	722	420	1,569
7 Impairment of loans and receivables, etc.	4,035	43,616	-19,598	6,239	64,425
Profit before tax	269,527	415,502	116,132	240,614	482,702
10 Tax	19,523	18,526	8,563	6,776	4,957
Profit after tax	250,004	396,976	107,569	233,838	477,745
Statement of comprehensive income					
Profit after tax	250,004	396,976	107,569	233,838	477,745
Other comprehensive income:					
Change in the value of owner-occupied properties	0	-3,912	0	0	-16,955
Changes in the value of pension obligations	0	0	0	0	-801
Other comprehensive income after tax	0	-3,912	0	0	-17,756
Total comprehensive income	250,004	393,064	107,569	233,838	459,989

Financial statements

Statement of financial position

Note	30 September 2020 DKK'000	30 September 2019 DKK'000	31 December 2019 DKK'000
Assets			
	373,315	396,351	395,706
	635,242	468,797	775,266
	9,683,876	10,755,686	10,220,920
	5,375,519	4,039,920	4,268,252
	527,424	494,749	502,314
	5,032,250	5,055,446	5,232,977
	0	112	17
11	273,380	290,467	261,684
	3,029	4,741	4,831
	98,000	75,000	98,000
	963	0	0
12	285,680	420,958	415,928
	19,414	17,142	16,004
Assets total	22,308,092	22,019,369	22,191,899

Financial statements

Statement of financial position

Note	30 September 2020 DKK'000	30 September 2019 DKK'000	31 Decem- ber 2019 DKK'000
Equity and liabilities			
Debts			
	16,404	31,842	13,001
	12,968,008	12,987,463	13,042,817
	5,032,250	5,055,446	5,232,977
	17,406	15,563	3,715
13 Other liabilities	650,722	594,582	495,429
Prepayments	9	9	18
Debts, total	18,684,799	18,684,905	18,787,957
Provisions			
	15,006	15,037	15,532
8 Provisions for losses on guarantees	15,553	30,841	25,762
8 Other provisions	48,689	49,484	59,466
Provisions, total	79,248	95,362	100,760
14 Subordinated debt	347,724	346,778	347,015
Equity			
15 Share capital	895,982	895,982	895,982
Revaluation reserves	47,449	60,492	47,449
Reserves provided for in the Bank's Articles of Association	551,600	551,600	551,600
Retained earnings	1,546,290	1,229,250	1,306,136
Shareholder equity, total	3,041,321	2,737,324	2,801,167
Additional tier 1 capital holders	155,000	155,000	155,000
Equity, total	3,196,321	2,892,324	2,956,167
Equity and liabilities, total	22,308,092	22,019,369	22,191,899

Financial statements

Statement of changes in equity

DKK'000	Share capital	Revaluation reserves	Reserves provided for in the Bank's Articles of Association	Retained earnings	Shareholder equity, total	Additional tier 1 capital holders *)	Equity, total
Equity, 1 January 2020	895,982	47.449	551.600	1.306.136	2.801.167	155.000	2.956.167
Profit after tax for the period				240.154	240.154	9.850	250.004
Total comprehensive income	0	0	0	240.154	240.154	9.850	250.004
Interest on additional tier 1 capital						-9.850	-9.850
Additions relating to sale of own shares				36.804	36.804		36.804
Disposals relating to purchase of own shares				-36.804	-36.804		-36.804
Equity, 30 September 2020	895,982	47.449	551.600	1.546.290	3.041.321	155.000	3.196.321
Equity, 1 January 2019	895,982	64.563	551.600	846.678	2.358.823	230.000	2.588.823
Profit after tax for the period				381.758	381.758	15.218	396.976
Other income after tax		-3.912		0	-3.912		-3.912
Total comprehensive income	0	-3.912	0	381.758	377.846	15.218	393.064
Redemption on tier 1 capital						-75.000	-75.000
Interest on additional tier 1 capital						-15.218	-15.218
Tax on Interest on additional tier 1 capital				655	655		655
Additions relating to sale of own shares				113.528	113.528		113.528
Disposals relating to purchase of own shares				-113.528	-113.528		-113.528
Retained earnings		-159		159	0		0
Equity, 30 September 2019	895,982	60.492	551.600	1.229.250	2.737.324	155.000	2.892.324
Equity, 1 January 2019	895,982	64.563	551.600	846.678	2.358.823	230.000	2.588.823
Profit after tax for the period				459.206	459.206	18.539	477.745
Other comprehensive income after tax		-16.955		-801	-17.756		-17.756
Total comprehensive income	0	-16.955	0	458.405	441.450	18.539	459.989
Redemption on tier 1 capital						-75.000	-75.000
Interest on additional tier 1 capital						-18.539	-18.539
Tax on interest on additional tier 1 capital				894	894		894
Additions relating to sale of own shares				131.720	131.720		131.720
Disposals relating to purchase of own shares				-131.720	-131.720		-131.720
Retained earnings		-159		159	0		0
Equity, 31 December 2019	895,982	47.449	551.600	1.306.136	2.801.167	155.000	2.956.167

1*) 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.

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% 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%, the loan will be written down.

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Note

1 **Accounting policies**

Vestjysk Bank's interim report for the period 1 January - 30 September 2020 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, etc.

Except for the changes below the accounting policies are consistent with those applied in the 2019 Annual Report, which contains a full description of those policies.

Measuring certain assets and liabilities requires Management estimates of how future events will affect the value of such assets and liabilities. Estimates material to the financial reporting are for example made in connection with the determination of impairment allowances according to an expected loss model, fair values of unlisted financial instruments and provisions. For more details, see the 2019 Annual Report. The applied estimates are based on assumptions that Management considers reasonable, but which are inherently uncertain.

The Bank's significant risks and external conditions that may affect the Bank are described in greater detail in the 2019 Annual Report.

Changed income statement presentation

In the annual report from 2019, negative interest income and negative interest expenses were presented under interest income and interest expenses, respectively, in the notes to the financial statements. Effective from 2020, negative interest income and negative interest expenses will be presented separately in the notes to the financial statements and in the income statement. The changed presentation has no effect on the net profit.

Changed accounting treatment of leases

The Danish FSA's Amending Executive Order of 3 December 2018 became effective for the financial year beginning on 1 January 2020.

The Amending Executive Order introduces new rules on leases, which depart from the previous rules in that the lessee is no longer required to distinguish between finance leases and operating leases when accounting for leases. All leases are to be recognised by the lessee as a lease asset representing the value of the right of use. On initial recognition, the asset is measured at the present value of the lease liability, including costs and any advance payment. At the same time, the present value of the agreed lease payments is recognised as a liability. Short-term leases and leases of low-value assets are exempt from the requirement for recognition of a lease asset.

As a result of the amended rules and changed accounting policies, the Bank's opening property, plant and equipment and liabilities increased by DKK 15.7 million. Of this amount, DKK 15.3 million relates to the Bank's owner-occupied properties.

The effect of the amended rules and accounting policies on net profit is immaterial, as the Bank has a limited number of leases.

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Notes

Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
2 Interest income			
Receivables from credit institutions and central banks	46	31	43
Loans and other receivables	356,247	404,945	543,366
Bonds	10,480	7,699	9,023
Derivative financial instruments	713	1,578	1,950
Other interest income	0	6	0
Total	367,486	414,259	554,382
2a Negative interest income			
Receivables from credit institutions and central banks	2,083	1,671	2,426
Bonds	3,783	3,199	4,355
Total	5,866	4,870	6,781
3 Interest expenses			
Deposits and other debt	7,387	13,054	16,086
Subordinated debt	15,135	19,223	24,327
Other interest expenses	228	20	384
Total	22,750	32,297	40,797
3a Negative interest expenses			
Credit institutions and central banks	163	0	0
Deposits and other debt	23,867	1,493	3,393
Total	24,030	1,493	3,393
4 Income from fees and commissions			
Securities trading and custody services	61,631	59,709	83,175
Payment services	36,512	37,122	50,245
Loan processing fees	32,434	42,761	58,671
Guarantee commission	41,889	39,354	53,164
Other fees and commissions	90,004	90,508	118,339
Total	262,470	269,454	363,594
5 Value adjustments			
Bonds	11,562	7,217	5,046
Shares, etc.	20,644	151,150	162,604
Foreign currency	8,429	10,387	13,586
Foreign exchange, interest rate, equity, commodity, and other contracts as well as derivative financial in- struments	2,147	4,957	4,927
Assets related to pooled schemes	-372,444	457,947	581,559
Deposits with pooled schemes	372,444	-457,947	-581,559
Other assets	-738	-937	-1,224
Total	42,044	172,774	184,939

Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
6 Staff costs and administrative expenses			
Staff costs:			
Wages and salaries	174,636	164,281	220,307
Pensions	21,069	19,770	26,670
Payroll tax	28,928	26,977	35,894
Expenses relating to social security contributions etc.	1,348	2,235	2,583
Total	225,981	213,263	285,454
Average number of employee (FTE)	395.5	372.8	377.9
Other administrative expenses:			
IT expenses	102,189	90,638	124,853
Rent, electricity and heat	6,921	8,341	11,365
Postage, telephone etc.	1,242	1,834	2,136
Other administrative expenses	32,907	41,217	53,609
Total	143,259	142,030	191,963
Total	369,240	355,293	477,417
Salaries and remuneration of the Board of Directors and Executive Board are included in staff costs in the following amounts			
Board of directors			
Executive board	2,044	1,529	2,036
Fixed remuneration	4,932	4,843	6,457
Pension	246	242	322
Total	5,178	5,085	6,779
Value of benefits executive board	209	224	302
No agreements have been concluded concerning bonus plans, incentive programmes or similar compensation plans. The Bank is exempt from all pension obligations in respect of the departure of members of the Executive Board, whether as a result of age, illness, disability or other reasons.			
7 Impairment of loans and receivables, etc.			
Impairment of loans and other receivables in the statement of income			
Impairment charges for the period	440,195	371,140	400,647
Reversal of impairment charges in prior financial years	-384,816	-324,868	-339,743
Loans with no prior individual impairment/provisions, written off	15,781	7,451	10,545
Recovered on previously written off debts	-46,277	-11,015	-12,834
Total	24,883	42,708	58,615
Provisions for losses on guarantees and unused credit commitments			
Impairments for the period	32,542	33,125	49,167
Reversal of provisions in prior financial years	-53,390	-32,217	-43,357
Total	-20,848	908	5,810
Impairment of loans and other receivables, end of the reporting period	4,035	43,616	64,425
Interest income on impaired loans is offset against impairment in the amount of	35,237	49,728	58,463

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Notes

Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
8			
Impairments of loans and receivables and provisions on guarantees and unutilised credit lines - Impairment of loans and receivables.			
Stage 1 (absence of significant increase in risk assessment)			
Impairment, beginning of the reporting period	45,111	29,938	29,938
New impairments, new exposures	12,402	8,078	15,178
Reversed impairments repaid accounts	-94,404	-42,917	-48,166
Change in impairments, beginning of period to/from stage 1	-8,213	-6,282	-4,943
Change in impairments, beginning of period to/from stage 2	32,986	23,440	23,758
Change in impairments, beginning of period to/from stage 3	41,100	11,688	19,055
Impairments due to change in credit risk	7,395	9,158	10,291
Impairment, end of the reporting period	36,377	33,103	45,111
Stage 2 (significant increase in risk assessment)			
Impairment, beginning of the reporting period	75,845	91,895	91,895
New impairments, new exposures	10,411	11,068	11,033
Reversed impairments repaid accounts	-36,502	-43,946	-67,431
Change in impairments, beginning of period to/from stage 1	6,890	5,812	4,241
Change in impairments, beginning of period to/from stage 2	-37,629	-27,604	-28,602
Change in impairments, beginning of period to/from stage 3	20,596	19,115	35,502
Impairments due to change in credit risk	19,815	40,667	29,207
Impairment, end of the reporting period	59,426	97,007	75,845
Stage 3 (credit-impaired)			
Impairment, beginning of the reporting period	2,198,643	2,445,023	2,445,023
New impairments, new exposures	138,387	58,774	38,309
Reversed impairments repaid accounts	-395,978	-310,257	-353,102
Change in impairments, beginning of period to/from stage 1	1,323	470	702
Change in impairments, beginning of period to/from stage 2	4,643	4,163	4,844
Change in impairments, beginning of period to/from stage 3	-61,696	-30,803	-54,557
Impairments due to change in credit risk	393,390	307,842	418,441
Impairments lost	-210,906	-275,522	-359,480
Other movements	35,237	49,728	58,463
Impairment, end of the reporting period	2,103,043	2,249,418	2,198,643
Loans, credit-impaired at initial recognition			
Impairment, beginning of the reporting period (acquired impairment)	52,246	47,972	47,972
New impairments	1,359	8,458	8,627
Reversed impairments	-896	-652	-1,483
Impairments lost	-12,567	-2,870	-2,870
Impairment, end of the reporting period	40,142	52,908	52,246

Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
8 Provisions for losses on guarantees			
Provisions, beginning of the reporting period	25,762	32,814	32,814
New provisions, new exposures	425	1,902	2,220
Reversed provisions for losses at repaid accounts	-11,728	-8,022	-14,247
Provision during the period due to change in credit risk	1,231	4,147	4,975
Provisions, lost	-137	0	0
Provisions, end of the reporting period	15,553	30,841	25,762
Overall accumulated impairment of loans and receivables and provisions for losses on guarantees	2,254,541	2,463,277	2,397,607
Accumulated impairment ratio	14.0%	14.3%	14.5%
Provisions for losses on unused credit commitments			
Provisions beginning of the reporting period	59,466	46,604	46,604
New provisions, new exposures	3,635	1,620	11,615
Reversed provisions for losses at repaid accounts	-42,198	-24,505	-30,178
Provision during the period due to change in credit risk	27,786	25,765	31,425
Provisions, end of the reporting period	48,689	49,484	59,466
9 Receivables for which accrual of interest has been discontinued			
Receivables for which accrual of interest has been discontinued, end of the reporting period	950,623	947,129	966,895
Total impairment charge thereon	770,377	813,183	743,191
Receivables for which accrual of interest has been discontinued, as a percentage of loans before impairment	8.0%	7.2%	7.7%
10 Tax			
Current tax	19,523	18,544	26,803
Deferred tax	0	0	-23,000
Adjustment of current tax for prior years	0	-18	1,154
Total	19,523	18,526	4,957
Applicable tax rate	22.0%	22.0%	22.0%
Use of losses from previous years	-11.4%	-6.8%	-7.6%
Tax-free value adjustments	-1.6%	-7.7%	-7.0%
Deferred tax asset	0.0%	0.0%	-4.8%
Other adjustment	-1.8%	-3.0%	-1.8%
Adjustment of current tax for prior years	0.0%	0.0%	0.2%
Effective tax rate	7.2%	4.5%	1.0%

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Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
11 Owner-occupied property			
Revalued amount, beginning of the period	261,684	310,381	310,381
Additions	1,496	0	1,483
Disposals	16,852	7,489	7,488
Depreciations	3,074	3,893	4,971
Changes in value recognised in other comprehensive income	0	-3,912	-16,955
Changes in value recognised in the statement of income	0	-4,620	-20,766
Revalued amount, end of the period	243,254	290,467	261,684
External valuation experts have been involved in measuring the most important owner-occupied and investment properties.			
Leased owner-occupied property			
Value of leases, beginning of the period	0	0	0
Value of leases recognised, change in accounting treatment	15,316	0	0
Recognised in statement of financial position, beginning period	15,316	0	0
Additions	17,418		
Depreciations	2,608	0	0
Value of leases, end of the period	30,126	0	0
Total	273,380	290,467	261,684
12 Other assets			
Positive market value of derivative financial instruments	17,549	24,285	13,801
Interest and commission receivable	97,775	87,166	104,750
Investments in BEC	143,595	242,278	242,278
Other assets	26,761	67,229	55,099
Total	285,680	420,958	415,928
13 Other liabilities			
Negative market value of derivative financial instruments	16,599	25,063	15,852
Various creditors	571,859	540,329	447,057
Interest and commission payable	6,792	10,839	15,751
Lease liabilities	33,619	0	0
Other liabilities	21,853	18,351	16,769
Total	650,722	594,582	495,429

Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
14 Subordinated debt Tier 2 capital			
Total	347,724	346,778	347,015
Charged as an expense under interest expenses/subordinated debt:			
Interest expenses	14,426	18,672	23,539
Costs related to incurrence and repayment	709	551	788
Total	15,135	19,223	24,327
Subordinated debt that can be included in the total capital	347,724	346,778	347,015
<p>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 CIBOR6 plus a credit spread. The capital meets the tier 2 capital requirements under CRR/CRD IV.</p> <p>A nominal DKK 125 million will fall due on 28 August 2029 with an option for early repayment on 28 August 2024 subject to the Financial Supervisory Authority's approval. The capital accrues interest at a fixed 3.75% until 28 August 2028, after which it accrues interest at a floating rate of CIBOR6 plus a credit spread. The capital meets the requirements under CRR/CDR IV..</p>			
15 Share capital			
Share capital	895,982	895,982	895,982
Number of shares (units of DKK 1)	895,981,517	895,981,517	895,981,517
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%	0.0%	0.0%
Additions			
Purchase of own shares (thousands)	11,996	32,707	38,103
Nominal value DKK'000	11,996	32,707	38,103
Percentage of the share capital	1.3%	3.7%	4.3%
Total purchase price DKK'000	36,804	113,528	131,720
Disposals			
Sold own shares (thousands)	11,996	32,707	38,103
Nominal value DKK'000	11,996	32,707	38,103
Percentage of the share capital	1.3%	3.7%	4.3%
Total selling price DKK'000	36,804	113,528	131,720
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%	0.0%	0.0%
<p>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.</p> <p>Vestjysk Bank has a constant holding of own shares.</p>			

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Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
16 Capital			
Shareholders' Equity	3,041,321	2,737,324	2,801,167
Profit not recognised in total capital	-104,271	-377,846	-
Intangible assets	0	-112	-17
Prudent valuation	-5,704	-4,136	-4,343
Holdings in financial sector entities	-211,468	-235,204	-199,573
Deferred tax assets	-83,707	-57,201	-83,707
Common equity tier 1 capital	2,636,171	2,062,825	2,513,527
Additional tier 1 capital	155,000	155,000	155,000
Tier 1 capital	2,791,171	2,217,825	2,668,527
Tier 2 capital	347,724	346,778	347,015
Total capital	3,138,895	2,564,603	3,015,542
- Credit risk	10,441,811	12,036,265	11,683,860
- Market risk	1,050,704	598,414	861,155
- Operational risk	1,717,740	1,771,322	1,771,322
Total risk exposure	13,210,255	14,406,001	14,316,337
Common equity tier 1 capital ratio	20.0%	14.3%	17.6%
Tier 1 capital ratio	21.1%	15.4%	18.6%
Total capital ratio	23.8%	17.8%	21.1%
MREL- capital			
Total capital	3,138,895	2,560,691	3,015,991
MREL-capital	0	0	0
MREL- total capital	3,138,895	2,560,691	3,015,991
MREL-capital ratio	23.8%	17.8%	21.1%
17 Contingent assets			
Deffered tax asset at a tax rate of 22%	446,042	517,593	480,480
The deferred tax asset is primarily related to carry forward taxable deficits.			
It is the Banks assessment that there is no basis for recognition of all of the deferred tax asset presently. Therefore, the deferred tax is partly recognised at DKK 98 million in the financial statement at 30 September 2020.			
The remaining deffered tax asset is treated as a contingent asset which is not recognised in the Statement of Financial Position.			

Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
18 Contingent liabilities			
Guarantees			
Financial guarantees	736,818	694,188	741,057
Loss guarantees on mortgage loans	2,177,018	2,307,679	2,172,001
Other contingent liabilities	1,204,554	972,004	1,052,605
Total	4,118,390	3,973,871	3,965,663
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	139,609	236,273	144,799
Other liabilities	0	17,875	12,554
Total	139,609	254,148	157,353
Bankens medlemskab af datacentralen BEC medfører, at banken ved en eventuel udtrædelse er forpligtet til betaling af en udtrædelsesgodtgørelse på 542 mio. kroner.			
Security pledged			
Credit institutions:			
Margin accounts pledged as security in relation to financial derivatives	12,912	22,418	14,391
Deposited in the Danish Growth Fund	405	455	455
Bonds:			
Pledged as security for credit facility with Danmarks Nationalbank			
Total nominal value	1,220,633	1,119,313	942,470
Total market value	1,227,523	1,125,355	948,682
19 Pending litigation			
Vestjysk Bank is a party to various lawsuits. The proceedings are evaluated on an ongoing basis, and requisite 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.			

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20 Loans and guarantees, by sector (net)

	Q3 2020	Q3 2020	Q3 2019	Q3 2019	FY 2019	FY 2019
	DKK'000	pct.	DKK'000	pct.	DKK'000	pct.
Public authorities	0	0%	0	0%	0	0%
Business:						
Agriculture, hunting, forestry and fishery	2,731,497	20%	2,988,716	20%	2,893,210	20%
Manufacturing industry and raw material extraction	449,058	3%	500,596	3%	493,006	4%
Energy supply	351,757	3%	370,092	2%	359,366	3%
Construction and civil engineering contractors	509,225	4%	511,006	4%	502,881	4%
Trade	697,020	5%	1,016,370	7%	881,614	6%
Transportation, hotels and restaurant businesses	444,217	3%	464,161	3%	456,111	3%
Information and communication	51,066	0%	49,535	0%	58,659	0%
Credit and financing institutes and insurance businesses	570,059	4%	668,834	5%	602,421	4%
Real estate	1,666,228	12%	1,857,376	13%	1,861,000	13%
Other businesses	724,959	5%	745,238	5%	699,660	5%
Business, total	8,195,086	59%	9,171,924	62%	8,807,928	62%
Retail	5,607,180	41%	5,557,633	38%	5,378,655	38%
Total	13,802,266	100%	14,729,557	100%	14,186,583	100%

21 Loans by rating, sectors and IFRS9- stages

Loans at amortised cost, unused credit commitments and financial guarantees, by rating and IFRS 9 Stages

	Q3 2020 (DKK'000)				
	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Normal credit quality	11,359,277	382,189	0	0	11,741,466
Some signs of weakness	4,986,514	1,570,067	0	0	6,556,581
Significant signs of weakness	435,149	424,463	0	0	859,612
Impaired loans	0	0	3,478,323	78,240	3,556,563
Total	16,780,940	2,376,719	3,478,323	78,240	22,714,222

Note

21 **Loans by rating, sectors and IFRS9- stages**
Loans at amortised cost, unused credit commitments and financial guarantees, by rating and IFRS 9 Stages

Q3 2019 (DKK'000)

	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Normal credit quality	9,935,117	559,028	0	0	10,494,145
Some signs of weakness	5,277,159	2,221,961	0	0	7,499,120
Significant signs of weakness	238,133	724,029	0	0	962,162
Impaired loans		0	4,369,963	103,469	4,473,432
Total	15,450,409	3,505,018	4,369,963	103,469	23,428,859

FY 2019 (DKK'000)

	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Normal credit quality	9,622,996	503,822	0	0	10,126,818
Some signs of weakness	5,330,933	1,674,611	0	0	7,005,544
Significant signs of weakness	530,057	649,053	0	0	1,179,110
Impaired loans	0	0	4,168,137	92,968	4,261,105
Total	15,483,986	2,827,486	4,168,137	92,968	22,572,577

The Bank's credit risk in relation to business customers is managed using an internal segmentation model classifying customers according to credit risk.

The model is directly compatible with the Danish FSA's classification model. The correlation between the models is set out in the table below.

	Normal credit quality	Some signs of weakness	Significant signs of weakness	Credit-impaired customers
The Bank's segmentation model (business)	E1+E2	E3+E4	E5	E6
The Bank's customer rating model (retail)	1-3	4-6	7-8	9-11
The Danish FSA's classification model	3-2a	2b	2c	1

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21 Loans at amortised cost, unused credit commitments and financial guarantees, by sector and IFRS 9 stage

	Q3 2020 (DKK'000)				
	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	2,273,335	683,293	1,460,365	64,396	4,481,389
Manufacturing industry and raw material extraction	659,863	95,044	100,342	0	855,249
Energy supply	435,703	29,399	110,688	0	575,790
Construction and civil engineering contractors	834,801	149,001	60,229	0	1,044,031
Trade	1,093,656	176,688	183,870	247	1,454,461
Transportation, hotels and restaurant businesses	450,335	128,021	194,359	0	772,715
Information and communication	110,791	19,816	7,082	0	137,689
Credit and financing institutes and insurance businesses	550,056	57,163	217,343	24	824,586
Real estate	1,916,403	469,567	735,640	10,217	3,131,827
Other businesses	1,018,750	187,379	120,618	264	1,327,011
Business, total	9,343,693	1,995,371	3,190,536	75,148	14,604,748
Retail	7,437,247	381,348	287,787	3,092	8,109,474
Total	16,780,940	2,376,719	3,478,323	78,240	22,714,222

	Q3 2019 (DKK'000)				
	Stage 1	Stage 2	Stage 3	credit-impaired at initial recognition	Total
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	1,754,641	1,173,641	1,890,556	62,962	4,881,800
Manufacturing industry and raw material extraction	527,915	166,034	137,275	5,507	836,731
Energy supply	493,835	20,401	145,586	0	659,822
Construction and civil engineering contractors	629,915	181,805	80,420	4,968	897,108
Trade	1,005,924	366,098	201,805	253	1,574,080
Transportation, hotels and restaurant businesses	435,303	117,511	250,833	0	803,647
Information and communication	79,740	12,606	6,696	0	99,042
Credit and financing institutes and insurance businesses	598,243	43,154	283,246	36	924,679
Real estate	1,590,431	469,486	889,247	16,941	2,966,105
Other businesses	741,103	287,118	135,096	9,559	1,172,876
Business, total	7,857,050	2,837,854	4,020,760	100,226	14,815,890
Retail	7,593,359	667,164	349,203	3,243	8,612,969
Total	15,450,409	3,505,018	4,369,963	103,469	23,428,859

Note

21 **Loans at amortised cost, unused credit commitments and financial guarantees, by sector and IFRS 9 stage
FY 2019 (DKK'000)**

	Stage 1	Stage 2	Stage 3	credit-im- paired at ini- tial recogni- tion	Total
Public authorities	0	0	0	0	0
Business:					
Agriculture, hunting, forestry and fishery	2,025,594	959,403	1,801,808	63,284	4,850,089
Manufacturing industry and raw material extraction	614,164	78,307	134,598	5,507	832,576
Energy supply	472,737	9,348	133,654	0	615,739
Construction and civil engineering contractors	643,191	176,193	82,087	600	902,071
Trade	1,010,470	267,533	204,177	251	1,482,431
Transportation, hotels and restaurant businesses	401,054	118,289	262,578	0	781,921
Information and communication	99,404	12,019	6,299	0	117,722
Credit and financing institutes and insurance businesses	474,360	47,890	223,470	36	745,756
Real estate	1,818,590	350,489	856,812	10,753	3,036,644
Other businesses	783,510	233,920	122,091	9,404	1,148,925
Business, total	8,343,074	2,253,391	3,827,574	89,835	14,513,874
Retail	7,140,912	574,095	340,563	3,133	8,058,703
Total	15,483,986	2,827,486	4,168,137	92,968	22,572,577

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Note	Q1-Q3 2020 DKK'000	Q1-Q3 2019 DKK'000	FY 2019 DKK'000
22 Maximum credit exposure before impairment and provisions			
Loans measured at amortised cost	11,922,864	13,188,122	12,592,765
Unused credit commitments	7,862,939	7,211,565	7,043,115
Guarantees	4,133,943	4,004,712	3,991,425
Loans, guarantees etc..	23,919,746	24,404,399	23,627,305
Receivables from credit institutions and central banks	945.706	804.025	945,706
Bonds at fair value	5,375,519	4,039,920	4,268,252
Positive market value of derivative financial instruments	17.549	24.285	17,549
Total	30,258,520	29,272,629	29,020,218
Maximum credit exposure after impairment and provisions			
Loans measured at amortised cost	9,683,876	10,755,686	10,220,920
Unused credit commitments	7,814,250	7,162,081	6,983,649
Guarantees	4,118,390	3,973,871	3,965,663
Loans, guarantees etc..	21,616,516	21,891,638	21,170,232
Receivables from credit institutions and central banks	945.706	804.025	945,706
Bonds at fair value	5,375,519	4,039,920	4,268,252
Positive market value of derivative financial instruments	17.549	24.285	17,549
Total	27,955,290	26,759,868	26,563,145
Collateral for loans, credit commitments and guarantees			
Bank accounts	92,539	106,623	98,389
Securities	1,001,508	994,720	998,769
Mortgages on properties and wind turbines	8,647,566	8,896,663	8,750,749
Right of subrogation for mortgages secured in real property	2,184,239	2,323,585	2,193,247
Charges held in movable property, motor vehicles, operating equipment, ships etc.	2,783,599	2,666,819	2,591,198
Other	273,206	337,493	274,680
Total	14,982,657	15,325,903	14,907,032
Of this amount collateral for loans, credit commitments and guarantees (stage 3)	1.675.046	2.114.992	2.083.060

The Bank holds a charge on the financed asset for most of its business exposures, which is the reason the most common types of collateral are mortgages secured in real property, ships, wind turbines, motor vehicles, movable property, securities as well as floating charges. Owner's sureties and personal insurance also constitute a large share of the collateral held by the Bank.

For the majority of retail customer exposures, it is also the case that the Bank holds a charge in the financed asset – which is the reason the most common types of collateral are mortgages secured in real property and in motor vehicles.

The Bank continuously performs assessments of pledged collateral. Valuations are performed based on the fair value of the asset, less the margin for covering costs related to realisation, selling period costs as well as rebates.

A number of exposures are secured by collateral in excess of the amount of the exposure. The excess collateral is not included in the calculation

Note	Q1-Q3 2020	Q1-Q3 2019	FY 2019
23			
Financial highlights			
Key figures			
Statement of income (DKKm)			
Net interest income	363	379	510
Net fee income	239	244	329
Dividends on shares etc.	9	29	29
Value adjustments	42	173	185
Other operating income	0	2	2
Core income	653	827	1.055
Staff costs and administrative expenses	369	355	477
Other operating expenses as well as depreciation, amortisation and impairment charges on intangible and intangible assets	10	12	31
Operating expenses and operating depreciation and amortisa-	379	367	508
Core earnings before impairment	274	460	547
Impairment of loans and receivables, etc.	4	44	64
Profit before tax	270	416	483
Tax	20	19	5
Profit after tax	250	397	478
	30/9 2020	30/9 2019	31/12 2019
Statement of financial position (DKKm)			
Assets, total	22,308	22,019	22,192
Loans	9,684	10,756	10,221
Deposits, including pooled schemes	18,000	18,043	18,276
Guarantees	4,118	3,974	3,966
Custody accounts	9,169	8,332	8,708
Arranged mortgages	32,663	30,060	30,749
Business volume	31,802	32,773	32,463
Business volume including custody services and arranged mortgages	73,634	71,165	71,920
Equity	3,196	2,892	2,956

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Note	Q1-Q3 2020	Q1-Q3 2019	FY 2019
23			
Financial highlights (continued)			
Financial ratios			
Solvency			
Total capital ratio	23.8%	17.8%	21.1%
Tier 1 capital ratio	21.1%	15.4%	18.6%
Common equity tier 1 capital ratio	20.0%	14.3%	17.6%
Earnings			
Return on equity before tax, annually	11.7%	20.3%	17.4%
Return on equity after tax, annually	10.9%	19.4%	17.2%
Income/cost ratio	1.70	2.01	1.84
Cost ratio ¹	58.1%	44.5%	48.2%
Return on assets	1.1%	1.8%	2.2%
Employees converted to full-time (average)	395.50	372.80	377.90
Market risk			
Interest rate risk	1.4%	0.2%	0.7%
Foreign exchange position	0.4%	0.3%	0.4%
Foreign exchange risk	0.0%	0.0%	0.0%
LCR	219.2%	203.2%	259.2%
Credit risk			
Loans plus impairment of loans relative to deposits	66.2%	73.1%	68.9%
Loans relative to equity	3.0	3.7	3.5
Growth in loans for the period	-5.3%	-0.4%	-5.3%
Sum of the 20 biggest exposures	110.2%	126.3%	102.7%
Accumulated impairment ratio	14.0%	14.3%	14.5%
Impairment ratio for the period	0.1%	0.2%	0.3%
Vestjysk Bank share			
Earnings per share for the period	0.3	0.4	0.5
Book value per share ²	3.4	3.1	3.1
Price of Vestjysk Bank shares, end of the period	2.8	3.5	3.1
Share price/book value per share	0.8	1.2	1.0

1 Operating expenses and operating depreciation and amortization/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.

