Annual report 2020

MERKUR
COOPERATIVE BANK

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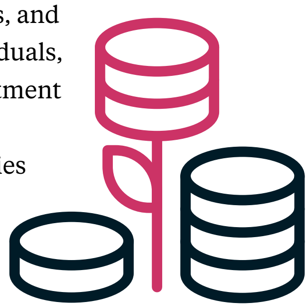
Merkur's business area

Merkur Cooperative Bank is a socially responsible bank offering banking services for personal and business customers. Lending by the cooperative bank is financed through deposits, and the capital comes primarily from our customers. Merkur lends money to private individuals, sustainable companies, social enterprises and institutions, and we offer savings, investment and insurance products as well as payment solutions. Merkur applies comprehensive selection criteria and minimum standards to ensure that not only do the bank's activities do no harm, they also lead to positive changes for people, the climate, the environment and biodiversity. In brief: Merkur is a Danish values-based bank with a vision of acting as a catalyst for a more sustainable world.



Merkur's ambition

Merkur has a holistic world view where everyone should have the opportunity to live a good and dignified life. Each person must, to the greatest possible extent, be able to freely decide where to apply his or her abilities, thereby taking co-responsibility for other people and for the world as a whole.

Merkur views the world as one whole living system, where a sustainable world is about safeguarding life on earth. A good and dignified life for people is about the fulfilment of basic physical needs, being treated with respect, and having the possibility to lead fulfilling lives and be inspired through culture and education. However, fundamentally relies on planet where the use of resources happens with respect of planetary boundaries and the living ecosystem as a whole.

Therefore, the ambition of Merkur Cooperative Bank is to contribute to:

- A world of dignity, respect and care for every human beaing.
- A world where education and a diverse cultural life free from special interests drive education, creativity and innovation and enable personal development and the leading of fulfilling lives.
- A world with a diverse and resilient natural environment where the climate is in balance.

Merkurs' mission

The mission of Merkur Cooperative Bank is:

- to raise awareness of money as a catalyst for sustainable development and solidify that serving people, society and nature is compatible with running a responsible, sound and resilient business.
- to run a straightforward and economically sustainable banking business characterised by a high degree of accountability and transparency.
- to offer financial products and services that support a sustainable real economy, while at the same time catering for the needs of society and our customers.
- to engage in an informational, value-adding and dynamic dialogue with our customers and partners, encouraging caring and sustainable behaviour.
- to create and hold the space for a community where the bank's employees, our customers and our business partners all work together to create a better world.

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Merkur Cooperative Bank Annual report 2020

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Financial highlights

KEY FIGURES IN DKKm	2020	2019	2018	2017	2016
Income statement					
Net interest and fee income	**146.6**	142.2	139.0	130.7	125.6
Market value adjustments	**-0.7**	1.0	-3.2	-5.6	9.7
Staff costs and administrative expenses	**130.4**	118.7	112.7	106.5	92.6
Impairment of loans and receivables etc.	**25.7**	11.3	17.1	36.6	17.0
Share of profit or loss of associates	**0.3**	-0.8	0.1	0.0	0.0
Profit for the year	**-10.4**	9.1	3.1	-19.0	20.2
Balance sheet					
Lending	**1,642.7**	1,667.9	1,667.9	1,752.4	1,676.0
Deposits	**3,526.9**	3,160.4	3,127.3	3,065.8	2,676.0
Equity	**389.6**	365.1	365.1	315.9	316.9
Total assets	**4,153.0**	3,704.1	3,600.9	3,536.4	3,146.2
Guarantees	**688.3**	637.4	619.5	675.9	685.4
Other information					
Number of full-service customers*	**20,176**	19.354	18.275	17.538	28.464
No. of shareholders	**8,096**	7.637	7.037	6.686	6.067
Ratios					
Capital ratio	**20.8**	20.0	17.8	16.3	17.5
Tier 1 capital ratio	**19.0**	18.0	15.8	14.5	15.4
Return on equity before tax (%)	**-3.6**	3.1	1.2	-7.1	8.5
Return on equity after tax (%)	**-2.8**	2.6	1.0	-5.9	7.1
Rate of return (%)	**-0.3**	0.2	0.1	0.5	0.6
Income/cost ratio	**0.9**	1.1	1.0	0.9	1.2
Income/cost ratio before market value adjustments and impairments	**1.1**	1.2	1.2	1.2	1.3
Cost relative to income excl. market value adjustments and impairments	**0.9**	0.9	0.8	0.8	0.8
Interest rate risk (%)	**0.9**	0.4	0.2	0.1	0.2
Foreign exchange position (%)	**0.8**	2.7	0.4	2.4	1.0
Foreign exchange risk (%)	**0.0**	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%)**	**541.4**	460.6	527.8	448.0	364.0
Loans and impairment charges in % of deposits	**48.4**	55.2	56.9	59.5	64.6
Lending-to-equity ratio (%)	**4.2**	4.6	5.3	5.5	5.3
Growth in lending for the year (%)	**-1.5**	0.0	-4.1	4.6	17.1
Ratio of 20 largest exposures to Tier 1 capital***	**135.1**	133.5	137.5	162.0	
Share of loans with reduced interest (%)	**0.5**	1.1	1.3	2.1	1.2
Impairment ratio for the year	**1.1**	0.5	0.7	1.5	0.7
Accumulated impairment ratio	**2.7**	3.7	4.0	2.9	2.3

* We would like to cater for even more of our existing customers' needs, and since 2017 we have therefore been measuring how many of our customers have chosen Merkur as their primary provider of banking services.
** The ratio is calculated LCR – excess coverage is the figure shown minus 100
*** Calculated for the first time in 2017

2020 in headlines

2020 was characterised by a very high level of activity, but the arrival of novel coronavirus on the world stage came to dominate most of the year, with aid packages and general uncertainty leading to a decrease in income. Moreover, like most other financial institutions, Merkur has made relatively substantial provisions in order to be able to absorb any corona-related losses in the future. Our plans were for 2020 to be a year of investments in additional resources for optimising our organisation and our internal processes – the pandemic has not changed that, and we have now laid the track for the new Merkur both strategically and organisationally. 2020 also saw an impressive increase in numbers of full-service customers as well as shareholders, high activity levels in the housing market and a continued and growing interest in sustainable investments. 2020 was also the year when Lars Pehrson, co-founder and CEO of Merkur for 38 years, handed over the reins to Charlotte Skovgaard, who took up the position of CEO on 1 September. Last, but not least, Merkur is proud to now having been B Corp certified, an international certification scheme for sustainability and social responsibility.

Profit for the year
DKK -10.4m
after tax

Corona
DKK -20.9m
of corona-related impacts

Earnings
3.1 % increase
in net interest and fee income

Capital
20.8 %
capital ratio

Customers
822
new full-service customers

Shareholders
40 % of Merkur's full-service customers are shareholders

Investments
DKK 1.5bn
invested in Triodos funds

Efficiency improvements
5,000 hours
saved in the organisation

Sustainability
B Corp-certified
with highest score in the Nordics

Footprint
CO2 neutral
Merkur has counteracted more CO2 than we have emitted

Financial performance

The past year

For Merkur, 2020 was characterised by an extremely high level of customer-centered activities as well as a strong focus on optimising and improving the efficiency of our internal operations, which was in line with our plans for 2020 as an investment year. The start of the coronavirus pandemic halfway through Q1 markedly changed conditions in our market. The highly uncertain situation led both to lower activity levels in parts of Merkur's business – especially our lending activities – and to increased impairments. Like most financial institutions, we had to make a so-called 'management's estimate' of the losses that the corona crisis may cause, but which have as yet not been ascertained.

Merkur delivered a profit for H2 2020 of DKK 5m after tax. Halfway through the year, our expectation was of a positive result for H2 of DKK 2-9m, which we fulfilled. A loss of DKK 10.4m after tax was posted for the full year, which is unsatisfactory compared to the DKK 9.1m profit for 2019 and our expectations for the year (a profit of DKK 6-12m). However, the results are essentially attributable to the corona crisis. Without this impact, we would have posted a profit of approx. DKK 6m.

Of course, a great deal of uncertainty surrounds the situation of our business customers when the aid packages expire. So far, many of Merkur's customers do not seem to have been impacted to any significant degree by the corona crisis. This goes, for example, for some of the sectors that are particularly important to Merkur, such as organic farming, the food industry, schools and institutions, but also our personal customers. Impairments of DKK 2.9m relate to customers whose difficulties can be attributed to the corona pandemic. In addition, management has estimated the potential consequences for Merkur of the inability of some of our customers to pay. This estimate has resulted in special provisions of DKK 12.5m to cover possible further impairment charges and losses resulting from the corona crisis. Changes in behavior are also having an impact on our business: While investments in new business projects have in many places been cancelled or postponed, the corona crisis also led to a marked decline in the use of debit cards in 2020, which is resulting in lower transaction income. Moreover, we are seeing a significant decline in foreign travel and currency withdrawals, which is also impacting Merkur's income.

Our plans were for 2020 to be a year of investments and of devoting additional resources to optimising our organisation and our internal processes, among other things by means of robots. We have also laid the tracks for the new Merkur, both strategically and organisationally. These changes have entailed the additional use of consultants, students and temps to ensure the availability of the necessary resources and skills at

Corona-related impacts in 2020

IN DKKm	
Losses and impairments estimated by management	DKK -15.4m
Lower travel costs, fewer meetings etc.	DKK +1.8m
Lower demand for foreign currency	DKK -1.0m
Fewer activity-related fees	DKK -2.6m
Less income from lending	DKK -3.7m
Total	**DKK -20.9m**

822
new full-service customers

40%
of Merkur's full-service customers are shareholders

8,096
share-holders

what has been a busy time. The corona crisis has not changed any of this – we have remained committed to making sure that Merkur is geared for the future.

We also set several positive records in 2020, which we will describe in further detail in the following. The headlines are an impressive increase in numbers of full-service customers and shareholders, high activity levels in the housing market and a continued and growing interest in sustainable investments.

New customers and shareholders

In Merkur, we value all our customers, and we are pleased that the past year has brought a marked increase in the number of customers who have chosen Merkur as their primary financial institution. We refer to these customers as our full-service customers. Full-service customers are customers who have their NemKonto with Merkur. At the end of 2020, Merkur had a total of 20,176 full-service customers, representing a 4.2% increase, or a net increase of 822.

We also calculate the number of account customers, which is the number of customers who have at least one active account with Merkur. In 2020, Merkur welcomed a total of 3,022 account customers (gross). Danes are generally becoming more focused on ethics, sustainability and transparency when deciding who to bank with.

In 2018, Merkur took over a large portfolio of just over 2,300 energy improvement loans from the energy company ENIIG. Many of these loans have now been repaid according to plan, which means that in 2020 we have said goodbye to many of these customers. 3,427 customers repaid their loans or decided to move their accounts elsewhere for other reasons. The net outflow of 405 customers can thus, among other things, be explained by a large portfolio of individual energy loans, which have gradually been repaid. At the end of the year, we therefore had 33,894 customers – representing a slight 1.2% decrease.

In 2020, Merkur saw a net increase of 459 shareholders (2019: 600), and the share capital grew by 11% or DKK 35m. At the end of 2020, Merkur had 8,096 shareholders, equating to 40% of our full-service customers (38% in 2019). Shares are the foundation of Merkur and a prerequisite for increasing lending and thus fulfilling our purpose of lending money to sustainable and socially responsible enterprises and projects. An increasing share capital will also come to play an important role in the fulfilment of the increased capital requirements that all financial institutions must meet in the coming years. Increasing the number of shareholders and our share capital will therefore be high priorities in 2021 and the next few years.

Deposits, loans and other forms of banking services

Never before have so many customers entrusted us with so much money. Deposits topped DKK 3.5bn in 2020, which corresponds to an 11.6% increase compared to 2019. And this is despite the fact that Merkur – like most other financial institutions – has introduced negative interest rates on deposits, and despite the fact also that an increasing share of our customers decide to invest some of their savings in the investment products offered by Merkur in our sustainable investment universe.

Sustainable, ethically screened investments and so-called impact investments have really taken off in the Danish market. Merkur is known for setting very high standards for the investment products we offer to our

Investments

IN DKKm	2020	2019	Change
Triodos impact funds	1,542	1.118	424
Sparinvest	155	201	46
SDG Invest	57	29	28
Maj Invest	14	9	5
Total	**1,768**	**1,357**	**411**

customers. We work with several partners, including Triodos Investment Management, which is one of the most experienced and thorough in the world when it comes to selecting companies, countries and projects in which to invest. Merkur's customers have now invested DKK 1,542m in Triodos investment funds, compared to DKK 1,118m in 2019, corresponding to growth of an impressive 38%.

Investments in funds from other partners total DKK 226m.We have great expectations for a continued increase in investments. In addition, the current interest rate environment with negative deposit rates sharpens customers' desire to actively consider how best to invest their money based on their wishes with regard to risks, returns and societal impact. In 2021, it will also be possible for Merkur's customers to invest their pension savings in Merkur's new impact pension pools.

Many customers decided to convert their mortgages in 2020, partly due to fluctuating but moderately falling interest rates, and partly due to a highly active housing market, which saw a significant increase in sales of holiday homes, among other things. Our biggest partner in the field of mortgage credit is Totalkredit. Concurrently with the strong conversion drive, the residual debt was increased, and new customers came on board. At the end of the year, our customers had a total outstanding debt in Totalkredit of DKK 3.0bn compared to DKK 2.6bn in 2019.

Every year, our customers make repayments of approx. DKK 300m, and we must therefore provide new loans in a similar amount to other customers for our loan portfolio to remain unchanged. Overall, our lending decreased by 1.5% or DKK 25m, leading to lending at the end of the year of DKK 1,643m. Seen in isolation, this is unsatisfactory compared to our expectations before the start of the financial year, which were of growth of 4-6%. However, at the beginning of 2020, there was no way that we could have predicted the corona pandemic, which has resulted in declining draws on credit facilities and a lack of investment appetite among our business customers.

It is difficult to run a financial institution in a low-interest environment. The excess liquidity has a negative impact on results, and increased lending is therefore key to improving basic earnings in the long term. We are working with a number of strategic projects and interventions which we expect to start materialis-

DKK 1.5 bn

invested in Triodos funds

DKK 3 bn

worth of mortgages with Totalkredit

3.1 %

increase in net interest and fee income

ing in H1 2021. Next year, we therefore expect to be looking back on a year of satisfactory lending growth. Read more in the chapter *Expectations for 2021*.

As a result of the increase in deposits and the reduction in lending combined with a low level of investment, at the end of the year Merkur had liquid funds of DKK 2.1bn, thereby meeting all liquidity coverage ratio requirements. The liquidity coverage ratio (LCR) metric measures Merkur's ability to meet its payment obligations within a future 30-day period, without raising external capital. The legal requirement for financial institutions like Merkur is a liquidity cover of 100% of its calculated payment obligations. At the end of 2020, Merkur's LCR was 541%, or 441% higher than the LCR requirement.

Guarantees are at a high level of DKK 688m (2019: DKK 637m). Guarantees are linked to the level of activity in the housing market, where the bank provides purchase price guarantees and guarantees in connection with the conversion and arrangement of mortgages.

Overall, Merkur's net interest and fee income increased by DKK 4.4m, or 3.1% in 2020.

DKK 147m is the total net income from interest and fees and other operating income. Unfortunately, market value adjustments for the year were negative and were therefore moved to the costs section.

Interest income saw a marginal DKK 0.6m increase compared to 2019 to DKK 97.3m. Due to a decrease in average lending, interest from loans fell (DKK -2.5m), but was compensated for by increased income from negative interest on deposits, which is up DKK 3.6m compared to 2019.

Interest expenses consist mainly of costs to Danmarks Nationalbank (the central bank of Denmark) for holding our deposit surplus in so-called certificates of deposit. In spring 2020, Danmarks Nationalbank increased the interest rate on certificates of deposit from -0.75% to -0.60%, which in isolation reduces our costs. However, due to the increase in the deposit surplus through 2020, we have not reduced this expense item, which ends at DKK 10.5m, which is on a par with 2019.

Altogether, interest expenses decreased to DKK 14.0m (DKK 14.4m in 2019). This is primarily due to the steps we have been taking to reduce the interest

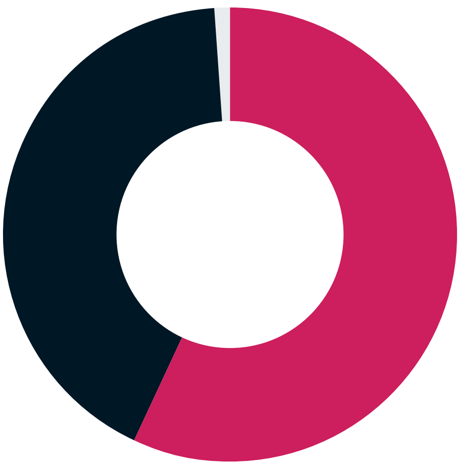
Merkur's income in 2020: DKK 147m

Net interest income: **57%**

Net fee and commission income: **43%**

Other operating income etc.: **0%**

Merkur's income in 2019: DKK 143m



Net interest income: **57%**

Net fee and commission income: **42%**

Market value adjustment and other operating income etc.: **1%**

rate we offer on fixed-term deposits and other special forms of deposits. Interest on Merkur's subordinated debt is unchanged and amounts to a cost of DKK 2.4m.

We are pleased that our customers are increasingly using Merkur for all their banking needs, which means that we continue to increase our income from mortgage brokering, investments, pensions and services. Net fee and commission income for the year was DKK 63.1m, up DKK 3.6m on last year (growth of 6.1%). In order to ensure a fair and transparent pricing structure, in 2020 we simplified our prices and changed the cost contribution to better reflect the costs that are actually associated with a customer relationship. The growth in investments and the increased cost contribution are the two main reasons for the increase in income.

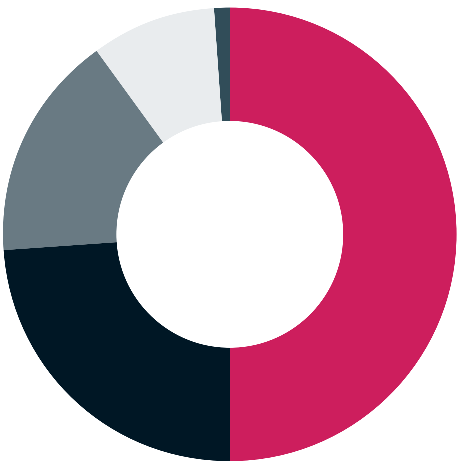
Costs

As mentioned in the introduction, in 2020 Merkur was required to carry out a management's estimate of the potential implications of the corona outbreak, estimating an impact of DKK 12.5m.This, of course, affects the distribution of the bank's costs in 2020.
Staff costs, which account for about half of all costs, increased by 12.8% from DKK 70.2m in 2019 to DKK 79.2m.The main reasons for the increase are expenses relating to the adjustment of Merkur's organisation (one-off expenses of DKK 3.6m), collectively agreed pay increases, holiday pay obligations and general wage pressures in the sector.

IT costs are again record-high – up 11.7% or DKK 3.9m and totaling DKK 37.5m. 2020 was an investment year, and the increase in IT costs is partly explained by investments in robots and systems designed to make our working lives easier and deliver an improved customer experience. Much of the spending increase is attributable to development costs in the areas of money laundering, compliance and adjustments due to regulatory changes – and we are, in fact, looking at a 9% increase in costs in these three areas again in 2021.

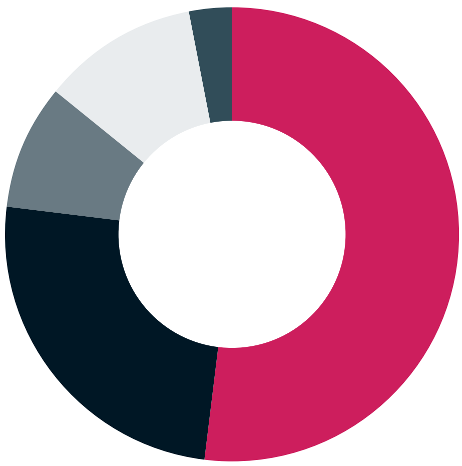
Administrative expenses decreased from DKK 14.8m to DKK 13.7m.The decrease can be attributed, in particular, to saved costs for meeting and travel activity due to corona, but also a technical change to lease accounting which requires that the rent expense of DKK 1.6m on our premises in Copenhagen and Aarhus be reclassified to depreciation and interest (read more in

Merkur's costs in 2020: DKK 157m



Salaries: **50%**
IT: **24%**
Impairment charges: **16%**
Administrative expenses etc: **9%**
Depreciation and amortisation, market value adjustment and tax: **1%**

Merkur's costs in 2019: DKK 134m



Salaries: **52%**
IT: **25%**
Impairment charges: **9%**
Administrative expenses etc: **11%**
Depreciation and amortisation, market value adjustment and tax: **3%**

Impairment ratio

[DKK '000]	2020	2019	2018	2017	2016	2015
Losses and impairments	**25,735**	11,325	17,132	36,558	17,007	14,033
In % of loans and guarantees	**1.1%**	0.5%	0.7%	1.5%	0.7%	0.7%

accounting policies on leases (IFRS 16)). In 2020, we paid consultancy fees of DKK 1.4m due to the extensive use of consultants to support the many strategic projects initiated in the investment year, and also as temps for unfilled positions.

The cost/income ratio[1] is a useful metric for getting an idea of the efficiency of banking operations. It is calculated by dividing all costs with all income. Merkur's cost/income ratio is unchanged at 0.9, which means that every time Merkur spends DKK 90 on salaries, IT, office supplies etc., the bank has income of DKK 100.The negative result for the year is thus ascribable to external impacts in the form of market value adjustments and impairments, rather than our ordinary operations.

Market value adjustments

Merkur has invested some of its excess liquidity in bonds, shares and equity investments in financial sector stock as well as in other cooperation partners.

Merkur's bond portfolio yielded a negative market value adjustment of DKK 1.6m, which is on a par with 2019. That equates to a return of -0.1%. The return should be compared with the risk-free interest rate of -0.6% on certificates of deposit with Danmarks Nationalbank. The remainder of our excess liquidity is still held in certificates of deposit (DKK 2.1bn) associated with negative interest income.

Market value adjustments contributed DKK 1.1m, comprising primarily returns on the financial sector share DLR and a negative regulation of the leasing company Opendo (DKK -0.8m).

Impairments and losses

Impairments and losses for the year totalled DKK 25.7m compared to DKK 11.3m in 2019, which should be seen in the context of the extraordinary DKK 12.5m impact of the corona crisis estimated by management. Exclusive of this extraordinary unrealised item, we regard the level of impairments and losses to be acceptable. The management's estimate of the impact of the corona crisis is described in further detail in the section on accounting estimates.

The adjusted impairment ratio is up from last year's 0.5% to 0.6% of all loans and guarantees, which is marginally higher than our expectations. Factoring in the management's estimate, the impairment ratio for 2020 is 1.1%.

Impairments in 2020 relate mostly to customers that are still in operation and thus have the potential to improve their financial situation and repay Merkur as originally planned.

Measured against the balance sheet as at 31 December 2020, accumulated impairments totaled 2.7% of loans and guarantees, compared to 3.7% last year. The decrease is primarily attributable to our active decision to write off impairments in cases where it is deemed unlikely that customers' ability to pay will improve in the foreseeable future. The size of the accumulated but not written-off impairments can be found in note 14 to the financial statements.

Profit for the year

For Merkur, 2020 was a year of tailwinds as well as headwinds. The increase in fee and commission income is positive news. The decline in lending, the level of staff costs, additional IT costs and corona-related impairments less so.

A loss of DKK 10.4m was posted after tax, which we consider unsatisfactory but acceptable under the circumstances. We believe that the positive result for H2 provides a good indication of what to expect from 2021, which is already well under way. It is proposed that the loss be carried forward to next year.

[1] Cost per krone of income exclusive of market value adjustments and impairments.

Profit for the year

[DKK '000]	2020	2019
Profit after tax for the year	-10,427	9,060
Price per share at year-end	1,728.80	1,788.70
Return on shares	-3.3%	1.0%

In order to strengthen earnings and reduce costs, a number of steps have already been taken, which will have an impact in 2021, and more initiatives are in the pipeline. Our strategic objectives and expectations for the coming year are described in detail in the chapters *Strategic objectives* and *Expectations for 2021*.

Share capital and subordinated loan capital

Over the 22 years that Merkur's shares have offered the possibility of a return, the value of the share has increased by a total of 72.7%, corresponding to an average increase of 2.8% a year. Compared to many other investments, this is quite a good return, especially considering what the share is intended to be: a long-term and socially responsible investment. The return for 2020 was -3.3%, which is below expectations. It is worth noting here that if adjusted for the corona impact on results, the Merkur share would have delivered a positive return.

In 2020, our share capital grew by DKK 35m, or 11.1%. We are pleased with the support we receive from both existing and new shareholders. One of our new shareholders is Triodos Bank, a Dutch bank, which in December 2020 bought share capital for approx. DKK 15m. As the reason for the investment, Triodos mentions the fact that Merkur works purposefully to support the green transition as well as Merkur's financially sustainable business plan.

Shares, subordinated debt and retained earnings for this year and previous years constitute the liable capital that forms the basis of Merkur's banking operations. See the calculation of own funds below, as well as the development in own funds during the year.

A capital ratio of 20.8% for 2020 measures own funds in relation to our risk-weighted assets. 20.8% is very close to the range expected before the start of the financial year (expectation of 21%-22%), which we deem to be satisfactory in light of the corona impacts. The increasing capital ratio is primarily ascribable to the subscription of shares in 2020 in combination with a reduction in risk-weighted assets. The risk-weighted assets consist primarily of our loans, which decreased in 2020.

Current and future capital requirementsa

All financial institutions in Denmark are subject to a set of rules intended to ensure that financial institutions are sufficiently capitalised for any repeat of the financial crisis in 2008 to not have to be financed by

0.6 %

impairment ratio of all loans and guarantees*

20.8 %

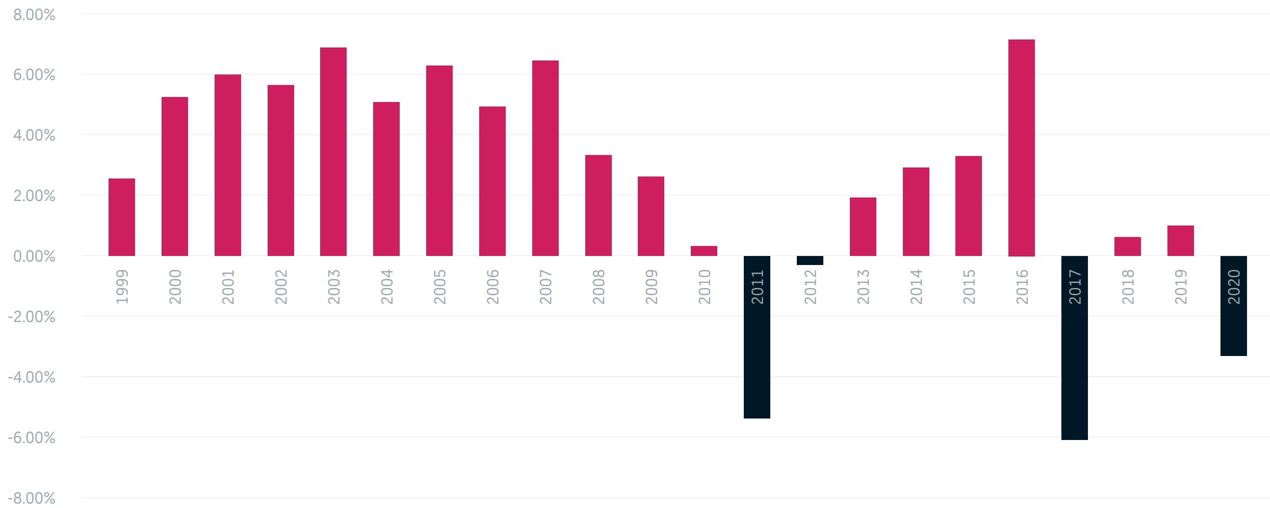
capital ratio

6.4

percentage points of excess solvency cover

* adjusted for corona-related estimates

Annual return Merkur shares



In 18 out of 22 years, Merkur's shareholders have received a positive return on their investment.

Total own funds

(DKK '000)	2020	2019	Dev. in %
Share capital including share premium	**350,154**	315,203	11.1%
Revaluation and other reserves	**39,422**	49,849	-20.9%
Subordinated debt	**37,353**	40,596	-8.0%
Aggregate liable capital before deduction and transitional arrangements	**426,929**	405,648	5.2%
Various deductions (deferred tax etc.)	**-15,217**	-8,159	86.5%
Additions due to IFRS 9 transitional arrangement	**12,108**	18,850	-35.8%
Own funds	**423,820**	416,338	1.8%
Risk-weighted assets and other risks	**2,038,753**	2,084,296	-2.2%
Capital ratio	**20.8%**	20.0%	4.0%

anyone other than the shareholders themselves. One of the defence mechanisms is the capital conservation buffer, and this buffer represents 2.5% of the risk-weighted assets.

Another defence mechanism is the so-called cyclical buffer or countercyclical buffer. The countercyclical buffer rate is high during boom times and low during periods of recession. In 2019, the buffer rate was 1%. The plan was even to increase the buffer by a minimum of 1%, but in line with the intentions behind the mechanism, the Systemic Risk Council decided – as a direct consequence of the corona lockdown – to suspend both the announced increases and the countercyclical buffer that had already been introduced. We do not expect the countercyclical buffer to be reintroduced until 2023, at the earliest.

In 2019, a third capital requirement – the so-called MREL requirement – was introduced as part of the EU's so-called recovery and resolution directive for credit institutions. MREL stands for 'eligible liabilities', and the cryptic term covers the requirement that financial institutions must build up a capital buffer for use in the event of the resolution or merger of a financial institution with another financial institution.

Merkur's MREL requirement has been determined by the Danish Financial Supervisory Authority as 5.6% of our risk-weighted exposures, which translates into a total MREL requirement of DKK 106m. This requirement will be phased in over five years from 2019-2023. The MREL requirement is dynamic, and a new MREL requirement is calculated each year. If Merkur grows – which we expect to do from 2021 onwards – the nominal MREL requirement will also increase. However, the MREL requirement cannot be more than 6% or less than 3.5% of the risk-weighted exposures. Moreover, the average for financial institutions with a balance sheet below EUR 3bn must be 4.7% at all times. The MREL requirement can be covered by ordinary equity, including share capital as well as other known capital instruments such as subordinated loan capital. However, it is also possible to cover the MREL requirement using a special type of loan capital for this specific purpose known as Tier 3 capital or non-preferred senior debt. In 2020, we entered into an agreement with Arbejdernes Landsbank (AL) on the provision of Tier 3 loan capital of DKK 25m.We have also received an indication that AL will repeat the investment both in 2021 and 2022, provided that our budgets and capital plans hold.

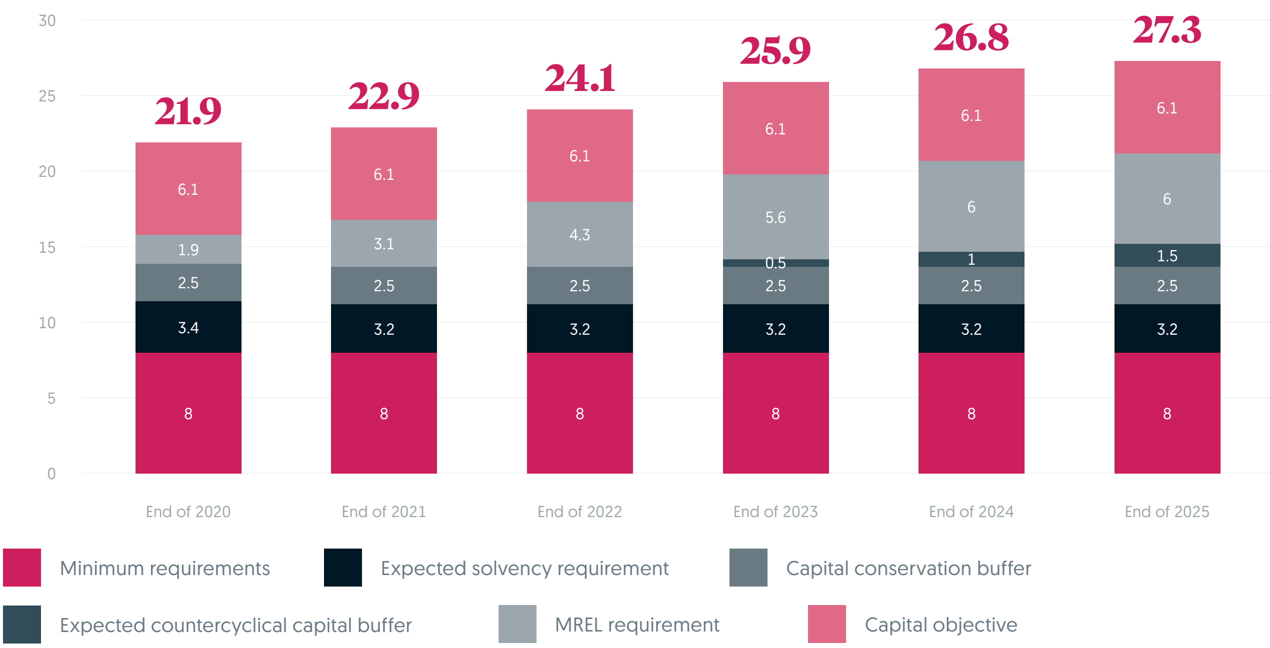
Merkur has laid a capital plan covering the period up until 2025, which shows that based on realistic assumptions, we will be able to meet the future capital requirements and at the same realise moderate growth during the period. Moreover, we expect to be able to improve Merkur's basic earnings significantly in the next few years. On this basis, and given that impairments are expected to be maintained at a level of 0.5-0.7%, we will be able to generate annual profits that can significantly contribute to strengthening the bank's own funds. The annual new issue of share capital is expected to continue at a sensible level (DKK 20-25m a year) due to the historical and current interest, in combination with our growth ambitions. In the phase-in period up to 2023, and regardless of share subscriptions and profits, we expect some of the MREL requirement to be met through the arrangement of additional Tier 3 capital in the minimum amount of DKK 50m.

In 2025, and following the phase-in of all capital requirements, including MREL, Merkur's capital requirement is expected to total 21.2% compared to a capital ratio of 20.8% at present. In addition to meeting the statutory requirements, the aim of the capital plan is also to meet the excess capital requirement of 6.1% defined by the Board of Directors, corresponding to a combine capital requirement in 2025 of 27.3%.

Solvency need

The solvency need is our individual assessment of the capital buffer required to accommodate the various risks to which a financial institution is exposed. Our

Expected capital requirement in % of risk-weighted assets



Development in solvency need

	2020 (%)	2020 (DKK '000)	2019 (%)	2019 (DKK '000)
Weighted assets (basis for calculating capital ratio)		2,038,753		2,084,296
Capital ratio (capital ratio based on weighted assets)	20.8%	423,820	20.0%	416,338
Solvency need*	-11.4%	232,049	-11.5%	-238,784
Excess capital adequacy before buffer requirement	**9.4%**	**191,771**	**8.5%**	**177,554**
Capital conservation buffer	-2.5%	-50,969	-2.5%	-52,107
Countercyclical capital buffer	0.0%	0	-1.0%	-20,843
Excess capital adequacy after buffer requirement	**6.9%**	**140,802**	**5.0%**	**105,125**
MREL requirement	-1.9%	-38,736	-0.6%	-12,506
MREL capital**	1.4%	27,912	0.0%	0
Excess capital adequacy after buffer and MREL requirement	**6.4%**	**129,977**	**4.4%**	**92,619**

* Standard 8% plus the calculated solvency need to cover the risks not covered by the standard requirement.

** Tier 3 capital does not count towards the capital ratio and consists of a number of elements, the largest being MREL loans from AL (DKK 25m)

assessment is based on standards for which the Danish FSA has issued detailed guidance. The solvency and minimum capital requirements applying to financial institutions are primarily intended to protect depositors and other creditors. An in-depth description of the solvency need and its components is provided in the risk report ('Pillar III reporting'), which can be found on the Merkur website www.merkur.dk/årsrapporter (in Danish).

At the end of 2020, the individual solvency need is an estimated 3.4% of risk-weighted assets, which together with the 8% standard rate equates to Merkur having Tier 1 capital of at least DKK 232m.

The own funds is a cautious summary of the amount of risk capital available to Merkur in the event of a discontinuation of the bank's operations. This sum must exceed – with a buffer – the solvency need and all other buffers and requirements. At the end of 2020, Merkur has solid own funds and excess capital of 6.4 percentage points over and above the solvency need of 11.4%, the capital conservation buffer of 2.5%and the MREL requirement of 1.9%.

Supervisory diamond

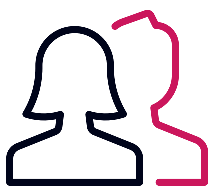
Following the financial crisis, the Danish FSA introduced five benchmarks which can give an indication of whether a financial institution is taking on excessive risks. The five benchmarks are known as the supervisory diamond. At the end of 2020, Merkur complies with all five measuring points. As part of the general risk management, the Merkur management has added a buffer relative to the limit values for the various benchmarks to ensure internal attention well in advance of the limit values being exceeded.

Supervisory diamond

IN %	2020	2019	Limit value
Sum of large exposures	133.2	133.5	Max. 175%
Lending growth	-1.5	-0.4	Max. 20%
Commercial property exposure	7.4	7.9	Max. 25%
Funding ratio (loans relative to working capital)	41.5	47.0	Max. 100%
Liquidity coverage ratio	541.0	461.0	Min. 100%

Strategic objectives for 2023

Merkur Cooperative Bank has defined a number of strategic objectives, most of which cover the 2020-2023 period, i.e. four years. In Merkur, we constantly adapt to the society we are a part of. Therefore, more objectives have been added in 2020, and the work to achieve these very objectives will not begin until 2021.

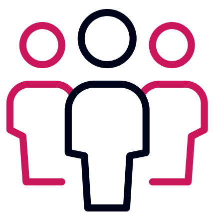


Full-service customers

STATUS 2020: **822 new full-service customers**

OBJECTIVES FOR 2023: **3,800 new full-service customers** (net)

In Merkur, we would like to make an even more positive difference for even more people. We would like to cater for even more of our existing customers' needs, and we therefore measure how many of our customers have chosen Merkur as their primary provider of banking services. In addition, we want to welcome even more customers on board so that together we can ensure positive societal change.



Shareholders

STATUS 2020: **459 new shareholders**

OBJECTIVES FOR 2023: **2.800 new shareholders** (net)

Merkur's shareholders are absolutely key to Merkur being able to create positive change in society. We would therefore like more of our customers to become co-owners of the cooperative bank, thereby helping to accelerate sustainable social development.

Capital

STATUS 2020: **DKK 60m in increased capital**

OBJECTIVES FOR 2023: **DKK 245m in increased capital**

In order for Merkur to finance the sustainable and socially responsible development of society, we need capital. Moreover, the capital requirements we are obliged by law to meet are becoming ever stricter.

Profit after tax

STATUS 2020: **DKK -10.4m**

OBJECTIVES FOR 2023: **DKK 30m**

For Merkur to fulfil its mission, we need to be financially sustainable and to be able to generate a reasonable return for our shareholders. Our target is therefore a profit after tax in 2023 of DKK 30m, corresponding to an average return on equity of 5.1%.

Interest and fee income

STATUS 2020: **DKK 147m**

OBJECTIVES FOR 2023: **DKK 180m**

Financial sustainability is a prerequisite for Merkur to make a difference in the world. Therefore, we need to generate reasonable earnings on the products and services we offer.

Values

STATUS 2020: **B Corp score of 115,5 points**

OBJECTIVES FOR 2023: **B Corp score of 127 points**

In Merkur, we want to spearhead the sustainable and socially responsible development of society. In 2020, Merkur was B Corp-certified with the highest score in the Nordic region. Going forward, we will use the B Corp assessment tool to actively work with the areas where we can become even more sustainable. It is our ambition to increase Merkur's B Corp score by 10%.

Customer satisfaction

STATUS 2020: *Not yet implemented*

OBJECTIVES FOR 2023: **NPS > 50**

In Merkur, we are strongly focused on our customers and their needs. In 2021, we are therefore introducing a new type of customer satisfaction measurement – a Net Promoter Score – which will enable us to continuously keep track of how satisfied our customers are and whether there is something we need to do better. An NPS score above 20 is considered good. An NPS score above 50 is excellent.

Cost relative to earnings

STATUS 2020: **0.9 cost/income ratio**

OBJECTIVES FOR 2023: **Cost/income ratio: 0.6-0.7***

Financial institutions are being met with ever stricter requirements, which is leading to an increase in costs associated with, e.g., compliance, anti-money laundering and IT development. We want to strike a healthy balance between earnings and costs. Therefore, we have a defined a cost/income ratio target.

* Merkur wants to be on a par with peer financial institutions. We expect a cost/income ratio of 0.6-0.7, but the target may shift depending on developments in other financial institutions.

Expectations for 2021

It is a very special year we have now put behind us, and we expect the corona situation to still affect the world and thus Merkur throughout most of 2021. However, we are optimistic about the new year which is already well under way. Corona has not diminished the need for climate action, social initiatives and cultural inspiration – quite the opposite. We are therefore confident that the values on which Merkur is based, and the products and services we offer will remain in demand – perhaps in even stronger demand than before.

Customers and shareholders

A cornerstone of Merkur's strategy is our desire to make an even more positive difference for even more people. Based on an increased customer focus, we want to offer even more all-round advisory services to our customers, helping them fulfil their housing dreams, plan their retirement, lease an electric car and invest their money sustainably. We would also like to welcome even more customers who want to bank with a socially responsible and sustainable bank. Merkur's business model is attracting a lot of positive interest, and we thus expect to welcome upwards of a thousand new full-service customers in 2021 (net).

We share our values with our customers, and we also share Merkur. Our customers are our owners. Our shareholders play an important role in Merkur's forward-looking strategy as they are absolutely key to Merkur being able to create positive change in society. People are becoming increasingly interested in shouldering their share of such social responsibility, and we therefore expect the considerable influx of full-service customers to also lead to a continued large net increase in new shareholders.

Income and costs

For the period up to and including 2023, our strategy is for Merkur's values to start making an even more positive difference in the world through the offering of sustainable products and services. We expect this effort to rub off on our income as more and more customers start using Merkur for all their banking needs, e.g. in connection with housing and pensions. We have noted a steadily growing interest in our ethically and socially responsible investments over a number of years, and we expect the impressive growth to continue. Merkur will be introducing Denmark's most sustainable pension pools in early 2021, for which we expect to see a strong demand.

In 2020, Merkur became the co-owner of the leasing company Opendo, which will enable us to offer sustainable leasing services to both personal and business customers. Following a review of Merkur's pricing structure, in 2020 we changed the cost contribution to better reflect the actual costs associated with a customer relationship. We expect to be able to reap the rewards of this change in earnest in 2021. These are all measures designed to increase income.

The world remains in the throes of corona, and it is therefore difficult to predict when the wheels are going to start turning again, and exactly when we can hopefully expect corporate borrowing needs and debt appetite to return to normal. However, we expect to see a slight increase in our interest income. Based on Merkur's fossil-free strategy (read more in the chapter *Sustainability*), we have expanded our product offerings to include, e.g., a special climate loan for businesses wanting to finance energy renovation projects as well as a special loan for personal customers wanting to replace their oil boiler with a heat pump, and where the CO2 reduction determines the price of the loan. We also have great ambitions for lending growth within residential communities, which is a growth area in which Merkur has built up special expertise over many years. Last but not least, Merkur – as the only financial institution in Denmark – can offer EU-guaranteed loans to social enterprises and institutions. We are incredibly proud of this and have high expectations for this type of loan as the advantageous terms can be a helping hand for social enterprises.

Due to corona, it is difficult to predict the development in losses and impairments, but we expect to be in line with the industry average of approx. 0.5-0.7% of our loans and guarantees.

We expect to see an increase in staff and IT costs in the region of DKK 4m. The expected increase is due to collective bargaining results as well as IT development to meet all statutory requirements regarding compliance and anti-money laundering.

Liquidity, capital and market value adjustments

Merkur's excess liquidity is mainly held in certificates of deposit with an expected return of -0.6%. The remaining excess liquidity is held in bonds, from which we also expect a negative return of -0.2% a year.

We expect to be able to strengthen Merkur's own funds through the subscription of shares as a result of the above-mentioned increase in the number of shareholders. Moreover, we hope that the trend seen in 2020 will continue, and that more lenders will be attracted to the idea of making supplementary loans and other subordinated debt available because they see Merkur as an impact investment with great potential.

Expected result

We expect to post a profit for the year after tax of DKK 4-12m.The expectations are associated with some uncertainty due to a number of factors, most importantly factors relating to the corona pandemic:

- whether economic growth and corporate investment appetite will return during H2
- whether losses and impairments will be realised at the average level for the sector
- whether unemployment will remain low

Moreover, the expected results will depend primarily on whether interest rates remain low, and whether we succeed in attracting new customers.

EXPECTATIONS 2021

- Minimum **1,000** new full-service customers
- Minimum **680** new shareholders
- Minimum **DKK 157m** in interest and fee income
- Minimum **DKK 40m** in increased capital
- Profit after tax **DKK 4-12m**

Merkur's lending activities

Merkur's main activity is lending. Based on our customers' deposits, we offer loans to real economy activities in need of loan finance. Merkur wants to do everything it can to drive society in a sustainable and socially responsible direction through our lending activities. At the same time, we are keen for our customers to use Merkur for all their banking needs, which means that we also offer loans that cater for the general needs of our personal customers, such as home loans. Private borrowing is of considerable importance to our business. It contributes to our earnings and risk diversification, which allows us to offer more loans for purposes that pave the way for positive change in society.

We have divided Merkur's lending activities into six categories based on the purposes the money works for.

Overall, we see a modest increase in committed loans and credits. The committed amounts include as yet unused drawing rights on overdraft facilities. As described earlier in the report, like other financial institutions, we are seeing that – due to the increased liquidity of our business customers as a result of the corona aid packages, as well as general caution in an uncertain market – customers are drawing less on their credit facilities. The result is a de facto decrease in lending – read more in the chapter *Financial performance*. This correlates with the fact that Merkur's customers seem to be surviving the corona crisis.

We see the largest decrease in committed loans in the Education and Culture category, down 13.4% or DKK 47m, which is due, in part, to a high level of loan repayments but also to the corona-related impacts mentioned above. The same trend is seen in the Food products category, which decreases by 7% or DKK 34m.

On the other hand, we see an 8.9% increase, corresponding to DKK 17m, in the Communities category. We are pleased to see a continuation of the positive trend from last year, and we have seen a growing interest in living in and establishing different types of communities. This is a development which Merkur would very much like to contribute to.

It is also very positive that our fossil-free strategy has borne fruit. The Environmentally friendly means of transportation category has increased DKK 19m. Supporting a green transformation of the transport sector and the financing of electric cars was a focus area for Merkur in 2020. In order to further accelerate this development, in June 2020 we decided to stop

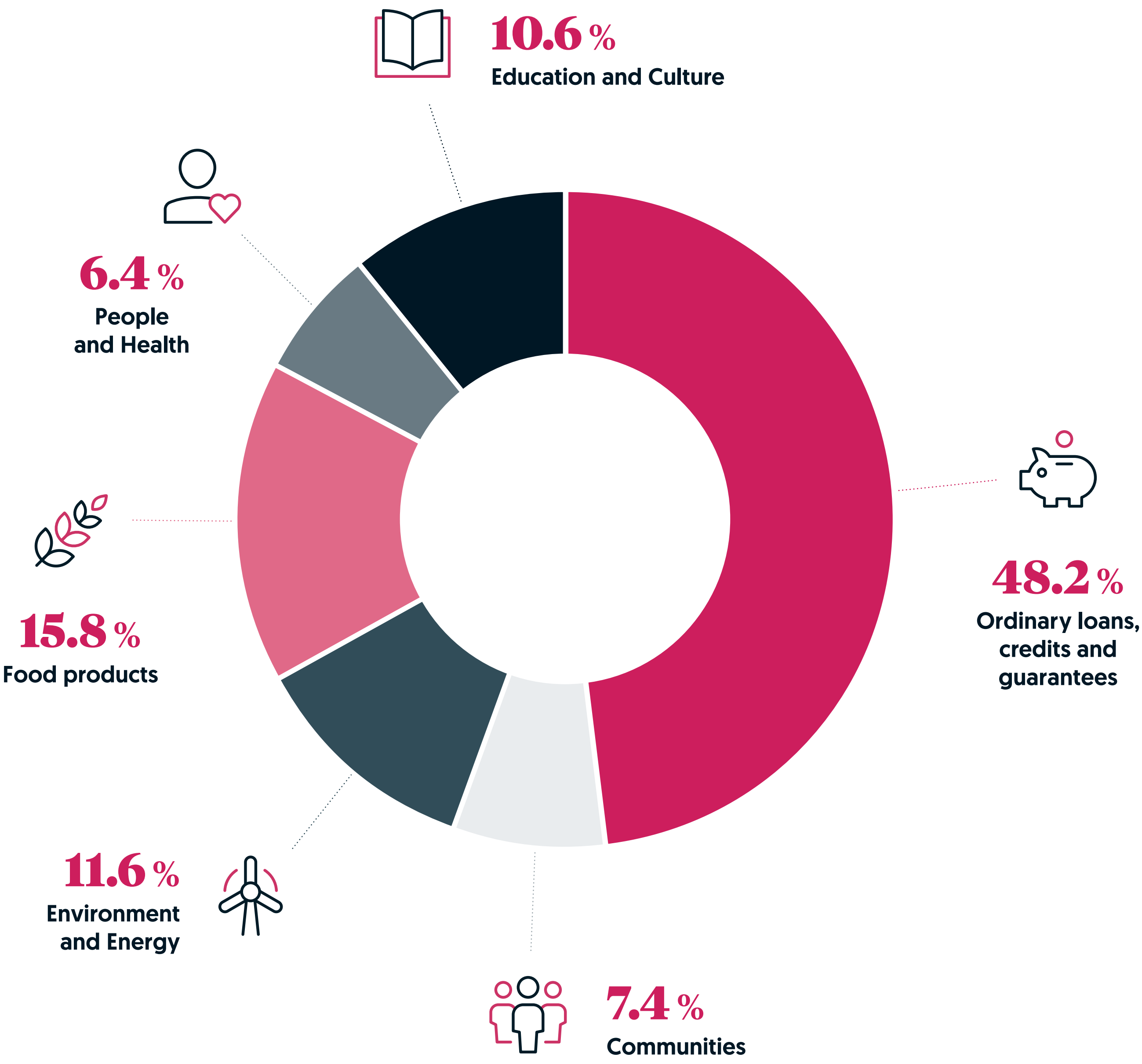
Committed loans and guarantees

	Number	2020 (DKK '000)	2019 (DKK '000)	Dev. relative to 2019
Education and Culture	412	304,689	352,026	-13.4%
People and Health	299	178,482	192,631	-7.3%
Food products	438	453,895	488,065	-7.0%
Environment and Energy	2,395	330,191	359,080	-8.0%
Communities	184	209,395	192,210	8.9%
Ordinary loans, credits and guarantees	7,364	1,370,789	1,240,111	10.5%
Total	**11,092**	**2,847,441**	**2,824,123**	**0.8%**

Breakdown of committed loans and guarantees by purpose as at 31 December. Amounts committed include granted but unused drawing rights on overdraft facilities.

Committed loans and guarantees

Total screened in relation to Merkur's societal ideals: 51,6%



financing new petrol and diesel cars. Customers have welcomed this, and there has been some demand for loans for fossil-free vehicles.

While businesses have been playing a waiting game due to the corona pandemic, the housing market has been booming. This has been notable, and Merkur has seen a marked increase in lending to finance both owner-occupied properties and flats in housing cooperatives, which is evident in the Ordinary loans, credits and guarantees category, which is up 10.5%. Merkur is working at all times to further sustainable development. We therefore endeavour to drive and provide incentives for more sustainable behaviour through our offering of ordinary loans. At the end of 2020, we therefore announced that we no longer finance owner-occupied properties with oil boilers unless the customer undertakes to replace the boiler with a more CO_2-friendly energy source.

Education and Culture

In Merkur, we believe that education and a diverse cultural life are important to our society because education and culture stimulate creativity and innovation and pave the way for personal development and the leading of fulfilling lives. We define education in a broad sense with the emphasis on character formation. That is why we grant loans to daycare institutions, nurseries and folk high schools. We also offer financing for educational institutions for children and adults, as well as private student loans for individual educational programmes. In our financing of culture, we give priority to projects and activities that allow people to develop their creative abilities, or activities that can stimulate other people's creativity and innovativeness.

Education and Culture

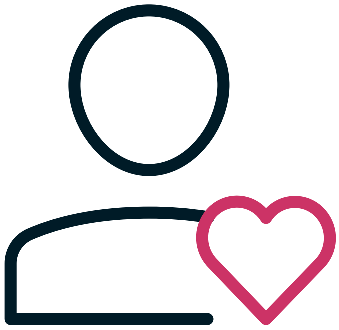
	Number	Committed 2020 (DKK '000)	Committed 2019 (DKK '000)
Schools	162	**208,166**	226,682
Daycare and nurseries	91	**45,113**	50,649
Adult education	21	**21,503**	35,154
Student loans	13	**678**	1,043
Culture	124	**27,753**	36,838
Other	1	**1,476**	1,660
Total	**412**	**304,689**	**352,026**

CUSTOMER EXAMPLE

Hedens Efterskole

The independent residential school Hedens Efterskole is situated in the village of Sdr. Resen, surrounded by the spectacular heathland of central Jutland. What is so special about Hedens Efterskole is the school's focus on creating a welcoming and caring environment where vulnerable young people can also thrive. The teachers support the students in acquiring the interpersonal skills needed to communicate and interact with others, strengthening both their resilience and self-esteem. Students are challenged appropriately in relation to their learning and personal development as part of a community, while at the same time being given the support they need to dare choose different paths in life. The school has a total of 55 students aged 14 to 18 who all play their part in creating a strong sense of community – and a wealth of unforgettable experiences.

People and Health



In Merkur, we believe that everyone should have the opportunity to live a good and dignified life. Merkur's lending to customers in the People and Health category supports equality among people and the right of individuals to choose how they conduct their lives. We offer loans for social initiatives for people with special needs, including accommodation facilities and drop-in day centres, social enterprises with a not-for-profit mission, Fair Trade initiatives seeking to protect the weak parties in a transaction as well as alternative practitioners and medicine and care services.

People and Health

	Number	Committed 2020 (DKK '000)	Committed 2019 (DKK '000)
Social programmes	207	**140,641**	156,261
Care programmes	5	**3,515**	817
Health and personal development	59	**19,352**	20,019
Social enterprises	18	**7,815**	7,974
Fair Trade	3	**2,394**	3,643
Other	7	**4,765**	3,917
Total	**299**	**178,482**	**192,631**

CUSTOMER EXAMPLE

People Like Us

People Like Us is a socio-innovative microbrewery, founded in 2016 by the owner Lars Agersted Carlsen. The idea behind the brewery is to make fantastic specialty beers and create jobs for people who are having difficulties getting a foothold in the labour market. The philosophy of People Like Us is to provide its employees with the space and support needed to enable them to contribute their own unique qualities and competencies to the company rather than having to fit into predefined positions and job functions. As a result, 75% of the brewery's employees have one or more diagnoses. Together with these employees, People Like Us produces a range of tasty microbrews, which are sold on market terms in Denmark and abroad based on a sustainable development process. People Like Us has been nominated for several awards for the company's social contributions to creating an inclusive labour market.

Food products

In Merkur, we take the view that food production should be based on care and respect for the entire ecosystem and reflect the real needs of society. In the Food products category, Merkur provides loans for organic and biodynamic farming operations and sustainable fishing, the processing of and trade in sustainable foods as well as organic restaurants and cafes.

Food products

	Number	Committed 2020 (DKK '000)	Committed 2019 (DKK '000)
Biodynamic agriculture	30	**26,725**	21,048
Organic farming	314	**298,817**	310,929
Sustainable fishing	4	**19,109**	20,119
Processing and commerce	73	**93,847**	126,484
Restaurants and cafes	12	**5,189**	6,284
Other	5	**10,208**	3,201
Total	**438**	**453,895**	**488,065**

CUSTOMER EXAMPLE

Lammehave Økologi

On the Danish island of Falster, the organic farm *Lammehave Økologi* produces everything from ancient grain flours to several kinds of vegetables, clover grass for the sheep and rapeseed for oil production. Animals graze on marshes and meadows in the summer, while chickens are kept in a large chicken run with lots of fruit trees. The entire farm is maintained by eight employees who, due to various challenges, find it difficult to fit into ordinary jobs. However, at Lammehave, their tasks and routines are organised to suit their individual needs and to ensure that their working days are both meaningful and include an element of learning. Based on this approach, Lammehave Økologi is able to offer a wide range of delicious organic products.

Environment and Energy

Merkur believes any consumption of resources should be respectful and take place with due consideration for our planet. We therefore finance sustainable buildings, environmentally friendly transport, renewable energy production, sustainable textiles, other environmentally friendly manufacturing companies, as well as trading in sustainable products.

Environment and Energy

	Number	Committed 2020 (DKK '000)	Committed 2019 (DKK '000)
Sustainably produced textiles	17	**6,208**	7,056
Energy production and distribution	1,995	**131,661**	170,164
Environmentally friendly means of transportation	161	**34,792**	16,218
Sustainable buildings	153	**125,043**	124,816
Commerce within sustainable products	14	**3,036**	4,995
Other environmentally friendly companies	48	**23,873**	29,646
Other	7	**5,578**	6,185
Total	**2,395**	**330,191**	**359,080**

CUSTOMER EXAMPLE

SolarCooling

SolarCooling works with the indoor climate in production and office environments and is passionate about reducing energy consumption and CO2 emissions through energy recovery and energy efficiency. For example, excess heat from production is actively used in SolarCooling's solutions to minimise energy consumption and CO2 emissions. The company also works with climate walls/roofs, where the wall or roof uses the sun as an energy source to balance the indoor temperature and humidity levels for a perfect indoor climate. When doing a project for a customer, SolarCooling always starts by looking at the customer's total energy conversion to ensure that the project brings net energy gains by taking account of implications, e.g. in production, and factoring such impacts into creative and innovative solutions.

Communities

In Merkur, we believe that we must all take responsibility for other people and for the world. By communities, we mean initiatives pursuing non-profit socially-minded and collective purposes, residential communities and communities centred around a worthy cause or purpose. Merkur provides loans for cooperatives and foundation-owned companies, NGOs, consumer communities and residential communities such as organic communes, village communities and cooperative housing associations.

Communities

	Number	Committed 2020 (DKK '000)	Committed 2019 (DKK '000)
Residential communities	105	**156,994**	145,476
Consumer communities	4	**1,277**	1,462
NGOs	32	**6,600**	8,056
Cooperatives and trusts	28	**42,853**	35,101
Other	15	**1,671**	2,115
Total	**184**	**209,395**	**192,210**

CUSTOMER EXAMPLE

Karise Permatopia

Karise Permatopia is a modern, self-sufficient and child-friendly farming and residential community based at a farm with woodlands, fields, a meadow and a lake within walking distance of the railway town Karise on southern Zealand. The vision behind Karise Permatopia is to create a meaningful residential community that ensures both low living costs and environmental sustainability based on the principles of permaculture. In forestry and farming operations, experiments are being made with the restoration of nature. The idea of mutually enriching interaction is realised through the involvement of residents in the farming activities. Karise Permatopia consists of 90 breathable and organic terraced houses in five different sizes, of which 44 are rental properties, while the rest are owner-occupied and cooperatively owned properties. The original farm is home to a wealth of communal facilities, a farm shop, a café and organic farming activities.

Ordinary loans and credits

A good life is also about basic physical needs. In Merkur, we therefore offer loans tailored to the general needs of our personal customers. We lend money to people wanting to buy owner-occupied properties, but also cooperatively owned properties, which makes it possible for more people to buy their own home. We also provide guarantees in connection with change of ownership and the arrangement of mortgages, and we also help small owner-managed businesses that are also full-service customers of Merkur to finance their operations. The category of technical partners covers only guarantees furnished for our cooperation partners.

Ordinary loans and credits

	Number	Committed 2020 (DKK '000)	Committed 2019 (DKK '000)
Owner-occupied homes	1,985	**596,416**	517,616
Cooperative housing	880	**514,332**	472,376
Allotment gardens	34	**16,621**	14,943
Other private loans and credits	4,357	**200,464**	191,453
Self-employed	101	**24,095**	23,786
Technology partners	7	**18,861**	19,935
Total	**7,364**	**1,370,789**	**1,240,109**

Lending supports UN Sustainable Development Goals

Merkur sees sustainability in a broad perspective, and our business and activities therefore embrace all the UN's 17 Sustainable Development Goals. In this context, it is worth noting that Merkur applies comprehensive selection criteria and minimum requirements to ensure that not only do the bank's activities do no harm, they also lead to positive changes for people, the climate, the environment and biodiversity. The individual categories of lending activities cannot be directly linked to a single SDG as many customers are engaged in sustainable and social activities that go beyond their primary purpose. The figure below provides an overview of the ways in which Merkur's business contributes to the global goals.

NO POVERTY

Merkur provides loans to socio-economic enterprises and NGOs working to end poverty both in Denmark and internationally.

ZERO HUNGER

Merkur provides loans to sustainable food production that reflects the real needs of society, takes a holistic approach and helps preserve natural ecosystems. We also finance companies that support the productivity and income of small food producers in developing countries.

GOOD HEALTH AND WELL-BEING

To ensure a healthy and dignified life for all, Merkur provides loans for social initiatives for people with special needs and to alternative practitioners and medicine as well as care services.

QUALITY EDUCATION

In Merkur, we want to promote opportunities for lifelong learning for all, while respecting the fact that people learn in different ways. We therefore fund nurseries and daycare institutions as well as educational institutions for children, young people and adults.

GENDER EQUALITY

In Merkur, we pursue the objective of gender balance in our own organisation. At the same time, we fund activities aimed at improving women's rights – including shelters for battered women.

CLEAN WATER AND SANITATION

In Merkur, we only finance organic, biodynamic and other forms of sustainable and regenerative agriculture, as such farming practices do not use pesticides and thus minimise groundwater contamination.

AFFORDABLE AND CLEAN ENERGY

Merkur contributes to ensuring access for all to reliable and sustainable energy at affordable prices by financing renewable energy production.

DECENT WORK AND ECONOMIC GROWTH

As a company, Merkur works to promote inclusive and sustainable economic growth. We therefore finance socio-economic enterprises that help people on the edge of the labour market find decent and meaningful jobs both in Denmark and in developing countries.

INDUSTRY, INNOVATION AND INFRASTRUCTURE

In Merkur, we want to contribute to making industries and infrastructure sustainable. We do this, among other things, by financing companies that work with efficient resource use. We also finance charging points for electric cars and ensure that small sustainable businesses have access to attractive financial services.

REDUCED INEQUALITIES

In Merkur, we believe in equal opportunities for people to lead good and dignified lives. We therefore finance socio-economic enterprises and NGOs that actively work to end inequality and discrimination.

SUSTAINABLE CITIES AND COMMUNITIES

In Merkur, we want to support inclusive communities that take care of our planet. We therefore finance sustainable construction as well as sustainable residential communities and local communities. In addition, we provide loans for bicycles and electric cars to help reduce air pollution in towns and cities.

RESPONSIBLE CONSUMPTION AND PRODUCTION

In Merkur, we believe that the consumption of resources should be carefully balanced and respectful of the entire ecosystem. We therefore offer loans for environmentally friendly production companies, as well as enterprises trading in sustainable products. At the same time, we are working to raise general awareness of sustainability – in particular of money as a catalyst for positive change.

CLIMATE ACTION

In Merkur, we are working to create a world where we do not use fossil energy sources, and we use our core business to reduce impacts on our planet. At the same time, we finance companies and organisations that actively work to combat climate change.

LIFE BELOW WATER

In Merkur, we want to protect biodiversity and our marine resources. We therefore finance sustainable fishing and, for example, production companies that reduce plastic pollution in the oceans.

LIFE ON LAND

Merkur works for a diverse and resilient natural world. Among other things, we finance biodynamic agriculture and NGOs that protect biodiversity.

PEACE, JUSTICE AND STRONG INSTITUTIONS

Merkur is a democratically owned company that values transparency and accountability. At the same time, we finance companies and NGOs that fight for democratic rights both in Denmark and internationally.

PARTNERSHIPS FOR THE GOALS

The Global Alliance for Banking on Values (GABV) is an important partnership for Merkur. GABV is an international network of banks using finance to deliver sustainable economic, social and environmental development. The network aims to make the banking sector more transparent and to raise awareness of sustainable business models in the financial sector.

Sustainability

Merkur is actively working with our influence on society and the world around us. As can be seen from our Ambition and Mission on page 2, our values embrace many aspects of life. In this chapter, we concentrate on our social responsibility and our footprint on the planet.

Measuring and quantifying sustainable behaviour and change can be a challenge, and numbers cannot capture everything. In Merkur, we want to lead the way for sustainable development, and we therefore think it is important to quantify as much as we can. By being aware of the nature of our footprint, we can identify areas where we can bring about change – both in our own daily activities and in our collaboration with our customers. Measuring our social responsibility performance is both about the ways in which we as a business can lead the way, for example when it comes to gender diversity, fighting sexism, employee satisfaction and our procurement policy, but also when it comes to the products we offer. Our footprint on the planet is focused around our resource consumption and our climate footprint.

Fossil-free strategy

It goes without saying that the climate crisis is of great concern to Merkur, and we are working everywhere we can to bring about positive climate change. In 2020, Merkur launched its fossil-free strategy. As part of the strategy, we have ensured that none of our investment products have been extended to companies with fossil fuel-based business models, we have stopped offering loans for new fossil cars, and we no longer finance properties with oil boilers unless there is a plan to replace them with a more climate-friendly heat source. Also, we are working with products that provide direct incentives for climate improvements, and we have a strategic focus on growing our lending to climate projects. As something very special, Merkur has established a climate fund, which is initially working to expand the charging infrastructure for electric cars. The first charging points will be installed in spring 2021.

Selected donations

DANWATCH:
In 2020, Merkur donated DKK 20,000 to Danwatch's investigative journalism on violations of human rights and the environment.

AID ACCOUNTS:
In 2020, Merkur donated a total of DKK 445,721 to the WWF World Wildlife Fund, Save the Children, SustainableEnergy, ActionAid Denmark, Forests of the World, Amnesty International and Solidarity Action Day in connection with our so-called aid accounts. From 2021, Merkur will work with donations in a new way.

CO2-SAVINGS ACCOUNTS:
In 2020, Merkur donated DKK 150,000 to renewable energy projects in developing countries. The projects supply electricity to parts of the population that have not necessarily had access to electricity before. Not only are the projects good for the climate, they bring many positive derivative effects such as more and better education for both children and adults.

B Corp

Merkur was the first financial institution in Denmark to achieve the coveted international B Corp certification for sustainability and social responsibility in 2020. The certification is proof that Merkur uses its core business to bring about positive change and that our business model is thus sustainable – as regards the products we offer to our customers, our investments, occupational health and safety, the management of the company and our suppliers. The certification process has been a comprehensive one as policies, processes and conduct all had to be gone through and documented. We are extremely proud that Merkur has now been certified – and with the highest score in the Nordics. Moreover, our work with the B Corp certification has also provided us with valuable insights into what we can do even better. As described in the chapter *Strategic objectives*, it is our ambition to increase Merkur's B Corp score by 10% in connection with our re-certification in 2023.

One of the most impressive things about Merkur's score is how evenly it is distributed across the company. A lot of companies have a single focus in their work with impact, but Merkur's efforts are actually spread more or less right across all the categories.

Steffen Kalleshauge,
Head of Growth, B Corp Danmark

It is both impressive and important that, by being certified, Merkur is showing the way and contributing to rethinking the way banks trade and invest. We've been dreaming for a long time of certifying a bank because it is absolutely crucial that the banks join in the green transition as they will be financing and investing in the changes.

Nille Skalts,
Founder, B Corp Danmark

Certified B Corporation

FACTS

What is B Corp certification?

- The B in B Corp stands for benefit.
- It is a widely recognised corporate sustainability certification scheme.
- The non-profit organisation B Lab is responsible for the certification. Costs vary according to the size of the company being certified. An annual fee is paid to B Corp.
- Certification is based on an assessment of documented answers to 243 questions in five main categories. The maximum number of points is 200, and a minimum score of 80 points is required to be certified.
- Certified companies must be re-certified every three years.
- There are currently 30 B Corps in the Nordics: 22 in Denmark, 4 in Sweden, 3 in Norway and 1 in Finland.

Selected engagement activities

OPEN LETTER TO THE PRIME MINISTER:
In October, Merkur's CEO, Charlotte Skovgaard, sent an open letter to Danish Prime Minister Mette Frederiksen, stressing the urgent need for leadership and action if we are to stand a chance of meeting the targets set out in the Paris Agreement by 2030.

'SPIREPRISEN':
In 2020, Merkur was again a partner for 'Spireprisen', a prize awarded by the climate secretariat in the City of Aarhus to an admirable climate or sustainability project. Merkur contributes to the cash prize and offers to provide financial sparring to the winner. In 2020, the prize was awarded to Re-Zip, which has created a circular packaging solution for online shopping.

SOCIAL TAX EXEMPTION CARD:
The social tax exemption card allows vulnerable citizens to earn up to DKK 20,000 a year without losing any social security benefits or other public benefits. However, the scheme is not permanent, and in October the Danish government was only intending to extend it by one year. Together with a number of other companies, Merkur signed a petition asking the government to extend the scheme. In December, the scheme was extended by two years.

CARBON ACCOUNTING

Merkur Cooperative Bank wants to support the sustainable and socially balanced transformation of our economy and society in order to meet the targets set out in the Paris Agreement as well as Merkur's own ambitions, which go beyond that. Our goal is a 30% reduction in emissions as early as next year, and to realise a 70% reduction compared to 2019 by 2025. For a number of years, we have reported the carbon footprint of our own activities, and in so far as production from renewable energy projects in which Merkur has a stake does not correspond to our CO2 emissions, we have so far bought carbon compensation certificates. We are aware that no matter how you look at it, we emit CO2, and buying climate compensation certificates is never going to change that. The best thing to do is reduce emissions – and we are working on that.

As a financial institution, we have a special responsibility in that we influence developments through what we finance. To ensure the right focus, this year we have extended our reporting to cover not only the emissions associated with our own activities, but also emissions associated with the activities of our business customers – or to be precise the share of emissions associated with activities that Merkur's lending is helping to finance. This is a new discipline for Merkur, but we are working purposefully and openly with it, and aim to involve our partners to the greatest possible extent. We have decided to show the way and start reporting financed emissions for our business portfolio already this year, very much laying the rails as we move forward.

Carbon accounting for Merkur's own activities

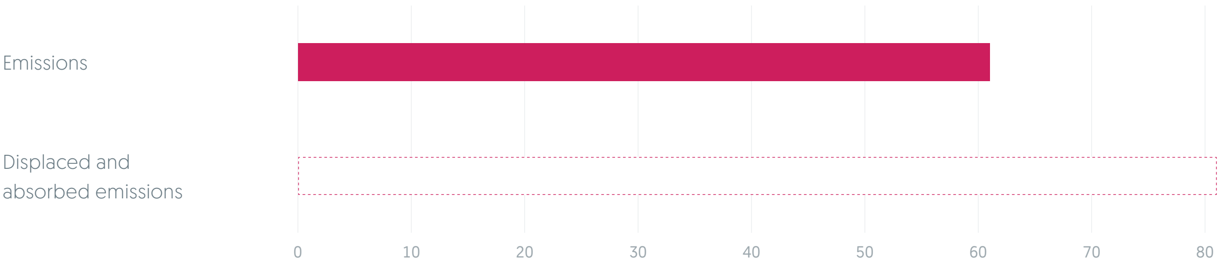
Merkur can this year call itself CO2-neutral as our production of renewable energy, the CO2 we displace from the electricity grid and the CO2 we absorb via forest restoration exceed our CO2 emissions. CO2 neutrality is a difficult concept as it may sound as if Merkur emits no CO2 at all, and then everything would, of course, be fine – but that is not the case, and we will therefore continue our efforts to reduce our CO2 footprint.

Emissions from Merkur's operations are caused primarily by business travel, and by our consumption of district heating, electricity and our data centre BEC. The corona situation has resulted in a substantial decrease in emissions from heating and business travel, in particular. At the same time, the volume of emissions displaced by Merkur's investments in renewable

CO2-neutral

Merkur has displaced and absorbed more CO2 than we have emitted

Carbon accounting for Merkur's own activities (tonnes of CO2e)



Emissions from Merkur's activities

Tonnes of CO2e	Target 2021	2020	2019
District heating	18	**10**	21
Electricity	9	**8**	10
Business travel	35	**27**	65
Data centre BEC*	16	**16**	16
Total emissions	**78**	**61**	**112**

*BEC has not been included in previous statements. Emissions for 2019 have therefore been corrected.

Displaced and absorbed emissions

Tonnes of CO2e	Target 2021	2020	2019
Displaced emissions (renewable energy)			
Middelgrunden Vindmøllelaug	-5	**-5**	-3
Hvidovre Vindmøllelaug	-19	**-19**	-13
Plasticueros. Photovoltaic facility in Spain	-22	**-22**	-16
Absorbed emissions			
Purchase of 7 hectares of degraded rainforest in Ecuador	-35	**-35**	0
Total displaced and absorbed emissions	**-81**	**-81**	**-32**
Net emissions	**-3**	**-20**	**80**

energy has increased. CO_2 displacement describes the fact that our production of renewable energy reduces the need for non-renewable electricity generation. Even though Denmark has a high level of renewable energy production, some of our electricity production remains fossil-based, and it is precisely the need for such production that is reduced or 'displaced' through the production of renewable energy. The fossil energy sources displaced depend on the energy mix in the electricity grid, and the price of energy.

As 2020 was a special year due to corona, our goal for 2021 is a 30% reduction in emissions compared to 2019, primarily by significantly reducing emissions associated with our business travel.

Even with the cooperative's ambitious objective of CO_2 reduction, our emissions in 2021 will exceed the displacements from our production of renewable energy. To ensure continued CO_2 neutrality, we have chosen to purchase 7 hectares of degraded rainforest in Ecuador. When the forest grows again, 35 tonnes of CO_2 are bound annually. We buy the forest in collaboration with the DOF Birdlife's Climate and Biodiversity Fund, which ensures that the forest is bought in areas where rare bird species have their habitats, and where rich biodiversity can once again unfold.

Carbon accounting for business portfolio

In 2019, Merkur joined the international *Partnership of Carbon Accounting Financials* (PCAF), which is a partnership of financial institutions that are working together to develop a harmonised approach to assessing and disclosing the CO_2 footprint associated with their loans and investments. This year, we are reporting on emissions by our business customers for the first time. In the 2021 financial statements, reporting will also include loans to personal customers. We have decided to start with our business portfolio, as this is where we see the greatest potential for change in the short term.

This is an important step for Merkur as it gives us a chance to have a sustainable dialogue with our customers, e.g. about their CO_2 emissions, levels compared with others, and any scope for improvement. This particular area is a high priority for Merkur as it is an opportunity for us to not only offer financial advice, but also to enter into a dialogue with our business customers on the sustainable aspects of their business. Initially, our primary focus is on the energy renovation of the housing sector and cooperation with our agricultural customers.

Calculation method

In spring 2020, Finance Denmark appointed a working group charged with developing a Danish standard for calculating and reporting on climate gas emissions by the financial sector. The working group consisted of representatives of a number of Danish financial institutions, including Merkur Cooperative Bank. In November, the working group published the first version of the standard, based on a concept developed by PCAF over the past five years. The standard describes how to report emissions, data quality and a model for calculating emissions.

Companies may emit a number of different climate gases. Different climate gases impact global warming in different ways – measured by their 'global warming potentials'. Therefore, in order to calculate the climate impact of a company's emissions, a common unit of measure is needed to express the global warming potential of the various climate gases. The unit is CO_2e – or CO_2 equivalents. The conversion of emissions into CO_2e is done using emission factors. The most common climate gas, besides CO_2, is methane. Methane has a CO_2 emission factor of 28 – a tonne of methane is equivalent to 28 tonnes of CO_2, i.e. 28 CO_2e.

In agriculture, most of the emissions come from climate gases other than CO_2. Finance Denmark has asked Statistics Denmark to calculate emissions by different sectors, broken down by climate gases. The calculations are based on information from the national accounts. For the agricultural sector, the figures show that total CO_2e emissions from farming activities in Denmark can be attributed to: 18% from CO_2, 44% from methane and 38% from nitrous oxide. Methane and nitrous oxide are mainly associated with animal production, and so animal production is responsible for by far the greatest climate impact.

In order to get a correct picture of the climate impact of a farm, you have to look at the broader picture. In addition to the very specific and direct emissions of climate gases, a large number of other natural processes play a role in the complex ecosystems of a farm. The ecosystems of individual farms are very different and are more or less naturally balanced. In a balanced ecosystem, emissions from farming activities are balanced with the CO2 emissions that can be bound in the soil or by the crops grown in the fields.

The PCAF model does not include CO2 bound in the soil, which means that the model may overestimate net emissions for some farms. On the other hand, the CO2 emissions that are released when the fields are ploughed are also not included, which may result in an underestimation of emissions. There will be a tendency for emissions to be overestimated for farms with balanced ecosystems. Merkur works only with organic and biodynamic farms, which may mean that net emissions are lower than those calculated by the PCAF model. PCAF is working to further finetune the model. It is a complicated process which Merkur will be participating in in the coming years.

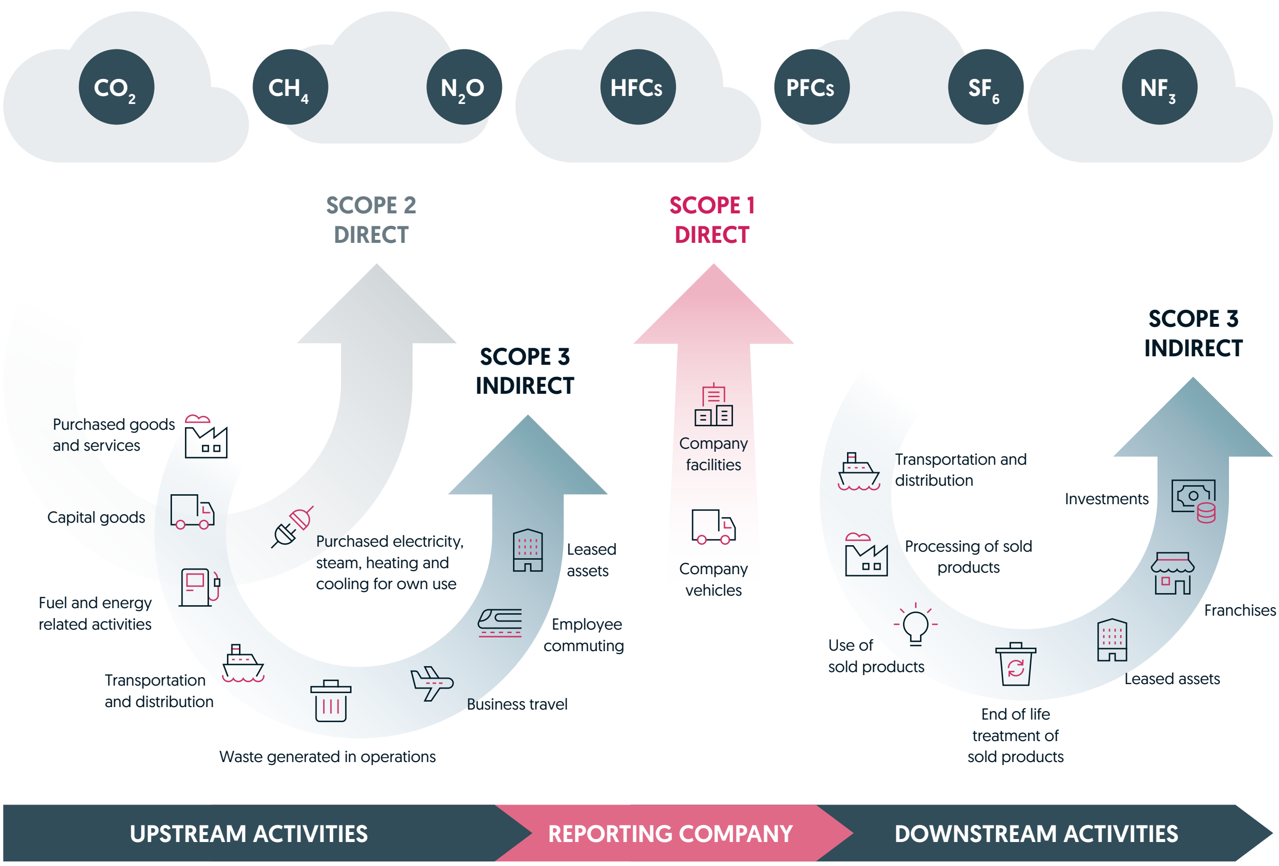
The figure below shows graphically how emissions are categorised.

Calculating CO2e footprints requires detailed information about our customers' energy consumption etc., and where the available data is not yet strong enough, we have used sector-level averages provided by PCAF and Finance Denmark. The data is categorised into five categories to give an indication of the accuracy and reliability of the calculations. PCAF provides detailed instructions on how to categorise data using scores on a scale from 1 to 5, where 1 is best. For this reporting, Merkur has used data with a score of 3.8. The score is based on strong data in areas such as agriculture and renewable energy, while other sectors have been rated exclusively on the basis of sector-level data.

Financed emissions

Looking at Merkur's total emissions by sector, it is clear that agriculture is our CO2e-heavy sector. However, it is important to consider this in the context of Merkur's customer mix. The rest of Merkur's lending is to low-emission sectors as Merkur has very little lending to other production companies, and the pro-

PCAF – categorised emissions



duction companies that are customers of Merkur themselves pay close attention to their energy consumption. This is due to Merkur's business model, according to which we collaborate only with sustainable and socially responsible companies, always urging them to work actively to reduce their climate footprint. We do, of course, pay close attention to our lending to agriculture – especially animal production – as this is where we can contribute to making a difference. In our reporting, we have therefore decided to devote a separate section to agricultural loans.

Merkur's financing of renewable energy makes a huge and positive difference, and in 2020 we displaced CO_2 emissions corresponding to 20% of our financed emissions. Renewable energy and other climate projects constitute a strategic focus area, and we hope to contribute to a significant increase in our displaced emissions by 2021.

The knowledge derived from our carbon accounting must, of course, be used to bring about change, and the first step will be for us to start – together with our agricultural customers – preparing climate action plans. However, we will, of course, invite all our business customers to be part of the sustainable dialogue, and we look forward to continuing to work for a more sustainable world in the coming years.

Carbon accounting for agriculture

Merkur has always prioritised lending to organic and biodynamic farming, and Merkur was the first – in the early 1980s – to start financing alternative forms of farming without the use of pesticides and artificial fertilisers. Merkur is therefore extremely keen to contribute to the necessary transition to climate-friendly farming practices with room for biodiversity.

Merkur's agricultural portfolio accounts for 27% of our business loans, but 81% of financed emissions. Through its lending to agriculture, Merkur has financed CO_2 emissions of 8,649 tonnes. In connection with the carbon accounting for agriculture, we have worked with some of our customers to collect detailed farm-level data for part of the portfolio. This has provided us with a solid understanding of the farms and a good starting point for our continued work with climate action plans.

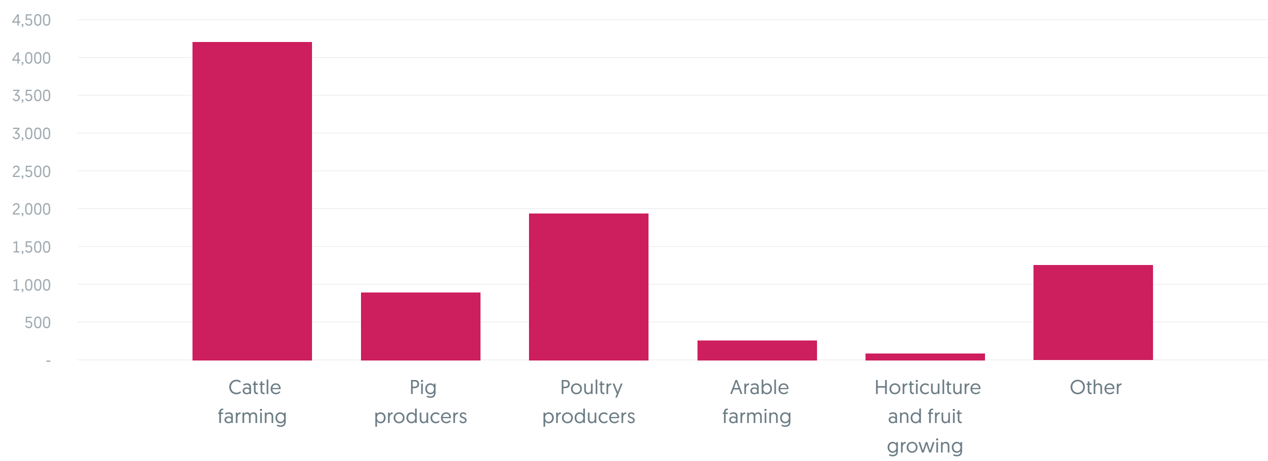
Extremely focused efforts are needed to reduce emissions by tying CO_2 in the soil – through ploughing as little as possible and ensuring a careful bal-

Carbon accounting for business portfolio

	Loans and guarantees	Share of loans and guarantees	**tonnes of CO2e**	Share of CO2e emissions	Emission intensity tonnes of CO2e per DKKm 2020	**Emission intensity tonnes of CO2e per DKKm 2021 target**
Agriculture	297	27%	**8,649**	80.5%	29.0	**28.0**
Education and institutions	349	32%	**706**	6.6%	2.0	**1.9**
Other services, cultural institutions and organisations	118	11%	**319**	3.0%	2.7	**2.5**
Letting etc. of real estate – cooperative housing associations	170	15%	**563**	5.2%	3.3	**3.1**
Dairies and other food production	62	6%	**311**	2.9%	5.0	**4.5**
Other	106	9%	**191**	1.8%	1.9	**1.9**
Total emissions	**1,102**	**100%**	**10,739**	**100%**	**9.7**	**9.0**
Displaced emissions (renewable energy)	50	4%	**-2,100**	100%	-42	**-42**

ance between herd sizes and land areas – and, not least, it is crucial to reduce feed production, such as fodder maize and rapeseed, on land that could otherwise be used for food production and grazing. Some of Merkur's agricultural customers are already working with alternative farming methods – for example holistic grazing of their own fields. The set-aside of low-lying farmland is also an effective way of reducing emissions from farms. In the coming years, we will support our agricultural customers in these efforts, for the benefit of the climate as well as biodiversity.

Carbon accounts for agricultural portfolio (tonnes of CO2e)



RESOURCE ACCOUNTING

As described in the introduction, it is important to look at Merkur's resource consumption and its footprint on the planet.

We have been measuring our paper consumption for many years, and in 2020 succeeded in reducing consumption from 7.4 tonnes to 3.6 tonnes, i.e. by about 50%. This is to some extent explained by the corona pandemic as most documents, contracts and letters to our customers have been sent out digitally as restrictions have precluded physical meetings with customers. In addition, we have only published one issue of Merkur's customer magazine, *Pengevirke*, in 2020.

Merkur has always paid very close attention to its resource consumption and has always ensured the greatest possible degree of recycling, but without collecting data systematically. We are currently in the process of sharpening and focusing our procurement policy in order to be able to accurately measure the results of our efforts. Going forward, we intend to report comprehensively on everything from our procurement of coffee to our recycling of IT equipment. We expect to include this reporting for the first time in the 2021 financial statements.

51 %

reduction of paper consumption

MERKUR AS A WORKPLACE

Just as Merkur works for a better world, Merkur also wants to be an inclusive, sustainable and socially responsible workplace. A cornerstone in our organisation is our highly competent and committed employees, who all contribute to channelling money where it can make a positive difference in society. Merkur's employees are thus the bank's most important resource.

Wellbeing

Like everywhere else, corona has also been setting the agenda for our employees, who have suddenly had to adapt to lives dominated by working from home, while homeschooling or looking after children, and all contact with colleagues and customers being via Skype or phone. It has been a major upheaval, but Merkur's employees have handled the situation admirably. They have all been asked to work from home more than once and for long periods, and their flexibility has been outstanding. Meanwhile, our focus has been on equipping managers to handle this extremely unusual situation, enabling them to act as role models and compensate for the lack of in-person interaction. We have done this through regular meetings for managers as well as online workshops with experts in remote-work challenges. We have also had a go at creating fora for virtual socialising.

In the financial sector, absence due to illness averages 6.5 days per full-time employee (2019). Merkur has seen a positive development from 8.9 days in 2019 to 5.0 days in 2020. This equates to a 43.8% decrease in absence due to illness, and we are very pleased with this positive development as we have been actively working to reduce this figure for a number of years. However, we are very aware that the development is partly ascribable to corona, which – paradoxically – has resulted in reduced absence due to illness in Denmark as a whole. Our goal for 2021 is to be on a par with the level for the rest of the sector.

Our staff turnover rose from 25.0% in 2019 to 30.0%[1] in 2020. The high level of staff turnover reflects the transformation that has taken place in Merkur in 2019 and 2020. Our target for 2021 is staff turnover of 10% as this is the level needed to maintain a suitable balance between continuity and new additions to our staff and skills mix. Based on the staff turnover rate for 2020, the average seniority of our employees is 3.2 years.

Our most recent APV survey was conducted in 2019, and we are planning to develop and carry out an employee satisfaction survey in 2021. The idea is to then do annual follow-up analyses and compare developments for specific well-being targets.

In 2020, we updated the guidelines in our staff handbook on harassment, bullying and inappropriate behaviour so as to address sexism and sexual harassment even more. In our efforts, we focused, in particular, on clearly defining what we consider unacceptable behaviour and sexual harassment. We have introduced a traffic light with red, yellow and green behaviour to exemplify what is acceptable and unacceptable behaviour, and we have made a point of

[1] Including employees released from duties during their notice period.

43.8 %

Decrease in absence due to illness

30 %

Staff turnover

35.7 %

Women in management positions

50/50 distribution between women and men on the Executive Board

Age 45

Average age

stressing that employees can confidentially approach union representatives, HR, management or their immediate manager if they experience sexual harassment, and that we have a zero-tolerance policy for this type of behaviour.

Diversity

Merkur's goal is a balanced distribution of women and men in the organisation, and we have adopted targets and policies to increase the proportion of the underrepresented gender to at least a third, which we achieved by 2020.

Overall, we have a very even distribution: 50.4% women and 49.6% men. On the Board of Directors, 36.36% of members are women[2], while on the Executive Board there is an equal distribution of women and men. Among our middle managers, 35.7% are women, up from 30.0% in 2019. According to Statistics Denmark, we have now overtaken other banks, where an average of only 25.6% of managers are women (2019).

The age average of Merkur employees has fallen since last year from 47 to 45 years. This is mainly due to more students having been taken on than previously, and 32.2% of our employees are now under 40 years of age. The students add strong academic competencies to Merkur and constitute an important pipeline of candidates for our specialist and consulting positions. We still have quite a substantial share of employees in the 60+ category, 19.4% to be precise, who contribute extensive experience and specialist skills to Merkur. As they near retirement, the average age of our employees is therefore set to decrease in the coming years. The financial sector average is 43.4 years (2019).

In our recruitment, we focus on diversity and having both genders represented among the final candidates for all positions. Since recruitment is primarily through job ads, we cannot control whether both sexes apply for positions with us. If this is not the case, we seek out candidates ourselves whenever possible. However, we do not discriminate in favour of the underrepresented gender, but choose the best candidate for the job, based on their competencies. When it comes to age, we focus on eliminating age discrimination.

We have just implemented a new recruitment system to help us reduce unconscious bias in the recruitment process as regards gender, age, ethnicity and other parameters.

Pay spread

Transparency and equality are important values for us, and we therefore measure the spread between the lowest and the highest-paid employee in Merkur. In 2020, our pay spread increased from a factor of 5.8 to a factor of 6.7. In order to attract qualified employees, it has been necessary, among other things, to adjust salary levels for the Executive Board, which has increased the pay spread in Merkur. We do not use incentive pay schemes, but we pay an annual one-off bonus to a small number of employees who have delivered an extraordinary performance in the past year.

[2] See also the chapter *Statutory information* for target figures for the underrepresented gender on the Board of Directors.

Merkur Foundation

The Merkur Foundation was set up by Merkur Cooperative Bank in 1998 and is an important part of the Merkur universe – but the foundation is an independent legal entity. The purpose of the Merkur Foundation is to make donations to projects small and large based on gifts and donations from donors large and small. The Merkur Foundation does not have a large fortune, as its purpose is to distribute as many donations as possible. The donations are based on gifts and donations received from you and others. Over the years, the Merkur Foundation has collected and distributed more than DKK 10m.

Legacies

In February 2020, the Merkur Foundation received a legacy of DKK 472,000.

In May 2020, we were informed that the foundation had been named as the sole beneficiary in the will of a recently deceased woman. The legacy consisted mainly of a property, which was sold at the end of the year. Less costs, the legacy is worth approx. DKK 3.5m. A small share of it will be invested in further developing the foundation to make more people aware of the possibility of making donations. The rest will be distributed as donations over the coming years.

The two legacies are testament to a great deal of trust and confidence in the foundation's long-standing work – a trust that the foundation makes every effort to live up to at all times and further heighten. There is also no doubt that both testators have wanted to support the community of values between the Merkur Foundation and Merkur Cooperative Bank.

Sustainable Urban Development

In 2019, based on a specific donation, the Merkur Foundation decided to set up a special pool for Sustainable Urban Development projects. Our homes and cities present both huge challenges and great potential when it comes to making sure that the green transition contributes to our economic, social and cultural lives. With the pool, the foundation wants to support ideation as well as practical experiments with the power to inspire others. The first funded projects were launched in 2020.

Record number of funded projects

An impressive 52 projects were supported in 2020 – a big jump from 31 in 2019. This is partly due to the legacy we received in 2020, which meant that we could say yes to projects that we would otherwise have had to reject solely because of our limited funds.

2020 in headlines

(DKK '000)	
226 donors donate approx.	803
Two bequests of approx.	4,000
A record number of projects – 52 in all – receive	1,004
– Including the first five projects within the Merkur Foundation's first special pool: Sustainable Urban Development	
– New website	

MERKUR FONDEN

Examples of projects

See more project descriptions and read more about the Merkur Foundation at www.merkurfonden.dk (in Danish).

DENMARK

RCE Danmark – Sustainable Urban Development

The architects can do the most amazing designs, and the engineers can do all the calculations. But if the builders cannot build, it is all bound to end in tears. An important element in creating sustainable urban development is having builders who learn how to build and renovate using methods and techniques that are as environmentally friendly as possible, as regards both the construction process and the end-result. Apprentice carpenters in Copenhagen called for greater focus on sustainability as part of their training, and – based on a donation from the Merkur Foundation's Sustainable Urban Development pool – the first group of 'sustainable' carpenters have now started their training. They are due to finish their apprenticeships in 2024 with both a normal diploma and a special certificate in sustainable construction.

BALI

Plastic for food

80% of Bali's economy is tourism-related. Due to the corona pandemic, the economy collapsed. Thea Melgaard has been coming to the same village in Bali for 13 years, where she has opened a hotel together with a local friend. When corona hit, she initially raised money to help the hotel's employees and the villagers, but with the support of the Merkur Foundation, the idea has evolved: Collect plastic and receive aid in return. The children are taught about the environment and English and will hopefully develop better waste habits than their parents. The plastic is pelleted and sold as fuel to the power plant. Not perfect, but a first step towards recycling.

DENMARK

For Lige Vilkår

Families who have a child with a chronic illness or disability usually have more than enough to do tackling the daily challenges associated with this. However, they may also be looking at significant costs, need special equipment or aids, and perhaps one or both parents have to work reduced hours etc. Such help is not always readily available, and the rules can be extremely difficult to navigate – even for municipal employees. *For Lige Vilkår* is an association that provides support for families, also in the form of mutual support among the families themselves. The Merkur Foundation has provided funding for the association's legal advisory service, which helps families get to grips with the law so that they can devote their energy to their children.

Statutory information

MANAGEMENT

BOARD OF DIRECTORS

Chair

Henrik Tølløse, Financial Manager (born 1958)
Elected to the Board in 2001.
Current term expires in 2023.

*Independence:*Does not fully comply with the Committee on Corporate Governance's definition of independence as Henrik Tølløse has served on Merkur's Board of Directors for more than 12 years. However, the Board does not believe that this actually affects Henrik Tølløse's independence.

Shareholding: 177 shares

Chair of the board of:
- VinoVenue ApS

Board member of:
- Ejendomsfonden Virkefelt

Competency profile: Educated in banking, specialising in securities and investments. Detailed knowledge of all relevant aspects of banking, including strategic matters, property etc. Educated as an estate agent. Solid knowledge of Merkur's values and history.

Vice-chair of the Board

Anneke E. Stubsgaard, consultant (born 1965)
Elected to the Board in 2018.
Current term expires in 2021.

Independence: Complies with the Committee on Corporate Governance's definition of independence.

Shareholding: 15 shares

Board member of:
- Aurion A/S
- Aurionfonden

Chair of the board of:
- Merkur Foundation

Competency profile: MSc in Biology. Experience and further education within corporate management and professional boardwork. Expertise in sustainable farming and food production, including strategy development and risk assessments.

Member

Jakob Brochmann Laursen, Pricing Director in Topdanmark (born 1963)
Elected to the Board in 2011. Current term expires in 2022. The Board's independent and professional member of the Audit Committee.

Independence: Complies with the Committee on Corporate Governance's definition of independence.

Shareholding: 248 shares

Owner of:
- Sandaasen ejendomme v/ Jakob Laursen
- Sandaasen Økologiske gård v/ Jakob Laursen

Chair of the board of:
- Ejerforeningen Værkstedvej 4-6, Valby

Competency profile: MSc in Economics, management degrees from IMD and INSEAD, among others. 30 years of experience in the financial sector. Detailed knowledge of bank operations, insurance and mortgage lending, including strategic matters. Considerable insight into the running of independent schools from boardwork as well as lobbying for the Steiner schools.

Member

Bernhard Franz Schmitz, CEO of Marjattta (born 1964)
Elected to the Board in 2018.
Current term expires in 2021.

Independence: Complies with the Committee on Corporate Governance's definition of independence.

Shareholding: 70 shares

Board member of:
- None

Competency profile:
Special social educator and Master of Public Governance from Copen-

hagen Business School. In-depth knowledge of special social education and public enterprises, operations and management strategy. More than 30 years of management experience in the public sector. CEO of large special social education enterprise with 500 employees.

Member

Hilde Kjelsberg, First Vice-President, Chief Risk Officer and Head of Risk & Compliance at Nordic Investment Bank (born 1963)
Elected to the Board in 2019. Current term expires in 2022.

Independence: Complies with the Committee on Corporate Governance's definition of independence.

Shareholding: 10 shares

Board member of:
- Vice-chair of the Danish Green Investment Fund

Competency profile: Business economist with master studies in Financing and Strategy/Organisation from the Norwegian School of Economics (NHH). Leadership programme from IMD and Harvard Business School, among others. More than 30 years of experience in Nordic and international finance, both from the business side and from senior positions within risk and credit.

Member

Cornelis Anthonie Kuypers, Managing Partner of Kamelhuset ApS (born 1962)
Elected to the Board in 2020. Current term expires in 2023.

Independence: Complies with the Committee on Corporate Governance's definition of independence.

Shareholding: 140 shares

Owner of:
- Kamelhuset ApS
- Kamelgården ApS

Chair of the board of:
- Merkur Climate Fund
- Trademark Textiles A/S
- Link Holding 2012 A/S

Board member of:
- Hanegal Holding A/S
- Hanegal A/S
- SSF Investment A/S
- Northern A/S
- Naturfrisk Group A/S
- Naturfrisk A/S
- Samsø Syltefabrik A/S
- Northern Organic A/S
- Northern Food A/S
- Klingenberg Group ApS

Competency profile: Masters in Business Administration. Former CEO of international companies. Co-owner of Hanegal, Samsø Syltefabrik and other ventures. Expertise in market strategy, business operations, organisation, management and sustainable food production.

Member

Henrik Kronel, Account Officer, investment (born 1966)
Employee elected to the Board in 2007. Current term expires in 2023.

Shareholding: 27 shares

Board member of:
- None

Competency profile: Educated in banking. Solid knowledge of banking operations in general with a special focus on investments and securities.

Member

Silja Nyboe Andersen, Product and Business Development Manager, investments (born 1980)
Employee elected to the Board in 2019 as an alternate, and joined the Board in 2020. Current term expires in 2023.

Shareholding: 140 shares

Board member of:
- Thomas Hartung A/S
- Danish Forest Association
- Nordic Harvest

Competency profile: MSc in Economics. Solid knowledge of banking operations in general with a special focus on investments, including sustainable investments.

Member

Jesper Kjærhus Kromann, Project Manager (born 1966)
Employee elected to the Board in 2019. Current term expires in 2023.

Shareholding: 29 shares

Director of:
- Merkur Climate Fund

Board member of:
- None

Competency profile: Educated in banking. Solid knowledge of banking operations in general with a special focus on personal banking and investments.

Target figures for the under-represented gender on the Board

At the moment, women are under-represented on the Board of Directors. The gender distribution among the members of Merkur's Board of Directors elected by the Committee of Representatives and by the employees is as follows: 6 men and 3 women, i.e. 66.66% men and 33.33% women. The goal is for at least 33.33% of the Board members elected by the Committee of Representatives and by the employees to be women.

EXECUTIVE BOARD

CEO

Charlotte Skovgaard (born 1972)
Member of the Executive Board since 2019. Employed by Merkur in 2019, CEO since September 2020.

Shareholding: 38 shares

Board member of:

- None

CFO and Chief Credit Officer

Alex Boldrup Andersen (born 1972)
Member of the Executive Board since 2018. Employed by Merkur in 2018.

Shareholding: 10 shares

Board member of:

- Ejerforeningen Bispensgade 16 i Aalborg

AUDIT COMMITTEE

Merkur has set up a separate audit committee. The committee is charged with

- monitoring of the financial reporting process
- monitoring the effective functioning of Merkur's internal control and risk management systems
- monitoring of the statutory audit of the financial statements etc.
- monitoring and verifying the independence of the auditor

Terms of reference have been prepared for the Audit Committee, providing a framework for its work.

In 2020, the committee's work was dominated by the corona situation with continuous discussions of the nature of the risks associated with the impact of the pandemic on the world and on Merkur.

Moreover, the Audit Committee also focused on cooperation with the risk function, improved processes for follow-up in the credit area and continued development of the financial reporting to the Board of Directors. The committee also focused on Merkur's work with compliance and money laundering monitoring. At the end of 2020, a special Risk Committee was set up, see below.

The members of the Audit Committee are:

- Jakob Brochmann Laursen, Chair
- Henrik Tølløse
- Cees Kuypers

BThe Board of Directors has appointed Jakob Brochmann Laursen as a professional member of the Audit Committee based on his competencies in risk management from having worked for many years as a specialist and manager in banking, mortgage lending and insurance.

In the opinion of the Board of Directors, Jakob Brochmann Laursen possesses the necessary qualifications as set out in the Danish Executive Order on Audit Committees.

RISK COMMITTEE

Merkur has set up a Risk Committee to advise the Board of Directors on Merkur's overall risk profile and ongoing risk management, which includes assisting the Board of Directors in checking that the established risk strategy is implemented correctly in the organisation and that appropriate and adequate resources are allocated to the risk management function. The committee's work also includes an assessment of the bank's capital requirements and capital policy, as well as products, remuneration structure, risk models etc.

Some of the committee's tasks used to be carried out by the Audit Committee and were transferred to the Risk Committee upon its establishment. The committee was set up at the beginning of the second half of 2020, and held its first meeting in November.

Terms of reference have been prepared for the Risk Committee, providing a framework for its work.

The members of the Risk Committee are:

- Jakob Brochmann Laursen, Chair
- Henrik Tølløse
- Hilde Kjelsberg

Exceptional circumstances

In 2020, Merkur was affected by the following exceptional circumstances:

- The COVID-19 outbreak was undoubtedly the single most important event with the greatest impact for Merkur in 2020. This year, Merkur has performed a management's estimate of potential corona-related impacts based on our current customer base and our expectations for the future. We have devised a model for estimating at sector level the impact of the lockdown of society in terms of likely losses for our customers. In 2020, extraordinary provisions of DKK 12.5m were made as a kind of buffer for absorbing possible future losses (see also the section on 'Uncertainty in recognition and measurement').

Uncertainty in recognition and measurement

In the calculation of the accounting values, estimates have been made. The estimates are based on assumptions deemed by the management to be sound. The main accounting estimates relate to the impairment of loans and receivables, where quantification of the risk of future non-payment is very much based on judgements.

Impairments are based on many data points about customer behaviour and wealth composition etc. As the method is based on a complicated calculation model, which is recalibrated each year, we have included an adjustment to compensate for model uncertainty.

In addition, the impairment model is based on a number of macroeconomic assumptions prepared by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark. Such assumptions are by nature subject to a certain degree of uncertainty.

In 2020, there was a special need to adjust our general impairment model to reflect the consequences of the corona pandemic and the potential consequences of bankruptcies, divorces etc. The management's estimate is subject to considerable uncertainty, as we have not yet seen any significant and real impact on our customers.

Events after the end of the financial year

No events have occurred in the period from the balance sheet date until the adoption of the annual report that would influence the evaluation of the contents of the annual report.

Business risks

Merkur's main business risks are associated with lending and guarantees. Merkur aims to spread its lending activities across different sectors. For details about the various sectors to which Merkur lends money in particular, please see the section on *Merkur's lending*.

A large share of Merkur's lending is secured on real estate. This carries the risk of diminished collateral values in a recession where property prices fall. Merkur updates the value of real estate on a regular basis, but sudden price falls in the property market will increase the property portfolio risk. Merkur has a constant focus on ensuring that our customers' finances are sustainable and that action is taken if signs of financial weakness should emerge.

Like everyone else in the sector, Merkur is exposed to the risks associated with money laundering and the financing of terrorism. Merkur gives a high priority to this area and has the necessary IT support. In addition, continuous upskilling and testing ensures that the right skills are in place.

In step with the increased digitalisation of Merkur, IT and cybercrime is becoming an ever more serious risk. Merkur's data centre has systems that can handle some of the risk – in addition to which we ensure that our employees are properly skilled and highly aware in their daily work.

The market terms or regulatory framework for some of our customer segments may change in a way that would constitute a business risk for Merkur.

The most important business risks associated with such changes are:

- Organic farming may be impacted by falling sales and settlement prices, while changes to agricultural subsidy schemes may disfavour organic agriculture. Merkur's agricultural customers are not exposed to distant or politically unstable export markets such as Russia. Domestic sales have been surging in recent years – 2020 included – and organic settlement prices are significantly higher than prices for conventional agricultural produce. However, changing consumer behaviour and preferences for plant-based food and drink may drive down demand for dairy and meat, resulting in an earnings squeeze for cattle farmers. The climate crisis is a challenge for agriculture in general, and our organic farms may also be affected. The ambitious greenhouse gas emission targets set by Denmark will probably lead to taxes on greenhouse gas emissions, which will impact animal production in particular and potentially hit the earnings of animal producers. Merkur is highly aware of the risks associated with the green transition. The biodiversity crisis is likely to lead to taxes on pesticides or other forms of regulation of pesticide use. Merkur's agricultural portfolio will not be impacted by such taxes. In the future, we must expect more years with droughts or high levels of rainfall, which will require major adaptations in agriculture, and increase the risks associated with Merkur's agricultural portfolio.

- Settlement prices and subsidies for renewable energy may be reduced, but reliance on subsidies is generally decreasing, especially when it comes to solar and wind power plants, which are increasingly being established without or with very limited subsidies. Denmark's target of a 70% reduction in CO2 emissions by 2030 will support the sector and reduce the risk associated with changes to the subsidy schemes.

- The conditions under which schools and institutions operate may deteriorate, for example due to public spending cuts. Historically, institutions have been impacted by such cuts, for example, when municipalities try to reduce the number of children and young people taken into residential care at socio-pedagogical accommodation facilities and other institutions. We therefore focus on follow-up to ensure that schools and institutions adjust their budgets in time. At the moment, conditions for schools and institutions are good, and parental interest is high. Merkur monitors legislative developments to enable us to take the necessary steps well in advance of possible changes to the regulatory framework for our customers. In connection with the closure of schools as part of the COVID-19 lockdown, we have seen a strong commitment on the part of the Danish authorities to support the sector with necessary aid packages.

- Pressure on our personal customers may mount in case of a prolonged lockdown and the potential real economy impacts of such a situation, leading to rising unemployment and falling property prices. Most of Merkur's loans to personal customers are secured on real estate.

Financial risks

Merkur is not exposed to exceptional financial risks and does not engage in speculative activities. Please also see note 38 to the financial statements on risk management.

Pillar III reporting, solvency needs and corporate governance

Merkur's so-called 'Pillar III Report' (risk information) meeting the disclosure requirements set out in the CRR regulation can be found at www.merkur.dk/årsrapporter. This also includes information on solvency needs and corporate governance.

Statement by the Executive Board and the Board of Directors

Today, we have considered and approved the annual report for the financial year 1 January to 31 December 2020 for Merkur Cooperative Bank.

The annual report has been prepared in accordance with the Danish Financial Business Act, including the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

We believe that the financial statements give a true and fair view of the assets, liabilities and financial position of Merkur Cooperative Bank as at 31 December 2020, as well as of the results of its activities for the financial year 1 January to 31 December 2020.

In our opinion, the management review includes a fair review of developments in the bank's operations and financial circumstances, the results for the year and the bank's financial position and describes the most significant risks and uncertainty factors that may affect the bank.

The annual report is presented to the annual general meeting for adoption.

Copenhagen, 15 March 2021

Executive Board:

Charlotte Skovgaard	Alex Andersen

Board of Directors:

Henrik Tølløse (Chair)	Anneke Stubsgaard (Vice-chair)	
Bernhard Franz Schmitz	Cornelis Anthonie Kuypers	Hilde Kjelsberg
Jakob Brochmann Laursen	Henrik Kronel	Jesper Kromann
Silja Nyboe Andersen		

The annual general meeting will be held on 10 April 2021.
The annual general meeting will be held as an online meeting in Danish.

Independent auditor's report

To the shareholders in Merkur Cooperative Bank

Conclusion

In our opinion, the financial statements give a true and fair view of Merkur Cooperative Bank's assets, liabilities and financial position as at 31 December 2020 and of the results of the bank's operations for the financial year 1 January to 31 December 2020 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

What have we audited

The financial statements of Merkur Cooperative Bank for the financial year 1 January to 31 December 2020 comprise the income statement and statement of comprehensive income, balance sheet, statement of capital and notes, including the accounting policies applied.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities according to these standards and requirements are further described in the section *Auditor's responsibility for the audit of the financial statements*.

We believe that the audit evidence obtained is sufficient and appropriate as a basis for our opinion.

Independence

We are independent of Merkur Cooperative Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code of Ethics) and the additional requirements applicable. We have fulfilled our other ethical responsibilities in accordance with IESBA Code of Ethics.

To the best of our knowledge, no prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014 have been performed.

Appointment

We were first appointed as auditors of Merkur Cooperative Bank on 1 April 2017 for the 2017 financial year. We have been reappointed by the annual general meeting for a total uninterrupted period of engagement of three years, including the 2020 financial year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for 2020. These matters were addressed as part of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	How the matters were addressed in our audit
Loan impairment charges Loans are measured at amortised cost less impairment charges. Loan impairment charges represent management's best estimate of expected losses on loans as at the balance sheet date in accordance with the provisions of IFRS 9 as incorporated in the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc. Reference is made to the detailed description of accounting policies in note 1. Loan impairment charges are a key focus area as management performs material estimates of whether impairment should be made and the size of such impairment charges. The following areas are central to the calculation fo the loan impairment charges: • Determination of credit classification on initial and subsequent recognition. • The model-based impairment charges for assets in stages 1 and 2, including management's determination of model variables adapted to Merkur's loan portfolio. • Merkur's procedures to ensure the completeness of the registration of credit-impaired loans (stage 3) or loans with a significantly increased credit risk (stage 2). • Main assumptions and estimates applied by management in the calculation of impairment charges, including principles for assessing various outcomes of the customer's financial position (scenarios) and for assessing collateral values of, e.g., properties included in the calculations of impairment. • Management's assessment of expected credit losses as at the balance sheet date as a result of possible changes in market conditions and which are not included in the model-based calculations or individually assessed impairment charges. Reference is made to note 2 'Material accounting estimates, assumptions and uncertainties' and note 26 'Risk management', where factors that may affect loan impairment charges are described.	We reviewed and assessed the impairment charges recognised in the income statement in 2020 and the balance sheet as at 31 December 2020. The review included an assessment of the impairment model applied, which was prepared by the BEC data centre, including the division of responsibilities between BEC and Merkur. An independent auditor appointed by BEC has provided the model with a reasonable assurance report as to whether the descriptions comply with the possible interpretations of the impairment principles set out in IFSR 9, and whether the model calculations are in accordance with the model descriptions. We assessed whether the assurance report identified a need for adjustments to Merkur's application of the model. We assessed and tested Merkur's calculation of impairment charges in stages 1 and 2, and also assessed management's determination and adaptation of model variables to the bank's own conditions. Our review and assessment also included Merkur's validation of the methods used to calculate expected credit losses as well as the procedures designed to ensure that credit-impaired loans in stage 3 and underperforming loans in stage 2 are identified and recorded in a timely manner. We assessed and tested the principles applied by Merkur to determine impairment scenarios, and to measure the collateral value of, e.g., properties included in the calculation of the impairment of credit-impaired loans and loans with a significantly increased credit risk. We tested the impairment calculations of a sample of credit-impaired loans in stage 3 and underperforming loans in stage 2 as well as the underlying data used for documentation purposes. We made an assessment ourselves of the stages and credit classifications of a sample of other loans. This included a broader sample of large loans as well as loans to segments characterised by generally increased risk levels. We reviewed and challenged the management's estimates of expected credit losses not covered by the model-based or individually assessed impairment charges based on our knowledge of the portfolio and the various sectors as well as our knowledge of current market conditions.

Statement on the management review

The management is responsible for the management review.

Our opinion on the financial statements does not cover the management review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management review and to consider whether the management review is materially inconsistent with the financial statements or our knowledge obtained in the course of our audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management review provides the information required under the Danish Financial Business Act.

Based on the work we have performed, we conclude that the management review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Financial Business Act. We did not identify any material misstatement in the management review.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Business Act, and for such internal control as management determines is necessary to enable the presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing Merkur's ability to continue as a going concern, disclosing, as applicable, matters related to continuing as a going concern and using the going concern basis of accounting unless management either intends to liquidate the bank or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with ISA and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risk of material misstatements in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the overriding of internal control.

- Obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Merkur's internal control.

- Evaluate the appropriateness of the accounting policies applied and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting, and based on the audit evidence obtained conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on Merkur's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or circumstances may cause the bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the senior management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control identified during our audit.

We also provide the senior management with a statement that we have complied with relevant ethical requirements regarding our independence, and communicate to the senior management all relations and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Based on the matters communicated to the senior management, we determine those matters that were of most significance in the audit of the financial statements for the period in question, and which therefore constitute the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure of such matters, or when, in extremely rare circumstances, we determine that such matters should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 15 March 2021
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 3377 1231

Benny Voss	Heidi Brander
State-authorised	State-authorised
public accountant	public accountant
mne15009	mne33253

Accounts and notes

Income statement 2020

DKK '000	2020	2019	NOTE
Interest income	89,104	92,076	3
Negative interest income	-10,776	-10,648	4
Interest expenses	-3,194	-3,782	5
Negative interest expenses	8,245	4,646	6
Net interest income	**83,379**	**82,292**	
Dividends from shares etc.	65	388	
Fee and commission income	72,764	67,948	7
Fee and commission expenses paid	-9,654	-8,470	8
Net interest and fee income	**146,554**	**142,158**	
Market value adjustments etc.	-672	991	9
Other operating income	80	252	
Staff costs and administrative expenses	-130,438	-118,671	10
Depreciation, amortisation and impairment of tangible and intangible assets	-3,702	-1,781	12
Other operating expenses	-52	-52	13
Impairment of loans and receivables etc.	-25,735	-11,325	14
Share of profit or loss of associated and affiliated undertakings	259	-822	
Profit before tax	**-13,706**	**10,750**	
Tax	3,279	-1,690	15
Profit for the year	**-10,427**	**9,060**	
Proposed distribution of net profit			
Carried forward to next year	-10,427	9,060	
Statement of comprehensive income			
Profit for the year	-10,427	9,060	
Other comprehensive income:			
Foreign currency translation adjustments, shares in EUR	116	-10	
Other comprehensive income after tax	**116**	**-10**	
Total comprehensive income for the year	**-10,311**	**9,050**	

Balance sheet

ASSETS (DKK '000)	2020	2019	NOTE
Cash in hand and demand deposits with central banks	**79,500**	79,688	
Accounts receivable from credit institutions and central banks	**2,060,743**	1,570,752	16
Loans and other accounts receivable at amortised cost	**1,642,671**	1,667,873	17-18
Bonds at fair value	**226,770**	227,735	19
Shares etc.	**42,939**	37,259	20
Investments in associated undertakings	**1,878**	2,164	21
Investments in affiliated undertakings	**1,028**	989	22
Assets associated with pool schemes	**454**	0	23
Intangible assets	**564**	0	24
Land and buildings			
Land and buildings (domicile property)	**10,579**	10,879	
Domicile properties, leased*	**5,168**	0	
Total land and buildings	**15,747**	**10,879**	**25**
Other tangible assets	**2,386**	2,155	26
Current tax assets	**436**	422	15
Deferred tax assets	**13,189**	9,910	15
Assets held for sale	**0**	7,575	27
Other assets	**61,483**	84,002	28
Prepayments and accrued income	**3,222**	2,662	
TOTAL ASSETS	**4,153,010**	**3,704,065**	

* The comparative figures for prior periods have not been restated to reflect the implementation of IFRS 16.

Balance sheet [continued]

LIABILITIES AND EQUITY (DKK '000)	2020	2019	NOTE
Debt to credit institutions and central banks	118,771	86,883	29
Deposits and other debt	3,526,874	3,160,409	30
Deposits with pool schemes	453	0	
Issued bonds	24,768	0	31
Current tax liability	0	0	15
Other liabilities	45,700	34,161	32
TOTAL DEBT	**3,716,566**	**3,281,453**	
Provisions for pensions and similar liabilities	285	303	
Provisions for guarantees	6,087	8,785	
TOTAL PROVISIONS	**6,372**	**9,088**	**33**
Subordinated debt	40,496	48,472	
SUBORDINATED DEBT	**40,496**	**48,472**	**34**
EQUITY			
Share capital	219,658	199,606	
Share premium account	130,496	115,597	
Other reserves	4,708	4,708	
Retained earnings	34,714	45,141	
TOTAL EQUITY	**389,576**	**365,052**	
TOTAL LIABILITIES AND EQUITY	**4,153,010**	**3,704,065**	
OFF-BALANCE SHEET ITEMS			
Guarantees	688,263	637,363	35
TOTAL OFF-BALANCE SHEET ITEMS	**688,263**	**637,363**	

Statement of capital 2020

(DKK '000)	2020	2019
Share capital:		
Share capital, beginning of year	199,606	174,608
Newly paid-up share capital	20,052	24,998
Total	**219,658**	**199,606**
Value of shares, end of year:	1,728.80	1,788.70
Share premium account:		
Share premium account, beginning of year	115,597	96,131
Share premium during the year	14,783	19,476
Other comprehensive income	116	-10
Total	**130,496**	**115,597**
Other reserves:		
Other reserves, beginning of year	4,708	4,708
Total	**4,708**	**4,708**
Retained earnings:		
Retained earnings, beginning of year	45,141	36,081
Profit for the year	-10,427	9,060
Total	**34,714**	**45,141**
Breakdown:		
Retained earnings, beginning of year	45,141	36,081
Profit for the year	-10,427	9,060
Other comprehensive income	116	-10
Total comprehensive income	**-10,311**	**9,050**
Other comprehensive income transferred to share premium account	-116	10
Other comprehensive income, revaluation reserves	0	0
Profit for the year	**-10,427**	**9,060**
Total	**34,714**	**45,141**

Statement of capital 2020 [continued]

[DKK '000]	2020	2019
Composition of equity, end of year:		
Share capital	219,658	199,606
Share premium account	130,496	115,597
Other reserves	4,708	4,708
Retained earnings	34,714	45,141
Total	**389,576**	**365,052**
Other information about reserves:		
Free reserves (previously A capital)		
Balance, beginning of year	19,305	18,715
Proportionate share of profit for the year	-801	590
Total free reserves	**18,504**	**19,305**
Share of other reserves	2,353	2,353
Total	**20,857**	**21,658**
Shareholders' reserves (previously B capital)		
Balance, beginning of year	25,836	17,366
Proportionate share of profit for the year	-9,626	8,471
Total shareholders' reserves	**16,210**	**25,836**
Share of other reserves	2,355	2,355
Total	**18,565**	**28,191**

Notes

NOTE 1. **Accounting policies**

The annual report has been prepared in accordance with the Danish Financial Business Act, including the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc.

The financial statements are presented in Danish kroner and rounded to the nearest DKK 1,000.

Change in accounting policies

Changed accounting treatment of lease payments in leased properties (IFRS 16)

Our accounting policies were changed on 1 January 2020 following the implementation of IFRS 16. The IFRS 16 accounting standard introduces new rules on leases but also affects the accounting treatment of leased property. All leases (except for low-value leased assets) must be recognised by the lessee in the form of a lease asset presented as the value of the right to use the underlying asset. Lease assets and lease liabilities are recognised from the time when the bank acquires the right to use such assets. At initial recognition, the asset is measured at the present value of the lease liability including costs. At the same time, the present value of the agreed lease payments is recognised (using the interest rate implicit in the lease) as a liability.

As regards the lease agreements for the premises leased by Merkur in Aarhus and Copenhagen, the expected terms of the leases are identical to the periods of non-terminability set out in the lease agreements with the option of an extension for agreements which are terminable within a short period of time, so that the terms of non-terminated leases are at least four years. The effect of this change to our accounting policies is a DKK 6.9m increase in the value of properties.Other liabilities are also increased by DKK 6.9m. The change in accounting policies will have no effect on the income statement.

The rest of the accounting policies have been applied consistently with 2019.

Capital Requirements Regulation

The Capital Requirements Regulation (CRR) allows for a five-year period in which to phase in the impact of the initial IFRS 9 impairments as at 1 January 2018 on own funds. The phase-in also applies to banks operating under IFRS 9-compatible impairment rules. Merkur has decided to make use of the transitional arrangement and therefore recognises only 30% of the impact of the IFRS 9-compatible accounting rules in the determination of own funds in 2020. This will increase to 50% in 2021. If Merkur had not made use of the transitional arrangement, the full impact of IFRS 9 on own funds would have been DKK 12.1m, which would reduce the capital ratio by 0.6 percentage points. The impact of IFRS 9 on own funds will be fully phased in at the end of 2022. Merkur has chosen to implement the static model.

Recognition and measurement

Assets are recognised in the balance sheet if, as a result of a past event, it is probable that future economic benefits will flow to Merkur and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when Merkur, as a result of a past event, has a legal or actual liability and it is probable that future economic benefits will flow from Merkur and the value of the liability can be measured reliably.

At initial recognition, assets and liabilities are measured at fair value. However, intangible and tangible assets are measured at cost at initial recognition. Measurement after initial recognition is done for each item as described below.

Recognition and measurement take into account the foreseeable risks and losses which arise before the presentation of the annual report and which confirm or disconfirm conditions existing at the balance sheet date.

In the income statement, income is recognised as earned while expenses are recognised with the amounts that concern the financial year. However, any increases in value of domicile properties are recognised directly in equity.

Foreign currency translation

At initial recognition, foreign currency transactions are translated at the exchange rate prevailing at the date of the transaction. At the balance sheet date, the closing rate is used. Foreign currency translation adjustments arising between the exchange rate prevailing at the date of the transaction and the exchange rate at the payment date or the closing rate, respectively, are recognised in the income statement under market value adjustments.

INCOME STATEMENT

Interest, fee and commission income etc.

Interest income and interest expenses are recognised in the income statement in the period to which they relate.

Interest income also includes interest income from finance lease agreements.

Interest income from impaired loans in stage 3 has been transferred from interest income to impairments in accordance with the rules.

Commission income and fees which are an integral part of the effective interest rate for a loan are recognised as part of the amortised cost and thus as an integral part of the loan under interest income.

Front-end fees and document fees, for instance, are accrued over the term of the loan.

Other fees are recognised in the income statement at the transaction date.

Market value adjustments etc.
Market value adjustments consist of realised and unrealised market value adjustments on securities, primarily bonds and shares. In addition, market value adjustments comprise foreign currency translation adjustments as well as any value adjustments of investment properties.

Yields on pool assets and deposits are presented together under market value adjustments as these yields belong to pool customers.

Other operating income
Other operating income comprises income of a secondary nature compared to Merkur's principal activity.

Staff costs and administrative expenses
Staff costs comprise salaries, social security costs and pensions. Costs of services and benefits for employees are recognised in line with the employees performing the work tasks which entitle them to such services and benefits.

Amounts are allocated to cover specific staff liabilities.

Merkur has entered into pension scheme agreements with most of its employees. Defined contributions are paid into pension accounts with Merkur or to a pension provider. Merkur has no obligation to make further contributions, and there are no pension obligations besides the aforementioned. .

Other operating expenses
Other operating expenses comprise expenses of a nature secondary to Merkur's principal activity.

Impairment of loans and receivables etc.
Impairment of loans and receivables etc. comprises losses and expected impairment of loans, losses and provisions for guarantees as well as losses and impairments concerning any assets taken over.

Tax
Tax for the year, which comprises current tax and changes in deferred tax, is recognised in the income statement with the portion attributable to the profit for the year and directly in equity with the portion attributable to entries directly to equity.

Current tax payable or receivable is recognised in the balance sheet as tax calculated on the taxable income for the year adjusted for any tax paid on account.

Deferred tax is recognised on all temporary differences between the carrying amount and the tax base of assets and liabilities. Deferred tax assets, including the tax base of tax losses allowed for carry-forward, are recognised in the balance sheet with the value at which the asset is expected to be realised, either offset against deferred tax liabilities or as net assets.

BALANCE SHEET

Accounts receivable from credit institutions and central banks
Accounts receivable from credit institutions and central banks comprise accounts receivable from other credit institutions and fixed-term deposits with central banks. Initial recognition is at fair value plus added transaction costs and less front-end fees etc., and subsequent measurement is at amortised cost.

Loans
This item consists of loans where disbursement has been made directly to the borrower and leases where payment takes place directly as payment for the asset by the supplier.

Loans are measured at amortised cost, which usually corresponds to the nominal value less front-end fees etc. and any impairments for expected losses incurred but not yet realised.

Model for impairment of expected credit losses
With IFRS 9-compatible impairment rules, expected credit losses are impaired for all financial assets recognised at amortised cost, and provisions are made according to the same rules for expected credit losses on unutilised credit limits, loan commitments and financial guarantees. The impairment rules are based on an expectation-based model.

For financial assets recognised at amortised cost, impairments are recognised for expected credit losses in the income statement and reduce the value of the asset in the balance sheet. Provisions for losses on unutilised credit limits, loan commitments and financial guarantees are recognised as a liability.

The expectation-based impairment rules entail that a financial asset at initial recognition is impaired by an amount equivalent to the expected credit loss over 12 months (stage 1). If a subsequent significant increase in credit risk is seen in relation to the initial recognition, the financial asset is impaired by an amount equivalent to the expected credit loss during the asset's remaining term to maturity (stage 2). If the financial instrument is deemed to be credit-impaired (stage 3), the asset is impaired by an amount equivalent to the expected credit loss during the asset's remaining term to maturity, and interest income is recognised in the income statement according to the effective interest rate method in relation to the impaired amount.

The expected loss is calculated as a function of the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD), which incorporate forward-looking information representing management's expectations for future developments.

The classification in stages and the determination of the expected loss are based on Merkur's rating models, which have been developed by Merkur's IT provider, BEC, in cooperation with the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and Merkur's internal financial and risk management. When assessing the development in credit risk, a significant increase in the credit risk in relation to the initial recognition is deemed to have taken place when a downward adjustment of two rating classes is made for a debtor (model-calculated scale from best to worst 1:11).

If the credit risk of the financial asset is considered as being low at the balance sheet date, the asset is, however, maintained at stage 1, where no significant increase in the credit risk has been seen. Merkur views the credit risk as low when its internal rating of the customer corresponds to 2a on the Danish Financial Supervisory Authority's scale or better. However, an unauthorised overdraft for more than 30 days by a customer with an internal 2a rating will entail a significantly increased credit risk. In addition to loans and receivables that meet the rating criterion, the category of assets with low credit risk also comprises Danish government and mortgage bonds as well as accounts receivable from Danish credit institutions. New customers are always classified in stage 1 if they are not credit-impaired.

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

- The borrower is in substantial financial difficulties
- The borrower is in breach of contract, e.g. due to non-performance of payment obligations regarding repayments and interest
- When forbearance measures have been applied by Merkur that would not otherwise be considered had it not been for the borrower's financial difficulties, or
- It is likely that the borrower will be declared bankrupt or become subject to some other form of financial restructuring.

However, financial assets are maintained in stage 2 in cases where the customer is in substantial financial difficulties, or where Merkur has granted more lenient lending terms due to the customer's financial difficulties, provided that no losses are expected in the most probable scenario.

The definition of credit impairment used by Merkur when measuring the expected credit loss and in the transition to stage 3 is the same as the definition used for internal risk management purposes. This means that an exposure which is deemed to be credit-impaired will always be classified as stage 3.

The calculation of impairments of exposures in stages 1 and 2, except for the weakest exposures in stage 2, is made on the basis of a portfolio-based model calculation, while impairments of the remaining part of the exposures are based on a manual, individual expert assessment in a so-called risk of loss statement based on three scenarios (a basic scenario, a more positive scenario and a more negative scenario) as well as the probabilities of the respective scenarios occurring.

The portfolio-based model calculation is based on a model incorporating Merkur's customer segmentation into different rating classes and an assessment of the risks associated with the individual rating classes. The calculation takes place in a setup that is developed and maintained by Merkur's data centre, supplemented with a forward-looking macroeconomic module developed and maintained by the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark, and which forms the basis for incorporating management's expectations for the future. The macroeconomic module is constructed on the basis of a number of regression models that determine the historical correlation between impairments within a number of sectors and industries and a number of explanatory macroeconomic variables. Subsequently, the regression models are fed estimates for the macroeconomic variables based on forecasts from consistent sources such as the Danish Economic Council, Danmarks Nationalbank etc., where forecasts ordinarily reach two years into the future and cover variables such as increases in public-sector spending, increases in GDP, interest rates etc. This forms the basis for calculating expected impairments up to two years into the future within specific sectors and industries. For maturities exceeding two years and up to year ten, a projection of the impairment ratio is made so the impairment ratio converges towards a normalised level in year ten. The forward-looking, macroeconomic module generates a number of adjustment factors that are multiplied on the basis of the data centre's 'raw' estimates, which are thereby adjusted in relation to the starting point.

Model uncertainties and managerial estimates

In addition to determining expectations for the future, impairments in stages 1 and 2 are also associated with uncertainty because the model does not take account of all relevant factors. As only limited historical data is available on which to base the models, it has been necessary to supplement the model's calculations with managerial estimates. Assessing the impact of improved outcomes and deteriorated outcomes, respectively, of macroeconomic scenarios on the long-term probability of default for customers and segments also involves estimates.

Changes in impairments are regulated

in the income statement under the item 'Impairment of loans and receivables etc.'.

The expectations for future financial developments changed instantly as a result of the coronavirus outbreak in early 2020 and the subsequent lockdown of several EU countries and large parts of Danish society more than once. And the expectations for the future remain highly uncertain in view of the consequences of the spread of infection.

Opposing tools in the form of restrictions imposed on the Danish corporate sector on the one hand and community-supporting aid packages on the other, have, among other things, meant that we have only seen a limited increase in impairments and losses as a result of the crisis so far.

The financial models on which a large part of our impairments are normally based have been particularly challenged in 2020 due to the crisis and the aid packages. The models do not take sufficient account of the exceptional economic situation, as impairments should reflect the economic situation to a significant extent, and a considerable management estimate is therefore needed.

We take our point of departure in the models from BEC and use data as from 31 December 2020. Initially, the models have calculated the statistical impairments for each industry broken down by stages 1, 2, 2weak and 3, respectively, but as mentioned above, the models do not take sufficient account of the current economic situation. Based on this, we believe that additions are needed for all industries and personal customers irrespective of stage.

For most sectors, impairments have been increased by 10% in stage 1, by 20% in stage 2, by 40% in stage 2weak and by 10% in stage 3. The additions are thus increased in line with the deterioration in credit quality, with the exception of stage 3, which has already been individually assessed.

We have reviewed all industries to assess whether special conditions separate one from the other and therefore require further estimated additions. The industries in which we see an increased risk are: trade, restaurants and hotels, letting of real estate, culture and leisure, and education. We have also increased the addition for personal customers, as unemployment and divorces may follow in the wake of the commercial difficulties mentioned above.

Practice for the write-off of financial assets in the balance sheet

Financial assets measured at amortised cost are fully or partially written off in the balance sheet if Merkur no longer has a reasonable expectation about full or partial coverage of the outstanding amount. Derecognition is based on a concrete, individual assessment of the individual exposures. For personal and business customers, Merkur will typically implement a write-off when the collateral has been realised and the outstanding claim is irrecoverable. When a financial asset is fully or partially written off in the balance sheet, the impairment of the financial asset is removed from the statement of accumulated impairments, see note 14.

Merkur continues its collection efforts after the assets have been written off, with actions depending on the concrete situation. Merkur first seeks to enter into a voluntary agreement with the customer, for example through renegotiation of terms or reconstruction of a company, which means that Merkur does not resort to debt recovery or bankruptcy proceedings until other solutions have been attempted.

Bonds

Bonds traded in active markets are measured at fair value. The fair value is determined using the closing rate for the relevant market at the balance sheet date.

Unlisted bonds are recognised at fair value based on what the transaction price would be in a transaction between two independent parties.

Shares etc.

Shares are measured at fair value based on the closing rate at the balance sheet date.

In the case of unlisted shares in companies which Merkur owns jointly with a number of other banks and where there is a continuous redistribution of the shares, redistribution is deemed to be the principal market for the shares. The fair value is therefore determined as the transfer price.

Where possible, the fair value of other unlisted or illiquid shares is based on available information on trades and similar or alternative capital calculations.

Unlisted equity investments for which it is not possible to calculate a reliable fair value are measured at cost.

Pool scheme

In the financial statements, assets associated with pool schemes are measured at fair value and presented in separate balance sheet items.

Investments in associated and affiliated undertakings

Investments in associated and affiliated undertakings are recognised and measured under the equity method, according to which investments are measured at the proportionate share of the equity value of the associated and affiliated undertakings.

Merkur's share of profit or loss after tax in associated and affiliated undertakings is recognised in the income statement.

Merkur holds investments of 25% and more in two undertakings. They are referred to as associated undertakings in the financial statements.

Merkur holds investments in Merkur Development Loans Ltd. A/S corresponding to 9.0%. Merkur Development Loans

Ltd. A/S has entered into an agreement with Merkur Cooperative Bank about the administration of the company.

The investments are recognised in the financial statements under the item 'Investments in affiliated undertakings'.

Intangible assets

Strategic IT development projects in respect of which we expect future earnings to exceed the costs are recognised at cost less accumulated amortisation and impairments. The assets are amortised on a straight-line basis over their expected useful lives, max. four years.

Other internally generated intangible assets are expensed in the year of acquisition, as the conditions for qualifying for capitalisation are not deemed to be met.

Tangible assets

At initial recognition, tangible assets are measured at cost. Cost comprises the purchase price, costs directly attributable to the acquisition and the costs of preparing the asset for its intended use.

Domicile properties

After initial recognition, domicile properties are recognised at their revalued amount. Revaluation is made with such frequency that there are no significant differences to the fair value. External experts are involved periodically in the measurement of the domicile property. Substantial increases in the revaluation of the domicile property are recognised under revaluation reserves in equity. Significant decreases in value are recognised in the income statement, unless there is a reversal of previous revaluations. Depreciation is based on the revaluation. Domicile properties are depreciated over a period of 50 years.

Domicile properties, leased

Merkur is party to two property leases. The leases are recognised in the balance sheet as an asset that represents the right to use the asset under 'Domicile properties, leased' with an associated lease liability under the item 'Other liabilities'. At initial recognition, leased properties are measured at cost, which corresponds to the present value of the future lease payments. When assessing the expected lease period, Merkur has identified the period of non-terminability set out in each lease and added such periods covered by the option of an extension as management is expected, with reasonable probability, to exercise. As concerns Merkur's leased properties, management has assessed that the expected lease periods constitute the periods of non-terminability set out in the leases as well as an extension option on leases with short periods of non-terminability, such that the lease period for each individual property normally runs for at least four years. When discounting the lease payments to net present value, we have applied an average alternative borrowing rate of 4% per annum. Subsequently, the leased domicile properties are measured at cost less accumulated depreciation and impairments. The lease asset is depreciated over the expected useful life of the lease asset. Depreciation and impairments are recognised in the income statement.

Other tangible assets

Other tangible assets are measured at cost less accumulated depreciation and impairments. Straight-line depreciation is based on the following assessment of the estimated useful lives of other assets:

IT equipment and machinery	3 years
Tools and equipment	3 years
Leasehold improvements	5 years
Air-conditioning systems	10 years
Wind turbines	10-25 years

Assets held for sale

Assets held for sale comprise tangible assets taken over in connection with distressed exposures. The assets are measured at the lowest of carrying amount and fair value less selling expenses.

Assets held for sale are only temporarily in Merkur's possession. Assets and the associated liabilities are recognised separately in the balance sheet.

Any value adjustment of the assets held for sale is recognised in the income statement under 'Impairment of loans and receivables etc.'.

Other assets

Other assets comprise remaining assets that do not belong under any other asset items.

The item comprises security deposits for leased premises, a pledged deposit with Merkur's IT provider, BEC, assets associated with pool schemes as well as accounts receivable falling due after the end of the financial year, including interest receivable.

Prepayments and accrued income

Prepayments and accrued income recognised under assets comprise costs incurred relating to subsequent financial years. Prepayments and accrued income are measured at cost.

Debt to credit institutions and central banks

Debt to credit institutions and central banks is measured at amortised cost, which usually corresponds to nominal value.

Deposits and other debt

Deposits and other debt comprise deposits with counterparties other than credit institutions or central banks. Deposits and other debt are measured at fair value at initial recognition and subsequently at amortised cost.

Deposits with pool schemes

Deposits with pool schemes are measured at fair value.

Issued bonds at amortised cost
Issued bonds at amortised cost comprise non-preferred senior bonds, also called non-preferred senior debt. The issued bonds are measured at fair value at initial recognition and subsequently at amortised cost. Costs directly related to the issue are deducted from the initial fair value and amortised over the remaining term to maturity (management's best estimate of term to maturity) using the effective interest rate method.

Other liabilities
Other liabilities comprise remaining liabilities that do not belong under any other liability items.

This item comprises expenses falling due after the end of the financial year, including interest payable.

Provisions
Obligations and guarantees which are uncertain as to the size or timing of their discharge are recognised as provisions when it is probable that the obligation will require an outflow of Merkur's financial resources and the obligation can be reliably measured. The obligation is determined at the present value of the costs that are necessary to discharge the obligation.

Subordinated debt
Subordinated debt is measured at amortised cost.

Contingent liabilities
Contingent liabilities consist of guarantees issued by Merkur. Guarantees are continuously reviewed and evaluated to assess whether objective evidence of credit impairment exists.

Provisions for guarantees are recognised under provisions in the balance sheet.

NOTE 2. Significant accounting estimates, assumptions and uncertainties

The financial statements are prepared based on certain assumptions that require the use of accounting estimates. These estimates are made by management in accordance with accounting policies and based on historical experience as well as assumptions that management considers reasonable and realistic. The assumptions may be incomplete, and unexpected future events or circumstances may occur, just as other people might arrive at other estimates. Areas involving a higher degree of estimation or complexity, or areas where assumptions and estimates are material to the financial statements, are listed below.

In preparing the financial statements, management makes various accounting assessments that form the basis for the presentation, recognition and measurement of Merkur's assets and liabilities. The financial statements are prepared in accordance with the going concern concept on the basis of the current practice and interpretation of the rules for Danish banks. The most significant estimates made by management in connection with the recognition and measurement of these assets and liabilities and the material uncertainties related to the preparation of the annual report for 2020 are:

- Measurement of loans
- Measurement of domicile properties
- Measurement of deferred tax assets
- Matters specific to the bank

Measurement of loans
Impairment of loans and receivables is made in accordance with accounting policies and is based on a number of assumptions. If these assumptions change, the financial statements may be affected, and the impact may be significant.

Changes may occur as a consequence of a change in practice by the authorities, errors related to calculation models from the data provider as well as changes to principles by management – e.g. if the time frame is changed.

Management has assessed that the impairment model cannot capture the potential impacts resulting from corona, aid packages etc. We have estimated and made a provision of DKK 12.5m to cover potential future losses related to the corona pandemic.

Moreover, management has specifically assessed that model-related uncertainties exist regarding the probabilities assigned to the individual exposures in the model. Consequently, impairments have been increased by an additional DKK 0.3m compared to the model-based predictions.

The scenarios used to calculate collateral and hence impairments of financial assets are influenced by many assumptions concerning economic cycles, legislation, natural conditions etc.Merkur has factored in a deliberate negative bias, as it is management's assessment that collateral is more likely to lose value than gain value, depending on the type of asset.

The macroeconomic segmentation model is generally based on loss data for the entire banking sector. Merkur has therefore assessed whether the model estimates should be adjusted to the credit risk for its own loan portfolio. Merkur has assessed that the model estimates reflect its own circumstances.

The model estimates form the basis for calculating the macroeconomic effects on impairments. For each group of loans and receivables, the percentage impairment associated with a given group of loans and receivables at the balance sheet date is estimated. This estimate amounts to DKK 0.5m.

Measurement of domicile properties

Domicile properties, which consist of three owner-occupied flats in Aalborg used for banking operations, are measured after initial recognition at their revalued amount, equivalent to the fair value at the date of revaluation. Revaluation is made with such frequency that there are no significant differences to the fair value. The value is shown less depreciation.

Measurement of deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent it is considered probable that taxable income can be realised within a foreseeable number of years against which the losses can be set off. Our projected budgets support our expectation of being able to exploit the tax asset within 4-5 years. There is, of course, a great deal of uncertainty when it comes to looking so far into the future, not least in light of the effects of the corona pandemic that have not yet materialised.

We currently have an outstanding balance with the Danish Tax Agency concerning the treatment of a possible taxable gain from 2013 of DKK 3.3m, which was obtained due to changed accounting policies by our current data provider, BEC. As the outcome of this case is subject to great uncertainty, we have chosen not to recognise this potential outstanding amount.

Matters specific to the bank

The measurement of unlisted shares and certain bonds is to a large extent based on observable market data. In addition, a number of unlisted shares have not been traded for several years. Illiquid unlisted shares and bonds have been recognised at estimated market value and are therefore subject to uncertainty.

[DKK '000]	2020	2019

NOTE 3. **Interest income**

Accounts receivable from credit institutions and central banks	20	78
Loans and other accounts receivable	87,550	90,508
Bonds	1,534	1,489
Other interest income	0	1
Total	**89,104**	**92,076**

Merkur has no subsidiaries or branches abroad. Revenue in Denmark can be determined at DKK 170,193 thousand. Merkur received no public grants during the financial year. As regards interest income from loans, in addition to Denmark Merkur also receives interest income from Finland, Germany, Sweden and Norway. The income is negligible compared to Merkur's overall activity.

NOTE 4. **Negative interest income**

Accounts receivable from credit institutions and central banks	10,574	10,412
Bonds	202	236
Total	**10,776**	**10,648**

NOTE 5. **Interest expenses**

Credit institutions and central banks	41	31
Deposits and other debt	454	1,141
Subordinated debt	2,386	2,608
Issued bonds, MREL capital	31	0
Other interest expenses, including lease payments	282	2
Total	**3,194**	**3,782**

NOTE 6. **Negative interest expenses**

Deposits and other debt	8,245	4,646
Total	**8,245**	**4,646**

NOTE 7. **Fee and commission income**

Securities trading and custody accounts	14,408	9,135
Payment handling	10,506	12,054
Loan business, fees and charges	5,939	6,065
Guarantee commission	19,432	19,285
Other fee and commission income	22,479	21,409
Total	**72,764**	**67,948**

(DKK '000)	2020	2019
NOTE 8. Fee and commission expenses paid		
Remuneration fees, external valuers	815	769
Interbank transaction fees	225	297
International fees, Visa and Mastercard	1,482	1,714
Other fees, pension systems etc.	4,151	2,753
Fees, Dankort and NETS	2,236	2,215
Fees, MobilePay	445	673
Paid guarantee commission	300	49
Total	**9,654**	**8,470**
NOTE 9. Market value adjustments etc.		
Bonds	-1,626	-1,607
Shares and equity investments	1,119	4,062
Mortgage deeds	0	-1,365
Foreign exchange income	-165	-99
Assets associated with pool schemes	-1	0
Deposits with pool schemes	1	0
Total	**-672**	**991**
NOTE 10. Staff costs and administrative expenses		
Salaries and remuneration for Board of Directors and Executive Board:		
Salaries and remuneration for Board of Directors	1,933	1,974
Salaries and remuneration for Executive Board, incl. pension	4,021	3,084
Total	**5,954**	**5,058**
Staff costs:		
Salaries	57,195	50,587
Pensions	6,201	5,494
Social security costs (financial services employer tax etc.)	9,883	9,110
Total	**73,279**	**65,191**
Other administrative expenses (note 11)	51,205	48,422
Total	**130,438**	**118,671**

Merkur does not use incentive pay or performance-based pay for the Executive Board, the Board of Directors or employees.

[DKK '000]	2020	2019
NOTE 10. **Staff costs and administrative expenses** [continued]		
Breakdown of salaries and remuneration for Board of Directors and Executive Board		
Board of Directors:		
Henrik Tølløse, Chair*	407	428
Jacob Brochmann Laursen*	247	364
Anneke Stubsgaard	234	230
Bernhard Schmitz	163	156
Hilde Kjelsberg	165	142
Cornelis Kuypers*, from 1 Apr. 2020	160	0
Resigned board members	56	159
Board members elected by the employees:		
Henrik Kronel	163	154
Jesper Kromann	161	142
Silja Andersen, from 1 June 2020	109	0
Resigned employee-elected board members	68	199
* = constitute the Board of Directors' Audit Committee	1,933	1,974
Executive Board:		
Lars Pehrson, CEO 1 Jan. - 30 Sep.		
Fixed salary, incl. free telephone and insurance	580	791
Variable salary	0	0
Pension	74	86
Alex B. Andersen, Chief Credit Officer		
Fixed salary, incl. free telephone and insurance	1,191	1,007
Variable salary	0	0
Pension	148	125
Charlotte Skovgaard, CEO from 1 Sep. 2020*		
Fixed salary, incl. free telephone, company car and insurance	1,912	290
Variable salary	0	0
Pension	116	29
* member of the Executive Board from 1 Sep. 2019		
Resigned as executive officer (resigned as at 31 Aug. 2019)	**0**	**756**
Total salary, pension, free telephone and insurance, Executive Board	**4,021**	**3,084**
Significant risk takers:	5,317	4,149
Fixed salary	0	0
Variable salary	**10**	**6**
Number of employees, full-time equivalents	**101.2**	**98.5**

NOTE 11. Other administrative expenses

(DKK '000)	2020	2019
IT costs, BEC	36,059	32,009
Other IT costs and telephony	1,464	1,591
Office supplies, stationery etc.	1,039	809
Postage	34	74
Travel costs etc.	255	593
Courses, training and other staff costs	2,468	2,948
Rent etc.	1,395	3,066
Maintenance of offices etc.	606	290
Insurance	478	460
Membership fees, banking associations etc.	1,120	996
Merkur's customer magazine 'Pengevirke'	271	526
Marketing	3,948	3,604
Auditing services*, legal and consultancy costs	2,076	1,448
Other costs, incl. VAT regulation	-8	8
Total	**51,205**	**48,422**
*** Fee paid to the auditors elected by the annual general meeting (AGM)**		
Statutory audit of the financial statements	453	802
Other assurance engagements	141	107
Tax advice and other assistance	85	18
Total fee paid to the firm of auditors elected by the AGM and performing the statutory audit	**679**	**927**

Fees for services other than the statutory audit performed by PwC cover statutory statements to various public authorities, submission of GDPR declaration, tax advice, among others in connection with tax control as well as various other consultancy services.

NOTE 12. Depreciation and amortisation of tangible and intangible assets

(DKK '000)	2020	2019
Domicile property	300	303
Machinery and equipment	761	801
Leasehold improvements	751	677
Leasing	1,723	0
Development costs	167	0
Total	**3,702**	**1,781**

NOTE 13. Other operating expenses

(DKK '000)	2020	2019
Contribution to the Guarantee Fund and the Resolution Fund	52	52
Total	**52**	**52**

NOTE 14. Impairments and provisions

[DKK '000]	2020	2019
Total write-offs and impairments for the year		
Accumulated changes in impairments during the year	-23,453	-12,026
Write-offs for the year, previously impaired	43,321	23,829
Write-offs, not previously impaired	7,330	799
Received on claims previously written off	-474	-435
Costs and value adjustment, assets temporarily held for sale	207	74
Interest from impairments	-1,196	-916
Total write-offs and impairments for the year	**25,735**	**11,325**
Stage 1: impairments of loans, guarantees and unutilised credit facilities		
Accumulated impairments as at 1 January 2020	5,756	3,101
Impairments for the period	4,494	4,171
Reversal of impairments from previous years	-3,543	-1,516
Write-offs, previously impaired	0	0
Accumulated impairments as at 31 December 2020	**6,707**	**5,756**
Stage 2: impairments of loans, guarantees and unutilised credit facilities		
Accumulated impairments as at 1 January 2020	8,925	11,472
Impairments for the period	8,811	475
Reversal of impairments from previous years	-5,970	-3,022
Write-offs, previously impaired	0	0
Accumulated impairments as at 31 December 2020	**11,765**	**8,925**
Stage 3: impairments of loans, guarantees and unutilised credit facilities		
Accumulated impairments as at 1 January 2020	73,063	85,197
Impairments for the period	28,394	28,836
Reversal of impairments from previous years	-12,112	-17,141
Write-offs, previously impaired	-43,321	-23,829
Accumulated impairments as at 31 December 2020	**46,025**	**73,063**

[DKK '000]	2020	2019

NOTE 14. **Impairments and provisions** [continued]

Total impairments of loans, guarantees and unutilised credit facilities		
Accumulated impairments as at 1 January 2020	**87.744**	99.770
Impairments for the period	**41.699**	33.482
Reversal of impairments from previous years	**-21.625**	-21.649
Write-offs, previously impaired	**-43.321**	-23.829
Accumulated impairments as at 31 December 2020	**64.497**	**87.744**

	Movement stages 1 and 2, YTD		**Movement stages 2 and 3, YTD**		**Movement stages 1 and 3, YTD**	
Stage	**to 2 from 1**	**to 1 from 2**	**to 3 from 2**	**to 2 from 3**	**to 3 from 1**	**to 1 from 3**
Loans and guarantees before impairments/provisions	38,201	146,344	18,408	37,610	20,720	13,086

Accumulated impairment ratio		
In % of loans and guarantees	**2.7**	3.7
Write-offs and impairments for the year in % of loans and guarantees	**1.1**	0.5
Zero-interest loans and reduced-interest loans due to borrower's financial difficulties	**10,793**	26,731
In % of loans and guarantees before impairments	**0.5**	1.1
Further information on loans not fully impaired		
Loans and receivables with objective evidence of impairment, before impairment	**169,128**	250,900
Loans and receivables with objective evidence of impairment, after impairment	**123,103**	177,837

Merkur has no financial assets that were credit-impaired at initial recognition.

[DKK '000]	2020	2019

NOTE 15. Tax

Current tax	0	0
Adjustment of deferred tax	3,279	-1,733
Adjustment of deferred tax, previous years	0	117
Adjustment of tax, previous years	0	-74
Total	**3,279**	**-1,690**
Effective tax rate on profit for the year	**23,9**	**15,7**
Accounting profit before tax	**-13,706**	**10,750**
Tax calculated thereon at a tax rate of 22%	3,015	-2,365
Changes in deferred tax, adjustment previous years	0	117
Permanent differences	264	631
Adjustment of tax paid, previous years	0	-73
Tax on profit for the year	**3,279**	**-1,690**
Deferred tax assets		
Other	2,233	2,434
Tax loss carry-forward	10,956	7,476
Total deferred tax assets	**13,189**	**9,910**
Tax receivables		
Calculated tax on profit for the year	0	0
Tax paid in advance	370	366
Paid dividend tax	10	56
Dividend tax receivable regarding previous years	56	
Total	**436**	**422**

NOTE 16. Accounts receivable from credit institutions and central banks

Broken down by term to maturity		
Demand deposits	2,060,743	1,570,252
More than 5 years	0	500
Total	**2,060,743**	**1,570,752**
Broken down by central banks and credit institutions		
Accounts receivable from central banks	2,006,000	1,542,000
Accounts receivable from credit institutions	54,743	28,752
Total	**2,060,743**	**1,570,752**

[DKK '000]	2020	2019

NOTE 17. **Loans and other accounts receivable at amortised cost**

	2020	2019
Loans with access to variable utilisation	317,478	395,544
Leasing	3,479	0
Other loans	1,321,714	1,272,329
Loans and other accounts receivable, total	**1,642,671**	**1,667,873**
Broken down by term to maturity		
On demand	160,999	204,624
Up to and including 3 months	79,361	89,432
Between 3 months and 1 year	102,314	104,232
Between 1 year and 5 years	481,725	480,478
More than 5 years	818,272	789,107
Total	**1,642,671**	**1,667,873**

The term to maturity has been calculated on the basis of fixed criteria, which, among other things, entails that overdraft facilities with no fixed date of expiry are classed as demand deposits.

NOTE 18. **Loans, advances and guarantee debtors** (by sector and industry)

	2020	2019
Loans and guarantee debtors in %, end of year		
1. Public sector	**0.0**	**0.0**
2. Corporate sector		
2.1 Agriculture, hunting, forestry and fishery	12.4	10.5
2.2 Industry and mining	2.6	2.7
2.3 Energy	2.8	2.5
2.4 Building and construction	0.5	1.3
2.5 Trade	1.0	1.5
2.6 Transport, hotels and restaurants	0.7	0.6
2.7 Information and communication	0.5	0.7
2.8 Credit, finance and insurance	1.4	1.8
2.9 Real estate	7.1	7.7
2.10 Others	4.7	12.8
2.10 Schools, kindergartens and institutions	14.6	12.2
Total corporate sector	**48.3**	**54.3**
3. Personal customers	**51.7**	**45.7**
1-3 Total	**100.0**	**100.0**

(DKK '000)	2020	2019

NOTE 19. **Bonds at fair value**

Mortgage bonds	216,231	216,743
Foreign bonds	10,539	10,992
Total	**226,770**	**227,735**
Maturing in the next financial year	110,515	51,401

NOTE 20. **Shares and equity investments**

Investment portfolio		
Danish financial sector companies:		
VP A/S	0	11
Let-P Holding A/S	102	160
Swipp Holding ApS	2	2
Bokis A/S	15	14
PRAS A/S	731	685
DLR Kredit A/S	34,102	32,135
Strategic partners:		
Folkesparekassen	327	327
Triodosbank, Netherlands	459	461
GLS Gemeinschaftsbank, Germany	39	39
Freie Gemeinschaftsbank, Switzerland	28	27
Banca Etica, Italy	790	794
Cultura Sparebank, Norway	912	981
Ekobanken, Sweden	319	302
Sparinvest Holding SE, A shares	604	360
Opendo A/S	3,619	0
Visa Inc C Pref.	16	18
SEFEA – Societá Europea Finanza Etica e Alternativa, Italy	257	258
Sustainability Finance Real Economies (SFRE)	544	611
Shared Interest Society Ltd., UK	17	18
Oikocredit, Netherlands	28	28
SIDI, France	28	28
Total	**42,939**	**37,259**

[DKK '000]			2020	2019

NOTE 21. **Investments in associated undertakings**

	Equity interest	Equity		
Plasticueros ApS	**37.50%**	**200,000 EUR**		
Total cost, beginning of year			559	559
Total cost, end of year			**559**	**559**
Revaluations and impairments, beginning of year			59	71
Profit for the year			47	-12
Revaluations and impairments, end of year			**106**	**59**
Carrying amount, end of year			**665**	**618**

Important conditions:
Balances [loans in EUR] with the company are granted on Merkur's normal conditions. The company's activity is to own a photovoltaic facility in Spain. The acquisition has been made for the purpose of reducing Merkur's CO2 emissions.

	Equity interest	Equity		
Söderhof Vindmølle I/S, Germany	**25%**	**1,009,522 EUR**		
Total cost, beginning of year			3,525	3,525
Total cost, end of year			**3,525**	**3,525**
Revaluations and impairments, beginning of year			-1,979	-1,503
Revaluations and impairments for the year			-373	-485
Profit for the year			40	9
Revaluations and impairments, end of year			**-2,312**	**-1,979**
Carrying amount, end of year			**1,213**	**1,546**

Important conditions:
The company's activity is to own a wind turbine in Germany. The acquisition was part of the closing of a non-performing exposure, but was retained for the purpose of reducing Merkur's CO2 emissions.

Total carrying amount of investments in associated undertakings, end of year	**1,878**	**2,164**

NOTE 22. **Investments in affiliated undertakings**

	Equity interest	Equity		
Merkur Development Loans Ltd. A/S	**9.0%**	**11,417,982**		
Total cost, beginning of year			1,000	1,000
Total cost, end of year			**1,000**	**1,000**
Revaluations and impairments, beginning of year			-11	94
Profit for the year			39	-105
Revaluations and impairments, end of year			**28**	**-11**
Carrying amount, end of year			**1,028**	**989**

[DKK '000]	2020	2019
NOTE 23. **Assets in pool schemes**		
Investment units	59	0
Cash deposit	395	0
Total	**454**	**0**
NOTE 24. **Intangible assets**		
Cost, beginning of year	0	0
Additions during the year	731	0
Total cost, end of year	**731**	**0**
Amortisation, beginning of year	0	0
Amortisation for the year	167	0
Amortisation, end of year	**167**	**0**
Carrying amount, end of year	**564**	**0**
NOTE 25. **Land and buildings**		
Domicile properties		
Revalued amount, beginning of year	13,390	13,390
Additions during the year	0	0
Revalued amount before depreciation	**13,390**	**13,390**
Depreciation, beginning of year	2,511	2,208
Depreciation for the year	300	303
Depreciation, end of year	**2,811**	**2,511**
Amount, end of year	**10,579**	**10,879**
Domicile properties, leased*		
Additions, new accounting policies	6,891	0
Additions during the year	0	0
Value before depreciation	**6,891**	**0**
Depreciation, beginning of year	0	0
Depreciation for the year	1,723	0
Depreciation, end of year	**1,723**	**0**
Value, end of year	**5,168**	**0**
* See the accounting policies regarding IFRS 16 Leases		
Total property exposure	**15,747**	**10,879**

[DKK '000]	2020	2019
NOTE 26. Other tangible assets		
Cost, beginning of year	15,797	16,171
Additions during the year	1,266	796
Disposals during the year	-44	-1,170
Total cost, end of year	**17,019**	**15,797**
Depreciation, beginning of year	13,642	13,334
Depreciation for the year	1,512	1,478
Disposals, depreciation reversed	-44	-1,170
Depreciation, end of year	**15,110**	**13,642**
Carrying amount, end of year	**1,909**	**2,155**
OTHER TANGIBLE ASSETS, LEASED CAR		
Cost, beginning of year	0	0
Additions during the year	477	0
Total cost, end of year	**477**	**0**
Depreciation, beginning of year	0	0
Depreciation for the year	0	0
Depreciation, end of year	**0**	**0**
Carrying amount, end of year	**477**	**0**
TOTAL OTHER TANGIBLE ASSETS	**2,386**	**2,155**
NOTE 27. Assets held for sale		
Buildings taken over in connection with the closing of exposures and which are to be sold	0	7,575
NOTE 28. Other assets		
Miscellaneous receivables	19,732	15,685
Rent deposit and deposit with IT centre	40,942	67,403
Interest receivable	809	914
Total	**61,483**	**84,002**

[DKK '000]	2020	2019

NOTE 29. **Debt to credit institutions and central banks**

Broken down by term to maturity		
On demand	118,177	86,252
More than 5 years	594	631
Total	**118,771**	**86,883**
Broken down by central banks and credit institutions		
Debt to central banks	117,487	81,828
Debt to credit institutions	1,284	5,055
Total	**118,771**	**86,883**

NOTE 30. **Deposits and other debt**

Broken down by term to maturity		
On demand	3,212,243	2,757,632
Deposits redeemable at notice:		
Up to and including 3 months	9,189	57,064
Between 3 months and 1 year	15,119	23,951
Between 1 year and 5 years	80,156	88,169
More than 5 years	210,167	233,593
Total	**3,526,874**	**3,160,409**
Broken down by type of deposit:		
On demand	3,134,873	2,696,421
Deposits redeemable at notice	103,261	135,489
Fixed-term deposits	9,675	19,110
Special deposits	279,065	309,389
Total	**3,526,874**	**3,160,409**

NOTE 31. **Issued bonds***

Broken down by term to maturity		
More than 5 years	24,768	0
Total	**24,768**	**0**

* non-preferred senior debt

[DKK '000]	2020	2019

NOTE 32. **Other liabilities**

	2020	2019
Various accounts payable	**20,643**	11,112
Interest and commission payable	**645**	1,308
Lease commitments	**5,746**	0
Other liabilities	**18,666**	21,741
Total	**45,700**	**34,161**

NOTE 33. **Provisions**

	2020	2019
Provisions for pensions and similar liabilities	**285**	303
Provisions for losses on guarantees etc.	**6,087**	8,785
Total	**6,372**	**9,088**

NOTE 34. **Subordinated debt**

	2020	2019
Subordinated debt at amortised cost	**40,496**	48,472
Total	**40,496**	**48,472**
Subordinated debt used for determination of own funds	**37,353**	40,596
Interest	**2,386**	2,607

Subordinated debt
Subordinated debt that represents more than 10% of the total subordinated debt can be specified as follows::

Due date	Currency	Interest rate*	Nominal value, DKK	Nominal value, DKK
08.06.2025	NOK	4.510	**7,051**	7,584
24.06.2025	DKK	5.973	**15,000**	15,000
01.05.2026	EUR	5.000	**7,439**	7,470
15.12.2027	EUR	4.500	**7,439**	7,470

* The interest rate on the subordinated debt mentioned is a floating interest rate with fixed interest-rate periods of variable duration. The interest rate mentioned is as at 31 December 2020. There are no special or alternative terms and conditions relating to faster repayment or other terms for the above-mentioned subordinated debt. The subordinated debt is amortisable.

(DKK '000)	2020	2019

NOTE 35. **Contingent liabilities**

Guarantees		
Financial guarantees	216,702	198,955
Loss guarantees for mortgage loans	374,239	355,715
Registration and conversion guarantees	81,372	65,803
Other guarantees	15,950	16,890
Total guarantees	**688,263**	**637,363**
Other obligating agreements		
Unutilised loan commitments	821,663	775,317

Merkur can terminate loan commitments without notice.

Contractual obligations
As a member of BEC, Merkur is obliged to pay a termination-of-service allowance.
Like other Danish banks, Merkur is liable for the losses of the Guarantee Fund *(Garantiformuen)* and the Resolution Fund *(Afviklingsformuen)*.
According to the most recent calculation, Merkur's share of the sector's liability vis-à-vis the Resolution Fund constitutes 0.006%.

Rent obligations in relation to terms of notice for leased owner-occupied flats*	0	1,949

*These obligations are recognised in the 2020 financial statements

Lawsuits etc.

As part of its ordinary operations, Merkur is involved in disputes etc. from time to time.
These risks are assessed continuously by Merkur's management, and any provisions for losses are made based on an assessment of the risk of losses.
At the time of presentation, there are no pending cases.

NOTE 36. **Capital**

Minimum capital requirement (Pillar I)	163,100	166,744
Capital conservation buffer	50,969	52,107
Countercyclical capital buffer	0	20,843
Minimum requirement for own funds and eligible liabilities (MREL) (Pillar III)	38,736	12,506
Total	**252,805**	**252,200**

NOTE 37. Capital ratio

[DKK '000]	2020	2019
Composition of capital		
Equity	389,576	365,051
Deductions:		
Capitalised deferred tax assets	-10,956	-7,476
Intangible assets	-564	0
Other deductions	-400	-400
Value adjustment according to requirement for prudent measurement of assets	-286	-283
Actual Tier 1 capital instruments in the financial sector	-3,011	0
Transitional arrangement, IFRS 9	12,108	18,850
Actual Tier 1 capital	**386,467**	**375,742**
Subordinated debt	37,353	40,596
Own funds	**423,820**	**416,338**
Without use of the IFRS 9 transitional arrangement, own funds at year-end would total	411,712	397,488
Risk exposure		
Credit risk	1,738,354	1,788,204
Operational risk	252,678	248,444
Market risk	47,721	47,648
Total risk exposure	**2,038,753**	**2,084,296**
Capital ratio	**20.8**	**20.0**
Tier 1 capital ratio	**19.0**	**18.0**
Capital ratio, without IFRS 9 transitional arrangement	**20.2**	**19.1**
Tier 1 capital ratio, without IFRS 9 transitional arrangement	**18.4**	**17.1**

NOTE 38. Financial risk and policies and goals for managing financial risks

Risk management

Merkur is exposed to different types of risks. The purpose of Merkur's risk management is to minimise the losses which may arise as a consequence of, for example, unpredictable developments in the financial markets or within the loan areas in which Merkur is active. Merkur continuously develops its tools to identify and manage the risks that impact Merkur on a day-to-day basis. The Board of Directors decides the overall framework and principles for risk and capital management and continuously receives reports on the development of risks and the use of the assigned risk parameters. The day-to-day management of risks is carried out by the Executive Board and other senior executives.

Credit risk

One of the most significant risks, given the nature of Merkur's business, is credit risk. Merkur's risk management policies are designed to ensure that transactions with customers and credit institutions continue to remain within the Board of Director's approved framework and policies, for example as regards collateral provided. Furthermore, policies have been adopted to limit exposure to any credit institution with which Merkur has business dealings.

(DKK '000)	2020	2019

NOTE 38. **Financial risk and policies and goals for managing financial risks** [continued]

Merkur regularly monitors all loans and guarantees.
Merkur classifies customers into credit rating groups – the distribution of customers is shown in the table below:

CREDIT QUALITY GROUPING	2020	2019
1 – Objective evidence of impairment (OEI)	8	9
2 – Weak	0	0
3 – Customers under observation	7	9
4 – Good customers below average	16	18
5 – Good customers	29	33
6 – Good customers above average	37	28
7 – Very good customers	2	2
Not classified*	1	1
Total	**100**	**100**

*Credit quality ratings are only applied to commitments in excess of DKK 10 thousand.

In 2020, we saw a marked improvement in credit quality ratings, which is primarily attributable to solid financial statements.
See 'Accounting policies' under the section 'Model for impairment of expected credit losses' for further details.

The Danish Financial Supervisory Authority uses the following credit quality ratings,
which we translate into the following internal ratings (BEC) in our model for impairment:

	Objective evidence of impairment (OEI)	Significant signs of weakness	Certain signs of weakness	Normal	Good
Danish FSA category	1	2c	2b	2a	3
Internal rating (BEC)	9-11	7-8	3-6	2	1
Merkur credit rating	1	2-3	4-5	6	7

Accumulated impairments, end of year

Stage/Danish FSA Categories	1	2c	2b	2a	3	**Total**
1	41	544	2,556	3,546	20	**6,707**
2	2	31	660	158	-	**851**
2 WEAK	2,231	7,248	1,222	213	-	**10,914**
3	45,437	20	567	-	-	**46,024**
Total	**47,711**	**7,843**	**5,005**	**3,917**	**20**	**64,496**
Of this special provisions (corona)	**5,403**	**4,649**	**2,460**	**-**	**-**	**12,512**

[DKK '000]	2020	2019

NOTE 38. **Financial risk and policies and goals for managing financial risks** [continued]

Overview of loans and guarantees before impairment broken down by industry and stage

END OF YEAR 2020 IN DKK 1,000

INDUSTRY STAGE	1	2	2 weak	3	Total
1. Public authorities	**0**	**0**	**0**	**0**	**0**
2. Business					**-**
2.1 Agriculture, hunting, forestry and fisheries	170,630	9,837	38,621	38,200	**257,288**
2.2 Industry and extraction of raw materials	20,325	3,304	13,276	22,136	**59,041**
2.3 Energy supply	67,198	-	-	7,786	**74,984**
2.4 Building and construction	10,380	433	663	3,951	**15,427**
2.5 Trade	14,472	443	2,800	7,565	**25,280**
2.6 Transport, hotels and restaurants	14,674	8	1,623	1,343	**17,648**
2.7 Information and communication	6,683	903	954	1,294	**9,834**
2.8 Financing and insurance	39,980	366	2	2,355	**42,703**
2.9 Real property	95,827	7,272	42,049	23,873	**169,021**
2.10 Other business	66,108	6,702	7,715	23,191	**103,716**
2.10 School, kindergarden and daycare	302,562	7,851	26,067	12,193	**348,673**
Total Business	**808,839**	**37,119**	**133,770**	**143,887**	**1,123,615**
					-
3. Personal	**1,145,325**	**53,400**	**45,371**	**25,240**	**1,269,336**
1-3 Total	**1,954,164**	**90,519**	**179,141**	**169,127**	**2,392,951**

END OF YEAR 2019 IN DKK 1,000

INDUSTRY STAGE	1	2	2 weak	3	Total
1. Public authorities	**0**	**0**	**0**	**0**	**0**
2. Business					**-**
2.1 Agriculture, hunting, forestry and fisheries	125,031	14,047	61,655	50,127	**250,860**
2.2 Industry and extraction of raw materials	34,759	192	19,134	9,686	**63,771**
2.3 Energy supply	58,322	-	558	-	**58,880**
2.4 Building and construction	25,179	-	817	5,961	**31,957**
2.5 Trade	23,145	1,257	5,909	4,775	**35,086**
2.6 Transport, hotels and restaurants	9,715	-	3,722	1,835	**15,272**
2.7 Information and communication	8,888	1,877	2,809	2,322	**15,896**
2.8 Financing and insurance	35,173	365	104	6,885	**42,527**
2.9 Real property	107,297	197	19,123	58,945	**185,562**
2.10 Other business	179,664	9,647	49,012	67,743	**306,066**
2.10 School, kindergarden and daycare	190,740	17,491	70,950	10,884	**290,065**
Total Business	**797,913**	**45,073**	**233,793**	**219,1,63**	**1,295,942**
					-
3. Personal	**969,585**	**57,080**	**34,475**	**31,737**	**1,092,877**
1-3 Total	**1,767,498**	**102,153**	**268,268**	**250,900**	**2,388,819**

[DKK '000]	2020	2019

NOTE 38. **Financial risk and policies and goals for managing financial risks** [continued]

Overview of accumulated impairments broken down by industry and stage

ACCUMULATED IMPAIRMENTS END OF YEAR 2020 IN DKK 1,000

INDUSTRY	STAGE	1	2	2 weak	3	Total
1. Public authorities		**0**	**0**	**0**	**0**	**0**
2. Business						**-**
2.1 Agriculture, hunting, forestry and fisheries		614	80	518	11,973	**13,185**
2.2 Industry and extraction of raw materials		80	3	720	2,030	**2,833**
2.3 Energy supply		495	-	-	-	**495**
2.4 Building and construction		68	-	21	2,450	**2,539**
2.5 Trade		368	63	1,017	636	**2,084**
2.6 Transport, hotels and restaurants		418	6	862	244	**1,530**
2.7 Information and communication		29	3	211	73	**316**
2.8 Financing and insurance		122	6	-	1,794	**1,922**
2.9 Real property		137	-	1,721	5,463	**7,321**
2.10 Other business		664	244	2,253	2,181	**5,342**
2.10 School, kindergarden and daycare		581	27	1,719	4,548	**6,875**
Total Business		**3,576**	**432**	**9,042**	**31,392**	**44,442**
						-
3. Personal		**3,131**	**419**	**1,873**	**14,632**	**20,055**
1-3 Total		**6,707**	**851**	**10,915**	**46,024**	**64,497**

ACCUMULATED IMPAIRMENTS END OF YEAR 2019 IN DKK 1,000

INDUSTRY	STAGE	1	2	2 weak	3	Total
1. Public authorities		**0**	**0**	**0**	**0**	**0**
2. Business						**-**
2.1 Agriculture, hunting, forestry and fisheries		579	25	2,617	13,963	**17,184**
2.2 Industry and extraction of raw materials		153	3	558	2,427	**3,141**
2.3 Energy supply		145	-	105	-	**250**
2.4 Building and construction		56	-	41	653	**750**
2.5 Trade		72	57	538	2,783	**3,450**
2.6 Transport, hotels and restaurants		41	1	128	491	**661**
2.7 Information and communication		58	4	284	612	**958**
2.8 Financing and insurance		223	4	7	4,116	**4,350**
2.9 Real property		244	-	401	9,301	**9,946**
2.10 Other business		840	44	915	23,692	**25,491**
2.10 School, kindergarden and daycare		659	100	1,699	3,283	**5,741**
Total Business		**3,070**	**238**	**7,293**	**61,321**	**71,922**
						-
3. Personal		**2,686**	**346**	**1,048**	**11,742**	**15,822**
1-3 Total		**5,756**	**584**	**8,341**	**73,063**	**87,744**

[DKK '000]	2020	2019

NOTE 38. **Financial risk and policies and goals for managing financial risks** [continued]

Description of collateral
Under Merkur's credit policy, most loans are collateralised, as a main rule on real estate, movable property and/or claims as security. In addition, shares in companies, letters of subordination and guarantees may be used as security.

Market risks
Merkur's market risks are managed through fixed limits for a number of risk targets, which are calculated and monitored daily. The reporting is done by Merkur's accounting department, and the Executive Board receives a daily report on potential/identified risks. The Board of Directors receives quarterly reports on developments in market risks.

Foreign exchange risk
Merkur carries accounts in foreign currencies for a small number of customers. In connection with the cooperation with Triodos Bank, GLS Gemeinschaftsbank, Cultura Sparebank and Ekobanken, Merkur carries individual accounts in EUR, NOK and SEK. Finally, Merkur carries a number of individual accounts in other main currencies. Merkur's policy is to maintain a neutral currency position at all times. In practical terms, small positions may occur which do not entail any substantial risk for Merkur.

	2020	2019
Assets in foreign currency	-37,432	-43,096
Liabilities in foreign currency	40,445	53,400
Total off-balance sheet items in foreign currency	0	-127
Net positions	**3,013**	**10,177**
Of which long positions	-45	-142
Of which short positions = Currency Indicator 1	3,058	10,319
Currency Indicator 1 in % of Tier 1 capital after deductions	**0.8**	**2.7**

Interest rate risk
The interest rate risk is calculated in accordance with the Danish Financial Supervisory Authority's guidelines. Merkur's interest rate risk is associated mainly with the placement of excess liquidity in floating-rate and fixed-income bonds. Under Merkur's policy, the interest rate risk may constitute 1.5% of the Tier 1 capital after deductions. Tier 1 capital after deductions has been calculated at DKK 386,727 thousand. The interest rate risk may therefore constitute a maximum of DKK 5,800 thousand.

	2020	2019
The interest rate risk is calculated based on the following:		
Securities	4,034	2,597
Fixed-rate deposits and loans	-742	-1,082
Total	**3,292**	**1,515**
Interest rate risk disaggregated across currencies with the greatest interest rate risk		
Currency:		
DKK	3,767	2,090
EUR	-574	-705
NOK	-19	14
SEK	118	116
Total	**3,292**	**1,515**
Interest rate risk in % of Tier 1 capital		
Securities	1.04	0.69
Fixed-rate deposits and loans	-0.19	-0.29
Interest rate risk in % of Tier 1 capital	**0.85**	**0.40**

Interest rate risk is defined as the loss that Merkur will suffer on its Tier 1 capital in the event that the effective interest rate increases by 1 percentage point on the fixed-rate exposures.

(DKK '000)	2020	2019

NOTE 38. **Financial risk and policies and goals for managing financial risks** [continued]

Share price exposure
Merkur only buys shares in companies and credit institutions with which it has a strategic cooperation or some other type of cooperative relationship. Merkur thus does not buy shares for speculative purposes. Merkur's share portfolio primarily consists of unlisted shares, and the portfolio is therefore to a large extent independent of developments in the general stock market.

Liquidity risk
Merkur's financial resources are managed by maintaining adequate cash and cash equivalents, ultra-liquid securities and adequate credit facilities. It is ensured that the financial resources are stable and adequate at all times.
Merkur's liquidity is substantially above the minimum statutory requirement of 100% determined in the supervisory diamond.
The total liquidity buffer constitutes more than DKK 2.3bn as at 31 December 2020.
The Liquidity Coverage Ratio (LCR) is a key ratio which describes the level of highly liquid reserves at Merkur's disposal to cover the expected outflow for the coming month. LCR thus measures the high-quality funds available relative to the expected outflow. The statutory requirement is 100% coverage. At the end of 2020, Merkur had an LCR of 541%, thus exceeding the statutory requirement by 441%.

Operational risk
Written procedures have been drawn up in order to minimise dependence on individuals,
and contingency plans for IT are in place to limit losses in the event of IT breakdowns or other similar crises. Operational risk arising from criminal or tortious behaviour is covered by insurance.

NOTE 39. **Related-party transactions during the financial year**

	2020	2019
Loans, credit lines etc. for management		
Executive Board	0	4,260
Board of Directors	1,046	3,832
Collateral		
Executive Board	0	0
Board of Directors	1,074	1,074

Important conditions:
Loans to members of the Executive Board and the Board of Directors have been provided on Merkurs' general terms and conditions. Interest of 2.75%-9.5% is charged on these loans. Loans to board members elected by the employees have been provided at special employee rates, within the same interest rate interval as mentioned above. The Board of Directors does not hold shares representing more than 25% in companies which have outstanding accounts with Merkur. Pursuant to section 120(4) of the Executive Order on Financial Reports for Credit Institutions and Investment Firms, etc., information about outstanding accounts with the Committee of Representatives is omitted.

NOTE 40. **Financial highlights**

KEY FIGURES IN DKKm	**2020**	2019	2018	2017	2016
Income statement					
Net interest and fee income	146.6	142.2	139.0	130.7	125.6
Market value adjustments etc.	-0.7	1.0	-3.2	-5.6	9.7
Staff costs and administrative expenses	130.4	118.7	112.7	106.5	92.6
Impairments of loans and receivables etc.	25.7	11.3	17.1	36.6	17.0
Share of profit or loss of associated undertakings	0.3	-0.8	0.1	0.0	0.0
Profit for the year	-10.4	9.1	3.1	-19.0	20.2
Balance sheet					
Loans	1,642.7	1,667.9	1,667.9	1,752.4	1,676.0
Deposits	3,526.9	3,160.4	3,127.3	3,065.8	2,676.0
Equity	389.6	365.1	365.1	315.9	316.9
Total assets	4,153.0	3,704.1	3,600.9	3,536.4	3,146.2
Guarantees	688.3	637.4	619.5	675.9	685.4
Other information					
Number of full-service customers (in 2016 also customers who were not full-service customers)	20,176	19,354	18,275	17,538	28,464
No. of shareholders	8,096	7,637	7,037	6,686	6,067
Ratios					
Capital ratio	20.8	20.0	17.8	16.3	17.5
Tier 1 capital ratio	19.0	18.0	15.8	14.5	15.4
Return on equity before tax (%)	-3.6	3.1	1.2	-7.1	8.5
Return on equity after tax (%)	-2.8	2.6	1.0	-5.9	7.1
Return on capital employed	-0.3	0.2	0.1	-0.5	0.6
Income/cost ratio	0.9	1.1	1.0	0.9	1.2
Income/cost ratio excl. market value adjustments and impairments	1.1	1.2	1.2	1.2	1.3
Cost relative to income excl. market value adjustments and impairments	0.9	0.9	0.8	0.8	0.8
Interest rate risk (%)	0.9	0.4	0.2	0.1	0.2
Currency position (%)	0.8	2.7	0.4	2.4	1.0
Foreign exchange risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%)*	541.4	460.6	527.8	448.0	364.0
Loans and impairment charges thereon in % of deposits	48.4	55.2	56.9	59.5	64.6
Lending-to-equity ratio	4.2	4.6	5.3	5.5	5.3
Growth in lending for the year (%)	-1.5	0.0	-4.1	4.6	17.1
20 largest customer exposures in % of Tier 1 capital	135.1	133.5	137.5	162.0	
Share of soft loans	0.5	1.1	1.3	2.1	1.2
Impairment ratio for the year	1.1	0.5	0.7	1.5	0.7
Accumulated impairment ratio	2.7	3.7	4.0	2.9	2.3

* The ratio is calculated LCR – excess coverage is the figure shown minus 100