Annual report 2022

MERKUR
COOPERATIVE BANK

MERKUR
COOPERATIVE BANK

Merkur's business area

Merkur Cooperative Bank is a socially responsible cooperative 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 and socially responsible enterprises and institutions, and we offer savings, investment and insurance products as well as payment solutions. Merkur applies comprehensive selection criteria and minimum requirements to ensure that not only do the bank's activities do no harm, they also lead to positive changes for people, the climate, the environment and biodiversity. In brief: Merkur is a Danish values-based bank with a vision of acting as a catalyst for a better world.

Merkur's ambition

Merkur sees the world as one where everyone should have the opportunity to live a good and dignified life. As humans, we must to the greatest possible extent be able to freely decide where to apply our abilities, thereby taking co-responsibility for other people and for the world we are all a part of.

In our broadly based perspective, 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 about having a chance to lead fulfilling lives and be inspired through culture and education. However, this presupposes the balanced consumption of resources, while taking care of our planet and respecting the entire ecosystem.

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.

Merkur's mission

Merkur's mission is:

- to raise awareness of money as a catalyst for sustainable development and show 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 provide the framework for a community where the bank's employees, our customers and our business partners all work together to create a better world

Contents

Merkur Cooperative Bank Annual report 2022
Published by: Merkur Cooperative Bank, www.merkur.dk
Editor: Ann Hybertz Frandsen, ahf@merkur.dk | Layout: Tobias Frost, www.studiofrost.dk

COVER PHOTO: Erik Karits, unsplash.com. OTHER PHOTOS: Page 5: Henrik Wagner; page 11: The Green Girl Guides Denmark; page 16: Johan Poll, DOF; page 22: Hey Planet; page 26: Askov Møllehus; page 26: Loop Architects and Ravn arkitektur; page 27: Andre Taissin, unsplash.com; page 27: Kragegaarden; page 28: Amnesty International; page 29: Lau Thoft Haslund; page 55: Henrik Wagner; page 58: Mew; page 60: Baaring Efterskole; page 62: Merkur Cooperative Bank

Financial highlights

KEY FIGURES IN DKKm	2022	2021	2020	2019	2018
Income statement					
Net interest and fee income	174.7	158.2	146.6	142.2	136.7
Market value adjustments etc.	-7.0	1.3	-0.7	1.0	-0.9
Staff costs and administrative expenses	139.3	134.8	130.4	118.7	112.7
Impairment of loans and receivables etc.	26.7	8.3	25.7	11.3	17.1
Profit or loss from investments in associates	0.0	0.2	0.3	-0.8	0.1
Profit after tax for the year	-0.6	11.6	-10.4	9.1	3.1
Balance sheet					
Loans	1,631.7	1,669.2	1,642.7	1,667.9	1,681.1
Deposits	3.852,6	3.749,8	3.526,9	3.160,4	3.127,3
Equity	417.0	412.0	389.6	365.1	315.2
Total assets	4,564.7	4,497.5	4,153.0	3,704.1	3,614.7
Guarantees	686.4	773.2	688.3	637.4	619.5
Other information					
Number of full-service customers*	20,581	20,786	20,176	19,354	18,275
Number of shareholders	7,950	8,131	8,096	7,637	7,037
Ratios					
Capital ratio	25.7	23.9	20.8	20.0	17.8
Tier 1 capital ratio	19.3	17.9	19.0	18.0	15.8
Return on equity before tax (%)	-0.4	3.5	-7.0	3.1	1.2
Return on equity after tax (%)	-0.2	2.9	-5.4	2.6	1.0
Return on capital employed	-0.01	0.3	-0.3	0.2	0.1
Income/cost ratio	1.0	1.1	0.9	1.1	1.0
Cost per krone of income excl. market value adjustments and impairment	1.2	1.2	1.1	1.2	1.2
Cost-to-income ratio excl. market value adjustments and impairment	0.8	0.9	0.9	0.0	0.8
Interest rate risk (%)	0.8	0.2	0.9	0.4	0.2
Foreign exchange position (%)	1.6	3.2	0.8	2.7	0.4
Foreign exchange risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%)**	557.5	566.9	541.4	460.6	527.8
Net Stable Funding Ratio (NSFR) ***	255.8	238.8	-	-	-
Loans and impairment charges in % of deposits	43.9	46.7	47.7	55.2	56.9
Lending-to-equity ratio	3.9	4.1	4.2	4.6	5.3
Growth in lending for the year (%)	-2.2	1.6	-1.5	0.0	-4.1
Ratio of 20 largest exposures to Tier 1 capital	111.1	118.6	135.2	133.5	137.5
Share of loans with reduced interest (%)	1.7	0.8	0.5	1.1	1.3
Impairment ratio for the year	1.2	0.3	1.1	0.5	0.7
Accumulated impairment ratio	2.7	2.3	2.7	3.7	4.0

* We want 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.

Financial highlights

KEY FIGURES IN DKKm	H2 2022	H1 2022	H2 2021
Net interest income	54.4	42.6	43.1
Net fee income etc.	39.0	38.7	37.9
Total net interest and fee income etc.	93.4	81.3	81.0
Costs, depreciation and amortisation	-72.0	-70.5	-70.3
Basic earnings	**21.4**	**10.8**	**10.7**
Market value adjustments etc.	-2.0	-5.0	1.1
Losses and impairment, incl. management estimates	-1.4	-25.4	-2.8
Profit before tax	**18.0**	**-19.6**	**9.0**
Profit after tax	**14.6**	**-15.3**	**7.3**

2022 was an unpredictable year and ended with a small loss for Merkur, which of course is not satisfactory. On the other hand, 2022 also saw continued growth in Merkur's basic earnings, which is very satisfactory.

2022 in headlines

2022 was an unpredictable year that brought both success and adversity. Merkur was ranked no. 1 in a survey of the most trustworthy banks when it comes to climate issues. Merkur works hard for the climate, and our ambition of a greener and fairer world is at the heart of every decision we make. That is why we are especially thrilled to be acknowledged for our efforts by the respondents in the survey. Moreover, we are pleased that we have yet again succeeded in increasing our basic earnings significantly. In 2022, we also said goodbye to negative interest rates on deposits, which is positive for both our customers and Merkur. Internally, we continued to optimise our processes and had a strong focus on reducing costs.

These steps have all helped to gear Merkur for the future. We also had a special focus on employee well-being and job satisfaction during the year, and our annual well-being survey showed high levels of well-being and commitment among our employees.

Merkur celebrated its 40th anniversary in 2022, cementing the bank's position as a financial institution whose values and efforts to create a better world go hand in hand with meeting the strict requirements imposed by current banking regulation. Read more about our anniversary at www.merkur.dk/40

Unfortunately, 2022 was also marked by international events that had a major impact on society, the Danish economy, household finances, the financial markets and Merkur. Activity levels in the domestic property market declined, while investment trends stagnated as share markets plummeted. In Q2, the bank's financial performance was sadly impacted by two extraordinary and large loan impairment charges. These factors all had an impact on the profit for the year. However, like our customers and shareholders we still have a lot to be proud of – you can read more about that in this report.

DKK

PROFIT FOR THE YEAR
DKK -1.5m before tax

EARNINGS
54% increase in basic earnings

INVESTMENTS
DKK 1.9bn invested by our customers in Triodos' dark green funds

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

EQUALITY
50/50 gender balance in management positions

CAPITAL
25.7 capital ratio

PRIDE
96% of Merkur's employees are proud of their work

IMAGE SURVEY
No. 1 bank for climate
Merkur ranked the most trustworthy bank when it comes to climate issues.

Management review

Financial performance

The past year

In a year of geopolitical and financial challenges, Merkur succeeded in improving its basic earnings, which increased by DKK 11.3m compared to last year. Among other things, the increase can be attributed to our commitment to providing holistic advisory services to our customers, but also to our active efforts to keep costs stable. Interest rates also contributed positively to developments, particularly in Q4.

Seen in isolation, the profit before tax for H2 amounted to DKK 18m – which is double the profit before tax posted for the same period last year. However, due to extraordinary loan impairment charges in H1 2022 and negative market value adjustments etc., Merkur recorded a loss for the year of DKK 1.5m.

In July, for the first time in more than ten years, Danmarks Nationalbank (the central bank of Denmark) decided to raise the folio account[1] interest rate several times in the autumn, which is why the folio account interest rate increased by 2.35 percentage points in H2. Following Danmarks Nationalbank's interest rate hikes, we could finally wave goodbye to negative interest rates on deposits, much to the delight of both our customers and Merkur. The interest rate increases also affected lending rates and thus had a positive impact on Merkur's net interest income, which grew by DKK 11.7m compared to last year.

Rising interest rates and fees, along with limited growth in costs, have resulted in further improvements in basic earnings. Growth was particularly pronounced in H2 2022, where basic earnings almost doubled compared to H1 2022. For the whole of 2022, basic earnings increased by 54% to DKK 32.2m.

In the past year, Merkur has continued to focus on process optimisation and has implemented a number of new systems, while at the same time strengthening its focus on employee well-being, as described in the *Merkur as a workplace* section on page 53. We have also introduced an asset management advisory concept to help our customers enjoy a financially comfortable future. At the same time, we ensure that their assets work for long-term sustainability and social responsibility. These initiatives all help to further improve the customer experience and gear Merkur for the future. Read more in the *Strategies and expectations for 2023* section on page 21.

At the beginning of 2022, we issued a profit guidance of DKK 10-18m for the year. However, only a few weeks into the new year we found ourselves facing an uncertain geopolitical situation, followed by rising inflation, general turmoil in the financial markets and a slowdown in the property market. This led to uncertainty about the expectations for the year, and two major losses in H1 prompted us to revise our guidance to a profit before tax in the range of DKK -5 to DKK 5m. A profit before tax of DKK -1.5m is thus within the range of the revised guidance.

54%

increase in basic earnings

[1] A folio account is an account that all Danish banks have with Danmarks Nationalbank (the central bank of Denmark)

High levels of activity in the property market in H1 did not continue into H2; instead, the property market was challenged by rising energy prices, interest rates and inflation. Merkur managed to maintain its 2021 level of earnings from mortgage lending in 2022, but the expected growth did not materialise.

Similarly, 2022 got off to a good start based on a strong appetite for sustainable investments among Merkur's customers – however, they ended up adopting a more cautious approach as the macroeconomic challenges proved rather persistent during the year. Still, earnings from our ethically screened investment products were up by 10%.

All in all, we are looking back on an unpredictable year, which resulted in a small loss, and this of course is not satisfactory. On the other hand, 2022 also saw continued growth in Merkur's basic earnings, which is very satisfactory. Merkur remains Denmark's leading values-based bank, and all things considered the bank was in good financial shape at the end of 2022.

Customers and shareholders

We value all our customers, and we want them to choose Merkur as their primary financial institution and become full-service customers. Full-service customers are customers who have their NemKonto with Merkur. At the end of 2022, Merkur had a total of 20,581 full-service customers, which represents a slight decline of 1.0%. We welcomed a total of 1,611 new customers, of whom 1,361 are full-service customers. In 2022, we found that people are less inclined to change banks when the world is in turmoil.

At the same time, the number of rejected loan applications from both new potential customers and existing customers was proportionally higher than in previous years. This is due, in part, to the uncertain economic situation, but also based on our updated lending guidelines, which include stricter disposable income requirements and a stronger focus on making sure that our customers' finances are healthy enough to accommodate an increase in interest rate levels in the future.

We are very aware that a loan application always comes with dreams, and often Merkur's customers are also keen to help make the world a better place. It pains us when we are not able to help our customers fulfil their dreams, but Merkur's values are also about responsibility. We have a duty to take good care of the money entrusted to us by our shareholders. This means that we cannot afford to take excessive risks but must focus on running a profitable business. In other words, we can only bring about positive change through the projects we finance if we are both professional and prudent when it comes to our sustainability requirements as well as our lending practices. In addition, we believe that being a responsible adviser to our customers is also about making sure that they do not take out loans that may be unable to repay in the long term.

In 2022, Merkur welcomed 335 new shareholders, which is fewer than in recent years. In the current uncertain economic climate, our customers are generally more cautious when it comes to investing, which is also reflected in their purchases of member shares.

In 2022, the share capital grew by DKK 5.7m, corresponding to 1.6%. The moderate growth is partly explained by the fact that a number of major shareholders have chosen to sell all or part of their shares, for example following death, but also because we have welcomed fewer new customers com-

20,581
full-service customers

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

7,950
shareholders

DKK 3.8bn

in deposits

DKK 1.9bn

invested in Triodos investment funds

pared to previous years, as mentioned above. At the end of 2022, Merkur had 7,950 shareholders, corresponding to 39% of our full-service customers, which is unchanged from 2021. Shares are the foundation of Merkur and a prerequisite for increasing lending and thus fulfilling our purpose of lending money to enterprises and projects with sustainable and socially responsible business models. In the coming years, the share capital and positive earnings will also continue to play an important role in fulfilling the increased capital requirements that all financial institutions must meet. Maintaining and increasing shareholder numbers and our share capital will therefore be given high priority from 2023 onwards.

Deposits, loans and other forms of banking services

Never before have so many customers entrusted us with so much money. Merkur manages more than DKK 6bn of its customers' money, including our share capital. Deposits topped DKK 3.8bn in 2022, which represents a 2.7% increase compared to 2021.

The increase in deposits is partly due to our customers' cautious investment strategies.

However, our customers have welcomed Merkur's impact pools, where sustainability is an integral part of the investment strategy. Even after the negative market value adjustments which affected the vast majority of investments in 2022, investments in Merkur's impact pools rose by 71% to DKK 88m.

Ethically screened investments and so-called impact investments have really taken off in the Danish market. Merkur has very strict sustainability criteria for the investment products we offer to our customers. We work with several partners, including Triodos Investment Management, which is a reputable and extremely thorough company when it comes to selecting companies, countries and projects in which to invest. Read more in the *Sustainability chapter* on page 43. Merkur's customers have invested a total of DKK 1,886m in Triodos investment funds, which is on a par with 2021.

Customer investments

[DKKm]	2022	2021	Change
Triodos impact funds	1,886	1,883	3
SDG Invest	94	107	-13
Sparinvest	66	84	-18
Maj Invest	11	14	-3
Total	**2,057**	**2,088**	**-31**

Customer testimonial · Investment customer

The Green Girl Guides Denmark

"We empower girls and set the world in motion." This is the vision of the Green Girl Guides Denmark, an association with 4,000 members across Denmark. They organise activities that empower girls to seek challenges.

Chairperson Pia Risør Bjerre says that the association decided to invest through Merkur because they want to make a positive impact in the world:

"We want to give girls strong role models and take the lead in shaping a sustainable future.

We do this not only through our guiding activities, but also by ensuring that our members can take inspiration from the way we run and manage the association. As a result, transparency and sustainability are incredibly important when it comes to deciding how best to invest the money of future generations of girl guides. It's important that our investments are aligned with the impact we want to make in the world. Therefore, we greatly appreciate the dialogue we are having with Merkur on how our values can best be translated into a successful investment portfolio."

Merkur's mortgage portfolio

[DKKm]	2022	2021	Change
Totalkredit A/S	3,348	3,348	0%
DLR Kredit A/S	1,305	1,136	15%
LR Realkredit A/S	228	274	-17%
Total	**4,881**	**4,758**	**3%**

To this should be added investments in funds from other partners of DKK 171m. Investment activity was stagnant in 2022 due to falling market values, among other things. We expect the investment area to bounce back in 2023, as many of Merkur's customers want to promote sustainable change through their investments.

In the early months of 2022, Merkur saw a strong demand for its mortgage lending services, both new loans and loan conversions. In H2, there was a slowdown in the property market due to the considerable uncertainty caused by inflation, rising energy prices and interest rates, and so our mortgage lending activities mainly consisted in loan conversions. Merkur's largest partner in the mortgage area is Totalkredit, which allows us to offer our customers mortgage financing on attractive terms.

Merkur brokered new mortgage loans from Totalkredit worth almost DKK 1bn in 2022, but as many of these are conversions of existing customer loans and

DKK 3.3bn

worth of mortgage loans with Totalkredit

15%

increase in mortgage loans from DLR

customers also make ongoing repayments on their mortgage loans, the brokered mortgage portfolio with Totalkredit is unchanged relative to the end of 2021.

Merkur also brokers mortgage loans via DLR, which grew by an impressive 15% or DKK 169m.

At the end of 2022, Merkur's loan portfolio amounted to DKK 1,632m compared to DKK 1,669m at the end of 2021, down 2.2%. The reduction is due, among other things, to the fact that many customers decided to pay off their bank debt when converting their mortgage loans, as a high degree of mortgage financing is often the best option for Merkur's customers. In addition, we have seen a reduced debt appetite among existing and potential new customers coupled with a greater number of loan applications being rejected to ensure that our customers' finances are able to support loan repayments in the long term.

Finally, some non-full-service customers with energy loans brokered by a third party through Merkur repaid their loans in 2022. Merkur expects a slight increase in lending in 2023. You can read more about this in the *Strategies and expectations for 2023* section on page 21. You can read more about the development in lending and the projects funded by Merkur under *Merkur's lending* on page 24.

Merkur continues to have a large deposit surplus which means that at the end of the year we had liquid funds of almost DKK 2.4bn and thus meet all statutory liquidity coverage ratio requirements. The LCR metric measures our ability to meet our payment obligations within a future 30-day period, without raising external capital. The statutory requirement imposed on financial institutions such as Merkur is a liquidity coverage of 100% of the calcu-

Development in business volume

(DKKm)	2022	2021
Loans	1,632	1,669
Deposits	3,765	3,698
Deposits with pool scheme	88	51
Guarantees	686	773
Value of customer custody accounts	2,057	2,088
Business volume before mortgage brokering	**8,228**	**8,279**
Brokered mortgage loans	4,881	4,758
Total business volume	**13,109**	**13,037**
Business volume per full-service customer (DKK '000)	**637**	**627**

lated payment obligations. At the end of 2022, Merkur's LCR was 557%, or 457% higher than the LCR requirement.

In 2022, guarantees were reduced by DKK 87m compared to a historically high level at the end of 2021 and now amount to DKK 686m (2021: DKK 773m). Guarantees are primarily provided in connection with property transactions and mortgage financing.

At the end of 2022, the total volume of business, including brokered mortgage loans, amounted to DKK 13.1bn, a slight increase compared to 2021.

As can be seen in the *Business volume development table* on the previous page, we successfully increased the business volume with our full-service customers despite the fact that conversions and market value adjustments had a negative impact on the business volume. We are very pleased with this achievement, which is in line with our strategy of *making an even more positive difference for even more people* and continuously striving to meet the needs of our customers.

Income

Overall, Merkur's net interest and fee income grew by DKK 16.6m, or 10.5% relative to 2021.

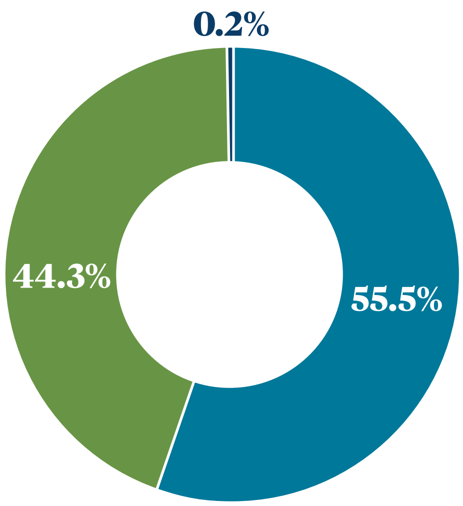
DKK

10,5%

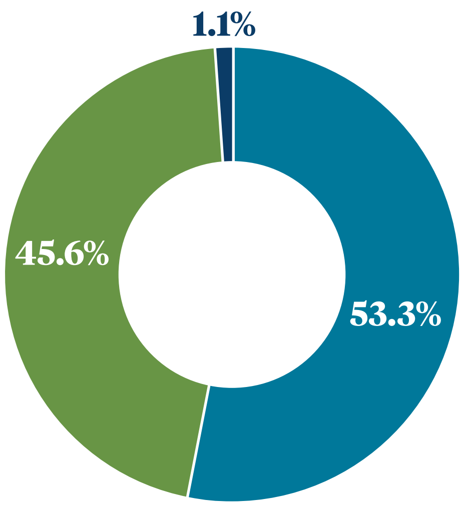
increase in net interest and fee income

Net interest income increased by DKK 11.7m compared to 2021, amounting to DKK 97m. The growth can be attributed to the increase in interest rates in H2 resulting from the high inflation, which Danmarks Nationalbank has tried to counter by raising the folio account interest rate several times by a total of 2.35 percentage points. The rising interest rates immediately improved Merkur's earnings, as we decided to deposit much of our excess liquidity with Danmarks Nationalbank – in 2022, deposits amounted to a minimum of DKK 2 bn at all times.

Merkur's income in 2022: DKK 175m



Merkur's income in 2021: DKK 160m



Net interest income | Net fee and commission income | Other operating income, market value adjustment

Danmarks Nationalbank's interest rate hikes prompted us to raise the price of lending in Merkur by up to 2.35 percentage points. However, Merkur has decided not to raise the interest rate on products such as climate loans for energy renovations and electric vehicle loans for its full-service customers, because we want to make it attractive to make a difference for the climate. In H2, Merkur abolished the negative interest rates on deposits, which means that we no longer charge our customers interest for looking after their money.

The rising interest rate level has also affected Merkur's payment of interest on subordinated debt, as most of it carries a variable rate of interest. Interest on subordinated debt increased by DKK 2.4m, partly as a result of the rising interest rates, but also because part of the subordinated debt was raised in H2 2021 and hence did not bear interest throughout 2021.

Net fee and commission income for the year was DKK 77.6m, up DKK 4.8m on last year.

As mentioned earlier, the property market was under pressure in 2022. In 2022, Merkur managed to maintain the 2021 level of earnings from mortgage lending, but the expected growth did not materialise. However, mortgage lending remains a major source of income and amounted to DKK 24.2m in 2022.

2022 got off to a good start based on an appetite for sustainable investments among Merkur's customers – however, they ended up adopting a more cautious approach as the macroeconomic challenges in the form of inflation and increasing interest rates proved rather persistent during the year. Still, earnings from customer investments grew by 10% and amounted to DKK 16.1m at the end of 2022.

Following the lockdown of Denmark due to the corona pandemic, the reopening in February 2022 had a positive knock-on effect on Merkur's earnings from customers' card purchases and the number of foreign transfers, which resulted in an increase in earnings from payment services of 11%, corresponding to DKK 1.4m.

Costs

In 2022, Merkur's costs amounted to DKK 142.9m, which is an increase of 3.9% compared to last year.

Salaries including remuneration to the Board of Directors are Merkur's largest expense, amounting to DKK 85.5m in 2022, which is an increase of DKK 4.7m compared to 2022, corresponding to 5.9%. In 2022, Merkur joined the Danish Employers' Association for the Financial Sector (FA) and entered into a collective agreement with the union for employees in the financial sector *Finansforbundet* effective from 1 January 2022. Merkur has previously had a collective agreement with HK. The new collective agreement required some level of harmonisation; due to differences in the accrual year for the sixth week of holiday, our salary expenses were impacted by an increase in the number of special days of holiday taken off in the transition year. At the same time, a collectively agreed salary increase totalling 2.15% came into force on 1 July 2022.

Like other financial institutions, Merkur is sensing that the demand for qualified employees is affecting salary trends in the sector.

In contrast to recent years, we have only seen a very modest increase in IT expenses of 0.4% to DKK 40.3m. Most of the IT expenses relate to Merkur's data centre, BEC Financial Technologies, which has implemented a strategy aimed specifically at stabilising the cost increases seen in recent years.

Costs

(DKK '000)	2022	2021	Development
Salaries	85,545	80,815	5.9%
IT	40,344	40,184	0.4%
Administrative expenses	13,412	13,826	-3.2%
Depreciation and amortisation of tangible and intangible assets	3,532	2,705	30.6%
Other operating expenses	52	16	225.4%
Total costs	**142,885**	**137,546**	**3.9%**

Impairment ratio

	2022	2021	2020	2019	2018
Losses and impairment (DKK '000)	26,739	8,285	25,735	11,325	17,132
In % of loans and guarantees	1.2%	0.3%	1.1%	0.5%	0.7%

Other administrative expenses fell by DKK 0.4m as a direct result of Merkur's firm focus on costs.

The cost/income ratio[2] is a useful metric and indicator of the efficiency of banking operations. It is calculated by dividing all costs with all income. Merkur's cost/income ratio decreased from 0.87 last year to 0.82, which means that every time Merkur has income of DKK 100, we spend DKK 82 on salaries, IT, office supplies etc. Merkur expects to strengthen the positive development in the coming years.

Market value adjustments etc.

Merkur pursues a more conservative investment strategy than many other financial institutions – for several reasons. First and foremost, 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 requirements 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 Merkur 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 investments in financial sector shares as well as in other partners. As a result, our cash resources are very considerable.

Merkur's bond portfolio resulted in a negative market value adjustment of DKK 9.3m, which can be attributed to the rising interest rates and resulting falls in the prices of the bonds in which Merkur has invested. As a result of the rising interest rate level, we decided to convert our bond portfolio to very short-term bonds in June. In 2022, the total return on our bond portfolio was a loss of DKK 7.6m against a return of DKK 0.7m in 2021. Market value adjustments of shares and investments contributed DKK 2.3m – a reduction of DKK 0.6m compared to 2021. The primary return comes from investments in shares in DLR Realkredit A/S.

Overall, market value adjustments represent an exchange loss of DKK 7.0m against a gain of DKK 1.3m in 2021.

Impairment and losses

Impairment and losses for the year totalled DKK 26.7m compared to DKK 8.3m in 2021. The large increase can primarily be attributed to two extraordinary impairment charges in Q2, which sadly had to be written off. The largest of the charges was related to the consequences of the corona pandemic. Generally, Merkur's customers are financially sound, and the vast majority of them are in a reasonably good position to withstand a looming recession. At the end of 2022, Merkur recognised a management estimate of DKK 8.8m for potential credit losses on business and personal customers as a result of the current uncertainty caused by rising interest rate levels, inflation and the energy crisis. At the end of 2021, we recognised a management estimate of DKK 6.5m as a result of the corona pandemic, an estimate that has now been reversed.

Losses and impairment of loans etc., including management estimates, thus amounted to only DKK

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

Profit for the year

[DKK '000]	2022	2021
Profit after tax for the year	-644	11,629
Price per share at year-end	1,744.30	1,770.30
Return on shares	-1.5%	2.4%

1.4m in H2 2022, despite the increased management estimate in H2 2022. This made it possible to reverse individual impairment charges in H2 2022.

The impairment ratio fell to 1.2% of our loans and guarantees compared to 0.3% in 2021.

Measured against the balance sheet as at 31 December 2022, accumulated impairment totalled 2.7% of loans and guarantees, compared to 2.3% last year. Generally, Merkur wants to write off impairments where it is considered unlikely that the customers' ability to pay will improve in the foreseeable future.

At the end of 2022, accumulated but not written-off impairment totalled DKK 67m, up DKK 9m compared to the end of 2021.

The distribution by stage can be found in note 13 to the financial statements.

Profit for the year

For Merkur, 2022 was a year of tailwinds as well as headwinds. The positives are increased net interest, fee and commission income. The negatives are losses on loans and exchange losses on the bond portfolio.

Customer testimonial · Association customer

Birdlife Denmark

Birdlife Denmark is a nature conservation organisation with a special focus on birds. The organisation has just over 17,500 members, divided into 13 local chapters across Denmark. Members of Birdlife Denmark can learn about birds and watch and experience them in the wild. They also help to support Birdlife Denmark's conservation efforts, which are managed by the organisation's many volunteer bird enthusiasts who collect data and do local nature conservation work for the benefit of birds and biodiversity.
Birdlife Denmark also seeks to shape nature conservation in Denmark in other ways; the Danish Ministry of the Environment, for example, uses data gathered by Birdlife Denmark in its nature conversation plans.

Lars Engmark, deputy director of Birdlife Denmark, says that the organisation chose Merkur because they believe that *"it is Denmark's most sustainable bank". With Birdlife Denmark's commitment to protecting birds, nature and the environment, it is important for the organisation that their bank shares the same values. This ensures that they work towards a shared goal, says Lars Engmark: "By choosing Merkur as our bank, we hope to raise awareness of Birdlife Denmark, Merkur and our shared sustainable agenda."*

A loss before tax of DKK 1.5m was posted, which we consider unsatisfactory but acceptable given the large losses in Q2. Looking at H2 in isolation, Merkur generated a profit before tax of DKK 18.0m, which is more than the results for the whole of 2021.

The interim report announced a profit guidance in the range of DKK -5 to DKK 5m before tax (DKK -4 to DKK 4m after tax). Merkur posted a loss before tax for the year of DKK -1.5m (and a loss of DKK 0.6m after tax), which is line with expectations, even if the results are unsatisfactory. It is proposed that the loss be carried forward to next year.

Share capital and subordinated debt

The profit for the year is reflected in the price per share, which fell by 1.5% to DKK 1,744.30 compared to 2021. The price per share in EUR is set at 436.08. 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.

Merkur has issued a total of DKK 132m in subordinated debt to a number of professional investors, most of which was issued in 2021. One issue was redeemed at the beginning of 2022, reducing the total issue by DKK 8m compared to 2021. Most of the subordinated debt has a relatively long remaining term to maturity, expiring in more than eight years from now.

Capital structure

Merkur's own funds amount to DKK 508m and consists of share capital, subordinated debt and the accumulated profits from the current and previous years less intangible assets, deferred tax assets and investments in financial companies, among other things. The composition of own funds and developments can be seen below.

The own funds of DKK 508m should be seen in light of Merkur's risk-weighted exposures of DKK 1,974m, resulting in a capital ratio of 25.7%. The capital ratio increased by 1.8 percentage points compared to 2021. The primary reason for the increasing capital ratio is the reduction in risk-weighted exposures from 2021 to 2022.

At the end of 2022, Merkur had a high level of own funds and excess capital adequacy of 10.9 percentage points over and above the solvency need of 10.3%, the capital conservation buffer of 2.5% and the cyclical buffer of 2.0%. This equates to excess capital of DKK 215m.

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, which represents 2.5% of the risk-weighted exposures.

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. The buffer was set to zero in spring 2020 as a consequence of the corona pandemic. In 2022, the buffer was raised again and at the

Total own funds

(DKK '000)	2022	2021	Development
Share capital including share premium	365,282	359,568	1.6%
Reserves, revaluation reserves and other comprehensive income	51,756	52,401	-2.3%
Subordinated debt	131,720	139,000	-5.2%
Capital before deduction and transitional arrangement	**548,758**	**550,969**	**-0.5%**
Various deductions (deferred tax etc.)	-45,170	-23,885	86.7%
Additions due to IFRS 9 transitional arrangement	4,324	8,649	-50.0%
Own funds	**507,912**	**535,733**	**-5.2%**
Risk-weighted assets and other risks	**1,974,372**	**2,245,029**	**-12.0%**
Capital ratio	**25.7%**	**23.9%**	**7.5%**

A more detailed statement can be found in note 33

MREL requirement

	Current capital requirements and MREL requirements	Merkur's current capital and MREL conditions	Excess capital adequacy
Capital ratio	8.0%	25.7%	17.7 percentage points
Individual solvency need	10.3%	25.7%	15.4 percentage points
MREL requirement	15.1%	27.3%	12.2 percentage points
MREL requirement including capital buffers	19.6%	27.3%	7.7 percentage points

end of 2022 stood at 2.0%. The buffer will be raised to a maximum of 2.5% in March 2023, which Merkur has taken into account in connection with its capital planning.

Eligible liabilities (MREL requirement)

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.

The MREL requirement consists of the individual solvency need and an MREL requirement determined by the Danish Financial Supervisory Authority (FSA) each year. The MREL requirement can be covered by ordinary equity, including share capital, as well as other known capital instruments such as subordinated debt. However, it is also possible to meet the MREL requirement using a special type of capital for this specific purpose known as Tier 3 capital (senior non-preferred bonds). In 2020, Merkur entered into an agreement with Arbejdernes Landsbank (AL) on the provision of Tier 3 capital of DKK 25m.

Merkur's eligible liabilities (MREL) consist of own funds of DKK 508m and issued Tier 3 capital of DKK 25m and subordinated debt of DKK 6m which does not meet the requirements for recognition in own funds. Eligible liabilities (MREL) thus total DKK 539m.

Measuring the eligible liabilities of DKK 539m against Merkur's risk-weighted exposures of DKK 1,974m results in an MREL ratio of 27.3%.

Based on 2021 figures, the Danish FSA has calculated an MREL requirement of 16.7%, which Merkur must meet once the requirement is fully phased in on 1 January 2024. At the end of 2022, Merkur must fulfil an MREL requirement of 15.1% according to the phase-in of the MREL requirement, see the table above.

Merkur's target is to have sufficient capital at all times to survive a three-year period of severe stress in accordance with the Danish FSA's macroeconomic stress scenarios. Consolidation in the coming years is

7.7 percentage points

excess capital adequacy including buffers

10.3%

Solvency need

expected to balance out the introduction of stricter regulatory requirements.

Capital buffer and individual solvency need

The solvency need is our individual assessment of the capital buffer required to accommodate the various risks to which Merkur is exposed.

Merkur uses the so-called 8+ model to calculate the capital buffer and thus the individual solvency need. A description of the solvency need calculation method and the underlying assumptions can be found in a separate solvency need report which is available on our website www.merkur.dk/aarsrapporter

At the end of 2022, the individual solvency need was an estimated 10.3% of risk-weighted exposures, including the basic requirement of 8% of risk-weighted exposures, which corresponds to a minimum capital requirement of DKK 203m for Merkur. The buffer and MREL requirements are in addition to this sum. At the end of 2021, the solvency need amounted to 10.8%. This means that the solvency need has been reduced by 0.5 percentage points, primarily due to improved basic earnings and reduced risk on large customers with financial difficulties.

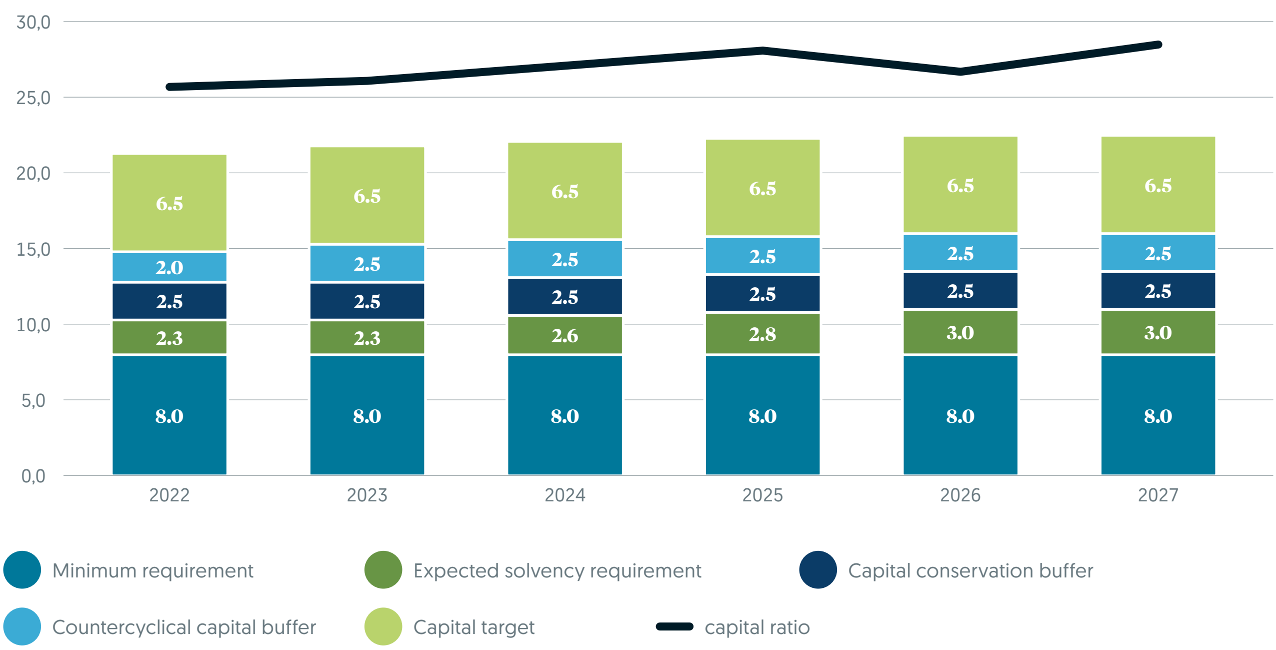
Future capital requirements

Merkur's capital plan covering the period up until 2027 shows that based on realistic assumptions, we will be able to meet the future capital requirements and at the same realise growth during the period. Moreover, we expect to be able to improve Merkur's basic earnings significantly in the next few years. The considerable macroeconomic uncertainty and the threat of a severe recession creates uncertainty about impairment levels, and we expect the annual impairment of 0.7% to 1.3% in the coming years. Despite this, Merkur expects to generate annual profits, which will contribute to strengthening its own funds significantly. The annual new issue of share capital is expected to reach a level of DKK 7-12m based on the current interest.

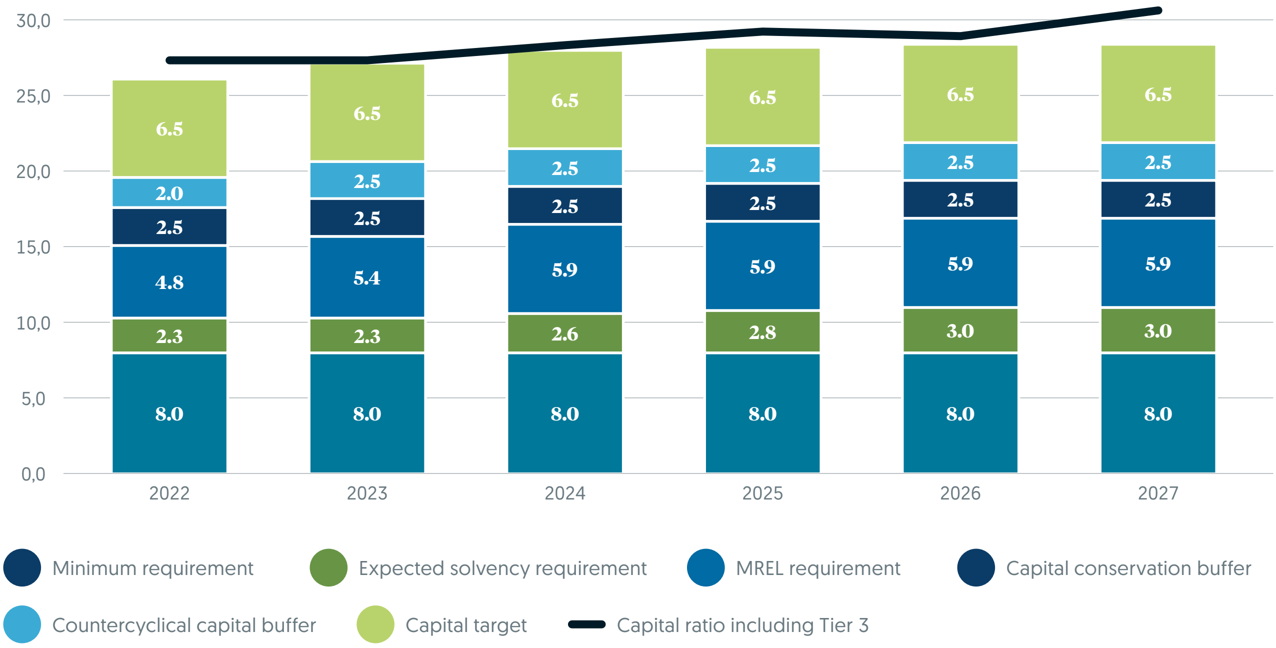
Following the substantial increase in subordinated debt in 2021, we have sufficient capital to meet the MREL requirement, and going forward our focus will be on share capital and improved earnings.

As described above, Merkur will have no difficulty observing the excess capital ratio in the coming years, as we expect a capital requirement of 15.3% against a current capital ratio of 25.7% and a projected capital ratio of 28.5%.

Expected capital requirement and target - as a percentage of risk-weighted exposures



Expected capital requirement measured against MREL and target - as a percentage of risk-weighted exposures



In addition to the above capital ratio, Merkur is also required to comply with the capital requirements, including MREL. In 2024, when MREL is fully phased in, we expect the capital requirement to amount to 21.2% against a current capital ratio of 27.3% including Tier 3 capital and the projected capital ratio, including Tier 3 capital of 30.6%.

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 and onwards is 27.7%. Consequently, management finds that there will be a sufficient level of capital for many years to come.

Supervisory diamond

Following the financial crisis, the Danish FSA introduced four benchmarks which can give an indication of whether a financial institution is taking on excessive risks. The four benchmarks are known as the supervisory diamond. At the end of 2022, 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 %	2022	2021	Limit value
Sum of large exposures	111.1	119.0	Max. 175%
Lending growth	-2.2	1.6	Max. 20%
Commercial property exposure	6.3	7.5	Max. 25%
Liquidity requirement ratio	557.5	567.4	Min. 100%

Strategies and expectations for 2023

2022 was a turbulent year with war in Europe, a pandemic, inflation, financial turmoil and unstable supply chains. Looking into 2023, the outlook is hazy – uncertainty is high, and it is difficult to predict the direction in which things are going and at what pace. However, our foundation is stronger and healthier than it has been for years: Our customers have generally weathered the corona crisis reasonably well, and we have successfully increased our basic earnings. Despite such considerable uncertainty, both we and our customers are well equipped to overcome any challenges that the year may present.

In 2022, we also waved goodbye to the, in the eyes of many, unnatural negative interest rates on deposits, which is positive for those of our customers who have deposits and for Merkur. However, rising interest rates also means that many customers now have to pay more to borrow money, which may put pressure on their finances and limit the appetite for new investments. We can expect more interest rate hikes in 2023.

At a time of growing uncertainty, sustainability and social responsibility are higher on the agenda than ever before. We are therefore confident that the values on which Merkur is based, and the products and services we offer will still be in demand. At a time when many financial companies are strengthening their focus on sustainability and social responsibility, Merkur's 40 years of experience in the field give us an edge in the competition for customers' attention. However, we are also aware that fewer people are inclined to change banks when the world is in turmoil. Merkur's strategy is about making an even more positive difference for even more people.

In short, this means that we of course want to attract more customers, while also serving our existing customers even better.

EXPECTATION:

DKK 20-30m.

profit before tax in 2023

Income

Merkur's ambition is to contribute to a positive development for people, nature and the environment through its banking operations. To achieve this ambition, Merkur must make an even more positive difference for even more people by taking the values on which its products, investment and service offerings are based to a wider audience. We expect this strategy to affect both the difference we and our customers make in the world and our income as more and more customers choose Merkur's property, investment, pension and insurance products. We are also seeing signs of a renewed willingness to invest, especially when it comes to sustainable investments. Merkur only offers securities that are classified in the Article 9 category – the category in the EU's Sustainable Finance Disclosure Regulation with the greatest focus on sustainability – which is unique in the Danish market.

Merkur is one of a small number of banks in Denmark that offer EU guarantee-backed loans to companies with sustainable business models or to companies with sustainable investment practices. The scheme is called InvestEU and allows Merkur to offer attractive loan terms to business customers under the given framework. Based on Merkur's fossil-free strategy, we also maintain our focus on climate loans to businesses looking to become more energy-efficient and on a special loan for personal customers looking to replace their oil or gas boiler with a heat pump.

Customer testimonial · Business customer

Hey Planet

The food company Hey Planet creates healthy food products based on insect protein. The company's product range includes meat substitutes, protein bars and snacks. The two entrepreneurs behind the company want to make the world a better place by inspiring people to make more sustainable food choices. Their focus is on insects which contain both protein, B12 and iron, making them a healthy and more climate-friendly alternative to meat.

Hey Planet chose to bank with Merkur because the core values of sustainability and social responsibility pervade everything the company does, says co-founder Jessica Buhl-Nielsen. ***"That's why it is important for us to choose a bank that shares these values," she says and adds: "One of the things we really like about Merkur is that it does not invest in coal and oil. Doing so would in our opinion undermine the green transition that we are working towards every day."***

Merkur's excess liquidity is mainly deposited with Danmarks Nationalbank, the interest rate now being positive. We expect it to increase further during the year. Some of the excess liquidity is also invested in mortgage bonds, and we expect a positive return higher than the deposit rate of Danmarks Nationalbank. All in all, we expect the deposits to have a positive impact on Merkur's earnings.

All these measures and factors are expected to generate increased income for Merkur in 2023.

Costs and impairment

Merkur is part of a banking sector that is under pressure from stricter regulation, with the associated need for more employees and more advanced systems pushing up costs. Moreover, increasing capital requirements are also driving up costs. Rising inflation generally leads to increased costs. This also applies to labour costs, which we also expect to be affected by collectively agreed salary increases in 2023.

IT costs make up a significant share of Merkur's total costs, and they have been steadily increasing for many years. However, as part of a deliberate strategy on the part of our data centre, BEC Financial Technologies, the cost increases seem to have more or less stabilised.

Due to the uncertain times we are facing, it is difficult to predict how losses and impairment will develop, but it is our assessment that the vast majority of Merkur's customers are in a reasonably good position to withstand any crises looming on the horizon. However, some customers may face financial pressure in the coming period. As a result, impairment is expected to be higher than the average seen in recent years.

Liquidity and capital

As mentioned above, most of Merkur's excess liquidity is deposited with Danmarks Nationalbank. We also plan to increase our bond investments in 2023. Due to the positive interest rate environment, we have introduced a savings account with a positive deposit rate. We expect deposits to remain unchanged in 2023.

In terms of capital, we expect to be able to strengthen Merkur's own funds through share subscriptions in addition to growth in retained earnings. In the long term, we expect positive annual results to contribute to a significant strengthening of Merkur's own funds. We do not expect to issue any additional capital in 2023.

Expected results

We expect the profit before tax for the year to be in the range of DKK 20-30m. The guidance is subject to a number of uncertainty factors, of which the most important are:

- Development in inflation and interest rates.
- Development in the property market, including property prices.
- Whether unemployment rises as a result of the economic situation.
- Last but not least, how the above affects impairment.

Merkur's strategic benchmarks

Merkur must make an even more positive difference for even more people. We want to inspire existing and new customers to let their money work for a better world.

Our values are reflected in our value proposition, products and services.

We have a lot to be proud of, and we should not be afraid to let the world know.

Merkur must be a beacon in the banking sector when it comes to sustainability and social responsibility.

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. Our goal is for our lending activities to be a catalyst of sustainable and socially responsible 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. You can read more about Merkur's criteria for business customers on our website www.merkur.dk/kriterier. In addition, openness is a core value for Merkur, and we are fully transparent about the business customers we offer loans to. Read more on page 26.

Overall, lending activity was stagnant in 2022. This is partly due to the fact that Merkur has advised many of its personal and business customers on the option of converting their bank loans to mortgage loans and converting existing mortgage loans to higher interest rate loans to reduce the outstanding debt. Both have reduced our customers' bank debt with Merkur. Moreover, our customers have generally been reluctant to make new investments due to the geopolitical situation, unstable supply chains and rising inflation, which has led to higher interest rates.

Corporate sector

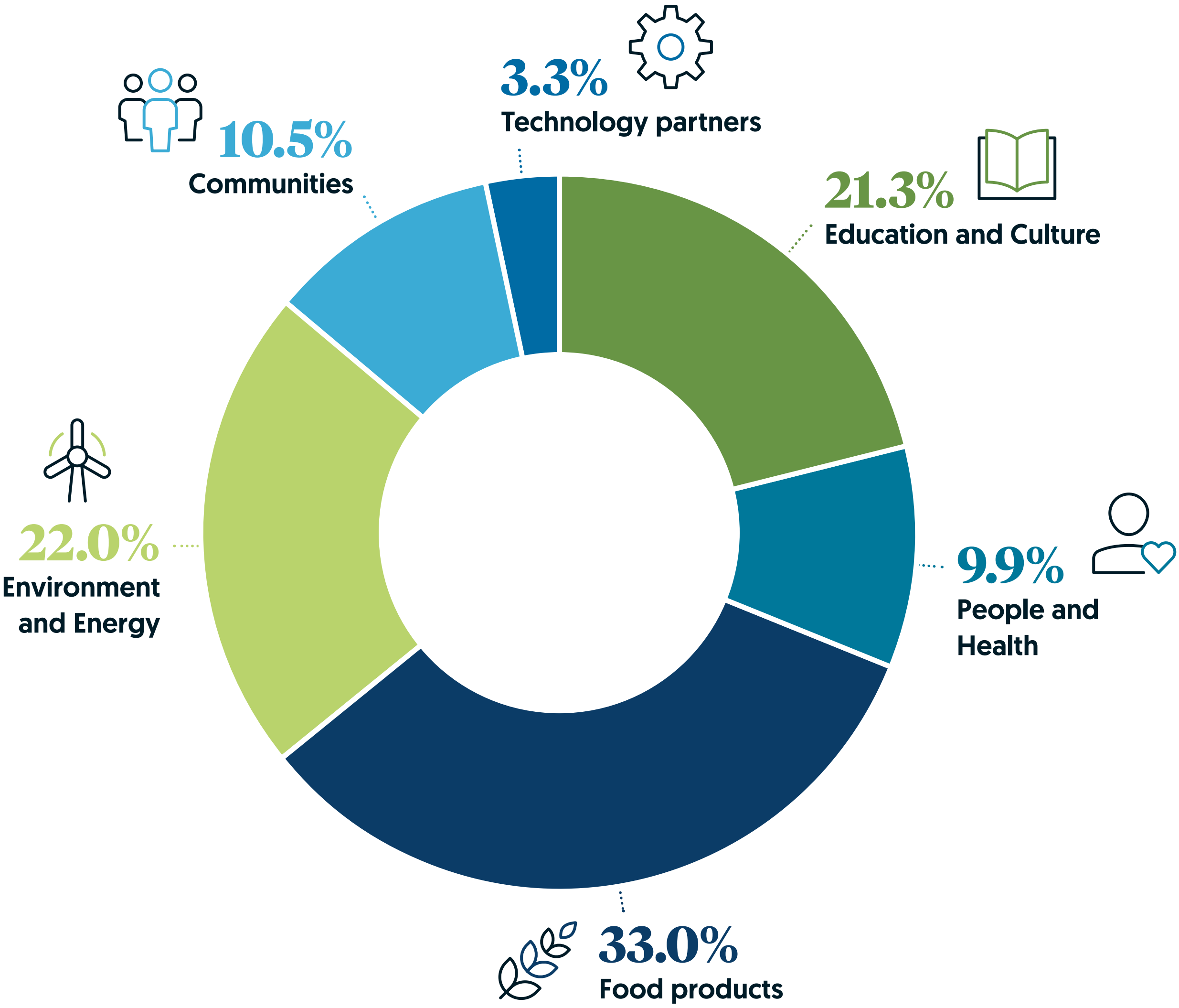
In 2022, a decline was seen in all categories except the Environment and Energy category. The primary reason for the decline in the categories Education and Culture, People and Health and Communities is, as already mentioned, the conversion to mortgage loans and the uncertain market. However, another reason is that the financial situation of some of Merkur's customers is so robust that they have been able to reduce their debt.

In 2022, we saw a slight increase in lending to Environment and Energy of 2.0%, corresponding to DKK 5.6m compared to 2021. There are two main reasons for the modest increase: a customer who manages large energy projects has now become too big for Merkur to meet their financing needs, and the bankruptcy of another of our customers. This is balanced by our commitment to financing initiatives that aim to combat climate change as part of our fossil-free strategy. By providing climate loans to companies and institutions, we have helped finance a number of photovoltaic projects at educational institutions seeking to contribute to the green transition and lower their energy costs. Merkur has also financed a large photovoltaic system at Thise Dairy in Denmark.

The main reason for the decline in lending to the Food products category is that two customers have repaid their DKK 31m loans with Merkur. However, we managed to make up for the decline by increasing lending to other organic farms, which is an important area for Merkur and a sector we have extensive experience with. Providing loans to farms comes with great responsibility, because farms often have a relatively large climate footprint. Read more about how we work with our customers to reduce their climate footprint on page 45.

Technology partners etc. primarily cover guarantees provided by Merkur to its partners. The category is down 17.6%, corresponding to almost DKK 9m.

Total loans and guarantees, business customers



Total loans and guarantees, business customers

(DKK '000)	2022	2021	Dev. relative to 2021
Education and Culture	280,909	308,504	-8.9%
People and Health	130,910	146,039	-10.4%
Food products	435,083	446,241	-2.5%
Environment and Energy	289,320	283,703	2.0%
Communities	138,522	151,865	-8.8%
Technology partners etc.	42,958	52,113	-17.6%
Total	**1,317,702**	**1,388,465**	**-5.1%**

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. On 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 at www.merkur.dk/minimumskriterier (in Danish only) or see the complete list of business customers at www.merkur.dk/her-arbejder-dine-penge (in Danish only).

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:

The self-governing institution Askov Møllehus

Housed in an old miller's house from 1765, Askov Møllehus is an accommodation and work facility for people with various psychiatric problems. The miller's house in the beautiful countryside between Næstved and Tappernøje is an idyllic setting for the daily activities of the facility which are tailored to the residents' abilities and skills. Every six months, residents must commit to either working in the garden or with the animals, in the kitchen, doing cleaning or working in the creative workshop. The idea is to give the residents a structured and meaningful everyday life and the right educational assistance to help them get better and move on with their life.

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, environmentally friendly textile production, other environmentally friendly manufacturing companies, as well as trading in sustainable products.

CUSTOMER EXAMPLE:

Ekolab

Ekolab is an engineering firm specialising in sustainability, indoor climate and renewable energy, and the services they provide are firmly rooted in these values. The engineers take a holistic approach to each project, developing solutions where comfort, energy efficiency and environmental friendliness go hand in hand. In addition to assisting in the realisation of future projects, they also help their customers obtain sustainability certifications of a variety of buildings and urban areas, and ensure efficient building operations through quality management processes.

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:

The Danish National Organisation of Day Care Facilities

Since its foundation in 1968, the Danish Organisation of Danish Day Care Facilities (LDD) has helped ease the administrative burden of self-governing and private day care facilities in Denmark. The purpose of LDD is to promote self-governing ownership by assisting in the establishment and operation of new and existing facilities. LDD therefore offers a wide range of administrative services in finance and accounting, staff administration and HR services, educational consultancy services and IT support. The organisation also aims to ensure a high degree of parental involvement and self-management in the local member facilities.

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, biodynamic and regenerative farming operations and sustainable fishing, the processing of and trade in sustainable foods as well as organic restaurants and cafes.

CUSTOMER EXAMPLE:

Kragegaarden / Økomølleriet

Kristian Andersen runs the farm Kragegaarden on the island of Funen. The farm has been in his family's possession for eight generations. The quality of the produce he grows and caring for the earth is all-important to Kristian. He grows a wide variety of produce, including potatoes and Danish heirloom grains according to organic and biodynamic principles. In 2007, Kragegaarden took over a mill whose previous owner trained Kristian in the old craft of milling. Today, the grain grown by Kragegaarden is milled using the farm's own grindstone. The farm also has two wind turbines and a photovoltaic system, which supplies approx. 80% of the power used by the farm.

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:

Amnesty International Denmark

Amnesty International is a worldwide organisation that works to document and raise awareness of human rights abuses, stop abuses and ensure justice through lobbying, research, activism and education. In Denmark, Amnesty seeks to influence decision-makers by, among other things, submitting input to legislation that affects human rights, engaging people through campaigns and raising awareness of human rights violations through communication and media campaigns. Amnesty International develops campaigns and educational material for primary schools, among many others. Amnesty International Denmark has 65,000 paying members.

Personal customers

Many of our personal customers have chosen Merkur because of our focus on sustainability and social responsibility. By using our banking services, our personal customers indirectly help Merkur to finance even more sustainable development. Our personal customers are often discerning 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 offer loans to owner-occupied properties and cooperative housing. We also provide guarantees in connection with change of ownership and the arrangement of mortgages, and we help small owner-managed businesses that are also full-service customers of Merkur to finance their operations.

Merkur has managed to keep lending to personal customers roughly on a par with 2021 despite difficult market conditions. 2022 saw a slowdown in the property market and a sharp decline in the number of property transactions – the lowest in more than a decade. In addition, many have held back on spending due to the rising consumer prices and been reluctant to borrow money for major investments in, for example, their home. We consider the development in lending to be satisfactory considering the market situation.

Lending to owner-occupied properties fell by 7.7% or DKK 58m from 2021 to 2022, primarily because many of our customers have heeded our advice and converted their mortgage loans to higher interest loans to pay off their bank loan. This is positive for our customers, even though it reduces Merkur's lending.

Merkur is constantly working to promote sustainable development. We therefore attempt to drive and provide incentives for 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 will no longer offer loans to homeowners with oil or gas boilers unless the customer undertakes to replace their boiler with a more climate-friendly energy source.

Total ordinary loans and credits, personal customers

(DKK '000)	2022	2021	Dev. relative to 2021
Owner-occupied property	687,704	745,319	-7.7%
Cooperative housing	552,928	526,822	5.0%
Allotment gardens	17,591	17,279	1.8%
Other private loans and credits	116,269	119,912	-3.0%
Self-employed	11,140	8,943	24.6%

Customer testimonial · Personal customer

Jacob Antvorskov and Charlotte Weitze

Jacob Antvorskov, Charlotte Weitze and their two daughters live in the village of Vallekilde on Zealand, Denmark. The family has been a customer of Merkur since 2015, when they decided to change banks as part of a wider plan to live a more sustainable life. ***"We chose Merkur because it was the only bank which we felt absolutely certain shared our values and would enable us to make 100% green investments,"*** says Charlotte Weitze.

She is a writer whose novels focus on the natural world, while Jacob Antvorskov works as a project manager with the circular economy. They also share their experiences of a more climate-friendly lifestyle on their website 2030-planen.dk. In addition to the change of bank, they have also taken other steps to cut their CO_2 emissions.

They have undertaken several home renovations, installing solar panels on the roof, a heat pump and insulation to make their home as energy-efficient as possible.

Statutory information

Management · Board of Directors

Cornelis Anthonie (Cees) Kuypers

CHAIR OF THE BOARD

Born: 1962. Founder and CEO of Kamelhuset. Elected to the Board in 2020. Current term expires in 2023. Member of the Risk Committee, the Audit Committee and the Nomination Committee.

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

OWNER/CO-OWNER OF:
- Kamelhuset ApS
- Future Food A/S
- BellyFood A/S

CHAIR OF THE BOARD OF:
- Trademark Textiles A/S
- The Coffee Collective A/S
- BellyFood A/S

COMPETENCY PROFILE:
MA 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.

MEETING ATTENDANCE:
Ordinary board meetings: 13/13
Extraordinary board meetings: 9/9
Audit Committee meetings: 4/4
Risk Committee meetings: 3/4 (joined on 30 March 2022)
Nomination Committee meetings: 5/5

SHAREHOLDING:
283 shares

Anneke E. Stubsgaard

VICE-CHAIR OF THE BOARD

Born: 1965. Consultant. Elected to the Board in 2018. Current term expires in 2024. Chair of the Nomination Committee.

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

BOARD MEMBER OF:
- Earthwise Residency

CHAIR OF THE BOARD OF:
- Merkur Fonden

COMPETENCY PROFILE:
MSc in Biology. Experience and further education in corporate management and professional board work. Expertise in sustainable farming and food production, including strategy development and risk assessments.

MEETING ATTENDANCE:
Ordinary board meetings: 13/13
Extraordinary board meetings: 8.5/9
Nomination Committee meetings: 5/5

SHAREHOLDING:
58 shares

Management · Board of Directors

Jakob Brochmann Laursen

BOARD MEMBER

Born: 1963. Director of pricing at Topdanmark. Elected to the Board of Directors in 2011. Current term expires in 2025. Chair of the Audit Committee and the Risk Committee. The Board of Directors' independent and professional member of the Audit Committee.

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

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. 34 years of experience from the financial sector, which has given him 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.

MEETING ATTENDANCE:
Ordinary board meetings: 11.5/13
Extraordinary board meetings: 6.5/9
Audit Committee meetings: 4/4
Risk Committee meetings: 4/4

SHAREHOLDING:
140 shares

Bernhard Franz Schmitz

BOARD MEMBER

Born: 1964. CEO of Marjattta.
Elected to the Board in 2018. Current term expires in 2024.
Member of the Nomination Committee.

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

–

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 from the public sector. CEO of a large special social education enterprise with 500 employees.

MEETING ATTENDANCE:
Ordinary board meetings: 13/13
Extraordinary board meetings: 6/9
Nomination Committee meetings: 5/5

SHAREHOLDING:
140 shares

Management · Board of Directors

Hilde Kjelsberg

BOARD MEMBER

Born: 1963. First Vice-President, Chief Risk Officer, Head of Risk & Compliance at Nordic Investment Bank.
Elected to the Board of Directors in 2019. Current term expires in 2025. Member of the Risk Committee.

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

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.

MEETING ATTENDANCE:
Ordinary board meetings: 13/13
Extraordinary board meetings: 7/9
Risk Committee meetings: 4/4

SHAREHOLDING:
10 shares

Henrik Kronel

BOARD MEMBER

Born: 1966. Account Officer, investment. Elected to the Board of Directors by the employees in 2007. Current term expires in 2023.

INDEPENDENCE:
-

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

MEETING ATTENDANCE:
Ordinary board meetings: 13/13
Extraordinary board meetings: 9/9

SHAREHOLDING:
27 shares

Management · Board of Directors

Jesper Kjærhus Kromann

BOARD MEMBER

Born: 1966. Project manager. Elected to the Board of Directors by the employees in 2019. Current term expires in 2023.

INDEPENDENCE:
-

DIRECTOR OF:
• Merkur Climate Fund

BOARD MEMBER OF:
• Profitten Trappelav

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.

MEETING ATTENDANCE:
Ordinary board meetings: 11/13
Extraordinary board meetings: 6/9

SHAREHOLDING:
29 shares

Trine Møller Monrad

BOARD MEMBER

Born: 1980. Administrative employee. Elected to the Board of Directors by the employees in 2021, and joined the Board in October 2021. Current term expires in 2023.

INDEPENDENCE:
-

–

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.

MEETING ATTENDANCE:
Ordinary board meetings: 12.5/13
Extraordinary board meetings: 8/9

SHAREHOLDING:
6 shares

Management · Executive board

Charlotte Skovgaard
CEO

Born: 1972. Joined Merkur in 2019, first as director and since September 2020 as CEO.

SHAREHOLDING:
38 shares

BOARD MEMBER OF:
- Danish Research Institute for Democratic Businesses
- BEC Financial Technologies a.m.b.a

Target figures for the underrepresented gender on the Board

Merkur wants an equal distribution of women and men at board level. The goal is for the underrepresented gender to make up at least 40% of the board members elected by the Committee of Representatives. The current gender distribution is three men and two women, corresponding to 60% men and 40% women.

In connection with the election of board members elected by the employees, employees of both genders are encouraged to stand for election to the Board of Directors. The current gender distribution is two men and one woman, corresponding to 66% men and 33% women.

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, see 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.

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

In 2022, the committee held regular discussions on matters of relevance to the annual and interim financial reporting and ongoing cooperation with the auditor. The committee has discussed the annual ILAAP and ICAAP reporting, as well as IFRS 9 validation.

The members of the Audit Committee are:
- **Jakob Brochmann Laursen**, Chair
- **Henrik Tølløse** (from 1 January 2022 to 12 July 2022)
- **Cees Kuypers**

The Board of Directors has appointed Jakob Brochmann Laursen as a professional member of the Audit Committee based on his risk management competencies 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 2022, the Risk Committee held thematic discussions on, among other things, properties with limited alternative use, loan case management in Merkur, risk analyses focusing on the consequences of the war in Ukraine and the aftermath of the corona pandemic, as well as the impact of the economic situation on risk and loss expectations.

The committee also discussed and qualified a new method for asset review by the Board of Directors, and considered the risk assessment that precedes the coming year's annual plan for the risk manager.

The members of the Risk Committee are:

- **Jakob Brochmann Laursen**, Chair
- **Cees Kuypers** (joined on 30 March 2022)
- **Hilde Kjelsberg**

Nomination Committee

Merkur has set up a separate Nomination Committee. The committee is charged with:

- assessing whether the Board of Directors as a whole has the necessary combination of knowledge, professional competence, performance and experience, and whether the individual members meet the requirements of sections 64 and 64a of the Danish Financial Statements Act, and reporting and making recommendations on any changes in this respect to the Board of Directors
- assessing the Board of Directors' gender distribution, diversity, composition, size and structure in relation to the tasks to be performed, and reporting and making recommendations on any changes in this respect to the Board of Directors
- proposing candidates for election to the Committee of Representatives on the basis of the results of examinations of the competencies and composition of the Board of Directors
- proposing candidates for election to the Board of Directors, including preparing a description of the functions and qualifications required for the particular post and indicating the expected time to be allocated for this purpose
- making sure that the decision-making of the Board of Directors is not dominated by a single person or by a small group of people in a way that is detrimental to the interests of the company as a whole
- describing the qualifications required for a given position on the Executive Board and assessing the competence, knowledge, structure, size, composition and performance, including assessing whether the Executive Board performs its tasks in a satisfactory manner and in accordance with the established

risk profile, the established policies and the guidelines applicable to the Executive Board. Based on this, the committee is tasked with recommending any changes to the Board of Directors and making sure the Board of Directors discusses succession plans for the Executive Board at least once a year.
- ensuring that Merkur uses a well-described and structured process when recruiting candidates for the Committee of Representatives, the Board of Directors and the Executive Board.

The Nomination Committee has no power to change the responsibilities or powers of the Board of Directors. Terms of reference have been prepared for the Nomination Committee, providing a framework as well as an annual cycle for its work.

In 2022, the Nomination Committee revised the competencies and composition of the Board of Directors. Based on this, the Board of Directors has entered into a dialogue with the Committee of Representatives about the number of board members elected by the Committee of Representatives in Merkur. The committee has proposed candidates for election to the Committee of Representatives and the Board of Directors. Proposals for improvements to the Board of Directors' working methods have been prepared, and the Executive Board's competencies, performance etc. have been assessed and presented to the Board of Directors.

The members of the Nomination Committee are:
- **Anneke E. Stubsgaard**, Chair
- **Cees Kuypers**
- **Bernhard Schmitz**

Exceptional circumstances

Apart from what is mentioned in the management review and in the business risk section, there were no exceptional circumstances in 2022.

Uncertainty of recognition and measurement

The main uncertainty of recognition and measurement relates to impairment of loans, provisions for guarantees and valuation of financial instruments. Management finds the uncertainty associated with the financial reporting for 2022 to be at a safe level. For more information, see note 2.

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. Sectors 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 property values 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 its customers' finances are sustainable and that action is taken if signs of financial weakness should emerge.

Like everyone else in the banking sector, Merkur is exposed to the risks associated with money laundering and the financing of terrorism. Merkur gives high priority to this area, and the necessary IT support is guaranteed by our data centre. In addition, continuous upskilling and testing of all employees 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 aware of the importance of IT security in their daily work.

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

The most important business risks associated with such changes are:

- Organic farming may be impacted by falling sales and settlement prices, while changes to agricultural subsidy schemes and taxes may disfavour organic agriculture. Consequently, Merkur has a special focus on the agricultural sector. Changing consumer behaviour and preferences for plant-based food and drink may drive down demand for dairy and meat in the future, resulting in an earnings squeeze for cattle and pig farmers while plant production will see increased demand. Due to inflation and declining disposable incomes, we may see a substitution away from organic products. The climate crisis is a challenge for agriculture in general, and our organic farms may also be affected. Denmark has set ambitious greenhouse gas emission targets and there is political consensus on the introduction of taxes CO2e emissions from farming, which will impact livestock production in particular and potentially hit the earnings of livestock farmers. Merkur has a strong focus on risks associated with the green transition and is working strategically to move the agricultural portfolio in a more plant-based direction. Plant and animal diversity is declining 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. Merkur's agricultural customers are not exposed to distant or politically unstable export markets such as Russia.

- The conditions under which schools and institutions operate may deteriorate, for example due to public spending cuts. Historically, institutions have been impacted by such cuts, for example, when municipalities try to reduce the number of children and young people taken into residential care at socio-pedagogical accommodation facilities and other institutions. We therefore focus on follow-up to ensure that schools and institutions adjust their budgets in time. At present, schools and institutions enjoy favourable conditions, just as interest from parents is high, but inflation is putting pressure on household budgets, which may affect demand in the long run. However, we have not yet seen signs of declining interest. 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.

- The disposable incomes of personal customers are under pressure from rising inflation, high energy prices, repeated interest rate hikes and falling property prices, which may become a problem. At the same time, we might be heading for a recession and rising unemployment. However, there are indications that the government is prepared to lend a helping hand to those who are hit the hardest. Especially in the field of energy, we expect the government to offer subsidies to households switching to more climate-friendly sources of heating. In 2022, Merkur conducted a risk analysis of its personal customers. The analysis shows that Merkur's personal customers are in a relatively good position to weather the crisis. 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. However, our analysis shows that many of our customers would be able to withstand even a significant drop in property prices due to the increases in property prices seen in recent years.

- Rising energy prices, higher interest rates and inflation are reducing the profitability of all our business customers. This could to some extent be offset by higher selling prices, but there are limits to how much prices can be raised without leading to a corresponding drop in demand. This means that the risk in our business portfolio will increase if the geopolitical situation deteriorates.

Financial risks

Merkur is not exposed to exceptional financial risks and does not engage in speculative activities. See also note 35 to the financial statements on risk management.

Merkur's Pillar III disclosure obligation for 2022 can be found on our website www.merkur.dk/aarsrapporter (in Danish only).

Merkur's individual solvency need for 2022 can also be found on our website www.merkur.dk/aarsrapporter (in Danish only).

Sustainability

Highlights from 2022

MAGE SURVEY

No. 1 bank for climate

Merkur was ranked no. 1 in a survey of the most trustworthy banks when it comes to climate issues. See page 52.

TARGET

Net zero by 2035

While others typically have set 2050 targets, Merkur is pursuing the ambitious target of becoming carbon-neutral by 2035 not only when it comes to its own emissions, but also its indirect emissions. Our interim target is a 75% reduction by 2030. See page 44.

FOOTPRINT

Carbon-neutral our own activities

Merkur's own activities are carbon-neutral as we have displaced and absorbed more CO2e than we have emitted. See page 47.

EQUALITY

50/50 Gender balance 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 56.

TRANSPORT POLICY

56% reduction in CO2e from our own activities relative to 2019

We have a strict procurement policy and have introduced CO2e budgets for our business travel to reduce our footprint on the planet. See page 47.

CHARGING POINTS

413% increase in power supplied for charging electric cars

The Merkur Climate Fund has established publicly accessible charging points in urban areas. In 2022, the Merkur Climate Fund saw a marked increase in the amount of power supplied for charging electric cars compared to 2021. See page 62.

PRIDE

96% proud employees

In 2022, Merkur carried out an employee satisfaction survey, which showed, among other things, that 96% of the bank's employees are proud of their work. See page 53.

Introduction

Merkur is a value-based cooperative bank, and we consciously use our business as a catalyst for sustainable change.

At a time of increased focus on sustainability, there is a risk that Merkur's customers and consumers in general may find it difficult to distinguish between greenwashing and truly sustainable initiatives. In Merkur, we welcome legislation and guidelines, because the uniform definition, assessment and reporting of sustainable initiatives increases transparency. We are aware that even with legislation in place it can be difficult to ensure a uniform interpretation, especially when it comes to new laws that are still in the process of being implemented.

But the fact that it can be difficult should never hold us back from taking action that benefit people, nature and the environment. This credo has been Merkur's guiding star for 40 years and will continue to be so in the future. We are committed to being a beacon in the financial sector when it comes to sustainability and social responsibility. Therefore, it is crucial that we constantly evolve and set ambitious goals for ourselves and our actions. But what is even more important is that we achieve the goals we set for ourselves.

Merkur's ambition, which you can read more about on page 2, constitutes the overall framework for our efforts. We have chosen to define a number of concrete targets and action plans that guide our strategic sustainability and social responsibility efforts on a daily basis.

In this chapter, we address how Merkur works to make a positive impact in terms of the climate and the environment, social responsibility and governance. In other words, we use Environmental, Social and Governance (ESG) data to measure the difference we make in the world. In the Climate and Environment (E) section, you can read about how we this year have calculated the CO2e emissions for as much as 95% of our loan portfolio, that we will reach net zero as early as 2035 and learn more about the choices we plan to make to get there. The Social responsibility (S) section takes a closer look at the well-being of Merkur's employees and how Merkur takes part in networks and public debates to raise awareness of social responsibility and sustainability.

In the Governance (G) section, you can read about diversity and how Merkur has achieved gender balance when it comes to male and female leaders and why transparency is a core value for Merkur. Last but not least, we look at the difference the Merkur Foundation and the Merkur Climate Fund have made during the year.

Merkur is B Corp-certified

In Merkur, we have no doubt that we are the financial institution with the strongest commitment to sustainability and social responsibility in Denmark. In 2020, we decided to back up this claim by completing a comprehensive B Corp certification programme, making Merkur the first B Corp-certified financial institution in Denmark. 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 sustainable world. A B Corp certification measures a company's entire social and environmental impact.

This holistic assessment of what we have demonstrably done and are still doing is crucial for Merkur, as we see the world as an interconnected whole. This view is reflected in B Corp's assessment, which measures performance across five areas: Governance, workers, community, environment and customers. In Merkur, we have always set the highest standards when it comes to sustainability and social responsibility. This served us well in the certification process, as we achieved a score of 115.5 across all categories. A score of 80 points is required to achieve B Corp certification.

The certification also highlighted areas for improvement which are important in our work. Among other

Merkur's B Corp score

17.0	29.9	24.0	20.3	23.0
Governance	Workers	Community	Environment	Customers

things, we have introduced a very comprehensive and ambitious procurement policy, which you can read more about on page 48.

In Merkur, we have always screened our business customers to determine whether they deliver real and positive social, cultural or environmental change. After achieving B Corp certification in 2020, we introduced a number of minimum requirements that must be met by businesses wanting to bank with Merkur. We did this to make absolutely clear what Merkur sees as sustainable and socially responsible behaviour. In other words, we have prepared a checklist of the type of behaviour that we as a sustainability-oriented financial institution can and cannot accept. If a customer does not live up to the requirements, a concrete action plan must be drawn up, setting out the course of action needed to make them compliant. Our aim is to finance change that benefits people, nature and the environment. The checklist serves as both a reference document for customers and advisors and as a manifesto demonstrating our commitment to sustainability and social responsibility. The minimum requirements can be found at www.merkur.dk/kriterier (in Danish only).

Since obtaining B Corp certification in 2020, we have been working hard to make a positive difference in the world. We are due for recertification in 2023, and our aim is to increase our B Corp score by 10%.

B Corp is in many ways the gold standard for our sustainability and social responsibility efforts, supplemented by our own climate and environment (E), social responsibility (S) and governance (G) targets.

Merkur and the Sustainable Development Goals

There are obvious commonalities between the UN's 17 Sustainable Development Goals (SDGs) and Merkur's ambition for sustainable banking operations. The task that the UN has set the world's governments, businesses and citizens is thus very similar to the ambition pursued by Merkur since its foundation in 1982. The SDGs represent a holistic approach to addressing global challenges.

Merkur also sees sustainability in a broad perspective, and the bank's 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 2022.

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 different needs. This is a particularly important focus area for Merkur. Read more about Merkur's lending activities on page 24.

5 GENDER EQUALITY

In Merkur, we pursue the objective of gender balance in our own organisation, both from a fairness perspective of ensuring equal treatment and opportunities, but also because we do not want to miss out on talent. In 2022, we were proud to have an equal number of female and male leaders. Read more on page 56.

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, among other things. In 2022, Merkur has, for example, financed a number of photovoltaic projects at educational institutions as well as a large photovoltaic system at Thise Dairy. Read more on page 24.

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. We are also actively working to ensure that Merkur itself is a good and responsible workplace characterised by high levels of well-being, meaningful work and respect for all our employees. See page 53.

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, and in 2022 our special focus was on combatting greenwashing. Read more on page 52.

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. In addition, we have set an ambitious net-zero target for our direct and indirect emissions. The target is described in more detail on page 44.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Merkur is a democratically owned company that values transparency and accountability. Several studies indicate that democratic companies are a strength for society, which is why Merkur is working actively to promote this company form. Merkur's CEO, Charlotte Skovgaard, is a member of the Board of Directors of the Danish Research Institute for Democratic Businesses, and Merkur finances companies and NGOs fighting for democratic rights in both Denmark and abroad. Merkur's minimum criteria also 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.

ESG REPORTING

ENVIRONMENTAL SOCIAL GOVERNANCE

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 governance. As mentioned earlier, we use Environmental, Social and Governance (ESG) data to structure the sections and determine what difference we make in the world.

Climate and environment

The global climate is changing, and climate disasters are becoming more frequent and extreme. It is also becoming increasingly clear that we are in the midst of a biodiversity crisis of almost unimaginable proportions, calling for urgent and radical action. Massive global and socially balanced efforts are needed. The crisis can only be resolved if we all do our bit and take responsibility for the planet.

Fortunately, climate and environmental issues, especially CO2e emissions, have finally been getting more attention in recent years, spurred by the Paris Agreement adopted at the COP21 meeting in Paris in December 2015. The goal of the agreement is to limit global warming to 2°C, and preferably to 1.5°C, compared to pre-industrial levels.

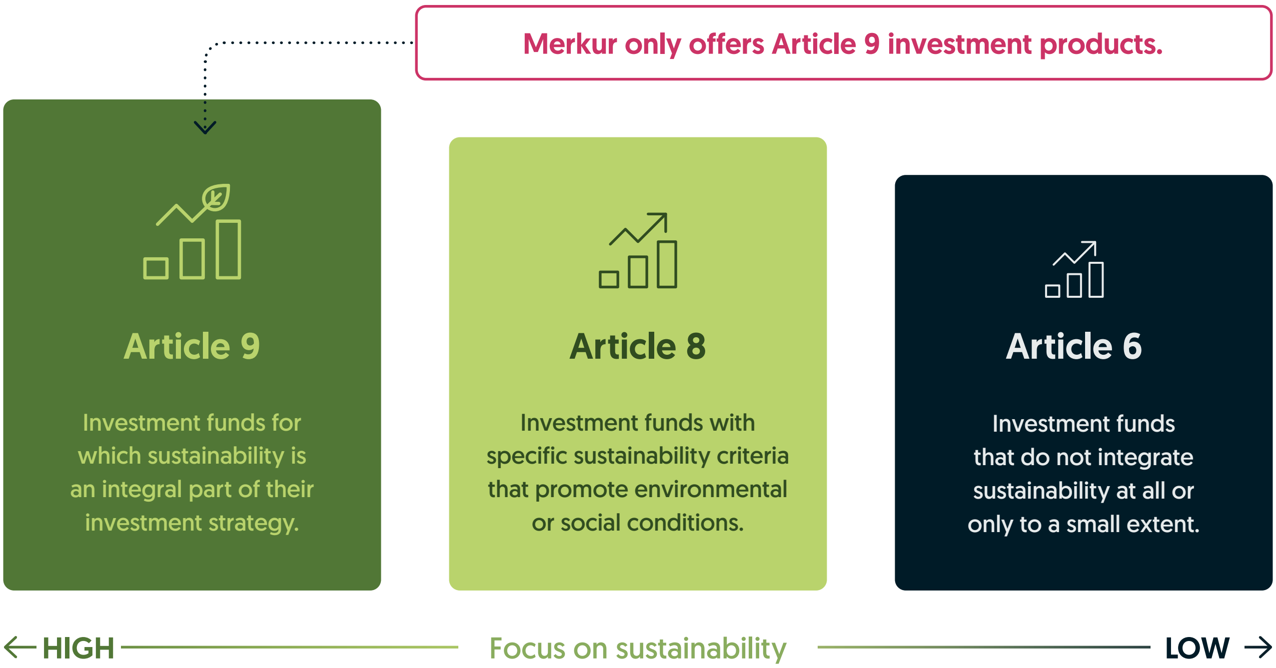
In this section, you can read more about how Merkur's sustainability and social responsibility requirements are applied in the selection of investment products, how Merkur works to reduce its own CO2 emissions and, not least, how we measure and plan to reduce the CO2e emissions generated by the activities we finance.

Investment universe focusing on sustainability

Building on the Paris Agreement, the EU has introduced regulation and legislation to promote the green transition. Among other things, the EU has adopted a taxonomy for sustainable activities, which, in short, is a system for classifying environmentally sustainable economic activities. In continuation of the taxonomy, the EU has launched the Sustainable Finance Disclosure Regulation, which both sets out clear guidelines on how investment products should be classified in terms of sustainability and also requires investment product providers to disclose the extent to which sustainability is integrated into their investment strategy. To this end, the EU has introduced three categories: Dark green (Article 9), light green (Article 8) and grey (Article 6).

Merkur has decided to only offer dark green investment products. The products are offered in collaboration with, among others, the Dutch firm Triodos Investment Management, which for more than 25 years has specialised in investments that not only provide solid returns but also make a positive social and environmental impact in the world.

Sustainable Finance Disclosure Regulation



We are constantly working to offer more dark green investment products. We currently have eight funds, one of which was added in 2022. We expect to be able to introduce additional funds in 2023.

In Merkur, we are very much looking forward to social responsibility becoming increasingly integrated in the assessment criteria on which the Sustainable Finance Disclosure Regulation is based. The investment funds offered by Merkur already have minimum ESG criteria in place – even though there is currently a special focus on the environment when it comes to sustainability.

Ambitious targets

The Danish Parliament has passed a climate act that commits Denmark to reducing its CO2e emissions by 70% by 2030. In addition, the new government's goal is to reach net zero – i.e. climate neutrality – by 2045. Many companies have followed suit and set similar targets. Generally, we welcome the focus on lowering climate footprints, but in Merkur we believe that we need to set more ambitious climate targets, and that is why we have raised the bar when it comes to our own targets.

In addition, it is crucial that the targets are followed up by concrete action.

In 2022, we prepared a concrete long-term action plan to further reduce our CO2 emissions. The plan was prepared on the basis of current science. The action plan will, of course, be updated in step with scientific advances in the area.

Net zero by 2035

75% reduction for business customers by 2030

Science Based Targets initiative

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. Science Based Targets is an initiative developed in collaboration between a number of NGOs and the UN Global Impact.

We joined the Science Based Targets initiative (SBTi) in 2022, which will validate our action plan within the next two years and approve Merkur's strategy to reach net zero by 2035 in both the activities we finance and our own activities.

The first interim target is a 75% reduction in net emissions from our business customers by 2030. The baseline is 2022. Merkur will achieve the interim target through a 70% reduction in net emissions from agriculture, while the rest of our business portfolio must be completely carbon-neutral by 2030. Read more about the action plan on page 48.

CO2e reduction

Merkur's efforts to reduce its carbon footprint are divided into two components.

The first component is our own activities – i.e. direct emissions from our own business operations. However, as a financial institution our primary operations only have a modest footprint. The second component is about the emissions generated by the activities we finance. As a financial institution, we have a special responsibility for this component in that we influence society through the activities we finance.

Already in 2019, Merkur, together with international colleagues from the Global Alliance for Banking on Values (see page 51), committed to working with and defining criteria for calculating the CO2e[1] emissions generated by the activities we finance. The main tool for calculating our financed emissions was developed by PCAF.

PCAF stands for Partnership for Carbon Accounting Financials and is an international network 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. At the end of 2022, PCAF set up a Nordic network, which Merkur has joined. We are pleased that Finance Denmark has agreed to oversee the work in Denmark.

Using PCAF's methodology, Merkur has calculated the footprint of its loan portfolio since 2020. Calculating financed emissions is not simple, and there are areas in which our data are insufficient, or in which the sources of the emissions are not fully understood. In other words, we are building the road as we go along. But we are doing what we can and learn all the time. We are especially proud that we calculated the CO2e footprint for as much as 94% of our loan portfolio in 2022.

94%

of Merkur's loan portfolio is included in the CO2e calculation

[1] 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

2021

CO_2e intensity **6.9 tonnes** per million DKK of loans

Total CO_2e emissions **10,354 tonnes**

2022

CO_2e intensity **4.9 tonnes** per million DKK of loans

Total CO_2e emissions **8,556 tonnes**

Merkur makes a point of calculating the CO2e emissions of its organic farming customers, as the agricultural sector is the biggest CO2 emitter among its customers. Consequently, we are in continuous and close contact with our agricultural customers. In 2022, we contacted all our agricultural customers to collect farm-specific data and climate action plans. This has given us further insight into the farms, and it turned out that emissions from our agricultural portfolio are somewhat lower than when we did the calculation in connection with the financial statements for 2021.

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.

Carbon accounting for activities financed by Merkur

Merkur reports on its CO2e emissions for all business customers, as well as property, climate and car loans for personal customers.

When we look at the development in emissions per million DKK, the intensity has fallen from 6.9 tonnes per million DKK of loans to 4.9 tonnes per million DKK of loans. However, this does not mean that we can say with certainty that our customers emitted less CO2 in 2022 than in 2021.

The change is mainly due to the fact that the available agricultural data have improved significantly, and for 70% of agricultural lending we now use farm-specific production data. The data score[2] has now been reduced to 2.8 for agriculture compared to 3.6 in 2021.

Merkur's lending to agriculture accounts for 26% of its business loans, but 84% of financed emissions. Through its lending to agriculture, Merkur has financed 6,589 tonnes of CO2e emissions in 2022 compared to 7,397 tonnes in 2021.

The decline is primarily due to the fact that we now use more farm-specific data, as mentioned earlier.

It is important to view the high level of emissions from agriculture in relation to Merkur's customer composition. The rest of Merkur's lending is to low-emission sectors such as schools and institutions, and Merkur's business customers are usually strongly focused on their CO2e footprint. This is due to Merkur's business model, according to which we only work 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 natu-

[2] The data score is on a scale of 1 to 5, where 1 is best. For example, 1 can be given if a climate calculation has been carried out in partnership with an external consultant, as is the case for climate action plans – 2 is given for production-specific data, while 5 is given if industry-level data are used.

25% reduction

in heat and electricity consumption

Carbon -neutral

Merkur is self-sufficient in electricity and heating

106%

of our energy demand met

ral 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 climate and sustainability action plans, Merkur engages in dialogue with customers on how individual farms can most effectively reduce their climate footprint.

Merkur's financing of renewable energy makes a big and positive difference because renewable energy displaces CO2e from the electricity grid. However, our lending to the sector declined in 2022, as some customers with large energy projects have become too large for Merkur to meet their financing needs. As a result, the displaced CO2e emissions corresponded to 12% of our financed emissions in 2022. 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 2023.

Carbon accounting for Merkur's own activities

As mentioned at the beginning, CO2e emissions from Merkur's own operations are limited. Emissions from Merkur's operations stem primarily from business travel, from our consumption of district heating and electricity and from our data centre BEC Financial Technologies. But we are still doing everything we can to minimise our footprint.

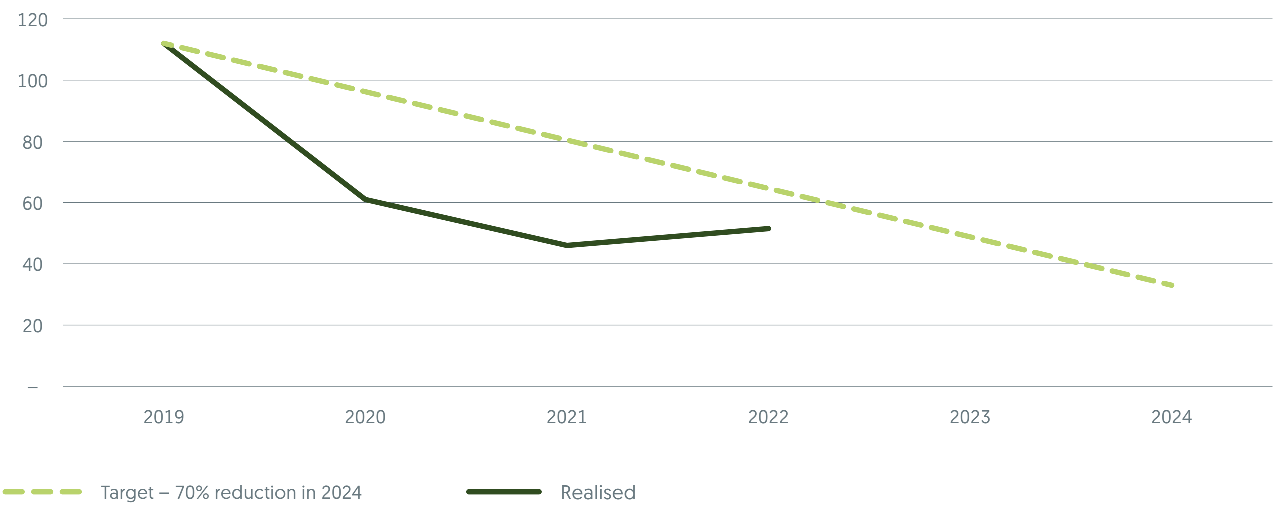
To ensure that our own activities remain carbon-neutral, we have over the past two years purchased 14 hectares of degraded – i.e. felled or depleted – rainforest in Ecuador. The regrowing forest will sequester 70 tonnes of CO2e a year. We bought the forest in collaboration with Birdlife Denmark's Climate 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 2021, Merkur announced the target of reducing our emissions by 70% by 2024, relative to 2019. This year, we achieved an emissions reduction of 56% compared to 59% in 2021. This means that emissions are slightly above last year's level, but we are still on track compared to the overall 2024 target. For example, the procurement policy limits the use of fossil-fuel cars, which reduced emissions from car transport by 15% in 2022. The main reason for the overall increase is two long-haul flights to this year's GABV meeting in Bangladesh. Read more about this on page 51. Emissions from our domestic transport, on the other hand, have fallen considerably.

In 2022, Merkur's electricity and heat consumption fell by 25%, and we have now reached a level where the amount of energy produced by the renewable energy plants in which we have an equity interest exceeds Merkur's own energy consumption. This means that Merkur is self-sufficient in energy, with 106% of energy demand being met.

The emissions from Merkur's own activities also include the emissions from our data centre, BEC, and the server space leased from subcontractor JN Data. JN Data was supplied with power from wind turbines in 2022 and will in 2023 also connect to the same new photovoltaic farm that supplies power to Merkur and the Merkur Climate Fund. As such, there will be no

Own emissions (tonnes of CO2e)



emissions from JN data in 2023. We therefore maintain our target of a 70% reduction by 2024.

In order to reduce and keep emissions from our own activities to a minimum, we set high standards for our procurement, consumption and recycling practices, and we have introduced an ambitious procurement and transport policy. When it comes to choosing suppliers and products, we seek out providers with sustainable production methods. 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. 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.

Action plan for the future

Ambitious targets must be followed by concrete action. Therefore, Merkur has prepared an action plan for how we can achieve our ambitious target of net zero by 2035 – the target that must be approved by SBTi, see page 44. You can see a full description of the action plan on page 50.

Achieving net zero requires close collaboration with Merkur's skilled agricultural customers. Merkur has always demanded that its agricultural customers consider the environment when producing food. Studies show that organic farms have 30% more biodiversity than conventional farms[3]. Our customers have thus come a long way, and several of them have launched sustainability initiatives, including for example the installation of renewable energy solutions on their farms. We are therefore confident that we can achieve our goal together.

Among other things, Merkur requires its agricultural customers to draw up climate action plans with an in-depth analysis of the CO2e emissions of each farm. Next, a calculation is made of which measures have the greatest impact, followed by a climate action plan setting out concrete measures to reduce the farms' climate impact.

In continuation of the work on the climate action plans, we will work with our agricultural customers to explore different types of farming methods with a sig-

[3] Source: ICROFS – International Centre for Research in Organic Food Systems

Procurement and transport policies · The main rules

Catering services for meetings and employees

✓ Organic as a minimum requirement
✓ Vegetarian
✓ We are always pleased to do business with Merkur's customers
✓ We aim to avoid food waste

Office supplies and furniture

✓ Office supplies from Grønt Kontor
✓ Paper and printed matter from KLS Pureprint
✓ LED lighting
✓ Furniture is bought second-hand where possible
✓ New furniture should be FSC- or Swan-labelled and PVC-free

Transport

✓ CO2 budget for all departments
✓ Customer visits and travel are generally made by train, bus or electric car
✓ Air travel only permitted for international travel with a travel time of more than eight hours

Tradesmen and service providers

✓ Collective agreements must be in place
✓ Use of environmentally friendly products for the job
✓ Social profile
✓ Local businesses

nificant carbon storage potential. Such methods could include regenerative agriculture, which focuses on improving and regenerating soil health and where herd sizes are determined by the land area available to the farm. Some of Merkur's agricultural customers are already working with alternative farming methods – for example holistic grazing of their own fields. Moreover, Merkur's agricultural customers have a total of approx. 1,000 hectares of permanent grassland with significant carbon sequestration.

The set-aside of low-lying farmland is also an effective way of reducing emissions from farms. In the coming years, we will support our agricultural customers in these efforts, for the benefit of the climate as well as biodiversity.

In 2022, Merkur also launched 'the Plant Journey', a strategic project which explores the exciting and important potential of plant-based production in both agricultural and food production.

When building new customer relationships in the future, we will prioritise farms whose primary source of revenue is plant production. We will support this strategic initiative by expanding our lending to plant-based farms, which will also benefit Merkur's existing customers, should they decide to focus more on plant production. The goal is for our agricultural portfolio to become increasingly plant-based over the coming years.

For the rest of our business customers, we intend to mainly offer loans to renewable energy and energy optimisation projects. As regards our personal customers, we also give priority to loans for energy renovations and energy source replacements. Merkur no longer offers loans to homeowners with fossil-based heating systems unless a plan is drawn up for replacing the heat source with, for example, a heat pump.

Merkur's action plan for the future

Expected timeline →

2022: Minimum criteria for all new customers

2022: Climate action plans for agricultural customers

2023: Agreements on concrete reductions for agricultural customers

2023: Land area requirements for new agricultural customers – herd size must be appropriate for the land area available

2023: Expand the plant-based foods business area

2024: Accelerate the transition to renewable energy sources in schools and institutions

2025: Prioritise agricultural customerswith regenerative potential

2026: Gradually introduce requirement for climate action plans for all business customers

2026: Initiate structured work on carbon sequestration by agricultural customers

2030: INTERIM TARGET 70% reduction for all business customers

2030: Gradual transition to regenerative agricultural portfolio

2030: Intensify work on carbon sequestration by agricultural customers

2035: 100% regenerative agricultural portfolio

2035: NET ZERO

Social responsibility

In Merkur's view, sustainability is not just about the climate and the environment. Merkur also values social responsibility highly, and our written ambition clearly states that we work actively to promote 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 the customers and projects we finance. Thus, Merkur has many customers who work to improve lives and living conditions, see page 26.

In this section, we report on Merkur's social commitment – how we as a company use our influence to change the world around us and how we conduct ourselves as a workplace.

Involvement in networks and think-tanks

In Merkur, we want to raise awareness of the role of financial institutions 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..

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 70 banks in 40 countries, which together serve more than 60 million customers. Merkur participates actively in the network every year, and in 2022 Charlotte Skovgaard and Lars Pehrson attended the annual meeting in Bangladesh.

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, backed by broad political support, the Danish government set up an expert working group on democratic enterprises consisting of several of the think-tank's members. In 2022, the working group published a number of recommendations on how democratically owned enterprises can play a greater role in Danish society. Merkur CEO Charlotte Skovgaard is a member of the Board of Directors of the think-tank.

The climate think-tank Concito:
Merkur is a member of Denmark's green think-tank, Concito, because we want to support a strong green voice in the debate with the Danish government, parliament etc. Merkur also attends network meetings organised by Concito to keep up to date on the latest climate insights and join the debate on how we as a financial institution can best support the green transition.

Because we are stronger together, we involve ourselves in networks and think-tanks that – like Merkur – are committed to creating a world in which life on earth are protected.

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.

Pengevirke magazine

One of Merkur's primary communication channels is our customer magazine *Pengevirke*, which is distributed twice a year to all customers. In 2022, *Pengevirke* addressed the topics of greenwashing and energy. In the wake of the growing awareness of sustainability issues among companies – also in the financial sector – many are keen to portray themselves as green or sustainable. But if their claims are not backed by action, there is a risk that sustainability loses credibility as a concept. Merkur decided to focus on greenwashing in *Pengevirke* and launch a follow-up ad campaign because it is imperative that truly sustainable initiatives launched by small and large companies alike are not overshadowed by empty words that are not backed by action.

Social media and press

Merkur is active on LinkedIn, Facebook and Instagram. In 2022, 79% of Merkur's posts were about sustainability or social responsibility. In the posts, we highlight a given topic and often also provide concrete suggestions for more sustainable lifestyle choices or business practices. The rest of our posts focused on more traditional banking information.

Thanks to an active media effort, Merkur's posts about banking that is respectful of people and nature have attracted more than 9 million views in the Danish media. The posts included stories about Merkur's high sustainability standards when screening business customers, Merkur's top ranking in a climate image survey and Merkur's call for the introduction of a necessary but fair carbon tax on agriculture. With such stories, Merkur leads by example and shows that it is possible to make business a force for good in the world in line with our strategy of being a sustainable and responsible beacon in the financial sector.

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

In 2022, the research institute Voxmeter conducted a comprehensive survey measuring the extent to which respondents perceived banks' claims about their climate commitments as credible. Merkur was ranked as the most trustworthy bank in the survey. We are extremely proud of our ranking, not least because it

Examples of activities

Conferences and debates:

Merkur's CEO, Charlotte Skovgaard, is a frequent speaker at conferences and in debates such as the energy company Andel's management conference, which discussed how companies can fully integrate sustainability into their business model like Merkur has done. Other presentations addressed sustainability, diversity and equality.

Klimafolkemødet:

The annual climate event *Klimafolkemødet* puts climate at the top of the agenda for citizens, professionals and politicians, which is why Merkur attended the event in 2022, highlighting the difference that banks and money can make in the fight against climate change.

Selected donations

Danmarksindsamlingen:
In 2022, Merkur donated DKK 20,000 to the national charity fund-raising event *Danmarksindsamlingen*. The corona pandemic has had a major impact on the most vulnerable children in the world. Some children have no access to schooling and face a childhood of child labour or as a child bride. In 2022, all the money raised during the event went to these vulnerable children.

Det Runde Bord:
In 2022, Merkur Cooperative Bank donated DKK 10,000 to *Det Runde Bord*, which distributes free surplus food to socially vulnerable people in Denmark. Merkur's donation helped fund Christmas meals for homeless people and others in need of a hot meal during the Christmas season.

CO2 savings account:
In 2022, Merkur donated a total of DKK 200,000 to two projects in Africa, of which DKK 100,000 helped fund solar-powered cookers for refugees in the BidiBidi refugee camp in Uganda. The cookers reduce pollution and deforestation, as the food would otherwise be cooked over an open fire. DKK 100,000 helped fund solar-powered water pumps for groups of women smallholder farmers in Kenya, where climate change has made irrigation necessary.
The water pumps thus help to protect the livelihoods of the women and their families.

shows that by actively using our voice we can be the beacon we aim to be.

Donations

Merkur's business model builds on the idea of bringing about positive change for society, and it pervades 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 59. Merkur also donates a small part of our earnings to 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. 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 2022, all of Merkur's employees completed a sustainability course developed by the financial training provider *Finanssektorens Uddannelsescenter*. The course was combined with our own brush-up course in Merkur's unique values and the minimum criteria for sustainable and responsible behaviour that a company must meet in order to obtain a loan from Merkur. When new employees join Merkur, they are offered both preboarding and onboarding courses in Merkur's sustainable approach to banking.

Proud and happy employees

Merkur conducted a well-being survey in 2022. An impressive 99% of Merkur's permanent employees completed the well-being survey, which was con-

50/50

gender balance in management positions

85%

satisfaction score

96%

of our employees are proud of their work

ducted for the first time in 2021. The survey showed a high level of well-being among Merkur's employees with an employee satisfaction score of 85% (75% in 2021).

Merkur's employees state that Merkur is an inclusive workplace, that they feel highly committed to their work, and that colleagues are good at supporting each other.

An impressive 96% (92% in 2021) of Merkur's employees are proud of their work, and 98% (99% in 2021) feel that they are making a difference in the society we are part of.

In 2021, the survey identified scope for improvement in the areas of well-being, pressure of work and collaboration. As a result, Merkur focused on general well-being and health in 2022, offering Falck Pulse to our employees in collaboration with AP Pension. Falck Pulse is an online health universe that helps people to make healthy everyday choices that can benefit their physical and mental health. In addition, all employees have been offered a physical health check by a nurse, and Merkur also conducted several exercise campaigns during the year, which were joined by several employees.

Merkur had a special focus on stress and in 2022 received DKK 30,000 from Foreningen Velliv in connection with the national Mental Health Day in Denmark. The money was spent on workshops on stress, well-being and job satisfaction in the individual departments. Concrete action plans have also been drawn up to reduce stress in departments with below-average scores in 2021. The well-being survey shows that we are on track: In 2021, 46% said they felt stressed to a greater or lesser extent. In 2022, the figure was 35%. The figure is still too high, and Merkur will therefore continue its special efforts to reduce stress and create a healthy work-life balance.

However, it is positive that the perceived work-life balance of our employees has improved significantly since 2021 and that our employees generally report high levels of well-being.

Merkur wants to be an inclusive workplace, and we make an effort to organise the work to suit the individual employee's circumstances and abilities. This means that we welcome part-timers and flexi-jobbers. At the end of 2022, we had 27 employees in part-time jobs and three flexi-jobbers.

Absence due to illness

Absence due to illness is higher than our goal of keeping absence below 6.5 days a year per employee. The number of sick days per employee increased from 5.3 days per employee in 2021 to 7.7 days per employee in 2022. The increase is mainly due to corona, as many of Merkur's employees were infected with the corona virus in the early months of the year, when infection rates were high throughout Denmark. 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.

Staff turnover and composition

Merkur has undergone many changes in recent years, and companies are generally experiencing fierce competition for employees. The financial sector is no exception. Nevertheless, Merkur is succeeding in retaining its talented employees.

The annual well-being survey showed an overall high level of well-being among Merkur's employees with an employee satisfaction score of 85%.

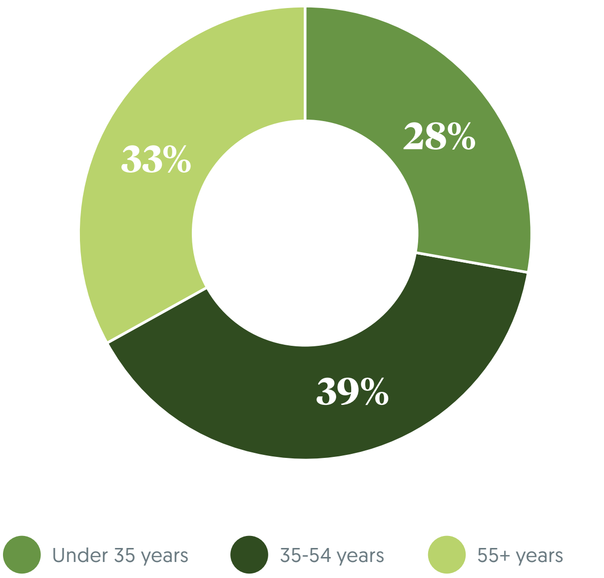
This is reflected in a considerable fall in staff turnover from 20% in 2021 to 16% in 2022. Merkur is therefore on track to achieve its target of around 15%, which is similar to the level in the sector.

The age distribution of Merkur's employees is relatively even above and below the average age, which is 45 years, the average in the financial sector being 44 years. A third of our employees are aged 54+, which is positive, as this group brings extensive experience and specialist skills to Merkur.

At the other end of the age spectrum are our trainees, who are also included in the statistics, which of course helps to reduce the average age. In recent years, Merkur has established structured collaboration with schools and educational institutions to welcome both interns and trainees who want to train with us.

It is important for Merkur to help train young people to meet the future demand for skilled labour. At the same time, young employees can contribute new and valuable inspiration. You can read more about employee diversity on the following pages.

Age distribution in Merkur



G

Corporate governance

Corporate governance is a topic of broad public interest, and the financial crisis has led to further scrutiny of the governance of financial undertakings. Merkur welcomes this development, because responsibility and ethics are key to the way we conduct our business. In this section, you can read about our ownership structure, why we value transparency, how it is actually possible to increase diversity in the financial sector and, last but not least, what Merkur does to combat money laundering and financing of terrorism.

Democracy

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 having 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 2022 was an impressive 91% (95% in 2021).

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 which companies and industries 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.

Diversity and equality

Diversity and equality are issues close to Merkur's heart, as we believe that everyone should be treated with respect and dignity and enjoy equal opportunities, and because we do not want to miss out on talent due to unconscious bias. For Merkur, diversity is about many different aspects such as gender and age, but also origin, background and personality.

In our recruitment process, we naturally encourage all qualified applicants to apply regardless of gender, age, ethnicity, disability, religion, culture or sexuality, and we further focus on diversity by, for example, striving for gender balance among the applicants shortlisted for all positions. It is crucial that our employees feel that we live this focus on a daily basis. We are particularly proud that an impressive 99% of Merkur's employees feel that everyone is treated fairly regardless of race, gender, age, ethnic background, sexual orientation etc.

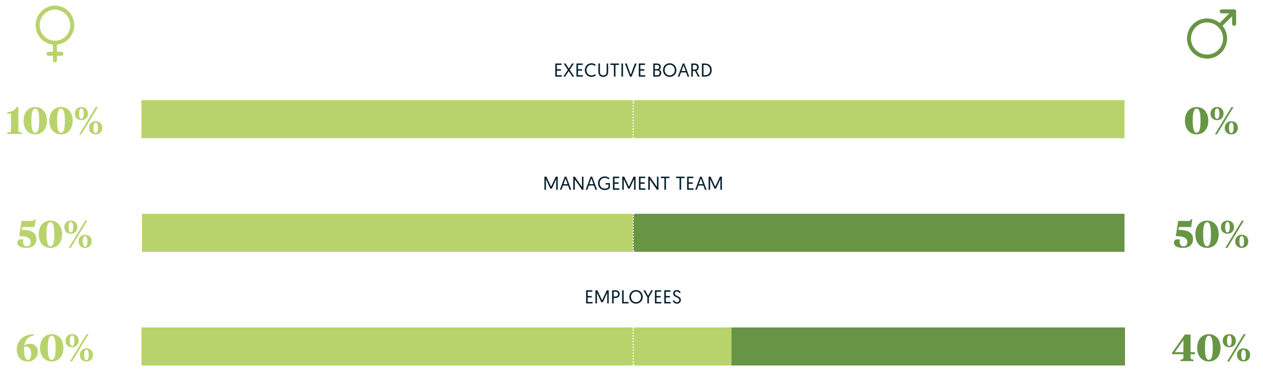
Overall, we have an equal gender distribution. However, the share of female employees increased from 58.0% in 2021 to 60.0% in 2022, making men the underrepresented gender. At management level, the share of female managers fell from 61.5% in 2021 to 50% in 2022, and we are proud to say that we now have an equal number of female and male managers.

In addition, Merkur is one of a very small number of Danish banks with a female CEO.

According to statistics from the Danish Employers' Association for the Financial Sector, Merkur is well ahead of other banks, where an average of only 28.8% of managers are women. In other words, we show that it is possible to achieve gender diversity in the traditionally male-dominated financial sector.

Against this background, growing interest was expressed in our experience in the field of diversity in 2022. Our CEO, Charlotte Skovgaard, is often invited to speak on diversity, and we are also regularly con-

Gender diversity



tacted by colleagues in the industry who are eager to share experience with Merkur's HR department. Merkur wants to make the world a better place and inspire others to improve diversity, and therefore we often accommodate such requests.

But true equality is also about equal pay, and male employees in Merkur earn 1.2[1] times as much as their female colleagues. Therefore, we continuously strive to ensure that employee salaries always reflect the job content, the level of responsibility involved and the employee's competencies, regardless of gender.

The gender distribution among the members of Merkur's Board of Directors elected by the Committee of Representatives is currently three men and two women, corresponding to 60% men and 40% women. Merkur wants an equal distribution of women and men at board level. See the Statutory information chapter on page 34 for information on target figures. Merkur also values diversity when it comes to the backgrounds and competencies of its board members.

You can read more about Merkur's Board of Directors on page 30.

Remuneration policy

The Executive Board is paid a fixed salary, and the remuneration is assessed every other year as per the CEO's contract 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 members of the Executive Board always have the competencies needed to carry out their duties. The CEO of Merkur earns 5.5 times the median salary for Merkur's employees.

Combating money laundering and financing of terrorism

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

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

works closely with our data centre, BEC Financial Technologies, which provides systems that help detect and stop criminal acts. In 2022, BEC initiated a systems build-out, which makes it easier for us to detect any attempts to abuse Merkur for money laundering purposes. All Merkur's employees do an anti-money laundering course at least every other year. In 2022, we set up a new money laundering training programme in collaboration with Finanssektorens Uddannelsescenter to provide learning tailored to the employee's function in Merkur. The training programme consists of a module aimed at providing general knowledge of ways to prevent money laundering and financing of terrorism, and which is offered to several banks, and also of a module that deals specifically with Merkur's business procedures which we organised ourselves. All Merkur's employees completed the new training programme in 2022.

International payments were a special focus again this year. Due to Russia's invasion of Ukraine and the new rules introduced in the wake of the war, we have had a particular focus on payments to and from Ukraine and Russia, which have almost been stopped completely. We have also checked whether payments made to or through Merkur might represent an attempt to conceal funds originating from Russia. Fortunately, we did not find this to be the case.

We are aware that the scrutiny of international payments may inconvenience our customers, but this is necessary to comply with both Danish and international law.

Merkur is one of a small number of Danish banks with a female CEO, Charlotte Skovgaard.

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 which shares Merkur's 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 raised and distributed more than DKK 14m.

Merkur Foundation supported an impressive number of projects in 2022 – 44 in total. 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 are now in a position to make more donations that will make a difference far into the future.

Partnership projects raise 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 selected projects for which ongoing appeals are made.

In 2021, there were additional corona appeals, but the appeals held in 2022 were also highly successful. Most of our partnerships work in developing countries among vulnerable populations. Corona and especially the extensive and prolonged lockdowns without a social safety net had devastating social consequences. Families lost their livelihood, leading to malnutrition and, in some cases, even violence and abuse. Once the children were able to return to school and their parents to their odd jobs, lives could return to normal, but many children experienced physical and mental problems which required a dedicated effort to resolve. Fortunately, the effort was supported by many donors, and even though donations were lower than in the record year 2021, an impressive DKK 865,000 was donated 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 thorough work done by the foundation in connection with the two donations provided Merkur with valuable experience. In 2022, the foundation made another special donation and is preparing a fourth.

2022 in headlines

	2022
172 donors donated a total of	DKK 1,102,000
A special donation enabled Merkur to make a project donation of	DKK 180,000
43 other projects received a total of	DKK 1,311,000

Special donations are made for purposes that fall within the scope of the Merkur Foundation. When a potential donor approaches the foundation, the intended recipients draw up proposals for use of the donations based on a draft from the Merkur Foundation. The Board of Directors approves the proposals, and the donor then makes a decision, after which the donations can be paid out.

Donations like these reflect 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 Foundation and Merkur Cooperative Bank have also played a role in the building of trust.

The Merkur Foundation intensifies its international cooperation

The Merkur Foundation works with several sister organisations abroad, for example GLS Treuhand in Germany and Stiftung Freie Gemeinschaftsbank in Switzerland. In 2022, the foundation intensified its mutually inspiring cooperation in different ways. In June, we received a visit from an employee from Stiftung FGB, who introduced us to the work they do in Switzerland. Stiftung FGB is slightly larger, but nevertheless comparable to the Merkur Foundation. Later in the year we made a return visit. Administrator of the Merkur Foundation, Lars Pehrson, has joined GLS Treuhand's Board of Directors upon request. GLS Treuhand is a significantly larger organisation than the Merkur Foundation; it donates up to DKK 150m annually and manages about 170 subfunds consisting of donations by specific donors for purposes they want to promote. The Merkur Foundation is very inspired by the two organisations and collects ideas for the continued development of the Merkur Foundation.

Merkur Foundation has gifted DKK 180,000 to Baaring Efterskole, which spent the money on a new music room, among other things.

New partnership project

In 2022, the Merkur Foundation entered into a new partnership project with Seniors Without Borders (SUG). The organisation is – as the name suggests – an association of people who have left the labour market, but are now involved in development work as volunteers. Working in small groups, they are involved in projects in around 10 different countries. Their work is centred on helping people help themselves, cooperation with local civil society organisations, sustainability/climate issues, agriculture and children/young people/education. SUG often receives grants from CISU – Danida's 'sister organisation'. They also receive sponsorships, gifts and funds from other foundations. Through their partnership with the Merkur Foundation, they hope to strengthen fundraising among their own members for the benefit of the association's work.

Examples of projects

Baaring Efterskole

DKK 180,000 for improvements

Baaring Efterskole was formerly known as 'Den Rytmiske Efterskole i Baaring'. After having experienced financial difficulties in connection with the corona pandemic, the school has now recovered, but the years of financial hardship meant that some projects were put on hold. These include long-term improvements such as a new music room for the growing number of students, a permanent amphitheatre for outdoor music events and postponed maintenance tasks such as new windows. A substantial special donation to the foundation made it possible to support the school.

Sønderborg Kvinde- og Krisecenter

DKK 25,000 for courses for volunteers

In addition to a permanent staff, Sønderborg Kvinde- og Krisecenter has 70-80 volunteers who handle a wide range of tasks at the women's crisis centre. In order to strengthen the volunteers' skills, the centre organises courses teaching practical skills such as first aid and firefighting as well as the very special skills that the work requires: Courses in how to deal with women and children in crisis, active listening, cultural understanding etc. By supporting the training of volunteers at the centre, the Merkur Foundation helps more women and children live a life free from violence.

Relevanz Ensemble

DKK 25,000 for a climate-themed debate and art event.

Peter Morrison, a composer, cellist and environmentalist and the leader of Stop Ecocide Denmark, had organised an innovative hybrid event. He had composed a piece for strings, soprano and percussion featuring old liturgical texts and words by Greta Thunberg, among others, which premiered at the event. The ensemble also played a piece by the Danish composer Rued Langgaard. The pieces were interspersed by video works and photos with themes from the natural world. In addition, the event featured a debate with Connie Hedegaard, former European Commissioner for Climate Action, and Vasna Ramasar from Lund University, on climate, nature and the possible role of art in this context. The fusion of audio, video and debate allowed the audience to immerse themselves in the topic of the event. One of the guests said: "I didn't expect the alternation between art and debate to be so fruitful, which made it all the more interesting. We need more events like that!"

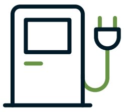
Merkur Climate Fund

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 out ambitions into actions. In 2020, Merkur therefore set up the Merkur Climate Fund. The fund is an independent and separate legal entity. The purpose of the Merkur Climate Fund is to support projects aimed at preventing and adapting to climate change. The Merkur Climate Fund has a special focus on promoting 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 publicly accessible 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.

The Merkur Climate Fund has established publicly accessible charging points in Copenhagen, among other places.



129

charging points for electric cars

413%

increase in power supplied for charging electric cars relative to 2021

The fund did not install any new charging points in 2022, but focused exclusively on operating the 129 charging points installed in 2021. However, we saw a marked increase of no less than 413% in the amount of power supplied for charging electric cars. In total, the Merkur Climate Fund's charging points have supplied 564,000 kWh of power. There are several reasons for the impressive increase. First, a growing number of electric cars are hitting the roads, and urban electric car drivers have discovered the Merkur charging points. Second, we have found that more drivers charge their vehicles at higher voltages – which means that more power is delivered to the vehicle while charging.

It must be attractive to drive an electric car

Merkur's charging points can be used by all drivers, you do not have to have an account, and the price is low. The high energy prices seen in 2022 have prompted some charging point operators to raise prices significantly in order to cover their costs. The Merkur Climate Fund wants to support the trend of more people choosing an electric car over a fossil-fuel car, simply because it is better for the climate. Our view is that it should be cheaper to drive a kilometre in an electric car than in a car with a tank full of petrol. The Merkur Climate Fund therefore only made minor adjustments to the price per kWh in 2022 to ensure that driving an electric car remains attractive.

Customers of Merkur Cooperative Bank can charge their cars at an even cheaper rate than other drivers.

It is crucial for the Merkur Climate Fund that the charging points supply the greenest power on the market. In 2021, the fund therefore entered into an agreement together with Merkur Cooperative Bank to purchase power from a new solar farm erected in 2022. In the future, power for the Merkur Climate Fund's charging stations will be supplied by the solar farm[1], which enables us to keep prices low.

Merkur Climate Fund continues to drive development

The Merkur Climate Fund continues to pursue its ambition of combatting climate change. Among other things, the Merkur Climate Fund makes some of the existing Merkur charging points available for testing, research and development in order to improve the infrastructure. In 2023, there are plans to expand and install even more charging points in urban areas.

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

[1] The agreement currently covers 500 MWh per year.

Sustainability data

Emissions from Merkur's activities, tonnes of CO_2e

	2022	2021	2020
District heating	7	8	10
Electricity	6	5	8
Business travel	27	22	27
Data centre BEC	11	11	16
Total emissions	**51**	**46**	**61**

Displaced and absorbed emissions

	2022	2021	2020
Displaced emissions (renewable energy)			
Middelgrunden Vindmøllelaug	-2	-2	-5
Hvidovre Vindmøllelaug	-13	-13	-19
Plasticueros. Photovoltaic facility in Spain	-11	-10	-22
Absorbed emissions			
Purchased degraded rainforest in Ecuador	-70	-35	-35
Purchased Gold Standard	-30	0	0
Net emissions	**-75**	**-14**	**-20**

Total CO_2 emissions

(TONNES OF CO_2E)	2022	2021	2020
Scope 1	0	0	0
Scope 2	13	13	18
Scope 3 – upstream	38	22	43
Scope 3 –downstream	8,505	10,319	N/A

Resources

	2022	2021	2020
Energy consumption (GJ)	**588**	708	762
Renewable energy share (%)	**106%**	87%	91%
Paper (kg)	**4,616**	5,834	3,552

Financed emissions industry

	Lending in DKKm 2022	Share of lending	tonnesof CO2e 2022	Share of emissions	Intensity* 2022	Targets for 2023	Targets for 2022	Intensity* 2021
Landbrug	222	26%	6.589	84%	29.7	29.2	29.5	31.1
Undervisning og institutioner	173	21%	523	7%	3.0	2.8	2.5	2.6
Other services, cultural institutions and organisations	88	10%	137	2%	1.6	1.4	1.0	1.1
Letting etc. of real estate – cooperative housing associations	93	11%	274	3%	2.9	2.7	1.8	2.0
Dairies and other food production	58	7%	150	2%	2.6	2.5	3.2	3.3
Other	119	14%	195	2%	1.6	1.5	2.1	2.3
Total	**753**	**90%**	**7.868**	**100%**	**10.5**	**-**	**-**	**10.7**
Renewable energy projects, climate loans	72	9%	-512					
Energy supply	13	1%	-510					
Net emissions	**838**		**6.846**		**8.2**			

*Emissions per DKKm of lending

Financed emissions personal customers 2022

	Lending in DKKm	Share of lending	tonnes CO2e 2022	Share of emissions	Intensity 2022	Intensity 2021
Mortgages	751	83%	516	81%	0,7	2.2
Car loans	41	5%	121	19%	3,0	3.0
Climate loans	9	1%	0%	0%		0
Total	**801**	**88%**	**637**	**100%**	**0,8**	**2.4**
Not included in calculation*	105					
Total lending personal customers	**906**					

*Emissions per DKKm of lending

Quality of financed emissions data: The data quality is rated on a scale of 1 to 5, with 1 being best. The score of Merkur's data for this reporting is 3.7 for business customers compared to 3.9 in 2021. For personal customers, the score is 4.7 against 4.3 in 2021.

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

Green Asset Ratio 2021

	Share in DKKm		Share in % of total assets	
	Included	Excluded	Included	Excluded
Total assets	698	3,866	15,3	84.7
States etc.	-	2,378	-	52.1
Non-NFRD companies*	-	1,632	-	35.7
Trading portfolio and interbank loans on demand	-	313	-	6.9

The Green Asset Ratio describes how many of the institute's activities are currently covered by the EU taxonomy for sustainable activities.
* Non-Financial Reporting Directive (NFRD)

Social data

	2022	2021	Sector 2022	Target
Number of employees (FTEs), including students	103.1	100.3	-	-
Staff turnover (%)	16.0	20.0	15.0*	15.0
Absence due to illness (days/FTE)	7.7	5.3	6.1**	< 6.5 in 2023
Seniority (years)	4.7	4.6	-	-
Average age (years)	45	44	44**	-
Under 40 years (%)	39	41	-	-
60+ years (%)	15	16	-	-

*Figure from August 2022

**Figure from 2021

Management data

	2022	2021	Sector 2022	Target figures
Gender diversity on the Board of Directors (%)	40.0	33.3		33.3%
Gender diversity (%)	60.0	58.0	49.7	Min. 40%
Gender diversity for other management levels (%)	50.0	61.5	28.8	Min. 40%
Gender pay gap (times)	1.2	1.2	1.2	1.0
Attendance of board meetings (%)	91.2	95.1		-
Pay gap between CEO and employees* (times)	5.5	4.0		-

*Employees' median salary

Statements and reports

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 2022 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 2022, as well as of the results of its activities for the financial year 1 January – 31 December 2022.

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, 2 March 2023

Executive Board:

Charlotte Skovgaard

Board of Directors:

Cornelis Anthonie Kuypers (Chair)

Anneke Stubsgaard (Vice-chair)

Bernhard Franz Schmitz

Hilde Kjelsberg

Jakob Brochmann Laursen

Henrik Kronel

Jesper Kromann

Trine Møller Monrad

The annual general meeting will be held on 25 March 2023.
The annual general meeting will be held with physical attendance in Copenhagen.

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 2022 and of the results of the bank's operations for the financial year 1 January – 31 December 2022 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 – 31 December 2022 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 six years, up until and including the 2022 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 2022. 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.

Audit matters

Loan impairment charges

Loans are measured at amortised cost less impairment charges.

Loan impairment charges represent management's best estimate of expected losses on loans as at the balance sheet date in accordance with the provisions of IFRS 9 as incorporated in the Executive Order on Financial Reports for Credit Institutions and Investment Firms etc. Reference is made to the detailed description of accounting policies in note 1 to the financial statements.

As a result of macroeconomic developments with sharply rising energy prices, high inflation and increased interest rates, management has recognised a significant adjustment of loan impairment charges in the form of an accounting estimate ('management estimate'). The impact of the macroeconomic developments on Merkur's customers remains largely unclear, and the assessment of the need for impairment is thus subject to increased uncertainty.

Loan impairment charges 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, for example, 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 macroeconomic developments for Merkur's customers.

Reference is made to note 13, notes 16-17, the 'Credit risk' and 'Risk management' sections in note 34 and note 2 'Material accounting estimates, assumptions and uncertainties', where factors that may affect loan impairment charges are described.

How the matters were addressed in our audit

Loan impairment charges

We reviewed and assessed the impairment charges recognised in the income statement in 2022 and the balance sheet as at 31 December 2022.

We carried out risk assessment actions to gain an understanding of IT systems, business practices and relevant controls regarding the calculation of loan impairment. 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 weak 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, for example, 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 weak 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 associated with generally increased risks, including segments particularly affected by macroeconomic developments.

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 macroeconomic developments.

We assessed whether the factor that may potentially affect loan impairment 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.

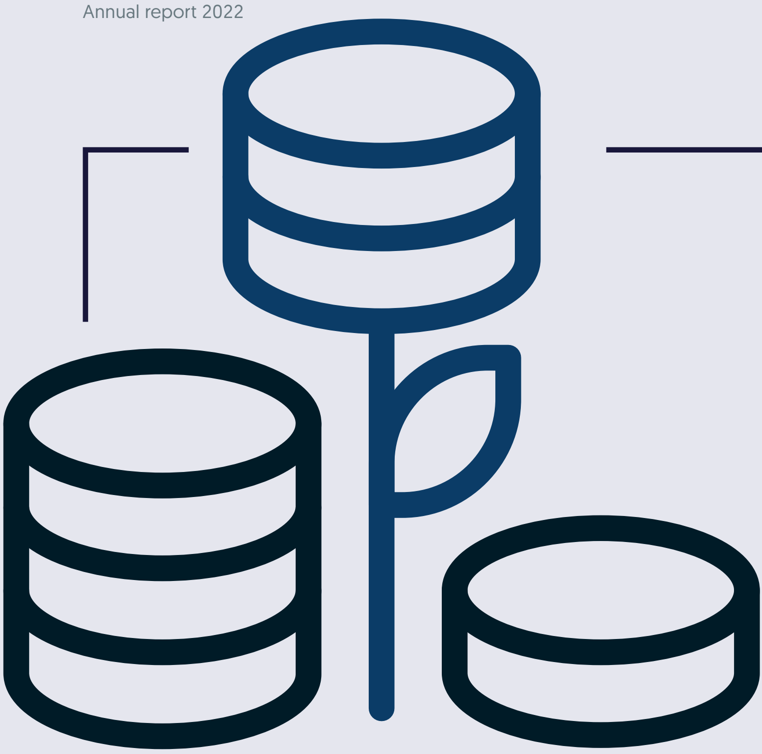
Based on the matters communicated to the senior management, we determine those matters that were of most significance in the audit of the financial statements for the period in question, and which therefore constitute the key audit matters. We describe these matters in our auditor's report unless law or other regulation precludes public disclosure of such matters.

Herning, 2 March 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR-nr. 3377 1231

Benny Voss
State-authorised public accountant
mne15009

Daniel Mogensen
State-authorised public accountant
mne45831



Financial statements

Income statement and statement of comprehensive income 2022

DKK '000	2022	2021	NOTE
Interest income	98,343	88,387	3
Negative interest income	-7,975	-11,953	4
Interest expenses	-6,980	-4,646	5
Negative interest expenses	13,655	13,527	6
Net interest income	**97,043**	**85,315**	
Dividends from shares etc.	129	74	
Fee and commission income	88,128	83,194	7
Fee and commission expenses paid	-10,556	-10,392	8
Net interest and fee income	**174,744**	**158,191**	
Market value adjustments etc.	-7,042	1,342	9
Other operating income	340	250	
Staff costs and administrative expenses	-139,301	-134,825	10-11
Depreciation, amortisation and impairment of tangible and intangible assets	-3,532	-2,705	12
Other operating expenses	-52	-16	
Impairment of loans and receivables etc.	-26,739	-8,285	13
Share of profit or loss of associates and affiliated undertakings	43	190	
Profit before tax	**-1,539**	**14,142**	
Tax	+895	-2,513	14
Profit for the year	**-644**	**11,629**	
Proposed distribution of net profit			
Carried forward to next year	-644	11,629	
Statement of comprehensive income			
Profit for the year	-644	11,629	
Other comprehensive income:			
Foreign currency translation adjustments, shares in EUR	1	16	
Revaluation, property	0	1,099	
Tax on comprehensive income, revaluation	0	251	
Other comprehensive income after tax	**1**	**1,366**	
Total comprehensive income for the year	**-643**	**12,995**	

Balance sheet

ASSETS [DKK '000]	2022	2021	NOTE
Cash in hand and demand deposits with central banks	2,377,786	2,352,775	
Accounts receivable from credit institutions and central banks	99,577	53,055	15
Loans and other accounts receivable at amortised cost	1,631,674	1,669,202	16-17
Bonds at fair value	213,495	224,243	18
Shares etc.	48,150	47,663	19
Investments in associates	690	1,847	20
Assets associated with pool schemes	87,994	51,479	21
Intangible assets	198	381	22
Land and buildings			
Land and buildings (domicile property)	11,919	12,177	
Domicile properties, leased	4,066	5,017	
Total land and buildings	**15,985**	**17,194**	23
Other tangible assets	1,955	1,691	24
Current tax assets	91	76	14
Deferred tax assets	11,821	10,926	14
Other assets	71,356	63,832	25
Prepayments	3,932	3,142	
TOTAL ASSETS	**4,564,704**	**4,497,507**	

Balance sheet [continued]

LIABILITIES AND EQUITY [DKK '000]	2022	2021	NOTE
Debt to credit institutions and central banks	99,063	123,082	26
Deposits and other debt	3,764,612	3,698,313	27
Deposits with pool schemes	87,994	51,479	
Issued bonds	24,827	24,798	28
Other liabilities	32,058	40,000	29
Accrued income	63	0	
TOTAL DEBT	**4,008,617**	**3,937,672**	
Provisions for pensions and similar liabilities	446	179	
Provisions for guarantees	6,665	8,091	
TOTAL PROVISIONS	**7,111**	**8,270**	30
Subordinated debt	131,936	139,596	
SUBORDINATED DEBT	**131,936**	**139,596**	31
EQUITY			
Share capital	228,322	225,056	
Share premium account	136,960	134,512	
Revaluation reserves	1,350	1,350	
Other reserves	4,708	4,708	
Retained earnings	45,700	46,343	
TOTAL EQUITY	**417,040**	**411,969**	
TOTAL LIABILITIES AND EQUITY	**4,564,704**	**4,497,507**	
OFF-BALANCE SHEET ITEMS			
Guarantees	686,385	773,182	32
TOTAL OFF-BALANCE SHEET ITEMS	**686,385**	**773,182**	

Statement of capital 2022

DKK '000	2022	2021
Share capital		
Share capital, beginning of year	225,056	219,658
Newly paid-up share capital	3,266	5,398
Total	**228,322**	**225,056**
Value of shares, end of year	1,744.30	1,770.30
Share premium account		
Share premium account, beginning of year	134,512	130,496
Share premium during the year	2,449	4,000
Other comprehensive income	-1	16
Total	**136,960**	**134,512**
Revaluation reserves		
Balance, beginning of year	1,350	0
Impairment of domicile property	0	1,350
Total	**1,350**	**1,350**
Other reserves		
Other reserves, beginning of year	4,708	4,708
Total	**4,708**	**4,708**
Retained earnings		
Retained earnings, beginning of year	46,343	34,714
Profit for the year	-643	11,629
Total	**45,700**	**46,343**
Breakdown:		
Retained earnings, beginning of year	46,343	34,714
Profit for the year	-643	11,629
Other comprehensive income	1	1,366
Total comprehensive income	**-642**	**12,995**
Other comprehensive income transferred to share premium account	-1	-16
Other comprehensive income, revaluation reserves	0	-1,350
Profit for the year	**-643**	**11,629**
Total	**45,700**	**46,343**

Statement of capital 2022 [continued]

DKK '000	2022	2021
Composition of equity, end of year:		
Share capital	228,322	225,056
Share premium account	136,960	134,512
Revaluation reserves, property	1,350	1,350
Other reserves	4,708	4,708
Retained earnings	45,700	46,343
Total	**417,040**	**411,969**
Other information about reserves		
Free reserves (previously A capital)		
Balance, beginning of year	19,127	18,504
Proportionate share of profit for the year	-34	623
Total free reserves	**19,093**	**19,127**
Share of other reserves	2,353	2,353
Total	**21,446**	**21,480**
Shareholders' reserves (previously B capital)		
Balance, beginning of year	27,217	16,210
Proportionate share of profit for the year	-610	11,007
Total shareholders' reserves	**26,607**	**27,217**
Share of other reserves	2,355	2,355
Total	**28,962**	**29,572**

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 have been applied consistently with the 2021 annual report. Minor reclassifications have been made under individual items in the income statement and balance sheet, including the specification in the notes. These have not affected this year's or last year's profit and equity and were made solely to ensure comparability of the individual items in the financial statements.

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 impairment 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 75% of the impact of the IFRS 9-compatible accounting rules in the determination of own funds 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 4.3m, which would reduce the capital ratio by 0.2 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.

On initial recognition, assets and liabilities are measured at fair value. However, intangible and tangible assets are measured at cost on 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 at the amounts that concern the financial year. However, any increases in the value of domicile properties are recognised directly in equity.

Foreign currency translation

On 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.

Front-end fees and similar income items that are an integral part of the effective interest rate on a loan are recognised under interest income over the term of the loan at the effective interest rate on the loan in question. Interest income from impaired loans is recognised in the income statement under the 'Impairment of loans and receivables etc.' item. Other fees are recognised in the income statement at the transaction date.

Commissions and fees as part of an ongoing service are accrued over the term of the loan. Other fees are recognised in the income statement at the transaction date.

Remuneration for mortgage lending services provided on behalf of Totalkredit and DLR Kredit A/S is recognised according to the set-off model.

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 include foreign currency translation adjustments.

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

Other operating income

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

Staff costs and administrative expenses

Staff costs comprise salaries, social security costs and pensions etc. to Merkur's staff. 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.

Merkur has entered into pension scheme agreements with most of its employees. Defined contributions are paid into an independent pension fund and to pension accounts with Merkur. Merkur has no obligation to make further contributions, and there are no pension obligations besides those mentioned above.

Other operating expenses

Other operating expenses include expenses of a secondary nature in relation to Merkurs' principal activity, including contributions to the statutory depositor guarantee scheme (resolution fund).

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 in other comprehensive income or directly in equity with the portion attributable to entries in comprehensive income and directly in 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.

The current tax for the year is calculated by applying the tax rates and tax rules in force at the balance sheet date.

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 at the value at which the asset is expected to be realised, either through offsetting against deferred tax liabilities or as net assets for offsetting against future positive taxable income. It is assessed at each balance sheet date whether it is likely that sufficient taxable income will be generated in the future for the deferred tax asset to be utilised. Deferred tax is calculated net.

BALANCE SHEET

Classification and measurement

According to the IFRS 9-compatible accounting rules, financial assets are classified and measured on the basis of the business model for the financial assets and the contractual payment flows associated with the financial assets. This implies that financial assets must be classified into one of the following three categories:

- Financial assets held to generate the contractual payments, where the contractual payments consist solely of interest and repayments on the outstanding amount, are measured at amortised cost after the date of initial recognition.
- Financial assets held in a mixed business model, where some financial assets are held to generate the contractual payments and other financial assets are sold, and where the contractual payments on the financial assets of the mixed business model consist solely of interest and repayments on the outstanding amount, are measured at fair value through other comprehensive income after the date of initial recognition.
- Financial assets that do not meet the above business model criteria, or where contractual cash flows are not exclusively comprised of interest and repayments on the outstanding amount, are measured at fair value through the income statement after the date of initial recognition.

Merkur does not have financial assets that are included in the measurement category of recognition of financial assets at fair value through other comprehensive income. Instead, Merkur's holding of bonds at fair value is measured through the income statement, either because they are part of a trading portfolio or a risk management system or an investment strategy which is based on fair values and is included in Merkur's internal management reporting.

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 the transaction costs directly linked to the acquisition of the receivable and less fees and commissions received which are directly related to the establishment. Subsequent measurement is at amortised cost.

Loans and other accounts receivable at amortised cost

Loans which, after initial recognition, are continuously measured at amortised cost are measured at fair value on initial recognition plus the transaction costs directly related to the acquisition of the loan and less fees and commissions received which are an integral part of the effective interest rate. This item consists of loans where disbursement has been made directly to the borrower and leases where disbursement takes place directly as payment for the asset by the supplier.

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

Model for impairment of expected credit losses

Under the IFRS 9-compatible impairment rules, impairment is made for expected credit losses on 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.

For financial assets recognised at amortised cost, impairment for expected credit losses is recognised in the income statement and reduces 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.

Stages of credit risk development

All loans are impaired in accordance with the IFRS-compatible impairment rules. The impairment model is based on a calculation of expected losses, with the loans being divided into three stages depending on the credit impairment of the individual loan since its initial recognition:

1. Loans without a significant increase in credit risk
2. Loans with a significant increase in credit risk
3. Credit-impaired loans

For stage 1 loans, impairment is made for expected losses over the next 12 months, while for stages 2 and 3 loans impairment is made for expected losses during the expected remaining term of the loans. Unlike stages 1 and 2, stage 3 interest income is recognised solely based on the impaired value of the asset.

As a general rule, the individual loans are classified into stage 1 on initial recognition, with impairment being made for 12 months of expected losses on initial recognition.

The classification into stages and calculation of the expected loss is based on Merkur's rating models, which are developed and maintained by the Merkur's data centre BEC and Merkur's internal financial and credit management function.

Assessment of significant increase in credit risk

When assessing the development in credit risk, a significant increase in the credit risk in relation to the date of initial recognition is deemed to have taken place in the following situations:

- An increase in the probability of default (PD) for the expected remaining term of the financial asset of 100% and an increase in the 12-month PD of 0.5 percentage points when the 12-month PD was below 1.0% on initial recognition.
- An increase in the probability of default (PD) for the expected remaining term of the financial asset of 100% or an increase in the 12-month PD of 2.0 percentage points when the 12-month PD was 1.0% or more on initial recognition.
- The financial asset has been in arrears for more than 30 days at an amount which is found to be substantial.
- If the rating model results in a downgrading of at least three levels compared to the latest rating or results in a bottom rating.

If the credit risk of the financial asset is considered to be low at the balance sheet date, the asset is, however, maintained at stage 1, which is characterised by the absence of a significant increase in credit risk. Merkur considers the credit risk to be low when the customer's 12-month PD is below 0.2%. In addition to loans and accounts receivable that meet the PD 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 into stage 1 if they are not credit-impaired.

Definition of credit impairment and default

Exposures move to stage 3 when the asset is credit-impaired or in default.

Exposure is credit-impaired (stage 3) if one or more of the following indications of credit impairment are present:

- The borrower is in considerable financial difficulties, and Merkur is of the opinion that the borrower will no longer be able to fulfil its obligations as agreed.
- The borrower is in breach of contract, e.g. due to non-fulfilment 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.
- it is likely that the borrower will be declared bankrupt or become subject to some other form of financial restructuring.
- Acquisition of a financial asset at a substantial discount reflecting incurred credit losses.
- The exposure has been in arrears/overdrawn without authorisation for more than 90 days at an amount which is found to be substantial.

However, financial assets are maintained in the weak part of 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.

Default

The determination of when a borrower has defaulted on their obligations is crucial for the calculation of expected credit losses. Merkur considers a borrower to be in default if:

- A significant portion of the borrower's payment obligations are more than 90 days in arrears or
- Merkur finds that the exposure is highly likely to result in losses and/or forced realisation of collateral for Merkur or other creditors.

The definition of credit impairment used by Merkur when measuring the expected credit loss is consistent with the definition used for internal risk management purposes, and the definition is also adapted to the definition of default in the Capital Requirements Regulation.

For example, customers are considered to be in default in case of bankruptcy, suspension of payments, debt restructuring, indication of current or expected future difficulties in balancing income and expenses etc.

There are only minor differences between Merkur's use of the definition of default, the accounting definition of credit-impaired loans (stage 3) and the definition of non-performing. Because Merkur has aligned the entry criteria for default, stage 3 and non-performing, the difference only lies in different withdrawal criteria and quarantine periods associated with the individual risk classification concepts.

Calculation of expected losses

The calculation of impairment of stages 1 and 2 exposures, except for the weakest stage 2 exposures, is based on a portfolio-based model calculation, while impairment of the remaining exposures is based on a manual, individual expert assessment 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.

In the portfolio model calculation, the expected loss is calculated as a function of PD (probability of default), EAD (exposure at default) and LGD (loss given default) on the basis of a PD model which is developed and maintained at Merkur's data centre, supplemented by a forward-looking, macroeconomic module developed and maintained by the trade association LOPI.

The macroeconomic module is constructed on the basis of a number of regression models that determine the historical correlation between impairment for the year within a number of sectors and industries and a number of explanatory macroeconomic variables. The regression models are then fed estimates for the macroeconomic variables based on forecasts from consistent sources such as the Danish Economic Council, Danmarks Nationalbank and others, where the 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 a calculation of the expected impairment up to two years into the future within specific sectors and industries, while for maturities exceeding two years a linear interpolation is made under normal conditions between the impairment ratio for year 2 and the impairment ratio in year 10, where a long-term model equilibrium in the form of a normal level is assumed to occur. Maturities in excess of 10 years are assigned the same impairment ratio as the long-term equilibrium in year 10. Finally, the calculated impairment ratios are converted into adjustment factors that correct the data centre's estimates in the individual sectors and industries.

Model uncertainties and management estimates

In addition to determining expectations for the future, stages 1 and 2 impairment is also associated with uncertainty because the model does not take account of all relevant factors. As we are currently in a period of inflation, rising energy prices and generally widespread uncertainty about the economic development, Merkur has decided to include an adjustment as a management estimate.

At the present time, it has not been possible to identify specific industries among Merkur's customers that are particularly risky. The management estimate is therefore distributed on all industries and personal customers.

The management estimate consists of a model where adjustments are calculated based on the Danish FSA's macroeconomic stress test of loans and guarantees within the individual industries, and a model which assesses some degree of customers from stage 1 to stage 2 and from stage 1 to stage 2 weak. Finally, a management estimate is made for model uncertainty.

Changes in impairment are recognised in the income statement under the 'Impairment of loans and receivables etc.' item.

Practice for the removal of financial assets from the balance sheet

Financial assets measured at amortised cost are fully or partially removed from the balance sheet if Merkur can no longer reasonably expect the outstanding amount to be paid in full or in part. Derecognition is based on a concrete, individual assessment of the individual exposures.

For business customers, Merkur will typically base the assessment on indicators such as the customer's liquidity, earnings and equity as well as the collateral provided as security for the exposure. For personal customers, Merkur will typically base the assessment on the customer's liquidity, income and assets as well as the collateral provided by the customer as security for the exposure. When a financial asset is fully or partially removed from the balance sheet, the impairment of the financial asset is also removed from the statement of accumulated impairment, see note 13.

Merkur continues its collection efforts after the assets have been removed from the balance sheet, 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 at fair value

Bonds traded in active markets are measured at fair value. The fair value is determined using the closing price of the relevant market at the balance sheet date. Drawn bonds are measured at present value. 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. The fair value of shares traded in active markets is calculated using the closing price at the balance sheet date.

Unlisted shares are valued at fair value. The determination of fair value is based on available trades in the shares of the company in question or a capital value based on an assessment of the expected future earnings or, alternatively, the equity value.

Investments in associates

An associated undertaking is an enterprise in which Merkur can exercise a significant but not a controlling influence.

Investments in associates are recognised and measured using the equity method, according to which investments are measured at the proportionate share of the equity value of the associates.

Merkur's share of profit or loss after tax in associates is recognised in the income statement.

Assets and deposits associated with pool schemes

Assets and deposits associated with pool schemes are measured at fair value and recognised in separate balance sheet items, and the return on the funds in the pool schemes is recognised in a separate item under market value adjustments etc. An adjustment corresponding to the pool returns paid to the pool participants is recognised under market value adjustments etc., so that the pool returns are balanced against the results.

Intangible assets

Strategic IT development projects for which we expect future earnings to exceed the costs are recognised at cost less accumulated amortisation and impairment. The assets are amortised on a straight-line basis over their expected useful lives, the maximum being 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 have been met.

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 'Other liabilities' item. On 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 an extension option as management is reasonably expected 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 for 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 present value, we have used an average alternative borrowing rate of 3% p.a. The leased domicile properties are subsequently measured at cost less accumulated depreciation and impairment. The lease asset is depreciated over the expected useful life of the lease asset. Depreciation and impairment are recognised in the income statement.

Other tangible assets

Other tangible assets are measured at cost less accumulated depreciation and impairment. 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 lower of carrying amount and fair value less selling expenses.

The assets are only temporarily held by Merkur. Assets and the associated liabilities are recognised separately in the balance sheet.

Any value adjustment of 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 the positive market value of derivative financial instruments, security deposits for leased premises, a pledged deposit with Merkur's IT provider, BEC, and other accounts receivable falling due after the end of the financial year, including interest receivable. Except for derivative financial instruments which have a positive value at the balance sheet date and which are measured at fair value, the accounting item is measured on initial recognition at cost and subsequently at amortised cost.

Prepayments

Prepayments recognised under assets comprise costs incurred relating to subsequent financial years. Prepayments 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 on initial recognition and subsequently at amortised cost.

Issued bonds

Issued bonds at amortised cost comprise senior non-preferred bonds, also known as senior non-preferred debt. Costs related to the issue are expensed as the loan is repaid, thereby maintaining the effective interest rate on the bonds issued throughout the term.

Other liabilities

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

This item comprises the negative market value of derivative financial instruments and expenses falling due for payment after the end of the financial year, including interest payable.

Except for derivative financial instruments which have a positive value at the balance sheet date and which are measured at fair value, the accounting item is measured at cost on initial recognition and subsequently at amortised cost.

Accrued income

Accrued income recognised under liabilities includes income received before the balance sheet date but which relates to subsequent accounting periods, including interest and commissions received in advance. Accrued income is measured at cost.

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 result in an outflow of Merkur's financial resources and the obligation can be measured reliably. The obligation is determined at the present value of the costs necessary to discharge the obligation.

Subordinated debt

Subordinated debt is measured at amortised cost. Costs directly related to the raising of subordinated debt are deducted from the initial fair value and amortised beyond the expected maturity.

Revaluation reserves

Revaluation reserves include revaluations of domicile properties. Revaluation ceases when the property is impaired or sold.

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 principle on the basis of the current practice and interpretation of the rules applying to Danish banks. The most significant estimates made by management in connection with recognition and measurement of these assets and liabilities and the material uncertainties associated with the preparation of the annual report for 2022 are:

- Impairment of loans and provisions for guarantees and credit commitments
- Measurement of fair value of financial instruments
- Measurement of domicile properties
- Measurement of deferred tax assets

Impairment of loans and provisions for guarantees and credit commitments

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 changes.

Measurement of loans will be significantly affected by the economic development. The economic development is greatly impacted by disrupted supply chains, energy prices and rising inflation.

Thus, there is a risk that negative developments in industries where Merkur has significant exposures may lead to further impairment.

If it is found that not all future payments will be received, the determination of the amount of the expected payments, including realisation values of collateral and anticipated dividend payments from estates, is also subject to significant estimates.

When measuring collateral secured on wholly or partly leased commercial or residential properties, the required return is one of the most important assumptions applied by Merkur. The value of properties is determined on the basis of an assessment of the expected return required by an investor in a property in that category. The required return for these properties is currently in the range of 4-12%. The required return depends, among other things, on geography, location, use of the property (commercial/residential), state of maintenance and any re-letting and level of vacancy etc.

The value of agricultural land plays a crucial role in the impairment of agricultural exposures. In the calculations of impairment for agricultural exposures that are assessed to be credit-impaired (stage 3), a maximum price per hectare of DKK 140 thousand has been used. If the price per hectare is instead set at a maximum of DKK 100 thousand, Merkur would have to make further impairment of DKK 4.0-4.2m. Furthermore, changes to milk quotas or the number of places in livestock housing units etc. may result in a need for further impairment, and such changes might be significant.

For personal customers, the calculation of impairment due to uncertainty concerning the future ability to pay is subject to uncertainty. Although some of Merkur's borrowers are currently able to pay instalments on their loans, the introduction of additional repayment or interest requirements will put pressure on their ability to pay. In addition, some homeowners will not be able to sell their homes without a loss. Merkur has calculated the uncertainty at DKK 3.9m.

The calculation of expected losses is based on management's expectations for the future economic development. Such expectations are subject to a significant degree of estimation on the part of management. Management bases such estimation on different scenarios (a 'base case', a 'better case' and a 'worse case'). These three scenarios are assigned a probability weighting depending on management's assessment of current expectations for the future. The determination of scenarios and their probability weighting are subject to uncertainty, and a change to a 100% probability of a worse case scenario occurring will increase impairment by approx. DKK 16.2m. A change to a 100% probability of a better case scenario occurring will reverse impairment, corresponding to approx. DKK 4.1m.

The scenarios used to calculate collateral and hence impairment of financial assets are influenced by many assumptions concerning economic cycles, legislation, natural conditions etc. Merkur has deliberately skewed towards a worse case scenario, as it is management's assessment that collateral loses value more easily than it increases in value, although it depends on the type of asset.

In addition to determining expectations for the future, stages 1 and 2 impairment is also associated with uncertainty because the model does not take account of all relevant factors. As we are currently in a period of inflation, rising energy prices and generally widespread uncertainty about the economic development, Merkur has decided to include an adjustment as a management estimate.

At the present time, it has not been possible to identify specific industries among Merkur's customers that are particularly risky. The management estimate is therefore distributed on all industries and personal customers.

The management estimate consists of a model where adjustments are calculated based on the Danish FSA's macroeconomic stress test of loans and guarantees within the individual industries, and a model which assesses some degree of customers from stage 1 to stage 2 and from stage 1 to stage 2 weak. Together, these assessments result in a management estimate of DKK 8.5m. The management estimate resulting from the corona pandemic, which in the annual report for 2021 was recognised at DKK 6.2m, has now been reversed.

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

Measurement of fair value of financial instruments

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing and independent parties in a normal transaction.

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. Measurement of unlisted shares and bonds have been recognised at estimated market

Measurement of domicile properties

The revaluation of domicile properties is subject to significant estimation. The estimation relates primarily to the determination of the required return. In addition to this, at the end of 2021 Merkur requested an assessment of Merkur's domicile properties from an estate agent in order to confirm their value. 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. The determination of the amount that can be recognised for deferred tax assets is based on estimates of the likely timing and amount of future taxable profits. Our projected budgets support our expectation of being able to exploit the tax asset within the next two to three 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.

DKK '000	2022	2021
NOTE 3. Interest income		
Accounts receivable from credit institutions and central banks	7,902	0
Loans and other accounts receivable	87,474	87,091
Bonds	2,056	1,045
Other interest income, including administration of pools	911	251
Total	**98,343**	**88,387**
NOTE 4. Negative interest income		
Accounts receivable from credit institutions and central banks	7,627	11,784
Bonds	348	169
Total	**7,975**	**11,953**
NOTE 5. Interest expenses		
Credit institutions and central banks	68	23
Deposits and other debt	374	385
Subordinated debt	5,503	3,152
Issued bonds, non-preferred senior debt	760	789
Other interest expenses, including lease payments	275	297
Total	**6,980**	**4,646**
NOTE 6. Negative interest expenses		
Deposits and other debt	13,655	13,527
Total	**13,655**	**13,527**
NOTE 7. Fee and commission income		
Securities trading and custody accounts	17,689	15,948
Payment handling	14,352	12,958
Loan business, fees and charges	5,580	5,160
Guarantee commission	23,942	22,515
Other fee and commission income	26,565	26,613
Total	**88,128**	**83,194**

DKK '000	2022	2021

NOTE 8. Fee and commission expenses paid

	2022	2021
Remuneration fees, external valuers	630	870
Interbank transaction fees	162	174
International fees, Visa and Mastercard	1,755	1,347
Other fees, pension systems etc,	4,805	4,328
Fees, Dankort and NETS	2,630	2,855
Fees, MobilePay	518	541
Paid guarantee commission	56	277
Total	**10,556**	**10,392**

NOTE 9. Market value adjustments etc,

	2022	2021
Bonds	-9,274	-1,551
Shares and equity investments	2,342	2,978
Foreign exchange income	-110	-85
Assets associated with pool schemes	-12,517	1,664
Deposits with pool schemes	12,517	-1,664
Total	**-7,042**	**1,342**

NOTE 10. Staff costs and administrative expenses

	2022	2021
Salaries and remuneration for Board of Directors and Executive Board*		
Salaries and remuneration for Board of Directors	1,879	2,126
Salaries and remuneration for Executive Board, incl, pension	3,659	3,895
Total	**5,538**	**6,021**

*Specification of salaries and remuneration for the Board of Directors and the Executive Board can be found in the remuneration report on Merkur's website: www,merkur,dk/aarsrapporter

	2022	2021
Staff costs		
Salaries	60,734	58,028
Pensions	7,189	6,431
Social security costs (financial services employer tax etc,)	12,084	10,335
Total	**80,007**	**74,794**
Other administrative expenses (note 11)	53,756	54,010
Total	**139,301**	**134,825**

Merkur does not offer incentive pay or performance-based pay to the Executive Board, the Board of Directors or employees,

	2022	2021
Significant risk takers		
Fixed salary	10,259	7,915
Variable salary	0	0
Number of employees with influence on the risk profile	**11**	**9**
Number of employees, full-time equivalents	**104.4**	**101.1**

DKK '000	2022	2021

NOTE 11. Other administrative expenses

IT costs, BEC	38,369	38,722
Other IT costs and telephony	2,200	1,462
Office supplies, stationery etc.	966	1,711
Postage	27	28
Travel costs etc.	572	427
Courses, training and other staff costs	3,013	2,889
Rent etc.	1,601	1,453
Maintenance of offices etc.	360	261
Insurance	444	472
Membership fees, banking associations etc.	1,058	1,444
Merkur's customer magazine 'Pengevirke'	639	584
Marketing	3,099	3,212
Auditing services**, legal and consultancy costs	1,094	1,151
Other costs, incl. VAT regulation	314	194
Total	**53,756**	**54,010**
Fee paid to the auditors elected by the annual general meeting (AGM)**		
Statutory audit of the financial statements	515	533
Other assurance engagements	213	130
Tax advice and other assistance	0	5
Total fee paid to the firm of auditors elected by the AGM and performing the statutory audit	**728**	**668**

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

NOTE 12. Depreciation, amortisation and impairment of tangible and intangible assets

Domicile property	258	253
Reversal, impairment of domicile property	0	-752
Machinery and equipment (including leasing of car)	1,299	948
Leasehold improvements	136	501
Leasing, rent	1,696	1,673
Leasing, rent adjustment, depreciation previous years	-40	-100
Development costs	183	182
Total	**3,532**	**2,705**

DKK '000	2022	2021

NOTE 13. **Impairment and provisions**

Total write-offs and impairment for the year		
Accumulated changes in impairment during the year	8,980	-6,426
Write-offs for the year, previously impaired	7,856	13,745
Write-offs, not previously impaired	11,895	2,539
Received on claims previously written off	-1,056	-325
Costs and value adjustment, assets temporarily held for sale	0	-313
Interest from impairment	-936	-935
Total write-offs and impairment for the year	**26,739**	**8,285**

Impairment of loans and other claims, provisions for guarantees and unutilised credit facilities

31 DECEMBER 2022	Stage 1	Stage 2	Stage 3	Total
Beginning of year	8,267	10,997	38,807	58,071
New impairment/provisions	3,111	9,515	22,597	35,223
Reversal of impairment/provisions	-5,375	-6,389	-6,624	-18,388
Transfer to stage 1	1,945	-1,904	-41	0
Transfer to stage 2	-1,217	4,085	-2,868	0
Transfer to stage 3	-1,585	-3,659	5,244	0
Write-offs, previously impaired/provided for	0	0	-7,856	-7,856
End of year*	5,146	12,645	49,259	**67,050**
*] Of which management estimate	2,379	6,372	0	8,751

Impairment of loans and other claims, provisions for guarantees and unutilised credit facilities

31 DECEMBER 2021	Stage 1	Stage 2	Stage 3	Total
Beginning of year	6,707	11,765	46,025	64,497
New impairment/provisions	4,215	3,786	11,332	19,333
Reversal of impairment/provisions	-3,563	-4,859	-3,592	-12,014
Transfer to stage 1	1,632	-784	-848	0
Transfer to stage 2	-594	3,995	-3,401	0
Transfer to stage 3	-130	-2,906	3,036	0
Write-offs, previously impaired/provided for	0	0	-13,745	-13,745
End of year*	8,267	10,997	38,807	**58,071**
*] Of which management estimate	758	5,728	0	6,486

DKK ‘000	2022	2021

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

Accumulated impairment ratio	2.7	2.3
In % of loans and guarantees	1.2	0.3
Zero-interest loans and reduced-interest loans due to borrower’s financial difficulties	40,373	19,358
In % of loans and guarantees before impairment	1.7	0.8
Further information on loans not fully impaired		
Loans and receivables with objective evidence of impairment, before impairment	149,076	176,070
Loans and receivables with objective evidence of impairment, after impairment	123,960	155,064

Migration between stages

	Migration stages 1 and 2		Migration stages 2 and 3		Migration stages 1 and 3	
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 impairment/provisions 2022	65,607	151,042	45,960	41,531	5,234	12,677
Loans and guarantees before impairment/provisions 2021	143,821	79,405	64,161	1,999	26,041	4,398

2022 saw a migration towards poorer-performance stages, especially from stage 1 to stage 2, which should be seen in the context of the current situation with inflation, rising energy prices etc., which pose challenges for some of Merkur’s customers.

DKK '000	2022	2021

NOTE 14. Tax

Adjustment of deferred tax	+917	-2,513
Adjustment of deferred tax, previous years	-22	0
Total	**+895**	**-2,513**
Effective tax rate on profit for the year	**-58.2**	**17.8**
Accounting profit before tax	**-1,539**	**14,142**
Tax calculated thereon at a tax rate of 22%	+339	-3,111
Changes in deferred tax, adjustment previous years	-22	0
Financial sector shares	+466	634
Other adjustments	+112	-36
Tax on profit for the year	**+895**	**-2,513**
Deferred tax assets		
Other	1,193	1,869
Tax loss carry-forward	10,628	9,057
Total deferred tax assets	**11,821**	**10,926**
Tax receivables		
Dividend tax paid	15	21
Dividend tax receivable regarding previous years	76	55
Total	**91**	**76**

NOTE 15. Accounts receivable from credit institutions and central banks

Broken down by term to maturity		
Demand deposits	69,577	53,055
Between 3 months and 1 year	30,000	0
Total	**99,577**	**53,055**
Broken down by central banks and credit institutions		
Accounts receivable from credit institutions	99,577	53,055
Total	**99,577**	**53,055**

DKK '000	2022	2021

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

Loans with access to variable utilisation	334,783	384,734
Leasing	52,180	18,221
Other loans	1,244,711	1,266,247
Loans and other accounts receivable, total	**1,631,674**	**1,669,202**
Broken down by term to maturity		
On demand	249,229	264,044
Up to and including 3 months	23,357	30,068
Between 3 months and 1 year	100,039	95,161
Between 1 year and 5 years	309,637	406,181
More than 5 years	949,412	873,748
Total	**1,631,674**	**1,669,202**

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 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	12.9	12.6
2.2 Industry and mining	3.0	2.8
2.3 Energy	1.0	3.7
2.4 Building and construction	0.5	0.6
2.5 Trade	1.2	0.9
2.6 Transport, hotels and restaurants	1.5	0.6
2.7 Information and communication	0.4	0.6
2.8 Credit, finance and insurance	2.4	2.3
2.9 Real estate	6.3	7.7
2.10 Others	19.5	18.0
Total corporate sector	**48.7**	**49.8**
3. Personal customers	**51.3**	**50.2**
1-3 Total	**100.0**	**100.0**

DKK '000	2022	2021
NOTE 18. Bonds at fair value		
Mortgage bonds	197,592	201,668
Government bonds	8,877	9,878
Foreign bonds	7,026	12,697
Total	**213,495**	**224,243**
Maturing in the next financial year	137,661	0

NOTE 19. Shares and other equity investments

DKK '000	2022	2021
Investment portfolio		
Danish financial sector companies	**44,757**	**44,171**
Strategic partners		
Triodosbank, Netherlands	487	459
GLS Gemeinschaftsbank, Germany	39	39
Freie Gemeinschaftsbank, Switzerland	31	30
Banca Etica, Italy	817	790
Cultura Sparebank, Norway	915	966
Ekobanken, Sweden	302	313
SEFEA – Società Europea Finanza Etica ed Alternativa, Italy	61	256
Sustainability Finance Real Economies (SFRE)	0	565
Triodos Sicav II	666	0
Shared Interest Society Limited, UK	17	18
Oikocredit, Netherlands	30	28
SIDI, France	28	28
Total	**48,150**	**47,663**

DKK '000			2022	2021
NOTE 20. Investments in associates				
	Equity interest	**Equity**		
Plasticueros ApS	**37.50%**	**EUR 247,196**		
Total cost, beginning of year			559	559
Total cost, end of year			**559**	**559**
Revaluations and impairment, beginning of year			88	106
Profit for the year			43	-18
Revaluations and impairment, end of year			**131**	**88**
Carrying amount, end of year			**690**	**647**

Important conditions:
Balances (loans in EUR) with the company are granted on Merkur's normal conditions. The company's activity is ownership of a photovoltaic facility in Spain. The acquisition has been made for the purpose of reducing Merkur's CO_2 emissions.

	2022	2021
Söderhof Vindmølle I/S, Germany		
Total cost, beginning of year	3,525	3,525
Disposals during the year	-3,525	0
Total cost, end of year	**0**	**3,525**
Revaluations and impairment, beginning of year	-2,325	-2,312
Revaluations and impairment for the year	0	24
Profit for the year	0	-37
Reversed revaluations and impairment	2,325	0
Revaluations and impairment, end of year	**0**	**-2,325**
Carrying amount, end of year	**0**	**1,200**

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 CO_2 emissions. Merkur and the other owners have entered into a sales agreement for the wind turbine, and the wind turbine was sold in early 2022.

	2022	2021
Total carrying amount of investments in associates, end of year	**690**	**1,847**

DKK '000	2022	2021
NOTE 21. Assets in pool schemes		
Investment units	85,413	48,107
Cash deposit	2,581	3,372
Total	**87,994**	**51,479**
NOTE 22. Intangible assets		
Cost, beginning of year	730	730
Total cost, end of year	**730**	**730**
Amortisation, beginning of year	349	167
Amortisation for the year	183	182
Amortisation, end of year	**532**	**349**
Carrying amount, end of year	**198**	**381**
NOTE 23. Land and buildings		
Domicile properties		
Revalued amount, beginning of year	15,241	13,390
Revaluation	0	1,851
Revalued amount before depreciation	**15,241**	**15,241**
Depreciation, beginning of year	3,064	2,811
Depreciation for the year	258	253
Depreciation, end of year	**3,322**	**3,064**
Value, end of year	**11,919**	**12,177**
Domicile properties, leased		
Value, beginning of year	8,413	6,891
Reassessment of leases during the period	745	1,522
Value before depreciation	**9,158**	**8,413**
Depreciation, beginning of year	3,396	1,723
Depreciation for the year	1,696	1,673
Depreciation, end of year	**5,092**	**3,396**
Value, end of year	**4,066**	**5,017**
Total property exposure	**15,985**	**17,194**

DKK '000	2022	2021

NOTE 24. Other tangible assets

Cost, beginning of year	17,772	17,019
Additions during the year	1,700	753
Total cost, end of year	**19,472**	**17,772**
Depreciation, beginning of year	16,400	15,110
Depreciation for the year	1,276	1,290
Depreciation, end of year	**17,676**	**16,400**
Carrying amount, end of year	**1,796**	**1,372**
OTHER TANGIBLE ASSETS, LEASED CAR		
Cost, beginning of year	477	477
Total cost, end of year	**477**	**477**
Depreciation, beginning of year	159	0
Depreciation for the year	159	159
Depreciation, end of year	**318**	**159**
Carrying amount, end of year	**159**	**318**
TOTAL OTHER TANGIBLE ASSETS	**1,955**	**1,691**

NOTE 25. Other assets

Miscellaneous receivables	21,279	20,216
Deposit with data centre	48,643	41,886
Interest receivable	1,434	686
Receivable regarding liquidation of Merkur Development Loans Ltd. A/S	0	1,044
Total	**71,356**	**63,832**

NOTE 26. Debt to credit institutions and central banks

Broken down by term to maturity		
On demand	99,063	123,082
Total	**99,063**	**123,082**
Broken down by central banks and credit institutions		
Debt to central banks	98,252	121,596
Debt to credit institutions	811	1,486
Total	**99,063**	**123,082**

DKK '000	2022	2021

NOTE 27. Deposits and other debt

Broken down by term to maturity		
On demand	3,763,846	3,694,497
Deposits redeemable at notice:		
Up to and including 3 months	0	260
Between 3 months and 1 year	511	2,794
Between 1 year and 5 years	255	762
Total	**3,764,612**	**3,698,313**
Broken down by type of deposit		
On demand	3,403,573	3,326,950
Deposits redeemable at notice	116,104	112,069
Fixed-term deposits	765	3,816
Special deposits	244,170	255,478
Total	**3,764,612**	**3,698,313**

NOTE 28. Issued bonds**

Nominally DKK 25m, floating interest rate of 3.0% as at 31 December 2022, matures on 17 December 2028	24,827	24,798
Total issued bonds	**24,827**	**24,798**
Broken down by term to maturity		
More than 5 years	24,827	24,798
Total	**24,827**	**24,798**

**The issue meets the conditions for counting towards satisfying Merkur's MREL requirement. The interest rate is 12 months CIBOR + 3.0% until December 2027. The bond can be redeemed for the first time in December 2027.

NOTE 29. Other liabilities

Various accounts payable	13,722	19,805
Interest and commission payable	2,873	2,346
Lease commitments	4,342	5,433
Other liabilities	11,121	12,416
Total	**32,058**	**40,000**

NOTE 30. Provisions

Provisions for pensions and similar liabilities	446	179
Provisions for losses on guarantees etc.	6,665	8,091
Total	**7,111**	**8,270**

DKK '000	2022	2021

NOTE 31. Subordinated debt

	2022	2021
Subordinated debt at amortised cost	131,936	139,596
Total	**131,936**	**139,596**
Subordinated debt used for determination of own funds	131,720	139,000
Interest	5,503	3,152

Subordinated debt
Subordinated debt that represent more than 10% of the total capital base can be specified as follows:

Due date	Currency	Interest rate*	Nominal value, DKK
08.07.2031	DKK	5.250	50,000
08.07.2031	DKK	4.830	44,000
28.05.2032	DKK	4.500	25,000

*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 2022. There are no special or alternative conditions relating to faster repayment or other terms for the above-mentioned subordinated debt. The subordinated debt is amortisable.

NOTE 32. Contingent liabilities

	2022	2021
Guarantees		
Financial guarantees	218,782	258,000
Loss guarantees for mortgage loans	374,996	418,277
Registration and conversion guarantees	78,236	81,577
Other guarantees	14,371	15,328
Total guarantees	**686,385**	**773,182**
Other obligating agreements		
Unutilised loan commitments	820,580	895,220
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 0.005%.

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.

DKK '000	2022	2021
NOTE 33. Capital ratio		
Composition of capital		
Equity	417,040	411,969
Transitional arrangement, IFRS 9*	4,324	8,649
Deductions:		
Capitalised deferred tax assets	-10,022	-9,057
Intangible assets	-198	-381
Other deductions, including NPEs	-24,158	-6,935
Value adjustment according to requirement for prudent measurement of assets	-262	-272
Actual Tier 1 capital instruments in the financial sector	-5,790	-2,173
Actual Tier 1 capital	**380,934**	**401,800**
Subordinated debt	131,720	139,000
Deduction for shares amounting to more than 33% of the Tier 1 capital	-4,742	-5,067
Own funds	**507,912**	**535,733**
Without the IFRS 9 transitional arrangement, own funds at year-end would total	503,588	527,084
Risk exposure		
Credit risk	1,653,010	1,921,639
Operational risk	279,678	268,513
Market risk	41,684	54,877
Total risk exposure	**1,974,372**	**2,245,029**
Capital ratio	**25.7**	**23.9**
Tier 1 capital ratio	**19.3**	**17.9**
Capital ratio, without IFRS 9 transitional arrangement	**25.5**	**23.5**
Tier 1 capital ratio, without IFRS 9 transitional arrangement	**19.1**	**17.5**

*Merkur has used the static model for phasing in the IFRS 9 impairment rules in the period 2018-2022. 2022 is the last year of the transitional arrangement.

DKK '000	2022	2021

NOTE 34. **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, i.e. the risk assumed by Merkur in connection with its lending activities. Merkur's risk management policies are designed to ensure that transactions with customers and credit institutions comply at all times with the frameworks and policies approved by the Board of Directors, 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 in % is shown in the table below.

CREDIT RATING GROUPS	2022	2021
1 – Objective evidence of impairment (OEI)	7	7
2 – Weak	0	0
3 – Customers under observation	5	6
4 – Good customers below average	18	17
5 – Good customers	31	33
6 – Good customers above average	37	34
7 – Very good customers	2	2
Not classified*	0	1
Total	**100**	**100**

*Credit quality ratings are only applied to commitments in excess of DKK 10 thousand. In 2022, we saw a small decline in customers in categories 1-3 due to our active management of action plans in this area. The most significant development was seen in credit rating groups '4-5 Good customers below average' to '6 Good customers above average'. See 'Accounting policies' under the 'Model for impairment of expected credit losses' section for further details.

The Danish FSA uses the following five categories when assigning credit quality ratings to customers. In Merkur, we have chosen a more detailed customer classification that divides our customers into seven categories. Merkur's rating can be translated into the Danish FSA's rating as follows:

	Objective evidence of impairment (OEI)	Under observation	Below average	Good	Above average
FSA category	1	2c	2b	2a	3
Merkur rating	1	2-3	4-5	6	7

DKK '000	2022	2021

NOTE 34. **Financial risk and policies and goals for managing financial risks [continued]**

Accumulated impairment in DKK thousand by stage and FSA category

Stage/FSA category	1	2c	2b	2a	3	**Total**
1	79	20	2,831	2,152	64	**5,146**
2	4	3	1,550	687	38	**2,282**
2 WEAK	1,601	5,285	2,765	712	-	**10,363**
3	48,581	10	668	-	-	**49,259**
Total	**50,265**	**5,318**	**7,814**	**3,551**	**102**	**67,050**

In addition to bening assigned to a credit quality rating category, Merkur's exposures are also assigned a stage based on whether the exposure is credit-impaired or not.

The following stages are used:

1. Exposures without a significant increase in credit risk.
2. Exposures with a significant increase in credit risk.

2 weak. Credit-impaired exposure where no loss is expected in the most likely scenario.

3. Credit-impaired exposures

A more detailed description can be found in 'Accounting policies' under the 'Stages of credit risk development' section.

DKK '000	2022	2021

NOTE 34. 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 2022 IN DKK THOUSAND

INDUSTRY	Stage 1	2	2 weak	3	Total
1. Public sector	**0**	**0**	**0**	**0**	**0**
2. Corporate sector					
2.1 Agriculture, hunting, forestry and fishery	157,831	16,650	48,274	21,056	**243,811**
2.2 Industry and mining	40,686	496	885	21,942	**64,009**
2.3 Energy	18,152	-	4,723	1,000	**23,875**
2.4 Building and construction	6,827	144	2,413	3,559	**12,943**
2.5 Trade	15,008	1	12,607	1,783	**29,399**
2.6 Transport, hotels and restaurants	21,148	89	13,179	2,133	**36,549**
2.7 Information and communication	6,461	1,256	2,589	1,124	**11,430**
2.8 Credit, finance and insurance	37,371	450	17,481	1,343	**56,645**
2.9 Real estate	99,337	1,710	12,441	44,484	**157,972**
2.10 Other	87,529	5,057	37,390	23,918	**153,894**
2.10 Schools, kindergartens and institutions	246,526	18,698	22,803	23,191	**311,218**
Total corporate sector	**736,876**	**44,551**	**174,785**	**145,533**	**1,101,745**
3. Personal customers	**1,115,562**	**63,452**	**74,494**	**27,794**	**1,281,302**
1-3 Total	**1,852,438**	**108,003**	**249,279**	**173,327**	**2,383,047**

END OF 2021 IN DKK THOUSAND

INDUSTRY	Stage 1	2	2 weak	3	Total
1. Public sector	**0**	**0**	**0**	**0**	**0**
2. Corporate sector					
2.1 Agriculture, hunting, forestry and fishery	184,879	853	17,371	32,548	**235,651**
2.2 Industry and mining	28,777	494	2,371	28,843	**60,485**
2.3 Energy	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 Credit, finance and insurance	51,896	1,145	4,196	602	**57,839**
2.9 Real estate	141,584	-	4,093	54,772	**200,449**
2.10 Other	70,750	1,775	43,392	21,637	**137,554**
2.10 Schools, kindergartens and institutions	225,257	7,078	67,004	13,782	**313,121**
Total corporate sector	**828,375**	**14,057**	**147,757**	**176,953**	**1,167,142**
3. Personal customers	**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**

DKK '000	2022	2021

NOTE 34. **Financial risk and policies and goals for managing financial risks [continued]**

Overview of accumulated impairment broken down by industry and stage

ACCUMULATED IMPAIRMENT, END OF 2022 IN DKK THOUSAND

INDUSTRY Stage	1	2	2 weak	3	Total
1. Public sector	**0**	**0**	**0**	**0**	**0**
2. Corporate sector					
2.1 Agriculture, hunting, forestry and fishery	537	268	1,337	10,154	**12,296**
2.2 Industry and mining	137	12	51	9,649	**9,849**
2.3 Energy	598	-	257	1,000	**1,855**
2.4 Building and construction	5	8	136	2,538	**2,687**
2.5 Trade	69	-	515	745	**1,329**
2.6 Transport, hotels and restaurants	237	16	1,042	541	**1,836**
2.7 Information and communication	17	10	66	31	**124**
2.8 Credit, finance and insurance	92	-	1,570	288	**1,950**
2.9 Real estate	82	310	238	5,524	**6,154**
2.10 Other	387	77	973	4,660	**6,097**
2.10 Schools, kindergartens and institutions	392	266	1,036	4,959	**6,653**
Total corporate sector	**2,553**	**967**	**7,221**	**40,089**	**50,830**
3. Personal customers	**2,593**	**1,315**	**3,142**	**9,170**	**16,220**
1-3 Total	**5,146**	**2,282**	**10,363**	**49,259**	**67,050**

ACCUMULATED IMPAIRMENT, END OF 2021 IN DKK THOUSAND

INDUSTRY Stage	1	2	2 weak	3	Total
1. Public sector	**0**	**0**	**0**	**0**	**0**
2. Corporate sector					
2.1 Agriculture, hunting, forestry and fishery	1,390	2	720	11,773	**13,885**
2.2 Industry and mining	70	1	162	2,859	**3,092**
2.3 Energy	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 Credit, finance and insurance	108	-	228	602	**938**
2.9 Real estate	452	-	127	3,224	**3,803**
2.10 Other	489	13	2,367	2,315	**5,184**
2.10 Schools, kindergartens and institutions	572	131	2,553	3,024	**6,280**
Total corporate sector	**4,544**	**228**	**9,273**	**27,620**	**41,665**
3. Personal customers	**3,723**	**411**	**1,085**	**11,187**	**16,406**
1-3 Total	**8,267**	**639**	**10,358**	**38,807**	**58,071**

DKK '000	2022	2021

NOTE 34. **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 potential/identified risks are reported to the Executive Board. 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 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, minor positions may arise that do not entail any substantial risk for Merkur.

Assets in foreign currency	-57,465	-43,306
Liabilities in foreign currency	63,465	55,266
Total off-balance sheet items in foreign currency	60	0
Net positions	**6,060**	**11,960**
Of which long positions	-194	-899
Of which short positions = currency indicator 1	6,254	12,859
Currency indicator 1 in % of Tier 1 capital after deductions	**1.6**	**3.2**

Interest rate risk
The interest rate risk is calculated in accordance with the Danish FSA'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 2% of the Tier 1 capital after deductions. Tier 1 capital after deductions amounts to DKK 381m. The interest rate risk may therefore not exceed DKK 7,619 thousand.

The interest rate risk is calculated based on the following:		
Securities	2,079	3,208
Fixed-rate deposits and loans	991	-2,210
I alt	**3,070**	**998**
Interest rate risk disaggregated across currencies with the greatest interest rate risk		
Currency:		
DKK	2,960	1,299
SEK	100	113
NOK	8	9
EUR	2	-423
Total	**3,070**	**998**

DKK '000	2022	2021

NOTE 34. Financial risk and policies and goals for managing financial risks [continued]

Interest rate risk in % of Tier 1 capital		
Securities	0.55	0.80
Fixed-rate deposits and loans	0.26	-0.55
Interest rate risk in % of Tier 1 capital	**0.81**	**0.25**

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

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 share market.

Liquidity risk
Merkur's financial resources are managed by maintaining adequate levels of cash, 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 available 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 2022, Merkur had an LCR of 557%, thus exceeding the statutory requirement by 457%.
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 2.6bn as at 31 December 2022.

Operational risk
Merkur seeks to limit operational risk, taking into account the costs involved. Tha bank's internal procedures are based on written business procedures and descriptions. Procedures are regularly updated with the aim, for example, of minimising dependence on individual employees.
IT contingency plans are in place to limit losses in the event of IT breakdowns or other similar emergencies. Insurance has been taken out to cover operational risk arising from criminal or tortious behaviour.

NOTE 35. Related-party transactions during the financial year

Loans, credit lines etc. for management		
Executive Board	0	0
Board of Directors	10,124	6,571
Collateral		
Executive Board	0	0
Board of Directors	3,592	1,074

Important conditions:
Loans to members of the Executive Board and the Board of Directors have been provided on Merkur's general terms. Interest of 3.35%-5.85% is charged on these loans. Loans to board members elected by the employees have been provided at special employee rates within the above-mentioned range. 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.

KEY FIGURES IN DKKM	2022	2021	2020	2019	2018
NOTE 36. **Financial highlights**					
Income statement					
Net interest and fee income	174.7	158.2	146.6	142.2	136.7
Market value adjustments etc.	-7.0	1.3	-0.7	1.0	-0.9
Staff costs and administrative expenses	139.3	134.8	130.4	118.7	112.7
Impairment of loans and receivables etc.	26.7	8.3	25.7	11.3	17.1
Share of profit or loss in associates	0.0	0.2	0.3	-0.8	0.1
Profit after tax for the year	-0.6	11.6	-10.4	9.1	3.1
Balance sheet					
Loans	1.631.7	1.669.2	1.642.7	1.667.9	1.681.1
Deposits, including pools	3,852.6	3,749.8	3,526.9	3,160.4	3,127.3
Equity	417.0	412.0	389.6	365.1	315.2
Total assets	4,564.7	4,497.5	4,153.0	3,704.1	3,614.7
Guarantees	686.4	773.2	688.3	637.4	619.5
Other information					
Number of full-service customers*	20,581	20,786	20,176	19,354	18,275
Number of shareholders	7,950	8,131	8,096	7,637	7,037
Ratios					
Capital ratio	25.7	23.9	20.8	20.0	17.8
Tier 1 capital ratio	19.3	17.9	19.0	18.0	15.8
Return on equity before tax (%)	-0.4	3.5	-7.0	3.1	1.2
Return on equity after tax (%)	-0.2	2.9	-5.4	2.6	1.0
Return on capital employed (%)	-0.01	0.3	-0.3	0.2	0.1
Income/cost ratio	1.0	1.1	0.9	1.1	1.0
Income/cost ratio excl. market value adjustments and impairment	1.2	1.2	1.1	1.2	1.2
Cost-to-income ratio excl. market value adjustments and impairment	0.8	0.9	0.9	0.0	0.8
Interest rate risk (%)	0.8	0.2	0.9	0.4	0.2
Foreign exchange position (%)	1.6	3.2	0.8	2.7	0.4
Foreign exchange risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%)**	557.5	566.9	541.4	460.6	527.8
Net stable funding ratio (NSFR)***	255.8	238.8	-	-	-
Loans and impairment charges in % of deposits	43.9	46.7	47.7	55.2	56.9
Lending-to-equity ratio	3.9	4.1	4.2	4.6	5.3
Growth in lending for the year (%)	-2.2	1.6	-1.5	0.0	-4.1
20 largest customer exposures in % of Tier 1 capital	111.1	118.6	135.2	133.5	137.5
Share of loans with reduced interest	1.7	0.8	0.5	1.1	1.3
Impairment ratio for the year	1.2	0.3	1.1	0.5	0.7
Accumulated impairment ratio	2.7	2.3	2.7	3.7	4.0

*We want 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 indicating how stable Merkur's funding is – the ability to pay depositors their deposits back.