Annual report 2021

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 opportunity to express oneself and be inspired through culture and education. However, this fundamentally relies on planet where the use of resources happens with respect of planetary boundaries and the living ecosystem as a whole.

Therefore, Merkur's ambition is to contribute to:

- A world of dignity, respect and care for every human being.
- 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

Merkur's mission 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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Published by: Merkur Cooperative Bank, www.merkur.dk
Editor: Ann Hybertz Frandsen, ahf@merkur.dk | **Layout:** Tobias Frost, www.studiofrost.dk

Cover photo: Palle Knudsen, unsplash.com

Photos: Page 21: Henrik Wagner; Page 22: Andrew Roberts, unsplash.com; Page 24: Anette Rasmussen [Skoulund Økologi], Løgumkloster Refugium, ; Page 25: Skovbo Efterskole, Ehlershjemmet; Page 26: NRGreen; Page 49: Erling Brodersen, locations.dk [Carpark Festival], Dieter Betz [Svartlöga]; Page 27: Bill Mead, unsplash.com; Page 38: Appolinary Kalashnikova, unsplash.com; Page 43: Henrik Wagner

Financial highlights

KEY FIGURES IN DKKm	2021	2020	2019	2018	2017
Income statement					
Net interest and fee income	**158.2**	146.6	142.2	136.7	130.7
Market value adjustments etc.	**1.3**	-0.7	1.0	-0.9	-5.6
Staff costs and administrative expenses	**134.8**	130.4	118.7	112.7	106.5
Impairment of loans and receivables etc.	**8.3**	25.7	11.3	17.1	36.6
Share of profit or loss of associated undertakings	**0.2**	0.3	-0.8	0.1	0.0
Profit for the year after tax	**11.6**	-10.4	9.1	3.1	-19.0
Balance sheet					
Loans	**1,669.2**	1,642.7	1,667.9	1,681.1	1,752.4
Deposits	**3,749.8**	3,526.9	3,160.4	3,127.3	3,065.8
Equity	**412.0**	389.6	365.1	315.2	315.9
Total assets	**4,497.5**	4,153.0	3,704.1	3,614.7	3,536.4
Guarantees	**773.2**	688.3	637.4	619.5	675.9
Other information					
Number of full-service customers*	**20,786**	20,176	19,354	18,275	17,538
No. of shareholders	**8,131**	8,096	7,637	7,037	6,686
Ratios					
Capital ratio	**23.9**	20.8	20.0	17.8	16.3
Tier 1 capital ratio	**17.9**	19.0	18.0	15.8	14.5
Return on equity before tax (%)	**3.5**	-7.0	3.1	1.2	-7.1
Return on equity after tax (%)	**2.9**	-5.4	2.6	1.0	-5.9
Rate of return (%)	**0.3**	-0.3	0.2	0.1	-0.5
Income/cost ratio	**1.1**	0.9	1.1	1.0	0.9
Income/cost ratio before market value adjustments and impairments	**1.2**	1.1	1.2	1.2	1.2
Costs relative to income excl. market value adjustments and impairments	**0.9**	0.9	0.0	0.8	0.8
Interest rate risk (%)	**0.2**	0.9	0.4	0.2	0.1
Foreign exchange position (%)	**3.2**	0.8	2.7	0.4	2.4
Foreign exchange risk (%)	**0.0**	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%) **	**566.9**	541.4	460.6	527.8	448.0
Net Stable Funding Ratio (NSFR) ***	**238.8**	-	-	-	-
Loans and impairment charges in % of deposits	**46.7**	47.7	55.2	56.9	59.5
Lending-to-equity ratio	**4.1**	4.2	4.6	5.3	5.5
Growth in lending for the year (%)	**1.6**	-1.5	0.0	-4.1	4.6
Ratio of 20 largest exposures to Tier 1 capital.	**118.6**	135.2	133.5	137.5	162.0
Share of loans with reduced interest (%)	**0.8**	0.5	1.1	1.3	2.1
Impairment ratio for the year	**0.3**	1.1	0.5	0.7	1.5
Accumulated impairment ratio	**2.3**	2.7	3.7	4.0	2.9

* 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.
** The ratio is calculated LCR – excess coverage is the figure shown minus 100.
*** New ratio introduced in 2021 to indicate how stable Merkur's funding is, i.e. our ability to pay our deposit holders their money back.

2021 in headlines

2021 was an unpredictable year, but it developed better for Merkur than we initially dared hope for. In the housing market, activity levels remained high in 2021, and interest in ethical and sustainable investments reached new heights. These are two of the factors that enabled Merkur to strengthen its business and increase basic earnings. At the same time, we succeeded in attracting professional investors who have made capital available to Merkur on attractive terms, which means that we are geared for growth and for meeting the increasing capital requirements taking effect in the coming years. Internally, we have optimised our processes and strengthened collaboration across the organisation to ensure an even smoother customer journey. After all the changes seen in recent years, we have also directed our focus on how our employees are doing and conducted an employee satisfaction survey that showed high levels of well-being. In 2021, sustainability really moved up the agenda in the financial sector, partly helped by EU legislation. The EU's anti-greenwashing labelling scheme for investment products came into force, and Merkur is the only financial institution in Denmark to offer our customers an investment universe consisting exclusively of products in the dark green – i.e. the most sustainable – category. Last but not least, in 2021 we made it even clearer what Merkur sees as sustainable and socially responsible activities and projects, as well as what we demand of our business customers, partners etc.

PROFIT FOR THE YEAR

DKK 11.6m after tax

EARNINGS

68% increase in basic earnings

INVESTMENTS

100% dark green investment products

SHAREHOLDERS

39% of Merkur's full-service customers are shareholders

CUSTOMERS

610 new full-service customers

CAPITAL

23.9 capital ratio

PRIDE

92% of Merkur's employees are proud of their work

CARBON FOOTPRINT

59% reduction in CO2e from own activities relative to 2019

Financial performance

The past year

We are looking back on a year that in many ways turned out better than expected. Merkur is posting a profit before tax of DKK 14.1m, thus keeping up the positive momentum seen in the first half of the year. After the first six months, we revised the outlook for FY 2021 to include a profit of DKK 8-15m before tax. We consider the profit to be satisfactory, as it is even at the high end of our expectations.

In the housing market, activity levels were very high in 2021, but our customers' interest in sustainable and socially responsible investments also continued to develop positively. Together, these two factors have paved the way for the impressive 68% increase in Merkur's basic earnings – from DKK 12.4m to DKK 20.9m – in 2021. This should, of course, be seen in light of the low level of basic earnings in 2020.

We have optimised a large number of processes, implemented several new systems, launched new products and focused on well-being in the past year, while at the same time cultivating collaboration across the organisation even more. These initiatives have all contributed to the realisation of our strategy of making an even more positive difference for even more people. We are looking back on a year in which we welcomed more new customers with even greater business scope, which means that we are well on the way to realising our goals.

In order to grow, you need a strong capital base. In the past year, Merkur has therefore had a strong focus on bolstering its capital position, thus ensuring that the money deposited with the bank is used to create a better world. It is therefore fantastic that we have succeeded in attracting new subordinated debt in the amount of DKK 124m on attractive terms from four professional investors. We have also entered into a guarantee agreement with the European Investment Fund, which allows us to offer new loans on highly favourable terms to small and medium-sized sustainable enterprises.

At the start of 2021, there was a lot of uncertainty about the consequences of the corona pandemic, but our customers have demonstrated that their businesses are mostly healthy, and few of them have therefore ended up in problems attributable to the pandemic or the negative effects of it. Even though all restrictions were lifted in Denmark in early 2022, we probably have not seen the last of corona or its consequences, but we are more optimistic on behalf of our customers than we were at the same time in 2021.

All in all, we are looking back on a busy and eventful year with a satisfactory result.

New customers and shareholders

In Merkur, we value all our customers, and we are pleased that the past year has brought an 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

DKK 1.9bn

invested in Triodos investment funds

68%

increase in basic earnings

DKK 3.4bn

worth of mortgages with Totalkredit

610
new full-service customers

39 %
of Merkur's full-service customers are shareholders

8,131
shareholders

the end of 2021, Merkur had a total of 20,786 full-service customers, representing a 3.0% increase, or a net increase of 610.

Danes are generally becoming more focused on ethics, sustainability and transparency when deciding who to bank with. In Merkur, we use our business to bring about positive change for society. We have therefore introduced a number of criteria that must be fulfilled in order for businesses to bank with Merkur. In other words, we demand that the activities we support contribute to a better world for people, nature and the environment. At the same time, we exclude companies that have a negative impact on society and the planet.

In 2021, Merkur saw a net increase of 35 shareholders (2020: 459), and the share capital grew by 2.7% or DKK 9.4m.The reason for the moderate growth is partly attributable to the fact that we have not received cooperative investments from large institutional investors and international partners in the way that we did in 2020.

At the end of 2021, Merkur had 8,131 shareholders, equating to 39% of our full-service customers (40% in 2020). 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 2022 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. Including share capital, Merkur manages more than DKK 6bn of our customers' money. Deposits topped DKK 3.7bn in 2021, which represents a 6.2% increase compared to 2020. The increase is partly due to the impacts of the corona-related lockdowns on consumer spending, but the considerable economic growth seen in Denmark in the past year, which has been characterised by record low unemployment, has also contributed to the increase in deposits.

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 customers. We work with several partners, including Triodos Investment Management, which is a well-reputed and extremely thorough company when it comes to selecting companies, countries and projects in which to invest. All investment opportunities in Merkur's investment universe meet the highest standards (Article 9) defined by the EU's anti-greenwashing scheme for financial products – i.e. all our investment products belong in the most sustainable category. In total, Merkur 's customers have now invested DKK 1,883m in Triodos investment funds, compared to DKK 1,542m in 2020, corresponding to an impressive 22.1% increase.

Investments in funds from other partners total DKK 205m.We have great expectations for continued growth in this area. 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, we made it possible for Merkur's customers to invest their pension savings in Merkur Impact Pools – customers have welcomed this opportunity, and at the end of 2021 DKK 48m had been invested in the impact pools, which primarily place the funds in sustainable Triodos funds.

Investments

IN DKKm	2021	2020	Change
Triodos impact funds	1,883	1,542	341
SDG Invest	107	57	50
Sparinvest	84	155	-71
Maj Invest	14	14	0
Total	**2,088**	**1,768**	**320**

Many customers decided to convert their mortgages in 2021, primarily due to the favourably low interest rates. Activity in the housing market has not been higher since 2005, and we are pleased to offer attractive financing solutions through our mortgage partners, the largest being Totalkredit. Concurrently with the strong conversion drive, new customers came on board, and the residual debt was increased. At the end of the year, our customers had total outstanding debt with Totalkredit of DKK 3.4bn compared to DKK 2.9bn in 2020.

In addition to the extremely positive development in the Totalkredit portfolio in 2021, mortgages brokered via DLR were also up by DKK 173m, or 18%.

At the end of 2021, loans and guarantees were DKK 1,669m against DKK 1,643m at the end of 2020. This equates to an increase in lending of DKK 26m, or 1.6%, which, in isolation, is unsatisfactory compared to our expectations before the start of the financial year. In 2021, our customers made repayments of approx. DKK 286m, and we must therefore provide new loans in a similar amount to other customers for our loan portfolio to remain unchanged. Furthermore, our success in the field of mortgage lending cannibalises our own lending, as very often mortgage financing is by far the most advantageous form of borrowing for our customers.

Running a financial institution in a low-interest environment remains difficult. The excess liquidity has a negative impact on results, and increased lending is therefore key to improving basic earnings in the long term. We have a number of strategic projects and exciting new initiatives that we expect to materialise in 2022. Next year, we therefore expect to be looking back on a year characterised by an increase in lending growth. Read more in the chapter *Expectations for 2022*. As a result of the increase in deposits and the slight increase in lending combined with a low level of investment, at the end of the year Merkur had liquid funds of almost DKK 2.4bn, thereby meeting all liquidity coverage ratio (LCR) requirements. The 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 2021, Merkur's LCR was 567%, or 467% higher than the LCR requirement.

Merkur's mortgage portfolio

IN DKKm	2021	2020	Development in %
Totalkredit A/S	3,367	2,913	16%
DLR kredit A/S	1,136	963	18%
LR Realkredit A/S	274	297	-8%
Total	**4,777**	**4,173**	**14%**

At the end of 2021, guarantees were at an all-time high of DKK 773m (2020: DKK 688m). 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, among other things.

Income

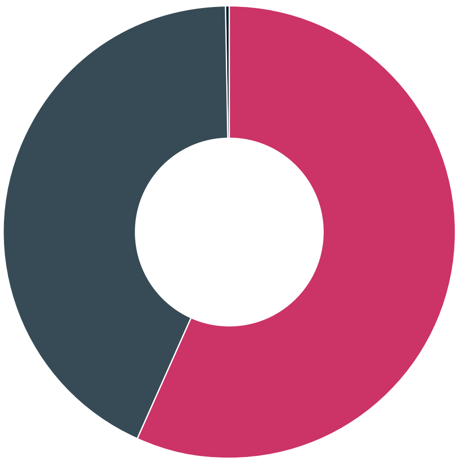
Overall, Merkur's net interest and fee income increased by DKK 11.7m, or 7.9% in 2021.

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 72.8m, up DKK 9.7m on last year (growth of 15.4%). The growth in mortgage lending, investments and greater activity in the payments area are the main drivers of the increase in revenue.

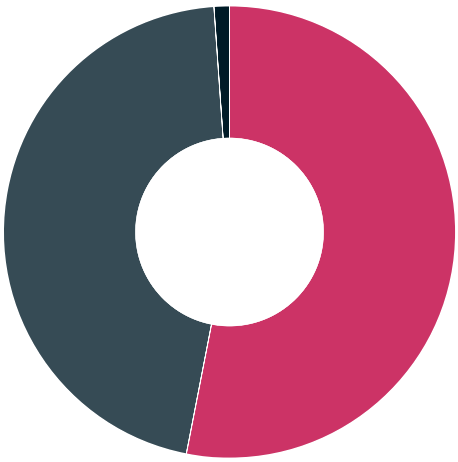
Net interest and fee income is up DKK 2m relative to 2020 and now totals DKK 85m.The trend that we have seen for some time of interest income playing a relatively smaller role for Merkur continued in 2021, with interest income accounting for just 53% of income compared to 68% back in 2017. The development is explained partly by the fact that the low interest rates have been favourable for customers using our lending and mortgage lending services, but this has also a challenge for Merkur. Secondly, the development is explained by the increase in fees and commissions due to high activity levels in the mortgage lending and investment markets, in particular.

Net interest income consists of four elements and is specified in notes 3 to 6. The largest element is interest income from lending, which declined to DKK 87.1m (down DKK 0.5m) due to lower average lending in 2021; however, this is compensated by increased income from negative interest rates on deposits, which increased by DKK 5.3m compared to 2020. This means that we are able to recover the interest we have to pay to Danmarks Nationalbank. Merkur's interest expenses consist mainly of payments to Danmarks Nationalbank for holding our deposit surplus. In the spring, Danmarks Nationalbank

Merkur's income in 2021 (DKK 147m)



Merkur's income in 2021 (DKK 160m)



7.9%

increase in net Interest and fee income

0.3%

Impairment ratio based on all loans and guarantees

changed the folio account[1] interest rate to minus 0.50% and then lowered it again in October to minus 0.60%. Merkur still has a relatively large number of customers who are exempt from paying negative interest rates, and any further lowering of interest rates by Danmarks Nationalbank will therefore be costly for Merkur. However, due to an increasing deposit surplus through 2021, we have not reduced this expense item, which ends at DKK 11.8m, up slightly from DKK 10.6m in 2020. Overall, interest expenses increased to DKK 16.6m (DKK 14.0m in 2020). This is primarily due to the above-mentioned deposit surplus, but the increase is also ascribable to our great success in attracting new capital and the interest payable to lenders. Interest expenses related to Merkur's subordinated debt are thus DKK 3.9m, up from DKK 2.4m in 2020.

Market value adjustments etc. were positive in 2021 and contribute DKK 1.3m against a loss of DKK 0.7m in 2020.

Costs

In 2021, Merkur incurred costs of DKK 148m, which is significantly less than in 2020 (DKK 157m). The DKK 9.0m improvement can mainly be attributed to a decrease in impairments. In 2020, we had to recognise impairments in the considerable sum of DKK 12.5m based on a management estimate of the impact of the corona pandemic. The management estimate was reduced in 2021, and at the same time lending to several customers developed positively. The relative distribution of costs in 2021 reveals an increase in all cost items, except for impairments.

Staff costs, which account for just over half of all costs, increased by 2.0% from DKK 79.2m in 2020 to DKK 80.8m. The main reasons for the increase are collectively agreed pay increases, holiday pay obligations and general pay developments in the sector.

IT costs are again record-high – up 7.1% or DKK 2.7m and totalling DKK 40.2m.The increase is largely ascribable to development costs associated with anti-money laundering measures, compliance and adjustments due to regulatory changes. In the financial sector, and in Denmark as a whole, the cyber risk is continuously increasing, and an increasing share of our IT costs goes towards mitigating this risk.

Other administrative expenses are on a par with 2020 and total DKK 14.1m.We have seen an increase in travel costs and training/education, which was to be expected in a year with fewer corona restrictions. The additional costs are compensated by lower marketing costs and costs relating to premises.

The cost/income ratio[2] is a useful metric for getting an indication of the efficiency of banking operations. It is calculated by dividing all costs with all income. Merkur's cost/income ratio decreased from 0.92 last year to 0.87, which means that every time Merkur has income of DKK 100, we spend DKK 87 on salaries, IT, office supplies etc. We expect to strengthen that development in the coming years.

[1] The folio account is the technical name of the account with Danmarks Nationalbank in which all financial institutions deposit excess liquidity each day.

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

Costs

[DKK '000]	2021	2020	Development
Salaries	80,815	79,233	2.0%
IT	40,184	37,523	7.1%
Administrative expenses etc.	13,826	13,682	1.1%
Impairment charges	8,285	25,735	-67.8%
Depreciation, amortisation and tax	5,233	475	1.001,7%
Total costs	**148,343**	**156,648**	**-5.3%**

Market value adjustments etc.

Merkur pursues a more conservative investment strategy than many other financial institutions – for several reasons. First of all, we want the funds with which we are entrusted to make a difference, and we believe this is best achieved through lending to sustainable projects. We then balance return and impact with the cash resources we are required to hold at all times, in combination with the capital burden associated with potential investments. The capital requirements, in particular, limit how much we can invest, even if a given investment may make sense from the point of view of both return and impact. Based on these considerations, we have decided to invest a relatively small share of our excess liquidity in bonds, shares and equity investments in financial sector shares as well as in other partners. As a result, our cash resources are very considerable.

Merkur's bond portfolio yielded a negative market value adjustment of DKK 1.6m, which is on a par with 2020. This equates to a return of -0.3% when taking account of the interest income on the investment. The return should be compared to the risk-free interest rate of -0.6% paid on deposits with Danmarks Nationalbank. The remainder of our excess liquidity is still deposited with Danmarks Nationalbank (DKK 2.4bn), resulting in negative interest income.

Market value adjustments of equity contributed DKK 3.0m – up 6.7% and covering primarily returns from DLR Realkredit A/S and the leasing company Opendo.

Impairments and losses

Impairments and losses for the year totalled DKK 8.3m compared to DKK 25.7m in 2020. The latter should be seen in the context of the extraordinary management estimate of DKK 12.5m related to corona in 2020. The management estimate was reduced this year to DKK 6.5m, partly as a result of an individual review and partly because our personal customers have been less impacted by the pandemic than originally expected. The impact of the corona crisis is described in further detail in the section on accounting estimates. In spring 2021, an inspection by the Danish FSA resulted in an increase of impairments relating to business customers. On the other hand, many of Merkur's other customers did well in 2021, resulting in the reversal of impairments.

The impairment ratio falls to 0.3% of our loans and guarantees. In isolation, this is a satisfactory level, but compared to the financial institutions we usually compare ourselves to, the ratio is at the high end.

Impairment ratio

[DKK '000]	2021	2020	2019	2018	2017	2016
Losses and impairments	8,285	25,735	11,325	17,132	36,558	17,007
In % of loans and guarantees	0.3%	1.1%	0.5%	0.7%	1.5%	0.7%

Impairments in 2021 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 2021, accumulated impairments totalled 2.3% of loans and guarantees, compared to 2.7% 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. At the end of 2021, accumulated but not written-off impairments totalled DKK 58m.The distribution by stage can be found in note 13 to the financial statements.

Profit for the year

For Merkur, 2021 was a year of tailwinds as well as headwinds. The positives are increased fee and commission income, increased earnings from negative interest rates and reduced impairments. The negatives are increasing expenses associated with the depositing of surplus liquidity with Danmarks Nationalbank as well as increasing IT costs.

Merkur is posting a profit before tax of DKK 14.1m for the year.The outlook announced in the interim report was for a profit before tax of DKK 8-15m, and these expectations have thus been met. The result is satisfactory. The profit for the year after tax was DKK 11.6m. It is proposed that the profit for the year be carried forward to next year.

The capital requirements to be met by all financial institutions including Merkur are being tightened all the time. We are therefore obliged to constantly strengthen our earnings and thus our capital position. For this purpose, we have already implemented a number of initiatives which we expect to have an impact in 2022. And more 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 2022*.

Share capital and subordinated loan capital

The positive results for 2021 are reflected in the price per share, which is up 2.4% at DKK 1,770.30. The shares are the foundation of Merkur's work, and for our shareholders they are intended as a long-term investment that at the same time supports Merkur's mission of being a catalyst for sustainable change.

In 2021, our share capital grew by DKK 9m, or 2.7%. We are pleased with the support we receive from both existing and new shareholders.

Capital requirements are generally increasing at the moment, and even tighter requirements are under way. In Merkur, our ambition is to make an even more positive difference for even more people. This will hopefully translate into more lending, which again requires more capital. In 2021, we therefore decided to explore and make use of the subordinated debt market. We have presented Merkur and our plans for the future to a number of investors and partners. In this context, we are assessed on our entire business model. It is therefore with considerable pride that we entered into agreements with no less than four professional lenders in 2021 for a total of DKK 124m, creating the leeway required to support both our expected growth and our regulatory obligations.

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. The composition of own funds and developments can be seen below.

A capital ratio of 23.9% for 2021 measures own funds in relation to our risk-weighted assets. Subordinated debt is the primary reason for the increasing capital ratio. The risk-weighted assets consist primarily of our lending, which increased in 2021.

Profit for the year

(DKK '000)	2021	2020
Profit after tax for the year	**11,629**	-10,427
Price per share at year-end	**1,770.30**	1,728.80
Return on shares	**2.4%**	-3.3%

Total own funds

(DKK '000)	2021	2020	Development in %
Share capital including share premium	**359,568**	350,154	2.7%
Reserves, revaluation reserves and other comprehensive income	**52,401**	39,422	32.9%
Subordinated debt	**139,000**	37,353	272.1%
Aggregate liable capital before deduction and transitional arrangements	**550,969**	**426,929**	**28.8%**
Various deductions (deferred tax etc.)	**-23,885**	-15,217	57.9%
Additions due to IFRS 9 transitional arrangement	**8,649**	12,108	-28.6%
Own funds	**535,733**	**423,820**	**26.1%**
Risk-weighted assets and other risks	**2,245,029**	**2,038,753**	**10.6%**
Capital ratio	**23.9%**	**20.8%**	**14.0%**

Current and future capital requirements

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 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 2021, the buffer remained set at zero, as a direct consequence of the corona pandemic and a wish to support lending to business customers. Based on a recommendation from the Systemic Risk Council, the Minister for Industry, Business and Financial Affairs has decided to increase the countercyclical buffer rate to 2% as from the end of 2022. The Systemic Risk Council is expected to recommend that the countercyclical buffer be raised to a maximum of 2.5% by 2023 at its March 2022 meeting, which we have factored into our capital planning.

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.

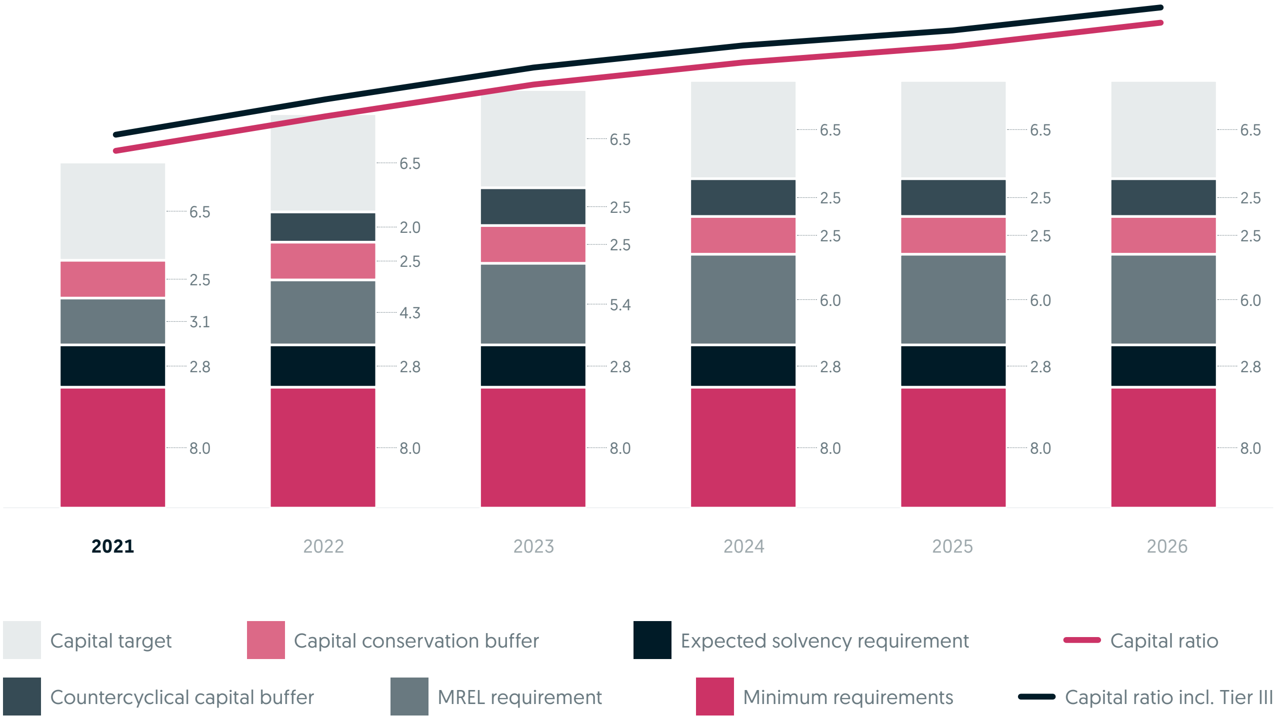
Merkur's MREL requirement has been determined by the Danish FSA as 5.6% of our risk-weighted exposures, which translates into a total MREL requirement of DKK 126m. This requirement will be phased in over five years from 2019-2024. The MREL requirement is dynamic, and a new MREL requirement is calculated each year. If Merkur grows – which we expect to do – the nominal MREL requirement will also increase. However, the MREL requirement cannot exceed 6% of the risk-

23.9%
Capital ratio

8.7
percentage points in excess capital

DKK 536m
Own funds

Expected capital requirement and objective in % of risk-weighted assets



weighted exposures and other risks. 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.

Merkur has laid a capital plan covering the period up until 2026, 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 reach a higher level (DKK 15-25m a year) based on historical and current levels of interest, in combination with our growth ambitions and the prospect of increased earnings. Following the substantial increase in subordinated debt in 2021, we have sufficient capital to cover the MREL requirement, and going forward our focus will be on share capital and improved earnings.

In 2024, and following the phase-in of all capital requirements, including MREL, Merkur's capital requirement is expected to total 21.8% compared to a capital ratio of 23.9% at present and a projected capital ratio of 29.9%. In addition to meeting the statutory requirements, the aim of the capital plan is also to meet the excess capital requirement of 6.5% defined by the Board of Directors, referred to in the graph as our capital target. Overall, the total capital target in 2024 is 28.3%. It is therefore our firm belief that Merkur is adequately capitalised for many years to come.

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 assessment is based on standards for which the Danish FSA has issued detailed guidance. At the end of 2021, the individual solvency requirement was an estimated 2.8% of risk-weighted assets, which in combination with the well-known basic requirement of 8% of risk-weighted as-

Development in capital

	2021		2020	
	%	(DKK '000)	%	(DKK '000)
Risk-weighted assets and other risks (basis for calculating capital ratio)		2,245,029		2,038,753
Capital ratio (capital ratio based on weighted assets)	23.9%	535,733	20.8%	423,820
Solvency need*	-10.8%	-242,794	-11.4%	-232,049
Excess capital adequacy before buffer and MREL requirements	**13.1%**	**292,939**	**9.4%**	**191,770**
MREL requirement	-3.1%	-69,596	-1.9%	-38,736
Capital conservation buffer	-2.5%	-56,126	-2.5%	50,969
Countercyclical capital buffer	0.0%	-	0.0%	-
Excess capital adequacy after buffer and MREL requirements	**7.5%**	**167,218**	**5.0%**	**102,065**
Non-preferred senior debt**	1.2%	26,532	1.4%	27,912
Excess capital adequacy including MREL capital	**8.7%**	**193,750**	**6.4%**	**130,218**

* Basic 8% plus the calculated solvency need to cover the risks not covered by the basic requirement.
** Tier 3 capital does not count towards the capital ratio and consists of several elements, the largest being Tier 3 loans from Arbejdernes Landsbank (DKK 25m).

sets corresponds to a minimum capital requirement of DKK 243m for Merkur. The buffer and MREL requirements are in addition to this sum. As shown in the graph in the 'Current and future capital requirements' section above, the solvency need constitutes the capital base that we – as a financial institution – must build for the sake of our clients, shareholders and creditors as well as society. 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/aarsrapporter (in Danish).

Own funds

Our own funds is a cautious summation 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 2021, Merkur has very solid own funds and excess capital of 8.7 percentage points over and above the solvency need of 10.8%, the capital conservation buffer of 2.5% and the MREL requirement of 3.1%. This equates to excess capital of DKK 194m.

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. By 2021, the funding ratio benchmark has been discontinued. At the end of 2021, 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	**119.0**	133.2	Max. 175%
Lending growth	**1.6**	-1.5	Max. 20%
Commercial property exposure	**7.5**	7.4	Max. 25%
Liquidity requirement ratio	**567.4**	441.1	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. Below, we have outlined the individual objectives, and the progress made.

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. Our goal is therefore to increase Merkur's capital* by DKK 245m in the 2020-2023 period. We succeeded in attracting four professional investors in 2021, which have made capital available to Merkur on good terms.

* The capital consists of three types: share capital, subordinated debt and non-preferred senior debt.

Full-service customers IIn 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. In the 2020-2023 period, our goal is to welcome 3,800 new full-service customers. In the first years of the strategy period, we have focused our attention on our existing customers, while improving the onboarding process for new customers. We are therefore confident that we will meet our target by 2023.

Shareholders Merkur's shareholders are absolutely key to us 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. In the 2020-2023 period, our goal is to welcome 2,800 new shareholders. By 2021, 556 customers (gross) have become shareholders. However, almost as many non-full-service customers have sold their shares, primarily because of the rule that customers who do not have their NemKonto with Merkur are no longer exempt from paying negative interest on deposits up to DKK 100,000.

Interest and fee income 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. Our goal is to generate DKK 180m a year from interest and fees in 2023.

2020	2021	OBJECTIVE 2023
147 DKKm	158 DKKm	180 DKKm

Profit after tax 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%.

2020	2021	OBJECTIVE 2023
-10.4 DKKm	11.6 DKKm	30 DKKm

Cost relative to earnings 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.

2020	2021	OBJECTIVE 2023
0.92 COST/INCOME RATIO	0.87 COST/INCOME RATIO	0.66-0.73* COST/INCOME RATIO

* Merkur wants to be on a par with peer financial institutions. We expect a cost/income ratio of 0.66-0.73, but the target may shift depending on developments in other financial institutions.

Values 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 measurement tool to actively work with the areas where we can become even more sustainable. Merkur has an ambition of increasing our B Corp score by 10% in connection with the re-certification in 2023. See the chapter *Sustainability on page 27* for more information on how Merkur actively works with the values.

2020	2021	OBJECTIVE 2023
115.5 points	-	127 points

Customer satisfaction In Merkur, we are strongly focused on our customers and their needs. In 2021, we therefore introduced 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.

2020	2021	OBJECTIVE 2023
Not yet implemented	75* NPS	> 50 NPS

* 2021 is the first year in which Merkur has conducted NPS measurements, and the score thus covers a start-up period with very few responses, which may have affected the aggregate score.

Expectations for 2022

The year we are now looking back on brought positive developments for Merkur. This has created a very strong starting point for 2022, and the new year has already got off to a satisfactory start, seeing as some of our revenue comes from our existing portfolio of, for example, mortgages or investments.

Sustainability and social responsibility have really made it onto the agenda in the financial sector – a development we welcome. Merkur celebrates its 40th anniversary this year. Since 1982, we have engaged in sustainable banking operations, and over the years we have refined our offering of sustainable products, but also our knowledge of sustainability in a wide range of areas. We are always happy to share our knowledge and expertise with our customers, and Merkur enjoys a unique position in the market as a result.

Merkur is part of a banking sector that is under pressure from ever stricter regulation, with the need for more employees and more advanced systems pushing up costs. Moreover, increasing capital requirements are also resulting in increasing costs. Concurrently with the low interest rates, this development is heaping pressure on the financial institutions' basic business model. And this is leading, among other things, to more mergers in the sector in order to realise economies of scale. This, in turn, is causing competition to intensify. These developments are likely to impact Merkur's ambitious lending and earnings growth targets. However, we are optimistic due to the increasing demand for sustainable banking products.

As a financial institution, Merkur is subject to the same market conditions as the rest of the banking sector. We are therefore keeping a close eye on interest rate developments, inflation, unemployment and supply chain challenges, as these factors all have a bearing on the framework conditions under which we operate. At the same time, we must acknowledge that in the wake of the corona pandemic, predicting macroeconomic development has become even harder than it used to be. Signs are emerging of increasing inflation and interest rate levels, soaring energy and transport costs, and labour shortages as well as geopolitical unrest.

In our scenarios, we expect to see slightly rising interest rates, which may make it attractive for some homeowners to convert up their mortgages. We do not expect this to significantly affect home purchases and sales as interest rates are still at a very low level.

Inflation is on the rise, partly because of low unemployment and rising energy prices, and we expect this trend to continue in the short term. Higher inflation results in increasing labour and IT costs, rent levels etc. In the past year, several of our customers have had to postpone their investments due to large price increases and the challenges associated with procuring materials for, for example, building projects. This means that loans are needed later than originally anticipated, which results in fewer loans and Merkur missing out on interest income. However, we expect these challenges to abate by the end of the first half of 2022.

The past year has still been dominated by corona, but now that the pandemic is no longer regarded as being critical to society, it finally seems that the lockdowns are a thing of the past. Thus, we expect other areas, some of which are particularly important for us, to be given more of a priority again: culture, social measures and, not least, climate action. We are therefore confident that the values on which Merkur is based, and the sustainable 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 a more customer-centric focus, we want to offer even more all-round advisory services to our customers, helping them to fulfil their housing dreams, plan their retirement, finance an electric car or 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

EXPECTATION:

minimum 700

new full-service customers

EXPECTATION:

minimum 500

new shareholders

model, our products and not least our advisors' unique knowledge of sustainable banking are attracting a lot of interest. Consequently, we expect a net inflow of at least 700 new full-service customers in 2022.

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 large net increase in new shareholders of at least 500 in 2022.

Income

We want Merkur's values to start making an even more positive difference in the world through the offering of sustainable products and services, and we expect our strategy to start rubbing off on our income as more and more customers start using Merkur for all their banking needs, i.e. within home financing, pension and insurance. We have noted a steadily growing interest in our ethically and socially responsible investments over a number of years. Merkur offers a range of securities, all classified in the Article 9 category – the most sustainable category in the EU's Sustainable Finance Disclosure Regulation (see the chapter *Sustainability*), which is unique in the Danish market. We therefore expect the impressive growth to continue. This year we will even be introducing an asset management advisory service as more and more customers are facing increasing complexity in their investment, tax and pension affairs.

Merkur collaborates with Totalkredit on the offering of home financing for Merkur's personal customers. Totalkredit offers very competitive mortgages, which are recommended by the Danish Consumer Council *Tænk*. Merkur's dedicated team of consultants has optimised the processes involved in arranging mortgages, for the benefit of both us and our customers. Therefore, we ambitiously expect our portfolio of mortgages to increase by at least DKK 1bn in 2022.

As one of only a very small number of financial institutions in Denmark, Merkur is able to offer loans with EU guarantees – the so-called EaSI guarantees that support social enterprises, as well as EGF guarantees, which aim to support small and medium-sized enterprises in general. This means that we can offer attractive loan terms to all sustainable business customers under the various frameworks, which we look forward to seeing unfold even further in 2022. As part of Merkur's fossil-free strategy (read more in the chapter *Sustainability*), we are focusing more on our product offerings, which include 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.

EXPECTATION:

minimum DKK 1bn

net increase in mortgage portfolio

EXPECTATION:

minimum DKK 160m

in interest and fee income

Merkur is co-owns the leasing company Opendo. In 2021, Opendo expanded and started offering more services, which means that from Q3 2022, Merkur will also be able to offer sustainable leasing services to personal customers.

In Q1 2022, Merkur is introducing a new Triodos product that includes no less than eight impact funds with more than 670 investments in some of the world's most sustainable stocks, bonds and projects. The product is aimed at a broad segment of conscious investors, and we expect it to help support the strong growth seen in recent years in this area.

Today, many of Merkur's customers are served by *Merkur Hverdag*, a customer service department that successfully advises and helps customers online or over the phone. We want to reach out to customers we are not often in contact with to make sure that they know what Merkur has to offer and will want to use Merkur for as many of their banking needs as possible.

All these measures are expected to generate increased revenue for Merkur in 2022.

Costs

Due to corona and other uncertainty factors, it is difficult to predict the development in losses and impairments, but we expect impairments to be on a par with those posted for 2018 and 2019 (pre-corona), i.e. in the range of approx. 0.5-0.7% of our loans and guarantees.

On the cost side, we expect an increase in staff and IT costs in the region of DKK 2m.The expected increase is

EXPECTATION:

minimum DKK 15m

in increased core capital

EXPECTATION:

DKK 10-18m

profit before tax in 2022

primarily due to pay increases determined by collective agreements.

Liquidity and capital

Merkur's excess liquidity is deposited with Danmarks Nationalbank, the expected interest rate still being -0.6% a year.The remaining excess liquidity is placed in bonds, which we also expect to generate a negative return of approx. 0.2% a year. We do not expect deposits to continue to increase at the rate seen in 2021 as consumer spending is expected to go up following the lifting of corona restrictions. We still expect to see a strong interest in investments.

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 shareholder numbers. We succeeded in arranging new subordinated debt in 2021, and we therefore do not expect further issuances in the coming year. Our full focus is on our share capital.

Expected result

We expect to post a profit for the year before tax of DKK 10-18m.The expectations are associated with some uncertainties, some of which still relate to the corona pandemic, as described earlier:

- whether economic growth will continue
- whether activity levels in the housing market will remain high
- whether losses and impairments will be realised at the expected level
- whether unemployment will remain low
- whether inflation will decline again

Moreover, the expected result will depend on the development in interest rates and the extent to which we succeed in attracting new customers.

Merkur's lending activities

Merkur's most important activity is lending. Based on our customers' deposits, we offer loans to sustainable and socially responsible companies and institutions as well as personal customers. In this way, Merkur wants its lending activities to be a catalyst of sustainable development. We therefore always demand of our business customers that they contribute to ensuring that people can lead good and dignified lives in a way that is respectful of the planet's resources. In addition, openness is a core value for Merkur, and we are fully transparent about the business customers we offer loans to.

Corporate sector

We have divided Merkur's lending to business customers into six categories based on the sustainable and socially responsible purposes the money works for. This also ensures transparency about the distribution.

Lending to business customers is on par with the level in 2020.

We are particularly pleased with the 9.2% increase corresponding to DKK 24m in the Environment and Energy category as it is a direct result of our fossil-free strategy, which means that Merkur consistently finances initiatives that work against climate change. A particularly strong increase of 62.6% was seen in lending for environmentally friendly transport in 2021 based on our offering of tailor-made products in the form of an attractive loan for electric cars.

At the same time, we have increased lending for renewable energy, which is also comprised by this category, and we offer climate loans for companies and institutions wishing to reduce their energy consumption through optimisations or renovation. Customers have welcomed all these offerings and at the same time benefit from the advice offered by Merkur based on our many years of experience in the field.

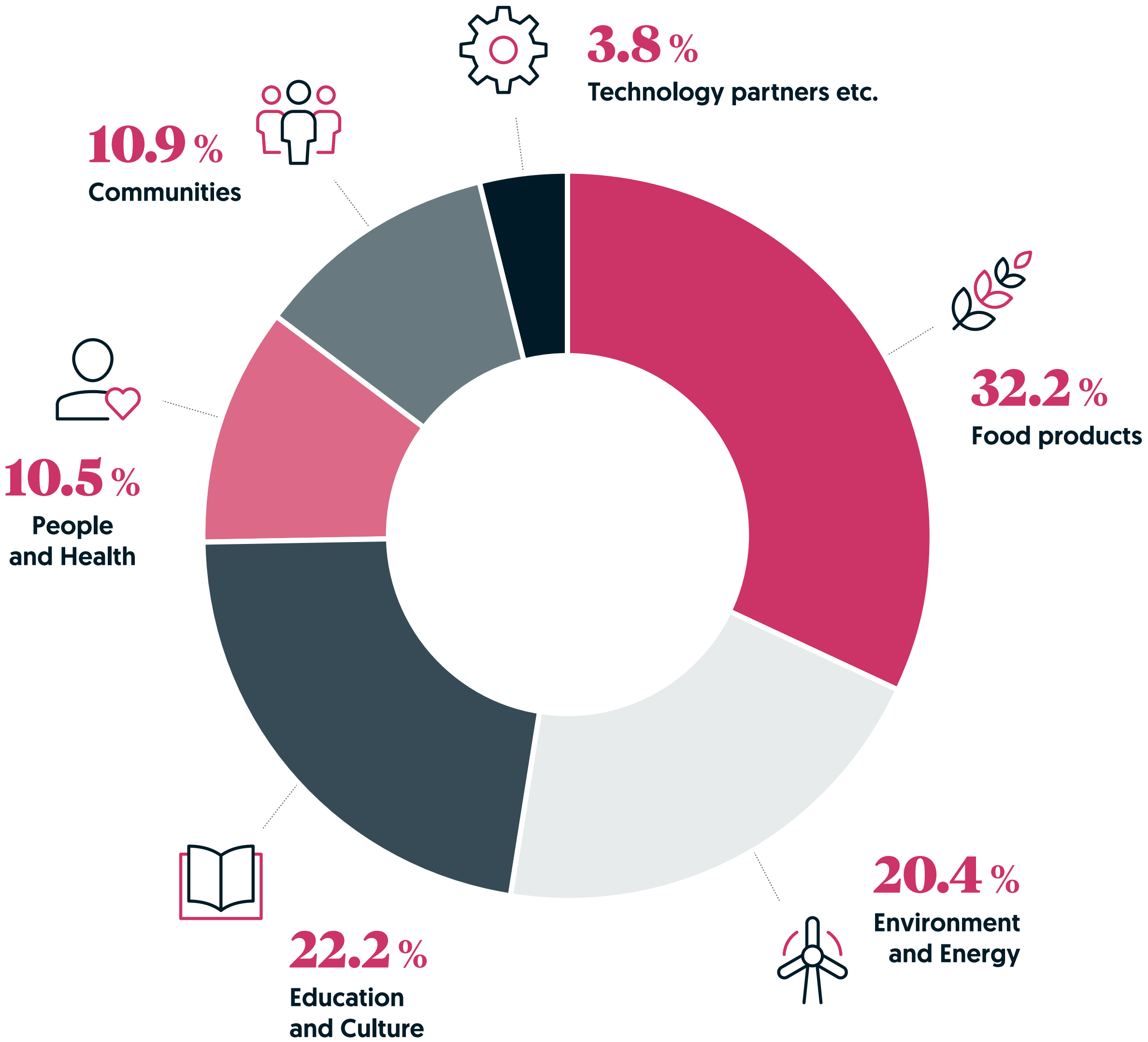
The Food products category also saw a satisfactory increase of 5.2% or DKK 22m, which is based on increased lending to organic farming – an important area for Merkur and a sector with which we have extensive experience.

Technology partners etc. primarily cover guarantees provided by Merkur to our partners. The category is up 19.6%, corresponding to almost DKK 9m. The development primarily covers an increase in business customers and associations working with rentals.

Communities are down 19.3% or DKK 36m compared to 2020, mainly due to timing differences following the conclusion of cooperative housing construction projects in progress.

The 14.6% or DKK 25m decrease in the People and Health category is primarily ascribable to a DKK 22.5m decline in loans to social initiatives, the reason being that several customers have reduced or completely repaid their loans.

Committed loans and guarantees



Committed loans and guarantees, business customers

[DKK '000]	2021	2020	Dev. relative to 2020
Education and Culture	308,504	300,410	2.7%
People and Health	146,039	171,103	-14.6%
Food products	446,241	424,276	5.2%
Environment and Energy	283,703	259,707	9.2%
Communities	151,865	188,256	-19.3%
Technology partners etc.	52,113	43,558	19.6%
Total	**1,388,465**	**1,387,310**	**0.1%**

Where your money works

Transparency is important to Merkur, and on our website we publish the names of all the companies and institutions to which we lend money. In the following pages, we present a selection of examples, outlining our reasons for offering loans to the various areas.

Read more about our lending criteria on www.merkur.dk/kriterier (in Danish) or see the complete list of business customers at www.merkur.dk/her-arbejder-dine-penge (in Danish)

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.

CUSTOMER EXAMPLE: **SKOULUND ORGANIC FARM**

Janni and Peter Sørensen have been running the organic farm *Skoulund* on the Louns peninsula in central Jutland since 1995. Today, they mainly grow crops such as Jerusalem artichokes, carrots and potatoes, cereals such as oats and rye, as well as legumes such as lupins and broad beans on their 300 hectares of farmland. They also have a plantation supplying both elderflowers and elderberries for juices and cordials that are produced and sold locally. Over the years, the two experienced farmers have also had livestock on the farm, but today they only use animals for nature conservation, and the farm has moved increasingly towards crop production. Sustainability and the climate play an important role for Janni and Peter Sørensen, and they were some of the first farmers in Denmark to start working with sustainability and climate action plans. Their increased focus on crop production is a natural step in this development, and the farm is self-sufficient in electricity power from its own solar cells.

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.

CUSTOMER EXAMPLE: **LØGUMKLOSTER REFUGIUM**

Løgumkloster Refugium is a retreat offering a respite from everyday life and room for enrichment and reflection for all. The community-spirited retreat also organises a variety of courses and classes in, e.g., singing and yoga, creative crafts, philosophy, writing and much more. The retreat welcomes all. The retreat is located in beautiful countryside with meadows and a small river in the middle of the village of Løgumkloster, and with direct access to the beautiful newly restored church and to the chapter hall.

Education and Culture

In Merkur, we believe that education and a diverse cultural life free from special interests 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 fund educational institutions for children and adults. 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.

CUSTOMER EXAMPLE: SKOVBO EFTERSKOLE

Skovbo Efterskole is a Christian independent residential school with musical and creative ambitions in the middle of Zealand. The school seeks to provide young people with the skills needed to engage in social communities as a counterculture to single-minded individualism. The school subscribes to the fundamental belief that diversity is healthy and stresses the importance of students playing their part in creating a strong sense of community, and of looking after and learning from each other. At Skovbo Efterskole, students can choose between five different educational tracks: music, theatre, art, media and sport. Basically, the school believes that democratic values and life skills are best developed together with other people.

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 to social initiatives for people with special needs, such as accommodation facilities and drop-in day centres, and to social-economic enterprises with a non-profit mission.

CUSTOMER EXAMPLE: EHLERSHJEMMET

Ehlershjemmet is a self-governing institution offering a number of services for children, young people and families. Ehlershjemmet works with some of the most vulnerable people. *Familiehuset* is a residential facility for families, and where families are usually enrolled for a few months, whereas the children admitted to *Børnehuset* may spend several years there. The families come with different problems and vulnerabilities, and the purpose is to help them create a better life. The children at *Børnehuset* have suffered neglect, for example emotional and physical neglect. Ehlershjemmet works to give the children what it takes for them to develop in the best possible way.

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.

CUSTOMER EXAMPLE: NRGREEN

NRGreen is a consultancy firm offering holistic solutions to aid the green transition through measurable and sustainable energy savings for the benefit of the climate as well as the economy of businesses. NRGreen analyses the energy needs of companies and proposes the most environmentally friendly solution. Following installation, NRGreen handles the servicing, operation and maintenance of the installations. NRGreen is not just a good customer, but also a valued partner of Merkur Cooperative Bank. Merkur Cooperative Bank helps NRGreen's customers finance their green energy investments, with the savings being used to pay off the investment. NRGreen and Merkur Cooperative Bank thus offer companies a cost-neutral transition from black to green energy.

Personal customers

Many personal customers choose to bank with Merkur because of our sustainable profile. By using our banking services, our personal customers contribute indirectly to Merkur being able to finance even more sustainable development. Our personal customers are often conscious consumers who have actively chosen to bank with Merkur in order to support the transition to a more sustainable and socially responsible world through their bank.

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. While many businesses have been biding their time due to the corona pandemic, activity levels remained high in the housing market in 2021. This is clear to us in Merkur, and especially lending to people wanting to buy owner-occupied properties increased by 12.5% or DKK 72m from 2020 to 2021. Merkur offered loans of DKK 1,542m to personal customers in 2021 – representing a 6.1% increase on 2020.We characterise 92% of these loans as ordinary loans, and the distribution and development can be seen in the figure below.

Merkur is working at all times to further sustainable development. We therefore attempt to drive and provide incentives for more sustainable behaviour when it comes to our personal customers. Merkur does not finance new fossil cars; instead we offer attractive loans for electric cars. We have decided that we no longer finance owner-occupied properties with oil boilers unless the customer undertakes to replace the boiler with a more CO2-friendly energy source.

Ordinary loans and credits

[DKK '000]	2021	2020	Dev. relative to 2020
Owner-occupied homes	**660,544**	588,891	12.2%
Cooperative housing	**526,822**	514,332	2.4%
Allotment gardens	**17,279**	16,591	4.1%
Other private loans and credits	**204,689**	188,436	8.6%
Self-employed	**8,943**	11,406	-21.6%

Sustainability

Merkur is a value-based cooperative bank, and we consciously use our business as a catalyst for sustainable change. In Merkur, we see sustainability in a broad perspective and as being about cherishing life on earth and protecting humans, animals and the planet itself.

Merkur sets high standards – for our customers and ourselves

Banks are not like other businesses. Banks play a special role in society as one of their key duties is financing the economy. Many people are dependent on having access to financing in order to realise their full potential and lead good and dignified lives. Every loan and every investment affect society, the environment and our economic future – for better or worse. We take that responsibility very seriously in Merkur.

The real economy is about economic activities that generate goods and services – which add value for society – as opposed to a speculative economy. In Merkur, we do not believe that speculation benefits society. Therefore, all Merkur's activities belong in the real economy.

We have always screened our business customers to establish whether their activities benefit people, nature and the environment. In 2021, we introduced a number of minimum requirements that must be met by businesses wanting to bank with Merkur. We have done this to make it absolutely clear what Merkur sees as sustainable and responsible behaviour. In other words, we have created a kind of checklist for what we as a sustainable bank will and will not contribute to. It is both a reference document for customers and advisors and a manifesto showing how thoroughly we work with sustainability and social responsibility. The minimum requirements can be found at www.merkur.dk/kriterier (in Danish).

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 report and quantify as much as we can. By being aware of the nature of our footprint, we can identify areas where we can bring about the greatest possible change – both in our own daily activities and in our collaboration with customers.

Highlights from 2021

INVESTMENTS

100% dark green investment products

All investment products in Merkur's sustainable investment universe are classified in the Article 9 category – the most sustainable category in the EU's Sustainable Finance Disclosure Regulation.

→ SEE PAGE 32

FOOTPRINT

CO2-neutral

As regards Merkur's own activities, we can call ourselves carbon-neutral as we have displaced and absorbed more CO2e than we have emitted.

→ SEE PAGE 36

TRANSPORT POLICY

59% reduction in CO2e from own activities relative to 2019

In 2021, we tightened our procurement policy and introduced CO2e budgets for our business travel to reduce our footprint on the planet.

→ SEE PAGE 36

PRIDE

92% proud employees

In 2021, Merkur carried out an employee satisfaction survey, which showed, among other things, that 92% of the bank's employees are proud of their work.

→ SEE PAGE 41

EQUALITY

62% women in management positions

Merkur seeks diversity in the mix and recruitment of employees. Gender is just one aspect, and we are targeted in our efforts to ensure diversity in terms of gender, ethnic origin, age, education etc.

→ SEE PAGE 42

TARGET

Net zero by 2035

While others typically work with 2050 targets, Merkur is pursuing the ambitious target of being carbon-neutral by 2035 not only when it comes to our own emissions, but also the emissions indirectly resulting from the loans we provide.

→ SEE PAGE 34

SUSTAINABLE DEVELOPMENT GOALS

Merkur's business supports all SDGs

If you read the UN's 17 Sustainable Development Goals (SDGs) and then read Merkur's ambition, there are obvious commonalities between the task set by the UN for the world's governments, businesses and citizens, and the task Merkur has set itself since its foundation in 1982. Merkur sees sustainability in a broad perspective, and our business and activities therefore embrace all the UN's 17 SDGs. Below we have chosen to highlight the SDGs to which Merkur made a particular contribution in 2021.

4 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 finance childcare institutions, independent residential schools and folk high schools as well as institutions catering to people with special needs. This is a particularly important focus area for Merkur's lending activities and one which grew in 2021.

5 GENDER EQUALITY

In Merkur, we pursue the objective of gender balance in our own organisation. We attach importance to diversity, and we believe that diversity is key to not missing out on talent. Read more on page 42. At the same time, we fund customers working to improve women's rights – including shelters for battered women and NGOs.

7 AFFORDABLE AND CLEAN ENERGY

Merkur contributes to ensuring access for all to reliable and sustainable energy at affordable prices by financing renewable energy production. In 2021, Merkur Cooperative Bank and the Merkur Climate Fund entered into an agreement to buy green power from the energy company Better Energy together with a number of partners. The power purchase agreement involves the construction of a brand new solar park by Better Energy.

8 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. We are also actively working to ensure that Merkur itself is a good and responsible workplace characterised by high levels of well-being and meaningful working days. See page 41.

11 SUSTAINABLE CITIES AND COMMUNITIES

In Merkur, we want to support inclusive communities. We finance sustainable construction and specialise in lending to 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. In recent years, we have strengthened our focus on the green transition of the transport sector, and in 2021 we increased our lending to environmentally friendly means of transportation.

12 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 and circular 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. Read more on page 39.

13 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. Based on our minimum criteria, we exclude companies that do damage to the climate. Instead, we finance companies and organisations that actively work to combat climate change. Through the Merkur Climate Fund, we finance and install charging points for electric cars. Moreover, we have set an ambitious net zero target, which we are unfolding on page 34.

16 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. Our minimum criteria exclude customers who produce or sell weapons, weapon parts or weapons-related services. At the same time, we are actively working to combat money laundering and the financing of terrorism.

17 PARTNERSHIPS FOR THE GOALS

Collaboration is a cornerstone of Merkur. Together we can do more. That is why Merkur is involved in a number of important partnerships that are working together to promote sustainable development. In 2021, for example, we entered into new partnerships on the financing of energy renovation and renewable energy. We have also formed partnerships with Organic Denmark and the Innovation Centre for Organic Farming to turbocharge the climate and sustainability efforts of Merkur's agricultural customers – see page 33.

ESG REPORTING

On the following pages, we address the footprint we make on the planet from the point of view of the climate and the environment, social responsibility and corporate governance. In other words, we use Environmental, Social & Governance (ESG) data to structure the sections and determine what difference we make to the world.

Environment

The global climate is changing, and climate disasters are becoming more frequent and extreme. Floods, droughts, hurricanes and other extreme weather events occur at ever shorter intervals and most often affect the most vulnerable people and natural areas. Fortunately, many people have realised the need for action. Greenhouse gas emissions must be reduced to zero as soon as possible. Global and socially balanced efforts of enormous dimensions are needed. In Merkur, we believe that this can only be done, provided we all contribute and assume responsibility.

We have been working for a sustainable world for almost 40 years. It is part and parcel of everything we do as a bank, and it is important to us that the right incentives are in place in the market. The discussion of whether 'green and sustainable' is more expensive than 'black' would be much simpler if the price of 'black' reflected the cost to society. It is therefore uplifting that the Danish government is now introducing a carbon tax. In Merkur, we believe this is the right path to take in order to contribute to the SDGs and ensure fair competition.

Unfortunately, the concept of sustainability has at the same time been watered down. Companies are marketing carbon-neutral milk, green gasoline and carbon-negative car loans. As a consumer or an investor, you have to be careful if you want your money to make a positive difference. This is evident from the increasing number of greenwashing cases submitted to the Consumer Ombudsman. It is a pity, because all the sustainable initiatives that can make a real difference to the world risk drowning in a sea of misleading praise. Merkur therefore welcomes the setting-up in 2021 by the Danish FSA of a unit to oversee the rules on sustainable financing and combat greenwashing in the financial sector.

EU legislation sets framework for sustainability

As part of the EU action plan for financing sustainable growth, the EU has created a green taxonomy designed to help financial institutions, investors, companies and authorities to navigate the transition to a fair, carbon-neutral, resilient and circular economy. The taxonomy sets out a number of criteria for what it takes for an activity to be considered sustainable. The aim is basically to channel more money into the green transition. In other words, the financial sector is being forced in a more sustainable direction, and Merkur welcomes this.

With the taxonomy, the EU is pioneering a common global understanding and instilling hope for real climate action. It is therefore highly disappointing that the EU is now intending to classify nuclear power and natural gas as green energy sources. The combustion of natural gas emits CO2e, and no good solutions have as yet been found for storing the radioactive waste produced by nuclear reactors. In this way, the EU is delaying the necessary transition to renewable energy.

The implementation of the taxonomy started in earnest in 2021 following the adoption of the first delegated act on sustainable activities for climate change

Taxonomy for climate and environment

The taxonomy establishes six environmental objectives – in addition to defining social security measures within human and labour rights, among other things.

1. Climate change mitigation
2. Climate change adaptation
3. The sustainable use and protection of water and marine resources
4. The transition to a circular economy
5. Pollution prevention and control
6. The protection and restoration of biodiversity and ecosystems

adaptation and mitigation. This has spurred a lot of activity in the financial sector, and a number of partnership initiatives have been initiated under the auspices of Finance Denmark, BEC and the Association of Local Banks, Savings Banks and Cooperative Banks in Denmark. Merkur is actively involved in this work.

For investment products, the SFDR regulation came into effect on 10 March 2021. Merkur had high expectations that the regulation would create the necessary transparency and make it easier for investors to make the right choices in relation to their sustainability preferences. We were proud that all investment products in Merkur's sustainable investment universe fall into the Article 9 category – the most sustainable category in the SFDR regulation.

Unfortunately, green and even dark green can be interpreted in many ways, and also highly creatively. We have already seen examples of investment funds marketed as dark green, even though they include companies such as Gazprom and African Rainbow Minerals. It is therefore still very important that investors watch out and actively consider the types of companies or activities included in a given 'sustainable' investment portfolio.

Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (SFDR) classifies investment products into three categories based on degree of sustainability: dark green, light green and colourless. All investment products and funds must be classified according to the three categories in order to make it easier for investors to compare and assess the degree of sustainability of different investment products.

The dark green category (Article 9) is the most sustainable. Dark green products are products with an intended sustainability impact, i.e. the intention of creating positive change for the environment and society in general.

The light green category (Article 8) comprises partly sustainable products – and covers investments that promote environmental or social characteristics, but where sustainability is only one of many investment criteria.

The colourless category (Article 6) covers the rest, i.e. conventional investments where sustainability is not part of the purpose.

Read more at www.merkur.dk/sfdr (in Danish)

Initially, the taxonomy regulation introduces reporting requirements for companies with more than 500 employees. To begin with, companies must disclose how many of their activities are considered climate and environmentally sustainable under the Taxonomy Regulation. The regulation is expected to enter into force from 1 January 2023. However, large financial institutions are required to publish their Green Asset Ratio (GAR) already in their financial statements for 2021. The GAR ratio measures a bank's taxonomy-eligible assets as a share of its total assets.

Merkur one step ahead

Merkur is not yet obliged to publish our Green Asset Ratio, but we are choosing to do so, as we believe it is relevant to understanding Merkur. Merkur's business model is primarily aimed at small and medium-sized enterprises (SMEs) and personal customers, and at present only 4.3% of the bank's portfolio is therefore covered by the taxonomy, primarily mortgages and lending to transportation.

In 2021, Merkur incorporated the EU taxonomy into the screening of customers. We have done this by ensuring that our minimum criteria take account of the intentions behind the taxonomy and the methods advocated by it. The taxonomy works with the concepts of 'making a substantial contribution' and 'doing no significant harm', methods that Merkur applies in our selection process based on positive and negative screening results [1]. The EU expects SMEs to be covered by the Taxonomy Regulation in 2027. Merkur is therefore one step ahead, which puts Merkur's customers in a strong position once they have to start reporting.

Stricter procurement and transport policies

Merkur has high ambitions about helping to create a better world – which we do, among other things, by being conscious of our impact on the world around us. This translates into certain procurement and consumption practices as well as a preference for recycling. Our daily conduct must reflect the values Merkur stands for and the standards we require our customers to live up to. In 2021 this resulted in the tightening of Merkur's procurement and transport policies. In our choice of suppliers and products, we select suppliers with a high degree of sustainability. The food and drink we buy must be organic and vegetarian. Where possible, we buy second-hand, and we demand that our service providers and tradesmen offer collective agreement-like terms of employment. In the future, we are aiming to report on our resource consumption as a way of identifying areas where we can make a difference.

When travelling for work purposes – to and from customer meetings, between our branches, in connection with courses etc. – we generally go by public transport, electric car, electric taxis or bike. In our carbon accounts, we report on the reductions in CO2 emissions already realised on account of our transport policy.

Climate action plans for agricultural customers

In 2021, Merkur introduced a requirement for climate action plans for our agricultural customers, and the initiative has been well received. The purpose is to work with our agricultural customers to reduce their CO2e emissions. We require that any new agricultural customers prepare a 360-degree sustainability analysis using the RISE[2] tool. Merkur has partnered with Organic Denmark and the Innovation Centre for Organic Farming to offer Merkur's agricultural customers the best advice on the development of climate and sustainability action plans.

Merkur has ambitions to work more intensively with soil carbon sequestration – together with our customers. Different types of farming methods hold significant potential for carbon storage, including regenerative farming and agroforestry. Very targeted efforts are needed to reduce emissions by sequestering CO2e in the soil – ploughing as little as possible, working with varying crops, and not least, striking a suitable balance between livestock numbers and land area.

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 sup-

[1] Visit www.merkur.dk/kriterier to read about Merkur's screening of customers (in Danish).

[2] Response-Inducing Sustainability Evaluation

Science Based Targets

The Science Based Targets initiative was conceived by a number of NGOs and the UN Global Compact in a situation where many companies have failed to translate their high ambitions about reducing the carbon footprint into concrete action. The purpose of the Science Based Targets initiative is to help companies figure out how much they need to cut their emissions to prevent the worst consequences of climate change. Based on the latest scientific advances, companies must set long-term targets for reducing their CO2e emissions in line with the goal of Paris Agreement.

port our agricultural customers in these efforts, for the benefit of the climate as well as biodiversity.

Merkur sets ambitious climate goals

Merkur's climate goals are extremely ambitious. The only way of realising our goals is by working closely with our customers, and we have great faith in our cooperation with customers. We are in the process of preparing a concrete action plan for reducing our CO2 emissions. In 2021, we therefore joined the Science Based Targets initiative (SBTi), which will validate our strategy within the next two years. Merkur has committed to aligning its strategy with the most ambitious goal of the Paris Agreement, i.e. the goal of limiting global warming to max. 1.5 degrees Celsius. In addition, Merkur aims to achieve carbon neutrality for our lending as early as 2035. Many other companies are working with 2050 targets.

In such a strategy, subgoals are important, which is why Merkur has joined NetZero2030, a B Corp initiative. As its name suggests, Merkur commits to being carbon-neutral by 2030. However, some of our indirect emissions are not included in this initiative. NetZero2030 thus serves as a step towards reaching the final net zero target by 2035. The most important elements on this journey will be our work with agriculture, lending to renewable energy projects and the energy renovation of housing.

Our strategy for reducing emissions associated with our lending will be socially inclusive and go hand in hand with regenerative biodiversity in line with Merkur's ambition and mission. Concrete strategic steps include the above-mentioned requirement for sustainability analyses for new agricultural customers, which ensure that in addition to our demands for climate action plans, farmers must also have plans for improving biodiversity, working conditions, animal welfare etc. In our work with climate action plans for individual farms, the transition from livestock production to arable farming is crucial – there must be a balance between livestock numbers and land area. In 2022, Merkur also launched 'the plant journey', a strategic project focusing on this issue in both agricultural and food production.

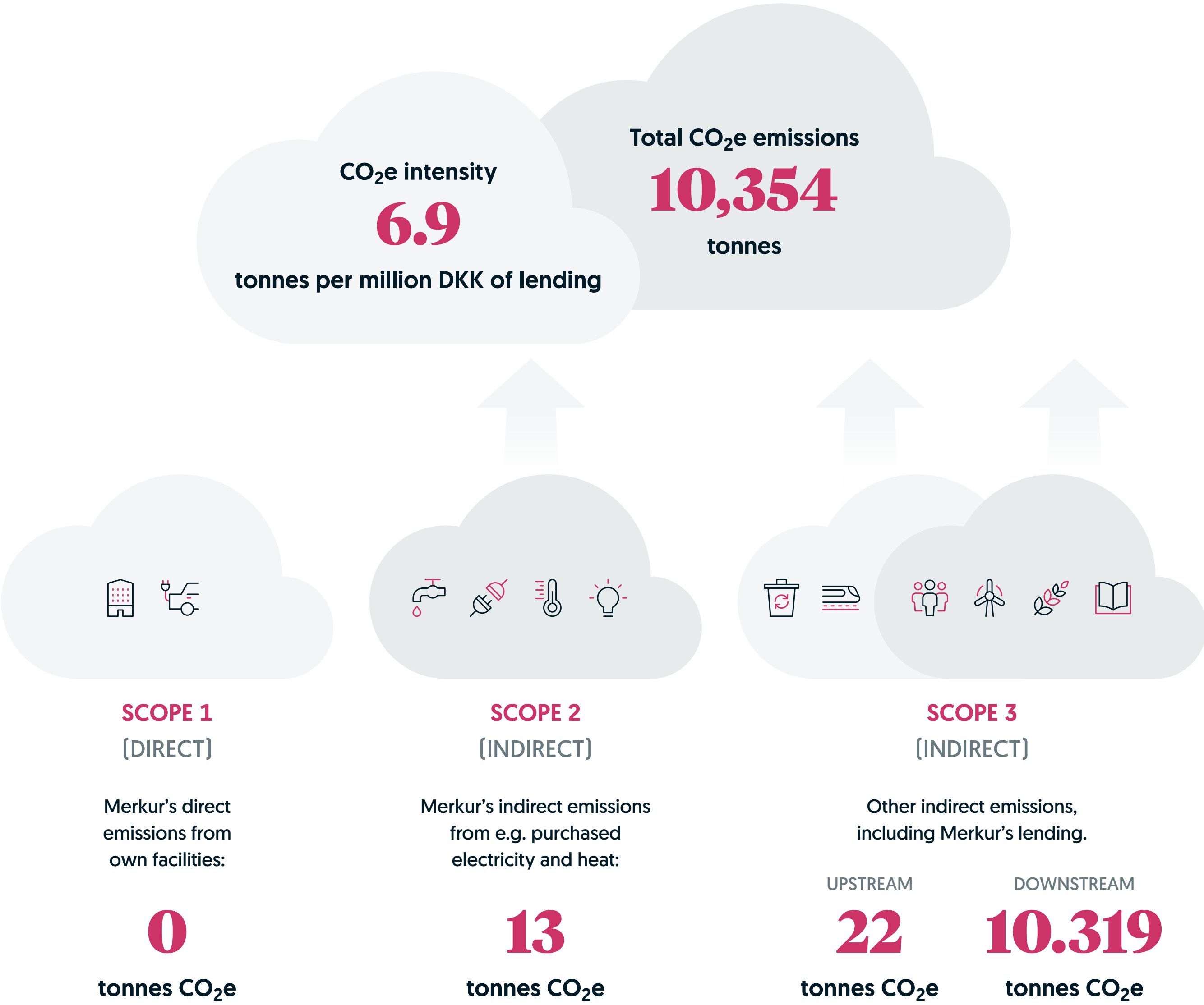
Carbon accounts

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 [3], we have bought carbon compensation certificates. We are aware that no matter how you look at it, we emit CO2e, and buying climate compensation certificates is never going to change that. The best we can do is reduce emissions. We are working intensively on this.

The figure below shows Merkur's carbon footprint for 2021 – for scopes 1, 2 and 3. See figure overleaf. Merkur has no Scope 1 emissions, as we do not have our own production facilities, and any company cars are electric. In order to be able to compare the relative CO2e emissions associated with Merkur's loan portfolio year on year, we also measure emission intensity per million DKK of loans.

[3] A company's emissions can consist of different climate gases, which impact global warming in different ways. 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 CO2e – or CO2 equivalents.

Merkur's carbon footprint



Climate footprint of companies

A company's emissions consist of both direct and indirect emissions. In carbon accounting, you talk about scopes:

Scope 1: Includes direct emissions from activities within the organisation such as production facilities and company cars.

Scope 2: Includes the company's indirect emissions via the energy purchased from, for example, electricity or heat utilities.

Scope 3: Includes all other indirect emissions arising from activities outside the organisation, i.e. emissions associated with the company's value chain, including leased premises, purchased goods and services and business travel. Emissions associated with lending by banks are covered by this scope.

Upstream covers the emissions associated with the goods and services purchased by the organisation, while downstream is, for example, customers' use of the organisation's products and services until disposal.

Carbon accounting for Merkur's own activities

Emissions from Merkur's operations stem primarily from business travel, from our consumption of district heating and electricity and from our data centre BEC. As described, in 2021, we revised our procurement policy and introduced CO2e budgets for our business travel for the express purpose of reducing our footprint on the planet.

As a result, we saw a significant decrease in emissions from our own activities in 2021. However, we also measure the emissions of our suppliers, and we saw a substantial decrease in emissions from our data centre BEC, as their subcontractor JN Data was supplied with energy from wind turbines in 2021; in 2023 JN Data will connect to a large solar park, which will also be supplying Merkur and the Merkur Climate Fund.

In order to ensure continued carbon neutrality, we have again this year chosen to buy 7 hectares of degraded rainforest in Ecuador. The regrowing forest will sequester 35 tonnes of CO2e a year. We are buying the forest in collaboration with the Danish Ornithological Society's Climate and Biodiversity Fund, which ensures that forest is bought in areas that serve as habitats for rare bird species and where rich biodiversity can once again unfold.

In connection with our carbon accounting for 2020, Merkur announced the target of reducing our emissions by 70% by 2025. Since 2020 was a special year in which corona caused significant decreases in emissions, we decided to use 2019 as our baseline. The target was ambitious enough in itself, but in 2021 we already reduced our CO2e emissions by 59%. It is clear that the travel restrictions introduced as part of Merkur's procurement policy have worked. Even though Denmark was locked down for long periods in 2020, Merkur still succeeded in reducing emissions by a further 19% by 2021.

Emissions from our consumption of district heating were also reduced in 2021 due to the increased share of renewable energy in the district heating system; in fact, emissions from district heating were down 20% compared to 2020. The decrease in emissions associated with our electricity consumption was due to significantly lower consumption, partly because of the corona lockdowns. However, behavioural changes and more energy-efficient equipment also made a real difference.

Initially, our goal was to reduce emissions from Merkur's own activities by 70% by 2025 compared to our 2019 baseline. However, based on our impressive results for 2021, we are raising our ambitions and aiming to meet the 70% goal by 2024.

Carbon accounting for activities financed by Merkur

As a financial institution, we have a special responsibility in that we influence developments through what we finance. Therefore, we report on our footprint through the activities to which we lend money – or, more specifically, the share of our customers' emissions that is realised through our lending. In the 2020 annual report, Merkur reported for the first time on the carbon footprint of its business customer portfolio. In our reporting on 2021, we are now also including mortgages and car loans to personal customers.

It is still a new discipline for Merkur, but we are committed to transparency. Calculating financed emissions

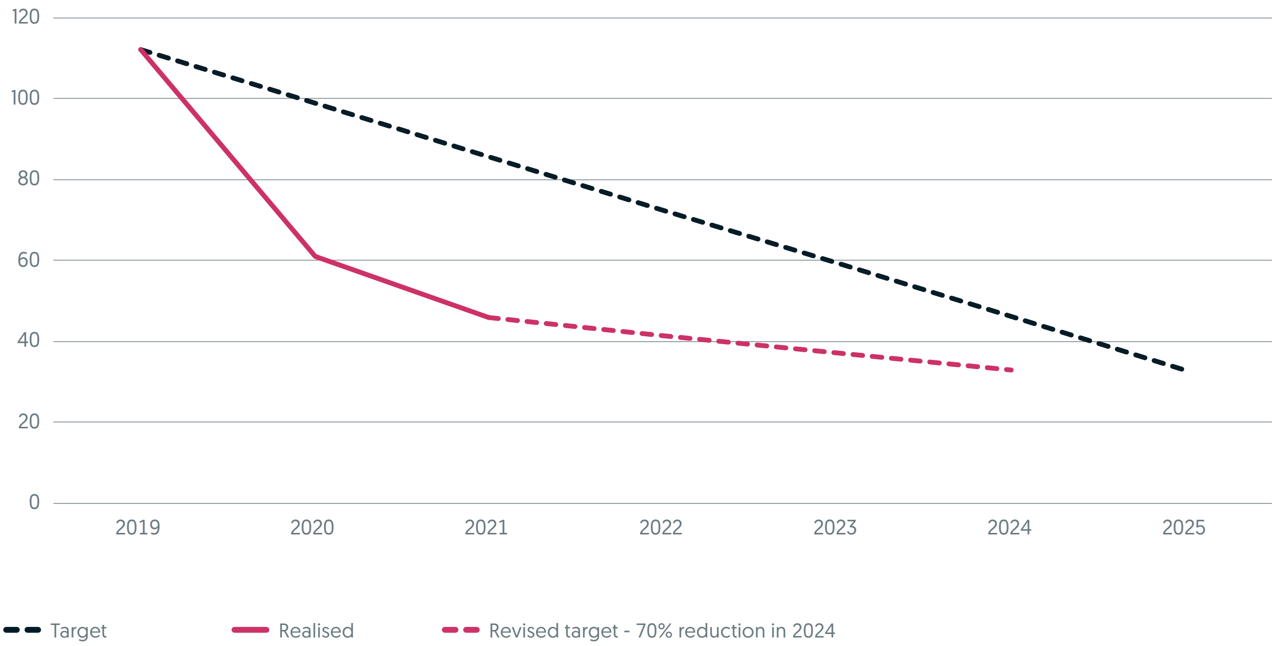
Net zero by 2035

goal of carbon neutrality for own and financed activities

CO2-neutral

Merkur has counteracted more CO2e emissions than we ourselves have emitted

Emissions from Merkur's operations (tonnes CO2e)



is not simple, and there are areas in which our data is insufficient, or in which the sources of the emissions are not fully understood. In other words, we are building the road as we travel.

The calculation of CO2e emissions is an important tool for Merkur as it gives us a chance to have a dialogue with our customers, e.g. about their CO2e 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 to our customers, but also to enter into a dialogue with our business customers on the sustainable aspects of their business.

The primary purpose of calculating CO2e for our loan portfolio is to pinpoint where the emissions come from and the factors causing the emissions. To start with, the actual figures are not so important; what matters is the year-on-year reduction. Data and a scientific approach are absolutely key to ensuring that we channel our efforts in the right direction. We are continuously working to improve our data, and adapting our models based on the latest scientific knowledge. As a minimum, Merkur follows the guidelines of Finance Denmark (which are based on PCAF's[4] methods).

Merkur's own portfolio is limited and consists primarily of mortgage bonds. Our own portfolio emits 252 tonnes of CO2e.

THE AGRICULTURAL SECTOR EMITS THE MOST CO2E

Looking at Merkur's total emissions by sector, it is clear that agriculture is our CO2e-heavy sector. Merkur's lending to agriculture accounts for 29% of our business loans, but 85% of financed emissions. Through its lending to agriculture, Merkur has financed 7,397 tonnes of CO2e emissions.

However, it is important to see this figure in the context of Merkur's customer mix. The rest of Merkur's lending is to low-emission sectors, as Merkur's lending to other production companies is limited. Most of Merkur's customers pay close attention to their carbon footprints

[4] Partnership of Carbon Accounting Financials – a partnership of financial institutions that are working together to develop a harmonised approach to assessing and disclosing the CO2e footprint associated with their loans and investments. Merkur joined the network in 2019.

themselves. 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.

Looking again at the climate footprint of our agricultural customers, it is important to look at the finer details of this picture too. 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 sequestration of CO2e in the soil or in the crops grown in the fields. Based on the climate and sustainability action plans, Merkur will engage in dialogue with our customers on how individual farms can most effectively reduce their climate footprint.

33%

of financed CO2e emissions displaced by Merkur's lending to renewable energy

RENEWABLE ENERGY MAKES A BIG POSITIVE DIFFERENCE

Merkur's financing of renewable energy makes a huge and positive difference, and in 2021 we displaced CO2e emissions corresponding to 32.7% 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 in 2022.

Looking at the development in emissions per million DKK, the intensity increased in 2021. However, this does not mean that our customers' emissions were up compared to 2020. The change is due to improved data and to the fact that our calculations are now based on individual data for a larger share of livestock farms, whereas earlier they were based on averages for the sector, which also comprises arable farms, resulting in a lower average.

Conversely, we see a big decrease in the intensity of 'Letting etc. of real estate – cooperative housing associations'. This reflects the fact that many loans are given to renewable energy and energy renovations – a trend we expect to continue in 2022 as climate loans are very much a focus area.

Social

In Merkur's view, sustainability is not just about the climate and the environment. Social justice means a great deal to Merkur, and we welcome the fact that a social taxonomy is on the way in the EU. According to our ambition, we work for a world of dignity, respect and care for every human being. This is the guiding star for Merkur as a workplace and when it comes to what we finance. Thus, Merkur has many customers who work to improve lives and living conditions.

In July 2021, the subgroup responsible for the EU social taxonomy presented its first draft of a system for classifying economic activities as either socially responsible or harmful.

Under the auspices of the Global Alliance for Banking on Values (GABV), Merkur has had the opportunity to comment on the draft. This is a truly commendable piece of work that has the support of Merkur and the other GABV banks. The social taxonomy is closely linked to the UN Sustainable Development Goals, and the taxonomy basically expresses a holistic approach to sustainability, which also includes climate and environmental goals. The draft proposes two different models. In Model 1, the social taxonomy has its own life, but is linked to the environmental taxonomy through so-called safeguards. In Model 2, the taxonomies are merged into one covering both the environmental and social consequences of activities. As a member of GABV, Merkur has advocated Model 2 as the best solution, as it is in keeping with Merkur's worldview, seeing the world as a coherent whole in which one objective must not do significant damage to another. We see great potential in the taxonomy and will be following the work closely.

Merkur involves itself

In Merkur, we want to raise awareness of the role of banks in society, and with our way of doing business we want to show the world that a bank can be run with sustainability and accountability as overarching purposes. We therefore involve ourselves in networks and think-tanks that – like Merkur – are committed to creating a world in which the planet and life on earth are protected because together we are stronger.

MERKUR USES ITS VOICE

Merkur wants to contribute to the public debate about sustainability, social responsibility and the role of the financial sector in society. Merkur therefore uses its voice to draw attention to the essential role of the financial sector as a catalyst for the sustainable development of society. In other words, we use both the media and our own communication channels to shed light on socially relevant issues and create dialogue.

For example, Merkur's customer magazine, *Pengevirke*, is distributed twice a year to all customers. In 2021, *Pengevirke* addressed the themes of 'green transport' and 'communities'.

In 2021, 83% of Merkur's social media posts were about sustainability or social responsibility. In the posts, we highlight a given topic and often also provide concrete suggestions for more sustainable living. The rest of our posts focused on more traditional banking information.

In 2021, Merkur's posts about sustainable banking attracted more than 14 million views in the Danish media. The posts included the story that Merkur no longer wants to finance homes with oil burners unless oil is replaced with a sustainable source of heating, and the story that Merkur requires its agricultural customers to prepare action plans for their climate efforts and sustainability. With such stories, we want to lead by example and show that it is possible to make business a force for good in the world.

In addition, we participate in events where we can contribute our knowledge about sustainable banking and inspire decision-makers, businesses and individuals to take sustainable action.

Selected networks

GLOBAL ALLIANCE FOR BANKING ON VALUES (GABV):
Merkur is the co-founder of this global network of banks whose mission is to use finance to deliver sustainable economic, social and environmental development. The network consists of 66 banks in 40 countries, which together serve more than 60 million customers.

DANISH RESEARCH INSTITUTE FOR DEMOCRATIC BUSINESSES:
Merkur is a member of the Danish Research Institute for Democratic Businesses, which works to strengthen and promote democratic ways of doing business. In 2021, the think-tank published a report which concludes that democratic financial institutions are important to society, but that the diversity of banks is under pressure. Merkur contributed to this report. Merkur CEO Charlotte Skovgaard is a member of the Board of Directors of the think-tank.

B CORP DENMARK:
In 2020, Merkur was the first financial institution in Denmark to be B Corp-certified. Merkur thereby joined an exclusive group of companies that are able to document that they are among the most ambitious companies working to create a more sustainable world. B Corp is a certification, but it is also as a network of sustainable companies that inspire each other to lead the way in making business a force for good.

Selected activities

SPIREPRISEN:
In 2021, 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 is on the panel and contributes to the cash prize, while also offering to act as a financial sounding board to the winner. In 2021, the award went to Organic Fuel Technology, a company working to convert sludge from wastewater treatment plants into biofuel.

KLIMAFOLKEMØDET:
The annual climate event *Klimafolkemødet* puts climate at the top of the agenda for citizens, professionals and politicians. That is precisely why Merkur attended the event in 2021. With our presence and as part of the panel, we drew attention to the importance of banks and money in the climate fight.

ØKOLOGIKONGRESSEN:
In 2021, Merkur participated in *Økologikongressen*, a congress for all with an interest in organics. Merkur wants to contribute to the long-term sustainability of Danish agriculture. We engage with our own customers, but also other organic producers, about how we as a bank can best inspire and support them in the process of reducing the climate footprint of Danish agriculture.

DONATIONS

Merkur's business model builds on the idea of bringing about positive change for society. This is part and parcel of everything we do. But we also believe that donations or monetary gifts are powerful instruments for making a significant difference for the benefit of many in society. That is one of the reasons for setting up the Merkur Foundation, which you can read more about on page 46. Merkur also donates a small part of our earnings for projects and activities that support Merkur's ambition.

Merkur as a 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. We look after our employees and want to create a corporate culture that provides incentives for spearheading the work for a better world, while instilling a sense of meaningfulness in our employees. We do this, among other things, by organising Tuesday schools, where our employees hear talks by our customers and other presenters who can inspire and give us new knowledge about sustainability and social responsibility. In addition, we hold an annual weekend course, which is a chance for employees from all three Merkur locations to meet up. This supports a sense of community, while also serving to anchor our values in Merkur.

HIGH WELL-BEING AND STRONG COMMITMENT

Merkur conducted a well-being survey in 2021. No less than 94% of Merkur's completed the survey, which in future will be carried out once a year. The survey showed a high level of well-being among Merkur's employees with an employee satisfaction score of 75%. The sense of community is particularly high, the employees are good at supporting each other and are very committed to their work. No less than 92% of Merkur's employees are proud of their work.

However, the survey also identified scope for improvement in the areas of well-being, pressure of work and collaboration. This may partly be explained by the many days of working from home due to corona. We are aware of the challenge, and concrete action plans are being prepared in this area.

Selected donations

KNÆK CANCER:

In 2021, Merkur's annual employee seminar coincided with the national cancer fundraising campaign *Knæk Cancer*. At the seminar, a group of employees suggested supporting the cause. The employees shared their personal stories about cancer and raised a total of DKK 22,500. Merkur decided to double that amount and thus donated DKK 22,500 on top of the funds raised by the employees.

CO2-SAVINGS ACCOUNTS:

In 2021, Merkur donated DKK 135,000 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.

MERKUR CLIMATE FUND:

In 2021, Merkur Cooperative Bank donated DKK 300,000 to the Merkur Climate Fund, which aims to support projects working with the combatting of climate change and with climate change adaptation. Read more about the Merkur Climate Fund on page 47.

62%
women in management positions

92%
of our employees are proud of their work

50/50
gender balance on the Executive Board

Absence due to illness is again better than our goal of keeping absence below 6.5 days a year per employee. There has been a slight increase from 5.0 days per employee in 2020 to 5.3 days per employee in 2021, mainly due to specific physical diseases. In the financial sector, absence due to illness averages 5.8 days per full-time employee (2020). In Merkur, we care about the health of our employees, and in the case of long-term sick leave we always seek to retain employees and find solutions that can accommodate the needs of the person who has fallen ill. We want to be on a par with the sector, and by 2021 our goal was for the average to not exceed 7 days per employee.

STAFF TURNOVER

Merkur has undergone quite a few changes in recent years in step with the organisation becoming even more customer-focused and with our increasing focus on financial sustainability. This has required the addition of new competences in a number of areas.

Consequently, staff turnover has been higher than the average for the sector: 20% (18% in 2020)[5] in Merkur compared to 15% in the sector. Merkur's staff turnover is still at the high end, but we are confident that we will be able to meet a target of around 15% by 2022, which is similar to the level in the sector.

DIVERSITY AND EQUALITY

Our objective is a balanced distribution between women and men in the organisation. We stress the importance of diversity because we do not want to miss out on talent because of possible unconscious bias. In our recruitment, we focus on diversity and having both genders represented among the final candidates for all positions. We encourage all qualified applicants to apply for any vacancies regardless of gender, age, ethnicity, disability, religious beliefs, cultural background or sexuality.

Overall, we have an equal gender distribution. However, the proportion of women increased from 50.4% in 2020 to 58.0% in 2021.The same is true of the proportion of female managers, which rose from 35.7% in 2020 to 61.5% in 2021. We have an equal distribution of women and men on the Executive Board. According to statistics from the Danish Employers' Association for the Financial Sector, we are now well ahead of the other banks, where only 27.6% of managers are women (2021).

Actual equality is also about pay. Looking at salaries at employee level, men earn 1.2[6] times as much as female employees in Merkur. We are working continuously to ensure that salaries reflect the job content, responsibilities and competences, but our gender pay gap is also explained by the higher number of women than men in

[5] In connection with the transition to a new collective agreement, we have changed the calculation method to align with sector practices. The figure for 2020 was originally 30% last year because student assistants were included, which is common practice in the sector. The figure has therefore been restated according to the new method.

[6] Comparing median salary for women with median salary for men. The comparisons are based on medians rather than averages to ensure that the ratio is not skewed by the very highly paid or low-paid employees as the content of job functions can vary greatly, which is, of course, reflected in salary levels.

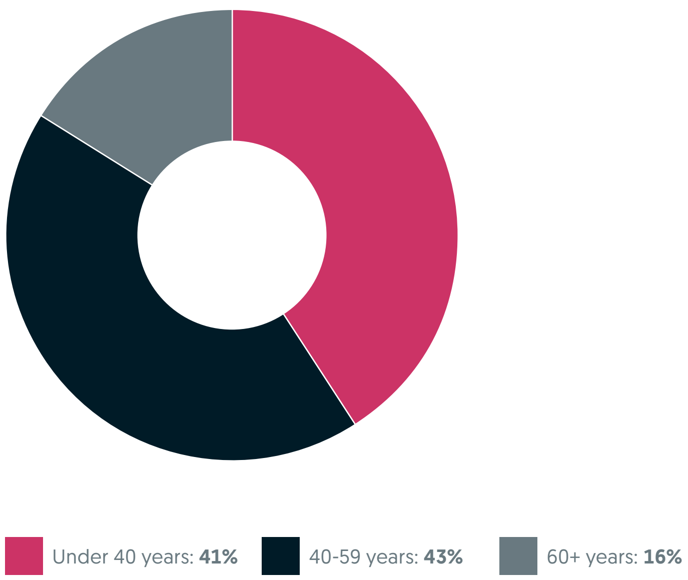
lower-paid jobs and the higher number of men holding more complex positions.

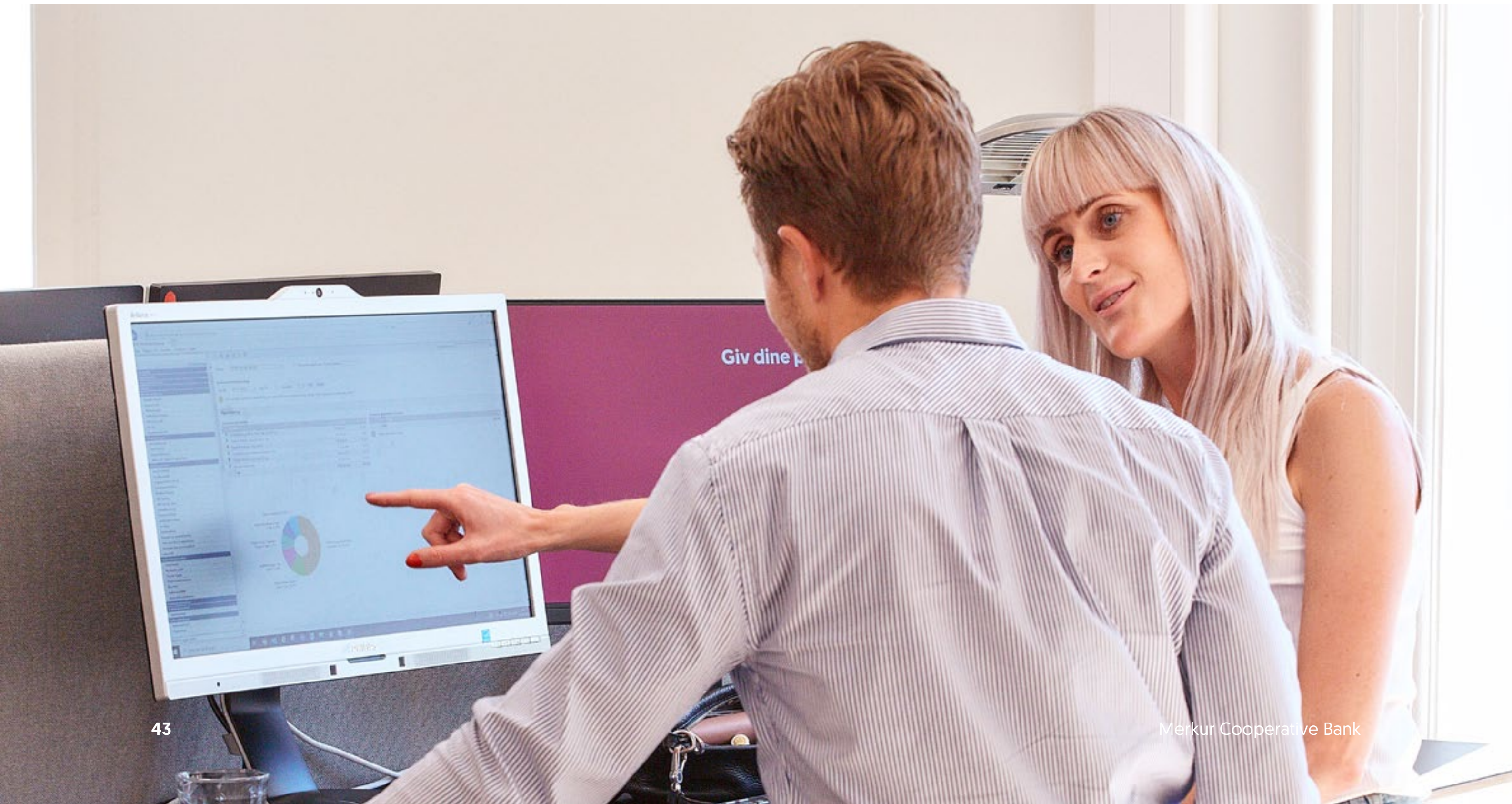
The average age of Merkur employees has fallen since last year from 45 to 44 years. A relatively large share of employees (16%) are still in the 60+ category, who contribute extensive experience and specialist skills to Merkur. The financial sector average is 44 years.

NEW AGREEMENT

Merkur's employees have expressed a desire to be covered by another collective agreement. As many employees were members of the union for employees in the financial sector *Finansforbundet*, they were keen to be covered by a collective agreement with a union with more in-depth knowledge of the working lives of financial employees. In 2021, Merkur and the Danish Employers' Association for the Financial Sector therefore initiated negotiations with *Finansforbundet*, which resulted in a transfer on 1 January 2022 to the standard collective agreement for employees in the financial sector between *Finansforbundet* and the Danish Employers' Association for the Financial Sector. As an employer, we believe that it is a great advantage to be able to draw on an employers' association with sector-specific knowledge and which offers legal advice and makes statistical data available. Moreover, it means that in future we will be able to make use of *Finanskompetencepuljen* to further upgrade the qualifications of our employees.

Age distribution





Governance

Merkur is a democratically owned company that is primarily owned by its customers. All shareholders have the right to vote at the general meeting. Each shareholder has one vote regardless of the size of their investment. The general meeting considers a number of issues of key importance for Merkur's operations. Among other things, the general meeting elects a Board of Representatives, which in turn elects six members to Merkur's Board of Directors. The remaining three members of the Board of Directors are elected by Merkur's employees. The high level of commitment of Merkur's Board of Directors is evident from the attendance rate, which in 2021 was an impressive 95%.

Transparency

Merkur believes in transparency, including transparency about our lending, and we publish the names of all our business customers on our website to enable depositors to keep an eye on who their money is being lent to. We also demand transparency about the investment products offered by Merkur. Last but not least, we take pride in engaging with our customers, shareholders and other stakeholders about the choices made by Merkur and any dilemmas associated with such decision.

Gender diversity 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 currently six men and three women, corresponding to 66.66% men and 33.33% women. Merkur wants an equal distribution of women and men at board level. See the *Statutory information chapter on page 51* for information on target figures.

Remuneration policy

The members of the Executive Board are paid a fixed salary, and the remuneration is assessed every other year as per their contracts of employment. Merkur has no bonus schemes. The remuneration of the Executive Board is based on the level of experience of members and on a comparison with the market level for similar positions. It is important for Merkur to be able to attract, motivate and retain competent members of the Executive Board and to ensure that the Executive Board is always composed in the right way. The CEO of Merkur earns 4.0 times the median salary for Merkur's employees.

Combating money laundering and terrorist financing

The prevention of financial crime is an important priority for Merkur, and we are continuously working to strengthen our procedures and the skills of our employees. Economic crime is a global problem, and the criminals are becoming increasingly cunning. Merkur works closely with our data centre BEC, which provides systems that help detect and stop criminal acts. All Merkur's employees do an anti-money laundering course at least every other year. In 2021, our customer-facing employees completed a course on money laundering risks and associated attention points.

In 2021, international payments to and from the so-called risk countries were also a special focus area. The intelligence services in Denmark, the EU and the USA are constantly updating observation lists of countries with an increased risk of terrorism and certain types of crime. In 2021, we paid particular attention to transfers to and from these countries in our efforts to prevent possible terrorist financing, and to prevent money laundering through Merkur. We are aware that our increased focus on international payments may inconvenience our customers, but this is necessary to comply with both Danish and international law.

In 2021, we also focused on the Danish government's relief packages. In this context, Merkur has helped to ensure that businesses applying for financial assistance actually use the compensation in accordance with state rules.

ESG DATA

Emissions from Merkur's activities tonnes CO2e

	2021	2020	2019	Change since 2019
District heating	8	10	21	-62%
Electricity	5	8	10	-50%
Business travel	22	27	65	-66%
Data centre BEC	11	16	16	-31%
Total emissions	46	61	112	-59%

Displaced and absorbed emissions

	2021	2020	2019
Displaced emissions (renewable energy)			
Middelgrunden Vindmøllelaug	-2	-5	-3
Hvidovre Vindmøllelaug	-13	-19	-13
Plasticueros. Photovoltaic facility in Spain	-10	-22	-16
Absorbed emissions			
Purchase of 7 hectares of degraded rainforest in Ecuador	-35	-35	-
Net emissions	**-14**	**-20**	**80**

Total CO2 emissions

(TONNES CO2e)	2021	2020	2019
Scope 1	0	0	0
Scope 2	13	18	31
Scope 3 - upstream	22	27	65
Scope 3 - downstream	10,319	N/A	N/A

Resources

	2021	2020	2019
Energy consumption (GJ)	708	762	1.157
Renewable energy share (%)	87%	91%	61%
Paper (kg)	5,834	3,552	7,398

Quality of financed emissions data: The data is rated on a scale of 1 to 5, with 1 being best. For this reporting, Merkur has used data with a score of 4.1. The score masks a substantial spread, with strong data in areas such as agriculture and renewable energy (data scores of 3.6 and 1.9) , while at the other end of the spectrum are loans for cooperative housing (data score of 5).

Financed emissions business

	Loans and guarantees in DKKm 2021	Share of loans and guarantees	tonnes CO2e 2021	Share of emissions	Intensity* 2021	Targets for 2022	Targets for 2021	Intensity* 2020
Agriculture	**238**	29%	**7.397**	85%	**31.1**	29.5	28.0	29.0
Education and institutions	**199**	25%	**507**	7%	**2.6**	2.5	1.9	2.0
Other services, cultural institutions and organisations	**78**	10%	**89**	1%	**1.1**	1.0	2.7	2.7
Letting etc. of real estate – cooperative housing associations	**132**	16%	**270**	4%	**2.0**	1.8	3.1	3.3
Dairies and other food production	**41**	5%	**138**	2%	**3.3**	3.2	4.5	5.0
Other	**123**	15%	**286**	4%	**2.3**	2.1	1.9	1.9
Total emissions	**811**	**100%**	**8,688**	**100%**	**10.7**	**-**	**-**	**9.7**
Displaced emissions (renewable energy)	**91**		**-2,789**		**31.0**			
Net emissions	**902**		**5,899**		**7.0**			

* Emissions per million of lending

Financed emissions personal customers 2021

	Loans and guarantees in DKKm	Share of loans and guarantees	tonnes CO2e 2021	Share of emissions	Intensity*	Targets for 2022
Mortgages	623	91%	1,341	83%	2.2	-
Other	55	8%	276	17%	5.0	-
Car loans	5	1%	14	1%	14.2	-
Total	**683**	**100%**	**1,631**	**100%**	**2.4**	**2.3**
Not included in calculation**	137					
Total lending private	**819**					

* Emissions per million of lending

** It is not possible to quantify the emissions for, e.g., consumer loans and private overdrafts, as we do not know what customers are spending the money on.

In Denmark, many loans are secured on real estate, which is taken into account in Finance Denmark's recommendations, which require emissions to follow the financing, which means that emissions financed via a mortgage credit institution must be attributed to the institution. Guarantees have thus been omitted from these financial statements.

Green Asset Ratio 2021

	Share in DKKm		Share in % of total assets	
	Included	Excluded	Included	Excluded
Total assets	192	4,306	4.3	95.7
States etc.	-	2,353	-	52.3
Non-NFRD companies*	-	1,669	-	37.1
Trading portfolio and interbank loans on demand	-	277	-	6.2

* Non-Financial Reporting Directive (NFRD)

The Green Asset Ratio describes how much of an organisation's activities are currently covered by the EU taxonomy for sustainable activity.

Social data

	2021	2020	Sector 2021	Target
Number of employees (FTEs), including students	100.3	101.2	-	-
Gender diversity (%)	58.0	50.4	49.4	Min. 40%
Gender diversity for other management levels (%)	61.5	35.7	27.6	Min. 40%
Gender pay gap (times)	1.2	1.2	1.2	1.0
Staff turnover (%)	20.0	17.9	14.9	15.0
Absence due to illness (days/FTE)	5.3	5.0	5.8*	< 6.5 i 2023
Seniority (years)	4.6	3.2	-	-
Average age (years)	44.0	45.0	44.2	-
Under 40 years (%)	41.0	32.2	-	-
60+ years (%)	16.0	19.4	-	-

* Figure from 2020

Management data

	2021	2020	Target figures
Gender diversity on the Board of Directors	33.3	33.3	33.3
Attendance of board meetings (%)	95.1	-	-
Pay gap between CEO and employees* (times)	4.0	4.5	-

* Employees' median salary

Merkur Foundation

Money is an instrument, and it is used by Merkur to drive change. Not only through our lending and investments, but also via donations and legacies. In 1998, Merkur Cooperative Bank set up the Merkur Foundation for the specific purpose of being able to work with donations and legacies. The Merkur Foundation is therefore an important part of the Merkur universe. Due to its status as a non-profit foundation, the Merkur Foundation is a separate legal entity. However, Merkur and the Merkur Foundation share the same values. 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 make 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 12m.

The Merkur Foundation increased the number of projects supported in 2021 – to an impressive 47. In the past, the foundation has had to reject a large number of projects simply due to its limited funds, and we are therefore pleased that we can now make more donations that will make a difference far into the future.

Partnership projects collect extraordinarily large amounts of money

Some projects do not just need help to start up. They require sustained support. The Merkur Foundation has therefore established long-term partnerships with a number of projects for which ongoing collections are made. Our partnership projects raised impressive funds in 2021. Most of our partnerships work in developing countries among vulnerable populations. These vulnerable groups have been especially hard hit by the severe corona lockdowns, which meant schools closures and the loss of livelihoods for many families. The social consequences were scary, and the partnerships scaled up their fundraising efforts to mitigate the worst impacts among their beneficiaries. Their huge efforts resulted in additional donations from a large number of donors and an increase from just under DKK 600,000 in 2020 to just over DKK 870,000 in 2021 in distributions to the partnerships.

Foundation channels special donations

In early summer 2021, the foundation was contacted by a donor who wanted the foundation to help channel a number of large donations anonymously to two organisations. The donations were being made to activities falling within the scope of the purpose of the Merkur Foundation, so it was an obvious chance for collaboration. Over the summer and based on a draft from the Merkur Foundation, the intended recipients drew up very good proposals for use of the donations, which were approved by the Board. The donor then decided, and the donations could be paid out.

The donation reflects a high level of trust in the Merkur Foundation's knowledge and experience – trust which the foundation does its utmost to always be worthy of and develop. The shared values of the Merkur Founda-

2021 in headlines

(DKK '000)	
More than 200 donors donated a record amount totalling	1,455
A special donation allowed the foundation to make two donations of	500
45 other projects receive	1,383

tion and Merkur Cooperative Bank have also played a role in the building of trust.

Fund intensifies work with legacies

In 2020, the Merkur Foundation received legacies totalling DKK 4m from two testators. The Merkur Foundation is convinced that many other people think about the imprint they would like the money they leave behind to make. The Merkur Foundation is constantly is dialogue with people seeking advice, and has intensified its efforts in this area.

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. Given the pool's limited funding, we focus on developing the projects to a stage where other and larger foundations can help with the next steps. The first five funded projects were launched in 2020. In 2021, a further four projects were launched. Total funding of DKK 200,000 has now been provided, and the experience gained shows considerable breadth and quality in the projects.

EXAMPLES OF PROJECTS

UNDER OMBYGNING – AN EVENT FOR GENDER MINORITIES IN THE BUILDING TRADES, DKK 10,000. Women and gender minorities do not always have an easy time in the building trades. The Merkur Foundation supported the *Under Ombygning* network's efforts to arrange an event, which involved the renovation of a cultural centre in Øster Skerninge using sustainable methods. The event is a chance to work on a project without focus on gender, but also a chance to discuss the challenges and advantages of gender minorities. In the course of the year, the network is kept alive in major towns and cities in Denmark.

SVARTLÖGAS FREMTID, DKK 200,000. Old sea wolves, craftsmen of all ages and young artists get together on the ship 'Svartlöga' in Ebeltoft, which is being renovated after being raised from the bottom of the sea. The project is about art as a means and as an end. The foundation received a special donation, which made it possible to support the project and pay for new rigging and major repairs. In the meantime, new exhibitions, art projects and summer cruises are being planned onboard the ships, which is owned by an association.

CARPARK FESTIVAL, DKK 25,000. *Bispeengbuen* – a sort of motorway bridge in Copenhagen NW – is not the obvious place for a festival; nevertheless, and despite corona, Carpark Festival succeeded in transforming the asphalted space into a cultural hub for two days. The programme included music on two stages as well as art projects featuring artists from the growth layer exclusively. The Merkur Foundation supported the art projects.

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

Merkur Climate Fund

The climate needs concrete action that brings about positive change here and now. In Merkur Cooperative Bank, we would like to show the way and turn our ambitions into actions. In 2020, Merkur therefore set up the Merkur Climate Fund. The fund is independent and separate legal entity. The purpose of the Merkur Climate Fund is to support projects that work with the combatting of climate change and with climate change adaptation. The Merkur Climate Fund has a special focus on promoting the availability and use of climate solutions in regions and among populations and communities for whom it is not easy to implement climate projects.

Charging points for electric cars in big cities

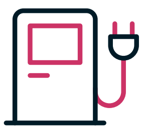
The first projects supported by the Merkur Climate Fund has concerned the establishment of public charging points for electric cars in urban areas. There is a lack of charging points in areas with many apartment blocks, where car owners are not able to install their own charging points. This dampens people's desire to switch to an electric car, and it is therefore essential to create an urban charging infrastructure that stimulates more sustainable choices of car. The Merkur Climate Fund works with Spirii on setting up and operating the charging points. Spirii has solid experience with the electric car and charging industry and, like the Merkur Climate Fund, works to facilitate the green transition of the transport sector.

In 2021, the fund established 129 charging points (outlets), primarily in Copenhagen. The charging points can be used by all drivers, you do not have to have an account, and the price is low. However, customers of Merkur Cooperative Bank can charge their cars at an even cheaper rate than other drivers. In the long term, the plan is to expand to Aarhus and Aalborg.

Merkur Climate Fund ensures establishment of new renewable energy

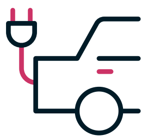
It is crucial for the Merkur Climate Fund that the charging points supply the greenest power on the market. Therefore, the fund, together with Merkur Cooperative Bank and others, has entered into an agreement to buy power from the sustainable energy company Better Energy. The agreement with Better Energy also means that a new solar park will be built. In this way, the Merkur Climate Fund's activities benefit the climate doubly: The fund expands the charging infrastructure in Denmark and makes it easier to drive an electric car, which reduces CO_2 emissions. If you charge your car using one of Merkur's charging points, the money goes indirectly towards establishing more renewable energy, which displaces CO_2 from the electricity grid.

You can read more about the Merkur charging points and where they are located at www.merkur.dk/ladestandere (in Danish).



129

charging points for electric cars established



110,000 kWh

green power supplied for charging electric cars

Statutory information

MANAGEMENT

BOARD OF DIRECTORS

Chair

Cornelis Anthonie (Cees) Kuypers, Founder and CEO of Kamelhuset (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: 283 shares

Owner/co-owner of:
- Kamelhuset ApS
- Future Food ApS
- Top Food ApS
- GrisogKo ApS
- Hanegal A/S
- Nr. Onsild ApS

Chair of the board of:
- Merkur Cooperative Bank
- Merkur Climate Fund
- Trademark Textiles A/S
- The Coffee Collective A/S

Board member of:
- Klingenberg Group ApS
- Grønt&Kød Online ApS

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

Vice-chair of the board

Anneke E. Stubsgaard, consultant (born 1965)

Elected to the Board in 2018. Current term expires in 2024.

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

Shareholding: 15 shares

Board member of:
- Aurion A/S
- Aurionfonden
- Earthwise Residency

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, Head of Pricing 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

Board member of:
- Orange ApS

Competency profile: MSc in Economics, management degrees from IMD and INSEAD, among others. 33 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 2024.

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

Shareholding: 140 shares

Board member of:
- None

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

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.

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:
- None

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
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
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 and project management. Solid knowledge of banking operations in general, with a special focus on personal customers, investments, climate projects and the development of financing solutions.

Member

Trine Møller Monrad, Administrative Officer (born 1980)

Employee-elected to the Board in 2021 as an alternate, and joined the Board in 2021. Current term expires in 2023.

Shareholding: 6 shares

Board member of:

- None

Competency profile: Educated in office administration and freight forwarding. Solid knowledge of banking operations in general with a special focus on administration and international activities.

Target figures for the under-represented gender on the Board

At the moment, women are underrepresented 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: Six men and three 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:

- Danish Research Institute for Democratic Businesses

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:

- informing the Board of Directors of the outcome of the statutory audit, including the financial reporting process
- overseeing the financial reporting process and making recommendations or proposals to ensure integrity
- monitoring the effective functioning of Merkur's internal control and risk management systems in connection with Merkur's financial reporting
- monitoring the statutory audit of financial statements etc., taking into account the results of the latest quality control of the auditor
- verifying and monitoring the independence of the auditor in accordance with sections 24-24c of the Danish Act on Approved Auditors and Audit Firms as well as Article 6 in Regulation(EU) no. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities, and approving the auditor's provision of non-audit services, cf. Article 5 of this regulation
- being responsible for the procedure for selecting and nominating the auditor for election in accordance with Article 16 of Regulation (EC) No 537/2014 of the European Parliament and of the Council of 16 April 2014 laying down specific requirements regarding the appointment of auditors of public-interest entities
- undertaking other tasks delegated by the Board of Directors of Merkur.

The terms of reference have been prepared for the Audit Committee, providing a framework as well as an annual cycle for its work.
In 2021, the committee held regular discussions on matters of relevance to the annual and interim financial reporting and cooperation with the auditor. Moreover, the Audit Committee focused on the development of the bank's financial reporting, also discussing ICAAP themes such as solvency needs, operational incidents and consolidation in the financial sector. The Audit Committee and the Risk Committee held two thematic meetings about large complex business customers.

The members of the Audit Committee are:

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

The 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 separate Risk Committee. The committee is charged with:

- advising the Board of Directors on the bank's current and future risk profile and strategy
- assisting the Board of Directors in ensuring the proper implementation of the risk strategy decided by the Board of Directors in the organisation
- assessing whether the products offered by Merkur are aligned with the bank's business model and risk profile, and whether the earnings generated by the products offered reflect the risks involved, as well as proposing remedial action if the products or services and their earnings are not aligned with the bank's business model and risk profile
- assessing whether the incentives forming part of the bank's remuneration structure take into account the bank's risks, capital structure and liquidity of the cooperative fund, as well as the probability of generating a profit and the time horizon thereof
- assessing risk models, including their methodology, estimation processes and validation
- assessing solvency needs, long-term capital requirements and capital policy, and
- assisting the Board of Directors in assessing the appropriateness and adequacy of the resources allocated to the risk management function.

Terms of reference have been prepared for the Risk Committee, providing a framework as well as an annual cycle for its work.

In 2021, the Risk Committee for the first time considered the risk manager's annual reporting and management documents, as well as continuing to address credit risks related to COVID-19. The committee also focused on compliance with the credit policy. Following the supervisory inspection in spring 2021, the Risk Committee considered the recovery plan and capital projection. The Risk Committee and the Audit Committee held two thematic meetings about large complex business customers.

The members of the Risk Committee are:

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

EXCEPTIONAL CIRCUMSTANCES

In 2021, Merkur was affected by the following exceptional circumstances:

- COVID-19 also affected Merkur in 2021: a prolonged lockdown at the start of the year, followed by another lockdown in the autumn due to the Omicron wave. Merkur was able to draw on its experience from 2020 and quickly reintroduce working-from-home arrangements. In 2020, Merkur made provisions to cover any corona-related losses, already taking account of the long-term risks, and the lockdowns in 2021 did not warrant any further provisions.
- Towards the end of the year, we saw some very sharp rises in energy prices, and a supply crisis has materialised. Some of our business customers may be affected if, for example, they are unable to procure components or raw materials for their production. The situation could also impact construction projects, for example renewable energy projects. For some personal customers, this leads to increased costs, and possibly reduced ability to pay. Merkur is monitoring the situation. For further details, see the 'Business risks' section.

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, asset mix 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 2021, there was again a need to supplement 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. In 2021, we reduced the corona-related management estimate by 50%, based on the industries in which the consequences are deemed by us to be less likely, and we also reduced the estimate related to personal customers, as the previously feared unemployment has not materialised, in fact quite the opposite.

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. Industries with special risks are described in more detail below.

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 the necessary IT support is guaranteed by the bank's data centre. 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 handle some of the risk – in addition to which we ensure that our employees are properly skilled and highly aware in their daily work. In 2021, Merkur arranged for an external risk assessment of the IT and cybercrime area to be prepared. The analysis shows that Merkur's risks in this area are as expected and thus gives no cause for concern.

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 – 2021 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 CO2e emissions, which will impact livestock production in particular and potentially hit the earnings of livestock farmers. Merkur is highly aware of the risks associated with the green transition. Plants and animal species are decreasing at an alarming rate due to human activity – in other words, we are facing a biodiversity crisis. The biodiversity crisis is likely to lead to taxes on pesticides or other forms of regulation of pesticide use. Generally speaking, 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. As the expansion of renewable energy becomes more significant and the delivery situation becomes more unstable, there is a risk of projects being postponed or completely stopped. Conversely, increasing energy prices will make renewable energy sources more attractive.

- he 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.

- Personal customers may face an income squeeze if energy prices continue to rise, especially customers outside the big cities where there is no district heating or where district heating is based on natural gas. We are also seeing rising inflation and soaring price increases for basic foods. Both factors can affect our customers' ability to pay. Most of Merkur's lending to personal customers is secured on real estate, and property prices therefore also have a significant impact on Merkur's risk in the personal banking area.

- The supply crisis can become a problem for those of Merkur's business customers who rely on components and goods from the Far East. However, Merkur has very few customers in this segment, and any liquidity challenges are expected to be short-term. In the construction industry, there is a risk of construction projects being delayed, but projects are expected to be postponed – rather than being cancelled.

- Rising energy prices may impair the profitability of our business customers, but since very few of Merkur's customers are manufacturing companies, the problem is limited. Conversely, the rising energy prices will benefit Merkur's earnings on renewable energy projects

- If the situation in Ukraine develops negatively, any ensuing energy crisis may have significant implications for both our business and personal customers.

FINANCIAL RISKS

Merkur is not exposed to exceptional financial risks and does not engage in speculative activities. Please also see note 35 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/aarsrapporter (in Danish). 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 – 31 December 2021 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 2021, as well as of the results of its activities for the financial year 1 January – 31 December 2021.

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, 7 March 2022

Executive Board:

Charlotte Skovgaard

Alex Andersen

Board of Directors:

Cornelis Anthonie Kuypers (Chair)

Anneke Stubsgaard (Vice-chair)

Bernhard Franz Schmitz

Henrik Tølløse

Hilde Kjelsberg

Jakob Brochmann Laursen

Henrik Kronel

Jesper Kromann

Trine Møller Monrad

The annual general meeting will be held on 2 April 2022.
The general meeting will be held both digitally and with the possibility of physical attendance in Copenhagen, Aarhus and Aalborg.

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 2021 and of the results of the bank's operations for the financial year 1 January to 2021 – 31 December 2021 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 2021 December 31 2021 comprise the income statement and statement of comprehensive income, balance sheet, statement of capital and notes, including the accounting policies applied ('the financial statements').

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 'Auditor's responsibility for the audit of the financial statements' section.

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 2 April 2016 for the 2017 financial year. We have been reappointed by the annual general meeting for a total uninterrupted period of engagement of five years, up until and including the 2021 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 2021. 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 in the 'Accounting policies' section. Due to the COVID-19 situation and its derived effects, management has continued to include a significant addition to the impairments of loans in the form of an accounting estimate ('managerial estimate'). The impact of COVID-19 for Merkur's customers remains largely unclear, and the assessment of the need for impairments thus subject to increased uncertainty. The impairment of loans is a key focus area because the accounting estimate is by nature complex and influenced by subjectivity and thus associated with a high degree of uncertainty. 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, including in particular the consequences of the COVID-19 situation for Merkur's customers. Reference is made to note 13, notes 16-17, the 'Credit risk' section in note 37 'Risk management' and note 2 'Material accounting estimates, assumptions and uncertainties', where factors that may affect loan impairment charges are described.	We reviewed and assessed the impairment charges recognised in the income statement in 2021 and the balance sheet as at 31 December 2021. We carried out risk assessment actions to gain an understanding of IT systems, business practices and relevant controls regarding the calculation of loan impairments. For the controls, we assessed whether they had been designed and implemented to effectively address the risk of material misinformation. For selected controls on which we planned to base ourselves, we tested whether they were carried out consistently. We assessed the impairment model applied, which was prepared by the BEC data centre, and the use thereof, including the division of responsibilities between BEC and Merkur. We assessed and tested Merkur's calculation of model-based impairment charges in stages 1 and 2, and also assessed management's determination and adaptation of model variables to the bank's own conditions. We reviewed and assessed Merkur's validation of the methods used to calculate expected credit losses as well as the procedures and internal controls 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 sampling of large loans as well as lending within segments with generally increased risks including segments particularly affected by the COVID-19 situation. We reviewed and challenged the significant assumptions underlying 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. We focused, in particular, on Merkur's calculation of the management estimates in respect of the covering of expected credit losses as a result of the COVID-19 situation. We assessed whether the factor that may potentially affect loan impairments were appropriately disclosed.

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.

Herning, 7 March 2022
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 3377 1231

Benny Voss
State-authorised public accountant
mne15009

Daniel Mogensen
State-authorised public accountant
mne45831

Accounts and notes

Income statement 2021

(DKK '000)	2021	2020	NOTE
Interest income	**88,387**	89,104	3
Negative interest income	**-11,953**	-10,776	4
Interest expenses	**-4,646**	-3,194	5
Negative interest expenses	**13,527**	8,245	6
Net interest income	**85,315**	**83,379**	
Dividends from shares etc.	**74**	65	
Fee and commission income	**83,194**	72,764	7
Fee and commission expenses paid	**-10,392**	-9,654	8
Net interest and fee income	**158,191**	**146,554**	
Market value adjustments etc.	**1,342**	-672	9
Other operating income	**250**	80	
Staff costs and administrative expenses	**-134,825**	-130,438	10
Depreciation, amortisation and impairment of tangible and intangible assets	**-2,705**	-3,702	12
Other operating expenses	**-16**	-52	
Impairment of loans and receivables etc.	**-8,285**	-25,735	13
Share of profit or loss of associated and affiliated undertakings	**190**	259	
Profit before tax	**14,142**	**-13,706**	
Tax	**-2,513**	3,279	14
Profit for the year	**11,629**	**-10,427**	
Proposed distribution of net profit			
Carried forward to next year	**11,629**	-10,427	
Statement of comprehensive income			
Profit for the year	**11,629**	-10,427	
Other comprehensive income:			
Foreign currency translation adjustments, shares in EUR	**16**	116	
Revaluation, property	**1,099**	0	
Tax on comprehensive income, revaluation	**251**	0	
Other comprehensive income after tax	**1,366**	**116**	
Total comprehensive income for the year	**12,995**	**-10,311**	

Balance sheet

ASSETS (DKK '000)	2021	2020	NOTE
Cash in hand and demand deposits with central banks	**2,352,775**	79,500	
Accounts receivable from credit institutions and central banks	**53,055**	2,060,743	15
Loans and other accounts receivable at amortised cost	**1,669,202**	1,642,671	16-17
Bonds at fair value	**224,243**	226,770	18
Shares etc.	**47,663**	42,939	19
Investments in associated undertakings	**1,847**	1,878	20
Investments in affiliated undertakings	**0**	1,028	21
Assets associated with pool schemes	**51,479**	454	22
Intangible assets	**381**	564	23
Land and buildings			
Land and buildings (domicile property)	**12,177**	10,579	
Domicile properties, leased	**5,017**	5,168	
Total land and buildings	**17,194**	**15,747**	**24**
Other tangible assets	**1,691**	2,386	25
Current tax assets	**76**	436	14
Deferred tax assets	**10,926**	13,189	14
Other assets	**63,832**	61,483	26
Prepayments and accrued income	**3,142**	3,222	
TOTAL ASSETS	**4,497,507**	**4,153,010**	

Balance sheet [continued]

LIABILITIES AND EQUITY (DKK '000)	2021	2020	NOTE
Debt to credit institutions and central banks	123,082	118,771	27
Deposits and other debt	3,698,313	3,526,873	28
Deposits with pool schemes	51,479	454	
Issued bonds	24,798	24,768	29
Other liabilities	40,000	45,700	30
TOTAL DEBT	**3,937,672**	**3,716,566**	
Provisions for pensions and similar liabilities	179	285	
Provisions for guarantees	8,091	6,087	
TOTAL PROVISIONS	**8,270**	**6,372**	**31**
Subordinated debt	139,596	40,496	
SUBORDINATED DEBT	**139,596**	**40,496**	**32**
EQUITY			
Share capital	225,056	219,658	
Share premium account	134,512	130,496	
Revaluation reserves	1,350	0	
Other reserves	4,708	4,708	
Retained earnings	46,343	34,714	
TOTAL EQUITY	**411,969**	**389,576**	
TOTAL LIABILITIES AND EQUITY	**4,497,507**	**4,153,010**	
OFF-BALANCE SHEET ITEMS			
Guarantees	773,182	688,263	33
TOTAL OFF-BALANCE SHEET ITEMS	**773,182**	**688,263**	

Statement of capital 2021

(DKK '000)	2021	2020
Share capital:		
Share capital, beginning of year	219,658	199,606
Newly paid-up share capital	5,398	20,052
Total	**225,056**	**219,658**
Value of shares, end of year	1,770.30	1,728.80
Share premium account:		
Share premium account, beginning of year	130,496	115,597
Share premium during the year	4,000	14,782
Other comprehensive income	16	117
Total	**134,512**	**130,496**
Other reserves:		
Other reserves, beginning of year	4,708	4,708
Total	**4,708**	**4,708**
Retained earnings:		
Retained earnings, beginning of year	34,714	45,141
Profit for the year	11,629	-10,427
Total	**46,343**	**34,714**
Breakdown:		
Retained earnings, beginning of year	34,714	45,141
Profit for the year	11,629	-10,427
Other comprehensive income	1,366	116
Total comprehensive income	**12,995**	**-10,311**
Other comprehensive income transferred to share premium account	-16	-116
Other comprehensive income, revaluation reserves	-1,350	0
Profit for the year	**11,629**	**-10,427**
Total	**46,343**	**34,714**

Statement of capital 2021 [continued]

(DKK '000)	2021	2020
Composition of equity, end of year:		
Share capital	225,056	219,658
Share premium account	134,512	130,496
Revaluation reserves, property	1,350	0
Other reserves	4,708	4,708
Retained earnings	46,343	34,714
Total	**411,969**	**389,576**
Other information about reserves:		
Free reserves (previously A capital)		
Balance, beginning of year	18,504	19,304
Proportionate share of profit for the year	623	-801
Total free reserves	**19,127**	**18,503**
Share of other reserves	2,353	2,353
Total	**21,480**	**20,856**
Shareholders' reserves (previously B capital)		
Balance, beginning of year	16,210	25,836
Proportionate share of profit for the year	11,007	-9,626
Total shareholders' reserves	**27,217**	**16,210**
Share of other reserves	2,355	2,355
Total	**29,572**	**18,565**

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.

The accounting policies are applied consistently with the accounting policies in the 2020 annual report.

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 50% of the impact of the IFRS 9-compatible accounting rules in the determination of own funds in 2021. This will increase to 75% in 2022. If Merkur had not made use of the transitional arrangement, the full impact of IFRS 9 on own funds would have been DKK 8.6m, which would reduce the capital ratio by 0.4 percentage points. The impact of IFRS 9 on own funds will be fully phased in in 2023.

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, 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 on assets and deposits in pools is recognised under market value adjustments etc.

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.

Totalkredit and DLR may offset recorded losses against current commission income. Recorded losses are recognised at the time of the loss-making event, and the losses are expensed in the income statement under 'Impairment of loans and receivables etc.'.

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 such as maternity/paternity leave. 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 financial models on which a large part of our impairments are normally based were challenged in 2020 and 2021 due to the corona 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 continue to take as our point of departure the models from BEC and use data from year-end 2021. Initially, the models have calculated the statistical impairments for each industry broken down into stages 1, 2 and 2weak, 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 25% in stage 2 and by 60% in stage 2weak. 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 halved the general additions for the following industries, as we estimate that these specific industries are unlikely to be impacted by corona-related challenges, although it cannot be completely ruled out at this point:

Energy, credit, finance and insurance, professional scientific/technical services, kindergartens, and social institutions.

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 lowered the additions for personal customers, as unemployment is not currently estimated as being likely.

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 13.

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.

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.

In 2021, Merkur held investments in Merkur Development Loans Ltd. A/S corresponding to 9.0%. Merkur Development Loans Ltd. A/S had entered into an agreement with Merkur Cooperative Bank about the administration of the company.

The investments were previously recognised in the financial statements under the item 'Investments in affiliated undertakings'. Merkur Development Loans Ltd. A/S was liquidated in 2021, and the payment for Merkur's investments was disbursed to Merkur in January 2022 and hence recognised under other assets.

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 3% 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 temporarily held for sale

Assets temporarily 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 temporarily 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.

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.

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.

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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 2021 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 the 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 therefore estimated and made a DKK 6.2m impairment 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 0.2m 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 or increase in value associated with a given group of loans and receivables at the balance sheet date is estimated. Due to an expectation of a period of economic growth, we estimate that we should reverse a portion of the impairments calculated by the general model. 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. 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 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)	2021	2020
NOTE 3. Interest income		
Accounts receivable from credit institutions and central banks	0	20
Loans and other accounts receivable	87,091	87,550
Bonds	1,045	1,534
Other interest income, including administration of pools	251	0
Total	**88,387**	**89,104**
NOTE 4. Negative interest income		
Accounts receivable from credit institutions and central banks	11,784	10,574
Bonds	169	202
Total	**11,953**	**10,776**
NOTE 5. Interest expenses		
Credit institutions and central banks	23	41
Deposits and other debt	385	454
Subordinated debt	3,152	2,386
Issued bonds, non-preferred senior debt	789	31
Other interest expenses, including lease payments	297	282
Total	**4,646**	**3,194**
NOTE 6. Negative interest expenses		
Deposits and other debt	13,527	8,245
Total	**13,527**	**8,245**
NOTE 7. Fee and commission income		
Securities trading and custody accounts	15,948	14,408
Payment handling	12,958	10,506
Loan business, fees and charges	5,160	5,939
Guarantee commission	22,515	19,432
Other fee and commission income	26,613	22,479
Total	**83,194**	**72,764**

(DKK '000)	2021	2020
NOTE 8. Fee and commission expenses paid		
Remuneration fees, external valuers	**870**	815
Interbank transaction fees	**174**	225
International fees, Visa and Mastercard	**1,347**	1,482
Other fees, pension systems etc.	**2,849**	4,151
Fees, Dankort and NETS	**4,333**	2,236
Fees, MobilePay	**541**	445
Paid guarantee commission	**277**	300
Total	**10,392**	**9,654**
NOTE 9. Market value adjustments etc.		
Bonds	**-1,551**	-1,626
Shares and equity investments	**2,978**	1,119
Foreign exchange income	**-85**	-165
Assets associated with pool schemes	**1,664**	-1
Deposits with pool schemes	**-1,664**	1
Total	**1,342**	**-672**
NOTE 10. Staff costs and administrative expenses		
Salaries and remuneration for Board of Directors and Executive Board*:		
Salaries and remuneration for Board of Directors	**2,126**	1,933
Salaries and remuneration for Executive Board, incl. pension	**3,562**	4,021
Total	**5,688**	**5,954**
* Specification of salaries and remuneration for the Board of Directors and the Executive Board can be found on Merkur's website: www.merkur.dk/aarsrapport.		
Staff costs:		
Salaries	**58,028**	57,195
Pensions	**6,764**	6,201
Social security costs (financial services employer tax etc.)	**10,335**	9,883
Total	**75,127**	**73,279**
Other administrative expenses (note 11)	**54,010**	51,205
Total	**134,825**	**130,438**
Merkur does not use incentive pay or performance-based pay for the Executive Board, the Board of Directors or employees.		
Significant risk takers:		
Fixed salary	**7,915**	5,317
Variable salary	**0**	0
Number of employees with influence on risk profile	**9**	**10**
Number of employees, full-time equivalents	**101.1**	**101.2**

(DKK '000)	2021	2020

NOTE 11. **Other administrative expenses**

IT costs, BEC	38,722	36,059
Other IT costs and telephony	1,462	1,464
Office supplies, stationery etc.	1,711	1,039
Postage	28	34
Travel costs etc.	427	255
Courses, training and other staff costs	2,889	2,468
Rent etc.	1,453	1,395
Maintenance of offices etc.	261	606
Insurance	472	478
Membership fees, banking associations etc.	1,444	1,120
Merkur's customer magazine 'Pengevirke'	584	271
Marketing	3,212	3,948
Auditing services**, legal and consultancy costs	1,151	2,076
Other costs, incl. VAT regulation	194	-8
Total	**54,010**	**51,205**
Fee paid to the auditors elected by the annual general meeting (AGM)**		
Statutory audit of the financial statements	533	453
Other assurance engagements	130	141
Tax advice and other assistance	5	85
Total fee paid to the firm of auditors elected by the AGM and performing the statutory audit	**668**	**679**

** Fees for services other than the statutory audit performed by PwC cover statutory statements to various public authorities and partners and tax advice regarding marketing.

NOTE 12. **Depreciation and amortisation of tangible and intangible assets**

Domicile property	253	300
Reversal, impairment of domicile property	-752	0
Machinery and equipment (including leasing of car)	948	761
Leasehold improvements	501	751
Leasing, rent	1,673	1,723
Leasing, rent adjustment, depreciation previous years	-100	0
Development costs	182	167
Total	**2,705**	**3,702**

NOTE 13. Impairments and provisions

[DKK '000]	2021	2020
Total write-offs and impairments for the year		
Accumulated changes in impairments during the year	-6,426	-23,453
Write-offs for the year, previously impaired	13,745	43,321
Write-offs, not previously impaired	2,539	7,330
Received on claims previously written off	-325	-474
Costs and value adjustment, assets temporarily held for sale	-313	74
Interest from impairments	-935	1,196
Total write-offs and impairments for the year	**8,285**	**25,735**
Stage 1: impairments of loans, guarantees and unutilised loan commitments		
Accumulated impairments, beginning of year	6,707	5,756
Impairments for the period	4,215	4,494
Reversal of impairments from previous years	-2,655	-3,543
Write-offs, previously impaired	0	0
Accumulated impairments, end of year	**8,267**	**6,707**
Stage 2: impairments of loans, guarantees and unutilised loan commitments		
Accumulated impairments, beginning of year	11,765	8,925
Impairments for the period	3,785	8,811
Reversal of impairments from previous years	-4,553	-5,970
Write-offs, previously impaired	0	0
Accumulated impairments, end of year	**10,997**	**11,765**
Stage 3: impairments of loans, guarantees and unutilised loan commitments		
Accumulated impairments, beginning of year	46,025	73,063
Impairments for the period	25,072	28,394
Reversal of impairments from previous years	-18,545	-12,112
Write-offs, previously impaired	-13,745	-43,321
Accumulated impairments, end of year	**38,807**	**46,025**
Total impairments of loans, guarantees and unutilised loan commitments		
Accumulated impairments, beginning of year	64,497	87,744
Impairments for the period	33,072	41,699
Reversal of impairments from previous years	-25,754	-21,625
Write-offs, previously impaired	-13,745	-43,321
Accumulated impairments, end of year	**58,071**	**64,497**

[DKK '000]	2021	2020

NOTE 13. **Impairments and provisions** [continued]

	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 2020	38,201	146,344	18,408	37,610	20,720	13,086
Loans and guarantees before impairments/provisions 2021	143,821	79,405	64,161	1,999	26,041	4,398

The development of loans which have moved towards poorer stages has not resulted in large increases in impairments, as this has mainly concerned customers with excess collateral.

	2021	2020
Accumulated impairment ratio		
In % of loans and guarantees	**2.3**	2.7
Write-offs and impairments for the year in % of loans and guarantees	**0.3**	1.1
Zero-interest loans and reduced-interest loans due to borrower's financial difficulties	**19,358**	10,793
In % of loans and guarantees before impairments	**0.8**	0.5
Further information on loans not fully impaired		
Loans and receivables with objective evidence of impairment, before impairment	**213,039**	169,128
Loans and receivables with objective evidence of impairment, after impairment	**169,386**	123,103

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

[DKK '000]	2021	2020

NOTE 14. Tax

Current tax	0	0
Adjustment of deferred tax	-2,513	3,279
Adjustment of deferred tax, previous years	0	0
Adjustment of tax, previous years	0	0
Total	**-2,513**	**3,279**
Effective tax rate on profit for the year	**17.8**	**23.9**
Accounting profit before tax	**14,142**	**-13,706**
Tax calculated thereon at a tax rate of 22%	-3,111	3,015
Changes in deferred tax, adjustment previous years	0	0
Permanent differences	598	264
Adjustment of tax paid, previous years	0	0
Tax on profit for the year	**-2,513**	**3,279**
Deferred tax assets		
Other	1,869	2,233
Tax loss carry-forward	9,057	10,956
Total deferred tax assets	**10,926**	**13,189**
Tax receivables		
Calculated tax on profit for the year	0	0
Tax paid in advance	0	370
Paid dividend tax	21	10
Dividend tax receivable regarding previous years	56	56
Total	**77**	**436**

NOTE 15. Accounts receivable from credit institutions and central banks

Broken down by term to maturity		
Demand deposits	53,055	2,060,743
More than 5 years	0	0
Total	**53,055**	**2,060,743**
Broken down by central banks and credit institutions		
Accounts receivable from central banks	0	2,006,000
Accounts receivable from credit institutions	53,055	54,743
Total	**53,055**	**2,060,743**

(DKK '000)	2021	2020

NOTE 16. **Loans and other accounts receivable at amortised cost**

Loans with access to variable utilisation	384,734	317,478
Leasing	18,221	3,479
Other loans	1,266,247	1,321,714
Loans and other accounts receivable, total	**1,669,202**	**1,642,671**
Broken down by term to maturity		
On demand	264,044	160,999
Up to and including 3 months	30,068	79,361
Between 3 months and 1 year	95,161	102,314
Between 1 year and 5 years	406,181	481,725
More than 5 years	873,748	818,272
Total	**1,669,202**	**1,642,671**

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 17. **Loans, advances and guarantee debtors** (Broken down by sector and industry)

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	12.6	12.4
2.2 Industry and mining	2.8	2.6
2.3 Energy	3.7	2.8
2.4 Building and construction	0.6	0.5
2.5 Trade	0.9	1.0
2.6 Transport, hotels and restaurants	0.6	0.7
2.7 Information and communication	0.6	0.5
2.8 Credit, finance and insurance	2.3	1.4
2.9 Real estate	7.7	7.1
2.10 Others	18.0	19.3
Total corporate sector	**49.8**	**48.3**
3. Personal customers	**50.2**	**51.7**
1-3 Total	**100.0**	**100.0**

(DKK '000)	2021	2020

NOTE 18. **Bonds at fair value**

Mortgage bonds	201,668	216,231
Government bonds	9,878	0
Foreign bonds	12,697	10,539
Total	**224,243**	**226,770**
Maturing in the next financial year	0	110,515

NOTE 19. **Shares and equity investments**

Investment portfolio		
Danish financial sector companies:		
Let-P Holding A/S	86	102
Swipp Holding ApS	2	2
Bokis A/S	15	15
PRAS A/S	796	731
DLR Kredit A/S	38,644	34,102
Strategic partners:		
Folkesparekassen	0	327
Triodosbank, Netherlands	459	459
GLS Gemeinschaftsbank, Germany	39	39
Freie Gemeinschaftsbank, Switzerland	30	28
Banca Etica, Italy	790	790
Cultura Sparebank, Norway	966	912
Ekobanken, Sweden	313	319
Sparinvest Holding SE, A shares	505	604
Opendo A/S	4,113	3,619
Visa Inc C Pref.	10	16
SEFEA – Societá Europea Finanza Etica ed Alternativa, Italy	256	257
Sustainability Finance Real Economies SICA	565	544
Shared Interest Society Ltd., UK	18	17
Oikocredit, Netherlands	28	28
SIDI, France	28	28
Total	**47,663**	**42,939**

(DKK '000)			2021	2020

NOTE 20. **Investments in associated undertakings**

	Equity interest	Equity		
Plasticueros ApS	**37.50%**	**231,645 EUR**		
Total cost, beginning of year			559	559
Total cost, end of year			**559**	**559**
Revaluations and impairments, beginning of year			106	59
Profit for the year			-18	47
Revaluations and impairments, end of year			**88**	**106**
Carrying amount, end of year			**647**	**665**

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%**	**351,615 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			-2,312	-1,979
Revaluations and impairments for the year			24	-373
Profit for the year			-37	40
Revaluations and impairments, end of year			**-2,325**	**-2,312**
Carrying amount, end of year			**1,200**	**1,213**

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. Merkur and the other owners have entered into a sales agreement for the wind turbine.

Total carrying amount of investments in associated undertakings, end of year	**1,847**	**1,878**

NOTE 21. **Investments in affiliated undertakings**

Merkur Development Loans Ltd. A/S		
Total cost, beginning of year	1,000	1,000
Additions and disposals	-1,000	0
Total cost, end of year	**0**	**1,000**
Revaluations and impairments, beginning of year	28	-11
Value added for the year	16	39
Disposals	-44	0
Revaluations and impairments, end of year	**0**	**28**
Carrying amount, end of year	**0**	**1,028**

[DKK '000]	2021	2020

NOTE 22. **Assets in pool schemes**

Investment units	48,107	59
Cash deposit	3,372	395
Total	**51,479**	**454**

NOTE 23. **Intangible assets**

Cost, beginning of year	730	0
Additions during the year	0	731
Total cost, end of year	**730**	**731**
Amortisation, beginning of year	167	0
Amortisation for the year	182	167
Amortisation, end of year	**349**	**167**
Carrying amount, end of year	**381**	**564**

NOTE 24. **Land and buildings**

Domicile properties		
Revalued amount, beginning of year	13,390	13,390
Revaluation	1,851	0
Revalued amount before depreciation	**15,241**	**13,390**
Depreciation, beginning of year	2,811	2,511
Depreciation for the year	253	300
Depreciation, end of year	**3,064**	**2,811**
Value, end of year	**12,177**	**10,579**
Domicile properties, leased		
Value, beginning of year	6,891	6,891
Reassessment of leases during the period	1,522	0
Value before depreciation	**8,413**	**6,891**
Depreciation, beginning of year	1,723	0
Depreciation for the period	1,673	1,723
Depreciation, end of year	**3,396**	**1,723**
Value, end of year	**5,017**	**5,168**
Total property exposure	**17,194**	**15,747**

[DKK '000]	2021	2020

NOTE 25. **Other tangible assets**

	2021	2020
Cost, beginning of year	17,019	15,797
Additions during the year	753	1,266
Disposals during the year	0	-44
Total cost, end of year	**17,772**	**17,019**
Depreciation, beginning of year	15,110	13,642
Depreciation for the year	1,290	1,512
Disposals, depreciation reversed	0	-44
Depreciation, end of year	**16,400**	**15,110**
Carrying amount, end of year	**1,372**	**1,909**
OTHER TANGIBLE ASSETS, LEASED CAR		
Cost, beginning of year	477	0
Additions during the year	0	477
Total cost, end of year	**477**	**477**
Depreciation, beginning of year	0	0
Depreciation for the year	159	0
Depreciation, end of year	**159**	**0**
Carrying amount, end of year	**318**	**477**
TOTAL OTHER TANGIBLE ASSETS	**1,691**	**2,386**

NOTE 26. **Other assets**

	2021	2020
Miscellaneous receivables	19,489	19,732
Rent deposit and deposit with data centre	42,613	40,942
Interest receivable	686	809
Receivable regarding liquidation of Merkur Development Loans Ltd. A/S	1,044	0
Total	**63,832**	**61,483**

[DKK '000]	2021	2020

NOTE 27. **Debt to credit institutions and central banks**

Broken down by term to maturity		
On demand	123,082	118,177
More than 5 years	0	594
Total	**123,082**	**118,771**
Broken down by central banks and credit institutions		
Debt to central banks	121,596	117,487
Debt to credit institutions	1,486	1,284
Total	**123,082**	**118,771**

NOTE 28. **Deposits and other debt**

Broken down by term to maturity		
On demand	3,694,497	3,212,243
Deposits redeemable at notice:		
Up to and including 3 months	260	9,189
Between 3 months and 1 year	2,794	15,119
Between 1 year and 5 years	762	80,156
More than 5 years	0	210,166
Total	**3,698,313**	**3,526,873**
Broken down by type of deposit:		
On demand	3,326,950	3,134,873
Deposits redeemable at notice	112,069	103,261
Fixed-term deposits	3,816	9,675
Special deposits	255,478	279,064
Total	**3,698,313**	**3,526,873**

NOTE 29. **Issued bonds***

Broken down by term to maturity		
More than 5 years	24,798	24,768
Total	**24,798**	**24,768**

* Non-preferred senior debt

NOTE 30. **Other liabilities**

Various accounts payable	19,805	20,643
Interest and commission payable	2,345	645
Lease commitments	5,433	5,746
Other liabilities	12,416	18,666
Total	**40,000**	**45,700**

(DKK '000)	2021	2020

NOTE 31. **Provisions**

	2021	2020
Provisions for pensions and similar liabilities	179	285
Provisions for losses on guarantees etc.	8,091	6,087
Total	**8,270**	**6,372**

NOTE 32. **Subordinated debt**

	2021	2020
Subordinated debt at amortised cost	139,596	40,496
Total	**139,596**	**40,496**
Subordinated debt used for determination of own funds	139,000	37,353
Interest	3,152	2,386

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
08.07.2031	DKK	4.037	50,000	0
08.07.2031	DKK	2.750	44,000	0
28.05.2032	DKK	4.500	25,000	0

* 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 2021. 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.

NOTE 33. **Contingent liabilities**

	2021	2020
Guarantees		
Financial guarantees	258,000	216,702
Loss guarantees for mortgage loans	418,277	374,239
Registration and conversion guarantees	81,577	81,372
Other guarantees	15,328	15,950
Total guarantees	**773,182**	**688,263**
Other obligating agreements		
Unutilised loan commitments	895,220	821,663
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 0.001%.
.

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 major pending cases.

NOTE 34. Capital ratio

[DKK '000]	2021	2020
Composition of capital		
Equity	411,969	389,576
Transitional arrangement, IFRS 9	8,649	12,108
Deductions:		
Capitalised deferred tax assets	-9,057	-10,956
Intangible assets	-381	-564
Other deductions, including NPEs	-6,935	-400
Value adjustment according to requirement for prudent measurement of assets	-272	-286
Actual Tier 1 capital instruments in the financial sector	-2,173	-3,011
Actual Tier 1 capital	**401,800**	**386,467**
Subordinated debt	139,000	37,353
Deductions for anything in excess of one third of the Tier 1 capital	-5,067	0
Own funds	**535,733**	**423,820**
Without use of the IFRS 9 transitional arrangement, own funds at year-end would total	527,084	411,712
Risk exposure		
Credit risk	1,921,639	1,738,354
Operational risk	268,513	252,678
Market risk	54,877	47,721
Total risk exposure	**2,245,029**	**2,038,753**
Capital ratio	**23.9**	**20.8**
Tier 1 capital ratio	**17.9**	**19.0**
Capital ratio, without IFRS 9 transitional arrangement	**23.5**	**20.2**
Tier 1 capital ratio, without IFRS 9 transitional arrangement	**17.5**	**18.4**

(DKK '000)	2021	2020

NOTE 35. **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.

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	2021	2020
1 – Objective evidence of impairment (OEI)	7	8
2 – Weak	0	0
3 – Customers under observation	6	7
4 – Good customers below average	17	16
5 – Good customers	33	29
6 – Good customers above average	34	37
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 2021, we saw a small reduction of customers in categories 1-3, which is attributable to our very active handling of action plans in this area.
The most significant development was seen from the credit quality grouping '6 Good customers above average' to '5 Good customers'.
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

Stadie/FT kategori	1	2c	2b	2a	3	Total
1	52	1,462	4,731	1,985	37	**8,267**
2	11	6	442	136	43	**638**
2 WEAK	435	6,373	3,097	451	2	**10,358**
3	36,615	1,859	331	1	-	**38,807**
Total	**37,113**	**9,700**	**8,601**	**2,574**	**82**	**58,071**

[DKK '000]	2021	2020

NOTE 35. **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 2021 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	184,879	853	17,371	32,548	**235,651**
2.2 Industry and extraction of raw materials	28,777	494	2,371	28,843	**60,485**
2.3 Energy supply	87,126	-	-	6,188	**93,314**
2.4 Building and construction	9,624	452	469	4,676	**15,221**
2.5 Trade	8,446	591	5,185	9,218	**23,440**
2.6 Transport, hotels and restaurants	9,473	316	1,472	3,379	**14,640**
2.7 Information and communication	10,563	1,353	2,204	1,308	**15,428**
2.8 Financing and insurance	51,896	1,145	4,196	602	**57,839**
2.9 Real property	141,584	-	4,093	54,772	**200,449**
2.10 Other business	70,750	1,775	43,392	21,637	**137,554**
2.10 School, kindergarden and daycare	225,257	7,078	67,004	13,782	**313,121**
Total Business	**828,375**	**14,057**	**147,757**	**176,953**	**1,167,142**
					-
3. Personal	**1,170,652**	**67,492**	**54,809**	**36,087**	**1,329,040**
1-3 Total	**1,999,027**	**81,549**	**202,566**	**213,040**	**2,496,182**

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**

[DKK '000]	2021	2020

NOTE 35. **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 2021 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	1,390	2	720	11,773	**13,885**
2.2 Industry and extraction of raw materials	70	1	162	2,859	**3,092**
2.3 Energy supply	922	-	-	-	**922**
2.4 Building and construction	5	3	21	2,308	**2,337**
2.5 Trade	302	57	1,928	541	**2,828**
2.6 Transport, hotels and restaurants	214	15	1,049	100	**1,378**
2.7 Information and communication	20	6	118	874	**1,018**
2.8 Financing and insurance	108	-	228	602	**938**
2.9 Real property	452	-	127	3,224	**3,803**
2.10 Other business	489	13	2,367	2,315	**5,184**
2.10 School, kindergarden and daycare	572	131	2,553	3,024	**6,280**
Total Business	**4,544**	**228**	**9,273**	**27,620**	**41,665**
3. Personal	**3,723**	**411**	**1,085**	**11,187**	**16,406**
1-3 Total	**8,267**	**639**	**10,358**	**38,807**	**58,071**

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**

[DKK '000]	2021	2020

NOTE 35. **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 reports 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 foreign exchange position at all times. In practical terms, small positions may occur which do not entail any substantial risk for Merkur.

Assets in foreign currency	-43,306	-37,432
Liabilities in foreign currency	55,266	40,445
Total off-balance sheet items in foreign currency	0	0
Net positions	**11,960**	**3,013**
Of which long positions	-898	-45
Of which short positions = Currency Indicator 1	12,859	3,058
Currency Indicator 1 in % of Tier 1 capital after deductions	**3.2**	**0.8**

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 402m. The interest rate risk may therefore constitute a maximum of DKK 6,027 thousand.

The interest rate risk is calculated based on the following:		
Securities	3,208	4,034
Fixed-rate deposits and loans	-2,210	-742
Total	**998**	**3,292**
Interest rate risk disaggregated across currencies with the greatest interest rate risk		
Currency::		
DKK	1,299	3,767
EUR	-423	-574
NOK	9	-19
SEK	113	118
Total	**998**	**3,292**
Interest rate risk in % of Tier 1 capital		
Securities	0.80	1.04
Fixed-rate deposits and loans	-0.55	-0.19
Interest rate risk in % of Tier 1 capital	**0.25**	**0.85**

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]	2021	2020

NOTE 35. **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.
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 2021, Merkur had an LCR of 567%, thus exceeding the statutory requirement by 467%.
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 2.5bn as at 31 December 2021.

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 36. **Related-party transactions during the financial year**

	2021	2020
Loans, credit lines etc. for management		
Executive Board	0	0
Board of Directors	4,815	1,046
Collateral		
Executive Board	0	0
Board of Directors	3,132	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 1.5% - 4% 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 37. **Financial highlights**

KEY FIGURES IN DKKm	**2021**	**2020**	2019	2018	2017
Income statement					
Net interest and fee income	158.2	146.6	142.2	136.7	130.7
Market value adjustments etc.	1.3	-0.7	1.0	-0.9	-5.6
Staff costs and administrative expenses	134.8	130.4	118.7	112.7	106.5
Impairments of loans and receivables etc.	8.3	25.7	11.3	17.1	36.6
Share of profit or loss of associated undertakings	0.2	0.3	-0.8	0.1	0.0
Profit for the year	11.6	-10.4	9.1	3.1	-19.0
Balance sheet					
Loans	1,669,2	1,642,7	1,667,9	1,681,1	1,752,4
Deposits, including pools	3,749,8	3,526,9	3,160,4	3,127,3	3,065,8
Equity	412,0	389,6	365,1	315,2	315,9
Total assets	4,497,5	4,153,0	3,704,1	3,614,7	3,536,4
Guarantees	773,2	688,3	637,4	619,5	675,9
Other information					
Number of full-service customers	20,786	20,176	19,354	18,275	17,538
Number of shareholders	8,131	8,096	7,637	7,037	6,686
Ratios					
Capital ratio	23.9	20.8	20.0	17.8	16.3
Tier 1 capital ratio	17.9	19.0	18.0	15.8	14.5
Return on equity before tax (%)	3.5	-7.0	3.1	1.2	-7.1
Return on equity after tax (%)	2.9	-5.4	2.6	1.0	-5.9
Return on capital employed (%)	0.3	-0.3	0.2	0.1	-0.5
Income/cost ratio	1.1	0.9	1.1	1.0	0.9
Income/cost ratio excl. market value adjustments and impairments	1.2	1.1	1.2	1.2	1.2
Cost relative to income excl. market value adjustments and impairments	0.9	0.9	0.0	0.8	0.8
Interest rate risk (%)	0.2	0.9	0.4	0.2	0.1
Foreign exchange position (%)	3.2	0.8	2.7	0.4	2.4
Foreign exchange risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%)*	566.9	541.4	460.6	527.8	448.0
Net Stable Funding Ratio (NSFR)**	238.8				
Loans and impairment charges thereon in % of deposits	46.7	47.7	55.2	56.9	59.5
Lending-to-equity ratio	4.1	4.2	4.6	5.3	5.5
Growth in lending for the year (%)	1.6	-1.5	0.0	-4.1	4.6
20 largest customer exposures in % of Tier 1 capital	118.6	135.2	133.5	137.5	162.0
Share of loans with reduced interest	0.8	0.5	1.1	1.3	2.1
Impairment ratio for the year	0.3	1.1	0.5	0.7	1.5
Accumulated impairment ratio	2.3	2.7	3.7	4.0	2.9

* The ratio is calculated LCR – excess coverage is the figure shown minus 100
** New ratio introduced in 2021 indicating how stable Merkur's funding is – the ability to pay depositors their deposits back.