Annual report 2023

MERKUR
COOPERATIVE BANK

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Merkur Cooperative Bank • Annual report 2023

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Cover photo: Merkur's customer Andelsgaarde buys and leases farmland in order to farm the land in a sustainable way together. Andelsgaarde is one of the recipients of the Merkur Value Pool. Photo: Kompas Kommunikation

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 actually 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.

Financial highlights

KEY FIGURES IN DKKm	2023	2022	2021	2020	2019
Income statement					
Net interest and fee income	238.6	174.7	158.2	146.6	142.2
Market value adjustments etc.	3.4	-7.0	1.3	-0.7	1.0
Staff costs and administrative expenses	148.1	139.3	134.8	130.4	118.7
Impairment of loans and receivables etc.	36.4	26.7	8.3	25.7	11.3
Profit or loss from investments in associates	0.0	0.0	0.2	0.3	-0.8
Profit after tax for the year	40.6	-0.6	11.6	-10.4	9.1
Balance sheet					
Loans	1,843.1	1,631.7	1,669.2	1,642.7	1,667.9
Deposits	4,040.4	3,852.6	3,749.8	3,526.9	3,160.4
Equity	477.2	417.0	412.0	389.6	365.1
Total assets	4,854.2	4,564.7	4,497.5	4,153.0	3,704.1
Guarantees	606.7	686.4	773.2	688.3	637.4
Other information					
Number of full-service customers*	21,077	20,846	20,916	20,176	19,354
Number of shareholders	8,082	7,950	8,131	8,096	7,637
Ratios					
Capital ratio	29.2	25.7	23.9	20.8	20.0
Tier 1 capital ratio	21.9	19.3	17.9	19.0	18.0
Return on equity before tax (%)	12.2	-0.4	3.5	-7.0	3.1
Return on equity after tax (%)	9.1	-0.2	2.9	-5.4	2.6
Return on capital employed	0.8	-0.01	0.3	-0.3	0.2
Income/cost ratio	1.3	1.0	1.1	0.9	1.1
Cost per krone of income excl. market value adjustments and impairment	1.6	1.2	1.2	1.1	1.2
Cost-to-income ratio excl. market value adjustments and impairment	0.6	0.8	0.9	0.9	0.0
Interest rate risk (%)	0.3	0.8	0.2	0.9	0.4
Foreign exchange position (%)	1.3	1.6	3.2	0.8	2.7
Foreign exchange risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%)**	534.7	557.5	566.9	541.4	460.6
Net Stable Funding Ratio (NSFR)	242.9	255.8	238.8		
Loans and impairment charges in % of deposits	49.2	43.9	46.7	47.7	55.2
Lending-to-equity ratio	3.9	3.9	4.1	4.2	4.6
Growth in lending for the year (%)	13.0	-2.2	1.6	-1.5	0.0
Ratio of 20 largest exposures to Tier 1 capital	114.7	111.1	118.6	135.2	133.5
Share of loans with reduced interest (%)	1.6	1.7	0.8	0.5	1.1
Impairment ratio for the year	1.3	1.2	0.3	1.1	0.5
Accumulated impairment ratio	3.3	2.7	2.3	2.7	3.7

*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

2023 in headlines

Despite yet another year of great uncertainty, Merkur posted its best results ever, recording a profit for the year of DKK 54.4m before tax (DKK 40.6m after tax). The positive results are mainly due to rising interest rates, but also to the fact that more people are demanding social responsibility and sustainability – also from their bank. Merkur's active efforts have therefore increased lending to both new and existing customers. In the past year, we have again focused on reducing costs as much as possible.

To our delight, lending increased by 13% from DKK 1,632m at the end of 2022 to DKK 1,843m at the end of 2023. The increase was seen in lending to sustainable and socially responsible businesses as well as lending to personal customers. Our business volume per customer also grew, achieving our strategy of offering all-round advisory services to our customers to meet more of their needs. In short, we can now make an even more positive difference for even more people.

This year's very satisfactory results were reflected in an 8.4% increase in the price per share compared to the end of 2022. We are delighted to be able to honour the loyalty that many of our shareholders have shown us over the years.

In 2023, we also introduced the Merkur Value Pool, a new donation concept, under which we donate a portion of our net interest and fee income from the previous year to four charitable, not-for-profit customers in Merkur and the Merkur Foundation each year. In 2023, we donated DKK 430,000. In 2023, our strategic project 'The Plant Journey' also got underway. With the project, we want to use dialogue and funding to drive Danish food production in a more plant-based direction.

Highlights from 2023

PROFIT FOR THE YEAR
DKK 54.4m
before tax

EARNINGS
170%
increase in basic earnings

INVESTMENTS
DKK 2.0bn
invested by our customers in Triodos' dark green funds

CAPITAL
DKK 20m
increase in share capital

PRIDE
99%
of Merkur's employees are proud of their work

DONATION
DKK 430,000
donated to four not-for-profit customers and the Merkur Foundation

Management review

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Financial performance

The past year

In 2023, we posted the best results in Merkur's history. This is due in large part to rising interest rate levels, but also to our consistent focus on keeping down costs and the growing appeal of Merkur's sustainable business model. In 2023, we took active steps to increase our lending to both existing and new customers. As a result, we posted a profit before tax of DKK 54.4m.

2023 was yet another year marked by uncertainty, among other things due to the war in Ukraine and the situation in the Middle East as well as high inflation. However, inflation fell over the summer and autumn, although there is no doubt that prices have still risen as has the cost of living. Fortunately, the finances of Merkur's customers seem to be relatively robust, and so there has been no significant need for impairment of individual customer exposures.

Merkur's income increased considerably in 2023, which is mainly due to rising interest rate levels in the wake of the interest rate hikes implemented by Danmarks Nationalbank in 2023 to bring down inflation. This had a positive impact on the return on Merkur's large excess liquidity, as it is primarily deposited with Danmarks Nationalbank. In 2023, Merkur raised interest rates on customer lending, but not as much as Danmarks Nationalbank.

170%
increase in basic earnings

Consequently, Merkur's basic earnings grew by an impressive 170%. Basic earnings, calculated as the profit before tax less market value adjustments etc. as well as impairment charges and losses on loans, is one of the most important metrics, as it measures a company's primary operations. The increasing basic earnings can primarily be attributed to increasing net interest income, whereas fee income fell slightly, partly as a result of reduced activity in the housing market and partly because we reduced some prices.

Merkur's costs also increased in line with inflation, and collectively agreed salary increases for employees were also higher than they have been for many years. In addition, Merkur now offers interest on specific savings products.

After years of weak or negative lending growth, lending grew by 12.8% in 2023, which is an extremely satisfactory development. There is a strong demand for loans with a focus on sustainability and social responsibility from existing and new business customers, but also for home financing products from personal customers.

At the start of 2023, we expected a profit before tax for the year of DKK 20-30m. This target had already been realised at the time of publication of Merkur's interim financial statements for 2023, prompting us to revise our expectations for a profit before tax of DKK 35-43m. This year's profit before tax of DKK 54.4m has thus clearly exceeded our expectations.

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 2023, Merkur had a total of 21,077 full-service customers, which represents an increase of 1.1%. We welcomed a total of 1,905 new customers, of whom 1,538 are full-service customers. We are very pleased that there are customers who actively choose Merkur and the values we stand for. However, not all those interested in banking with us can be welcomed as new customers. Unfortunately, we had to reject some loan applications from both existing and potential new business and personal customers, either because they did not meet Merkur's minimum criteria or because of their financial situation.

In 2023, Merkur welcomed 581 new shareholders, which is around 73% more than in 2022. We are very pleased with this, as our shareholders enable us to offer loans to sustainable businesses and personal customers. At the end of 2023, Merkur had 8,082 shareholders.

In 2023, the share capital grew by DKK 20.0m, corresponding to 5.5%. Shares are primarily subscribed for by Merkur's customers, but Merkur also has a few professional investors who view shares in Merkur as a long-term impact investment.

In the coming years, the share capital and positive earnings will 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 2024 onwards.

21,077
full-service customers

8,082
shareholders

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 4bn in 2023, which represents a 4.2% increase compared to 2022. In 2023, we saw growing interest from customers in Merkur's 'Andelshaverkonto med binding' and 'Pluskonto' savings products.

Customers also increased their investments in Merkur's impact pools, which allow them to invest their pension savings in impact funds where sustainability is an integral part of the investment strategy. Merkur's impact pools increased by DKK 26.7m in 2023, of which value added in the form of positive market value adjustments etc. amounted to DKK 10.8m.

DKK 4bn
in deposits

13%
increase in lending

DKK 2bn
invested by customers in Triodos impact funds

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 39. Merkur's customers have invested a total of DKK 2,044m in Triodos investment funds, an increase of 8% compared to 2022.

Customer investments

KEY FIGURES IN DKKm	2023	2022	Change
Triodos impact funds	2,044	1,886	158
SDG Invest	111	94	17
Sparinvest	60	66	-6
Maj Invest	8	11	-3
Total	**2,223**	**2,057**	**166**

To this should be added investments in funds from other partners of DKK 179m. In autumn 2023, market values in the investment area started going up again following challenging returns in 2022. We expect the investment area to continue to bounce back in 2024, as many of Merkur's customers are keen to promote sustainable change through their investments.

The first half of 2023 saw pronounced stagnation in the housing market, and the number of homeowners looking to buy and sell and refinance their mortgage loan fell compared to 2022. Home sales picked up in the last months of 2023, as the introduction of new property taxes from 2024 made it attractive for some customers to sell their home before the end of the year. In addition, some customers decided to refinance their mortgage loans to reduce their outstanding debt. At the end of 2023, Merkur's customers' total mortgage loans with Totalkredit were on a par with 2022, amounting to DKK 3.3bn, which we are satisfied with, as the activity level reflects the situation in the housing market in general.

DKK 3.3bn
worth of mortgage loans with Totalkredit

DKK 84m
increase in mortgage loans from DLR

Merkur also brokers mortgage loans via DLR, which showed a satisfactory increase in the period of 6% or DKK 84m.

Merkur's mortgage portfolio

IN DKKm	2023	2022	Development in %
Totalkredit A/S	3,344	3,348	0%
DLR Kredit A/S	1,389	1,305	6%
LR Kredit A/S	218	228	-5%
Total	**4,951**	**4,881**	**1%**

Merkur's lending grew by almost 13% in 2023, amounting to DKK 1,843m at the end of 2023 compared to DKK 1,632m at the end of 2022. We recorded a satisfactory increase in lending to our sustainable business customers and personal customers. The demand of the latter centred primarily on home loans and electric car loans in 2023. You can read more about the development in lending and the projects funded by Merkur in the section on Merkur's lending activities on page 20.

Merkur still has a large deposit surplus which means that at the end of the year we had liquid funds of more than DKK 2.5bn 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 legal requirement for financial institutions like Merkur is a liquidity coverage ratio of 100% of its calculated payment obligations. At the end of 2023, Merkur's LCR was 535%, or 435% higher than the LCR requirement.

In 2023, guarantees fell by DKK 80m compared to the end of 2022 and now amount to DKK 607m. Guarantees are primarily provided in connection with property transactions and mortgage financing, and even though housing market activity picked up towards the end of the year, we did not reach the level seen in late 2022.

At the end of 2023, the total volume of business, including brokered mortgage loans, amounted to DKK 13.7bn, an increase of just under DKK 0.6bn compared to the end of 2022.

As can be seen from the table below, we managed to grow business volume with our full-service customers – growth which was seen in all business areas with the exception of guarantees. 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.

Development in business volume

KEY FIGURES IN DKKm	2023	2022
Loans	1,843	1,632
Deposits	3,926	3,765
Deposits with pool scheme	115	88
Guarantees	607	686
Value of customer custody accounts	2,223	2,057
Business volume before mortgage brokering	**8,714**	**8,228**
Brokered mortgage loans	4,951	4,881
Total business volume	**13,665**	**13,109**
Business volume per full-service customer (DKK '000)	**650**	**629**

Income

In 2023, Merkur recorded an increase in net interest and fee income of DKK 63.8m or 36.5% compared to 2022.

37%
increase in net interest and fee income

The biggest increase was seen in net interest income, which rose by just under 70%. During 2023, Danmarks Nationalbank raised interest rates by a total of 1.85 percentage points, resulting in increased earnings from Merkur's excess liquidity, which is primarily deposited with Danmarks Nationalbank. In 2023, earnings from Danmarks Nationalbank and other credit institutions totalled DKK 72m, while earnings were very modest in 2022 due to intermittent periods of negative interest rates in 2022.

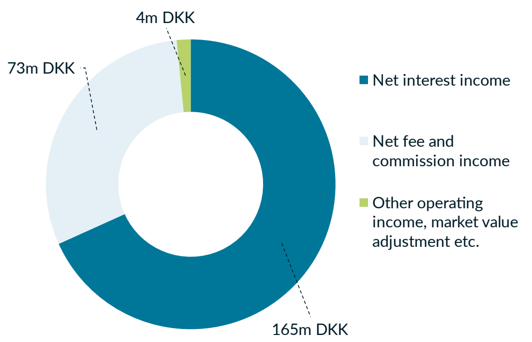
The interest rate rises by Danmarks Nationalbank also resulted in several interest rate changes for Merkur's customers – and both lending and deposit rates were revised upwards. Merkur chose not to raise the interest rate on loans at the same rate as Danmarks Nationalbank, while partially exempting some of Merkur's sectors and signature products from interest rate increases, including electric car loans and climate loans for energy renovations. Interest rate increases and lending growth during 2023 had a positive impact on interest income from loans, which rose by 20% or DKK 17.8m.

From the second half of 2022, after several years of negative deposit rates, Merkur started offering positive interest rates on savings products, including pension and children's savings accounts. As a result, interest expenses rose for customers with deposits in Merkur in 2023. In 2023, interest on deposits amounted to a cost of DKK 5.5m compared to net income of DKK 13.3m in 2022.

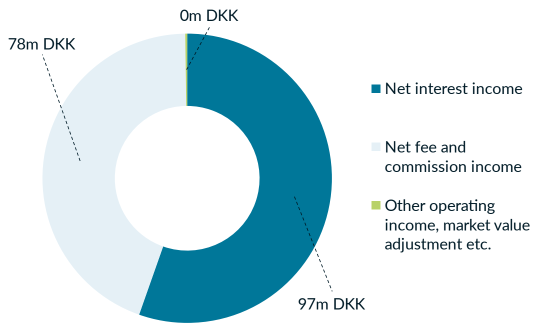
The rising interest rate level has also affected Merkur's payment of interest on subordinated debt, as most of it carries a variable rate of interest. Interest on subordinated capital increased by DKK 2.8m, partly as a result of the rising interest rates, but also because Merkur received an additional DKK 16m in subordinated capital in November 2023.

Net fee and commission income for the year was DKK 73.2m, down DKK 4.5m on 2022. In 2022, Merkur experienced considerable activity in home financing, including mortgage lending from Totalkredit. As already described, this activity did not continue into 2023. In 2023, we also experienced declining earnings from the investment products we offer, particularly in the first half of the year, bringing earnings from securities below the 2022 level. On the other hand, earnings from pensions and insurance grew, with Merkur offering its customers insurance products from Nærpension, among other things.

Merkur's income in 2023: DKK 242m



Merkur's income in 2022: DKK 175m



Costs

In 2023, Merkur's costs amounted to DKK 151.6m, up 6.1% compared to last year.
Salaries including remuneration for the Board of Directors are Merkur's largest expense, amounting to DKK 90.6m in 2023 – an increase of DKK 5.0m compared to 2023, corresponding to 5.9%. The collectively agreed salary adjustment from 1 July 2023 was 4.5%, which obviously contributed to the increase. However, the recruitment of more qualified employees and specialists also contributed to the increased costs.

Other administrative expenses amounted to DKK 57.5m, up DKK 3.8m or 7.0% compared to 2022. The increase in costs is partly due to the launch of the Merkur Value Pool in 2023, where a portion of Merkur's net interest and fee income is donated to selected not-for-profit customers. Read more about the Merkur Value Pool on page 47. In 2023, we also devoted a lot more resources to both external and internal competence development of Merkur's employees. In addition to salaries, the largest expense item remains our IT expenses, which in 2023 amounted to DKK 40.8m, up DKK 0.5m compared to 2022, which can primarily be attributed to a single large one-time cost item.

Costs

(DKK '000)	2023	2022	Development
Salaries	90,581	85,545	5.9%
IT	40,832	40,344	1.2%
Administrative expenses	16,692	13,412	24.5%
Depreciation and amortisation of tangible and intangible assets	3,418	3,532	-3.2%
Other operating expenses	112	52	115.4%
Total costs:	**151,635**	**142,885**	**6.1%**

A good indicator of the operational efficiency of a financial institution is the O/I ratio, which is calculated by dividing all costs by all income excluding market value adjustments etc. as well as losses and impairment of loans etc. Merkur's O/I ratio fell to 0.64 versus 0.82 last year, which means that every time Merkur earns DKK 100, DKK 64 is spent on salaries, IT, office supplies etc.

Market value adjustments etc.

For several years, Merkur has pursued a more conservative investment strategy than many other financial institutions. 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 and socially responsible 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.

In 2023, Merkur's bond holding contributed a positive market value adjustment of DKK 4.0m compared to 2022, when the bond holding contributed a negative market value adjustment of DKK 9.3m. Merkur's limited bond holdings are invested in very short-term mortgage and government bonds. In 2023, the total return on the bond holding was a gain of DKK 6.5m compared to a loss of DKK 7.2m in 2022. Market value adjustments etc. of shares and equity investments showed a loss of DKK 0.3m against a gain of DKK 2.3m in 2022. Merkur's investment in Danish financial sector shares contributed a gain of DKK 4.3m, while an investment in a foreign value-based bank contributed negatively at DKK 4.6m.

Overall, market value adjustments represented a gain of DKK 3.4m against a loss of DKK 7.0m in 2022.

Impairment and losses

Impairment and losses for the year totalled DKK 36.4m compared to DKK 26.7m in 2022. Losses on customers amounted to DKK 16.6m in 2023, most of which related to customers where weaknesses were already identified in previous years leading to subsequent impairment charges. In 2023, we increased the management estimate due to general uncertainties, including a potential shift towards poorer stages, and we also chose to make provisions to address the potential challenges associated with the possible introduction of a carbon tax on the agricultural sector. Overall, the management estimate amounted to DKK 17.2m at the end of 2023, up DKK 8.4m compared to 2022. At the same time, IFRS 9 impairments increased by DKK 4.7m, among other things as a result of growing socio-economic uncertainty.

The impairment ratio amounted to 1.3% of our loans and guarantees compared to 1.2% in 2022.

Measured against the balance sheet as at 31 December 2023, accumulated impairments totalled 3.3% of loans and guarantees, compared to 2.7% at the end of last year. Generally, Merkur writes off impairments where it is deemed unlikely that the customers' ability to pay will improve in the foreseeable future. At the end of 2023, accumulated but not written-off impairments totalled DKK 89m, up DKK 22m compared to the end of 2022.

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

Impairment ratio

	2023	2022	2021	2020	2019
Losses and impairment (DKK '000)	36,355	26,739	8,285	25,735	11,325
In % of loans and guarantees	1.3%	1.2%	0.3%	1.1%	0.5%

Profit for the year

In 2023, Merkur's income grew considerably. A positive contribution came from increased net interest income, while losses on loans are still relatively high.

DKK 54.4m
profit before tax
Best result in Merkur's 41-year history

Profit for the year before tax was DKK 54.4m and DKK 40.6m after tax, corresponding to a return on equity before tax of 12.2% and a return on equity after tax of 9.1%, which we consider to be extremely satisfactory, as this is the best result in Merkur's 41-year history.

The interim report announced a profit guidance in the range of DKK 35m to DKK 43m before tax (DKK 26m to DKK 32m after tax). The results significantly exceed our expectations, which we are extremely satisfied with. It is proposed that the profit for the year be transferred to equity.

Profit for the year

(DKK '000)	2023	2022
Profit after tax for the year	40,628	-644
Price per share at year-end	1,890.3	1,744.3
Return on shares during the financial year	8.4%	-1.5%

Share capital and subordinated debt

The impressive results for 2023 are reflected in the price per share, which in relation to the price calculated on the basis of the 2022 financial statements increased by 8.4% to DKK 1,890.30. The price per share in euro is EUR 472.58.

Merkur has issued subordinated debt totalling DKK 148m to a number of professional investors, most of which was issued in 2021. One of the issues in 2021 contained options for Merkur to acquire additional subordinated capital if certain conditions were met. As a result, in November 2023, we increased the issue by an additional DKK 16m. Most of the subordinated capital has a relatively long remaining term to maturity, expiring in more than seven years from now. Merkur thus has a very sensible capital composition and no refinancing need in the coming years.

Capital structure

Merkur’s own funds amount to DKK 581m 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 581m should be seen in light of Merkur’s risk-weighted exposures of DKK 1,994m, resulting in a capital ratio of 29.2%. The capital ratio increased by 3.5 percentage points compared to 2022. The primary reason for the increased capital ratio is the recognition of the profit for the period of DKK 41m, subscription of shares of DKK 20m and the addition of new subordinated capital of DKK 16m.
At the end of 2023, Merkur had a high level of own funds and excess capital adequacy of 12.4 percentage points over and above the solvency need of 11.8%, the capital conservation buffer of 2.5% and the cyclical buffer of 2.5%. This equates to excess capital of DKK 246m.

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, and it also corresponds to 2.5% of risk-weighted exposures.

Total own funds

(DKK ‘000)	2023	2022	Development
Share capital including share premium	385,301	365,282	5.5%
Reserves, revaluation reserves and other comprehensive income	91,894	51,756	79.5%
Subordinated debt	145,587	131,720	10.5%
Capital before deduction and transitional arrangement	**622,782**	**548,758**	**13.6%**
Miscellaneous deductions (investments in financial companies etc.)	-41,432	-45,170	-7.1%
Additions due to IFRS 9 transitional arrangement	0	4,324	-100.0%
Own funds	**581,350**	**507,912**	**14.5%**
Risk-weighted assets and other risks	**1,993,750**	**1,974,372**	**1.0%**
Capital ratio	**29.2%**	**25.7%**	**13.5%**

A more detailed statement can be found in note 33

Eligible liabilities (MREL requirement)

The Danish Financial Supervisory Authority (FSA) recalculates and determines the MREL requirement once a year, which until 1 January 2024 was being phased in. In the period 1 January 2023 – 31 December 2023, Merkur’s MREL requirement amounted to 15.7%, while the MREL requirement determined by the Danish FSA from 1 January 2024 amounts to 16.2%.

The MREL requirement, i.e. the recapitalisation amount, must be met using capital instruments or non-preferred senior debt which is subordinated to simple creditors, thereby protecting the simple creditors if the company fails. Merkur aims to continuously satisfy the MREL requirement using additional subordinated debt and non-preferred senior debt.

Merkur’s eligible liabilities (MREL) consist of own funds of DKK 581m and issued Tier 3 capital of DKK 25m and subordinated debt of DKK 3m which does not meet the requirements for recognition in own funds. Eligible liabilities (MREL) thus total DKK 609m.

Measuring the eligible liabilities of DKK 609m against Merkur's risk-weighted exposures of DKK 1,994m results in an MREL ratio of 30.6%, exceeding the current requirement by 14.9 percentage points.

Merkur's target is to have a minimum capital level at all times corresponding to excess capital adequacy of 5 percentage points. Consolidation in the coming years is expected to balance out the introduction of stricter regulatory requirements.

MREL requirement

	Current capital requirements and MREL requirements in %	Merkur's current capital and MREL conditions in %	Excess capital adequacy in percentage points
Capital ratio	8.0	29.2	21.2
Individual solvency need	11.8	29.2	17.4
MREL requirement	15.7	30.6	14.9
MREL requirement including capital buffers	20.7	30.6	9.9

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 2023, the individual solvency need was an estimated 11.8% of risk-weighted exposures, including the basic requirement of 8% of risk-weighted exposures, which corresponds to a minimum capital requirement of DKK 236m for Merkur. The buffer and MREL requirements are in addition to this sum. At the end of 2022, the solvency need amounted to 10.3%. The solvency need thus increased by 1.5 percentage points, which is primarily due to increased credit risks relating to mainly large customers with financial problems and the so-called NPE backstop and elevated interest rate risks.

9.9 percentage points
of excess capital adequacy including buffers

11.8%
Solvency need

Future capital requirements

Merkur's capital plan covering the period up until 2028 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. In the coming years, we expect satisfactory lending growth and earnings, albeit below the level for 2023. In the capital plan, we expect impairment to be at a relatively high level in the coming years, between 0.6% and 1.3% of loans and guarantees per year.

The capital plan includes the expected changes in the capital rules from 2025 and the sector-specific systemic buffer for commercial exposures with property companies of 7% of the risk-weighted exposures to selected industries, which is expected to be implemented at the end of Q2 2024. The buffer is not expected to impose significant additional requirements on Merkur. The capital plan includes a capital requirement in the range of DKK 7m.

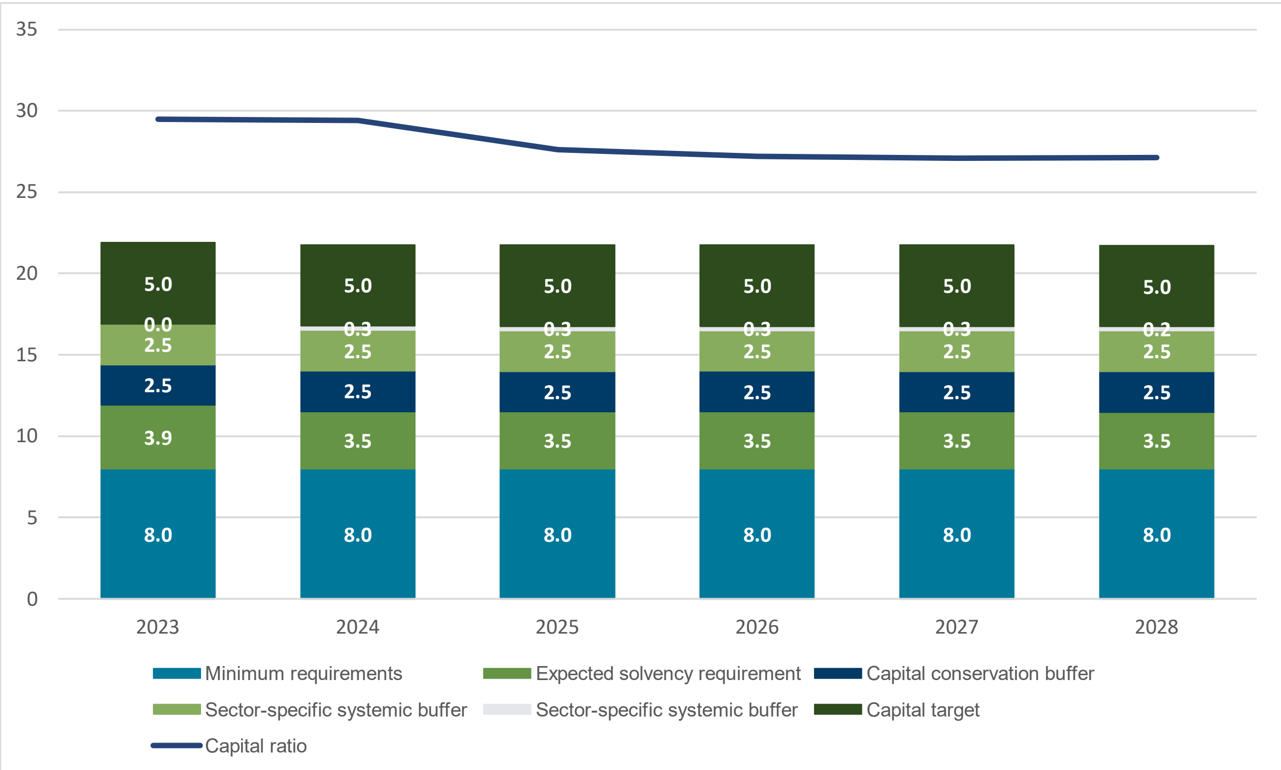
Merkur expects to generate annual profits, which will significantly contribute to strengthening its own funds. The annual new issue of share capital is expected to reach a level of DKK 12m based on the current interest. We are in dialogue with a professional investor and find that there is a potential for further subscription of subordinated debt if need be. On the other hand, we currently do not expect to satisfy the MREL requirement by means of additional issues of SNP bonds.

According to the above, Merkur will be able to meet the capital ratio requirement in the coming years, as we expect a capital requirement of 16.5% against a current capital ratio of 29.2% and a projected capital ratio of 27.1%.

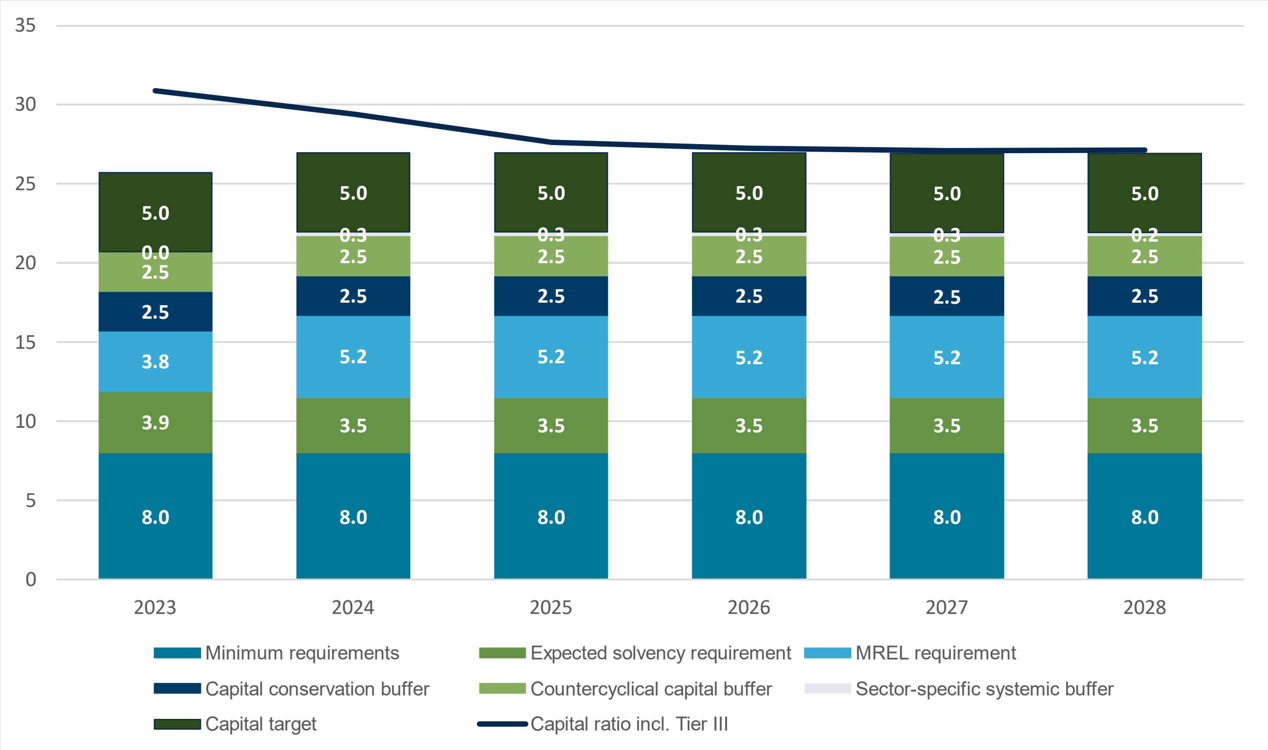
In addition to the above capital ratio, Merkur is also required to comply with the capital requirements, including MREL. In 2024, when MREL is fully phased in, we expect the capital requirement to amount to 22.0% against a current capital ratio of 30.6% including Tier 3 capital, and a projected capital ratio including Tier 3 capital of 27.1%.

In addition to meeting the statutory requirements, the aim of the capital plan is also to meet the excess capital requirement of 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 26.9%. Consequently, management finds that there will be a sufficient level of capital for many years to come.

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



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 2023, 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 %	2023	2022	Limit value
Sum of large exposures	114.7	111.3	Max. 175%
Lending growth	12.8	-2.2	Max. 20%
Commercial property exposure	4.5	6.3	Max. 25%
Liquidity requirement ratio	534.6	557.5	Min. 100%

Expectations for 2024

Sustainability and social responsibility are higher on the agenda than ever before. More and more banking customers are discovering Merkur and the way we have been doing value-based banking for more than 40 years. We are therefore confident that the values on which Merkur is based, and the products and services we offer will still be in demand by more and more personal and business customers.

Looking into 2024, there are several factors that may affect how the year develops. The wars in Ukraine and Gaza may continue to affect the economic climate. Moreover, in 2023 the number of bankruptcies reached its highest level since 2010. Merkur closely monitors these developments, as our customers are also likely to be affected by economic trends in society. However, so far there have been no bankruptcies to speak of among our business customers. Any major job cuts and bankruptcies in 2024 could affect our personal customers, as would the uncertain housing market. We do not yet know how housing prices are going to develop on the back of the new property taxes that came into force at the turn of the year. Last but not least, uncertainty about interest rate levels could still have an impact on both Merkur and its lending customers.

So there is some uncertainty. Despite this, both we and our customers are well geared to overcoming any challenges that the year may present. Merkur's business has proven to be robust for several years now, and our customers are generally financially healthy.

DKK 31-41m
expected profit before tax in 2024

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 customer numbers grow and more and more of our existing customers decide to use more of our property, investment, pension, business loan and company pension products.

However, we expect a significant decline in our fee income. One of the main reasons is that we have chosen to reduce the cost contribution from 2024. The cost contribution was introduced during the period of negative interest rates, where the interest income from our core business was insufficient to cover the costs associated with running a financial institution. Now that we are once again making money from interest rates, it is only fair to our customers to reduce the fee.

On the other hand, we expect our interest income to be satisfactory. We expect to be able to increase lending to the business segment again in 2024. In connection with Merkur's strategic initiative 'The Plant Journey', we especially expect to see a boost in lending to the plant-based food industry. Read more about The Plant Journey on page 43.

We also expect an increase in lending to personal customers – mainly in the form of home loans. Starting in late 2023, Merkur will be offering its customers its own mortgage loans – an alternative to a standard mortgage loan issued by a mortgage credit institution, which may be an attractive option at a time of relatively high interest rates on mortgages.

Merkur's excess liquidity is mainly deposited with Danmarks Nationalbank, and the returns it generates continue to have a positive impact on Merkur's earnings.

Costs and impairment

Rising inflation generally leads to increased costs. This also applies to labour costs, with the collectively agreed adjustments decided in 2023 coming into effect in 2024. In addition, we had budgeted for a number of new appointments in 2023, but these positions will not be filled until 2024.

IT costs make up a significant share of Merkur's total costs, and we also expect to see increases in this area in 2024. Finally, we expect rising interest expenses on deposits.

It is always difficult to predict how losses and impairment will develop, but the vast majority of Merkur's customers are deemed to be able to withstand any crises. We also expect expenses for impairment and losses in 2024, but at a slightly lower level than in 2023.

Liquidity and capital

As mentioned above, most of Merkur's excess liquidity is deposited with Danmarks Nationalbank, and with Merkur's large deposit surplus we expect liquidity to remain robust in 2024.

With this year's impressive results, we are fully on track with our capital plan. Going forward, it is our expectation that positive annual results along with our customers' continued subscription of share capital will contribute to the continued strengthening of our own funds.

Expected results

We consider the results for 2023 to be exceptionally good, due in large part to rising interest rates. We expect a small interest rate drop in 2024, which is reflected in the profit guidance for the year. We expect the profit for the year before tax to be in the range of DKK 31-41m. At the same time, we have revised our target for returns on Merkur Andele from 3-5% p.a. to 4-6% p.a. over a 10-year period.

The profit guidance for the year 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.
- The effect of the expected carbon tax.
- Last but not least, how the above affects impairment.

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 22.

As described earlier, in 2023 we managed to increase our lending to both personal and business customers.

Corporate sector

To clarify how Merkur's lending activities help to bring about positive change, we group our lending to business customers into six categories: Education and Culture, People and Health, Food products, Environment and Energy, Communities and Other. In 2023, lending increased in all categories except the Education and Culture category, the primary reason for the decline of 7.1%, which corresponds to DKK 19.9m, being the conversion of existing loans in Merkur to mortgages and a loan repayment by a single major customer.

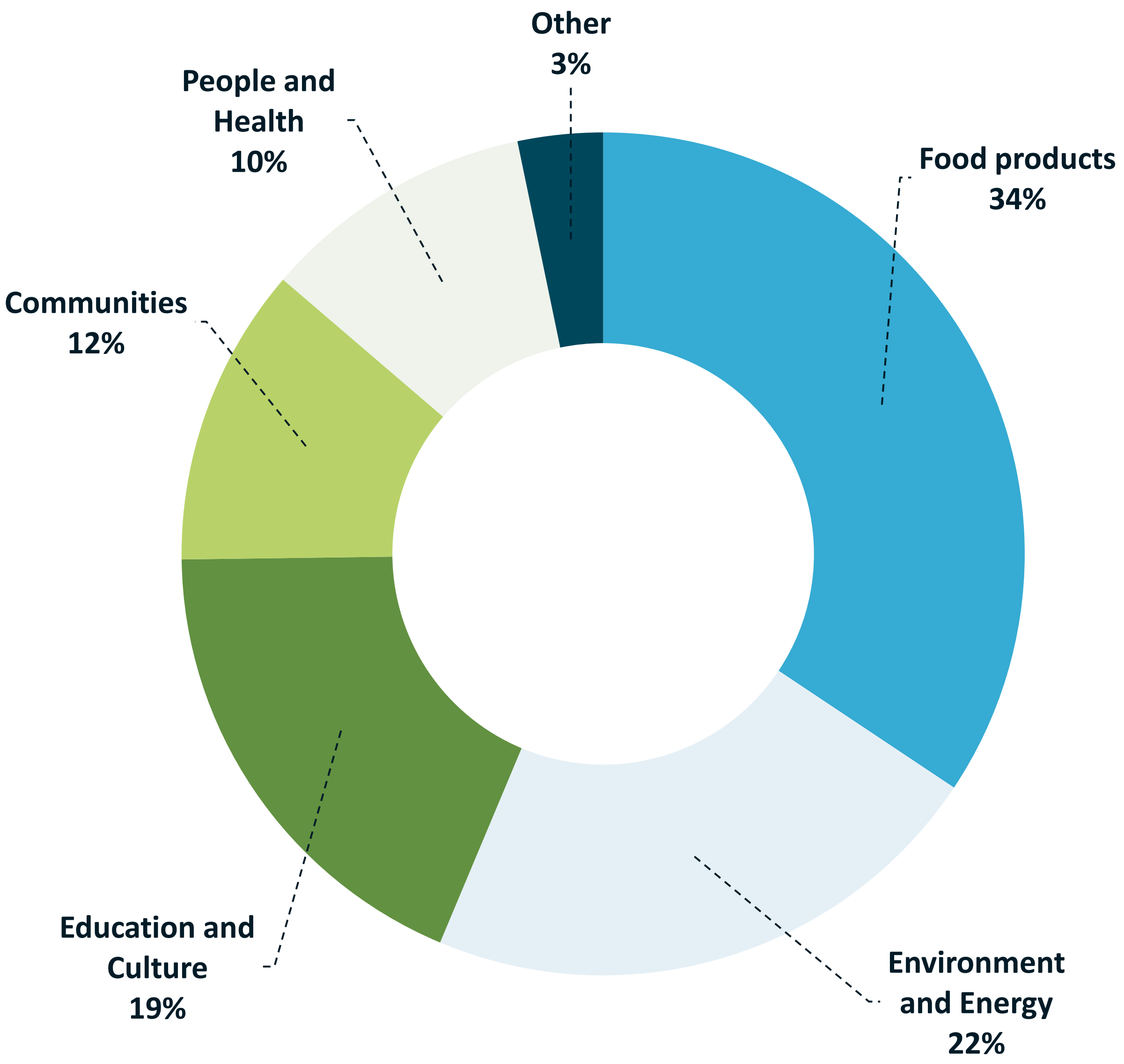
Lending to Environment and Energy grew by 7.4% compared to 2022, corresponding to DKK 21.5m. As part of our fossil-free strategy, Merkur financed a number of solar projects at educational institutions and housing companies looking to support the green transition while reducing their energy costs. However, the increase also includes a temporary loan, which is expected to be reduced, to a customer who has taken over a rental property.

The increased lending to the Food products category of DKK 50.5m compared to 2022 is due to increased borrowing by several of our organic farmers. However, part of the increase is of a temporary nature in connection with property transactions and temporary extensions. Moreover, we welcomed two new customers who produce organic coffee.

In 2023, we also welcomed a number of new accommodation facilities, which – combined with increased lending to existing customers – boosted lending in People and Health by 12.9%, corresponding to DKK 16.9m.

The robust increase of 17.2% or DKK 23.9m in Communities is mainly due to the ongoing construction of a large housing community on Zealand.

The Other category primarily covers guarantees provided by Merkur to its partners.



Total committed loans and guarantees, business customers

(DKK '000)	2023	2022	Development relative to 2022
Education and Culture	261,051	280,910	-7.1%
People and Health	147,852	130,910	12.9%
Food products	485,593	435,083	11.6%
Environment and Energy	310,838	289,320	7.4%
Communities	162,372	138,522	17.2%
Other	46,333	42,958	7.9%
Total	**1,414,040**	**1,317,703**	**7.3%**

The table shows an overview of all granted loans, credits and guarantees and includes unutilised loan commitments.

Where your money works

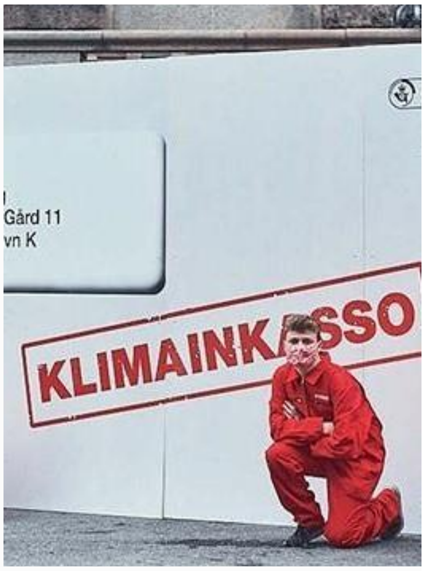
Transparency is important to Merkur, and on our website we publish the names of all the companies and institutions to which we lend money. On the following pages, we present a selection of examples, outlining our reasons for offering loans to the various areas.

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

Customer case · Communities

ActionAid Denmark

ActionAid Denmark is fighting for a just and sustainable world. The aim of the association is to build communities that can join the fight against injustice, poverty and discrimination. They have a special focus on young people and aim to support them in developing a strong voice so they can help move the world in a better direction. ActionAid Denmark brings together both individual members and organisations that share a common vision of a just and sustainable world where people live in freedom and dignity without poverty and oppression. ActionAid Denmark is part of ActionAid International, whose activities reach more than 25 million of the world's poorest people. Photo: ActionAid Denmark



Customer case · Education and Culture

Efterskolen Epos

The pupils at Efterskolen Epos mainly learn through play. There is a direct ferry service from Funen to the school, which is situated close to beaches and woodlands in Fynshav on the island of Als in southern Denmark. Roleplay, simulations and stories are a key part of teaching activities at the school. The school's learning philosophy is based on the idea that it is okay to make mistakes and the idea of learning through trial and error. Play -based theme courses run for approximately ten weeks a year, where students are assigned a role and use their knowledge in practice. The school focuses on roleplay, cosplay, acting, tactical games, literature and the opportunity to try out new roles. All meals are made from sustainable and organic ingredients out of concern for nature, the environment and the pupils' health. Photo: Efterskolen Epos

Customer case · Environment and Energy

DynElectro

The Zealand company DynElectro has discovered the secret to producing cheaper green fuel. Founded in Viby in 2018, the company produces green hydrogen using Power -to-X technology. The technology converts solar and wind energy into hydrogen using electrolysis, and DynElectro has managed to extend the life expectancy of this process. The extended lifespan makes the hydrogen cheaper and more competitive. This is a big leap forward for the green transition as hydrogen can be converted into green fuels, which can potentially replace fossil fuels. This will reduce CO2 emissions and is better for our planet. Photo: Bo Skakke

Customer case · People and Health

Elleslettegård

Feeling safe and part of a community is key to people being able to tap into their own resources. This is the philosophy on which the Elleslettegård accommodation facility is based. The facility is home to young people with special needs, many of whom experience emotional, social and cognitive difficulties. Elleslettegård is committed to improving the quality of life and independence of young people. Nature is a big part of everyday life on the farm as a space for both living and learning. The farm's 18 hectares comprise fields, forests and pens for the animals, and the residents meet to make bonfires, play ball games or harvest produce from the kitchen garden. Photo: Elleslettegård

Customer case · Food products

Nørbys Grøntsager

In Nørbys Grøntsager, an organic farm shop at a family -owned family farm in Klippinge on Zealand, the shelves overflow with produce ranging from dill flowers and gherkins to redcurrants and beetroot, depending on the time of year. Every year, up to 50 different types of produce are grown for the farm shop, which carries only produce in season. The Nørby family lives on the farm with their dog, two cats and 320 chickens. While the four -legged animals welcome visitors to the farm, the chickens' most important task is to keep the orchard clean and lay eggs to sell to customers. Nørbys Grøntsager has greened its energy production using wind turbines, solar panels and solar heating. Photo: Nørbys Grøntsager

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.

In 2023, Merkur successfully increased lending to its personal customers by 6.3%. We helped many of our existing customers fulfil their housing dreams, but we also welcomed home buyers looking for a new bank. As a result, lending to owner-occupied properties grew by 8.7% or DKK 60.0m from 2022 to 2023, while lending to cooperative housing grew by 6.9% or DKK 38.0m.

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-fuel cars; instead we offer attractive loans for electric cars – a product that was in high demand in 2023. 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, credits and guarantees, personal customers

(DKK '000)	2023	2022	Development relative to 2022
Owner-occupied property	747,835	687,802	8.7%
Cooperative housing	590,909	552,928	6.9%
Other private loans and credits	134,493	145,000	-7.2%
Total	**1,473,137**	**1,385,730**	**6.3%**

The table gives an overview of all granted loans, credits and guarantees and includes unutilised loan commitments.

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 2026. 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: 12/13
Extraordinary board meetings: 4/4
Audit Committee meetings: 4/4
Risk Committee meetings: 11/11
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.

OWNER/CO-OWNER OF:

· Aurion A/S

CHAIR OF THE BOARD OF:

· Merkur Foundation

BOARD MEMBER OF:

· Earthwise Residency

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: 3/4
Risk Committee meetings: 1/1
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/CO-OWNER OF:

· Sandaasen ejendomme v/ Jakob Laursen

· Sandaasen Økologiske gård v/ Jakob Laursen

CHAIR OF THE BOARD OF:

· Ejerforeningen Værkstedvej4-6, 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 fromboardw orkas well as lobbying for the Steiner schools.

MEETING ATTENDANCE:
Ordinary board meetings: 12.5/13
Extraordinary board meetings: 4/4
Audit Committee meetings: 4/4
Risk Committee meetings: 12/12

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.

OWNER/CO-OWNER OF:

· none

BOARD MEMBER OF:

· none

COMPETENCY PROFILE:
Special social educator and Master of Public Governance from Copenhagen Business School. In-depth knowledge of special social education and public enterprises, operations and management strategy. More than 30 years of management experience from the public sector. CEO of a large special social education enterprise with 500 employees.

MEETING ATTENDANCE:
Ordinary board meetings: 11.5/13
Extraordinary board meetings: 4/4
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.

OWNER/CO-OWNER OF:

· none

BOARD MEMBER OF:

· none

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

MEETING ATTENDANCE:
Ordinary board meetings: 12.5/13
Extraordinary board meetings: 4/4
Risk Committee meetings: 12/12

SHAREHOLDING
10 shares

Kristoffer Lüthi

BOARD MEMBER

Born: 1972. Working Chair of Ekobanken, Sweden. Elected to the Board in 2023. Current term expires in 2026. Member of the Audit Committee.

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

OWNER/CO-OWNER OF:

· Vd Mirabile AB

CHAIR OF THE BOARD OF:
· Ekobanken Medlemsbank
· Stiftelsen Rosendals Trädgård
· Stiftelsen Kristoffergården/Staffan Gabrielssons donation
· Anna-Lisa Dahlbergs Kulturfond/Syster Irenes fond
· Stiftelsen Rosendals Trädgård
· LRH Fastighets AB
· Ekobankens stiftelse för idéutveckling

BOARD MEMBER OF:
· Stiftelsen Guldfällen
· Stiftelsen Mikaelgården
· Bostadsrättsföreningen Ekbacken 12
· Föreningen Solberga by

COMPETENCY PROFILE:
Degree in economics from Uppsala University. Kristoffer Lüthi has held several different positions at Ekobanken since 2001 and has served as chair since 2019. Experience from Ekobanken with a focus on credit lending to companies. Experience from social enterprises, education, destination development, the restaurant business, property development and management through his work on several different boards.

MEETING ATTENDANCE:
Ordinary board meetings: 10/10
Extraordinary board meetings: 3/3
Audit Committee meetings: 3/3

SHAREHOLDING
4 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 2027.

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: 12/13
Extraordinary board meetings: 2/4

SHAREHOLDING
29 shares

Steffan Storgaard Mortensen
BOARD MEMBER

Born: 1979. Personal banking adviser. Elected to the Board of Directors by the employees in 2023. Current term expires in 2027.

INDEPENDENCE:

OWNER/CO -OWNER OF:

· none

BOARD MEMBER OF:

· none

COMPETENCY PROFILE:
Educated in banking, diploma in business administration specialising in organisations. More than 20 years of experience from personal banking in the financial sector, with a special focus on new customers, credit and investment etc.

MEETING ATTENDANCE:
Ordinary board meetings: 10/10
Extraordinary board meetings: 3/3

SHAREHOLDING
2 shares

Management· Board of Directors

Søren Thomsen

BOARD MEMBER

Born: 1960. Elected to the Board of Directors by the employees in 2023. Current term expires in 2027.

INDEPENDENCE:

OWNER/CO -OWNER OF:

· none

BOARD MEMBER OF:

· none

COMPETENCY PROFILE:
Educated in banking. Diploma in business administration specialising in finance and credit services (CBS). Management degree. Søren Thomsen has more than 40 years of experience from the financial sector, including 14 years with Merkur.

MEETING ATTENDANCE:
Ordinary board meetings: 9/10
Extraordinary board meetings: 3/3

SHAREHOLDING
66 shares

Management· Executive Board

Charlotte Skovgaard

CEO

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

SHAREHOLDING
58 shares

BOARD MEMBER OF:

· Danish Research Institute for Democratic Businesses

· BEC Financial Technologies a.m.b.a

Management code and corporate governance

The industry organisation Finance Denmark has prepared a management code with recommendations on a range of key management topics, including the composition of the Board of Directors and the Board of Directors' cooperation with the Executive Board. These recommendations go beyond the requirements of applicable law. Responsibility and openness guide the way we run Merkur Cooperative Bank. Therefore, Merkur's Board of Directors has considered all the recommendations of the code and fully complies with all recommendations. The management code is available on Merkur's website www.merkur.dk/ledelseskodeks.

Merkur also considers the Committee on Corporate Governance's 'Recommendations for Corporate Governance', which we comply with in the vast majority of cases. However, some recommendations are not relevant to a cooperative bank of Merkur's size. This report is available at www.merkur.dk/selskabsledelse.

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 four men and two women, corresponding to 66.7% men and 33.3% women. Our target of 40% is therefore not met. The composition of Merkur's Board of Directors is based on the principle that the best candidate is elected to the Board of Directors regardless of gender, age, ethnicity, disability, religion, culture or sexuality. However, when it comes to selecting and nominating candidates for the Board of Directors, Merkur follows a formal, thorough and transparent process that considers the need to continuously increase the share of the underrepresented gender on the Board of Directors, including fulfilling the established target. This ensures that account is taken of targets and the policy for gender distribution on the Board of Directors.

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. At the elections held in 2023, there were three female and five male candidates for the employee-elected board positions. Three male candidates were elected, and so the current gender distribution is three men and no women.

Training of members of the Board of Directors and the Executive Board

In its training budget, Merkur has allocated the necessary funds for education and further training etc. of the bank's Board of Directors and Executive Board, including onboarding and further training courses for the Board of Directors.

As soon as possible and no later than 12 months after joining Merkur's Board of Directors, newly elected board members must have started basic training in the competencies necessary to carry out the duties and functions required when serving on the board of a financial institution. Merkur's board members have completed mandatory basic training for board members at Finanssektorens Uddannelsescenter where relevant, which has been developed in partnership with Association of Local Banks, Savings Banks and Cooperative Banks in Denmark and approved by the Danish FSA.

Audit Committee

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

- overseeing the financial reporting process and making recommendations or proposals to ensure integrity
- informing the Board of Directors of the outcome of the statutory audit, including the financial reporting process
- 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 and approving the auditor's provision of non-audit services
- being responsible for the procedure for selecting and nominating the auditor for election
- undertaking other tasks delegated by the Board of Directors of Merkur.

In 2023, the committee held four ordinary meetings to discuss matters of relevance to the annual and interim financial reporting and ongoing cooperation with the auditor. The committee has also discussed the determination of the share price, including the procedure for the quarterly determination of the share price. The committee has reviewed the annual report and interim report prior to their consideration by the Board of Directors and recommended terms of reference and an annual cycle for the commission to the Board of Directors.

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

The members of the Audit Committee are:
- Jakob Brochmann Laursen, Chair
- Cees Kuypers
- Kristoffer Lüthi (joined on 26 April 2023)

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

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

Risk Committee

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

- advising the Board of Directors on the company'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 company'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 company's business model and risk profile
- assessing whether the incentives forming part of the company's remuneration structure take into account the risks, capital structure and liquidity of the company, 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
- assisting the Board of Directors in assessing the appropriateness and adequacy of the resources allocated to the risk management function.
- discussing the risk manager's reporting to the Board of Directors prior to the discussion at the actual board meeting.

Terms of reference have been prepared for the Risk Committee, providing a framework as well as an annual cycle for its work. In 2023, the committee held four ordinary meetings to discuss sustainability risks, interest rate risk outside the trading portfolio, ILAAP and ICAAP reports and the IFRS 9 report, among other topics. The committee has also dealt with BEC's impairment model and properties with limited alternative use as well as Merkur's loan case management. In addition, the Risk Committee has discussed Merkur's new pricing and profitability model. The committee has reviewed the risk manager's annual report as well as the

risk assessment that precedes the coming year's annual cycle for the risk manager.
Starting in April, the Risk Committee also held a meeting prior to each board meeting discussing relevant credit cases with a view to clarification and qualification of the details of the case.

The members of the Risk Committee are:
- Jakob Brochmann Laursen, Chair
- Cees Kuypers
- 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 2023, the Nomination Committee proposed candidates for election to the Committee of Representatives and the Board of Directors. The committee has conducted an extended revision of the Board's competences, composition and work. Proposals have been prepared for improvements in the Board of Directors' work methods, and the committee has ensured that the Board of Directors has improved its work methods. The competencies, performance etc. of the Executive Board have been assessed and presented to the Board of Directors. The committee has ensured that the Board of Directors considers the report on the annual review of Merkur's remuneration policy. The committee has also, in consultation with the Committee of Representatives' Remuneration Committee, prepared proposals for the Committee of Representatives to adjust the fees paid to members of 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 2023.

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 2023 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. Agricultural properties are also subject to uncertainty factors, as any future carbon tax could affect the prices of both agricultural properties and land. Merkur updates property values on a regular basis, but sudden price falls in the property market will increase the property portfolio risk. New property assessments have recently been released, which in many cases have increased drastically, potentially affecting property taxes and property values. We monitor the situation and continuously assess the potential impact on our risks. 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 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 2023, the Danish FSA carried out an anti-money laundering inspection of Merkur. The visit did not give rise to any action by the FSA, which is a testament to Merkur's commitment to this area.

In step with the increased digitalisation of Merkur and rising threat level, 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. Merkur conducts ongoing awareness and contingency training in this area.
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. In recent years, inflation has led to consumers trading down 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 we expect that 2024 will see the introduction of taxes on 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. Merkur's portfolio of agricultural customers will not generally be affected by such taxes, as we only offer loans to organic farms. 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.

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

- In the past year, the disposable incomes of personal customers have been under pressure from rising inflation, higher energy prices and repeated interest rate hikes, which may become a problem if they persist. 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, particularly in the personal banking area. The property market has stabilised, and activity levels and prices began to pick up during the year, which is good for our personal customers. Our analysis shows that many of our customers would be able to withstand a significant drop in property prices due to the increases in property prices seen in recent years. Merkur's personal customers were thus in a relatively good position at the start of 2024.

- The geopolitical situation affects both security of supply and the threat landscape. There is a risk that Denmark's infrastructure may be hit by sabotage, which may bring all or part of society to a standstill for a brief or sustained period of time. The political situation in other countries can also directly and indirectly affect our customers, for example if the USA or other countries introduce tariff barriers. Last but not least, the EU's industrial policy, which is increasingly focusing on independence from other markets, can affect Merkur's customers, if focus shifts away from the green transition.

- Risks associated with climate change, including droughts and floods, can affect property prices, land prices and agricultural crops. As climate change intensifies, we expect climate taxes to be implemented, including a carbon tax on agriculture. We monitor and analyse these risks on an ongoing basis.

- Aquatic environments are under threat, which may lead to demands that coastal land areas be left uncultivated, although we expect the affected farmers to be compensated for the loss of income.

Financial risks

Merkur is not exposed to exceptional financial risks and does not engage in speculative activities. See also note 34 to the financial statements on risk management.

Merkur's Pillar III disclosure obligation for 2023 can be found on our website www.merkur.dk/aarsrapporter.

Merkur's individual solvency need for 2023 can also be found on our website www.merkur.dk/aarsrapporter.

Sustainability

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Introduction

Merkur is a value-based cooperative bank, and we consciously use our business as a catalyst for sustainable change.
2023 set another temperature record, and serious doubts were cast on whether it is realistic to achieve the Paris Agreement's goal of limiting the global temperature increase to 1.5°C. The consequences of climate change are now being felt in many countries around the world – including Denmark, which saw warmer, wetter and more extreme weather in 2023. It is therefore more important than ever that we all – politicians, ordinary people and businesses – take action and use our platform to break the negative cycle.

For the past 40 years, Merkur has been doing value-based banking that benefits people, nature and the environment. We will continue to do so, as we are committed to being a beacon for sustainability and social responsibility in the financial sector. Therefore, it is crucial that we constantly evolve and set ambitious goals for ourselves and our actions. We are not perfect, nor do we always achieve the goals we set for ourselves.

Highlights from 2023

BEST FOR THE WORLD

B Corp

Merkur is B Corp-certified, which means that Merkur is demonstrably working for a better world. See page 37

INVESTMENTS

9/9 Article 9

All Merkur's investment products meet the requirements of the EU's highest sustainability category. See page 39

SURVEY

No. 1 bank for climate

Merkur was ranked no. 1 again in 2023 in a survey of the most trustworthy banks when it comes to climate issues. See page 50

DONATION

Merkur Value Pool

In 2023, Merkur launched a new donation concept and distributed DKK 430,000 of our revenue to not-for-profit customers. See page 47

PRIDE

99%

of Merkur's employees are proud of their work. You can read more about Merkur's job satisfaction survey on page 50

EQUALITY

56% / 44%

The gender distribution on the Merkur management team is fairly balanced. We are committed to promoting diversity across gender, origin, age etc. See page 52

But we will always hold ourselves and those we work with to high standards so that we can create positive change together. Merkur's ambition, which you can read more about on page 3, constitutes the overall framework for our efforts.
In this chapter, we address how Merkur works to make a positive impact in terms of climate and the environment (E), social responsibility (S) and governance (G). In the Climate and environment section, you can read about how this year we have calculated the CO2e[1] emissions for as much as 95% of our loan portfolio and the dilemmas we face when working with our customers to reduce CO2 emissions. The Social responsibility section takes a closer look at the well-being of Merkur's employees and Merkur's social commitment to raising awareness of social responsibility. In the Governance section, you can read about Merkur's firm commitment to diversity, and why transparency is a core value for Merkur.

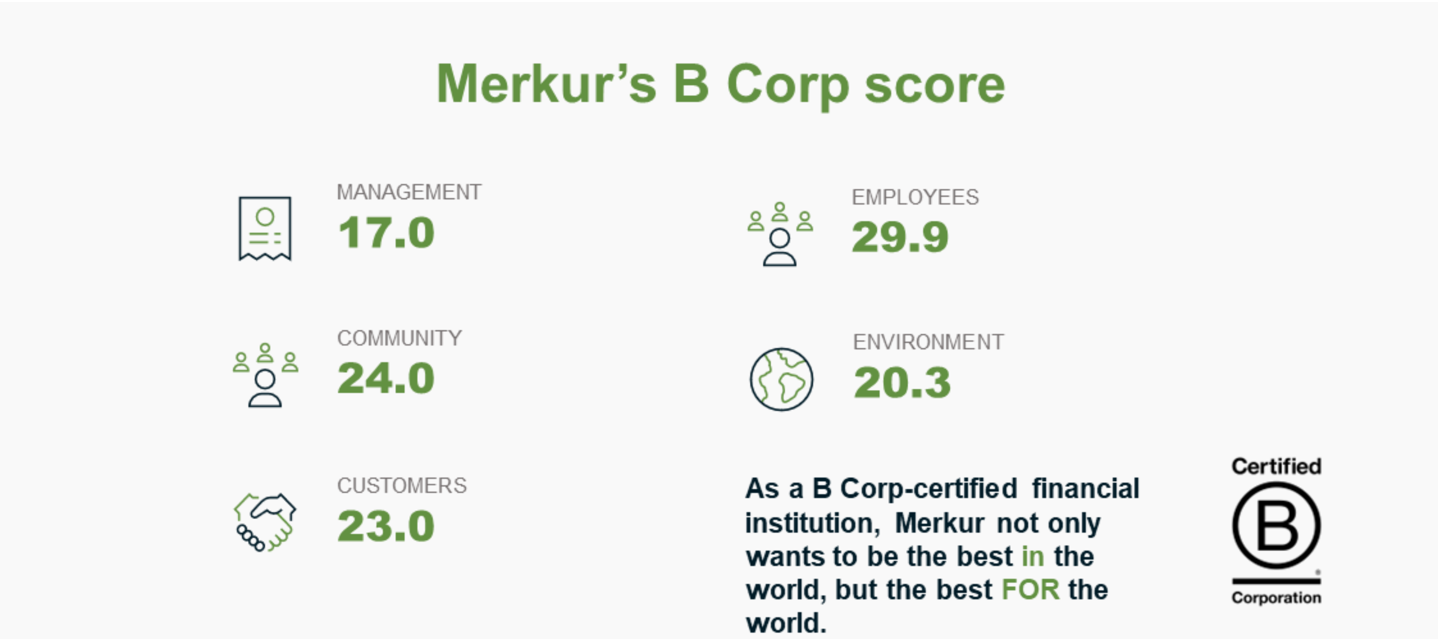
However, before we proceed to these sections, we want to highlight how B Corp and the SDGs generally shape our sustainability and social responsibility efforts, and we will also explain how we ensure that the investment products we offer to our customers promote sustainability and social responsibility.

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. Of course, that is an easy claim to make. So, in 2020, we decided to back it up by completing a comprehensive B Corp certification programme, making Merkur the first and only B Corp-certified financial institution in Denmark. This means that we are recognised as being among the most ambitious companies when it comes to creating a sustainable world. A B Corp certification measures a company's entire social and environmental performance and how it benefits people, communities and the planet.

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: Management, employees, community, environment and customers. Merkur



[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.

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 scope for improvement. This has had a bearing on our efforts and resulted in the introduction of an ambitious procurement policy, which you can read more about on page 44.

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 and document 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 financial institution with a strong focus on sustainability and social responsibility 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 and Merkur's screening procedure can be found at www.merkur.dk/kriterier.

We began the recertification process in 2023, and our aim is to increase our B Corp score by 10%. The process is comprehensive but on track, and we expect to achieve recertification in spring 2024.

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 and social responsibility in a broad perspective, and the bank's business and activities therefore embrace all the UN's 17 SDGs. Specifically, Merkur's screening criteria, which we apply to customers and partners, are directly inspired by the SDGs. Read more at www.merkur.dk/kriterier.

Merkur's criteria and the EU taxonomy for sustainable activities

As part of the EU action plan for financing sustainable growth, the EU has adopted a green taxonomy designed to help financial institutions, investors, companies and authorities to direct investments towards climate-friendly and circular economic activities.

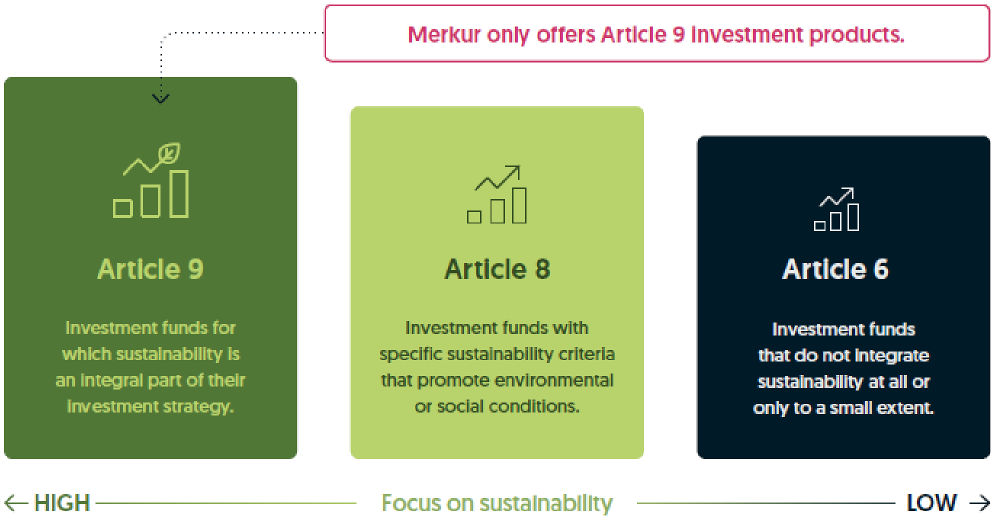
The EU Taxonomy Regulation defines which activities are sustainable. The taxonomy describes six climate and environmental targets, and we have chosen to use them as the basis for our screening criteria to ensure that Merkur at least meets the EU taxonomy when welcoming new customers.

In order to be accepted as a full-service customer of Merkur, a company must make a substantial contribution to positive development in one of the three areas defined in our ambition (see page 3), and must not do significant harm in other areas. The principle of 'making a substantial positive difference' and 'doing no significant harm' are also the main pillars of the EU Taxonomy Regulation for sustainable activities.

Investments

Investment universe focusing on sustainability

In continuation of the EU taxonomy for sustainable activities, the EU has adopted 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 make a positive social and environmental impact in the world.

Greenwashing of investment products is a challenge

There have been several reports in Danish media about how so-called sustainable Article 8 and 9 funds invest in companies with questionable sustainability credentials. This highlights the importance for customers of exercising due diligence before investing.

Several Danish and international asset managers base their selection criteria on the very popular ESG ratings. An ESG rating looks at how well a company manages its material (financial) risks in relation to factors such as environment (E), social conditions (S) and governance (G). An ESG rating is therefore about risk management but does not say anything about a company's core business.

The problem with basing an investment portfolio on ESG ratings and for example including only the best-performing companies is that a company with a good ESG rating is not necessarily sustainable. Broadly speaking, the ESG score only shows whether a company is effectively managing its risk in relation to ESG factors and reporting on its non-financial targets from a risk perspective. So an oil company may have a high ESG score, even if their product is basically harmful to the climate. In Merkur's view, a good ESG score cannot stand alone.

A good ESG score does not equal sustainability

An ESG score indicates a company's ability to protect itself against risk factors stemming from climate impacts, disregard for social factors or from poor corporate governance (E, S and G factors). However, an ESG score does not indicate whether a company's core business can be considered sustainable:

1. ESG scores vary from provider to provider – asset managers can purchase their ESG screenings from different rating agencies, and their results can be quite different.
2. High ESG scores are given for having a policy or process in place – not for the product a company produces. This approach favours large companies as they are able to devote more resources to developing strong policies. McDonald's and Exxon are examples of companies that have achieved high scores for having legal documents in place.
3. The rating agencies use subjective algorithms, and there is little transparency on how the algorithms work. This may mean, for example, that some industries are deliberately given a higher weighting, while others are given a lower weighting. This is the case for the rating agency ISS ESG, where pharmaceutical companies are given a higher weighting than renewable energy producers.
4. If documentation is not available in English, the rating agencies consider the documentation to be non-existent, resulting in an ESG score of 0.

Although the EU's Sustainable Finance Disclosure Regulation is a step in the right direction, many loopholes still exist, which makes it difficult for consumers to understand whether something is genuinely sustainable.

Merkur only offers investment funds that have been subjected to both positive and negative screening. They are known as impact investments. We are constantly working to offer more of these investment products. In 2023, we introduced a new investment product which makes it easy for our customers to invest in positive change. With the Triodos Impact Strategy Fund we offer investors over 600 ethically screened investments in a single package. Basically, the foundation was created to make a difference. Read more about Merkur's investment universe at www.merkur.dk/investering.

DKK 2.2bn
Invested by customers in impact funds

100%
all investment funds comply with EU Article 9

5
Nordic Swan Ecolabelled investment funds

Climate and environment

The global climate is changing, which is becoming more evident day by day. 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 holistic efforts are needed, and the crisis can only be overcome if we all do our bit and take responsibility for the planet.

Fortunately, climate and biodiversity issues have been getting more attention in recent years. We will get back to that later. First, let us take a look at the climate action taken in recent years. In 2015, the Paris Agreement was signed by world leaders at the COP21 meeting. The goal of the agreement is to limit global warming to 2°C, and preferably to 1.5°C, compared to pre-industrial levels.

The Danish Parliament has passed a climate act that commits Denmark to reducing its CO2e emissions by 70% by 2030. In addition, the 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. We strive to adhere to the Paris Agreement and are aiming for net zero by 2035. Although Merkur's climate targets are ambitious, we remain humble in the way we go about achieving them. Because it is not going to be easy, and in some cases we are building the road as we travel.

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.

How to measure CO2e emissions

PCAF – Finance Denmark

In 2019, Merkur, together with international colleagues from the Global Alliance for Banking on Values, committed to working with and defining criteria for calculating the CO2e emissions generated by the activities we finance. The tool was developed by the Partnership for Carbon Accounting Financials (PCAF), 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. At the end of 2022, PCAF set up a Nordic network, which Merkur has joined. Finance Denmark has agreed to oversee the work in Denmark.

Science Based Targets initiative

In 2022, Merkur joined the Science Based Targets initiative (SBTi), which validates climate action plans for companies. In 2024, we aim to put the finishing touches to a concrete long-term action plan to reduce our CO2 emissions. The plan is based on current scientific knowledge. The action plan will, of course, be updated in step with relevant scientific advances. The plan is for SBTi to validate our action plan and approve Merkur's strategy on both the activities we finance and our own activities during 2024.

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.

Carbon accounting for activities financed by Merkur

Merkur has calculated the footprint of its loan portfolio since 2020. 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, which measures CO2 emissions per million DKK of loans.

Although we have a good understanding of where our emissions come from, reducing emissions is not a simple task and it is filled with dilemmas. For example, it is a dilemma if a good existing customer wants to expand their business with us, if it also means that we 'absorb' a greater share of the customer's CO2 emissions so to speak. In such cases, we look at the difference the customer makes in the world. Reducing emissions can therefore in some cases be a lengthy and difficult process, and there are areas in which our data are insufficient or in which the sources of emissions are not fully understood. But we are doing what we can and learn all the time, while continuing the dialogue with our customers.

92%
of Merkur's loan portfolio is included in the CO2e calculation

Merkur reports on its CO2e emissions for all business customers, as well as property, climate and car loans for personal customers. We are especially proud that we calculated the CO2e footprint for as much as 92% of our loan portfolio in 2023. Looking at the development in emissions per million DKK, the intensity increased from 7.4 tonnes per million DKK of loans in 2022 to 8.4 tonnes per million DKK of loans in 2023. The change is due especially to the fact that Merkur provided substantial loans to some of our existing organic farming customers in 2023.

Merkur's lending to agriculture accounts for 28% of our business loans, but for 88% of financed emissions for our business customers. Through its lending to agriculture, Merkur financed 12,186 tonnes of CO2e emissions in 2023 compared to 9,786 tonnes in 2022.

14,945 tonnes
fully funded CO2e emissions

8.4
CO2e intensity per million DKK of loans

Merkur takes a holistic approach to sustainability, and we believe that our efforts to reduce CO2e emissions must also take into account social aspects, the environment and biodiversity, among other factors. There is no doubt that agriculture must reduce its climate footprint, but we all need healthy foods, which is why Merkur wants to support organic farmers. As consumers, we need to eat many more plant-based foods than we do today. But Merkur also wants to help ensure that the milk and meat sold in the shops are produced with as much care for the environment as possible. Organic farmers focus on improved animal welfare and do not use pesticides and fertilisers that are harmful to the environment and human health. This ensures a much more sustainable business model than in conventional agriculture. That is why Merkur still offers loans to organic farmers, even though on paper it has a negative effect on our CO2e accounts.

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 CO_2e in the soil or in the crops grown in the fields. It is equally important to make space for biodiversity for example through wilding initiatives or the use of farming methods that aim to preserve biodiversity in other ways such as agroforestry or regenerative agriculture.

It is important to view the high level of emissions from agriculture in relation to our customer mix. 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 CO_2e 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.

Merkur's financing of renewable energy makes a positive difference because renewable energy displaces CO_2e from the electricity grid. However, our lending to the sector fell slightly in 2023 due to the departure of two relatively large energy customers, who had simply become too big for Merkur – read more in the chapter on Merkur's lending activities on page 20. However, we financed a number of small-scale energy projects such as the installation of solar panels in schools and on agricultural buildings. Renewable energy and other climate projects constitute a strategic focus area, and we hope to contribute to an increase in our displaced emissions in 2024.

Ways to reduce our CO2e footprint

Achieving net zero requires continued and close collaboration with Merkur's skilled agricultural customers. Merkur has always demanded that its agricultural customers consider the climate and the environment in their food production. Our customers have thus come a long way, and many have launched their own sustainability initiatives; some have established renewable energy plants on their farms or increased their focus on biodiversity, allocated a larger floor area per animal or become self-sufficient in feed, while others are adhering to the 'feed no food' philosophy whereby animals are not fed crops that can be eaten by humans etc. We are therefore confident that we can achieve our goal together.

In 2023, Merkur invested in the ConTerra tool, which provides detailed climate accounting data for our agricultural customers. Based on ConTerra's data, we now engage with our customers on how individual farms can reduce its climate footprint even more effectively. This may, for example, be through a dialogue on farming methods with a significant carbon storage potential as well as the set-aside of low-lying farmland. In our view, an important area with considerable potential is regenerative agriculture, which focuses on improving and regenerating soil health and where herd sizes are determined by the land area available to the farm.

In 2023, Merkur's strategic project 'The Plant Journey' really got underway, which explores the exciting and important potential of plant-based production in both agriculture and food production. When building new customer relationships in the future, we will give high priority to farms whose primary source of revenue is plant production. In 2023, we hired a new agricultural adviser to help grow Merkur's business with organic plant breeders. 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 which will reduce the climate footprint in the long term. For the rest of our business customers, we intend to mainly offer loans to renewable energy and energy optimisation projects.

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 must preferably be FSC-labelled or Nordic Swan Ecolabelled and PVC-free

Transport

- ✓ CO2 budget for all departments
- ✓ Customer visits are generally made by train, bus or electric car
- ✓ Air travel is only permitted for international travel with an additional 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
- ✓ Locally anchored

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. When advising our personal customers, we generally seek to influence and incentivise sustainable behaviour.

Carbon accounting for Merkur's own activities

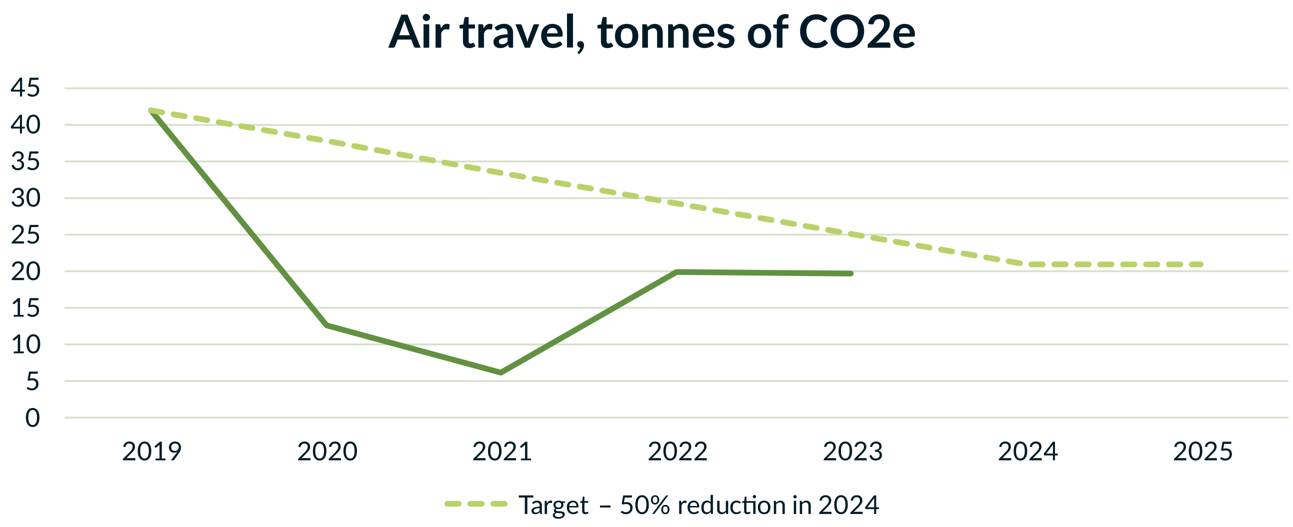
As mentioned at the beginning, CO2e emissions from Merkur's own operations are limited. Emissions from Merkur's operations stem primarily from business travel, from our consumption of district heating and electricity and from our data centre BEC Financial Technologies. But we are still doing everything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

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. As a general rule, 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 aim to go by public transport, electric car, electric taxis or bike.

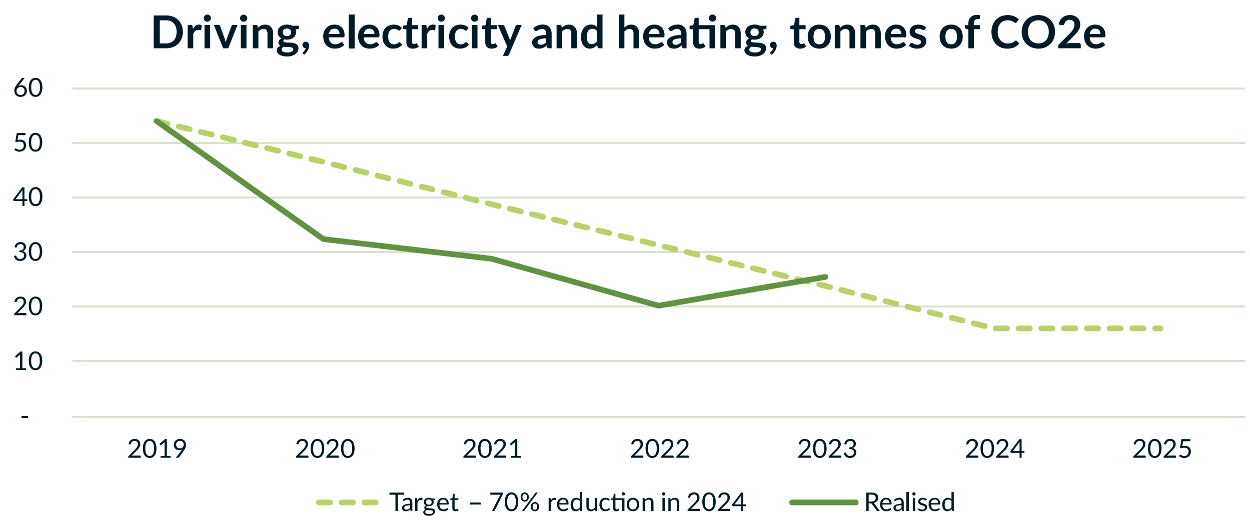
In connection with our carbon accounting for 2021, Merkur announced the target of reducing our emissions by 70% by 2024, relative to 2019. Unfortunately, it is now apparent that we will not achieve this target.

As mentioned above, Merkur's procurement policy limits our use of fossil cars to get around. However, because we visited many of our many agricultural customers in 2023, which involved driving large distances, not all journeys could be made by electric car for practical reasons. As a result, car emissions rose by 35%. Of course, this is not satisfactory. We realise that our customers and advisers making customer visits need to be able to get around on a daily basis. As a result, Merkur has decided to invest in an electric car for use by our advisers in Erhverv Vest.

We also acknowledge that we have not been able to limit our air travel to an extent that allows us to meet our target. The main reason for this is that we want to play an active role in the Global Alliance for Banking on Values (GABV), which you can read more about on page 49. Working with other value-based financial institutions gives us better opportunities for creating change, as we can advise and inspire each other. In 2023, we undertook three overseas flights in connection with our attendance at the GABV annual meeting in New York. CO2e emissions from air travel were therefore slightly above the 2022 level in 2023.



In light of this development, we have decided to revise our air travel targets and aim to maintain our 50% reduction in 2024 compared to 2019. For other business travel as well as electricity and heating, we maintain our target of a 70% reduction in 2024. At the end of 2024, we will set new targets.



In 2023, Merkur's energy consumption grew by 18%, mainly due to increased energy consumption for heating and cooling of our offices. However, the energy produced by the renewable energy plants we have invested in means that we are almost self-sufficient in renewable energy, with 79% of our energy demand being met.

To ensure the continued carbon neutrality of our own activities, in 2023 we purchased carbon credits in a project in the island country of East Timor (Timor Leste) in Southeast Asia. The project helps over 1,000 smallholders in East Timor plant trees that sequester carbon and increase carbon storage in the soil. This increases biodiversity, mitigates climate change, which especially affects small island countries, and reduces land degradation while improving living conditions for the local population. In addition, we have purchased 14 hectares of degraded – i.e. felled or depleted – rainforest in Ecuador. The regrowing forest will sequester 70 tonnes of CO_2e 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.

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. Merkur has many customers who work to improve lives and living conditions. In the chapter Merkur's lending activities, you can read more about the companies and causes that Merkur finances. See page 20.

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.

Merkur involves itself

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. Because we are stronger together, we involve ourselves in networks and think-tanks that – like Merkur – are committed to creating a world in which people, nature and the environment are protected.

Donations

In 2023, we introduced a new concept which involves donating each year 0.3% of our net interest and fee income from the year before[2]. In 2023, we donated a total of DKK 430,000. The donation goes to four of Merkur's charitable, not-for-profit customers as well as the Merkur Foundation. The concept is called Merkur Value Pool.

Three of the candidates are nominated by a committee in Merkur, one candidate is nominated by the Board of Representatives, and the Merkur Foundation is a permanent annual recipient. At the same time, we invite Merkur's shareholders to vote on how the money should be distributed between the five candidates. All nominated candidates are guaranteed DKK 25,000. The remainder of the pool is divided proportionately between the three candidates receiving the most votes. In short, the more votes, the more money.

We are particularly proud of the Merkur Value Pool because it supports the sense of community that exists between Merkur and its customers and shareholders. We usually say that when you bank with us, your money works for the greater good. On the one hand, our customers enable us to lend money to sustainable businesses and organisations. But the value pool makes it even clearer that contributing to Merkur's earnings also adds value to society. Read more about how the money has been distributed and the recipients on the next page.

[2] Merkur reserves the right to not make any donations from the value pool in years of modest profits or actual losses.

Recipients of the Merkur Value Pool 2023

Danish Society for a Living Sea · DKK 176,666.67

Since 1995, the Danish Society for a Living Sea has worked to protect the seas in both Denmark and Europe The society aims to raise awareness of marine life among the general population and policy -makers and of the action needed to protect marine life using the society's campaign and environmental vessel Anton, among other things.

Andelsgaarde · DKK 171,250

Members of Andelsgaarde pay DKK 150 each month and own the land together. They buy, lease and farm the land in a sustainable way together, and work to ensure that half of the land they buy is restored.

Finn Nørgaard Association · DKK 32,083

The Finn Nørgaard Association was founded by friends and family of the film maker, who was killed in the 2015 terrorist attack in Copenhagen. The purpose of the association is to promote human understanding and counteract extremism; among many initiatives, it has set up a Rumour Patrol of young people who visit schools and associations to start conversations on the topic.

Alken Dairy · DKK 25,000

Alken Dairy is a former cooperative dairy, which was bought by the villagers almost 30 years ago and has since hosted numerous parties and celebrations. The old industrial buildings are also home to a grocery shop and the village library. Alken is a special village with a very active social life, which is very much thanks to Alken Dairy.

Merkur Foundation · DKK 25,000

The Merkur Foundation, which was founded by Merkur Cooperative Bank, makes donations to projects that benefit society within the categories 'social work and education', 'art and culture', 'environment and health' and 'research'. The Merkur Foundation makes a difference in many people's lives and the development of society on a daily basis , both in Denmark and around the world.

Sunflower lanyard

In Merkur, we believe that everyone should have the opportunity to live a good and dignified life. That is why in 2023 we joined the Sunflower programme, which is the organisation behind the Sunflower lanyard. The Sunflower lanyard allows people with invisible disabilities and diagnoses to discreetly share that they may need understanding or a helping hand. We want to help improve the lives of these people, whether they are our customers or employees. We do this in the way we interact with them, but also by increasing understanding and raising awareness of invisible disabilities.

Merkur’s employees have received training in what it means to have an invisible disability and will pay extra attention and ask about any special needs if they can see or a customer shares that they are wearing the Sunflower lanyard. The Sunflower lanyard is available free of charge at Merkur’s branches.

Volunteering

In autumn 2023, Merkur introduced a volunteering scheme for its employees. It basically allows all our employees to do volunteer work during working hours and still be paid by Merkur for half of the hours spent volunteering.

The volunteering scheme was set up at the request of our employees, as many of them are already contributing to society by volunteering. We have developed the idea and come up with a concept, because we see it as a natural extension of Merkur’s business model, which is centred on making a positive contribution to the communities we are part of.

Selected networks

Global Alliance for Banking on Values

Merkur is the co-founder of this global network of banks whose mission is to use finance to deliver sustainable and socially responsible development of societies. The network consists of 70 banks in 45 countries, which together serve more than 60 million customers. Merkur participates actively in the network every year, and in 2023 both Charlotte Skovgaard and Chair of the Board Cees Kuypers attended the annual meeting in New York. Area Director Edmont Ala joined the Leadership Academy, a training programme for managers in purpose-driven finance companies.

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. In 2023, a broad range of political parties agreed to remove a number of barriers for democratic enterprises. Merkur CEO Charlotte Skovgaard is a member of the Board of Directors of the think-tank.

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.

Thanks to an active media effort, Merkur's posts about banking that is respectful of people and nature have attracted more than 8 million views in the Danish media. The posts included stories about Merkur's Plant Journey highlighting the importance of eating less meat, the distribution of the Merkur Value Pool for sustainable causes and the option for our employees to do volunteer work during working hours.

With such activities, 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 beacon for sustainability and social responsibility in the financial sector.

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

In 2023, the research institute Voxmeter did another comprehensive survey measuring the extent to which respondents perceived banks' claims about their climate commitments as credible. For the third time in a row, Merkur was ranked as the most trustworthy bank in the survey. We are extremely proud of our ranking, not least because it shows that by actively using our voice we can be the beacon we aim to be.

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 seek 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 every other Tuesday, 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 2023, all of Merkur's customer advisers completed a five-module internal training course centred on Merkur's unique values and our minimum criteria guiding how sustainable and responsible a company should be to qualify for a loan in Merkur. In addition, some of the modules were offered to and done by other Merkur employees. In addition to the internal training course, all customer-facing employees completed a special two-day course on communication and needs identification with Merkur's values as the focal point. Moreover, three employees attended a summer school in value-based banking in Stockholm organised by the Institute for Social Banking, which has offered socially responsible banking courses to people from all over the world since 2006. 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 2023. No less than 99% of Merkur's full-time employees completed the survey, which was conducted 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% (85% in 2022). 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 99% (96% in 2022) of Merkur's employees are proud of their work, and 93% (98% in 2022) feel that they are making a difference in the society we are part of.

In Merkur, we believe that a meaningful working life where employees thrive does not happen automatically. It requires committed and sustained efforts. The first survey in 2021 identified scope for improvement in the areas of pressure of work and collaboration. Since then, Merkur has focused on general well-being and physical and mental health. All employees are offered a physical health check by a nurse, and Merkur also conducted several exercise campaigns during the year, which were joined by several employees.

Again in 2023, we received a grant from Foreningen Velliv in connection with the national Mental Health Day in Denmark. The money was spent on workshops on sustainability, feedback and personalities in the individual branches.

Merkur has had a special focus on stress prevention. Our daily focus is on clear priorities and on providing conditions that ensure a meaningful working day. Instead of the annual performance interview, we have introduced quarterly feedback dialogues where individual employees and managers can give each other structured feedback and discuss well-being, challenges and development.

In 2023, the job satisfaction survey showed that we have maintained the momentum from 2022: In 2021, 46% said they felt stressed to a greater or lesser extent. In 2022, the share was 35% and remained so in 2023. Even though the figure is in line with the sector average, the figure is still too high, and we will carry on our work to prevent stress.

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 2023, we had 35 employees in part-time jobs and three flexi-jobbers.

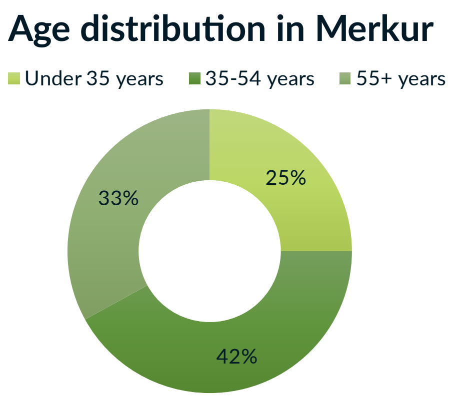
Absence due to illness

Absence due to illness is higher than our goal of keeping absence below 6.5 days a year per employee. However, the number of sick days per employee fell slightly from 7.7 days per employee in 2022 to 7.3 days per employee in 2023. The figure might have been lower if it was not for the nationwide outbreak of corona and influenza in the last half of 2023.

Staff turnover and mix

Companies are generally experiencing fierce competition for employees. The financial sector is no exception. Nevertheless, Merkur is succeeding in retaining its talented employees.

This is reflected in a considerable fall in staff turnover from 16% in 2022 to 10% in 2023, well below our 2023 target of max. 15% per year. For 2024, the target is max. 12% per year.



The age distribution of Merkur's employees is relatively even above and below the average age, which is 46 years, roughly in line with the sector average. 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 a 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.

Governance

Responsibility and ethics guide the way we run Merkur Cooperative Bank. 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 board meeting attendance rate which was 93% for the whole of 2023 (91% in 2022).

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 customers and other interested parties 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, social background and personality.

In 2023, Merkur became the only company in the Danish financial sector to be nominated for two Diversity Awards. We are deeply grateful for this wonderful recognition of our long-standing commitment to diversity.

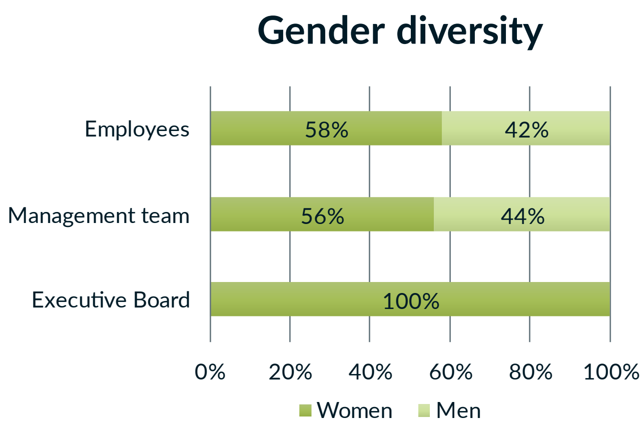
In Merkur, we know that diversity takes continuous commitment. This is one of the reasons why Merkur joined the Danish chapter of the European Diversity Charter in 2023. As a signatory to Diversity Charter Denmark, Merkur has committed to preventing all forms of discrimination in the workplace through concrete measures and ensuring that all our workflows can accommodate different competencies, talents and special needs.

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 96% of Merkur's employees feel that everyone is treated fairly regardless of gender, age, ethnic background, sexual orientation etc.

Overall, we have an equal gender[3] distribution. The share of female employees fell from 60.0% in 2022 to 58.0% in 2023. At management level, the share of female managers increased from 50.0% in 2022 to 56% in 2023. Management thus roughly reflects our staff mix. However, we are aware that men are the

[3] Although there are more gender identities than the male/female binary, for data purposes Merkur operates with only two genders when following up on policies and reporting.

underrepresented gender in Merkur, and our goal is to have a fairly equal gender distribution.



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 30% of managers are women. In other words, we show that it is possible to achieve gender diversity in the traditionally male-dominated financial sector.

But true equality is also about equal pay, and male employees in Merkur earn 1.2 times as much as their female colleagues, which has a lot to do with their job function. We continuously strive to ensure that 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 and by the employees is currently four men and two women, corresponding to 66.7% men and 33.3% women. Merkur wants an equal distribution of women and men at board level. See the Statutory information chapter on page 30 for information on targets. You can read more about Merkur's Board of Directors on page 25.

Remuneration policy

The Executive Board is paid a fixed salary, and the remuneration is assessed every 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 4.5 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.

At the end of 2023, the Danish FSA conducted an anti-money laundering inspection, reviewing Merkur's anti-money laundering procedures and spot checking specific cases. The Danish FSA regularly conducts anti-money laundering inspections of Danish banks to ensure that they have the necessary procedures in place and take their social responsibility seriously in terms of combating money laundering and the financing of terrorism. This is a high priority in Merkur, and we are delighted that the inspection did not give rise to any action by the FSA. In other words, Merkur has effective processes in place in the inspected areas, which we are very pleased with, as we see it as a recognition of our ongoing work to protect ourselves against attempted money laundering and financing of terrorism.

Merkur works closely with its data centre, BEC Financial Technologies, which provides systems that help detect and stop criminal acts. In 2022, BEC initiated a systems build-out, which was implemented in 2022 and 2023, making it easier for us to detect any attempts to abuse Merkur for money laundering purposes. All Merkur employees undergo anti-money laundering training on a regular basis through Finanssektorens Uddannelsescenter.

International payments were a special focus again this year. Russia's invasion of Ukraine and the war between Israel and Palestine have led to the introduction of a number of new regulations. In this connection, we have had a special focus on payments to and from countries involved in war. For example, we have 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 Foundation

The charitable Merkur Foundation was set up 25 years ago by Merkur Cooperative Bank to enable Merkur's customers to make donations in the areas where Merkur is active.
Over the years, the Merkur Foundation has distributed more than DKK 15m, and in recent years bequests and large monetary gifts have enabled the Merkur Foundation to substantially increase its donations. With monetary gifts of over DKK 3m, 2023 was a record year in the foundation's 25-year history.

The monetary gifts come from donors who have more money than they need and who want their money to work for the benefit of people and a better world. The monetary gifts take the form of small and large donations or bequests, and are given either for the general purpose of the foundation or to special areas of interest. The Merkur Foundation is constantly developing new ways to ensure that the wishes of both donors and applicants are met as regards the giving of direction to the money.

25-year
anniversary

DKK 15m
distributed since our foundation

Personal pools – a new Merkur Foundation initiative

In 2023, the Merkur Foundation launched a new way for people to donate larger sums of money to special causes or projects over a period of time. So far their only option has been to set up a non-profit foundation. However, the problem is that running a foundation takes a lot of money and paperwork so it would require a very large donation to make it financially worthwhile.

In 2023, the Merkur Foundation solved this problem by launching a new initiative which is unique among Danish foundations: Donors can set up a personal pool which grants them influence over proposed donations before they are decided by the Merkur Foundation's Board of Directors. This makes a donation of, say, DKK 250,000 or DKK 500,000 to be distributed over a period of 3-5 years worthwhile, as the Merkur Foundation already has the resources needed to process applications and all the formalities. We have already received the first two personal pools, and we look forward to receiving many more. Read more about the first two pools on the next page.

Total monetary gifts received in 2023

Monetary gifts received in 2023	**2023**
195 donors made donations to projects falling within the scope of the foundation's purpose, including a large donation of DKK 800,000	DKK 1,696,070
A special donation to support Organic Denmark's Organic Summit 2025 in Denmark	DKK 225,000
A special donation to support Andelsgaarden Brinkholm's renaturation efforts	DKK 100,000
A donation to two personal pools to support *Sustainable lifestyle* and *Democracy and community* over the next 3-5 years	DKK 1,000,000
Merkur Value Pool	DKK 25,000
Total	**DKK 3,046,070**

Personal pools

Sustainable lifestyle

The pool supports projects that investigate and/or explore the possibilities of reducing people's resource consumption and climate footprint through a change in behaviour or lifestyle, for example in terms of food, transport, holiday types, consumption in the home or otherwise. Initiatives can cover a residential area, an association, a workplace or another defined group. The projects can also focus on gathering international experience with regard to more sustainable lifestyles. The projects must describe how they intend to document sustainability. The pool is DKK 500,000.

Democracy and community

The pool supports projects that investigate and/or explore the possibilities of strengthening democracy and community at the local level (in villages, residential areas and communities etc.). This can be done through various initiatives which activate the citizens involved and which have an eye on the green transition. It must be explained how the projects intend to document the effects. It must be possible to upscale the experience gathered to the municipal, regional or national level. The pool is DKK 500,000.

It is possible to apply for funding from the pools four times a year via merkurfonden.dk, and over the coming years both pools can grant up to DKK 50,000 per application for different projects and activities.

Special donations – benefitting both the donor and the recipient

If a (possibly anonymous) donor has a special area of interest falling within the scope of the purpose of the Merkur Foundation, the foundation can help find applicants. If the donor finds an applicant's project interesting and in line with the donor's ideas about how society should change or evolve, the foundation will qualify the application and handle all practicalities, including any tax benefits resulting from the donation. In 2023, the foundation received a special donation of DKK 225,000 to support Organic Denmark's European Organic Summit. Organic Summit 2025 will be held in Denmark in autumn 2025.
Another donor wanted to support the natural environment, particularly cultural landscapes, and following discussions with both the donor and the applicant, the Merkur Foundation donated DKK 100,000 to a renaturation project at Andelsgaarde's property Brinkholm.

Many applications received

In addition to these special one-off donations, monetary gifts (between DKK 5,000-25,000) are given to dedicated people with a good idea who lack the money to bring their idea to life. In 2023, 43 projects/activities received a monetary gift. The Merkur Foundation's Board of Directors has granted a total of DKK 761,595. However, the foundation received over 350 applications in 2023, meaning that only every eighth application was successful.

Partnership projects raise large amounts of money

Many of the Merkur Foundation's activities are linked to close partnerships that are primarily engaged in development activities outside Denmark. The partnerships rely on ongoing and sustained support to ensure that projects survive the start-up phase. The corona years were tough for many of the partnerships, and the consequences of the pandemic were still felt in 2023. Fortunately, efforts to bounce back after corona were supported by many donors, who in 2023 donated DKK 852,320 to the partnerships. The Merkur Foundation wants to extend its heartfelt thanks to everyone who has supported the partnerships.

Merkur Climate Fund

The climate needs concrete action – and it needs it 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 fund did not install new charging stations in 2023, focusing instead on making the fund's 129 charging points profitable. After losses in 2021 and 2022 totalling DKK -271,476, the fund made a return to profitability in 2023, generating a profit before tax of DKK 460,109. This is a very satisfactory result. Of course, the profit will go towards our work for a greener world. To this end, the fund was provided with extra staff resources at the end of 2023 to ensure the necessary time and funding for new projects in 2024.

129
charging points for electric cars

DKK 460,000
Climate Fund profit before tax

Research project with a climate impact

Electric cars have gained popularity in recent years. While this is good news for the climate, it does present challenges for the electricity grid. As a result, charging needs to be shifted away from peak periods to periods when there is a larger share of green power available in the grid. In 2023, the Merkur Climate Fund therefore made its charging stations in Frederiksberg available for the Technical University of Denmark's research into intelligent electricity systems known as smart grids. The project entails costs for the fund, but we have nevertheless decided to support the research done by the university, as we believe that shifting electricity consumption to periods with a larger share of green power holds significant climate potential.

Fair prices to promote sustainable charging behaviour

On 1 November 2023, we lowered the price of charging at night, which is when the share of green power is largest and the grid load is lowest. The new night-time prices make it 57% cheaper to charge your car while you sleep. A low charging price makes it more attractive to drive an electric car rather than a fossil-fuel car, which is an important element in the green transition. At the same time, the new prices promote the use of green power for the benefit of the climate.

New projects in the pipeline

In 2024, the Danish Climate Fund will start installing charging stations at schools and institutions. The new charging stations allow staff, adult students etc. to charge their car while at work or school, which makes it easier to drive an electric car. Some schools and institutions are located in areas with few charging options. As the fund's charging station network is open to everyone, we hope that the project will encourage more people in regions where charging stations are few and far between to buy an electric car.

In 2024, the fund also aims to get involved in projects that fall within the scope of the purpose of the fund, but which are not earmarked for the installation of charging stations. These include smaller solar projects and partnerships with small energy communities.
You can read more about the Merkur charging points and where they are located at
www.merkur.dk/ladestandere

Sustainability data

Emissions from Merkur's activities, tonnes of CO2e

	2023	2022
District heating	9	7
Electricity	6	6
Business travel	30	27
Data centre BEC	16	11
Total emissions	**61**	**51**

Displaced and absorbed emissions

	2023	2022
Displaced emissions (renewable energy)		
Middelgrunden Vindmøllelaug	-2	-2
Hvidovre Vindmøllelaug	-10	-13
Plasticueros, photovoltaic facility in Spain	-10	-11
Absorbed emissions		
Purchased degraded rainforest in Ecuador	-70	-70
Purchased Gold Standard	-40	-30
Net environment	**-71**	**-75**

Total CO2 emissions

Tonnes of CO2e	2023	2022
Scope 1	0	0
Scope 2	15	13
Scope 3 – upstream	46	38
Scope 3 – downstream	14,945	12,037

Resources

	2023	2022
Energy consumption (GJ)	839	588
Renewable energy share (%)	79	106
Paper (kg)	5,209	4,616

Financed emissions, business customers

	Lending in DKKm 2023	Share of lending	Tonnes of CO2e 2023	Share of emissions	Intensity* 2023	Targets for 2030	Intensity** 2022
Agriculture	242	28%	12,186	88%	50.3	19.8	44.9
Education and institutions	194	22%	835	6%	4.3	1.2	3.9
Other services, cultural institutions and organisations	132	15%	153	1%	1.2	0.5	1.7
Letting etc. of real estate – cooperative housing associations	77	9%	16	0%	0.2	0.1	0.1
Dairies and other food production	41	5%	234	2%	5.7	1.4	4.6
Other	148	17%	467	3%	2.9	1.2	3.9
Total	**834**	**95%**	**13,891**	**100%**	**16.7**	**-**	**14.3**
Energy supply and climate projects	22	2%	-264	-	-	-	-
Not included in calculation	22	3%					
Net emissions	**878**	100%	**13,627**	-	-	-	-

*Emissions per DKKm of lending
**Merkur's baseline for CO2e reductions is the 2022 data. A new report from DCE (Aarhus University) shows that the area of low-lying farmland in Denmark is smaller than previously assumed. New factors for the emissions coming from low-lying farmland will be published in 2024. The overall effect is still unknown, but will be incorporated into our CO2e accounts for 2024. The new data will likely affect our baseline, which will subsequently be corrected.

Financed emissions, personal customers

	Lending in DKKm	Share of lending	Tonnes of CO2e 2023	Share of emissions	Intensity* 2023	Intensity* 2022
Mortgages	825	79%	777	74%	0.94	0.74
Car loans	59	6%	277	26%	4.67	3.17
Climate loans	11	1%	-	0%	-	-
Total	**895**	**86%**	**1,054**	**100%**	**1.18**	**0.76**
Not included in calculation**	149	14%				
Total lending personal customers	**1,044**	**100%**				

*Emissions per DKKm of lending
**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.

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 3.9 for business customers compared to 3.7 in 2022. For personal customers, the score is 4.5 against 4.7 in 2022.

Green Asset Ratio

	Share in DKKm		Share in % of total assets	
	Included	Excluded	Included	Excluded
Total assets	966	3,969	20	80
Non-NFRD companies*		783	-	16
Households	966	95	20	2
- of which: loans secured on residential properties	902	0	19	0
- of which: loans for motor vehicles	64	0	1	0
States etc.	-	2,487	-	51
Trading portfolio and interbank loans on demand	-	258	-	5
Other assets	-	271	-	6

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

	2023	2022	Sector 2023	Target
Number of employees (FTEs), including students	104.3	103.1	-	-
Staff turnover (%)	10.0	16.0	10.4	< 15.0 in 2023
Absence due to illness (days/FTE)	7.3	7.7	6.3*	< 6.5 in 2023
Seniority (years)	5.0	4.7	-	-
Average age (years)	46.0	45.0	-	-
Under 35 years (%)	25.0	28.0	27.0	-
35-54 years (%)	42.0	39.8	46.0	-
55+ years (%)	33.0	32.8	27.0	-

*Figure from 2022

Management data

	2023	2022	Sector 2023	Target figures
Gender diversity on the Board of Directors (%)	33.3	40.0	-	33.3%
Gender diversity (%)	58.0	60.0	49.0	Min. 40%
Gender diversity for other management levels (%)	56.0	50.0	30.0	Min. 40%
Gender pay gap (times)	1.2	1.2	1.2	1.0
Board meeting attendance (%)	93.0	91.2	-	-
Pay gap between CEO and employees* (times)	4.5	5.5	-	-

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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 2023 for Merkur Cooperative Bank.

The annual report has been prepared in accordance with the requirements of the law, including the Danish Financial Business Act and 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 2023, as well as of the results of its activities for the financial year 1 January – 31 December 2023.

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, 23 February 2024

Executive Board

Charlotte Skovgaard

Board of Directors

Cornelis Anthonie Kuypers (Chair)

Anneke Stubgaard (Vice-chair)

Bernhard Franz Schmitz

Hilde Kjelsberg

Jakob Brochmann Laursen

Kristoffer Lüthi

Jesper Kromann

Steffan Storgaard Mortensen

Søren Thomsen

The annual general meeting will be held in Copenhagen on 13 April 2024.

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 2023 and of the results of the bank's operations for the financial year 1 January – 31 December 2023 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 2023 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 section *Auditor's responsibility for the audit of the financial statements.*

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

Independence

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

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

Appointment

We were first appointed as auditors of Merkur Cooperative Bank on 1 April 2017 for the 2017 financial year. We have been reappointed by the annual general meeting for a total uninterrupted period of engagement of seven years, up until and including the 2023 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 2023. These matters were addressed as part of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters

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. Reference is made to the detailed description of accounting policies in note 1 to the financial statements.

As a result of macroeconomic developments with increased interest rate levels and the risk of an economic downturn, 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.

In addition, management has recognised an adjustment of loan impairment charges related to agriculture.

Loan impairment charges are 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 of the loan impairment charges:

- Determination of credit classification.
- 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 which are not included in the model-based calculations or individually assessed impairment charges (management estimate), including in particular the consequences of the macroeconomic developments for Merkur's customers, including its agricultural customers.

Reference is made to note 13, notes 16-17, the 'Credit risk' and 'Risk management' sections in note 34 and note 2 'Significant 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 2023 and the balance sheet as at 31 December 2023.

We carried out risk assessment actions to gain an understanding of IT systems, business practices and relevant controls regarding the calculation of loan impairment charges. 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 labour 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 (weak stage 2 loans).

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, including for our agricultural customers.

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, 23 February 2024

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 3377 1231

Benny Voss	Daniel Mogensen
State-authorised public accountant	State-authorised public accountant
mne15009	mne45831

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Income statement and statement of comprehensive income 2023

DKK ‘000	2023	2022	Note
Interest income	180,232	98,343	3
Negative interest income	0	-7,975	4
Interest expenses	-14,813	-6,980	5
Negative interest expenses	0	13,655	6
Net interest income	**165,419**	**97,043**	
Dividends from shares etc.	348	129	
Fee and commission income	84,539	88,128	7
Fee and commission expenses paid	-11,725	-10,556	8
Net interest and fee income	**238,581**	**174,744**	
Market value adjustments etc.	3,411	-7,042	9
Other operating income	307	340	
Staff costs and administrative expenses	-148,105	-139,301	10-11
Depreciation, amortisation and impairment of tangible and intangible assets	-3,418	-3,532	12
Other operating expenses	-112	-52	
Impairment of loans and receivables etc.	-36,355	-26,739	13
Share of profit or loss of associates and affiliated undertakings	45	43	
Profit before tax	**54,354**	**-1,539**	
Tax	-13,725	895	14
Profit for the year	**40,629**	**-644**	
Proposed distribution of net profit			
Carried forward to next year	40,629	-644	
Statement of comprehensive income			
Profit for the year	40,629	-644	
Other comprehensive income:			
Foreign currency translation adjustments, shares in EUR	80	1	
Other comprehensive income after tax	80	1	
Total comprehensive income for the year	**40,709**	**-643**	

Balance sheet

ASSETS [DKK ‘000]	2023	2022	Note
Cash in hand and demand deposits with central banks	2,486,560	2,377,786	
Accounts receivable from credit institutions and central banks	79,676	99,577	15
Loans and other accounts receivable at amortised cost	1,843,102	1,631,674	16-17
Bonds at fair value	178,538	213,495	18
Shares etc.	68,168	48,150	19
Investments in associates	735	690	20
Assets associated with pool schemes	114,522	87,994	21
Intangible assets	15	198	22
Land and buildings			
Land and buildings (domicile property)	11,662	11,919	
Domicile properties, leased	5,361	4,066	
Total land and buildings	**17,023**	**15,985**	23
Other tangible assets	1,691	1,955	24
Current tax assets	1,028	91	14
Deferred tax assets	5,002	11,821	14
Other assets	53,856	71,356	25
Prepayments	4,324	3,932	
TOTAL ASSETS	**4,854,240**	**4,564,704**	

BALANCE SHEET (continued)

LIABILITIES AND EQUITY [DKK ‘000]	2023	2022	Note
Debt to credit institutions and central banks	114,776	99,063	26
Deposits and other debt	3,925,852	3,764,612	27
Deposits with pool schemes	114,522	87,994	
Issued bonds	24,855	24,827	28
Other liabilities	34,976	32,058	29
Accrued income	201	63	
TOTAL DEBT	**4,215,183**	**4,008,617**	
Provisions for pensions and similar liabilities	385	446	
Provisions for deferred tax	2,837	0	14
Provisions for guarantees	10,750	6,665	
TOTAL PROVISIONS	**13,972**	**7,111**	30
Subordinated debt	147,890	131,936	
SUBORDINATED DEBT	**147,890**	**131,936**	31
EQUITY			
Share capital	239,536	228,322	
Share premium account	145,765	136,960	
Revaluation reserves	857	1,350	
Other reserves	4,708	4,708	
Retained earnings	86,329	45,700	
TOTAL EQUITY	**477,195**	**417,040**	
TOTAL LIABILITIES AND EQUITY	**4,854,240**	**4,564,703**	
OFF-BALANCE SHEET ITEMS			
Guarantees	606,711	686,385	32
TOTAL OFF-BALANCE SHEET ITEMS	**606,711**	**686,385**	

Statement of capital 2023

DKK '000	2023	2022
Share capital		
Share capital, beginning of year	228,322	225,056
Newly paid-up share capital	11,214	3,266
Total	**239,536**	**228,322**
Value of shares, end of year	1,890.30	1,744.30
Share premium account		
Share premium account, beginning of year	136,960	134,512
Share premium during the year	8,725	2,449
Other comprehensive income	80	-1
Total	**145,765**	**136,960**
Revaluation reserves		
Revaluation reserves, beginning of year	1,350	1,350
Revaluation property, reversal	-493	0
Total	**857**	**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	45,700	46,343
Profit for the year	40,629	-643
Total	**86,329**	**45,700**
Breakdown:		
Retained earnings, beginning of year	45,700	46,343
Profit for the year	40,629	-643
Other comprehensive income	80	1
Total comprehensive income	40,709	-642
Other comprehensive income transferred to share premium account	-80	-1
Profit for the year	40,629	-643
Total	**86,329**	**45,700**

Statement of capital 2023 [continued]

DKK '000	2023	2022
Composition of equity, end of year:		
Share capital	239,536	228,322
Share premium account	145,765	136,960
Revaluation reserves, property	857	1,350
Other reserves	4,708	4,708
Retained earnings	86,329	45,700
Total	**477,195**	**417,040**
Other information about reserves		
Free reserves (previously A capital)		
Balance, beginning of year	19,093	19,127
Proportionate share of profit for the year	2,074	-34
Total free reserves	**21,167**	**19,093**
Share of other reserves	2,353	2,353
Total	**23,520**	**21,446**
Shareholders' reserves (previously B capital)		
Balance, beginning of year	26,607	27,217
Proportionate share of profit for the year	38,555	-610
Total shareholders' reserves	**65,162**	**26,607**
Share of other reserves	2,355	2,355
Total	**67,517**	**28,962**

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NOTES

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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 2022 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 previously made use of the transitional arrangement, but the standard is now fully phased-in.

Change in deferred tax due to changes in accounting estimates
The accounting estimate for deferred tax was changed as at 1 January 2023 due to the implementation of the 'Arne tax' and the change in the tax rate from 2022 to 2024 resulting from changes in the Danish Corporation Tax Act, Danish Tax Administration Act, the Danish Tax Control Act and the Danish Tax Assessment Act. The changes relate to the introduction of 'Societal contribution from the financial sector and a deduction cap on salaries' as at 9 June 2022.

The change in the accounting estimate has occurred as a result of a shift in the timing of when the deferred tax asset is expected to be used, as the calculation of the asset changes in step with the different tax rates.

The effect of the change is recognised in the income statement under tax on profit for the year. The effect of the change amounted to DKK 330 thousand 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.

The purchase and sale of financial instruments is recognised at the transaction date, and they are derecognised when the cash flows associated with the financial asset or liability have ended, or if it has been transferred and all risks and rewards of ownership have substantially been transferred.

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 Merkur’s 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 other 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

Financial assets are classified and measured on the basis of the contractual cash flows from the financial assets and the business model for the financial assets.

This implies that financial assets, where the contractual cash flows consist solely of payments of principal and interest must be classified and measured on initial recognition according to one of the following business models:

- Financial assets held to generate the contractual cash flows, where the contractual cash flows consist solely of interest and repayments on the principal amount, are measured at amortised cost after the date of initial recognition.
- Financial assets held in a mixed business model, where the objective of holding some financial assets is to collect the contractual cash flows, while the objective of holding other financial assets is to sell the assets, and where the contractual cash flows from the financial assets of the mixed business model consist solely of payments of principal and interest on the principal 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 payments of principal and interest on the principal 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 PD[1] 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 receivables 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.

[1] PD stands for probability of default.

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 other than agriculture 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 no longer has a reasonable expectation about full or partial coverage of the outstanding amount. Derecognition is based on a concrete, individual assessment of the individual exposures. For 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.

Listed shares are measured at fair value based on the closing rate at the balance sheet date (level 1).

Unlisted and illiquid shares are measured at fair value based on what the transaction price would be in a transaction between two independent parties. For this purpose, we use available information about trades, published financial statements or, alternatively, capital value calculations (levels 2 and 3).

For unlisted shares in the form of shares in sector-owned companies where the shares are redistributed, redistribution is considered to constitute the primary market for the shares. The fair value is determined as the redistribution price, and the shares are included as level 2 shares.

Unlisted shares for which a reliable fair value cannot be determined are measured at cost less impairment (level 3).

Management actively considers the calculation of the fair values.

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 in respect of 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 2023 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 and the current macroeconomic conditions. 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 144 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 5.5-5.8m. 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.

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 25.1m. A change to a 100% probability of a better case scenario occurring will reverse impairment, corresponding to approx. DKK 8.4m.

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 the current situation is one of high interest rates, inflation, changed consumption patterns etc., Merkur has decided to include an adjustment in the form of a management estimate.

At the present time, it has not been possible, among Merkur's customers, to identify specific industries other than agriculture that are particularly risky. The management estimate is therefore distributed on all industries and personal customers.
The management estimate consists of three models: a model where adjustments are calculated based on the Danish FSA's macroeconomic stress test of loans and guarantees within the individual industries, a model which assesses some degree of migration of customers from stage 1 to stage 2 and from stage 1 to stage 2 weak, and an adjustment of the expected upcoming carbon tax on agriculture. Overall, these assessments give rise to a management estimate of DKK 16.8m. The management estimate in 2022, which was primarily calculated based on the Danish FSA's macroeconomic stress test of loans and guarantors, was recognised at DKK 8.5m.

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 0.4m 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 value and are therefore subject to uncertainty.

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 one to two 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	2023	2022

Note 3. Interest income

	2023	2022
Accounts receivable from credit institutions and central banks	72,079	7,902
Loans and other accounts receivable	105,281	87,474
Bonds	2,482	2,056
Other interest income, including administration of pools	390	911
Total	**180,232**	**98,343**

Note 4. Negative interest income

	2023	2022
Accounts receivable from credit institutions and central banks	0	7,627
Bonds	0	348
Total	**0**	**7,975**

Note 5. Interest expenses

	2023	2022
Credit institutions and central banks	1	68
Deposits and other debt	5,469	374
Subordinated debt	8,270	5,503
Issued bonds, non-preferred senior debt	761	760
Other interest expenses, including lease payments	312	275
Total	**14,813**	**6,980**

Note 6. Negative interest expenses

	2023	2022
Deposits and other debt	0	13,655
Total	**0**	**13,655**

Note 7. Fee and commission income

	2023	2022
Securities trading and custody accounts	16,795	17,689
Payment handling	14,652	14,352
Loan business, fees and charges	4,866	5,580
Guarantee commission	22,557	23,942
Other fee and commission income	25,669	26,565
Total	**84,539**	**88,128**

DKK '000	2023	2022

Note 8. Fee and commission expenses paid

	2023	2022
Remuneration fees, external valuers	681	630
Interbank transaction fees	164	162
International fees, Visa and Mastercard	1,749	1,755
Other fees, pension systems etc.	6,074	4,805
Fees, Dankort and NETS	2,125	2,630
Fees, MobilePay	550	518
Paid guarantee commission	382	56
Total	**11,725**	**10,556**

Note 9. Market value adjustments etc.

	2023	2022
Bonds	3,969	-9,274
Shares and equity investments	-298	2,342
Foreign exchange income	-260	-110
Assets associated with pool schemes	10,849	-12,517
Deposits with pool schemes	-10,849	12,517
Total	**3,411**	**-7,042**

Note 10. Staff costs and administrative expenses

	2023	2022
Staff costs		
Salaries	70,660	66,272
Pensions	7,890	7,189
Social security costs (financial services employer tax etc.)	12,031	12,084
Total	**90,581**	**85,545**
Other administrative expenses (note 11)	57,524	53,756
Total	**148,105**	**139,301**

Of this, remuneration to the Board of Directors and other employees with a significant influence on Merkur's risk profile constitutes:

	2023	2022
Board of Directors		
Remuneration	1,878	1,879
Number of board members	9	8
Significant risk takers		
Fixed salary	10,842	10,259
Variable salary	0	0
Number of employees with influence on the risk profile	11	11
Number of employees, full-time equivalents	**106.6**	**104.4**

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

*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/aarsrapport.

DKK '000	2023	2022

Note 11. Other administrative expenses

IT costs, BEC	38,978	38,369
Other IT costs and telephony	2,040	2,200
Office supplies, stationery etc.	1,474	966
Postage	23	27
Travel costs etc.	649	572
Courses, training and other staff costs	4,292	3,013
Rent etc.	1,733	1,601
Maintenance of offices etc.	433	360
Insurance	492	444
Membership fees, banking associations etc.	1,219	1,058
Merkur's customer magazine 'Pengevirke'	610	639
Marketing	4,384	3,099
Auditing services**, legal and consultancy costs	1,096	1,094
Other costs, incl. VAT regulation	101	314
Total	**57,524**	**53,756**
Fee paid to the auditors elected by the annual general meeting (AGM)**		
Statutory audit of the financial statements	559	515
Other assurance engagements	181	213
Tax advice and other assistance	40	0
Total fee paid to the firm of auditors elected by the AGM and performing the statutory audit	**780**	**728**

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

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

Domicile property	257	258
Machinery and equipment (including leasing of car)	1,246	1,299
Leasehold improvements	101	136
Leasing, rent	1,787	1,696
Leasing, rent adjustment, depreciation previous years	-156	-40
Development costs	183	183
Total	**3,418**	**3,532**

DKK '000	2023	2022

Note 13. **Impairment and provisions**

Total write-offs and impairment for the year	2023	2022
Accumulated changes in impairment during the year	22,196	8,980
Write-offs for the year, previously impaired	14,920	7,856
Write-offs, not previously impaired	1,715	11,895
Received on claims previously written off	-1,088	-1,056
Interest from impairment	-1,388	-936
Total write-offs and impairment for the year	**36,355**	**26,739**

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

31 December 2023	Stage 1	Stage 2	Stage 3	**Total**
Beginning of year	5,146	12,645	49,259	67,050
New impairment/provisions	8,000	17,260	36,596	61,856
Reversal of impairment/provisions	-4,451	-4,577	-15,710	-24,738
Transfer to stage 1	2,951	-2,874	-77	0
Transfer to stage 2	-652	980	-328	0
Transfer to stage 3	-194	-1,506	1,700	0
Write-offs, previously impaired/provided for	0	0	-14,920	-14,920
End of year*	10,800	21,928	56,520	**89,248**
*) Of which management estimate	5,426	11,729	0	17,155

Impairment of loans and other accounts receivable, 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	6,662	0	9,041

DKK '000	2023	2022

Note 13. Impairment and provisions [continued]

Accumulated impairment ratio		
In % of loans and guarantees	3.3	2.7
Write-offs and impairment for the year in % of loans and guarantees	1.3	1.2
Zero-interest loans and reduced-interest loans due to borrower's financial difficulties	46,490	40,373
In % of loans and guarantees before impairment	1.6	1.7
Further information on loans not fully impaired		
Loans and receivables with objective evidence of impairment, before impairment	196,110	149,076
Loans and receivables with objective evidence of impairment, after impairment	143,464	123,960

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 2023	222,321	62,711	26,412	701	19,112	39
Loans and guarantees before impairment/provisions 2022	65,607	151,042	45,960	41,531	5,234	5,234

2023 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 of rising interest rates and inflation.

DKK '000	2023	2022

Note 14. Tax

Current tax	-4,014	917
Adjustment of deferred tax	-8,928	-22
Adjustment of deferred tax, previous years	-237	0
Adjustment of tax, previous years	-546	0
Total	**-13,725**	**+895**
Effective tax rate on profit for the year	**25.3**	**-58.2**
Accounting profit before tax	**54,354**	**-1,539**
Tax calculated thereon at a tax rate of 25.2%	-13,697	+339
Changes in deferred tax, adjustment previous years	-237	-22
Permanent differences	544	+466
Changes due to change in tax rate	-330	0
Other adjustments	-5	+112
Tax on profit for the year	**-13,725**	**+895**
Deferred tax assets		
Other	0	1,193
Tax loss carry-forward	5,002	10,628
Total deferred tax assets	**5,002**	**11,821**
Provisions for deferred tax		
Other	2,837	0
Total provisions for deferred tax	**2,837**	**0**
Tax receivables		
Calculated tax on profit for the year	-4,014	0
Tax paid in advance	5,000	0
Dividend tax paid	42	15
Dividend tax receivable regarding previous years	0	76
Total	**1,028**	**91**

The effective tax rate of 25.3% was affected by a new special tax on the financial sector, increasing the corporate tax rate from 22.0% in 2022 to 25.2% in 2023 and 26.0% as of 2024.

Note 15. Accounts receivable from credit institutions and central banks

Broken down by term to maturity		
Demand deposits	64,676	69,577
Between 3 months and 1 year	15,000	30,000
Total	**79,676**	**99,577**
Broken down by central banks and credit institutions		
Accounts receivable from credit institutions	79,676	99,577
Total	**79,676**	**99,577**

Note 16. Loans and other accounts receivable at amortised cost

DKK '000	2023	2022
Loans with access to variable utilisation	490,899	334,783
Leasing	52,862	52,180
Other loans	1,299,341	1,244,711
Loans and other accounts receivable, total	**1,843,102**	**1,631,674**
Broken down by term to maturity		
On demand	294,410	249,229
Up to and including 3 months	31,198	23,357
Between 3 months and 1 year	132,953	100,039
Between 1 year and 5 years	344,388	309,637
More than 5 years	1,040,153	949,412
Total	**1,843,102**	**1,631,674**

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 [by sector and industry]

DKK '000	2023	2022
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	12.8	12.9
2.2 Industry and mining	2.8	3.0
2.3 Energy	0.4	1.0
2.4 Building and construction	2.1	0.5
2.5 Trade	1.9	1.2
2.6 Transport, hotels and restaurants	1.4	1.5
2.7 Information and communication	0.4	0.4
2.8 Credit, finance and insurance	2.5	2.4
2.9 Real estate	3.9	6.3
2.10 Others	19.8	19.5
Total corporate sector	**48.0**	**48.7**
3. Personal customers	**52.0**	**51.3**
1-3 Total	**100.0**	**100.0**

DKK '000	2023	2022

Note 18. Bonds at fair value

	2023	2022
Mortgage bonds	163,605	197,592
Government bonds	8,988	8,877
Foreign bonds	5,945	7,026
Total	**178,538**	**213,495**

Note 19. Shares and other investments

	2023	2022
Investment portfolio		
Danish financial sector companies	**62,021**	**44,757**
Strategic partners		
Triodosbank, Netherlands	3,259	487
GLS Gemeinschaftsbank, Germany	39	39
Freie Gemeinschaftsbank, Switzerland	32	31
Banca Etica, Italy	819	817
Cultura Sparebank, Norway	858	915
Ekobanken, Sweden	312	302
SEFEA – Società Europea Finanza Etica ed Alternativa, Italy	62	61
Triodos II MIC ID	693	0
Triodos Sicav II	0	666
Shared Interest Society Limited, UK	17	17
Oikocredit, Netherlands	28	30
SIDI, France	28	28
Total	**68,168**	**48,150**

DKK '000			2023	2022
Note 20. Investments in associates				
	Equity interest	**Equity**		
Plasticueros ApS				
	37.50%	**EUR 262,936**		
Total cost, beginning of year			559	559
Total cost, end of year			**559**	**559**
Revaluations and impairment, beginning of year			131	88
Profit for the year			45	43
Revaluations and impairment, end of year			**176**	**131**
Carrying amount, end of year			**735**	**690**
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 CO2 emissions.				
Söderhof Vindmølle I/S, Germany				
Total cost, beginning of year			0	3,525
Disposals during the year			0	-3,525
Total cost, end of year			**0**	**0**
Revaluations and impairment, beginning of year			0	-2,325
Reversed revaluations and impairment			0	2,325
Revaluations and impairment, end of year			**0**	**0**
Carrying amount, end of year			**0**	**0**
Total carrying amount of investments in associates, end of year			**735**	**690**

DKK '000	2023	2022

Note 21. Assets in pool schemes

Investment units	3,925	85,413
Cash deposit	110,597	2,581
Total	**114,522**	**87,994**

Note 22. Intangible assets

Cost, beginning of year	730	730
Total cost, end of year	**730**	**730**
Amortisation, beginning of year	532	349
Amortisation for the year	183	183
Amortisation, end of year	**715**	**532**
Carrying amount, end of year	**15**	**198**

Note 23. Land and buildings

Domicile properties		
Revalued amount, beginning of year	15,241	15,241
Revalued amount before depreciation	**15,241**	**15,241**
Depreciation, beginning of year	3,322	3,064
Depreciation for the year	257	258
Depreciation, end of year	**3,579**	**3,322**
Value, end of year	**11,662**	**11,919**
Domicile properties, leased		
Value, beginning of year	9,158	8,413
Reassessment of leases during the period	3,081	745
Value before depreciation	**12,239**	**9,158**
Depreciation, beginning of year	5,092	3,396
Depreciation for the year	1,787	1,696
Depreciation, end of year	**6,879**	**5,092**
Value, end of year	**5,361**	**4,066**
Total property exposure	**17,023**	**15,985**

DKK '000	2023	2022

Note 24. Other tangible assets

	2023	2022
Cost, beginning of year	19,472	17,772
Additions during the year	1,083	1,700
Total cost, end of year	**20,555**	**19,472**
Depreciation, beginning of year	17,676	16,400
Depreciation for the year	1,188	1,276
Depreciation, end of year	**18,864**	**17,676**
Carrying amount, end of year	**1,691**	**1,796**
OTHER TANGIBLE ASSETS, LEASED CAR		
Cost, beginning of year	477	477
Total cost, end of year	**477**	**477**
Depreciation, beginning of year	318	159
Depreciation for the year	159	159
Depreciation, end of year	**477**	**318**
Carrying amount, end of year	**0**	**159**
TOTAL OTHER TANGIBLE ASSETS	**1,691**	**1,955**

Note 25. Other assets

	2023	2022
Miscellaneous receivables	21,070	21,279
Rent deposit and deposit with data centre	31,316	48,643
Interest receivable	1,470	1,434
Total	**53,856**	**71,356**

Note 26. Debt to credit institutions and central banks

	2023	2022
Broken down by term to maturity		
On demand	114,776	99,063
Total	**114,776**	**99,063**
Broken down by central banks and credit institutions		
Debt to central banks	114,072	98,252
Debt to credit institutions	704	811
Total	**114,776**	**99,063**

DKK '000	2023	2022

Note 27. Deposits and other debt

Broken down by term to maturity		
On demand	3,925,596	3,763,846
Deposits redeemable at notice:		
Up to and including 3 months	256	0
Between 3 months and 1 year	0	511
Between 1 year and 5 years	0	255
Total	**3,925,852**	**3,764,612**
Broken down by type of deposit		
On demand	3,389,262	3,403,573
Deposits redeemable at notice	294,197	116,104
Fixed-term deposits	256	765
Special deposits	242,137	244,170
Total	**3,925,852**	**3,764,612**

Note 28. Issued bonds

Nominally DKK 25m, floating interest rate of 3.0% as at 31 December 2022, matures on 17 December 2028	24,855	24,827
Total issued bonds	**24,855**	**24,827**
Broken down by term to maturity		
Between 1 year and 5 years	24,855	0
More than 5 years	0	24,827
Total	**24,855**	**24,827**

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

Note 29. Other liabilities

Various accounts payable	13,340	13,722
Interest and commission payable	3,808	2,873
Lease commitments	5,464	4,342
Other liabilities	12,364	11,121
Total	**34,976**	**32,058**

Note 30. Provisions

Provisions for pensions and similar liabilities	385	446
Provisions for deferred tax	2,837	0
Provisions for losses on guarantees etc.	10,750	6,665
Total	**13,972**	**7,111**

DKK '000	2023	2022

Note 31. Subordinated debt

	2023	2022
Subordinated debt at amortised cost	147,890	131,936
Total	**147,890**	**131,936**
Subordinated debt used for determination of own funds	145,587	131,720
Interest	8,270	5,503

Subordinated debt
Subordinated debt that represents 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	8.35	50,000
08.07.2031	DKK	6.543	60,000
28.05.2032	DKK	4.5	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 2023. 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

	2023	2022
Guarantees		
Financial guarantees	208,884	218,782
Loss guarantees for mortgage loans	340,440	374,996
Registration and conversion guarantees	43,155	78,236
Other guarantees	14,232	14,371
Total	**606,711**	**686,385**
Other obligating agreements		
Unutilised loan commitments	878,043	820,580

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).

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, no major cases are pending.

DKK ‘000	2023	2022
Note 33. Capital ratio		
Composition of capital		
Equity	477,195	417,040
Transitional arrangement, IFRS 9*	0	4,324
Deductions:		
Capitalised deferred tax assets	-5,002	-10,022
Intangible assets	-15	-198
Other deductions, including NPEs	-16,989	-24,158
Value adjustment according to requirement for prudent measurement of assets	-247	-262
Actual Tier 1 capital instruments in the financial sector	-18,929	-5,790
Actual Tier 1 capital	**436,013**	**380,934**
Subordinated debt	145,587	131,720
Deduction for shares amounting to more than 33% of Tier 1 capital	-250	-4,742
Own funds	**581,350**	**507,912**
Without the IFRS 9 transitional arrangement, own funds at year-end would total	581,350	503,588
Risk exposure		
Credit risk	1,671,562	1,653,010
Operational risk	300,099	279,678
Market risk	22,089	41,684
Total risk exposure	**1,993,750**	**1,974,372**
Capital ratio	**29.2**	**25.7**
Tier 1 capital ratio	**21.9**	**19.3**
Capital ratio, without IFRS 9 transitional arrangement	**29.2**	**25.5**
Tier 1 capital ratio, without IFRS 9 transitional arrangement	**21.9**	**19.1**

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

DKK '000	2023	2022

Note 34. Financial risks 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	2023	2022
1 – Objective evidence of impairment (OEI)	8	7
2 – Weak	0	0
3 – Customers under observation	6	5
4 – Good customers below average	18	18
5 – Good customers	34	31
6 – Good customers above average	33	37
7 – Very good customers	1	2
Total	**100**	**100**

*Credit quality ratings are only applied to commitments in excess of DKK 10 thousand.
2023 saw a migration towards a slightly larger number of customers below average and more good customers, while the biggest reduction of 4 percentage points was seen in the '6 – Good customers above average' group.
This is in contrast to 2022, which saw a minor reduction in the number of customers in categories 1-3 and an increase in the '6 – Good customers above average' group.
See 'Accounting policies' under the 'Model for impairment of expected credit losses' section for further details.

The Danish FSA uses 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 credit rating	1	2-3	4-5	6	7

DKK ‘000	2023	2022

Note 34. Financial risks 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	18	36	7,387	3,237	122	**10,800**
2	0	4	5,639	963	50	**6,656**
2 WEAK	1,658	9,841	3,367	407	0	**15,273**
3	56,353	0	166	0	0	**56,519**
Total	**58,029**	**9,881**	**16,559**	**4,607**	**172**	**89,248**

In addition to being assigned to a credit quality rating category, Merkur’s exposures are also assigned a stage based on whether the exposure is credit-impaire

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	2023	2022

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

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

End of 2023 in DKK '000

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		210,106	26,441	44,680	25,101	**306,328**
2.2 Industry and mining		22,671	4,645	19,177	12,575	**59,068**
2.3 Energy		8,166	0	1,010	1,001	**10,177**
2.4 Building and construction		30,728	14,157	2,821	3,436	**51,142**
2.5 Trade		27,514	2,505	12,615	4,842	**47,476**
2.6 Transport, hotels and restaurants		26,388	297	2,436	3,938	**33,059**
2.7 Information and communication		6,532	1,871	2,959	398	**11,760**
2.8 Credit, finance and insurance		31,889	1,448	20,383	1,118	**54,838**
2.9 Real estate		66,551	2,012	14,267	24,346	**107,176**
2.10 Others		99,637	6,116	42,239	55,220	**203,212**
2.10 Schools, kindergartens and institutions		150,489	41,080	90,487	24,944	**307,000**
Total corporate sector		**680,671**	**100,572**	**253,074**	**156,919**	**1,191,236**
3. Personal customers		**1,139,156**	**74,953**	**84,358**	**43,063**	**1,341,530**
1-3 Total		**1,819,827**	**175,525**	**337,432**	**199,982**	**2,532,766**

End of 2022 in DKK '000

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	0	4,723	DKK '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 Others		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**

DKK '000	2023	2022

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

Overview of accumulated impairment broken down by industry and stage

Accumulated impairment, end of 2023 in DKK '000

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		2,579	3,250	2,945	7,682	**16,456**
2.2 Industry and mining		268	0	1,050	3,213	**4,531**
2.3 Energy		671	0	0	4,251	**4,922**
2.4 Building and construction		684	6	13	2,740	**3,443**
2.5 Trade		443	63	508	2,190	**3,204**
2.6 Transport, hotels and restaurants		1,003	144	487	1,776	**3,410**
2.7 Information and communication		14	55	187	400	**656**
2.8 Credit, finance and insurance		136	50	1,886	782	**2,854**
2.9 Real estate		114	199	434	1,502	**2,249**
2.10 Others		2,128	247	2,298	16,247	**20,920**
2.10 Schools, kindergartens and institutions		788	986	2,293	3,219	**7,286**
Total corporate sector		**8,828**	**5,000**	**12,101**	**44,002**	**69,931**
3. Personal customers		**1,972**	**1,656**	**3,172**	**12,517**	**19,317**
1-3 Total		**10,800**	**6,656**	**15,273**	**56,519**	**89,248**

Accumulated impairment, end of 2022 in DKK '000

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	0	257	DKK '000	**1,855**
2.4 Building and construction		5	8	136	2,538	**2,687**
2.5 Trade		69	0	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	0	1,570	288	**1,950**
2.9 Real estate		82	310	238	5,524	**6,154**
2.10 Others		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**

DKK '000	2023	2022

Note 34. Financial risks 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	-44,011	-57,465
Liabilities in foreign currency	38,256	63,465
Total off-balance sheet items in foreign currency	0	60
Net positions	**-5,755**	**6,060**
Of which long positions = currency indicator 1	-5,850	-194
Of which short positions	95	6,254
Currency indicator 1 in % of Tier 1 capital after deductions	**1.3**	**1.6**

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 4% of the Tier 1 capital after deductions. Tier 1 capital after deductions amounts to DKK 442m. The interest rate risk may therefore not exceed DKK 17.7m.

The interest rate risk is calculated based on the following:		
Securities	1,055	2,079
Fixed-rate deposits and loans	144	991
Total	**1,199**	**3,070**
Interest rate risk disaggregated across currencies with the greatest interest rate risk		
Currency:		
DKK	1,279	2,960
SEK	0	100
NOK	-8	8
EUR	-72	2
Total	**1,199**	**3,070**

DKK '000	2023	2022

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

Interest rate risk in % of Tier 1 capital		
Securities	0.3	0.5
Fixed-rate deposits and loans	0.0	0.3
Interest rate risk in % of Tier 1 capital	**0.3**	**0.8**

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 2023, Merkur had an LCR of 535%, thus exceeding the statutory requirement by 435%.
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 2023.

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

	2023	2022
Loans, credit lines etc. for management		
Executive Board	0	0
Board of Directors	382	10,124
Collateral		
Executive Board	0	0
Board of Directors	237	3,592

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%-6.95% 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.

Note 36. Financial highlights

Key figures in DKKm	2023	2022	2021	2020	2019
Income statement					
Net interest and fee income	238.6	174.7	158.2	146.6	142.2
Market value adjustments etc.	3.4	-7.0	1.3	-0.7	1.0
Staff costs and administrative expenses	148.1	139.3	134.8	130.4	118.7
Impairment of loans and receivables etc.	36.4	26.7	8.3	25.7	11.3
Share of profit or loss of associated undertakings	0.0	0.0	0.2	0.3	-0.8
Profit after tax for the year	40.6	-0.6	11.6	-10.4	9.1
Balance sheet					
Loans	1,843.1	1,631.7	1,669.2	1,642.7	1,667.9
Deposits, including pools	4,040.4	3,852.6	3,749.8	3,526.9	3,160.4
Equity	477.2	417.0	412.0	389.6	365.1
Total assets	4,854.2	4,564.7	4,497.5	4,153.0	3,704.1
Guarantees	606.7	686.4	773.2	688.3	637.4
Other information					
Number of full-service customers*	21,077	20,846	20,916	20,176	19,354
Number of shareholders	8,082	7,950	8,131	8,096	7,637
Ratios					
Capital ratio	29.2	25.7	23.9	20.8	20.0
Tier 1 capital ratio	21.9	19.3	17.9	19.0	18.0
Return on equity before tax (%)	12.2	-0.4	3.5	-7.0	3.1
Return on equity after tax (%)	9.1	-0.2	2.9	-5.4	2.6
Return on capital employed (%)	0.8	0.0	0.3	-0.3	0.2
Income/cost ratio	1.3	1.0	1.1	0.9	1.1
Income/cost ratio excl. market value adjustments and impairment	1.6	1.2	1.2	1.1	1.2
Cost-to-income ratio excl. market value adjustments and impairment	0.6	0.8	0.9	0.9	0.0
Interest rate risk (%)	0.3	0.8	0.2	0.9	0.4
Foreign exchange position (%)	1.3	1.6	3.2	0.8	2.7
Foreign exchange risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity coverage ratio (%)**	534.7	557.5	566.9	541.4	460.6
Net Stable Funding Ratio (NSFR)	242.9	255.8	238.8		
Loans and impairment charges in % of deposits	49.2	43.9	46.9	47.7	55.2
Lending-to-equity ratio	3.9	3.9	4.1	4.2	4.6
Growth in lending for the year (%)	13.0	-2.2	1.6	-1.5	0.0
20 largest customer exposures in % of Tier 1 capital	114.7	111.1	118.6	135.2	133.5
Share of loans with reduced interest	1.6	1.7	0.8	0.5	1.1
Impairment ratio for the year	1.3	1.2	0.3	1.1	0.5
Accumulated impairment ratio	3.3	2.7	2.3	2.7	3.7

*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.