MERKUR
COOPERATIVE BANK

Annual Report 2019

Values

Merkur Cooperative Bank conducts its banking business on the basic understanding that the world is one. Every human individual is intrinsically valuable and possesses the potential to develop his or her talents in freedom and has the opportunity to take responsibility for our society and our shared livelihood.

Merkur's most significant societal ideals are the following:

Sectors for culture, research, health and education that enjoy the greatest degree of freedom possible when it comes to the content of services provided, and which are free of any business or political special interests. This is decisive for the capacity of individuals to achieve the best conditions to develop their abilities.

We finance independent schools, boarding schools and folk high schools, artists, instruments, music venues, cinemas, theatres and other cultural institutions, reputable alternative practitioners and medicine, care services and more.

A business community whose products and services reflect society's and consumers' real needs, and which respects people and the environment. This approach safeguards natural resources so that they remain available for future generations.

We finance renewable energy, organic and biodynamic farming and food production, companies based on circular economy and recycling, sharing economy, ecological construction, environmental technology, consultancies with sustainable aims and more.

A democratic constitutional state that ensures equality among citizens and thereby defines the framework for the other two areas. The constitutional state must ensure proper conditions for employees and dignified conditions for society's weakest members, so that everyone is able to contribute to the whole on their own terms.

We finance social enterprises, group homes, as well as institutions and jobs for people with special needs etc. We finance communities and independent institutions where citizens themselves have defined the framework for living, working or owning a company.

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Annual Report 2019

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Cover: Restaurant Hærværk in the city of Århus is a Merkur customer. It carries the organic gold standard and focuses on sustainable, local and seasonal produce. Among other awards, Hærværk has received the "Green Clover" from the Michelin Guide. Photo: Restaurant Hærværk

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Merkur in 2019

2019 was the year when Merkur's capital base was significantly strengthened, when the sustainable investments through Triodos reached DKK 1bn, and when the effects of low interest rate levels showed through in the results in earnest, due to less interest income and higher expenses for negative rates – and record-high activity in mortgage financing.

The result for 2019 was a profit of DKK 9.1m after tax. The result was a significant improvement in relation to last year's profit of DKK 3.1m. Shareholders have again received a positive, albeit modest, return for the year. When we, despite the progress, view the result as less satisfactory, it is due to our higher ambitions concerning primary operations, which still hold an unexploited potential.

The interest in converting mortgage loans exceeded all expectations in 2019 and was a consequence of the falling interest rates. The advantageous opportunities to take out mortgage loans pushed a number of loans into our mortgage portfolios (outside our balance sheet), which increased by DKK 398m. Lending at Merkur itself therefore finished with a slight fall from DKK 1,676m to DKK 1,668m. At the same time, deposits rose by DKK 33m, but this should be seen in context of the total inflow of funds for upward of DKK 400m, of which the greater part is placed in investments and therefore does not figure on the cooperative bank's balance sheet.

One billion Danish kroner in sustainable investments

Sustainable and impact investments are really picking up speed on the Danish market. In this field, Merkur is a frontrunner. Our customers have now invested in Triodos investment funds for a total sum of DKK 1,133m compared to DKK 751m in 2018 – a growth of 50%. Added to this are DKK 239m in investments in funds managed by other partners.

Strengthened capital base and more shareholders

In 2019, Merkur had a net intake of 600 new shareholders. Merkur now has more than 7,600 shareholders, corresponding to 22% of customers (20% in 2018). The share capital has grown by

DKK 1,133 m

Investments in Triodos Investment Funds: DKK 1,133m

DKK 44,5 m

Share capital grew by 16% or DKK 44.5m

7,600

Merkur has now more than 7,600 shareholders (22% of its customers)

16% or DKK 44.5m, of which a total of DKK 21m came from *Alternative Bank Schweiz* and *Helenos Fund* – two professional impact investors, whom we are very happy to welcome among Merkur's shareholders.

The cooperative share capital and shareholders are the foundation for Merkur and a prerequisite for increasing lending and thereby fulfilling our purpose to lend money to sustainable and responsible companies and projects. Growing share capital also plays an important role in meeting the increased capital requirements over the coming years, which all banks must live up to. Therefore, a continued intake of shareholders and share capital has a high priority in 2020 and in the following years.

In five years, our share capital has risen by DKK 136m (76%), which is a strong witness to the public interest for Merkur as an alternative in the Danish banking sector. Our capital ratio has never been higher than it is now.

Core earnings

Increased profitability, in a difficult market with negative interest rates, is the cooperative bank's highest priority in these years.

2019 brought us part of the way, but we have not crossed the finish line yet.

Interest income is largely unchanged in relation to the previous year. Interest expenses, on the other hand, have increased to DKK 14.4m compared to DKK 10.0m in 2018, primarily on account of the increasing interest costs to the Danish Central Bank. In return, we have increased our income from other business areas, such as provision of mortgage loans, investments, pensions and services. Net income from fees and commissions has increased to DKK 59.5, DKK 7.3m higher than last year.

The intake of new customers numbered a total of 2,431 in 2019. With a total outflow of 2,508 customers, this represents a slight fall in the overall number of customers, amounting to 0.2%. This is mainly due to the fact that a large portfolio of customers with only a single individual energy loan has been fully repaid. Costs rose by 3.7% in 2019 to DKK 115.5m. Personnel costs, which constitute approx. 53% of all costs, rose by 4.5% to DKK 70.3m. However, by far the greatest cost increase is due to increased IT expenses – an increase of no less than 14.2%, or DKK 4.2m, to DKK 33.6m in total.

> **2019 was the year when Merkur's capital base was significantly strengthened, when the sustainable investments through Triodos reached DKK 1bn, and when the effects of low interest rate levels showed through in the results**

Market value adjustments

The cooperative bank's bond holdings in 2019 caused a negative market value adjustment of DKK 1.6m, which together with the interest income from the holdings give a negative return of 0.2%. This 0.2 percentage points better than the negative return in 2018. The market value adjustments of capital shares contributed with DKK 4.5m against an expected DKK 2m. The additional income is primarily due to an extraordinary capital gain from the sale of shares in Sparinvest (DKK 1.8m).

Positive dialogue with the Danish Financial Supervisory Authority (DFSA)

Merkur underwent an inspection by the DFSA's anti money laundering unit in August, as well as an ordinary and general inspection from the DFSA's banking unit in December. Both inspections were in our understanding conducted positively and with constructive dialogue which provided opportunity to deal in depth with the great efforts that the cooperative bank has exerted in recent years both with regard to anti money laundering and in general.

Expectations for 2020

Merkur's board has adopted a new strategy through the year 2023, meant to ensure healthy growth to strengthen Merkur as a business. A robust and healthy business, together with our unique values, is the foundation for Merkur continuing to maintain its special and cutting-edge profile among Danish banks.

Increased lending is decisive for improving basic income in the longer run. In the meantime, growth in lending has to be realised in a market where demand for loans is low and where competition is strong. It is therefore decisive that we add extra value through our advising and are able to identify new areas where we can finance e.g. parts of the green transition. We expect a moderate growth in loans in the interval 4-6%.

Losses and impairments are expected to be maintained at a low level of 0.5%, insofar as the business cycle does not change significantly. At the same time, Merkur can grow substantially in areas such as pensions and investments, which do not charge the capital base.

We expect a capital ratio at the end of 2020 within the interval of 21-22%, an increase of approx. 2 percentage points from the beginning of the year, and in agreement with our intention of gradually achieving an excess capital coverage of 5 percentage points. The new capital is expected mainly to come from the cooperative bank's customers in the form of shareholder capital. Moreover, we expect an addition of subordinated loan capital from partners and investors.

The expected result reflects that 2020 is an investment year, where a DKK 6m have been allocated to future-proof the business. These investments will improve our income from 2021, and we expect in the subsequent years to realise an annual result of DKK 20-30m.

Based on the above, we expect a profit of DKK 6-12m after tax for 2020. ■

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A robust and healthy business, together with our unique values, is the foundation for Merkur continuing to maintain its special and cutting-edge profile among Danish banks.

Financial Key Figures

(IN MILL DKK)	2019	2018	2017	2016	2015
Income statement					
Net income, interest and fees	142,2	139,0	130,7	125,6	113,4
Market value adjustments		-3,2	-5,6	9,7	-1,5
Staff and administration expenses	118,7	112,7	106,5	92,6	80,1
mpairment of loans/advances and receivables, etc.	11,3	17,1	36,6	17,0	14,0
Income from capital shares in associated companies	-0,8	0,1	0,0	0,0	0,0
Profit of the year	9,1	3,1	-19,0	20,2	7,8
Balance sheet					
Loans/advances*	1,667,9	1,676,4	1,752,4	1,676,0	1,430,9
Deposits	3,160,4	3,127,3	3,065,8	2,676,0	2,300,4
Equity*	365,1	311,5	315,9	316,9	249,3
Total assets*	3,704,1	3,611,1	3,536,4	3,146,2	2,688,0
Guarantees	637,4	619,5	675,9	685,4	480,9
Other data					
No. of customers	34,299	34,367	29,888	28,464	26,278
No. of shareholders	7,637	7,037	6,686	6,067	5,480
Financial ratios (%)					
Capital ratio*	20.0	17.8	16.3	17.5	16.6
Core capital ratio*	18.0	15.8	14.5	15.4	14.1
Return on equity before tax (%)	3.2	1.2	-7.1	8.5	3.6
Return on equity after tax (%)	2.7	1.0	-5.9	7.1	3.3
Income/cost ratio	1.1	1.0	0.9	1.2	1.1
Income/cost ratio before market value adjustments and impairments	1.2	1.2	1.2	1.3	1.4
Return on assets	0.2	0.1	-0.5	0.6	0.3
Interest-rate risk (%)	0.4	0.2	0.1	0.2	1.6
Currency position (%)	2.7	0.4	2.4	1.0	1.7
Currency risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity Coverage Ratio (LCR) in %**	460.6	527.8	448.0	364.0	-
Loans/advances + impairments in % of deposits	55.6	56.9	59.5	64.6	64.4
Loans/advances relative to equity	4.6	5.3	5.5	5.3	5.7
Growth in loans/advances of the year	-0.5	-4.1	4.6	17.1	4.7
Sum total of large-scale commitments in % of capital base	30.3	11.6	35.5	53.5	37.3
Top 20 exposures in percentage of core capital	133.5	137.5	162.0		
Share og accounts receivable with reduces interest	1.1	1.3	2.1	1.2	1.5
Impairment ratio of the year	0.5	0.7	1.5	0.7	0.7
Accumulated impairment ratio	3.7	4.0	2.9	2.3	2.6

**Loans, equity, and core capital, have been regulated down as a consequence of changed accounting principles regarding amortised document fees*
***The key ratio replaces §152-liquidity from 2018*

Finances and organisation

Result

Increased profitability in a difficult market with factors such as a negative interest rate is the cooperative bank's highest priority in these years. 2019 brought us a well forward, but we have not made it to the finish line yet. Internally, our organisation is also undergoing development, e.g. with a new member of the Executive Board and an addition of new capacities to the Board. This is intended to strengthen the transition to a more proactive and customer-focused culture, which will strengthen our earnings as well as our customer satisfaction. Digitalisation and automatization will assist in freeing up more resources in the organisation. We expect to see the results of these initiatives during the coming years.

The year in review

The year's profit after tax is DKK 9.1m. The result is a significant improvement compared to last year's profit of DKK 3.1m. When we view the improvement less than satisfactory despite the progress, it is due to our high ambitions for primary operations, which still hold an unexploited potential. The most important cause for the lag is that loans have been falling slightly from DKK 1.676 to DKK 1.668m whereas an increase was expected. In other words, less income from interest and more expenses related to negative interest. Another main factors are increased costs, particularly to IT.

The decrease in lending should be seen in the context of the significant increase in the mortgage loans that Merkur provides to its customers. Merkur's mortgage portfolio with our partners has in 2019 been increased by DKK 398m. The advantageous opportu-

Anti money laundering, cyber security and compliance demand extra resources

An organisation in continued change

This year's profit DKK 9.1 m.

The negative interest rate regime continues

Significantly fewer impairments

Stagnating lending and more deposits

Significant share subscription and many mortgage loan conversions

nities for taking out mortgage loans at an historically low interest rate have moved part of the loans from the cooperative bank to mortgage lending. Mortgage lending has generated a lot of activity in the cooperative bank, and this will continue into 2020. A large part of our customers will hereby be able to ensure a particularly favourable, long-term financing of their real estate.

Customers have placed an additional DKK 400m (appr.) in Merkur in 2019. DKK 33m of these have been placed as deposits, DKK 44m have been placed as share capital and the rest have been placed as sustainable investments.

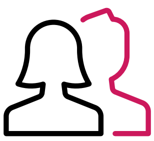
We have witnessed a satisfactory development in impairments, which have fallen from DKK 17.1m in 2018 to DKK 11.3m this year. Likewise we are pleased with a significant strengthening of the capital base through an inflow of new share capital of more than DKK 44m in 2019. In five years our share capital has risen by DKK 136m (76%), which is a strong witness to the public interest in Merkur as an alternative in the Danish banking sector. Our capital ratio has never been higher than it is currently.

Money laundering has in recent years been on everyone's lips, both in the banking sector and in the public sphere. Criminal individuals and groups display great creativity when it comes to abusing banks for illicit activities. This is not a phenomenon of which only large banks need be vigilant – there is hardly a bank in Denmark that has not been subject to attempts at criminal abuse. This is also the case for Merkur, and we have in recent years through our data centre spent many resources (an additional sum of DKK 3m) to further improve our systems and procedures, so that we can identify the transactions and customer relationships that need closer inspection. We have in the course of the year undergone an inspection by the DFSA's anti money laundering unit – a visit that we experienced as constructive and positive.

The negative interest rate regime continues, and experts disagree as to how much time will pass before we see increasing rates again. Japan has had a zero-interest rate for more than 20 years, so no natural law exits that dictates that interest rates must rise. This is not just a matter of the repercussions from the financial crisis and the euro crisis, but also a consequence of Europe's population growing older and saving significantly more –a development which began earlier in Japan. The consequence for Merkur is that on an annual basis have to use more than DKK 10m to hold the increasing deposits that customers place with us. We have therefore introduced a negative interest rate for personal customers, which at the least will ensure that we cover costs, while still not earning a net profit from deposit business.

The Danish economy is currently in an upturn. More than ever are employed; the labour force has set a fresh record; the interest rate burden for housing debts is decreasing; and prosperity for most people has never been greater. This is reflected in our customers' reduced need for loans and a greater settlement of existing loans, greater capacity to generate deposits as well as Merkur's reduced impairments. In contrast to the preceding upturn prior to the financial crisis, this time around there has not been a great desire to borrow, which is positive in relation to long-term economic sustainability.

So the development in our loans is not due to our lacking wish and ability to lend, but more a consequence of low demand, attractive alternatives in mortgages and large repayments.



2,431
new customers

Nykredit's purchase of 75% of Sparinvest gave Merkur an extraordinary one-time revenue of DKK 2.1m, of which DKK 0.3m was received as dividend income.

We have in 2019 contained some of our most substantial credit risks, and moreover the general financial upturn is reflected in fewer impairments compared to last year. In December, we had an extraordinary visit by the DFSA, which included a focus on credit management, compliance and capital situation. For two years we have now worked with the general impairment calculation model based on the IFRS9 accounting standard. We got more insight in the basic data and the calculation coherence coming from the data. Therefore, we adjusted some of the parameters. This adjustment results in an increased impairment of DKK 3.7 m. These model-driven impairments are not tied to any specific customers, but raise the general level of impairments. As such, they are one-time occurrences and are not expected to be repeated in 2020. Without the above changes, the year's impairments would have been DKK 3,7m lower, so the customer-driven impairment need for 2019 in real terms was DKK 7.6m, or 0.3% of our loans and guarantees, which we view as satisfactory.

In short, our primary operation did not meet our budget goals, but Merkur was capable of generating acceptable results as a consequence of fewer impairments, greater income from fees and an extraordinary income from the sale of Sparinvest.

Customers and share capital

Merkur gained 2,431 new customers in 2019. At year end, we had 34,299, a small decrease of 0.2%. The outflow of customers, among other factors, can be explained by a large portfolio of single energy loans that have now gradually been repaid. The inflow is very closely correlated with an overall greater focus on ethics, sustainability and transparency, when Danes choose their bank.

In 2019, Merkur had a net intake of 600 new shareholders, and the share capital grew by 16%, or DKK 44.5m. Merkur now has more than 7,600 shareholders, corresponding to approx. 22% of our customers overall (20% in 2018). Cooperative shares are Merkur's foundation, and they are a prerequisite for increasing lending, thereby fulfilling our purpose of lending money to sustainable and responsible companies and projects.

We are proud that in April 2019 we could welcome two large professional impact investors among our shareholders: Alternative Bank Schweiz and Helenos Fund, which invested a total of DKK 21m in Merkur's share capital. This is an instance of two investors with great knowledge of the type of banking business that Merkur pursues and who have made their investments on the basis of thorough preparatory work. We see this as a substantial vote of confidence.

Growing our share capital will also play a significant role in meeting the increased capital requirements over the coming years, which all banks have to fulfil. Therefore, a continued intake of shareholders and share capital will have a high priority in 2020 and the years to follow.

Deposits and loans etc.

Deposits in 2019 grew modestly by 1.1%, but this should be seen in the context of a still greater part of our customers wishing to invest their savings in e.g. Triodos impact funds and SDG Invest (See more in the section *Pensions and investment*).

In 2019, the already plentiful level of liquidity has increased further. At the close of the year, Merkur had liquid means of DKK 1,650m and amply fulfils all statutory requirements concerning excess liquidity cover. The excess liquidity cover is expressed in the key figure LCR (Liquidity Coverage Ratio), which is meant to show how Merkur is able to honour its payment obligations within a coming 30-day period, without having to retrieve liquidity from outside sources.

The legislative requirement for banks such as Merkur is to have a liquidity cover of 100% of the calculated payment obligations. Merkur has at the end of 2019 an LCR of 461% and thereby an excess liquidity cover of no less than 361 percent points compared to the LCR requirement.

Every month our customers make repayments of approx. DKK 25m, and we must therefore correspondingly extend loans to other customers merely to maintain our loan portfolio at an unchanged level. Overall, we had a decrease in loans by 0.4%, or DKK 8m, and loans at year end are DKK 1,668m. In itself, this is not satisfactory compared to our expectations at the beginning of the financial year, which indicated a growth of 3-5%

Since income from surplus liquidity is negative, increased lending is decisive for improved core earnings in the longer term. We have a number of strategic projects and efforts that we expect will begin to materialise in earnest at the end of 2020. Therefore, we expect next year to be able to look back at a year with satisfactory loan growth.

Guarantees remain at a relatively high level of DKK 637m (2018: DKK 620m). Guarantees are closely related to the activity level in the real estate market, where the cooperative bank provides purchase price guarantees and guarantees in connection with refinancing and obtaining mortgage loans, e.g. with Totalkredit and DLR.

Income and costs

Interest income is with DKK 96.7 m unchanged compared to 2018. Interest from loans fell due to lower margins, being compensated through negative interest charged to business clients. Overall, interest expenses have risen to DKK 14.4m (as opposed to DKK 10.0m in 2018). This is primarily due to the increasing interest costs charged by the Danish Central Bank, amounting to DKK 10.4m as opposed to DKK 4.3m last year.

The Danish Central Bank reduced the interest rate on certificates of deposits to negative 0.75%. This was a contributing factor to Merkur expanding the number of customers who pay negative interest from business customers to retail customers, who now also pay negative interest if they have more than DKK 250,000 in free deposits.

Interest expenses to deposits have fallen by more than DKK 1.2m to DKK 1.1m as a consequence of the continuously falling interest level. Merkur's

7,637 new shareholders

> **Merkur amply fulfils all legal requirements for excess liquidity coverage**

Loans remain almost unchanged in 2019

Triodos investments reach DKK 1 billion

Record-high mortgage activity levels

2,3%

Net income from commission and fees rose by 2.3%

subordinated debt is primarily fixed-interest and the related costs remain unchanged at DKK 2.6m.

Sustainable, ethically screened investments and so-called impact investments are an area that is now really picking up speed in the Danish market. Here, Merkur has been a frontrunner, and this is evident by our customers having invested in Triodos investment funds for a total sum of DKK 1,133m in 2019 compared to DKK 751 in 2018, a growth of fully 50%. Added to this are investments in funds from other partners amounting to DKK 239m. We hold great expectations for continued growth in this investment area. Read more in the section *Pensions and investments*.

The interest in converting mortgage loans in 2019 exceeded all expectations and was a consequence of the decreasing interest rates. The conversion activity has added substantially to income.

It is encouraging that we continue to increase our earnings from provision of mortgage loans, investment, pensions and services, so that the dependency on interest income is reduced. Net earnings from fees and commissions were DKK 59.5m, which is DKK 7.3m higher than last year and even DKK 1.7m more than budgeted.

Overall, Merkur's net income from interest and fees rose by DKK 3.2m, or 2.3% in 2019.

Costs

Personnel costs, which make up approx. 52% of all, costs rose by 4.5% from DKK 67.2m in 2018 to 70.3m. The primary causes for the increase are the contractual pay increases, general wage pressure in the sector, as well as costs in relation to the changes in personnel composition.

Moreover, by far the largest cost increase is caused by increased expenses for IT – an increase of a whole 14% or DKK 4.2m to a total of DKK 33.4m. In the latest three years, expenses related to new legislation have risen approx. 175% in pure development costs, which explain a large part of the strong cost increases from this expense item. Much attention is being paid to this development in the community of banks behind the BEC data centre, but there is no quick fix for this problem.

IT costs amount to DKK 33m, constituting 25% percent of Merkur's total costs (22% in 2018), and it is an item that is affected significantly by further regulation, nationally as well as internationally. Compliance and combating money laundering are main items in this context, but substantial effort is also spent in connection with IT security and central customer systems.

Merkur has in 2019 completed a new IT strategy, which is meant to ensure a good digital experience for our customers and streamline internal processes so that tasks are solved in the simplest way possible for our employees. These are areas upon which our data centre, BEC, focuses intently, but in several areas, it is necessary that we shape our own solutions. This will happen in cooperation with both BEC, as well as other external partners.

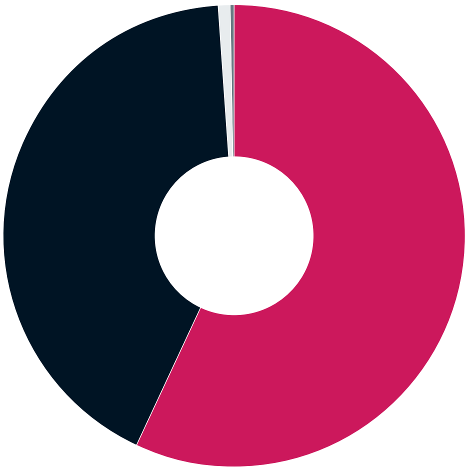
In August 2019, Merkur launched its new homepage after six months' intensive work with designing and rethinking what a good homepage contains. We focused especially on creating a user-friendly homepage with an up-to-date design, where it is easy to find relevant information about Merkur and our products.

The other focus area is onboarding, that is the entire journey toward becoming a customer in Merkur, from the initial considerations to a visit to our homepage till the customer completes the digital onboarding module, becomes a customer and paired with an account manager in Merkur. In 2019 we have focused on the first part of the customer journey through optimising texts, layout, and flow to ensure a better customer experience. In 2020, we will work with optimising the remaining parts of the onboarding process.

Security and legislation are two areas that demand a persistent focus. Expenses toward our data centre, BEC, are steadily rising primarily due to continually rising legislative demands. In spite of the fact that the sector has worked with anti money laundering throughout many years, work is still being done with regard to finding the best possible solutions in relation to legislation, with systems that at the same time are automated to the highest degree possible and cause the least amount of inconvenience for the customers.

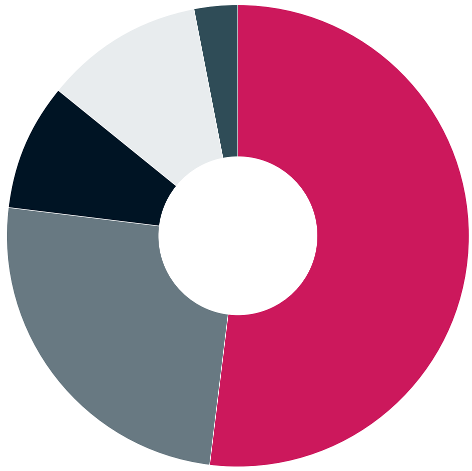
The increasing requirements cause IT costs to rise, since not least some of the legislatively-driven development pro-

Merkur's income in 2019: DKK 143 m. (Fig. 1)



- Net Interest income: **57%**
- Net fees and adjustments: **42%**
- Value adjustments: **0.8%**
- Other operational income etc.: **0.2%**

Merkur's costs in 2019: DKK 134 m. (Fig. 2)



- Wages: **52%**
- IT: **25%**
- Impairments: **9%**
- Administrative expenses: **11%**
- Depreciations, market value adjustments and tax: **3%**

jects are extremely expensive without necessarily adding much business value. Efficiency improvements and digitalisation of processes and work flows can conversely lead to cost reductions in the long run, but reductions have a tendency to arrive after a delay.

Some of what we look forward to in 2020 is a new online bank for personal customers and a mobile bank for business customers, where it will be easier for customers to give feedback on the solution.

Overall, Merkur has a low degree of risk appetite, which means that we can only earn money on either income from interest or fees and commissions, whereas we do not pursue other types of purely financial income. The distribution of Merkur's income is seen in the figure below, which shows that the net interest income corresponds to 57% or DKK 82m. Interest income from lending activities makes up a primary income source in that these constitute DKK 92m. *See Figure 1 and 2.*

Income from shares etc. (Figure 3)

FIGURES IN DKK '000S	2019	2019	2018	2018
Average bond holding	228,142		923,554	*
Interest from bond holding	1,253	0.55%	1,178	0.13%
Market value adjustment of bond holding	-1,607	-0.70%	-4,483	-0.49%
Total	**-354**	-0.16%	**-3,305**	-0.36%
Average holding of shares and capital shares	36,579		33,326	
Dividend from shares and capital shares	388	1.06%	53	0.16%
Market value adjustment of shares and capital shares	4,062	11.10%	1,675	5.03%
Total	**4,450**	12.17%	**1,728**	5.19%

** We have in November 2018 sold 80% of our bond holdings to minimize both the market risk as well as the capital charge.*

Distribution of exposure volumes across risk class ratings in % (Figure 4)

CUSTOMER CREDIT QUALITY	2019	2018
1 – ECI (Evidence of credit impairment)	8.9	9.6
2 – Weak	0.1	0.0
3 – Customers under observation	10.0	6.8
4 – Good Customers below average	17.8	20.6
5 – Good customers	33.6	37.8
6 – Good customers above average	26.6	21.4
7 – Very good customers	2.1	2.4
Not classified *	0.9	1.4
Total	**100.0**	**100.0**

**Customer ratings are only applied to exposures above DKK 10,000.*

Market value adjustments

The cooperative bank has invested a small portion of our surplus liquidity in bonds as well as shares and capital shares in various partners. The total income from securities in own reserves, apart from the market value adjustment on foreign currencies and income from shares in associated and related companies, is shown in the table below, *Figure 3*.

The cooperative bank's bond holding gave a negative return of 0.16%, which is slightly better than the negative return for 2018. The return should be compared to the risk-free premium of negative 0.75% for certificates of deposits in the Danish Central Bank. The remainder of our surplus liquidity continues to be placed in certificates of deposit (DKK 1.6bn) with the concomitant negative interest income.

The value adjustment of the capital shares contributed DKK 4.5m against an expected DKK 2.0m.

This additional income is primarily due to the extraordinary capital gain from the sale of our Sparinvest shares (DKK 1.8m), as well as dividends from Sparinvest amounting to DKK 0.3m.

Beyond the above-mentioned bonds and capital shares, the accounting item also includes a loss on Merkur's last private mortgage deed in our own books, totalling DKK 1.4m.

The result for our investments in associated and related companies ended with a loss of DKK 0.7m, primarily from impairments of capital shares in a windmill farm in Germany, as a consequence of a tax decision concerning the double taxation agreement between Germany and Denmark.

Customer classification

In Merkur, we classify our customers in seven so-called credit quality groups, which provide a picture of how economically robust a customer is. This classification is based on details about the customer's income, expenses and assets among other things. The classification is updated on a continuous basis with data about customers so that at any given time we have an up-to-date picture of the risks associated with our loans. The updates happen e.g. at renegotiations of the commitment, or when events such as overdrafts, arrears or registration in Experian's RKI database for bad payers occur. The vast majority of Merkur's customers (80%) can be classified as good customers or better. The classification is compatible with the DFSA's risk classification. *See Figure 4*.

Merkur has tightened the criteria for risk classification to a more conservative approach, in line with the DFSA's expectations. Extra focus on documentation and data used have had the expected effect.

0.5%

Impairment ratio 0.5% of all loans and guarantees

Impairments and losses

The total impairments and losses for the year amount to DKK 11.3m against DKK 17.1m for 2018, which should be seen as a satisfactory level when taking into consideration that DKK 3.7m are due to adjustments in the calculation model.

The impairment ratio has fallen from last year's 0.7% to 0.5% of loans and guarantees, which is better than our expectations. *See Figure 5*. The impairments we have had in 2019 are associated with a small number of customers, most of whom are still in business and therefore have the opportunity to improve their financial situation. The continued focus on good credit management and catching up and updating data strengthens our belief that we in 2020 will be able to perform at a correspondingly low impairment level insofar as the business cycle does not alter significantly.

Impairments are not equivalent to losses. There are good prospects for winning back a portion of the impairments if the individual customers in cooperation with Merkur are able to improve their financial situation.

Realized losses amounted to DKK 24.4m in 2019 compared to DKK 13.4m in 2018. Of these DKK 24.4m, DKK 23.8m had already been provisioned for in earlier years. We have wished to clean up as many of the impairment cases as possible, and in a few individual cases have opted to incur some losses in order to move on and avoid a further waste of resources. *See Figure 6 and 7.*

Measured according to the balance on 31 December 2019, the total accumulated impairments constitute 3.7% of loans and guarantees compared to 4.2% last year.

The volume of accumulated, but unlost, impairments can be found in Note 14 of the *Annual Accounts*.

The year's result

Merkur has experienced both tail- and headwinds in 2019. On the positive side, income from fees and commissions has increased, and market value adjustments have been significantly better, with fewer impairments as well. Falling interest income from loans, negative interest rates in the Danish Central Bank, as well as extra costs to IT pull in the other direction.

The year's result after taxes was a profit of DKK 9.1m, which we view as acceptable given the circumstances. It is essential that shareholders receive a positive, albeit modest, return for the year.

We propose that the year's result be transferred to next year. The result will thereby increase the cooperative bank's reserves. *See Figure 8.*

In order to strengthen revenue and limit costs, a number of initiatives have been decided, and more are in the making. Merkur has a large potential, and in order to exploit this potential in the future, the ambition is to strengthen the cooperative bank's basic operations with up to DKK 10-15m annually. Management views 2020 as an investment year, which entails greater costs, many of them one-time expenses. This means that the above-mentioned ambition can only be expected to be realised gradually during 2021. The strategic initiatives are described further in the chapter *Expectations and strategies*.

Share capital and subordinated capital

During the 20 years that Merkur's shares have offered the prospect of providing a return, they have generated an increase in value of 78.9%, which corresponds to an average annual value increase of 3.0%. *See Figure 9.* In comparison with many other investments, this is actually a rather good rate of return, especially when considering the purpose of the shares: a long-term investment. The return for the year 2019 resulted in a modest plus of 1.0%, which is somewhat below expectations. It is worthwhile, however, to note that changed accounting policies concerning amortisation of document fees remove DKK 3.4m of the accumulated profit or 1% of the return on the shares. This income or return will, however, be distributed over the coming years concurrently with the amortisation, since the DKK 3.4m ultimately belong to the cooperative bank. This is not changed by the new accounting policy.

Over the course of 2019, share capital has grown by DKK 44.5m, or 16%. Share subscription in 2019 was thereby close

Impairment ratio (Figure 5)

	2019	2018	2017	2016	2015	2014
Losses and impairments (1,000 kr.)	11,325	17,132	36,558	17,007	14,033	22,258
In percentage of loans and guarantees	0.5%	0.7%	1.5%	0.7%	0.7%	1.3%

Realized losses (Figure 6)

(DKK 1,000)	2019	2018
Realized losses, previously impaired	23,829	12,414

Impairments and losses (Figure 7)

(DKK 1,000)	2019	2018
Net impairments during the year	11,803	17,764
Final loss, not previously impaired	799	971
Recovery of bad debts previously written-off	(435)	(352)
Costs and value adjustment, assets in temporary possession	74	15
Interest corrections concerning customers in stage 3	(916)	(1,266)
Total impact on operations	**11,325**	**17,132**

Profit for the year (Figure 8)

(DKK 1,000)	2019	2018
Profit for the year after tax	9,060	3,064
Price per share at year end, DKK	1,788,70	1,771,00
Return on shares	1.00%	0.89%

to matching our record year in 2016. We have from the year's beginning seen a continued good inflow of share capital. In the two first months of 2020, there has been a net subscription for shares more than DKK 5m. We are very happy for the confidence and support we have received from all our new and existing shareholders.

In total, foreign partners had at the turn of the year invested approx. DKK 77m in Merkur in the form of share capital and subordinated loan capital, which is equivalent to an increase of approx. 37% compared to 2018. We would in this connection like to thank Alternative Bank Schweiz (ABS) and the Helenos Fund for good cooperation and for having shown confidence regarding the cooperative bank's capital in 2019. We are of course very proud of being able to attract capital also from abroad. We are in an ongoing dialogue with interested parties about additional subscription of capital but cannot at the time of the annual report's delivery estimate the size of these investments.

Return on shares 1.0%

Annual return on Merkur shares (Figure 9)

Shares, subordinated capital contributions as well as the present and previous years' saved profit is the capital base which is the foundation for all Merkur's activities. The table below shows the distribution of the capital base and this year's development, *see Figure 10.*

A capital ratio of 20% for 2019 is an expression of the capital base relative to our weighted assets. Twenty percent is in the upper part of the interval of our expectations before the beginning of the fiscal year (expected 19%-20%) and thereby very satisfactory. The handsome share subscription is the primary reason for meeting this goal.

Aggregate capital base (Figure 10)

(DKK 1,000)	2019	2018	Dev in %
Share capital including share premium	315,203	270,739	16.4%
Revaluation and other reserves	49,848	40,789	22.2%
Subordinated capital contribution	40,596	40,782	-0.5%
Aggregate liable capital before deductions and transitional arrangements	**405,647**	**352,310**	**15.1%**
Various deductions (delayed taxes, etc.)	-8,160	-10,140	19.5%
Additions due to IFSR9 transition arrangement	18,850	21,068	-10.5%
Capital base	**416,337**	**363,238**	**14.6%**
Weighted assets and other risks	2,084,296	2,039,893	2.2%
Capital ratio	**20.0%**	**17.8%**	**12.4%**

Present and future capital requirements

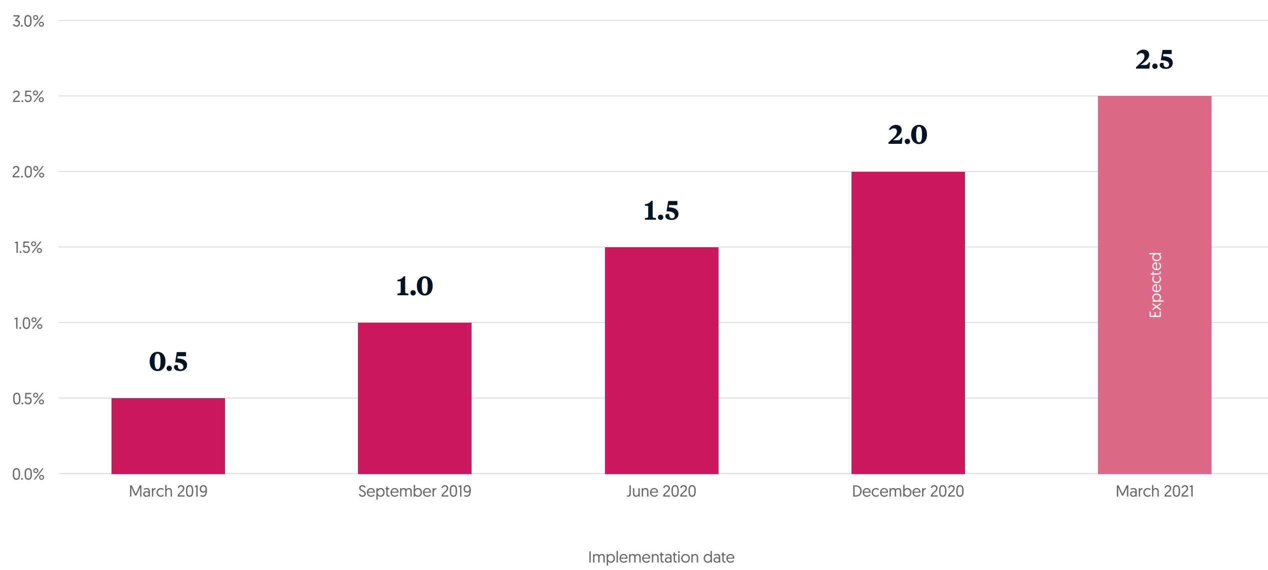
We have since 2015 been implementing the European regulations, which are one of the EU's responses to the financial crisis. The regulatory framework, which comprises several thousands of pages, is popularly known as Basel III or CRD IV/CRR. The phasing in of the last part of the so-called capital conservation buffer with 0.625% came in 2019 and now constitutes 2.5%.

The so-called business cycle buffer or countercyclical buffer is already at 1.0%, and added to this will be 0.5% from 30 June 2020, with an additional 0.5% taking effect from December 2020, totalling 2%. The Systemic Risk Council is expected to recommend an additional increase of the countercyclical buffer of 0.5 percentage points to 2.5%, after which it cannot increase further. The countercyclical buffer is high during economic expansions and low during periods with economic recession. *See Figure 11.*

In 2019, a third capital requirement has now materialised, namely the so-called MREL supplement, which is part of the EU's so-called restructuring and winding-up directive for credit institutions. MREL is short for "minimum requirements for eligible liabilities" and behind this cryptic designation lies a requirement for banks to build up a capital buffer to be used in a situation in which the bank has to be wound up or merged with another bank. The intention with the requirement is to avoid that both the state and ordinary creditors (that is, depositors first and foremost) suffer losses in such a situation.

The DFSA has determined Merkur's MREL supplement to be 5.8% of the risk-weighted exposures, which implies

Countercyclical buffer (Figure 11)



Phasing in of the MREL supplement (Figure 12)

Phasing in	MREL supplement in terms of % of risk-weighted exposures	MREL supplement in DKK millions
01.01.2019	0.6%	13
01.01.2020	1.3%	27
01.01.2021	1.2%	25
01.01.2022	1.3%	27
01.01.2023	1.4%	29
I alt	**5.8%**	**122**

a total MREL supplement of DKK 122m. This requirement will be phased in over the course of five years from 2019 to 2023. *See Figure 12.*

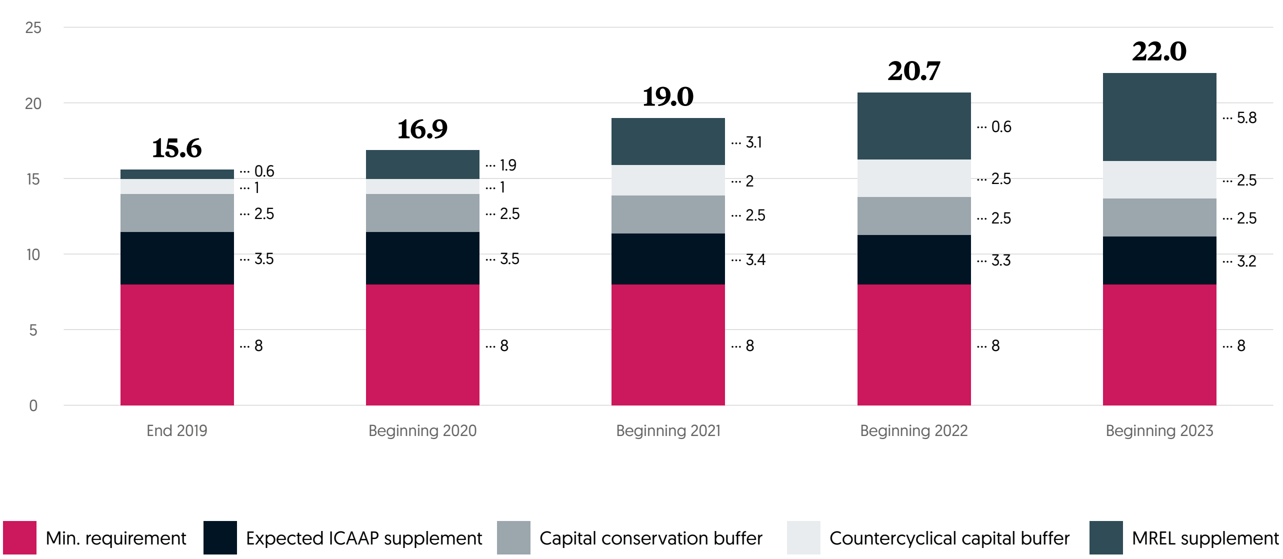
The table shows the MREL supplement's phasing in on the basis of the risk-weighted assets as of 31 December 2018. If Merkur grows – and we clearly expect to do so from 2020 and onward – the MREL supplement measured in Danish kroner will also grow.

This is therefore a so-called dynamic requirement in that it is calculated with a new MREL supplement each year. The MREL supplement can, however, not exceed 6% of the risk-weighted exposures and can not be less than 3.5%, just as the average for all banks with a balance sheet below EURO 3bn must be constant at 4.7%.

The MREL supplement can be covered by ordinary equity, including share capital, as well as other known forms of capital, such as subordinated loan capital. It is also possible, however, to cover the MREL supplement with a new special form of loan capital, expressly for this purpose, called Tier 3 capital, or "senior non-preferred debt". Tier 3 is as a rule expected to be a cheaper form of capital, but in return cannot be used to cover other capital requirements, e.g. the above-mentioned capital conservation buffers and the cyclical buffer. If one makes use of Tier 3 loan capital to cover the MREL supplement, an appropriate maturity structure should be designed, so that all loans do not need to be renewed simultaneously, just as one can work on gradually gaining enough equity so as to reduce the Tier 3 loan capital.

Merkur has a capital plan that runs until 2025, which will enable us to fulfil the new capital requirements while having moderate growth throughout the period. We expect that the coming years can improve Merkur's basic revenue considerably. In conjunction with impairments expected to be held at a level of 0.5-0.7%, we will on this backdrop be able to generate annual profits that will be able to contribute substantially to strengthening the capital base.

Capital requirements as percentage of risk weighted exposures (Figure 13)



The annual subscription rate for new share capital is expected to continue at a high level (DKK 20-25m annually), due to the historic and current interest with our growth ambitions. During the phasing in period approaching 2023, regardless of share subscriptions and profits, we expect part of our MREL requirement to be met through obtaining Tier 3 loan capital (up to DKK 100m) When all capital requirements, including MREL, have been fully phased in in 2023, Merkur's capital requirements are expected to maximally make up 22%, compared to an actual capital ratio of 20.0%. This presupposes that our pillar 11 addition will gradually be reduced to the average level in 2019: 3,2%. *See Figure 13*. The capital plan, in addition to fulfilling legal requirements, is also intended to ensure a reasonable excess cover of approx. 5%, or a capital objective of 27%.

Capital adequacy assessment (ICAAP)

The ICAAP ratio is a bank's own assessment of how much capital is necessary.

Merkur adheres to all points of the DFSA's guidelines for calculating the ICAAP ratio. A detailed description of the ICAAP ratio itself and the description of its components form part of the risk report ("Pillar 3 reporting"), which can be found on Merkur's website www.merkur.dk/aarsrapporter (in Danish only).

At the close of 2019, the cooperative bank has a solid capital base, with an excess capital cover of 4.4 percentage points beyond the capital conservation buffer of 2.5 percentage points, the cyclical buffer of 1.0 percentage points and the MREL requirement of 0.6 percentage points. The excess cover will fall to 3.1 percentage points on 1 January 2020, as a result of the phasing in of further MREL requirements, cf. figure 12 below. *See Figure 14*.

4.4%

in capital excess cover

Supervisory diamond

The Danish Financial Supervisory Authority (DFSA) has in light of the financial crisis introduced a number of benchmarks, which can give an indication of whether a bank is beginning to take risks that are too large.

The five benchmarks can be configured in a pentagon, hence the designation "diamond", and are the following:

1. Large exposures: The sum of the 20 largest customer exposures should not exceed 175% of a bank's actual core capital.

2. Funding ratio: Loans measured in proportion to working capital (deposits + Tier 1 capital + Tier 2 capital) should at most be 1:1.

3. Liquidity risks: Indicates the bank's ability to handle liquidity stress for the duration of three months. This means that the bank's high-quality liquid assets are measured against expected money outflows deducted from expected money inflows. The law prescribes that the benchmark be higher than 100%.

4. Real estate exposure: The bank should at the most have an exposure to the real estate sector of 25% of the loan and guarantee portfolio. It must be underscored that the real estate sector naturally includes many other elements than the speculators who received so much attention during the financial crisis.

5. Loan growth: The annual growth rate for loans should not exceed 20% after impairments.

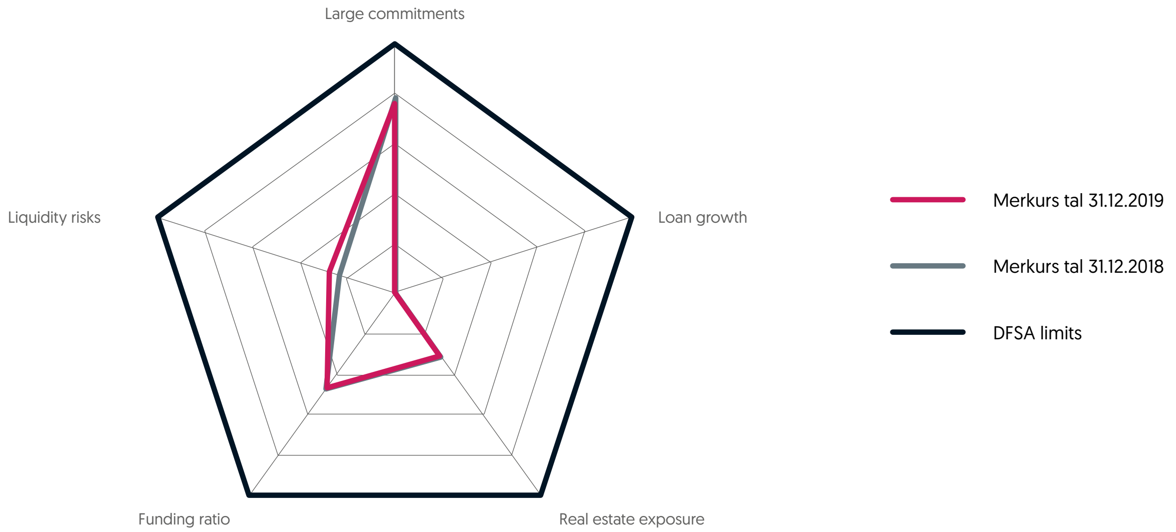
It must be underscored that exceeding the benchmarks in and of themselves does not entail a breach of legislation (barring the benchmark for liquidity risks) – and an infraction will merely lead to different degrees of heightened attention and reactions on the part of the DFSA. Merkur's management has as part of its general risk management added a buffer for each of the individual benchmarks so that attention internally can be directed to the area long in

Development in ICAAP ratio and capital ratio (Figure 14)

(%)	2019	30.06.19	2018
ICAAP ratio	11.5	11.1	11.1
Total ICAAP ratio incl. conservation buffers and MREL	15.6	14.7	13.0
Capital ratio (actual BIS-ratio)	20.0	18.7	18.0
Total capital excess coverage	**4.4**	**4.0**	**5.0**
Minimum ICAAP requirement at year's end*	11.5	11.0	9.9

** Incl. capital conservation buffer of 2.5%, countercyclical buffer of 1%.*

Supervisory diamond [Figure 15]



Supervisory diamond in numbers [Figure 16]

[%]	2019	2018	Threshold Value
Sum of large commitments	133.5	137.5	Max. 175%
Growth rate in loans	-0.4	-4.1	Max 20%
Exposure to real estate sector	7.9	7.9	Max. 25%
Funding ratio (loans in relation to working capital)	47.0	48.2	Max. 100
Liquidity coverage	460.6	527.8	Min. 100%

advance of reaching the threshold values.

At the close of 2019, Merkur meets all five benchmarks. *See Figure 15 and 16.*

Corporate governance and board evaluation

Finance Denmark (the Danish Association of financial institutions) has formulated a number of recommendations concerning corporate governance, which members are required to address, either in their annual reports or in some other type of publicly accessible material. Finance Denmark's recommendations have evidently been devised with share-based financial institutions in mind and with a shareholder-value approach to issues. Merkur has chosen to draw up its own material on corporate governance, which has been devised in such a way that it is possible to compare it to the recommendations issued by Finance Denmark. At the same time Merkur's material takes into account the fact that we are a cooperative bank and not governed by a shareholder-value mindset but led by the principle of having a societal purpose to fulfil, meaning that all involved stakeholders should benefit from Merkur's activities. Merkur's report can be found at www.merkur.dk together with the annual report (in Danish only).

In the autumn of 2012, all bank boards underwent a self-evaluation of their composition and competencies and submitted the results to the Danish Financial Supervisory Authority (DFSA). The self-evaluation will henceforth be an annually recurring exercise for boards, which, however, will not be submitted to the DFSA but will serve as an instrument for the board to assess continuously whether it possesses the right competences. We have thus followed up with new annual evaluations in the period from 2013 to 2019.

The DFSA has not had any remarks concerning Merkur's board, neither its composition nor the competencies of its members. ■

Strategies and expectations

A solid and sound business combined with our unique values is the basis for Merkur still being the sharp and outstanding profile among Danish banks.

Merkur needs to be sustainable – also financially. We have to stand on firm ground in order to ensure that we remain able to contribute to moving society in a sustainable and responsible direction.

During 2019, it became clear that the situation concerning negative interest rates had become untenable. The normal business model for a bank with deposits and lending was no longer viable. For this reason, we introduced negative interest rates for personal customers effective 1 January 2020. In a broader sense, customers' money will only make sense when they are deployed working for a better society either through loans or investments. Therefore, Merkur's offers to depositors needs to be two-stringed: deposits that can form the basis for meaningful loans, combined with the possibility for making direct investments with the part of the funds that are not to be used in the short run.

A solid financial foundation also makes it possible for Merkur to develop solutions that suit the needs of the future. We will continue to be among those who can extend loans to new technologies and new ideas, as long as they correspond with our values and lending can take place on a prudent basis.

Merkur's board has devised a strategy for the coming four years. The strategy toward 2023 has an increased focus on a customer-oriented approach. The aim is to strengthen business through improved advising and servicing of our customers, including increased use of digitalisation. To reach this goal, we have to further develop a long number of our work processes and customer offers. Therefore 2020 will be an investment year, which we will use to future-proof our business. We will reap the fruits of the investments in 2021 and the following years.

We are experiencing that Danish bank customers to an increasing degree demand a values-based approach to banking. This is apparent not only when we ask new customers about their choice of bank, but also from the inflow of new and good customers. Never before has there been such massive awareness in the population concerning the planet and sustainability. This speaks directly into the values and the business model that Merkur has stood for throughout almost 40 years. We are not least experiencing the growing interest through a strong growth in the cooperative bank's pension and investment business. Several banks now offer green products, but Merkur still has the most complete selection of impact investments and ethically screened shares for private investors in Denmark. These tendencies show great potential for Merkur over the coming years, and this is what we should continue building upon.

Every year we ask our personal customers whether we are meeting their expectations and whether there is anything we can improve. In 2019, customers again told us loud and clear that they actively choose us because of our set of values, and that they see us as a bank that distinguishes itself positively in relation to more conventional banks. We appreciate the feedback and will continue to work to meet our customers' expectations through digitalisation and holistic advising.

As part of Merkur's strategy, the board has updated the cooperative bank's capital plan so that we follow the phasing in of the new capital requirements moving toward 2023 with an ongoing strengthening of our capital base. This

Expected capital ratio in 2020: 21-22%

Expected profit for 2020: DKK 6-12m

Ambition: 35% of Merkur's customers are shareholders in 2023

will happen both through share capital, earnings and use of different types of subordinated loan capital.

Focus for 2020

2020 will as mentioned be a year of investment for Merkur. This is when we will lay down the tracks for the strengthened business of the future. Strategically, we will be working with improving five focus areas:

Earnings, capital base, customer satisfaction, employee job satisfaction, quality in all areas – credit, data, fighting money laundering, and internal processes

We must attain this in order to build a strong customer-focused culture, in which customer-focused culture, where customers hear more from us, combined with efficient digital solutions.

We have defined 10 strategic projects that need to be completed in 2020 in order to get us the first important steps in the described direction.

Increasing lending is decisive for improved core earnings in the long run. In the meantime, the growth in loans has to be realised in a market where demand for loans is low and where competition is high. It is therefore pivotal that we add extra value through our advising and can identify new areas where we can finance, e.g., parts of the green transition. One of the strategic projects is exactly to identify new potential loan areas.

After careful weighing of the possibilities and potential in the planned undertakings, we initially expect a moderate growth in loans in the interval between 4-6%.

Moreover, we will focus on advising and other products, including provision of mortgage loans, as well as investment and pension options with sustainability at the centre.

We share values with our customers but we also share Merkur itself. It is primarily the customers of the cooperative bank who own Merkur. We have a good inflow of shareholders, and we have an ambition about supporting the value-based fellowship by increasing the number of shareholders even more from the existing level of 22% of customers. It is our life blood and a prerequisite for the cooperative bank's activities.

A high level of customer satisfaction is pivotal for a healthy business. Even though satisfaction is rising it is an area with which we will be working systematically going forward, so that we ensure that customers receive holistic advice. We will tie customers even closer to Merkur so that more customers have all of the banking business with us and our partners. At the same time, we wish to underline the connection between customers' commitment in Merkur and the possibilities customers have to influence society in their capacity as banking customers and in the choices they make.

Merkur's employees are the ones who meet the customers and make decisions in everyday operations. Skilled and committed employees are therefore pivotal. The vast majority of Merkur's customers wish to take care of themselves through self-service systems, and their need for advice – beyond an ordinary "financial check" – is connected to situations, where greater changes have happened in their lives. We have to make optimal use of new technological opportunities to deliver well-functioning self-service systems and to ensure that customer advisors have time for the actual advising at the right times, while support functions and technology have to deal with producing documents, registering data etc.

We live in a world that is more and more data-driven. The prerequisite for good customer service, including credit processing, is that we a have an amount of basic data about our customers and their financials and that this is registered in a systematic and uniform manner. This does not only concern personal data legislation and fighting money laundering but will also help deliver a much faster credit process and better customer service.

Focus areas in 2020

- Strengthened profitability
- Strengthened capital base
- Customer satisfaction
- Employee satisfaction
- Quality overall; credit, data, internal processes, anti-money laundering

Expected development for 2020

We expect a profit for 2020 between DKK 6-12m after tax.

The profit reflects that 2020 is an investment year, in which a budget of DKK 6m has been allocated to future-proof the business. These investments will improve our earnings from 2021, and we expect in the following years to realise an annual profit of DKK 20-30m

The profit expectation is associated with a certain degree of uncertainty based on a number of circumstances, of which the most important are:

- The general development in interest rates
- Developments in loans
- Losses and impairments, which are hard to estimate. In 2020, we expect a similar impairment ratio to 2019, which was 0.5% of loans and guarantees.

The cooperative bank's capital base is expected to be further strengthened in 2020, so that the capital ratio and excess solvency cover can increase as posited in the capital plan, cf. *Finances and organisation*. At the end of 2020, we expect a capital ratio within the interval of 21-22%, an increase of approx. two percentage points from the beginning of the year, and in accordance with our intention of gradually achieving excess capital cover of 5 percentage points. Apart from earnings, the new capital is expected to come primarily from the cooperative bank's customers in the form of share capital. We furthermore expect an addition of subordinate loan capital from partners and investors. ■

Merkur and our customers

Loans

Merkur's most important activity is lending: on the basis of customers' deposits we extend loans for activities in the real economy in need of loan financing. The majority of our loans are provided to activities that are consistent with Merkur's societal ideals. We wish for our customers to gather all their banking activities with Merkur, which means that we also provide loans to our customers' ordinary needs, e.g. housing or electric car loans. Personal borrowing is of great importance to our business. It contributes to earnings and risk diversification, which give us the ability to provide more loans based on our societal ideals. The same goes for our provision of mortgage loans.

In the tables below *(figures 17 and 18)*, we show Merkur's overall financing of customers' activities and companies. We calculate the sum of loans and credits actually extended, unutilized credits and guarantees. All three elements are shown in the tables gathered in the column "Committed", while "Amount" includes the actual loans paid out and the provided guarantees. In the balance sheet in the accounts, the unutilized part does not appear.

In 2019, we have landed on a slight increase in the total committed loans and guarantees of 0.9%. In the section on *Strategy and expectations* we delve more into how we strengthen loan growth in the coming years.

In *figure 17* below, we display our loans and guarantees under six differ-

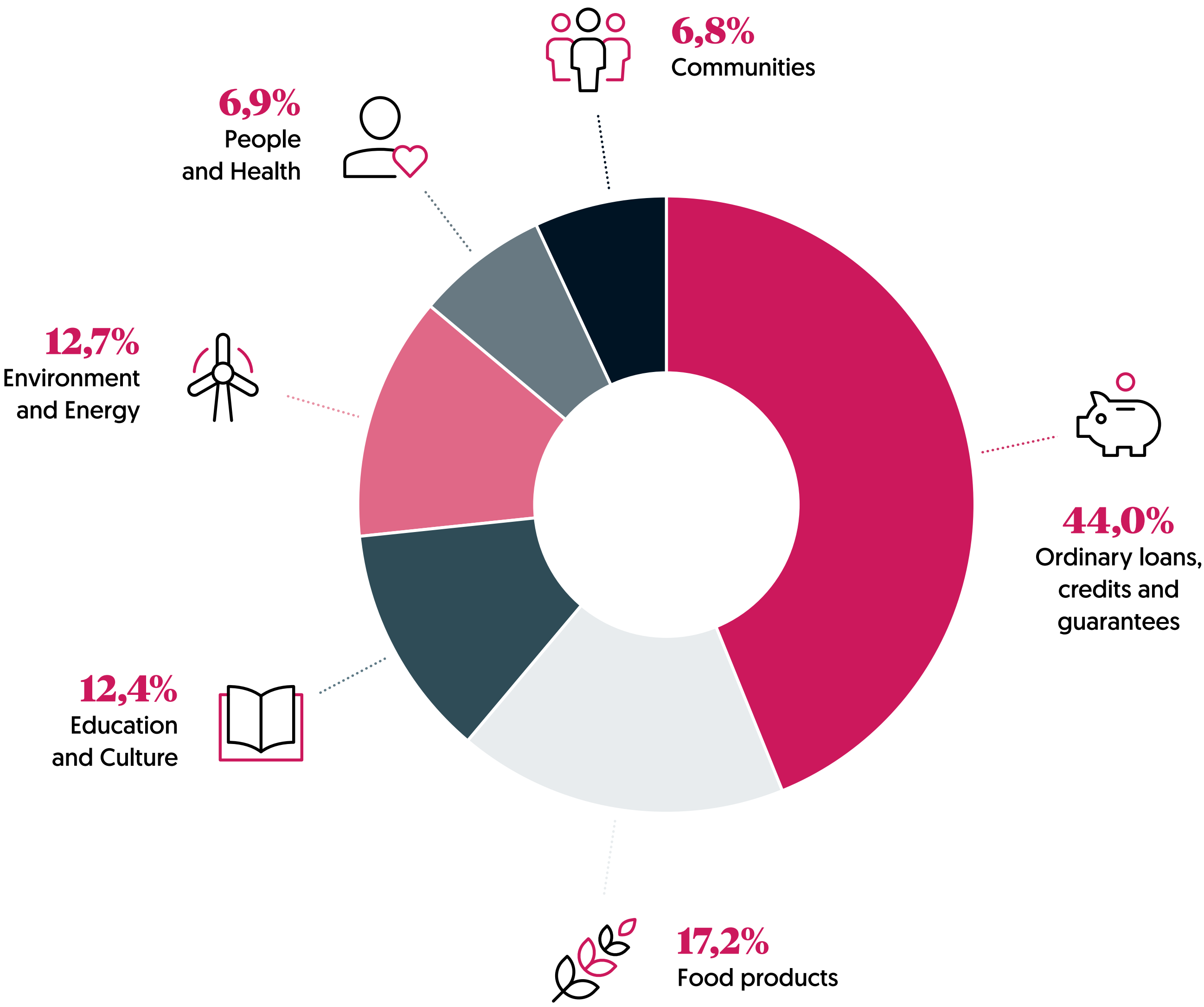
Loans and guarantees (Figure 17)

	Number	%	Amount 2019 (DKK 1,000)	%	Committed 2019 (DKK 1,000)	%	Committed 2018 (DKK 1,000)	Dev. comp to 2018
Education and Culture	482	4.1%	303,530	12.7%	352,026	12.4%	384,127	-8.4%
People and Health	331	2.8%	158,520	6.7%	192,631	6.9%	208,340	-7.5%
Food products	442	3.7%	390,745	16.4%	488,064	17.2%	481,480	1.4%
Environment and Energy	2,800	23.6%	294,259	12.3%	359,080	12.7%	378,687	-5.2%
Communities	187	1.6%	141,777	5.9%	192,211	6.8%	158,148	21.5%
Ordinary loans, credits and guarantees	7,599	64.2%	1,099,988	46.0%	1,240,111	44.0%	1,188,396	4.4%
i alt	**11,841**	**100.0%**	**2,388,819**	**100.0%**	**2,824,123**	**100.0%**	**2,799,178**	**0.9%**

The distribution of loans and guarantees according to purpose as of 31 December 2019. The "comotiied" category contains awarded but unused drawing rights to overdraft facilities.

Loans and guarantees (Figure 18)

Total screened in relation to Merkur's societal ideals: 56.0%



ent themes. Five of the six categories are directly linked to the cooperative bank's societal ideals, which are described on page 2. The sixth category comprises ordinary loans, credits and guarantees, first and foremost financing for housing.

Merkur's loan areas harmonize naturally with many of the UN's 17 sustainable development goals. You can read how Merkur's loan areas contribute to the sustainable development goals in *Merkur and society*.

In 2019, we have seen a change in the composition of the customer portfolio with a lift within the Community business area. At the same time, the development in our ordinary loans has stabilised.

Education and Culture

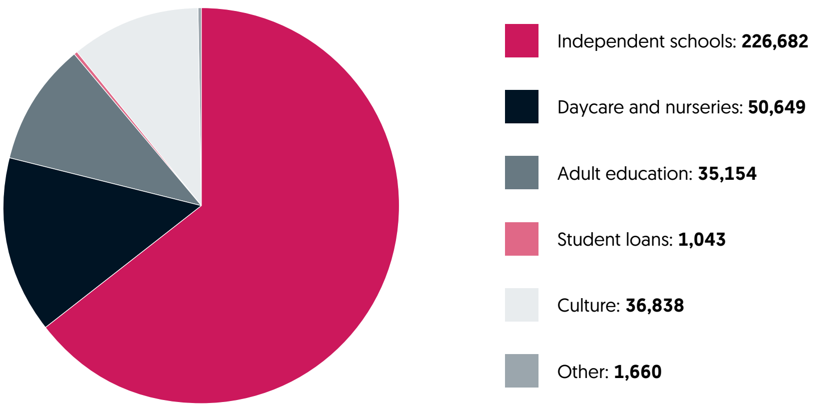
Education and culture are both broad loan areas. We define education broadly with an emphasis on formative education. We include loans to preschools, nurseries and adult education colleges. Our definition of culture stems from the belief that free expression and creative stimulus are at the core of human development. This is why we connect culture and education.

Education finances loans to educational institutions for children and adults, as well as personal student loans for financing individual education programmes.

Financing of culture, here the emphasis is on financing of activities and projects that allow people to practice their creative abilities or to be stimulated by the creativity of others.

In 2019, there has been an overall decrease of 8.4% in loans and guarantees in this area, equivalent to just under DKK 32m. This is due to a mix of loans being repaid as a consequence of good liquidity with many of the customers but also merely a reduction of the customers' utilized credit lines.

EDUCATION AND CULTURE · COMMITTED 2019 (DKK 1,000)



Education and Culture

	Number	Committed 2019 (DKK 1,000)	Committed 2018 (DKK 1,000)	Dev in %
Independent schools	167	226,682	233,214	-2.8%
Daycare and nurseries	108	50,649	60,649	-16.5%
Adult education	34	35,154	38,308	-8.2%
Student loans	17	1,043	1,602	-34.9%
Culture	154	36,838	49,893	-26.2%
Other	2	1,660	461	260.1%

Epos Continuation School

At the Epos Continuation School learning takes placeby means of games and play. Epos opened in august 2015, and the school is located in Augustenborg on the island of Als off the coast of southern Jutland in a green area close to the seashore and forests. At Epos Continuation School, role-playing, simulations and narratives are a central part of instruction. The educational philosophy builds on signalling that failing is okay in that one learns through trial and error. Students pursue focused studies during mornings and create game-based thematic sessions during afternoons, where their knowledge is used in practice. The school focuses on roleplay, cosplay, acting, tactical games, literature, and the opportunity to try out new roles. Epos furthermore, as the third continuation school in Denmark, carries the organic Silver Label, signalling a minimum of 60 % organic catering to students.

❤ Epos Continuation School is a customer of Merkur

People and Health

People and health spans widely from lending to socio-economic companies, residences, alternative medical practitioners to Fair Trade. We define areas such as loans that specifically support democratic rights, equality among citizens and individuals' right to choose.

Within People and health, Merkur finances loans to social programmes for citizens with special needs, e.g., residences and drop-in centres.

Loans to social enterprises that work based on mission statements benefiting the common good.

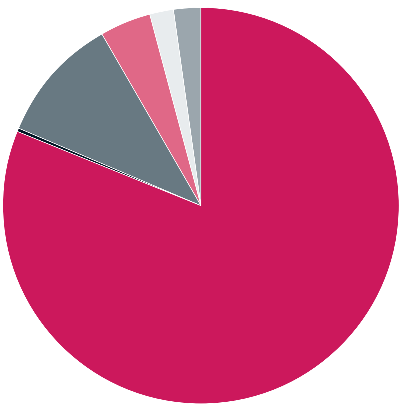
Loans to Fair Trade initiatives that seek to support the weaker party in an exchange, especially in developing countries.

Loans to health and self-development comprise alternative medical practitioners and consultation related to health, nutrition, psychology etc.

Loans to care services comprise private nursing homes, senior housing and hospices.

Since the total loans to the "People and Health" area has decreased with 7,5%, the increase in care services indicates that this is a loan area in development and with future potential.

PEOPLE AND HEALTH · COMMITTED 2019 (DKK 1,000)



Social programmes: **156,261**

Care programmes: **817**

Health and personal development: **20,019**

Social enterprises: **7,974**

Fair Trade,: **3,643**

Other: **3,917**

People and Health

	Number	Committed 2019 (DKK 1,000)	Committed 2018 (DKK 1,000)	Dev in %
Social programmes	232	156,261	175,321	-10.9%
Care programmes	5	817	501	63.1%
Health and personal development	67	20,019	18,121	10.5%
Social enterprises	17	7,974	7,842	1.7%
Fair Trade	5	3,643	3,319	9.8%
Other	5	3,917	3,236	21.0%

The Gotved Institute

The Gotved Institute's gymnastics teams have more than 1,000 participants every week, who experience the joy of movement, the strength and community spirit of Gotved gymnastics. The foundational inspiration is Helle Gotved's principles for exercise through the body's natural movements and basic exercise with rhythmical music. The Gotved Institute has continued to work on developing, strengthening and improving the study of movement, and the education programme in movement pedagogy is the cornerstone in all of the activities offered by the institution. Much development has occurred from Helle Gotved's simple format to accommodate movement inspired by other gymnastics- and dance-inspired movement forms.

❤ The Gotved Institute is a customer of Merkur

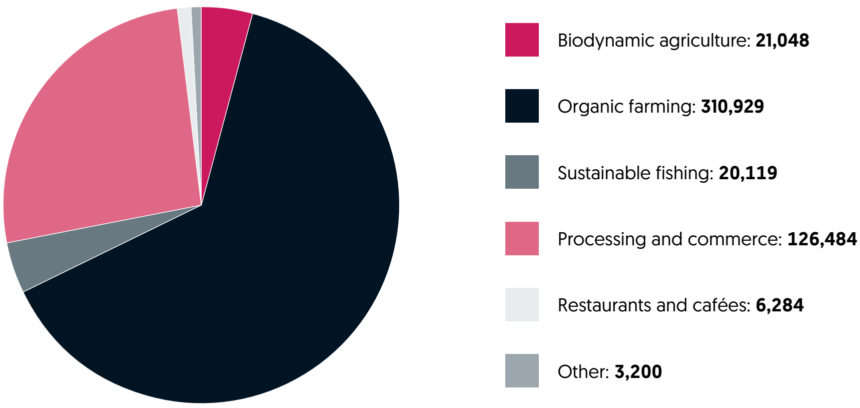
Food products

The production of food products must both reflect the real needs of society and consumers, and at the same time respect people and the environment.

Within Food products, Merkur finances organic and biodynamic farming and sustainable fishing. Processing and trade with sustainable food products, as well as organic restaurants and cafés, are also part of this loan area.

The overall picture within this loan area is largely unchanged compared to last year. The area has risen by 1.7%, equivalent to DKK 7m. Within agriculture, cattle farming has dropped while pigs, sheep, vegetable production and arable farming have advanced. There are a number of internal shifts, especially within the processing category.

FOOD PRODUCTS · COMMITTED 2019 (DKK 1,000)



Food products

	Number	Committed 2019 (DKK 1,000)	Committed 2018 (DKK 1,000)	Dev in %
Biodynamic agriculture	27	21,048	22,839	-2.8%
Organic farming	293	310,929	290,053	-16.5%
Sustainable fishing	5	20,119	21,832	-8.2%
Processing and commerce	96	126,484	139,143	-34.9%
Restaurants and cafées	17	6,284	3,203	-26.2%
Other	4	3,200	4,410	260.1%

Seerupgaard in Dragør

Seerupgaard is an organic, local farming experience in Dragør on Amager island very close to Copenhagen run by Neel and Marc Seerup Hansen. At Seerupgaard, there is a focus on biodiversity. Vegetables, herbs and honey are examples of products sold to individual customers, food associations and restaurants in the local area. During the year, Seerupgaard organises events where you can taste the produce of the season. Nature is the centre of focus in everything, so when the farm was established in 2018, consideration for sustainability and the environment was essential.

❤ Seerupgaard in Dragør is a customer of Merkur

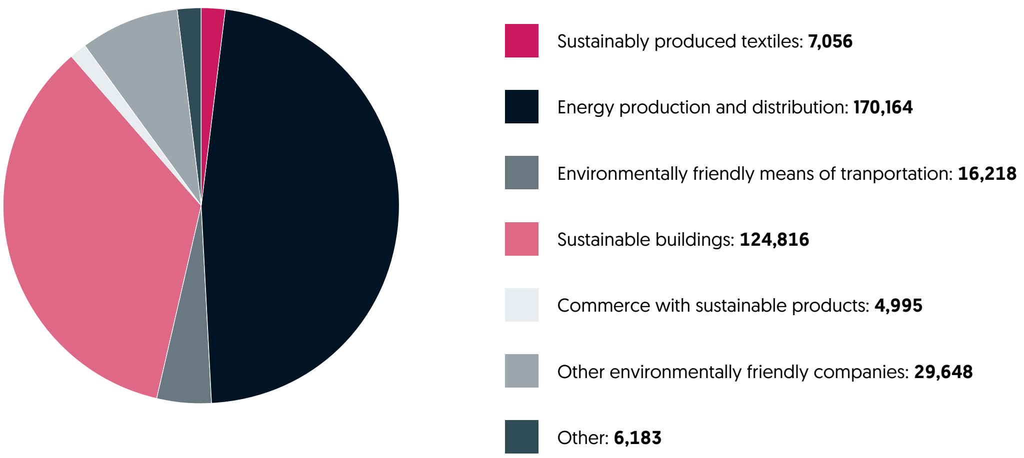
Environment and Energy

The category Environment and Energy comprises loans for products and services that both reflect society's and consumers' real needs, and respect people and the environment.

This loan field comprises sustainable buildings, sustainable transportation, renewable energy production, sustainable textiles, other sustainable companies, as well as trade with sustainable products.

This loan area overall has decreased in 2019, which is primarily due to loan repayments. The greatest change has occurred within energy production and distribution of energy, where solar energy and biogas are falling primarily due to loans being repaid. At the same time, the financing of windmills is increasing significantly. Since this category partly concerns bridge financing of large projects, the composition of the category can fluctuate from year to year. With the increased focus on the green transition, we view this area as possessing great potential.

ENVIRONMENT AND ENERGY · COMMITTED 2019 (DKK 1,000)



Environment and Energy

	Number	Committed 2019 (DKK 1,000)	Committed 2018 (DKK 1,000)	Dev in %
Sustainably produced textiles	21	7,056	6,941	1.7%
Energy production and distribution	2,437	170,164	184,887	-8.0%
Environmentally friendly means of tranportation	95	16,218	16,717	-3.0%
Sustainable buildings	167	124,816	133,014	-6.2%
Commerce with sustainable products	20	4,995	5,081	-1.7%
Other environmentally friendly companies	53	29,648	31,047	-4.5%
Other	7	6,183	1,000	518.3%

Grøn Industri A/S (Green Industry Ltd)

Grøn Industri offers climate-friendly solution within solar cells, heat pumps, ventilation and lighting for public-sector and private companies. The goal for Grøn Industri is to help its customers with becoming sustainable and more climate-friendly in their energy consumption. Grøn Industri was founded in 2012 and highly emphasises shared values such as honesty and transparency. By using cost-neutral solutions from Green Industry, based on e.g. solar cells or heat pumps, both public-sector and private companies can help conserve resources and contribute to more sustainability in the Danish society.

❤ Grøn Industri A/S (Green Industry Ltd) is a customer of Merkur

Communities

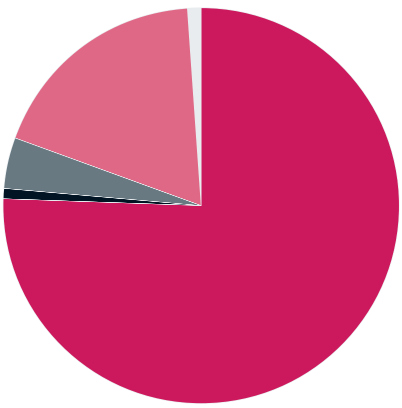
Communities is a broadly defined field and comprises both initiatives for the common good and with collective purposes, residential communities and broader communities based on a cause or purpose.

Financing comprises the areas of co-operative and trust-owned companies, NGOs, consumer communities and housing communities such as eco-settlements, village communities and co-operative housing associations.

We see a growing interest in living in and establishing different types of housing communities.

The largest change we see in this category is in residential communities, where the financing of a forthcoming housing community is contributing significantly. At the same time, the trust-owned property rentals has risen by DKK 4m.

COMMUNITIES · COMMITTED 2019 (DKK 1,000)



Residential communities: **145,476**

Consumer communities: **1,462**

NGOs: **8,057**

Cooperatives and trusts: **35,102**

Other: **2,114**

Communities

	Number	Committed 2019 (DKK 1,000)	Committed 2018 (DKK 1,000)	Dev in %
Residential communities	104	145,476	106,758	36.3%
Consumer communities	3	1,462	1,653	-11.6%
NGOs	32	8,057	17,062	-52.8%
Cooperatives and trusts	31	35,102	31,004	13.2%
Other	17	2,114	1,671	26.5%

DOF BirdLife

DOF BirdLife (DOF = Danish Ornithology Society) is a nature organisation focusing on protecting wild birds and their habitats in Denmark and internationally. The organisation today has around 16,500 members and 35 employees. Activities are centred on nature monitoring and collecting bird data as a foundation for the organisation's efforts within environmental policy promoting more and better nature areas, primarily in Denmark and the rest of the EU. In Africa and Asia, DOF BirdLife promotes sustainable management of woodlands, which is especially important in relation to protecting biodiversity. The forest management efforts also have a climate aspect that is supplemented with the purchase of woodlands through the organisation's climate fund. DOF BirdLife is the Danish partner in Birdlife International – the world's largest partnership for nature conservation and bird protection.

❤ DOF BirdLife is a customer of Merkur

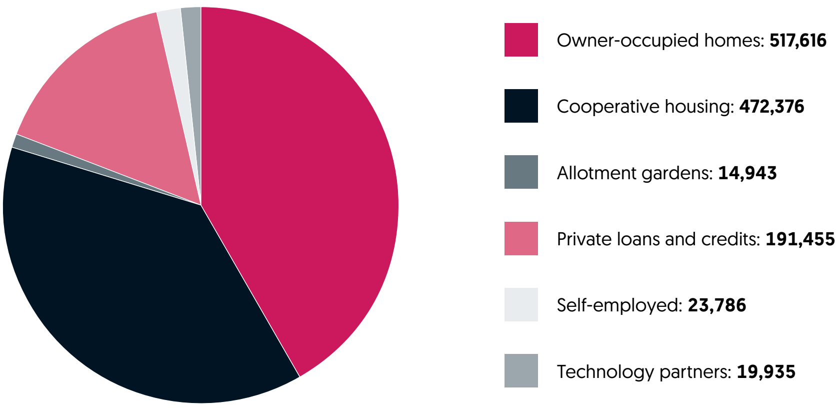
Ordinary loans, credits and guarantees

Ordinary loans, credits and guarantees comprise the more classical expression of the banking business, from loans to personal customers and small independent business owners to guarantees provided for partners.

Here Merkur finances loans to personal customers, especially housing financing in the form of loans to cooperative housing and owner-occupied homes but also in the form of guarantees in transfer of ownership and obtaining mortgage loans, operational financing for small independent business owners, who are also full customers in Merkur. The category technical partners exclusively concerns guarantees etc. that we provide for our partners.

Loans in connection with housing are rising. There continues to be activity in the housing market, albeit less than previously. Owner-occupied homes have grown by 3.3% and cooperative housing a full 11%. Seen as a whole, personal customers continue to deliver a large deposit surplus. As can be seen later in the chapter, personal customers account for 61% of overall deposits, while they constitute a lower portion of overall loans.

ORDINARY LOANS, CREDITS AND GUARANTEES · COMMITTED 2019 (DKK 1,000)



Ordinary loans, credits and guarantees

	Number	Committed 2019 (DKK 1,000)	Committed 2018 (DKK 1,000)	Dev in %
Owner-occupied homes	1.828	517,616	500,913	3.3%
Cooperative housing	882	472,376	425,747	11.0%
Allotment gardens	31	14,943	13,555	10.2%
Private loans and credits	4.735	191,455	203,283	-5.8%
Self-employed	115	23,786	20,656	15.2%
Technology partners	8	19,935	24,242	-17.8%


AT 89 477

Merkur's mortgage portfolio (Figure 19)

(MILLIONS OF DKK)	2019	2018	Dev. in %
Totalkredit A/S	2,618	2,231	17%
DLR Kredit A/S	823	808	2%
LR Kredit A/S	299	303	-1%
Total	**3,740**	**3,342**	**12%**

Provision of mortgage loans

TOTALKREDIT LTD
Merkur cooperates with Totalkredit on mortgage loans for personal customers. The conceptual idea of Totalkredit is decentralisation, and all case attendance, issuing of documents etc. is done in Merkur. Merkur has built a loan portfolio with Totalkredit of DKK 2,618m, distributed across 2,130 loans (2018: DKK 2,231m across 1,950 loans). This represents a handsome growth, with springs from the low interest rate level. Many customers have chosen to switch to Totalkredit through Merkur when converting their loans or purchasing a house.

Merkur collects a portfolio commission, which is set off against potential losses that Totalkredit Ltd might incur on account of a property's mortgage that exceeds 60% of a property's value at the time of the mortgage issue.

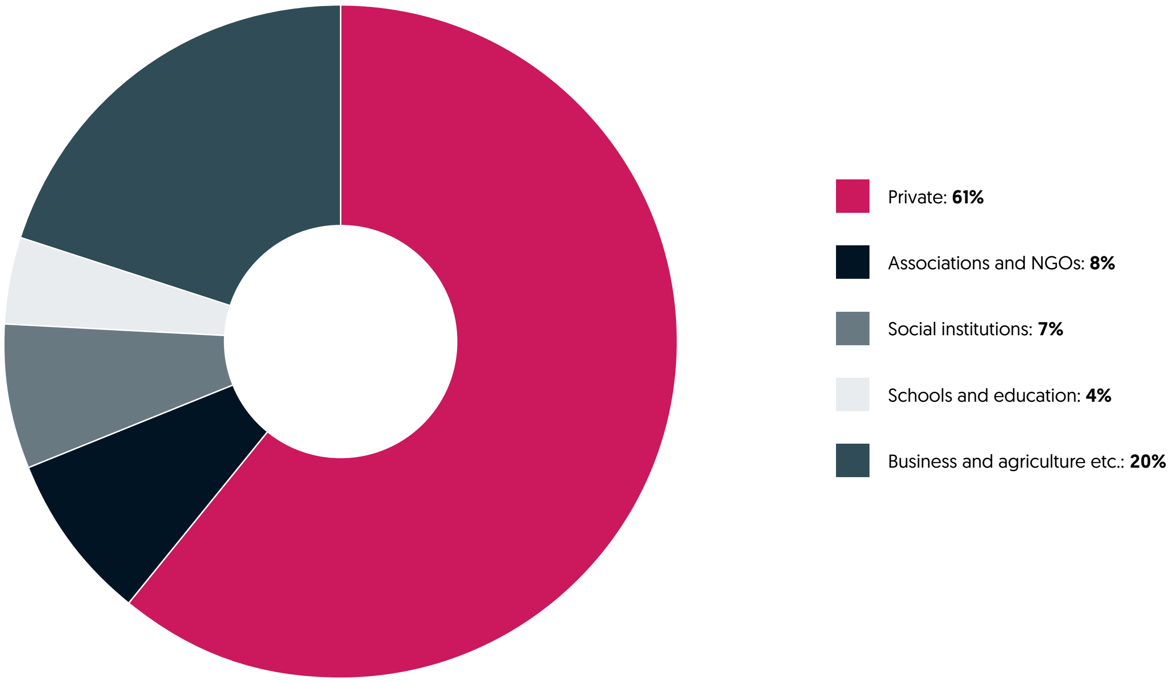
DLR KREDIT LTD AND LR REALKREDIT LTD
Merkur enjoys a fine partnership with the mortgage bank DLR Kredit, which is owned by local and regional banks, including Merkur. By the end of 2019, Merkur cooperates with DLR Kredit about loans to organic and biodynamic farms but also loans to rental estates, private cooperative housing, commercial estates, with a mix of offices and stores, and industrial and craftsmen's estates.

At the end of 2019, Merkur's portfolio of loans from DLR Kredit constituted DKK 823m compared to DKK 808m the previous year. DLR Kredit contributes to Merkur's income through both agency commission, portfolio commission and a share of DLR Kredit's profit. Merkur cooperates with LR Realkredit on loans to e.g. schools and institutions, one of Merkur's core areas. By the end of 2019 the portfolio of loans to institutions through LR Realkredit

2,130

The number of Totalkredit loans has risen to 2,130

Deposits (Figure 20)



amounted to DKK 299m compared to 303 in 2018. *See Figure 19.*

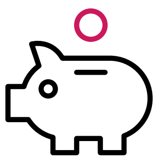
Deposits

Merkur's ability to fund projects depends, among other things, on our customers making deposited funds available. Deposits are widely dispersed, not least among personal customers. Personal customers account for 61% of deposits, which is a small increase compared to 2018, when the proportion was 59%. The remaining 39% is distributed among schools, institutions, NGO's, and companies.

Merkur has always wanted to base our loans on our own customers' deposits. We do not want to be financed by capital markets.

This strategy has provided stability, not least during the turbulent times of the financial crisis.

Out of Merkur's total deposits of DKK 3,160m, 79% are covered by the Danish Deposit Guarantee Fund. The remaining 21%, amounting to DKK 655m, exceed the insurance coverage limit of approx. DKK 750,000 per customer. Merkur's deposit surplus is sufficient to pay this portion without delay, if need be. ■



DKK 3,160m in total deposits

"As a customer in Merkur, you can be sure that your money promotes sustainable development. We are fully transparent, which is why you can find a list of all the companies, institutions and projects to whom we lend money (in Danish only). Merkur is the only Danish bank that does this.

Pensions and investment

The pensions and investment area in 2019 was characterised by intense activity, especially because of the increasing interest in sustainable investment of pension means and other savings. Not least in the fourth quarter, when the notification of negative deposit rates for personal customers further stimulated the motivation to make a difference through investing. Merkur, despite the increasing competition, still has the most complete range of impact investments and ethically screened shares and bonds for private investors in Denmark.

Ansvarlig pension (Responsible pensions) is good business

In cooperation with the customer-owned pension fund AP Pension, Merkur has now for six years been able to offer our customers an annuity product, which allows you to invest pension means according to ethical guidelines in the same manner that customers have long been able to with their pension savings in the cooperative bank. Merkur and AP Pension's joint product is unique in the Danish market when it comes to transparency and the opportunity to invest responsibly. The concept comprises both individual plans and company plans. Beyond the opportunity to invest savings in an ethical manner, AP Pension, through the company Nærpension, offers insurance to Merkur's customers, e.g. against the loss of earning capacity.

> **Merkur is the only bank that offers Impact First investments to all types of customers, so with even a small amount, you can make a big difference in society and at the same time ensure a reasonable return.**

We continue to experience an impressive growth and a great demand for company pension plans. Still more organisations and companies wish, together with their employees, to actively engage in the issue of where to place their pension savings. On the background of the ongoing customer dialogue, we also expect growth in this area in 2020.

Merkur receives commission fees from AP Pension and Nærpension. But it is not just for Merkur that the pension scheme is good business. It is also a good deal for the customers, who have seen a good rate of return, which is also due to the swan-labelled investment funds providing especially good returns in 2019.

Reasonable returns on impact investments

Merkur offers Impact First investments through Triodos Renewables and Europe Fund and Triodos Microfinance Fund, and in 2019 these funds delivered returns within the expected interval of 3-5%. Thereby it was again documented that financial returns and in-

Impact First investing

Impact First investing means that the positive impact comes first. This does not just mean stocks or bonds in companies and countries that do well measured on sustainability. When you invest through Impact First, you invest directly in projects or companies where you inject "new" money that can make a real difference. This could be in the form of more citizens in developing and middle-income countries being able to access financial services, or in the form of increasing the production of sustainable energy thus reducing CO_2 emissions.

Triodos Bank's new main office has been built on circular principles and with nature as inspiration.
The whole building is reconstructible and the sustainable building reflects Triodos' holistic approach to banking.

vestment in a better world most certainly can go hand in hand.

We are experiencing a great and growing interest in this type of investments. At the close of 2019, customers' holdings of Triodos impact investments amounted to DKK 426m[1], which is equivalent to an increase of 41.5% compared to 2018.

In addition to the above-mentioned Triodos funds, Merkur shares are also an impact investment, whereby Merkur's customers have an ability to make a big difference. For every krone invested in shares, Merkur is able to lend six kroner to sustainable companies, institutions and projects. This makes shares one of the most effective ways of kick-starting sustainable development. In 2019, Merkur reached more than 7,600 shareholders, equivalent to more than every fifth customer, and the share capital has risen by 16% or DKK 44.5m in comparison to 2018. The shares generated a return of 1.0% in 2019.

[1] This figure includes customers' holdings of the Triodos Organic Growth Fund, which is not offered to retail customers, however.

Great interest in the swan-labelled funds and SDG

In step with the growing interest for sustainable investment, new investment opportunities are also appearing. In

795

employees are covered by a company pension scheme in Merkur

DKK 426m

invested in Triodos impact investments

DKK 718m

invested in Swan-labelled funds

Merkur's Investment Universe and the SDGs

Merkur's investment universe supports all 17 of the UN sustainable development goals. See the chapter Merkur and society for more information on Merkur's approach to the SDGs.

SUSTAINABLE DEVELOPMENT GOALS

1 NO POVERTY
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

2 ZERO HUNGER
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

3 GOOD HEALTH AND WELL-BEING
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

4 QUALITY EDUCATION
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

5 GENDER EQUALITY
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

6 CLEAN WATER AND SANITATION
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Renewables
- ✓ SDG Invest

7 AFFORDABLE AND CLEAN ENERGY
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

8 DECENT WORK AND ECONOMIC GROWTH
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Renewables
- ✓ Triodos Microfinance
- ✓ SDG Invest

10 REDUCED INEQUALITIES
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

11 SUSTAINABLE CITIES AND COMMUNITIES
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Renewables
- ✓ SDG Invest

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ SDG Invest

13 CLIMATE ACTION
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Renewables
- ✓ SDG Invest

14 LIFE BELOW WATER
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ SDG Invest

15 LIFE ON LAND
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ SDG Invest

16 PEACE, JUSTICE AND STRONG INSTITUTIONS
- ✓ Merkur Andele
- ✓ Triodos Prioneer & Equity
- ✓ Triodos Microfinance
- ✓ SDG Invest

17 PARTNERSHIPS FOR THE GOALS
- ✓ Merkur Andele
- ✓ SDG Invest

Merkur's swan-labelled products

- Triodos Pioneer Impact Fund
- Triodos Global Equities Impact Fund
- Triodos Euro Bond Impact Fund
- Triodos Impact Mixed Fund

SDG – Investing in Sustainable Development Goals

SDG stands for Sustainable Development Goals, which is the UN's terminology for sustainable development. When SDG Invest selects companies for their portfolio, the selection happens on the basis of an extensive screening process based on namely the UN's sustainable development goals.

2018, in cooperation with our partner, Triodos Investment Management, Merkur could as the first Danish bank offer four swan-labelled investment funds. The swan label sets a certain minimum standard and can therefore help especially retail investors with making sustainable choices. You have to be aware that there is no legislation or other regulation concerning the use of the terms "ethical" "sustainable" or the like.

In 2018, Merkur entered into a new partnership with the Danish capital association SDG Invest concerning investment in companies that are working toward fulfilling the UN's sustainable development goals.

Customer interest in both SDG investment and swan-labelled products has been great from the outset, but from 2019 we have seen an even stronger wish to contribute to reaching the UN's 17 development goals and make a difference through the certified swan label.

Customers' holdings of swan-labelled products has risen significantly by 55.8% compared to 2018, and the same goes for SDG securities, in which customers at the close of 2019 had invested DKK 30m.

We continue to be happy for the partnership with both Sparinvest and Maj Invest. In cooperation with Sparinvest, Merkur offers our customers investments in bonds and ethically screened stocks. Merkur's customers have placed almost DKK 200m in Sparinvest at the end of 2019. This is DKK 50m less than the previous year, which is primarily due to negative interest rates in a large section of the bond market. At Maj Invest, Merkur's customers can invest in the ethical stock fund Global Sundhed (Global Health), and at the close of 2019 the portfolio amounts to DKK 10m. ■

Company pension (Figure 21)

	2019	2018	Dev. in %
Company pensions, number of schemes	72	64	12.5%
Company pensions, number of employees	795	752	5.7%
Company pensions, deposits (in DKK mill)	215.6	176.5	22.1%
Individual annuities, number	178	149	19.4%
Individual annuities, deposits (in DKK mill)	34.2	25.9	32.0%

Customer holdings of Triodos investment certificates (Figure 22)

DKK 1,000	2019	2018	Dev. in %
Triodos Global Equities Impact Fund	174,843	113,481	54.1%
Triodos Euro Bond Impact Fund	118,356	121,784	-2.8%
Triodos Pioneer Impact Fund	217,290	129,759	67.5%
Triodos Impact Mixed Fund	207,518	96,140	115.8%
Triodos Renewables Europe Fund	163,528	93,791	74.4%
Triodos Microfinance Fund	251,791	195,804	28.6%
Total	**1,133,326**	**750,759**	**50.1%**

International Partnerships

GABV – a joint voice for value-based banks

In 2009 Merkur co-founded Global Alliance for Banking on Values (GABV). Back then, we were 10 value-based banks in the network; now we are 55 banks and 12 partner organisations on all continents. The member banks' focuses span widely: from micro-finance banks in Asia and Latin America to environmental technology in California, and all-round socially and environmentally oriented banks in Europe. What we all have in common, however, is a desire to influence the respective societies in which we live in a more sustainable and equitable direction.

GABV represents a total of 50m customers with a collective balance sheet of USD 200bn.

GABV has in the past decade developed into a strong and sought-after voice in the international debate about which kind of banking system we want in society and about the financial sector's contribution to solving the big global challenges. A pivotal effort in relation to this agenda is the European Commission's initiative for a so-called taxonomy (i.e., a set of definitions) for sustainability. GABV is involved in the deliberations and plays a leading role in a working group that is seeking to influence the European Commission's work. The working group convenes twice annually, and Merkur has this year participated in one of these meetings.

> **Merkur is a co-founder of Global Alliance for Banking on Values**

Taxonomy and climate-related reporting

The European Commission in 2018 appointed a technical group of experts for sustainable financing. The purposes for this group of experts include setting forth proposals for a taxonomy of environmentally sustainable activities and to produce guidelines for climate related activities of financial companies. The taxonomy, among other things, comprises guidelines for when a loan for an activity can be considered as sustainable and for companies' climate-related reporting. In total, this will in the long run provide the financial sector with the information necessary for determining the sustainability of the financial institutions' loans and investments.

The group of experts' reports considering the taxonomy and guidelines for companies' climate-related reporting was published in June 2019.

With this work as a starting point, the European Commission will now formulate rules for what sustainable financing means for the banks, e.g. in relation to capital requirements. Behind all this work lies an assumption that sustainable financing involves a lower risk level in a number of areas, as compared with the risks that are associated with investing in e.g. fossil-based energy or other technologies, whose future decommission must certainly be anticipated. Furthermore, the goal is to urge the financial sector to play a decisive role in connection with the transition to a climate-neutral economy and financing of investments on the scale required. GABV will continue to influence this process so that it gives the greatest possible real economic and sustainable imprint.

GABV has developed a standardised scorecard – a measuring instrument – that among other things provides a picture of a bank's connection to the real economy and a bank's lending seen from the perspective of the triple bottom line and thereby the impact on the surrounding society. The scorecard's publication is expected from the end of 2020 on GABV's homepage.

Finally, GABV has worked to disseminate a method for measuring the climate impact from banks' lending and investment activity. Merkur has joined the project, which is described in more detail in the chapter *Merkur and society* under the section *Merkur's impact*.

In addition to representing a joint voice, GABV functions as a network for inspiration. The member banks meet once annually on a global level – in 2019 in Vancouver, Canada. Furthermore, GABV also organises regional meetings. In 2019, the European meeting was held in Stockholm and hosted by Ekobanken.

GABV has in cooperation with the American university Massachusetts Institute of Technology (MIT) developed an education for leaders from values-based banks called theLeadership Academy. Over the years, three employees from Merkur have completed the education. Employees from Merkur also participate in special professional networks within e.g. HR and Communications. It is of great importance for us that our employees have access to the unique inspiration that comes from convening and sparring with colleagues from around the world.

Nordic partnerships

With our Scandinavian colleagues Cultura Sparebank (Norway) and Ekobanken (Sweden), we enjoy a particularly close partnership, in which we learn and inspire one another. Each year, the three banks organise a joint seminar for employees and board members.

In 2019, Merkur was the host for the approx. 20 participants, where we exchanged experiences about sustainable investment projects. Throughout the years, we have also cooperated in relation to the financing of large projects, but this area of the partnership has been reduced significantly in recent years. Merkur contributes to the financing of four institutions and organisations with a total of DKK 16m in Norway and Sweden respectively.

European partnerships

Merkur is a member of FEBEA, a European network for alternative banks and financing institutions. FEBEA is a practically oriented network, emphasising concrete dialogue with the European Commission and Parliament on legislation, for instance, and the development of guarantee and lending schemes.

An example of such a guarantee scheme is EaSI, which is a guarantee programme from the European Investment Fund for social enterprises and institutions, which are an important customer group for Merkur. Merkur was in 2018 granted a guarantee framework of DKK 200m under the EaSI programme, which has made it easier for social enterprises and institutions to obtain financing in Merkur. At the close of 2019, we have approved loans for DKK 56m under this scheme, including a number of energy renovation initiatives in social institutions, schools, housing associations, etc.

“

Merkur’s CEO, Lars Pehrson, is a board member in FEBEA

The cooperation between FEBEA and Merkur has led to Merkur receiving share and subordinate capital from some of the other banks in the network.

The Institute for Social Banking (ISB) is an educational organisation founded by a number of values-based banks, incl. Merkur. ISB organises inspirational courses and experience exchanges, so-called Expert Exchange Labs, at the European level. In addition they arrange a week-long summer school each year which attracts 50-100 participants to workshops and lectures taking their cue from values-based banking. In 2019, the summer school was held in Basel in Switzerland, where Merkur took part with one employee. ■

Merkur and our employees

Merkur's employees are a decisive resource. Therefore, we emphasise openness concerning how human resources are managed in Merkur. Merkur has employee-elected board members, first elected in 2007. These members represent a significant addition to the Board's work. The current term expires in 2023.

In 2017, Merkur completed a large organisational change as the starting shot for a pervasive change process toward a more customer-oriented, efficient and digitalised business. This transition is not over. We are working every day to live up to customers' expectations, e.g. by investing in digital solutions. In November 2019, we welcomed Charlotte Skovgaard as a member of the Executive Board with responsibility for all the business-oriented activities, as well as HR and IT

The welfare of employees

The bank sector is undergoing change in these years. In Merkur we have chosen to meet the changes actively, which among other things means that our organisation continuously has been and will continue to be evaluated and adjusted. This is of course something that is of great significance for all the employees in the organisation. Some welcome the changes and are motivated by the opportunity to put themselves and their work in a new light, while others feel insecure and view the changes with apprehension. This is natural. Generally, we strive to have openness and dialogue with employees.

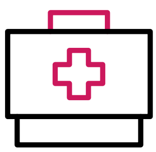
At the same time, we acknowledge that it is a difficult task that demands considerable focus from management, so that the good intentions are experienced by the employees. We have come part of the way in 2019 and have a clear ambition to reach even further in 2020.

In the autumn of 2018, we concluded a comprehensive occupational health and security assessment among all employees, which surveyed the work environment in Merkur. The survey has been used as a basis for choosing focus areas in 2019 for the work environment, both in local branches and the organisation as a whole. The focus has been on the mental health work environment, including lowering employee sick days. In the autumn of 2019, we repeated the same assessment of the work environment.

Sick days

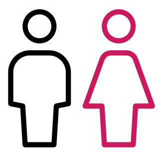
Lowering employees' sick days has as mentioned been a substantial focus area for in 2019. We have revised our policy concerning sickness absences so that our managers follow up more thoroughly and earlier on sickness absences. Furthermore, managers have received training in handling long-term illnesses.

The efforts have borne fruit and absence due to sickness has fallen from an annual average of 10.81 sick days per employee in 2018 to an average of 8.94 sick days in average per employee in 2019. This is a promising development, and we have a clear ambition to lower sick days to 6-7 days over a short period of years.



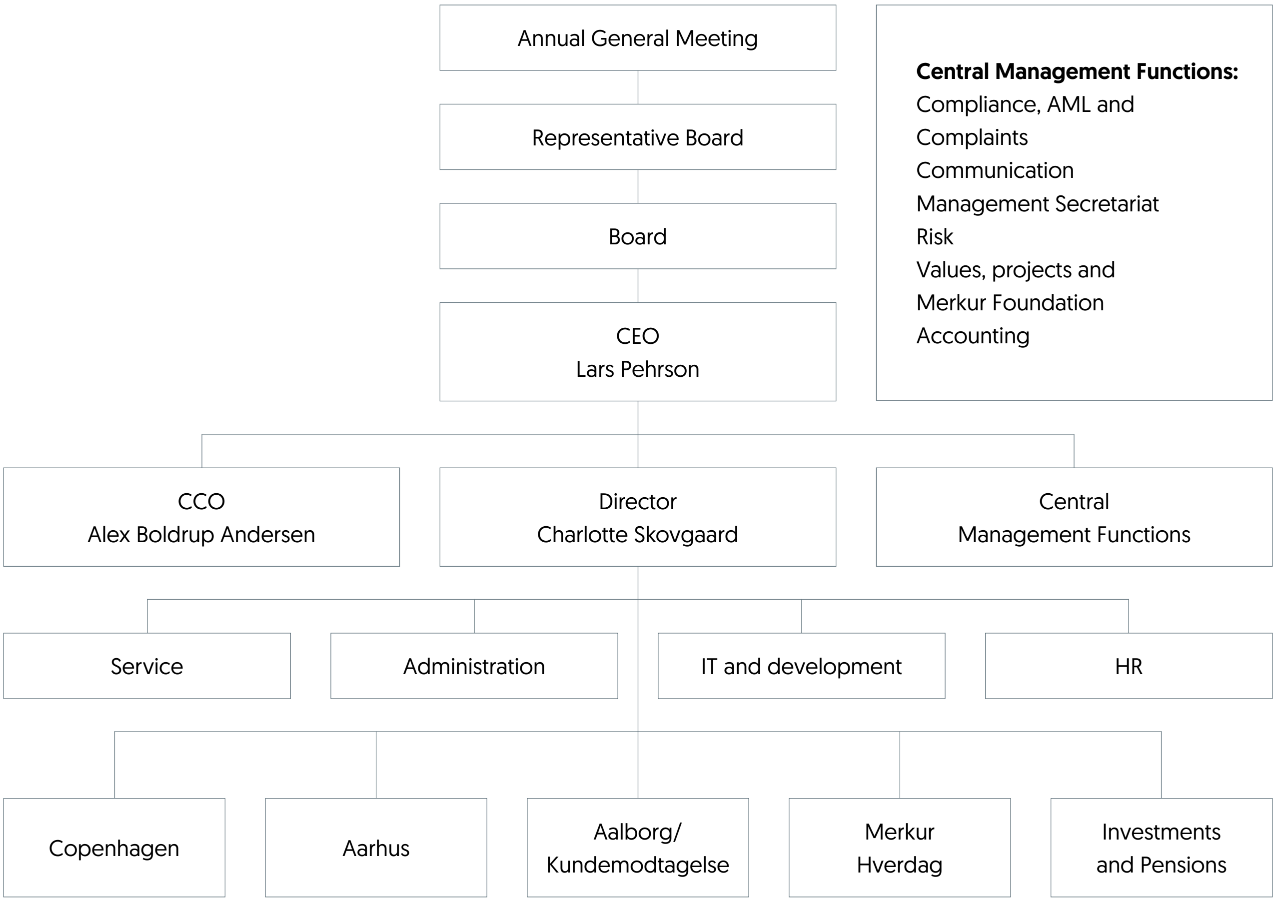
8.94 sick days annually per employee

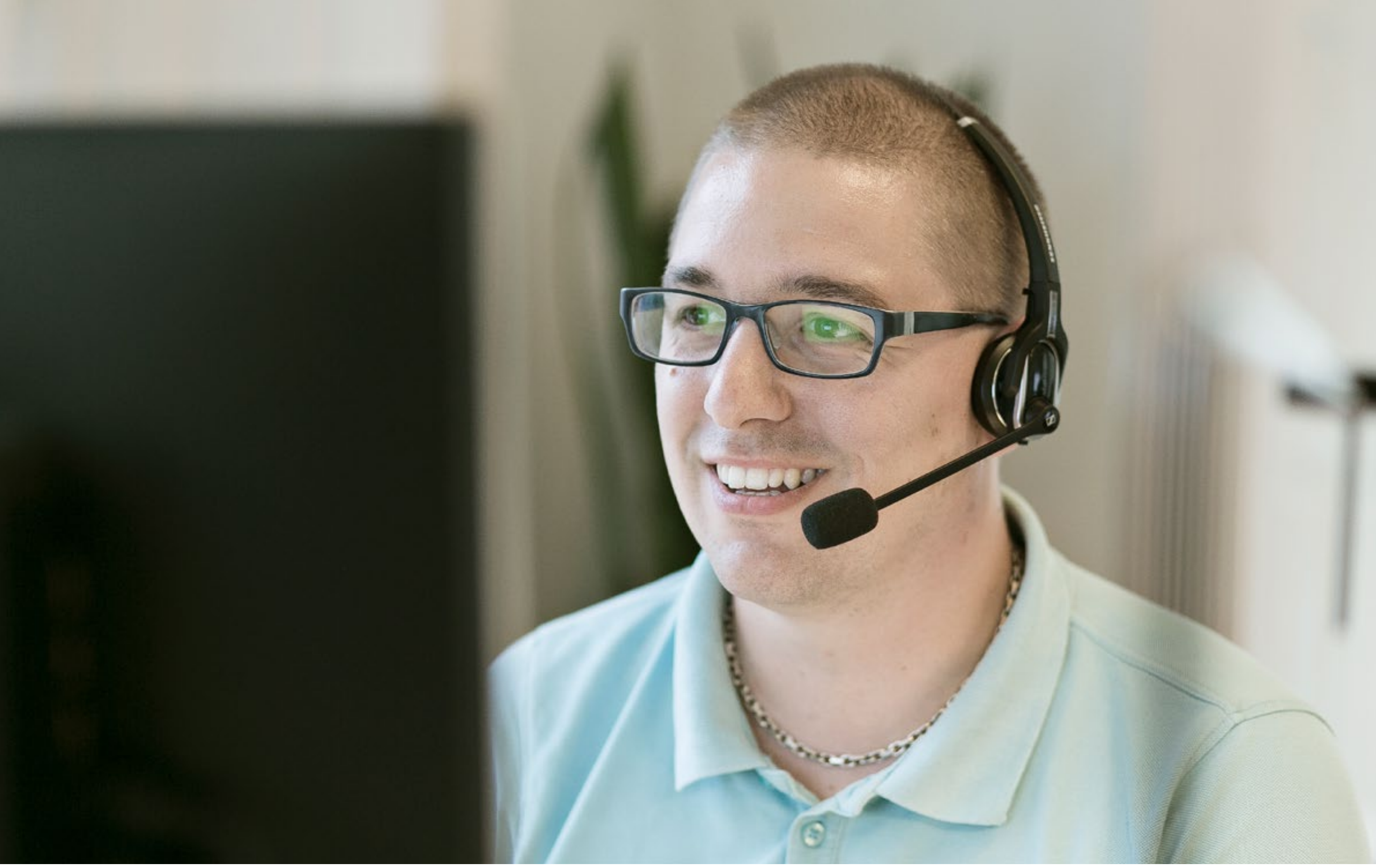
The wage differential in Merkur is 5.83



50/50 distribution between men and women

Merkur's organisational structure (Figure 23)





Composition of Merkur's staff

At the end of 2019, 97 people were employed by Merkur, compared to 100 at the beginning of the year. We are focusing on preparing employees for the necessary change in step with changes in qualification requirements. As previously mentioned, this is a challenging change process and a contributing cause for employee turnover in 2019 being significantly higher than previous years.

The distribution between genders is generally well balanced. There are 50.5% women and 49.5% men in the organisation as a whole. It is positive that a better gender balance has been achieved on the Executive Board in 2019, where we now are meeting our own objective of a min. of 33% female representation. Also, the Board of Director's gender balance is moving in the right direction with an additional woman on the Board from January 2019. We continue, however, to see a certain gender imbalance in relation to positions with managerial responsibilities beneath the executive level. We are aware that this is not expedient, which is why we have drawn up target figures and a policy to increase the proportion of the under-represented sex in Merkur's management to make up a min. of 33%. The strategy takes into account that the implementation will occur gradually and that our view continues to be that vacant positions and board seats be filled based on qualifications. We do not exercise preferential treatment in order to ensure diversity.

The average age at Merkur is relatively high. Seasoned employees are deemed a significant resource, in that they contribute with solid professional experience, from which all other employees benefit.

48 years

is the average age for employees

However, due to the future-proofing of Merkur, we also strive for an age distribution, and to attract more young employees, we have in 2019 established one educational position, which we expect to expand on a running basis. Furthermore, we are to a higher degree working on making use of student interns to free up other employees from routine tasks and to introduce new knowledge to the organisation.

Wages

Wage differentials in Merkur continue to be limited even though the differential has grown larger in recent years. No result-driven pay supplements or bonuses are paid out, only pay supplements based on an employee's special qualifications or function. The wages of full-time employees span from starting salaries at DKK 24,885 for a trainee to the highest executive level pay at DKK 145,000. This means that the differential between bottom and top has a factor of 5.83. ■

Sick Absences (Figure 24)

ANTAL DAGE	2019	2018*
Own illness	881	1,072
- Hereof long-term illness	387	408
- Hereof long-term illness on part time	112	198
Average absence per employee		10,81
Average absences per employee excluding long-term illness	3.88	4.70
Other absences		
Compassionate leave (including child being sick)	53	77
Maternity leave, (incl. paternity leave)	177	171
Other types of leave	66	9

** It should be noted that the numbers for 2018 have been adjusted in relation to the annual accounts for 2018 as a consequence of a changed accounting methods for calculating the number of employees. In this statement, the number of employees is based on the average number for the year rather than the number per 31.12. Moreover the method has been changed in relation to calculating a workday. Previous years, a workday was set to 7.5 hours. In this statement, a workday is set to 7.4 hours, which corresponds with a 37 hours per week.*

Staff turnover (Figure 25)

ANTAL DAGE	2019	2018
No. of permanent employees, start of year	100	102
Additions, new hires		14
Vacated, pensioners		4
Vacated, other reasons		12
No. of permanent employees, year end	97	100
No. of employees on part-time	23	24
No. of employees converted into full-time equivalents (FTE)	92	95
No. of employees on average for the year	98.5	99.2
Staff turnover excl. pensioners	24.4%	11.9%
Staff turnover incl. pensioners	25.4%	15.8%

Gender distribution according to position type (Figure 26)

	2019		2018	
	MEN	WOMEN	MEN	WOMEN
Executive board	2	1	3	0
Branch managers	3	0	3	0
Mid-level managers	4	3	4	4
Board of directors	7	2	8	1

Age spread (Figure 27)

	2019		2018	
	NO.	%	NO.	%
Under 30	5	5.2	5	5.0
30-39	20	20.6	23	23.0
40-49	22	22.7	18	18.0
50-59	36	37.1	42	42.0
60 -	14	14.4	12	12.0
Average age	48 years		48 years	

Merkur and society

The world around us

With 2019, we are bidding farewell to a decade. The 2010s were a period with big upheavals, which in many ways still leave the world in an undecided state. In many countries, where democracy still has not been consolidated, ideals about the rule of law, separation of powers, freedom of the press and government impartiality are under strain in relation to the religious and ethnic lines of division. A core democratic value is the protection of minorities. Today the majority in many places feels entitled to organise society without consideration for minorities, regardless of whether these make up a very large part of the populations. This creates disturbances and division.

Many places in the world in 2019 have been characterised by popular uprisings. France, Chile, Bolivia, Iraq, Spain (Catalonia), Hong Kong, Sudan, etc. The backgrounds are different and have not always been transparent. But one common characteristic is a fundamental distrust of the governing elites or classes. It is hard to know how to judge the rebels and their chances for creating change.

As so many times before, the situation is that the rebels lack something of which the financially and politically power has plenty: patience and time. We saw it, for instance, with the OccupyWall Street movement during the financial crisis. This popular rebellion under the catchphrase "We are the 99%" were by many seen as the beginning of a new and more societally beneficial role for the financial sector. But Wall Street bowed its neck, held a low profile – and waited. At one point protesters grew weary, and today Wall Street is as it used to be before.

Also nature has in its own way rebelled in 2019. Throughout the year violent wild fires have ransacked most continents and reached an extreme intensity, especially in the one of the countries where climate changes are felt the most, namely Australia.

Division in populaces

In several Western countries, we continue to witness how divisions between different population groups are on the increase. Brexit has created an extreme polarisation in Great Britain, and in the US, Trump's first term is coming to a close. The US now faces a presidential election that must be expected to be the most polarised and polarising contest in modern times. The division has not grown smaller since the impeachment trial against Trump played out in the Senate. As expected, the majority of senators were not capable of performing in the role of jury members but let their personal and partisan interests determine the outcome. The elections in November will, as so often before, be determined by voter turnout. How many will show up to vote, and which groups will be staying at home?

The media, and not least the social media, play an important role in the polarisation we are witnessing. Social media platforms have many advantages but they also contribute to the fact that we to a growing degree live in each our own bubble with different realities. This causes a poorer understanding for the viewpoint of others, and in the last instance may exacerbate the division, weaken the shared public space and make it harder to agree on the premise for the public debate.

Unfortunately, we are looking at a decade with permanent internal strife in many countries, where divisions are inflated by demagogues and populists. At the same time, inequality is on the rise many places in the world, which does not benefit the solidarity that is so badly needed if we are to solve the great, common problems, such as the current climate crisis.

A new awareness about the climate

On the climate front, 2019 has been a year characterised by both despondency, anger and hope. Despondency in the face of the comprehensive climate crisis in which the world finds itself. Anger over world leaders' lacking ability to

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One woould think that the newfound climate awareness would also lead to real results, when the world’s countries were to convene for the COP 25 summit in December. Regrettably, national and economic special interests once again were obstacles.

find joint solutions and live up to their responsibility, among these relating concretely to the scientific warnings. And at the same time hope, because there are so many places where a large shift has occurred in the collective consciousness concerning the climate crisis.

Swedish climate activist Greta Thunberg's protests have resounded around the world, and millions of children and youth have gone on strike for the climate. The youth fear for their future in a world where temperatures are rising, while large quantities of greenhouse gasses are still being emitted. They have mobilised a strong community across national borders in which they have been able to turn despondency into action by standing together, and the most remarkable aspect is that it seems to be working.

The youth are giving speeches at the large climate summits, and in daily life they are influencing their own parents. People are listening. Even though the school strikes have been met with criticism, you cannot get around the fact that the movement has contributed to promoting the climate agenda and place pressure on politicians, also in Denmark, to deliver on more ambitious climate policies.

New tones in Danish climate policy

For the first time ever, the climate became the biggest topic in a Danish election, and the new government set historically high levels for ambitions concerning the goal to reduce emissions of greenhouse gases by 70 percent in 2030.

This was an objective that at the end of the year became an agreement about Denmark's new climate act. That the climate act received broad support from almost all of the Danish parliament's parties is something few had predicted when the citizens' proposal was presented at the beginning of the year.

This indicates how much consensus has shifted. It is simply untenable for politicians not to deal seriously with climate changes and the green transition, and therefore both ends of the political spectrum were finally able to join forces on shared climate goals.

It is therefore also pivotal that both citizens, the business community and green organisations continue to exert pressure and show support for the Climate Act's objectives, also when it comes to implementation in practice. Because now comes a great and important effort through which the fine objectives have to be converted to climate action plans. This will entail a clash of interests in which many parties will seek to avoid being "hit too hard" in the climate accounting. But it is naïve to believe that anyone can get a free pass, because the transitions *must* be expedited at all levels of society, and we have to acknowledge that this will affect us all in all kinds of different ways.

The great clash of interests

One woould think that the newfound climate awareness would also lead to real results, when the world's countries were to convene for the COP 25 summit in December. Regrettably, national and economic special interests once again were obstacles.

It is curious that even when countries are hard hit by climate changes, as Australia, for example, that they stubbornly fight against the necessary transition. And it is perhaps even with a degree of popular support. As late as May 2019, Australians re-elected their climate lagging government. The promises of more jobs in the coal mines were apparently enticing to a degree that overshadowed the fear of even higher temperatures and even more devastating fires.

The politicians who have to shoulder the responsibility for the large transition are up against two strong forces. First, there are the economic special interests who resist with all of their vast resources and a not insignificant degree of cynicism. Second, there is a general insecurity concerning the future. Which jobs will last and which ones will be lost? What will daily life look like – how much do we have to change our habits?

It is therefore tempting for politicians to promise that the entire transition can be implemented without us really noticing it. Technology will solve the problems, and we just need to continue living as before.

In Denmark, we saw a miniature version of the global clash of interests from COP 25 play out during the negotiations related to the national budget. The small parties wanted to see climate action already in the national budget, but this, by and large, remained absent – no taxes on air travel, no increases on taxes for fossil-based energy, no price reductions for public transportation or other obvious initiatives, which are just waiting to be implemented. When the debate at one time turned to unfunded tax reductions for cars, inherited from the previous government, it would have been obvious to roll these back. But no – the government did not want "to make ordinary people's cars more expensive". One can truly ask what kind of intiatives they *do* want to take?. It appears unavoidable that what there needs to be less of necessarily must become more expensive, and what there needs to be more of needs to become cheaper or more attractive. Price incentives happen to be effective – this is shown by all experience.

Also true is that consumption taxes negatively impact weak population segments – this has been the case with all consumption taxes at all times without anybody refraining from introducing them for this reason. But it is not impossible to compensate the lower income brackets – this has been done previously and can be done again. It is a matter of course that the green transition must be socially just.

The government is still new and much may happen in the coming years. There is no doubt that the intentions are good and that ambitious targets have been set. It is important that politicians feel support among the populace and business community for the necessary actions.

Our economic understanding is in the way

The new ambitious climate goals also call for a new perception of the economy. Economics at the societal level is not about money, and it is not money that is the starting point for the economy. Our resources on the other hand are: the earth's physical resources as well as people's labour, ideas and knowledge. Economy is closely connected with the physical world that we live in, and we have to make our point of departure in the real resources that are available and adapt accordingly rather than first thinking in money terms.

Transition is about managing resources in a different manner than previously – to send investments in another direction. High-speed rail instead of motorways. It is popular but misguided to calculate the necessary investments in energy plants, collective traffic, etc. as "costs". Because these investments also very much represent income for the companies and their employees, who are delivering windmills and the other things. And because the public sector plays such a great role in the economy, many of the "costs" will return to public coffers as tax revenue.

We have tied ourselves to an abstract spreadsheet rationale, which is hard to unite with green transition, and the large investments that are required. A good example is the Budget Act, which decides that the public expenses must not exceed income by more than 0.5 percentage points of GDP. A law that was passed after the financial crisis to ensure the balance in public accounts but which at the same time actually limits how much can be invested in the green transition. If one invests DKK 20bn in the transition, that money needs to be found somewhere else in the budget, e.g. by cutting welfare services or increasing taxes and excises. This incentivises short-term thinking. The Budget Act and the Climate Act – which in a manner is also a type of Budget Act – will come into conflict with each other. We will have to choose whether to follow the budget of the real world or the spreadsheet budget. Denmark fortunately has the best basis with a very strong economy, so what is required is first and foremost visionary political courage.

How Denmark solves this task may be pivotal in a global perspective because if we are able to find a good and viable model, we can press for others to follow the same path.

Nature and biodiversity

Not only do we find ourselves in a climate crisis – but also the world's manifold animal and plant species are seriously threatened. Up to a million species are threatened by extinction, and many of them will risk disappearing within a few decades, stated a UN Report in May 2019. The international goals to halt the drop in biodiversity, which should have been met in 2020, are far from being realised, so there is an acute need for action. The natural environment needs more space, and we must therefore change the way we exploit our globe's areas. This applies, for instance, to forestry, agriculture and fishing.

In Denmark, the government has initially allocated funds for more untouched forest and to decommission farmland, and this is a good start but more is needed. Forest and trees have generally been part of the conversation over the years as an important component in the climate solution, and it is a good and necessary focus. Here, we should not forget to incorporate biodiversity because this may hold great significance for animal and plant life, i.e., what is planted and how it is carried out.

A necessary showdown with non-viable production methods and environmental toxins is waiting ahead. Here we again are facing strong economic special interests. As humans, we are to a high degree dependent on nature's resources, and when species go extinct, ecosystems are destroyed, and this in the final calculus becomes an existential threat also to us. Beyond this, nature has its own inherent value that cannot be calculated in dollars and dimes. There are many good reasons to take good care of nature.

Negative interest – the new normal?

If we turn to our own financial world, there has been a clear tendency in 2019 has been the introduction of negative interest rates for retail customers. Several banks have during the course of the year introduced negative interest rates on deposits above a certain amount, and this has also been the case for Merkur.

It may appear counterintuitive that customers need to pay for depositing money in the bank, but the negative rate that has existed for a long time in the Danish Central Bank, combined with greater savings in society overall have made the banks' traditional business model obsolete. The negative rates are not as such a new phenomenon, but the new aspect is that also retail customers need to pay them.

The Danish Central Bank's purpose by lowering the rate into negative territory has been to stimulate the economy: to encourage borrowing and investing. This has not succeeded to a great enough degree, and it places the central banks in a serious dilemma: How will we move away from the negative rates in order for us to have enough room for manoeuvre if a recession strikes again? The negative rates have furthermore had serious side-effects in the form of rising prices in real estate, stocks and other assets – a development that has increased inequality and at the same time made it even harder for young people to enter the real estate market. Instead, they are forced to pay high rents to property owners, who are the ones profiting from the low interest rates. Large capital funds entrance into the real estate market in the large cities have exactly because of this generated debate many places in Europe, and also in Denmark.

All this does not change the fact that banks necessarily must find a viable way to deal with the negative rates, as long as this remains the situation.

A greener financial sector

In our own sector, there is also a completely different and much more exciting development in motion. Several things have occurred during the course of the year pointing in the direction of a greener financial sector. The pension business will invest an additional DKK 350bn in the green transition. More and more banks offer green products. The UN has introduced new guidelines for a sustainable financial sector. And in Denmark, Finance Denmark's Forum for Sustainable Finance has released 20 recommendations for how the financial sector can contribute to the sustainable transition.

The recommendations contain much of what we in Merkur work for: sustainability integrated into the business model, sustainable products, transparency and a statement of the total CO2 footprint, just to mention a few examples. Moreover, there are good suggestions for the sector such as ensuring competency development and the drafting of a joint guide for what can be considered as sustainable.

The last item is related to an EU initiative to create definitions, a so-called taxonomy, so that it becomes unequivocal, which financial instruments and loans that can be considered as sustainable. This will again lead to making sustainable financing more attractive and to making it less attractive to place money in the "brown" industries of the past.

If the recommendations are successfully implemented, it would be a really good foundation for creating a new greener and more responsible sector. As in all businesses, it is at the same time important that the new measures are firmly rooted, so that greenwashing is avoided. In this context, it is positive that the DFSA and the Danish Central Bank have stepped up with intentions to ensure a serious approach to the green financial transition, just as both institutions recognize that there may be a significant financial risk associated with trading without consideration of the Paris accords intentions.

It is uplifting that what Merkur and our colleagues in the Global Alliance for Banking on Values (GABV) have been working on for decades now is on its way to becoming a recognized and integrated part of the mind-set in the financial mainstream. This is not only happening in Denmark – a corresponding development can be seen in many other countries. Therefore the need is greater than ever before for us and our colleagues in (GABV), who through many years have had good experience with combining banking with both social and environmental sustainability.

> **Not only do we find ourselves in a climate crisis – but also the world's manifold animal and plant species are seriously threatened. Up to a million species are threatened by extinction, and many of them will risk disappearing within a few decades, stated a UN Report in May 2019.**

Merkur and the sustainable development goals

If you read the UN's 17 Sustainable Development Goals and next read how Merkur defines its main mission, it is evident that there are common traits between the task that the UN has given not just to the world's governments but to the all world's citizens and the task that Merkur has put to itself since its founding in 1982.

The 17 Sustainable Development Goals are not perfect, but they are an expression of what all the world's countries at a given time have agreed upon or at the least will not oppose. Viewed in that light, they are deeply impressive, and Merkur wishes to support the goals. The Sustainable Development Goals have merely by their dissemination given us all a new powerful vocabulary for global and local challenges and the shared goals toward which we have to work to make the necessary transition happen.

Culture as a concept is by and large absent in the 17 goals, which we find regrettable. Merkur has always emphasised the role of culture for the evolution of society and the importance of the free, personal development and general education. In our perception, the area of culture is central to developing a more sustainable society. This is a perception that we still hold and culture and education will remain core areas for Merkur to finance.

By using the Sustainable Development Goals as part of our reporting, Merkur is not changing its own overall goals. But we will focus on some special areas where there is room for improvement, and we will make visible our previous and ongoing work within this new international vocabulary and will thereby weave our story together with those of the many thousands, who as Merkur, are working toward a more sustainable world.

When Merkur itself is working to improve our performance in certain areas, we indicate the specific icons. In connection with partnerships with others, we primarily use the partnership icon (no. 17). In the investment area, we have chosen to use the icons that our partners themselves use in connection with the individual investment funds.

Merkur's loans and the Sustainable Development Goals

Merkur is a cooperative bank and as such the most substantial part of our impact is indirect. Because Merkur has made decisions concerning the companies and projects that we wish to finance, as well as which products we wish to offer to customers, we are responsible for the impact – indirect or not – that Merkur has on society.

When Merkur lends out money, we categorise loans according to the core activity or purpose – schools, agriculture, housing etc. The categorisation is necessary, and the core activity can for the business loans' part often be tied to one or more of the SDGs, but this gives an incomplete picture of how our customers typically think and work. Our customers namely think – just like the SDGs – holistically. Many customers therefore have activities that reach beyond the core activity: Schools build sustainably, have a sponsor child in Africa, actively strengthen a local community. Farms have trainees with special needs, invite schools in, work on climate neutrality and biodiversity projects. Cafés are run with socioeconomic purposes etc. Our customers do not let themselves be captured by one icon. Therefore, Merkur has decided not to insert the SDGs in the chapter that speaks about our loans.

A short introduction to the Sustainable Development Goals:

- The UN's 17 Sustainable Development Goals have replaced the UN's 2015 goals.
- The goals are global and comprise all countries and people – and thereby also all companies and organisations.
- The goals build upon a holistic approach and are divided into 17 goals, which can be read separately, and which can be pursued individually, but the goals possess greater inner cohesion.
- The goals are dynamic. They should be understood as a movement, a new way of thinking, which we have to invent as we go.
- The goals build on a fundamental solidarity and a radical joint responsibility: Leave no-one behind.

SUSTAINABLE DEVELOPMENT GOALS

Merkur’ impact

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Merkur leaves an impact on society through our banking business. But Merkur is also a company in and of itself, which leaves an impact in the form of resource use, a climate effect and waste production. We hire people and have partnerships with other companies and organisations, and we pay company taxes in Denmark etc. All of this is something we do in consideration to the society of which we are part.

It is a cornerstone for Merkur that our care for the environment in the outward business is reflected in correspondingly ambitious policy and way of acting internally. We consume with care so that we save on energy and natural resources to the extent that it does not compromise our employees’working environment or the services that we offer our customers.

Merkur’s purchasing policy requires that the environment always be taken into consideration when we purchase goods for the cooperative bank’s daily operations. Ecology, low-energy and environmentally certified goods are prioritised. We prefer suppliers with a clear-cut sustainability profile, and we choose in the first instance to place the responsibility for CO2 emissions and additional impact with our suppliers themselves, i.e., we do not count the relative proportion of our suppliers’ environmental impact in our own statement. But it is not always possible to choose suppliers solely based on sustainability criteria.

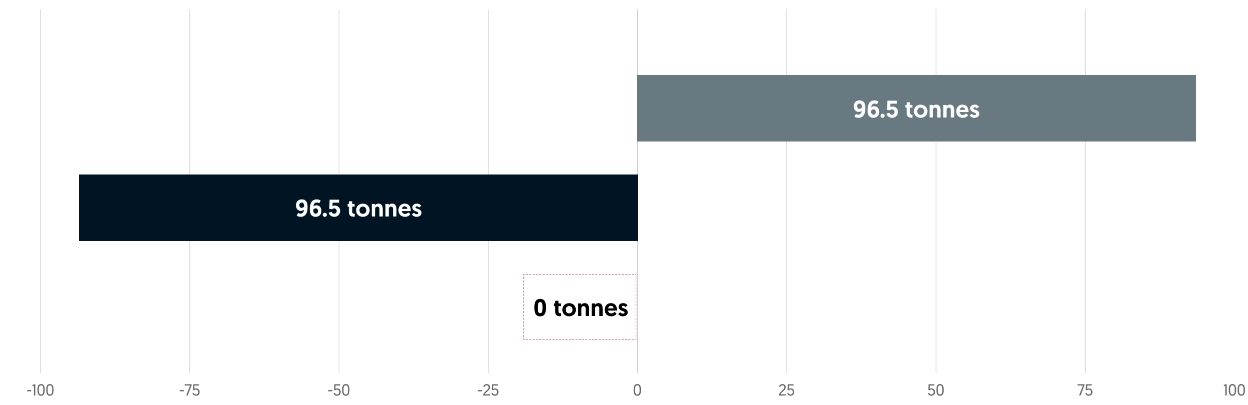
On Friday Sept. 27th 2019, Merkur was closed the whole day. Instead we spent the day supporting the climate action demanded by the young.

A bank generates very large energy consumption at our supplier for data services – that is server capacity for storing and processing electronic data. We pay for this service indirectly through our membership of BEC, and the responsibility lies with BEC's supplier of server capacity, on whom we cannot make any demands. Nevertheless, we have in 2019 sought to receive information on our indirect energy consumption here. It was not possible in practice, but we did gain some information: In spite of the company's own energy conserving measures, much excess heat is produced from the cooling of servers, but 34% of these kWh were in 2018 reused by the Silkeborg District Heating, which purchases the heat for the city's dwellings.
One of the products that Merkur makes use of in our daily operations is paper. Here we have chosen KLS Pureprint as our primary supplier. KLS Pureprint is Cradle-to-Cradle certified*, is powered by windmill-generated electricity and to the greatest extent possible delivers its paper and printed matter in electrical lorries. In 2019, our purchases of paper fell yet again – by an additional 12.5%. This reflects the greater use of electronic documents and fewer printed marketing materials. At the same time, we have continued to transfer data from physical archives to electronic storage. In this process, the physical paper is subsequently shredded and sent to recycling. In 2019, Merkur had a net consumption of a mere 86 kilograms of paper compared to 1,317 kilograms the year prior. This includes a one-time effect in the form of digitalisation of older paper-based archives.

Merkur's publications are Cradle-to-Cradle certified

* Cradle-to-cradle certification is a holistic environmental certification that ensures that a product does not pollute nor strain the earth's resources and is part of environment's own natural cycle. The idea is that products circulate in the cycle and are reused again and again. This means that the products do not end up as waste and that they are not toxic for people or for the environment. This is also what is called circular economy.

Carbon dioxide accounting(Figure 28)



Emitted CO2: **96,5 tonnes** Avoided emission CO2: **96,5 tonnes** Sequestered CO2: **0 tonnes**

CO2 is used here as an overall term for all greenhouse gases converted into CO2 equivalents.

Avoided emissions: displacement of fossil fuel use through the production of sustainable energy.
It is very important, but avoided emissions do not remove already emitted CO2 from the atmosphere.

Sequestration of CO2: While plants, seaweed and forests grow, they store CO2 both above and below ground. This removes CO2 from the atmosphere. If you cut down trees to build houses made of wood, the CO2 is still stored in the timber, while burning wood emits it again.

13 CLIMATE ACTION

17 PARTNERSHIPS FOR THE GOALS

Merkur and climate

One of Merkur's important partnerships is Global Alliance for Banking on Values (GABV), cf. the chapter *International cooperation*. GABV's members have in February 2019 made a decision to make our contribution toward reaching the Paris Agreement's climate targets. The entire financial sector plays a very special role in that they are the ones making money available for the real economy. By financing sustainable companies and renewable energy instead of fossil fuels, the banks can make an important contribution. A number of GABV banks – including Merkur – have therefore committed themselves to measure and report on the CO2 impact of our activities, and thereby do our part to ensure that the temperature increase does not exceed 1.5 degrees Celsius.

During 2019, the awareness of this field has spread to large parts of the financial world. It is in this connection positive to note that many mainstream financial institutions have decided to use the same method for CO2 reporting that the GABV banks make use of, which goes by the name PCAF – see www.carbonaccountingfinancials.org.

Merkur has in 2019 begun this work with CO2 reporting, but it has proven difficult, since it requires both technically demanding and time-consuming data exports from own systems and usable public databases about emissions figures for different types of companies and activities. These databases should preferably match the data that we have about customers.

Reporting does not presuppose a perfect data source – on the contrary, the methodology defines how one can base the first reporting on a weaker data source and improve it going forward. There merely needs to be continuous transparency about the data source. The reality is often that it is difficult to find usable and adequately valid data about e.g. specific industries' CO2 emissions, which at the same time can be paired with existing Merkur's customer data.

In 2020, Merkur expects to compile its first actual reporting with numbers from parts of our lending.

Merkur's own climate impact

For 2019, Merkur is reporting on our own climate impact through methods that are similar to the ones that we will later use for our lending. This means that we calculate CO2 emissions, avoided CO2 emissions and sequestered CO2 separately. In previous years, we have subtracted emissions and eliminated CO2 emissions from one another. The new method is more accurate and maintains awareness on the emissions that need to be reduced.

Merkur's activities in 2019 correspond to the emission of 96.5 tons of CO2. We have displaced fossil energy through joint ownership in two wind farms and a solar park (31 tons of CO2), as well as through contributions to Climate Neutral Group (65.5 tons of CO2), which builds sustainable energy plants in developing countries. *See Figure 28.*

CO2 emission

Merkur directly causes CO2 emissions through our use of electricity, heating and business trips. Heat consumption rose by 9% in 2019; electrical consumption remained almost the same. Converted into CO2, this resulted in an increase of our overall emissions from our energy consumption by 1%, which is a little under the increase in the number of employees. We receive our power from the electrical trading company Natur-Energi, which exclusively delivers power from renewable sources.

Merkur's employees need to use transportation during working hours, when they visit customers, attend meetings, courses and the like. Merkur's travel policy prescribes that the individual employee in her choice of transportation means must exercise care for the environment, and we seek to limit the physical meetings between branches and instead use video conferences etc. In addition, we have some travel activity in connection with our international work with promoting sustainable banking globally, just as we have international partners in the investment area.

Overall travel activity fell the year before last by approx. 23% and is in 2019 largely unchanged. In 2019 a significant shift from cars to trains has occurred. We continue to strive toward reducing the need for travel when this can be done without compromising customer contact, education and internal cohesion.

In 2019, the overall emissions from electricity, heating and business trips* was 995 kilograms of CO2 per fulltime equivalent, totalling 96 tons of CO2. In 2018, the emissions were 1,000 kilograms of CO2 per fulltime equivalent.

Eliminated CO2 emissions

Merkur has invested in two windfarms in Denmark and one solar park in Spain in order to contribute to the displacement of fossil energy. Our shares in these three installations have generated a total of 199,000 kWh of electricity, which is almost 5% more than in 2018. The production in 2019 corresponds to a CO2 reduction of 31 tons of CO2.

* Until and including 2017, Merkur also calculated employees' collective CO2 consumption for transportation to and from the workplace. This does not make up part of the accounts anymore, in that the employees' choices of transportation method and housing are determined by factors that are largely outside of Merkur's influence. However, we have deliberately chosen to locate our offices so that they are easily reachable by public transportation, on foot or on bike.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

Merkur engages with society

2019 was a year in which the climate took centre stage. Merkur engages in this cause in many ways, and on 27 September, we supported the young peoples' actions. They had asked "the adults" to show their support and take a "Break for the Climate". There were various activities in Merkur's three branches, and in all the cities we only had emergency manning; we did not take in new customers and businesses, and the homepage "went dark". At noon we joined a climate march with banners and recycled t-shirts with slogans for the occasion.

Beyond the daily banking operations – and the climate strike – Merkur is engaged in the dissemination of knowledge about e.g. ecological economy and sustainable banking. We continuously seek a dialogue with decision makers and influencers, and we prioritise using resources on activities that generate societal value in a broader perspective. As examples of what Merkur has engaged in in 2019, we can mention:

- Merkur was again active at the People's Meeting "Folkemødet" (political festival) on Bornholm.
- Our Aalborg branch participated in the sustainability festival "The Lion's Green Den"; a concept where sustainable start-ups present their idea and receive feedback – including from Merkur, who naturally has great experience with that type of companies.
- Aalborg's branch engaged in a partnership between companies in northern Jutland and Aalborg municipality about creating "small jobs with purpose" for people on the edge of the labour market.
- In Aarhus, our local branch again sponsored "Spireprisen" - (The Green Shoots Award), which is awarded by the Climate Secretariat in Aarhus Municipality for a climate or sustainability project that is deserving of a pat on the back. The Green Shoots Award went to the start-up "Cellugy", which works on alternatives to plastic, based on plant waste, for instance.
- In Copenhagen, Merkur has for the ninth year running sponsored the Nørrebro Run. Behind the Nørrebro Run are nine boys, aged 10-13, who ordinarily can be found at the drop-in centre "Gadepulsen" (The Street Pulse) in Nørrebro. The boys have with help from the association Mind Your Own Business been given the opportunity to start their own micro-company in the shape of the Nørrebro Run.

Finally, Merkur of course contributes directly to society through our tax and excise payments. In 2019, Merkur paid a total of DKK 17.3m in taxes and excises.

The real economy

The real economy, is the part of the economy that deals with actual production of goods and services, in contrast to the part of the economy that concerns buying and selling in financial markets. The real economy produces value for society: extraction, production, refinement and trading of goods or rendering of services – a haircut, emergency transportation in an ambulance, a concert. Financial activities that are several steps removed from the real economy are deemed as part of the *financial* economy – nothing new is created here. Already issued stocks that merely are traded between different market participants, for example, are part of the financial economy. The more steps an activity is removed from the real economy, the more speculative the activity is. This is why the value-based banks in the GABV network measure their involvement in the real economy.

Merkur's loans and guarantees are, with completely insignificant exceptions, to be found in the real economy. The "excess" deposits in Merkur that do not constitute a basis for lending and the liquidity that Merkur has to maintain from day to day is placed mainly in the Danish Central Bank and thereby moves at least one step further away from the real economy. This is why the overall number for Merkur's activities in the real economy is 55.7%.

55.7%

of Merkur's total balance, incl. guarantees, is to be found in the real economy

Paid taxes and excises amounting to DKK 17.3m

100%

of Merkur's loans and guarantees are extended within the real economy

Donations

Merkur also works with donations because gifts can create large and positive imprints on society. Merkur has therefore created a number of account forms with an element of built-in donations.

Aid accounts

As a customer in Merkur, you can place your savings in an aid account and thereby save while supporting an organization because Merkur each year donates an aid contribution to the respective organisations relative to the overall average deposits. In 2019, we had aid accounts associated with six organisations:

WWF, World Wide Fund for Nature, Save the Children, SustainableEnergy, Action Aid Denmark, Forests of the World Amnesty International.

From 2018 to 2019, the overall contribution has fallen. Given the general interest rate conditions, it has been necessary to adjust contributions to the organisations, who still receive valuable support nonetheless. We could at the end of the year send a total of DKK 440,000 to the organisations. Since we established the first aid account 24 years ago, DKK 10.2m have been paid out to partner organisations.

Operation Dagsværk (All in a Day's Work)

Merkur offers young adults aged 29 and younger a special Dagsværk account. In contrast to other aid accounts, the Dagsværk account is a current account that can be associated with a card, etc. – and is thereby an account that can be used as a salary account. Merkur supports Operation Dagsværk with DKK 100 per active account. In 2019 this meant an overall contribution of DKK 85,100.

CO2-Savings account

Merkur's CO2 savings account produces several benefits: In Denmark the account type benefits through Merkur's lending to purposes that in many instances benefit the climate and the environment. In addition, Merkur pays DKK 30,000 per DKK 25m deposited into the account type toward a special fund. The fund's means are donated to renewable energy installations or other types of climate-improving activities in developing countries. In 2019 the aid amount constitutes DKK 165,000. Since 2008, when the account type was established, a total of DKK 6.4m has been given in aid.

The money is spent on diverse projects that contribute significant improvements in the living conditions of people in developing nations. The projects typically have several effects at once and in this manner produce a very large societal return. The many solar cells that we have financed in schools result, for instance, not only in more and better schooling for children, but also for tutoring adults in the evenings. Here they can both learn to read and write, but are also tutored in different areas that are important for the local community.

In 2019, we have continued support for two projects, in which we were already involved: an afforestation project in Uganda, and a stove project, likewise in Uganda. Both projects are in collaboration with our partner through many years, Joint Energy and Environment Project (JEEP Folkecenter). The Forest project was described in the 2018 report. The support for the school stove project has happened in a way that gives the highest value for money: In the projects that created concrete savings for recipients, we now ask for partial self-financing. This year's aid went to three schools that needed additional stove capacity, but were able to save enough for 20% self-financing. ■

Paper purchases (Figure 29)

(KG)	2019	2018
Paper from BEC	345	751
Marketing materials, incl. Pengevirke	3,936	4,514
Other paper, stationery, printing paper, as well as envelopes	2,194	2,133
Total	**6,475**	**7,398**
Returned paper	-6,389	-6,080
Net paper consumption	**86**	**1,318**

Energy consumption (Figure 30)

	2019		2018	
	KWH	Converted to Kg CO2	KWH	Converted to Kg CO2
District heating	258,122	20,650	235,954	18,404
Electricity	63,393	9,984	62,524	11,942
Total	**321,514**	**30,634**	**298,477**	**30,346**
Shares in energy production:				
Middelgrunden Vindmøllelaug (Wind)	- 15,986	-2,518	- 12,459	-2,380
Hvidovre Vindmøllelaug (Wind)	- 82,046	-12,922	- 80,594	-15,393
Plasticueros, Photovoltaic plant in Spain	- 101,260	-15,948	- 97,092	-18,545
Total indirect own production	**-199,292**	**-31,388**	**-190,145**	**-36,318**
Net total energy consumption	**122,222**	**-754**	**108,333**	**-5,972**
Consumption per employee*	**1,283**	**-8**	**1,137**	**-63**

Business trips (Figure 31)

	2019		2018	
	KM	Converted to Kg CO2	KM	Converted to Kg CO2
Car, shared car, cab	125,952	19,213	142,010	19,213
Bus	3,583	256	2,461	256
Train	82,098	858	61,308	858
Ferry	1,807	336	2,922	336
Air	118,012	44,327	119,684	44,327
Total for business trips	**331,452**	**64,990**	**328,385**	**64,990**

Total CO2 emission (Figure 32)

(KG CO2)	2019	2018
Energy consumption	-754	-5,972
Business trips	65,855	64,990
Total	**65,101**	**59,018**
Purchased Climate Clearing units	-65,101	-59,018
Net CO2 emission	**0**	**0**

Real economy (Figure 33)

DKK MILL.	2019	2018
Total loans and guarantees	2,389	2,400
Hereof real economy	**100%**	**100%**
Assets and guarantees	4,340	4,234
Hereof real economy	**56%**	**57%**

Aid accounts (Figure 34)

	Støtte 2019 1.000 kr.	Støtte 2018 1.000 kr.	Udvikling %	Samlet støtte 1996-2019 1.000 kr.
WWF	82	153	-46.4%	3,226
Save the Children		135	-48.1%	2,271
SustainableEnergy		225	-34.2%	1,841
Action Aid Denmark		68	-60.3%	711
Forests of the World		110	-37.3%	1,047
Amnesty International		92	-52.2%	470
Retired accounts		21		659
Total	**440**	**804**	**-43.8%**	**10,225**

Effect of accounts with donations (Figure 35)

DKK 1,000	2019	2018	Udvikling i %
Aid accounts		804	-45%
Operation Dagsværk	85	108	-21%
CO2 Savings accounts	165	308	-46%
Total	**690**	**1.220**	**-43%**

Taxes and excises (Figure 36)

DKK 1,000	2019	2018
Company tax paid from Merkur's profit etc.	2,365	821
Payroll tax	8,720	8,144
Value added tax	6,110	5,549
Energy tax, approx.	60	60
Total	**17,255**	**14,574**

Merkur Foundation

Throughout its now 22 years in operation, the Merkur Foundation has distributed a total of more than DKK 9.6m to 182 different projects.

The Merkur Foundation is an independent legal entity, also in relation to the cooperative bank, and has its own board. The purpose of the Merkur Foundation is to work with gifts and donations in the same manner that the cooperative bank works with deposits and loans, and based on the same core values. The purpose of the foundation is broadly defined, so as to allow for the support of social, cultural, research and environmental purposes.

The Merkur Foundation is approved to receive tax-deductible donations.

The donations provide the opportunity to work in completely different areas and with other time horizons than loans do. A large number of valuable societal functions are dependent on money that does not need to be repaid. In Denmark many of these functions are financed through taxes – but not all. In other countries, the public sector is so small and so poor that this is not feasible.

This is one of the reasons for a whole of 21 of the year's 31 donations being awarded to activities in developing countries. It is also due to a strong and growing awareness of our global connectedness. One of our partners through many years, Sanduko (see more about Sanduko further down) says it well in their newsletter.

"We want to take part in creating communities of people in which the best from one part of the world meets with the best from another part of the world and creates something jointly – something of value to all (...) We do not base our work on a sentimental idea of victimized, poor African children that must be helped. The idea is rather that the world's misery is and has to be a joint cause in the future if it is to be resolved."

The good donations often have multiple effects at once, regardless of where they are carried out. The core activity can e.g. be to establish a music school, but learning how to master an instrument provides the opportunity to play with and for others; it develops the ability to listen and cooperate; it engenders self-confidence, motor skills, artistic appreciation, intellect, etc. – skills that are beneficial in all circumstances.

Focus projects

The foundation has throughout many years worked with focus projects within independent research and a handful of developmental projects in Africa and Latin America. These typically have a Danish base in the form of a network that can collect money. The focus projects are long-time partners, and a large portion of the foundation's donations go toward focus projects.

The Merkur Foundation's activities and projects supported are described on the foundation's homepage www.merkurfonden.dk. Among other things, you can see an overview of the supported projects with descriptions for a large part of them and links to the homepages of the projects themselves.

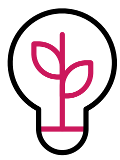
Donationer i 2019

In 2019, the Merkur Foundation received donations from individuals, associations etc. amounting to DKK 765,263 compared to DKK 738,358 in 2018. This therefore represents a small increase in donations compared to the previous year. It is the networks surrounding the individual focus projects that manage the collections for these purposes. *See Figure 37.*

The Foundation receives many more applications than we can honour with the quite limited means that we have at our disposal. This means that we have had to turn down applications, of which

673,000

The Merkur Foundation has distributed DKK 673,000 in 2019



31 projects supported in 2019

Support for dance, theatre and art with refugee children at Avnstrup Return Centre

Pieceof.dk works professionally with dance, theatre and art to give children and adults at risk a haven and the possibility to process traumas. The Merkur Foundation supported their volunteer work in 2019 among children and youth at Avnstrup Return Centre. The children are especially at risk and often traumatised and receive benefit and joy from having a haven and an opportunity to express something through dance, which perhaps cannot be expressed at all with words.

Read more at: **www.pieceof.dk**

♥ The Merkur Foundation donated DKK 10,000 to Pieceof for materials and driving, etc.

3 GOOD HEALTH AND WELL-BEING

Sanduko, schooling for children at risk in Kenya

Sanduko has through many years supported socially based initiatives within education; especially the running of the Mbagathi school, the Rudolf Steiner school in Nairobi. The school's mission is to be a school for the most exposed, poor children, and it has around 350 pupils. The climate changes result in still greater social despair and famine, so the children often return to school after vacation periods in a physically and psychologically weaker state. At the school, they do not just receive tuition that is better than the average in Kenya, but also warmth, nourishing meals and secure surroundings, something that in combination helps them onward to far better opportunities.

Read more at: **www.sanduko.dk**

♥ The Merkur Foundation donated DKK 291,000 to Sanduko

some were absolutely worthy of support and which were within our purposes. But we should be pleased, however, over the fact that it has been possible to support significantly more small projects than earlier. An effort is still required, however, to find donors for the foundation, if we are to accommodate more of the support-worthy applications.

Wishes that donors have put forward concerning the use of the donation have been taken into consideration in 2019. The Merkur Foundation has during the year granted a total of DKK 673,000 apportioned to 31 projects, compared to DKK 827,000 to 26 projects last year.

New possibilities in 2020

In 2018, Merkur was notified that it stood to inherit a sum, which has now been calculated to be approx. DKK 470,000. The sum will first be paid out in 2020, and the impressive amount has made it possible for the Merkur Foundation to invest approx. DKK 170,000 in a new and up-to-date homepage and other initiatives that will increase awareness of the fund. This work has been put into motion and the objective is to increase donation to and from the Fund significantly. ■

You can see the annual report for the Merkur Foundation and read more at: www.merkurfonden.dk

Developments in received and distributed donations (Figure 37)

(DKK 1,000)	2019	2018	2017	2016	2015
Received	765	738	803	731	654
Distributed	652	827	816	630	517

Support for musical instruction and integration of physically handicapped children, Gaza

The project was a three-month pilot project with integration of physically handicapped 7-12-year-olds with their non-handicapped peers. Through musical education the handicapped children are allowed to experience success on par with their peers, and the non-handicapped children are given the chance to experience children with a handicap as normal children. The goal is to build a music school for children of all kinds in Gaza.

Read more at: **www.helpinghand.mono.net**

❤ The Merkur Foundation donated DKK 5,000 to HelpingHand Gaza

4 QUALITY EDUCATION

Statutory Disclosures

Management

Board of Directors

CHAIRMAN OF THE BOARD
Henrik Tølløse, Financial Manager (Born 1958). Elected to the board in 2001. Current term expires in 2020.

Independence:
Does not fully comply with the Committee for Good Corporate Governance definition of independence, since Henrik Tølløse has served more than 12 years on Merkur's board. The Board, however, does not deem that this materially affects Henrik Tølløse's independence.

Shareholdings:
177 shares

Chairman of the board for:
- VinoVenue ApS
- SI Hørhaven og Fond

Board member of:
- Ejendomsfonden Virkefelt

Competency profile:
Educated in banking, specialising in securities and investment. Detailed knowledge of all relevant aspects of banking, including strategic matters, such as property, and is educated as a real estate agent. Good knowledge of Merkur's foundational values and history.

VICE CHAIRMAN OF THE BOARD
Jakob Brochmann Laursen, (Pricing Director in Topdanmark) (born 1963) Elected to the board in 2013. Current term expires in 2024. The Board's independent and expert member of the Auditing Committee.

Independence:
Complies with the Committee for Good Corporate Governance definition of independence.

Shareholdings:
162 shares

Ejer af:
- Sandaasen ejendomme v/ Jakob Laursen
- Sandaasen Økologiske gård v/ Jakob Laursen

Chairman of the board for:
- Ejerforeningen Værkstedvej 4-6, Valby

Competency profile:
Master's degree in Economics with management degrees from IMD and INSEAD, among others. Thirty years' experience from the financial sector. Detailed knowledge of bank operations, insurance and mortgage loans, including strategic matters. Has great insight into running independent schools from board work, as well as lobby work for the Steiner schools.

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

Independence:
Complies with the Committee for Good Corporate Governance definition of independence.

Shareholdings:
15 shares

Board member of:
- Aurion A/S
- Aurion Foundation

Chairman of the board for:
- Merkur Foundation

Competency profile:
Master's degree in biology. Experience with continuing professional development within company management and professional boards. Expertise within sustainable farming and food production, including strategy development and risk assessments.

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

Independence:
Complies with the Committee for Good Corporate Governance definition of independence.

Shareholdings:
20 shares

Board member of:
• N/A

Competency profile:
Special educator and Master of Public Governance from Copenhagen Business School. In-depth knowledge of special education and public companies, operation and management strategy. More than 30 years of management experience in the public sector. CEO for a large special educational company with 500 employees.

BOARD MEMBER
Hilde Kjelsberg, Vice-President of the Nordic Investment Bank (born 1963)
Elected to the Board in 2019. Current term expires in 2021.

Independence:
Complies with the Committee for Good Corporate Governance definition of independence.

Shareholdings:
10 shares

Board member of:
• The Danish Green Investment Fund

Competency profile:
Business economist with master studies in Financing and Strategy Organisation from Norway's Business School. Leadership programmes from IMD and Harward Business School, among others. More than 30 years of experience in Nordic and international financing, both from the business side and from managing positions within analysis and credit.

BOARD MEMBER
Klaus Loehr-Petersen,
Project Manager (born 1952)
Elected to the board in 2006. Current term expires in 2021.

Independence:
Does not fully comply with the Committee for Good Corporate Governance definition of independence, since Klaus Loehr-Petersen has served more than 12 years on Merkur's board. The Board, however, does not deem that this materially affects Klaus Loehr-Petersen's independence.

Shareholdings:
54 shares

Board member of:
• Fonden Nødværge

Competency profile:
Educated in commerce. Detailed knowledge of biodynamic and organic food production, as well as an extensive network within the biodynamic and organic networks. Many years of experience in project management.

BOARD MEMBER
Henrik Kronel,
Account Officer, Investments (born 1961)
Employee-elected to the board in 2007. Current term expires in 2023.

Shareholdings:
27 shares

Board member of:
• N/A

Competency profile:
Educated in banking. Good overall knowledge of banking operations, focusing on investment and securities.

BOARD MEMBER
Søren Sivesgaard,
Account Officer, Personal Banking (born 1960)
Elected to the board in 2015. Current term expires in 2023.

Shareholdings:
24 shares

Chairman of the board for:
• Økologisk Markedsevent Aalborg

Competency profile:
Educated in banking. Good overall knowledge of banking operations, focusing on personal customers, hereunder especially mortgage financing and investment.

BOARD MEMBER
Jesper Kjærhus Kromann,
Project manager (born 1966)
Employee-elected for the in 2019. Current term expires in 2023.

Shareholdings:
29 shares

Board member of:
• N/A

Competency profile:
Bank trained. Good knowledge of banking in general with a special focus on personal banking and investment.

Target figures for the underrepresented gender on the board

For the time being, women are underrepresented on the board. The board's goal is that at least one third of the members elected by the board and employee-elected members of representatives must be women. This is presently not the case.

Executive Board

CHIEF EXECUTIVE OFFICER
Lars Pehrson (born 1958)
CEO in Merkur since its founding in 1982.

Shareholdings:
261 shares

Direktør i:
• Merkur Development Loans Ltd
• Merkur Foundation

Board member of:
• FEBEA (Fédération Européenne des Banques Ethiques et Alternatives)
• Kooperationen

MEMBER OF EXECUTIVE BOARD
Charlotte Skovgaard (born 1972)
Member of executive board since 2019.

Shareholdings:
0 shares

Board member of:
• N/A

CHIEF CREDIT OFFICER, MEMBER OF EXECUTIVE BOARD
Alex Boldrup Andersen (born 1972)
CCO since 2018, joined Merkur in 2018.

Shareholdings:
10 shares

Board member of:
• N/A

Auditing Committee

Merkur has set up a separate auditing committee. The committee's duties comprise the following:

- monitoring the financial reporting process,
- monitoring whether Merkur's internal control systems, any internal auditing and risk management systems perform effectively,
- monitoring of the statutory audit of the annual report etc.
- monitoring and control of the independence of the auditor.

Terms of reference have been devised wherein the work of the auditing committee is described.

Beyond the ongoing assessments of risk conditions and internal controls, the auditing committee has in 2019 focused on cooperation with the risk function, improving processes for following up in the credit area, as well as developing new and improved financial reporting to the Board, which was used the first time by reporting on the 3rd quarter of 2019.

The committee has likewise focused on working with compliance and money laundering surveillance in Merkur.

The auditing committee consists of:

- Jakob Brochmann Laursen, Chairman and expert member
- Henrik Tølløse
- Søren Sivesgaard

The board of directors has appointed Jakob Brochmann Laursen as expert member on the auditing committee because of his competencies in connection with risk management from e.g. his position as deputy chief executive and pricing director in large insurance companies and his activities on the Board of the cooperative bank. It is the Board’s opinion that Jakob Brochmann Laursen possesses the appropriate qualifications according to the executive order on auditing committees.

Exceptional circumstances

Merkur has in 2019 been affected by the following exceptional circumstances:

- A larger data basis and methodological knowledge of our calculation model for impairments has entailed model adjustments that resulted in additional impairments of about DKK 2.3m Our right to set off customer shares can no longer be used in the model, which increases impairments by approx. 1.4m compared to 2018. The model adjustments thereby lift the general impairment level by DKK 3.7m and are in our view of a one-time nature.
- Extraordinary one-time income from the sale of shares in Sparinvest of DKK 2.1m, including dividends.
- Extraordinary large investment in IT development of DKK 3m primarily in the compliance and anti money laundering area.

Uncertainty as to recognition and measurement

When calculating accounting values, estimates have been made. The exercised estimates are based on preconditions which the management find justifiable. The most important accounting estimates pertain to impairments on loans and receivables, where quantification of the risk of future non-payment is associated with significant estimation.

Impairments depend on data points about customer behaviour and wealth composition etc. Since the method is still relatively new and requires a complicated calculation model, which is recalibrated every year, we have introduced an extra charge on impairments as compensation for this model uncertainty.

In addition to this, a number of macroeconomic assumptions are incorporated as components in the impairment model, which is devised by Lokale Pengeinstituter (The Association of Local Banks, Savings Banks and Cooperative Banks in Denmark). Such assumptions are in the nature of things associated with some uncertainty.

Events following the end of the financial year

As of the balance sheet date and until the approval of the annual report, no circumstances have occurred that have upset the assessment of the annual report’s contents.

Business risks

The most significant business risks to the bank are loans / advances and guarantees. Merkur endeavours to spread its loans across different sectors. For further details on conditions within the individual trades to which Merkur lends money in particular, please see the section on loans in the annual report.

Real estate accounts for a large part of the collateral used for the cooperative bank's loans. This implies a risk of impaired collateral value in a downturn where house prices would fall. The cooperative bank updates property values on an ongoing basis, but sudden drops in the real estate market will increase risk in the real estate portfolio. Merkur therefore constantly focuses on ensuring that our customers' finances are viable and that efforts in relation to customers if signs of weakness appear.

Some of the customer segments Merkur works with may be exposed to changing market or framework conditions in a manner that would constitute a business risk for Merkur.

The most important of these business risks are:

- Organic farming can develop negatively with regard to sales volume or sales prices, and conditions for agricultural subsidies can be altered to the disadvantage of organic farming. Merkur's agricultural customers are not exposed to distant or politically unstable markets, such as e.g. Russia. Domestic sales have increased strongly in recent years, also in 2019, and the organic product prices are significantly higher than the conventional ones. The climate crisis challenges agriculture in general, and our organic farms will also get hit, as happened in connection with the drought in 2018. We must in the future expect more years with drought or high quantities of rainfall – this will require extensive reorganisation in the agricultural sector and increases the risk in the cooperative bank's agricultural portfolio. Denmark has set high goals for reducing the emission of greenhouse gases, and it will presumably lead to more taxes on emission of greenhouse gases, which will hit especially livestock production hard, and put pressure on revenue. The crisis in biodiversity will presumably lead to taxes on pesticides or other forms of regulation. Merkur's agricultural portfolio will not be affected by such taxes.

- Renewable energy could experience reduced energy prices or subsidy conditions. Typically, it is not legally possible to change the terms for already constructed power plants. Neither have there been any signs indicating deteriorating terms for renewable energy in Denmark, except for a lack of clear long-term framework conditions for the expansion of renewable energy sources. This uncertainty applies to a lesser degree to existing installations. Denmark's objective for a 70% reduction in CO2 emissions before 2030 will support this sector and reduce risk for changed support schemes. Generally, the dependency upon support schemes is on the downtrend, namely sun and wind energy, where installations to a greater degree are being built without or with very limited support elements.

- Schools and institutions may face less favourable conditions from the state, for example in connection with public budget reductions. We have historically seen such deterioration e.g. when municipalities try to limit costs associated with placing children and youth at socio-educational residences and other institutions. We are therefore focusing on following up on schools and institutions adjusting their budgets in time. Currently, schools and institutions enjoy good conditions, just as the interest from the parental side is high. There was, however, in connection with the most recent parliamentary elections a legislative proposal concerning the reduction of support for independent schools. There was in the actual instance no supporting majority for the proposal. Merkur follows the legislation closely, so that we can respond in good time to potential changes in the framework conditions for our customers.

Financial risks

The cooperative bank does not have any unusual financial risks and is not involved in any speculative activities. For further information we refer readers to note 34 on risk management in the accounts.

Remuneration policy

On 23 December 2010 the board of directors adopted a remuneration and pensions policy for the board of directors, executive management and employees, hereunder employees whose activities significantly influence the cooperative bank's risk profile (significant risk takers), as well as employees in control functions in Merkur. The remuneration policy was approved by the AGM on 9 April 2011. The Board reviews the remuneration policy once annually, which happened last at the board meeting of 29 August 2019. The review did not lead to any changes. The remuneration policy is intended to promote a remuneration policy and practice, that is consistent with, and promotes healthy and effective risk management in Merkur.

Board of directors and executive management
No variable salary elements ("bonuses") are paid to the board of directors or executive management, neither in form of salary, stocks, options or pension contributions.

Employees, hereunder significant risk takers
No variable salary elements are paid to employees in general, hereunder employees whose activities significantly influence the cooperative bank's risk profile (significant risk takers), neither in form of salary, stocks, options or pension contributions.

Employees in control functions
No variable salary elements are paid to employees in control functions.

Remuneration committee
Merkur has not set up a remuneration committee.

Pillar III reporting, ICAAP and cooperate governance

Merkur's so-called "Pillar 3 Report" (Risk Information) according to the CRR directive is available on our website: www.merkur.dk/aarsrapporter. Here you will also find information on ICAAP and corporate governance (in Danish only). ■

Statement by the Executive Board and the Board of Directors

Today we have considered and adopted the Annual Report for 1 January up to and including 31 December 2019 for Merkur Cooperative Bank.

This Annual Report has been prepared in accordance with the Danish Financial Business Act, including the Executive Order on financial reports of credit institutions and investment companies etc.

It is our opinion that the annual report provides a true and fair presentation of the bank's assets, liabilities and financial position as of 31 December 2019, as well as the profits of the bank's activities for the accounting year 1 January – 31 December 2019.

The review contains in our opinion a true and fair account of the development in the bank's assets and financial circumstances, the year's profit and the bank's financial position, as well as a description of the most significant risks and factors of uncertainty which the bank faces.

We recommend that the Annual Report be adopted by the shareholders in general meeting.

Copenhagen, 5 March 2020

Executive Board:

Lars Pehrson

Charlotte Skovgaard

Alex Andersen

Board of Directors:

Henrik Tølløse (chairman)

Jakob Brochmann Laursen (vice chairman)

Anneke Stubsgaard

Henrik Kronel

Bernhard Franz Schmitz

Jesper Kromann

Hilde Kjelsberg

Søren Sivesgaard

Klaus Loehr-Petersen

The AGM will be held on 4 April 2020 in Copenhagen.

Independent auditors' report

To the shareholders in Merkur Cooperative Bank

Opinion
In our opinion, the Financial Statements give a true and fair view of Merkur Cooperative Bank's financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January to 31 December 2019 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our auditor's Long-form Report to the audit committee and the Board of Directors.

What we have audited
The Financial Statements of Merkur Cooperative Bank's for the financial year 1 January to 31 December 2019 comprise the income statement and statement of comprehensive income, the balance sheet, the statement of change in equity and notes to the financial statements, including summary of significant accounting policies ("Financial Statements").

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the Financial Statements section of our report*.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

To the best of our knowledge and belief, prohibited non-auditing services referred to in article 5(1) of Regulation (EU) No 537/2014 were not provided.

Appointment
We were first appointed as auditors of Merkur Cooperative Bank on 1 April 2017 for the financial year 2017. We have been reappointed annually by decision of the Annual General Meeting for a total period of uninterrupted engagement of three years including the financial year 2019.

Key auditing matters
Key auditing matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2019. These matters were addressed in the context 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 AUDITING MATTERS	HOW WE HAVE TREATED KEY AUDITING MATTERS
Loan impairment charges Loans are measured at amortised cost less impairments charges. Loan impairment charges represent Management's best estimate of expected losses on loans at the balance sheet date in accordance with the provisions of IFRS 9 and as incorporated in the Executive Order for the Presentation of Financial Statements of Credit Institutions and Stockbroker Companies, etc. Reference is made to the detailed description of accounting policies in note 1. Loan impairment charges are a key area of focus as Management performs material estimates of whether write-down for impairment should be made and of the size of such impairment charges. The following areas are central to the calculation of loan impairment charges: • Determination of credit classification on initial and subsequently recognition. • Model-based impairment charges in stage 1 and 2, including Management's determination of model variables adapted to the Cooperative Bank's loan portfolio • Merkur Cooperative Bank's procedures to ensure the completeness of the registration of credit-impaired loans (stage 3) or loans with a significant increase in credit risk (stage 2, underperforming) • Most significant assumption sand estimates applied by Management in the calculations of impairment charges, including principles for assessment of various outcome of the customer's financial position (scenarios) and for the assessment of collateral values of e.g. ships and properties included in the calculations of impairment. • Management's assessment of expected credit losses at the balance sheet date as a result of possible changes in market conditions and which are not included in the model-based calculations or individually assessed impairment charges. Reference to the annual report's discussion of "Significant accounting estimates and uncertainty in note 2, note 34 "Risk Management", where conditions that can impact the impairment of loans are described, as well as the credit notes 14, 17 and 18.	We reviewed and assessed the impairment charges recognised in the income statement in 2019 and the accumulated impairment charges recognised in the balance sheet at 31 December 2019. The review included an assessment of the impairment model applied prepared by the BEC data centre, including division of responsibilities between BEC and Merkur Cooperative Bank. An independent auditor appointed by BEC has provided the model with a reasonable assurance report as to whether the descriptions comply with the interpretation options regarding the impairment principles according to IFSR 9, and whether the descriptions comply with the model calculates in accordance with the model descriptions. We assessed whether the assurance report identified a need for adjustment to Merkur Cooperative Bank's application of the model. We assessed and Merkur Cooperative Bank's calculation of impairment charges in stages 1 and 2, including assessment of Management's determination and adaptation of model variables to own conditions. Our review and assessment included Merkur Cooperative Bank's methods applied for the calculation of expected credit loss, as well as the procedures designed, including the involvement of the credit department and Management, and internal controls established to ensure that credit-impaired loans in stage 3 and in stage 2, underperforming, are identified and recorded on a timely basis. We assessed and tested the principles applied by Merkur Cooperative Bank for determining impairment scenarios, and for the measurement of collateral value of e.g. properties included in the calculations of impairment of credit-impaired loans in stage 3 and in stage 2, underperforming. We tested a sample of credit-impaired loans in stage 3 and in stage 2, underperforming, by testing the calculations of impairments and applied data to underlying documentation. We tested a sample of other loans by making an assessment ourselves of stage and credit classification. This included an increased sample of major loans as well as a randomly selected sample. We reviewed and challenged Management's estimates of expected credit losses not included in the model-based calculations or the individually assessed impairment charges based on our knowledge of the portfolio, our trade knowledge and knowledge of current market conditions.

Opinion of Management's Review

Management is responsible for the Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any assurance conclusion thereon.

In connection with our audit of the financial statement, our responsibility is to read Management's Review, and in doing so, consider whether Management's Review is materially inconsistent with the Financial Statement or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Business Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statement and has been prepared in accordance with the Danish

Financial Business Act. We did not identify any material misstatements in Management's Review.

Management's responsibility for the financial statements

Management is responsible for 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 Cooperative Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The auditor's responsibility for auditing the annual accounts

Our objectives are to obtain reasonable assurance about whether the Financial Statement, as a whole are free from material misstatements, whether due to fraud or errors, 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 in Denmark will always detect a material misstatement when it exists. Misstatements can 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 taken 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 of 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 override 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 Cooperative Bank's internal control.
- Evaluate the appropriateness of accounting policies used 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, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Merkur Cooperative Bank'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 conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the overall presentation, structure and content of the Financial Statement, including the disclosures, and whether the Financial Statements, represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 5 March 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Business registration no. 3377 1231

Benny Voss	Heidi Brander
State Authorised	State Authorised
Public Accountant	Public Accountan
mne15009	mne33253

Accounts and notes

Income statement 2019

(DKK 1,000)	2019	2018	NOTE
Interest income	92,076	95,028	3
Negative interest income	-10,648	-4,660	4
Interest expense	-3,782	-5,317	5
Positive interest expence	4,646	1,615	6
Net interest income	**82,292**	**86,666**	
Dividends from shares etc.	388	53	
Fee and commission income	67,948	59,642	7
Fees and commission paid	-8,470	-7,365	8
Net interest and fee income	**142,158**	**138,996**	
Securities and foreign exchange income	991	-3,181	9
Other operating income	252	511	
Staff costs and administrative expenses	-118,671	-112,692	10
Depreciation	-1,781	-2,068	12
Other operating expenses	-52	-752	13
Provisions for bad and doubtful debts	-11,325	-17,132	14
Value adjustments of holdings in associated undertakings	-822	50	
Profit before tax	**10,750**	**3,732**	
Tax	-1,690	-668	15
Net profit for the year	**9,060**	**3,064**	
Proposed distribution of net profit			
Brought forward to next year	9,060	3,064	
Statement of comprehensive income			
Years profit	9,060	3,064	
Other comprehensive income:			
Exchange rate adjustment cooperative shares in Euro	-10	-61	
Other comprehensive income after tax	**-10**	**-61**	
Years comprehensive income	**9,050**	**3,003**	

Balance sheet 31.12.2019

ASSETS (DKK 1,000)	2019	2018	NOTE
Cash in hand and demand deposits with central banks	79,688	49,697	
Due from credit institutions + deposits with central banks	1,570,752	1,518,623	16
Loans and advances	1,667,873	1,676,442	17-18
Bonds at fair value	227,735	228,141	19
Shares etc.	37,259	33,542	20
Holdings in associated undertakings	2,164	2,652	21
Holdings in affiliated undertakings	989	1,094	22
Real estate (Domicile properties)	10,879	11,182	23
Other tangible assets	2,155	2,836	24
Actual tax assets	422	570	15
Deferred tax assets	9,910	11,525	15
Assets in temporary possession	7,575	4,755	25
Other assets	84,002	66,901	26
Prepayments and accrued income	2,662	3,110	
TOTAL ASSETS	**3,704,064**	**3,611,070**	

Balance sheet 31.12.2019 – continued

EQUITY AND LIABILITIES (DKK 1,000)	2019	2018	NOTE
Debt to credit institutions and central banks	86,883	85,631	27
Deposits	3,160,409	3,127,252	28
Current tax liability	0	0	15
Other liabilities	34,161	33,881	
TOTAL DEBT	**3,281,453**	**3,246,764**	
Provisions for pensions and similar liabilities	303	293	
Provisions for losses on guarantees	8,785	4,136	
Provisions for other liabilities	0	0	
TOTAL PROVISIONS	**9,088**	**4,429**	**29**
Subordinated debt	48,472	48,350	
SUBORDINATED DEBT	**48,472**	**48,350**	**30**
EQUITY			
Cooperative sharecapital	199,606	174,608	
Share premium account	115,597	96,131	
Other reserves	4,708	4,708	
Brought forward	45,140	36,080	
TOTAL EQUITY	**365,051**	**311,527**	
TOTAL LIABILITIES AND EQUITY	**3,704,064**	**3,611,070**	
OFF-BALANCE-SHEET ITEMS:			
Guarantees etc.	637,363	619,493	31
TOTAL OFF-BALANCE-SHEET ITEMS	**637,363**	**619,493**	

Statement of Capital 2019

(DKK 1,000)	2019	2018	NOTE
Share capital:			
Share capital, beginning of year	174,608	166,829	
Capital increase	24,998	7,779	
Share capital, end of year	**199,606**	**174,608**	
Value of shares, end of year	**178.9**	**177.1**	
Price per Share of DKK1,000 (DKK)	1,788,70	1,771,00	
Price per share of EUR 250 (EUR)	447.18	442.75	
Share premium account:			
Share premium account, beginning of year	96,131	90,446	
Share premiums from shares issued	19,476	5,746	
Other comprehensive income	-10	-61	
Share premium account, end of year	**115,597**	**96,131**	
Other reserves:			
Other reserves, beginning of year	4,708	4,708	
Other reserves, end of year	**4,708**	**4,708**	
Profit brought forward:			
Profit brought forward, beginning of year	36,080	53,958	
IFRS9	0	-17,298	
Amortised cost, doument fee	0	-3,644	
Increased through net profit of year	9,060	3,064	
Profit brought forward, end of year	**45,140**	**36,080**	
Breakdown:			
Retained earnings, beginning of year	36,080	53,958	
Year's profit	9,060	3,064	
Other comprehensive income	-10	-61	
Total comprehensive income	**9,050**	**3,003**	
Other comprehensive income transferred to share premium account	10	61	
Other comprehensive income, revaluation reserves	0	0	
Year's profit	**9,060**	**3,064**	
IFRS9	0	-17,298	
Amortised cost, doument fee	0	-3,644	
Total	**45,140**	**36,080**	

Statement of Capital 2019 – continued

(DKK 1,000)	2019	2018	NOTE
Composition of net capital, end of year			
Share capital	199,606	174,608	
Share premium account	115,597	96,131	
Other reserves	4,708	4,708	
Brought forward from prior years	45,140	36,080	
Total net capital	**365,051**	**311,527**	
Other information about reserves			
Free reserves (previous A-capital)			
Beginning of the year	18,714	19,992	
Pro rata IFRS9 capital impairment	0	-1,259	
Pro rata amortised document fee	0	-233	
Part of net profit of the year	589	214	
Total free reserves	**19,303**	**18,714**	
Part of other reserves	2,353	2,353	
Total	**21,656**	**21,067**	
Shareholders reserves (previous B-capital)			
Beginning of the year	17,366	33,966	
Pro rata IFRS9 capital impairment	0	-16,039	
Pro rata amortised document fee	0	-3,411	
Part of net profit of the year	8,471	2,850	
Total shareholders reserves	**25,837**	**17,366**	
Part of other reserves	2,355	2,355	
Total	**28,192**	**19,721**	

Income statement 2019 (In Euro)

ASSETS (EUR 1,000)	2019	2018	NOTE
Interest income	12,327	12,726	3
Negative interest income	-1,425	-624	4
Interest expense	-506	-712	5
Positive interest expence	622	216	6
Net interest income	**11,017**	**11,606**	
Dividends from shares etc.	52	7	
Fee and commission income	9,096	7,987	7
Fees and commission paid	-1,134	-986	8
Net interest and fee income	**19,032**	**18,615**	
Securities and foreign exchange income	133	-426	9
Other operating income	34	68	
Staff costs and administrative expenses	-15,888	-15,092	10
Depreciation	-238	-277	12
Other operating expenses	-7	-101	13
Provisions for bad and doubtful debts	-1,516	-2,294	14
Value adjustments of holdings in associated undertakings	-110	7	
Profit before tax	**1,439**	**500**	
Tax	-225	-88	15
Net profit for the year	**1,213**	**410**	

Balance sheet 31.12.2019 (in Euro)

ASSETS (EUR 1,000)	2019	2018	NOTE
Cash in hand and demand deposits with central banks	10.668	6.655	
Due from credit institutions + deposits with central banks	210.282	203.371	16
Loans and advances	223.284	224.506	17-18
Bonds at fair value	30.488	30.552	19
Shares etc.	4.988	4.492	20
Holdings in associated undertakings	290	355	21
Holdings in affiliated undertakings	132	147	22
Real estate (Domicile properties)	1.456	1.497	23
Other tangible assets	288	380	24
Actual tax assets	56	76	15
Deferred tax assest	1.327	1.543	15
Assets in temporary possession	1.014	637	25
Other assets	11.246	8.959	26
Prepayments and accrued income	356	416	
TOTAL ASSETS	**495.875**	**483.588**	

Balance sheet 31.12.2019 (in Euro) – continued

EQUITY AND LIABILITIES (EUR 1,000)	2019	2018	NOTE
Due to credit institutions and central banks	11.631	11.468	27
Deposits	423.094	418.796	28
Current tax liability	0	0	15
Other liabilities	4.573	4.537	
Total debt	**439.300**	**434.801**	
Provisions for pensions and similar obligations	41	39	
Provisions for losses and guarantees	1.176	554	
Provisions for other liabilities	0	0	
Total provisions	**1.217**	**593**	29
Subordinated debt	**6.489**	**6.475**	30
Equity			
Share capital	26.722	23.383	
Share premium account	15.475	12.874	
Revaluation reserves	0	0	
Other reserves	630	630	
Brought forward from prior years	6.043	4.832	
Total net capital	**48.871**	**41.719**	
TOTAL EQUITY AND LIABILITIES	**495.875**	**483.588**	
OFF-BALANCE-SHEET ITEMS:			
Guarantees etc.	85.326	82.961	31
TOTAL OFF-BALANCE-SHEET ITEMS	**85.326**	**82.961**	

NOTES TO INCOME STATEMENT AND BALANCE SHEET

1. Accounting policies
2. Significant accounting estimates, assumptions and uncertainties
3. Interest income
4. Negative interest income
5. Interest expenses
6. Positive interest expense
7. Fees and commission income
8. Fees and commission paid
9. Securities and foreign exchange income
10. Staff costs and administrative expenses
11. Other administrative expenses (breakdown)
12. Depreciation
13. Other operation expenses
14. Allowance
15. Tax
16. Due from credit institutions + deposits with central banks
17. Loans and advances
18. Credit risk
19. Bonds
20. Shares etc.
21. Holdings in associated undertakings
22. Holdings in affiliated undertakings
23. Real estate
24. Other tangible assets
25. Assets In temporary possession
26. Other assets
27. Due to credit institutions and central banks
28. Deposits
29. Provisions for pensions and similar liabilities
30. Subordinated debt
31. Contingent liabilities
32. Statutory minimum capital
33. Capital ratio
34. Risk Management
35. Transactions with related parties within the financial year
36. Financial highlights

NOTE 1
Accounting policies

In accordance with the Financial Business Act, including the Executive Order for financial statements for credit institutions and investment companies.

The annual report is presented in Danish Kroner and rounded to the nearest DKK 1,000.

ALTERED ACCOUNTING POLICIES

Altered accounting processing for fees received

On the background of a general recommendation form the authorities, the cooperative bank has conducted a closer analysis of the accounting process for fees received that are directly connected with the establishment of loans etc. to assess whether they should be booked as income in the financial year or be included in the loan's effective interest rate, and accordingly be amortised throughout the loan's term. The analysis shows that the cooperative bank needs to amortise additional fees, which previously were recognised as income immediately.

The cooperative bank has calculated that a sum totalling DKK 4.7m, which was previously recognised immediately, should be amortised, and thereby recognised over the coming years. The effect of the change is by and large identical as of 1 January 2018, 1 January 2019 and 31 December 2019. The cooperative bank has recognised the effect 1 January 2018 and corrected the comparative figures correspondingly at the end of 2018.

In this connection, DKK 1.5m has been moved from income from fees to interest income in 2019 and DKK 1.4m in 2018 respectively, since the amortisation is part of the loan's effective interest rate.

No adjustment has been made for comparative figures for financial ratios in earlier periods, since this has not been possible without a disproportionate use of resources.

Altered accounting process for negative interest rate income and expenses

The accounting policy has been altered for the accounting process for negative interest income and expenses. Negative interest income has previously been presented under interest expenses due to the relative insignificance, and so has negative interest expenses. From 2019 negative interest income will be presented separately in the accounts. The altered presentation of the interest income and expenses does not have any effect on results. The comparative figures have been adjusted.

Altered estimate concerning impairments

The cooperative bank has the right to offset against customers' portfolios of Merkur shares in the event of default. Until 2019, this right to offset against shares has been part of the cooperative bank's impairment calculations according to IFSR 9. The effect has been calculated as DKK 1.4m and is expensed under impairments in 2019.

Additional principles for the employed accounting practice remain unchanged in relation to 2018.

The Capital Requirements Regulation

(CRR) contains a five-year period to phase in the impact of the initial IFRS 9-impairments as of 01.01.2018 on the capital base. The phasing in is equally applicable to banks that operate under the IFRS 9-compatible impairment rules. Merkur has decided to make use of the transitional arrangement and therefore only recognises 15% of the effect of the IFRS 9-compatible accounting rules in calculating the capital base in 2019. The recognition will increase to 30% in 2020. The full impact of IFRS 9 on the capital base, if the transitional arrangement had not been used, is equivalent to DKK 17.3m, which would reduce the capital ratio by 0.8 percentage points. The effect of IFRS 9 on the capital base will be fully phased in at the end of 2022.

General comments on recognition and measurement

Assets are recognised in the balance as a result of a past event making it probable that future economic benefits will flow to the cooperative bank and when the value of the asset can be measured reliably.

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

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

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

In the income statement, income is recognised as it is earned, while expenses are recognised with the amounts that concern the financial year. However, value gains on domicile properties are recognised directly in the net capital.

Foreign currency translation

Transactions in foreign currencies are translated initially at the transaction date. At the balance sheet date the balance sheet date's exchange rate is used. Exchange rate differences arising between the transaction date and payment date or the balance sheet date, respectively, are recognised in the income statement as exchange rate adjustments.

INCOME STATEMENT

Interest, fees, commissions, etc.
Interest income and expenses are recognised in the income statement in the period to which they relate.

Income from interest arising from impaired loans has, in accordance with regulations, been moved from interest income to impairments.

Commissions and front end fees that are an integral part of the effective interest rate for a loan are recognised as part of the amortised cost and, therefore, as an integral part of the loan in interest income.

Processing commissions and front-end fees for instance, are amortised over the term of the loan.

Other fees are recognised in income on the transaction date.

Securities and foreign exchange income
Market value adjustments consist of realised and unrealised market value adjustments on securities, primarily bonds and shares. In addition to this the market value adjustments contains exchange rate adjustments as well as any value adjustments on investment properties.

Other operating income
Other operating income comprises income of secondary character in comparison to the cooperative bank's principal activity.

Expenditure on staff and administration
Staff costs include wages, social security costs, and pensions. Cost of services and benefits to employees are recognised as the employee's performance of work tasks that correspond to the respective services and benefits.

Amounts are allocated for specific staff liabilities such as maternity leave.

The cooperative bank has entered into an agreement on a pension scheme with the majority of its employees. Fixed contributions are paid into retirement accounts in the cooperative bank or to a pension fund. The cooperative bank has no obligation to make further contributions, and there are no pension commitments besides the aforementioned.

Other operating expenses
Other operating expenses comprise expenses of secondary character in comparison to the cooperative bank's principal activity.

Impairments on loans, receivables etc.
Impairments on loans, receivables etc. comprise losses and expected impairments on loans, losses and provisions on guarantees as well as losses and impairments concerning assets taken over.

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

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

Deferred tax is recognised on all temporary differences between book and tax values of assets and liabilities. Deferred tax assets, including the tax value of tax losses allowed to be carried forward, are recognised in the balance with the value at which the asset is expected to be realised, either offset against deferred tax liabilities or net assets.

BALANCE SHEET

Receivables from credit institutions and central banks
Receivables from credit institutions and central banks include receivables from other credit institutions and time deposits with central banks. First recognition occurs at fair value plus added transactional costs and deductions of front-end fees etc., and subsequent measurement is carried out at amortised cost.

Loans
This accounting item consists of loans, where disbursement has happened directly to the lender.

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

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

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

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

The expected loss is calculated as a function of the probability of default, also called PD (Probability of Default), EAD (Exposure at Default) and LGD (Loss Given at Default), which incorporate forward-looking information that represents management's expectations to the future developments.

The placement and calculation of the expected loss is based on the cooperative bank's rating models, developed by the cooperative bank's IT provider, BEC, in cooperation with Lokale Pengeinstitutter (Federation of Local Banks, LOPI), and the cooperative bank's internal financial and risk management. At the assessment of the development in credit risk, it is assumed that a significant increase in the credit risk has incurred in relation to the time of the first-time recognition when a downward adjustment of 2 rating classes takes place on a debtor (model calculated scale from best to worst 1:11).

If the credit risk of the financial asset is considered as being low at the balance sheet date, the asset is maintained at stage 1, however, when no significant increase has incurred in the credit risk. Merkur views the credit risk as low, when the cooperative bank's internal rating of the customer corresponds to a 2a on the DFSA's scale or better. However, an overdraft for more than 30 days on a customer with and internal 2a rating would entail a significantly increased credit risk. In addition to loans and receivables that meet the rating criterion, the category of assets with low credit risk also comprises Danish treasury and mortgage bonds, as well as receivables with Danish credit institutions. New customers are always placed in stage 1, if they are not credit-impaired.

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

- The borrower is in substantial financial difficulties
- •The borrower is in breach of contract, e.g. in the form of non-performance on payment obligations on payments and interest.
- •When the cooperative bank accepts an easing of the terms that would not otherwise be considered had it been for the borrower's financial difficulties or
- •It is likely that the borrower will suffer bankruptcy or subject to some other form of financial restructuring.

However, financial assets are maintained in stage 2 when the customer is in substantial financial difficulty, or when the cooperative bank has extended more lenient lending terms due to the customer's financial difficulties, in so far as no losses are expected in the most probable scenario.

The definition of credit impairment that the cooperative bank uses when measuring the expected credit loss, and in the transition to stage 3, agrees with the definition used for internal risk management purposes. This entails that an exposure that is deemed credit-impaired will always be placed in stage 3.

The calculation of the impairments of exposure in stages 1 and 2, except for the weakest exposures in stage 2, are made on the background of a portfolio-based model-calculation, while impairments on the remaining part of the exposure are carried out by a manual, individual expert assessment in a so-called Risk of Loss Statement based on three scenarios (a basic scenario, a more positive scenario and a more negative scenario) with respective probability for whether the scenarios will occur. The portfolio-based model-calculation is carried out on the background of a model based on the cooperative bank's customer segmentation into different rating classes and an assessment of the risk for the individual rating classes. The calculation takes place in a setup that is developed and maintained at the cooperative bank's IT provider, supplemented with a forward-looking macroeconomic module developed and maintained by the Bank organisation LOPI, and which forms the basis for incorporating management's expectations for the future. The macroeconomic module is constructed on the basis of a number of regression models that determine the historical connection between the year's impairments within a number of sectors and industries and a number of explanatory macroeconomic variables. The regression models are next fed estimates for the macroeconomic variables based on forecasts from consistent sources, such as the Danish Economic Council, the Danish Central Bank and more, where forecasts ordinarily reach two years into the future and comprise variables such as increases in public sector consumption, increases in GDP, interest rate etc. This forms the basis for calculation of expected impairments up to two years into the future within specific sectors and industries. For maturities longer than two years and up to ten years, an extrapolation of the impairment ratio is made so that the impairment ratio converges with a normal level in year ten. The forward-looking, macroeconomic model generates a number of adjustment factors that are multiplied with the data centre's "raw" estimates, which are thereby adjusted in relation to the starting point.

Model uncertainties and managerial estimates

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

Changes in the impairments are regulated in the income statement under the item "Provisions for bad and doubtful debts".

Practice for recording of final write-offs on financial assets in the balance

Financial assets that are measured at amortised cost are fully or partially written-off from the balance if the cooperative bank no longer has a reasonable expectation about a full or partial cover of the amount outstanding. The recognition ceases on the background of a concrete, individual assessment of each exposure. For personal and business customers, the cooperative bank will typically implement a write-off when the collateral has been realised and the remaining claim is irrecoverable. When a financial asset is fully or partially written-off for the balance, the impairment of the financial asset is removed from the statement of accumulated impairments, cf. note 14.

The cooperative bank continues its efforts to collect after the assets have been written-off, with actions depending on the concrete situation. The cooperative bank first seeks to enter into a voluntary agreement with the customer, including a renegotiation of terms or a reconstruction of a company so that debt recovery or a petition for bankruptcy are only brought into use when other solutions have been attempted.

Bonds

Bonds traded in active markets are measured at fair value. The fair value is determined using the closing price for the market at the balance sheet date (Designated as Valuation Category Level 1). Unlisted bonds (incl. valuation category level 3) admitted at fair value determined on the basis of what the transaction price would be in a transaction between two independent parties.

Shares etc.

Shares are measured at fair value determined by the closing rate on the balance sheet date (designated as Valuation Category Level 1). Concerning unlisted shares in companies that the cooperative bank owns jointly with a number of other banks, and where there is a continuous redistribution of shares, the redistributions are deemed the principal market for the shares. The fair value is determined as the transfer rate (designated as Valuation Category Level 2).

The fair value of other unlisted or illiquid stocks, therefore, is based on available information on trades and similar or alternative capital calculations (designated as Valuation Category Level 2).

Unlisted equity investments for which it is not possible to calculate a reliable fair value are measured at cost (designated as Valuation Category Level 3).

Holdings in associated and affiliated undertakings

Equity investments in associates and affiliates are recognised and measured under the intrinsic value method (equity method), implying that the investments are measured at the proportionate share of the intrinsic value

In the income statement, the cooperative bank's share of the companies' profits after tax is recognised.

Merkur has capital holdings of 25% and more in two companies. These are designated as associated companies.

Merkur has capital holdings in Merkur Development loans corresponding to 9%. Merkur Development Loans Ltd have entered into an agreement with Merkur Cooperative bank about the administration of the company. The cooperative bank's CEO is also the CEO of Merkur Development Loans Ltd.

The capital holdings are stated in the accounts under the item Holdings in affiliated companies.

Tangible assets

Tangible assets are measured initially at cost. Cost includes purchase price, costs directly attributable to the acquisition, and refitting costs of the asset until the asset is ready to be put into operation.

Domicile properties

Domicile Properties are recognised after initial recognition at their revalued amount.

Reassessment is made so frequently that there are no significant differences to the fair value.

External experts are involved in the measurement of the domicile property. The cooperative bank's properties were most recently assessed in 2016. Substantial increases in the domicile property's revalued amount are recognised in revaluation reserve in equity. Significant decreases in value are recognised in the income statement, unless there is a reversal of previous revaluations. Depreciation is provided on the basis of the revaluation. Domicile properties are depreciated over a period of 50 years.

Other tangible assets

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

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

Assets in temporary possession

Assets in temporary possession comprise material assets taken over in connection with distressed exposures. The assets are measured at the lowest carrying value or fair value less selling value.

Assets are only temporarily in the cooperative bank's possession. Assets and the associated liabilities are recognised separately in the balance sheet.

Any value adjustment of the assets in temporary possession is recognised in the income statement under impairments on loans and receivables.

Other assets

Other assets comprise assets that are not already placed in other entries concerning assets in the financial statement. The item concerns security deposits for rented space, a pledged deposit with the cooperative bank's IT provider, BEC, as well as receivables due after the end of the financial year. This includes revenue from interests receivable.

Prepayments and accrued income

Prepayments recognised under assets include costs relating to subsequent financial year. Prepayments are measured at cost.

Debt to credit institutions and central banks

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

Other liabilities

Other liabilities comprise liabilities that are not already placed in other entries concerning liabilities in the financial statement. The item includes costs that are due after the end of the financial year hereunder interests payable

Provisions

Commitments and guarantees which are uncertain as to size or timing of winding up are recognised as provisions when it is probable that obligation will require an outflow of the cooperative bank's economic resources and the commitment can be reliably measured. The commitment is determined at the present value of the costs that are necessary to meet the commitment.

Subordinated debt

Subordinated debt is measured at amortised cost.

Contingent liabilities

Contingent liabilities consist of guarantees the cooperative bank has issued. Guarantees are continuously reviewed and evaluated to assess whether credit impairment has occurred. Provisions on guarantees are placed under provisions on the balance sheet.

Future accounting rules

Information about coming rules that have not yet gone into effect.

Accounting policies have been changed as a consequence of the implementation of IFRS 16, in effect as of 1 January 2020. IFRS 16 introduces new leasing rules. All leasing contracts must be recognised with the lease in the form of a leasing asset that represents the value of the right of use. The leasing asset and leasing obligation is recognised from the time when the cooperative bank attains the right of use to the asset. At the first recognition, the asset is measured prospectively to the present value of the leasing obligation, incl. costs. Simultaneously, the present value is recognised (by use of the internal interest rate) of the agreed-upon leasing payments as an obligation. For rental agreements of the cooperative bank's properties in Aarhus and Copenhagen, the cooperative bank has estimated that the expected rental period represents the non-cancellable rental period in accordance with the rental agreements, as well as an extension option of the agreements that have a short cancellation notice, so that the rental period for non-cancelled leases constitutes at least 4 years. The effect of the coming change in accounting practice is an increase of the properties' value by DKK 6.9m. Additional obligations are increased correspondingly by DKK 6.9m. The change in practice will have no effect on equity. In the income statement the item for rent will going forward be converted to depreciation and interest.

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. The areas involving a higher degree of assessment 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 presentation, recognition and measurement of the cooperative bank's assets and liabilities. The financial statements are prepared in accordance with the principle of going concern on the basis of the current practice and interpretation of the rules for Danish banks. The significant estimates made by management in connection with the recognition and measurement of these assets and liabilities, and the material uncertainties related to the preparation of the annual report for 2019 are:

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

Measurement of loans

Impairment losses on loans and receivables are carried out in accordance with accounting practice and are based on a number of assumptions. If these assumptions change, the financial statements may be affected, and the impact can be significant. Changes may occur with a change in practice by the authorities, errors related to calculation models from the IT provider, like changing the principles of management – e.g. if the time horizon is changed.

Management has specifically assessed that there are model-related uncertainties regarding the probabilities for the individual exposures in the model. As a consequence, impairments have been increased by an additional DKK 0.4m, compared to the predictions of the calculation model.

The scenarios used for calculation of collateral and hence impairments on financial assets are influenced by many assumptions coming from economic cycles, legislation, natural conditions etc. The cooperative bank has built in a deliberate negative bias since it is management's assessment that collateral more easily loses than gains value, depending on the type of asset.

The macroeconomic segmentation model is basically calculated on the basis of loss data for the entire banking sector. The cooperative bank has therefore assessed whether the model estimates should be adjusted to the credit risk for its own lending portfolio.

The cooperative bank has assessed that the model's estimates correspond to its own circumstances.

The model's estimates form the basis for calculating macro-economic effects on impairments. For each group of loans and receivables, an estimate which reflects the percentual impairment associated with a given group of loans and receivables at the balance sheet date.

Measurement of domicile properties

Domicile properties, consisting of three apartments in Aalborg, which are used for the bank operations, are measured according to an external valuation, less depreciations.

Measurement of deferred tax assets

Deferred tax assets are recognized for all non-utilized tax deficits to the extent it is considered viable to realise a profit to balance out the deficits within a foreseeable number of years. Our projected budgets support that we can exploit the tax asset within 3-4 years. We currently have an outstanding balance with the Danish Tax Agency concerning the treatment of a potential tax liable gain from 2013 of DKK 3.3, which was achieved through altered accounting principles at our current IT provider, BEC. Since the outcome of this case is subject to great uncertainty, we have chosen not to recognise this.

Matters specific to the bank

The measurement of unlisted shares and certain bonds are only to a lesser degree based on observable market data. In addition, a number of unlisted shares have not been traded for several years. Measurement of illiquid unlisted shares and bonds has been determined at estimated market value and is therefore subject to uncertainty.

(DKK 1,000)	2019	2018

NOTE 3. Interest income

Credit institutions and central banks	78	53
Loans	90,508	93,154
Bonds	1,489	1,821
Other interest income	1	0
Total	**92,076**	**95,028**

Merkur has no daughter companies or branches abroad. Revenue in Denmark can be determined to T.DKK 159,872.

Merkur has received no public grants during the financial year Concerning the interest income on loans a certain classification of geographical markets exists, since the cooperative bank besides Danmark also has interest income from Finland, Germany, Sweden and Norway. The income is negligible compared til the cooperative bank´s overall activity and the extent of the foreign activities is described in the managerment´s review.

NOTE 4. Negative interest income

Credit institutions and central banks	10,412	4,017
Bonds	236	643
Total	**10,648**	**4,660**

NOTE 5. Interest expenses

Credit institutions and central banks	31	267
Deposits	1,141	2,303
Subordinated debt	2,608	2,550
Other interest expenses	2	197
Total	**3,782**	**5,317**

NOTE 6. Positive interest expenses

Deposits	4,646	1,615
Total	**4,646**	**1,615**

NOTE 7. Fees and commission income

Securities trade and securities in account	9,135	6,839
Payment handling	12,054	11,123
Loan business, fees and charges	6,065	5,993
Guarantee commission	19,285	18,791
Other charges, fees and commission income	21,409	16,896
Total	**67,948**	**59,642**

(DKK 1,000)	2019	2018
NOTE 8. Fees and comission paid		
Remuneration of external valuators	769	371
Interbank transaction fees	297	327
International fees, Visa and Mastercard	1,714	1,468
Other fees, pension systems etc.	2,752	2,296
Fees Dankort and NETS	2,215	2,113
Fees Mobile Pay	674	768
Paid guarantee commission	49	22
Total	**8,470**	**7,365**
NOTE 9. Securities and foreign exchange income		
Value adjustments investment properties	0	0
Bonds	-1,607	-4,483
Shares etc.	4,062	1,675
Mortgage deeds	-1,365	0
Foreign exchange income	-99	-373
Total	**991**	**-3,181**
NOTE 10. Staff costs and administrative expenses		
Salaries and renumeration of board of directors, executive board and shareholders committee:		
Board of directors	1,973	1,845
Executive board	3,084	2,649
Total	**5,057**	**4,494**
Staff costs and administrative expenses:		
Salaries	50,587	48,858
Pension costs	5,494	5,347
Financial services employer tax	9,110	8,495
Total	**65,191**	**62,700**
Other administrative expenses (note 11)	48,422	45,498
Total staff costs and administrative expenses	**118,670**	**112,692**

The cooperative bank does not make use of performance-based pay neither for management, board nor employees. The cooperative bank has not taken on any pension obligation conceming the executive management's pensions in additionto what follows normal terms of employment for employees at Merkur.

NOTE 10. Staff costs and administrative expenses – continued

(DKK 1,000)	2019	2018
Breakdown of remuneration to the board of directors and executive management		
Board of Directors		
Henrik Tølløse, Chairman*	428	418
Jacob Brochmann Laursen* Vice Chairman	364	301
Klaus Loehr-Petersen	158	120
Anneke Stubsgaard	230	120
Bernhard Schmitz	156	94
Hilde Kjelsberg 1/2 -31/12	143	0
Board members resigned	0	429
Employee-elected directors:		
Henrik Kronel	154	115
Søren Sivesgaard*	161	130
Jesper Kromann 1/4 -31/12	142	0
Stig Mårtenson 1/1-31/3	38	76
Carsten Juul 1/1-11/6 2018	0	42
Total	**1,974**	**1,845**
**=constitutes the board's audit committee* *The board of directors remuneration does not contain variable elements*		
Management:		
Lars Pehrson, CEO		
Fixed remuneration incl. free phoning and insurance	791	791
Variable remuneration	0	0
Pension	86	86
Alex B. Andersen, Executive Director Credit 1/6 2018		
Fixed remuneration incl. free phoning and insurance	1,007	568
Variable remuneration	0	0
Pension	125	71
Charlotte Skovgaard, Executive Director 1/11 2019		
Fixed remuneration incl. free phoning and insurance	290	0
Variable remuneration	0	0
Pension	29	0
Resigned Executive officer	**756**	**1,133**
Total remuneration, incl. free phoning and insurance	**3,084**	**2,649**
Significant risk takers:		
Fixed remuneration	4,149	4,156
Variable remuneration	0	0
Number of employees with influence on risk profile:	**6**	**7**
EMPLOYEES, full time equivalents	**98.5**	**99.2**

(DKK 1,000)	2019	2018
NOTE 11. Other administrative expenses		
IT-costs, BEC	32,009	27,950
Other IT costs and telephone	1,591	1,531
Office equipment, paper line etc.	809	1,161
Postage	74	65
Travel costs etc.	593	614
Education, traning and other staff related costs	2,948	2,997
Rent etc.	3,066	3,160
Maintenance of offices etc.	290	758
Insurances	460	301
Membership fees, banking associations etc.	996	1,001
Merkurs client magazine	526	521
Marketing	3,604	3,287
Audit* and solicitors fees	1,448	2,167
Other costs, incl. VAT regulation	8	-15
Total	**48,422**	**45,498**
*** Fee paid to the statutory auditor**		
Statutory audit of the annual report	803	489
Other assurance engagements with collateral	106	38
Taxation advice	18	1
Other services	0	94
Total fee to the firm of auditors elected by the AGM performing the statutory audit	**927**	**622**

Fees for services other than statutory audits delivered by PwC are statutory statements to various public authorities and other consultancy services

NOTE 12. Depreciation		
Real estate domicile properties	303	308
Machinery and equipment	801	1,088
Leasehold improvements	677	672
Total	**1,781**	**2,068**

NOTE 13. Other operating expenses		
Contribution to Danish Deposit Guarantee Fund	52	52
Paid option premium regarding DLR shares	0	700
Total	**52**	**752**

[DKK 1,000]	2019	2018

NOTE 14. Impairment, loans and guarantees

	2019	2018
Total impairments + write offs of the year		
Accumulated impairment changes	-12,026	5,350
Write offs, previously impaired	23,829	12,414
Direct write offs, not previously impaired	799	971
Income from prior years write-offs	-435	-352
Costs and value adjustments, assets in temporary possesion	74	15
Interest from impairments	-916	-1,266
Total impairments + write offs of the year	**11,325**	**17,132**
Impairment as at beginning	99,770	94,420
Impairment changed for the period	33,482	53,446
Impairment released from previous years	-21,679	-35,682
Write-offs, previously impaired	-23,829	-12,414
Accumulated impairment	**87,744**	**99,770**

Impairment by stage	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Accumulated impairment begining of year	3,101	11,472	85,197	99,770
Impairment during the year	4,171	475	28,836	33,482
Reversal of previously impaired	-1,516	-3,022	-17,141	-21,679
Write offs, previously impaired			-23,829	-23,829
Accumulated impairment end of year	**5,756**	**8,925**	**73,063**	**87,744**

	Movement stage 1 and 2 ytd		**Movement stage 2 and 3 ytd**		**Movement stage 1 and 3 ytd**	
Stage	**to 2 from 1**	**to 1 from 2**	**to 3 from 2**	**to 2 from 3**	**to 3 from 1**	**to 1 from 3**
Loans and guarantees before impairment	116,705	69,767	7,607	0	41,720	1,206

	2019	2018
Accumulated impairments, percentages		
Percentage of loans and guarantees	3.7	4.2
Impairment charges and write offs of the year	0.5	0.7
Loans with zero-interest and loans with reduced interest due to borrowerswith financial problems	26,731	30,141
Percentage of loans and guarantees	1.1	1.3
Further information on loans with impairment		
Loans with objective evidence of impairment, before impairment	248,605	242,248
Loans with objective evidence of impairment, after impairment	185,304	157,052
Merkur has no financial assets that were credit impaired at initial recognition.		

(DKK 1,000)	2019	2018
NOTE 15. Tax		
Current tax	0	0
Adjustment of deferred tax	-1,734	-668
Adjustment of deferred tax previous years	117	0
Adjustment of tax previous years	-75	0
Total	**-1,692**	**-668**
Effective taxe rate of the year's profits comprise	**-15,7**	**-17,9**
Accounting profit before tax	**10,750**	**3,732**
Hereof calculated tax at a 22 percent tax rate	-2,365	-821
Changes in deferred tax previous years	117	0
Permanent differences	631	153
Adustment paid tax	-75	0
Tax on years profit	**-1,692**	**-668**
Deferred Tax Assets		
Other	2,434	2,449
Tax loss to carry forward*	7,476	9,076
Deferred assets total	**9,910**	**11,525**
**Tax loss to carry forward includes the effect of accounting principle to IFRS9*		
Tax receivables		
Calculated tax on years profit	0	0
Tax paid in advance	366	567
Paid dividend tax	56	3
Tax receivables total	**422**	**570**
NOTE 16. Due from credit institutions and central banks		
Broken down by time to maturity		
Due on demand	1,570,252	1,518,123
From 1 to 5 years	500	500
Total	**1,570,752**	**1,518,623**
Broken down by credit institutions		
Due from central banks	1,542,000	1,486,000
Due from credit institutions	28,752	32,623
Total	**1,570,752**	**1,518,623**

(DKK 1,000)	2019	2018

NOTE 17. Loans and advances at amortised cost

Broken down by time to maturity		
On demand	204,624	190,806
Maturity up to 3 months	89,432	97,703
Maturity 3-12 months	104,232	122,655
Maturity 1-5 years	480,478	459,941
Maturity more than 5 years	789,107	805,337
Total	**1,667,873**	**1,676,442**

Maturity based on fixed criteria; advances with no fixed date of expiry are classed "on demand"

NOTE 18. Credit risk (Loans, advances and guarantees by sector and industry)

Loans and gurantees in % end year		
1, Public sector	**0.0**	**0.0**
2, Corporate sector		
2,1 Agriculture, hunting, forestry and fishery	10.5	9.9
2,2 Industry and mining	2.7	3.6
2,3 Energy	2.5	2.5
2,4 Building and construction	1.3	0.3
2,5 Trade	1.5	1.3
2,6 Transport, hotels and restaurants	0.6	0.4
2,7 Information and communication	0.7	0.7
2,8 Credit, finance and insurance	1.8	2.3
2,9 Real estate	7.7	7.7
2,10 Others	12.8	11.6
2,10 Schools and kindergardens	12.2	12.1
Total corporate sector	**54.3**	**52.4**
3, Personal customers	**45.7**	**47.6**
1-3 Total	**100.0**	**100.0**

NOTE 19. Bonds

Mortgage bank bonds (level I)	216,743	217,206
International bonds (level I and III)	10,992	10,935
Total	**227,735**	**228,141**
Due next year	51,401	76,518

NOTE 20. Shares etc.

(DKK 1,000)	2019	2018
Fixed investments		
Shares (level I and II)	34,696	31,085
Other investments (level I and III)	2,563	2,457
Total	**37,259**	**33,542**
INVESTMENT PORTFOLIO		
Credit institutions:		
DLR Kredit A/S	32,135	28,530
Folkesparekassen*	327	327
Triodosbank, The Netherlands	461	435
GLS Gemeinschaftsbank, Germany*	39	39
Freie Gemeinschaftsbank, Switzerland*	28	26
Banca Etica, Italy	794	746
Cultura Sparebank, Norway*	981	967
Ekobanken, Sweden*	302	301
Sparinvest Holding SE A shares	360	488
Danish financial sector companies:		
VP A/S	11	11
Let-P Holding A/S	160	142
Swipp Holding ApS	2	1
Bokis A/S	14	14
PRAS A/S	685	639
Strategic partners:		
Visa Inc Pref.	17	0
SEFEA - Societá Europea Finanza Etica ed Alternativa, Italy*	258	258
Sustainability Finance Real Economies SICA	611	539
Shared Interest Society Ltd., UK	18	17
Oikocredit, The Netherlands	28	28
SIDI, France	28	28
Triodos Microfinance Fund	0	6
Total	**37,259**	**33,542**
** Other equity investment is marked with an asterisk*		

(DKK 1,000)			2019	2018

NOTE 21. Holdings in associated undertakings

	Share of capital, %	Share capital	2019	2018
Plasticueros ApS	**37.50%**	**200,000 EUR**		
Cost, beginning of year			559	559
Purchase price total, end of year			**559**	**559**
Value adjustments, premium and exchange rate			71	81
Share of result			-12	-10
Value adjustments total, end of year			**59**	**71**
Book value at the end of the year			**618**	**630**

Important conditions:
Balances (loans in euros) is agreed om Merkur´s normal conditions. The company is “owning” a solar power plant in Spain. The acquisition has been made for the purpose of reducing Merkur’s CO2 impact.

	Share of capital, %	Share capital	2019	2018
Söderhof Vindmølle I/S, Tyskland	**25%**	**1,009,522 EUR**		
Cost, beginning of year			3,525	3,525
Purchase price total, end of year			**3,525**	**3,525**
Value adjustments, premium and exchange rate			-1,503	-1,230
Value adjustments this year			-485	-317
Share of result			9	44
Value adjustments total, end of year			**-1,979**	**-1,503**
Book value at the end of the year			**1,546**	**2,022**

Important conditions:
Primary activity is to own a windmill i Germany The purchase was part of closing a non-performing exposure

	2019	2018
Book value of investment in associated undertakings in total	**2,164**	**2,652**

(DKK 1,000)			2019	2018

NOTE 22. Holdings in affiliated undertakings

	Share of capital, %	Share capital		
Merkur Development Loans Ltd	**8.7%**	**11,406,058 DKK**		
Cost, beginning of year			1,000	1,000
Total cost end of year			**1,000**	**1,000**
Value adjustments, premium and exchange rate			94	78
Share of result			-105	16
Total adjustment end of year			**-11**	**94**
Book value at the end of the year			**989**	**1,094**

NOTE 23. Property and buildings

Domicile properties		
Reassesed value at the end of most recent financial year	13,390	13,390
Depreciation during the year	0	0
Acquistions during the year	0	0
Reassesed value before depreciation	**13,390**	**13,390**
Depreciation, beginning of year	2,208	1,900
Year's depreciation	303	308
Depreciation, end of year	**2,511**	**2,208**
Reassesed value year end	**10,879**	**11,182**
Total property exposure	**10,879**	**11,182**

A realtor has assisted in the valuation of investment and domicile properties.

NOTE 24. Machinery and equipment and assets in temporary possession

Cost, beginning of year	16,171	17,462
Additions	-1,170	-2,107
Reduction	797	816
Cost, end of year	**15,798**	**16,171**
Depreciations, beginning of year	13,335	13,682
Depreciation returned	-1,170	-2,107
Depreciations during year	1,478	1,760
Depreciations, end of year	**13,643**	**13,335**
Book value, end of year	**2,155**	**2,836**

(DKK 1,000)	2019	2018

NOTE 25. Assets in temporary possession

Buildings taken over from clients, to be sold	**7,575**	**4,755**

NOTE 26. Other assets

Miscellaneous receivables	15,685	12,110
Rentdeposit as well as deposit with IT supplier	67,403	53,945
Receivable interest	914	846
Total	**84,002**	**66,901**

NOTE 27. Due to credit institutions and central banks

Broken down by time to maturity:		
On demand	86,252	82,055
Over 5 years	631	3,576
Total	**86,883**	**85,631**
Broken down by creditor:		
Due to central banks	81,828	80,948
Due to credit institutions	5,055	4,683
Total	**86,883**	**85,631**

NOTE 28. Deposits

Broken down by time to maturity:		
On demand	2,757,631	2,695,800
Deposits on notice:		
Up to 3 months	57,065	79,712
3-12 months	23,951	18,796
1-5 years	88,169	88,806
Over 5 years	233,593	244,138
Total	**3,160,409**	**3,127,252**
Broken down by type of deposit		
On demand	2,696,421	2,613,320
Deposits with notice	135,489	181,650
Time deposits	19,110	21,611
Special deposits	309,389	310,671
Total	**3,160,409**	**3,127,252**

NOTE 29. Provisions for obligations

Provision for losses on guarantees	303	293
Provisions for pensions and similar obligations	8,785	4,136
Provision other liabilities	0	0
Total provisions for obligations	**9,088**	**4,429**

(DKK 1,000)	2019	2018

NOTE 30. Subordinated debt

	2019	2018
Subordinated loan capital	48,472	48,349
Total	**48,472**	**48,349**
Subordinated debt included in the capital base	40,596	40,782
Interest	2,607	2,550

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

Size (t. DKK)	Currency	Interest rate*	Duedate
7,584	NOK	4.510	08.06.2025
15,000	DKK	6.750	24.06.2025
7,470	EUR	5.000	01.05.2026
7,470	EUR	4.500	15.12.2027

** the rate of interest is variable - the rate mentioned is at Dec. 31, 2019. There are no special or alternative terms and conditions relating to faster repayment for the above-mentioned subordinated debt. The subordinated debt is amortisable.*

NOTE 31. Contingent liabilities

	2019	2018
Guarantees		
Financial guarantees	198,955	179,586
Loss guarantees for mortgage loans	355,715	349,526
Registration and conversion guarantees	65,803	68,417
Other guarantees	16,890	21,964
Total guarantees	**637,363**	**619,493**
Other obligating agreements		
Unutilised loan commitments	775,317	612,341
Merkur can terminate loan commitments without warning		
Collateral		
Of the total bond holding, the value of bonds used as Collateral for clearing and credit facility at the Danish Central Bank charged is:	**0**	**0**
Drawings on Central Bank, 31 dec 2019(clearing balances note 27) is covered by cash deposits (note 16).		
Contractual obligations		
As a member of BEC, Merkur is obliged to pay a termination of service allowance. The allowance is 63.9 m DKK, corresponding 2.5 years of turnover		
Like other Danish banks, Merkur is liable for losses in the guarantee and decommissioning funds (Garantiformuen and Afviklingsformuen). The latest statement of Merkur's share of the guarantee to the decommissioning fund's losses constitute 0.009%.		
Rent obligations according terms of notice for rented apartments	1,699	2,678

Law suits etc.
Merkur has as part of its ordinary operations from time to time been involved in disputes etc. These risks are assessed continuously by. Merkur's management and any potential provisions for losses are made based on an assessment of the risk for losses. On the time of reporting, there are no disputes

(DKK 1,000)	2019	2018

NOTE 32. Statutory capital

Minimum capital requirement (Pillar I)	166,744	163,191
Capital requirement (Pillar II)	72,950	63,237
Capital conservation buffer	52,107	38,248
Countercyclical buffer	20,843	0
Bail-in Liabilities (MREL)	12,506	0
Total	**325,150**	**264,676**

NOTE 33. Solvency ratio (legal demand minimum 8%)

Composition of Capital		
Core capital	365,051	311,528
Deductions in core capital:		
Deduction, tax assets	-7,476	-9,076
Other deductions	-400	-780
Prudent fair value adjustment	-283	-278
Transitional arrangement regarding IFRS9	18,850	21,068
Core capital	**375,742**	**322,462**
Subordinated capital	40,596	40,782
Deductions for insignificant holdings in financial firms	0	-6
Total capital base	**416,337**	**363,238**
Capital base end of year without use of IFRS 9 transitional arrangements	397,488	342,170
Weighted items		
Credit risk	1,788,204	1,759,148
Weighed items, operational risk	248,444	233,518
Weighted items with market risk	47,647	47,227
Total risk exposure	**2,084,296**	**2,039,893**
Capital ratio, %	**20.0**	**17.8**
Core capital ratio, %	**18.0**	**15.8**
Capital ratio, % without IFRS9 transitional arrangements	**19.1**	**16.8**
Core capital ratio, % without IFRS9 transitional arrangements	**17.1**	**14.8**

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

Risk management
Merkur is exposed to different types of risks. The purpose of the cooperative bank's risk management is to minimise the losses that can arise as a consequence of e.g. 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 the cooperative bank from day to day. The board sets 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 risk management is carried out by the executive board and other senior employees. "

Credit risk
The most significant risks, given the nature of the cooperative bank's business, are credit risk. The cooperative bank's risk management policies are designed to ensure that transactions with customers and credit institutions continue to remain within the board's approved framework and security expectations. Furthermore, rules have been adopted that limit the exposure in connection with any credit institution with which the cooperative bank has business dealings.

The cooperative bank regularly monitors all loans and guarantees.

The cooperative bank classifies customers into credit rating groups - Table for the distribution of customers:

Credit quality grouping	**2019**	**2018**
1 – Objective evidence of impairment (OEI)	9	10
2 - Weak	0	0
3 - Customers under observation	10	7
4 - Good customers below average	18	21
5 - Good customers	33	38
6 - Good customers above average	27	21
7 - Solid customers	2	2
Not classifed*	1	1
Total	**100**	**100**

**Credit quality ratings are only applied to commitments that are larger than DKK 10,000. Generally, a more conservative approach to credit quality rating is applied, compared to previous years. Cf. "Accounting policies" under the section "Model for impairment of expected credit losses"*

The Danish FSA uses following categories for customers credit rating, which we in our model for impairment translate to the following:

	Objective evidence of impairment (OEI)	Significant signs of weakness	Some signs of weakness	Normal	Solid
FSA category	1	2c	2b	2a	3
Internal rating (BEC)	11	8-10	4-7	2-3	1

Accumulated impairment distributed across stage and FSA category

Stage FSA Category	1	2c	2b	2a	3	**Total**
1	200	988	3,299	1,198	71	**5,756**
2	4	48	445	76	11	**584**
2weak	180	3,724	4,289	126	22	**8,341**
3	68,930	3,131	992	10	-	**73,063**
Total	**69,314**	**7,891**	**9,025**	**1,410**	**104**	**87,744**

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

Sector and stage distribution for loans and gaurantees before impairment

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

Accumulated impairment distributed across sector and FSA category

Sector Stage	1	2	2svag	3	Hovedtotal
1. Public sector	**0**	**0**	**0**	**0**	**0**
2. Corporate sector					**-**
2.1 Agriculture, hunting, forestry and fishery	579	25	2,617	13,963	**17,184**
2.2 Industry and mining	153	3	558	2,427	**3,141**
2.3 Energy	145	-	105	-	**250**
2.4 Building and construction	56	-	41	653	**750**
2.5 Trade	72	57	538	2,783	**3,450**
2.6 Transport, hotels and restaurants	41	1	128	491	**661**
2.7 Information and communication	58	4	284	612	**958**
2.8 Credit, finance and insurance	223	4	7	4,116	**4,350**
2.9 Real estate	244	-	401	9,301	**9,946**
2.10 Others	840	44	915	23,692	**25,491**
2.10 Schools and kindergardens	659	100	1,699	3,283	**5,741**
Total corporate sector	**3,070**	**238**	**7,293**	**61,321**	**71,922**
					-
3. Personal customers	**2,686**	**346**	**1,048**	**11,742**	**15,822**
1-3 Total	**5,756**	**584**	**8,341**	**73,063**	**87,744**

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

Description of collateral
In accordance with Merkur's credit policy, loans are sought to be covered by collateral, which as a main rule happens by using real estate, movable property and/or claims as security. In addition, a company's shares may be used as security or a letter of subordination, as well as guarantees.

Market risks
The cooperative bank's market risks are managed through determined limits for a number of risk measurements. The calculations and monitoring occurs on a daily basis. The reporting is drawn up by the cooperative bank's accounting department. The executive board receives a daily report on risks. The Board receives reports on developments in market risk on a quarterly basis.

Currency risks
The cooperative bank carries accounts in foreign currencies for some individual customers. In connection with the cooperation with Triodos Bank, GLS Gemeinschaftbank, Cultura Sparebank and Ekobanken, the cooperative bank carries some individual accounts in EUR, NOK and SEK respectively. Finally, the cooperative bank carries some individual accounts in other main currencies.The cooperative bank's policy continues to be to maintain a neutral currency position. In practical terms, small positions may occur, which do not entail any substantial risk.

(DKK 1,000)	2019	2018
Assets in foreign currencies	-43,096	-51,706
Liabilities in foreign currencies	53,400	51,504
Non-balance-sheet items in foreign currencies	-127	-1,265
Net positions	**10,177**	**-1,467**
Of which are long positions	-142	-1,467
Of which are short positions = Currency Indicator 1	10,319	0
Currency Indicator 1 in percentage of core capital after deductions	**2,7**	**0,0**

Interest rate risk
The interest rate risk is calculated in accordance with the Danish Financial Supervisory Authority's guidelines. The cooperative bank's interest rate risk arises primarily by the placement of excess liquidity in variable and fixed rate bonds. The interest rate risk may, pursuant to Merkur's policy, constitute 1,5% of the capital base. The capital base has been calculated at T.DKK 375.742. The interest rate risk must therefore constitute a maximum of DKK 5.600 m.

The interest rate risk is calculated based on the following:		
Securities	2,596	2,167
Fixed rate deposits and loans	-1,081	-1,626
Total	**1,515**	**541**
The interest rate risk disaggregated across currencies with the greatest interest rate risk		
Currency:		
DKK	2,090	1,298
EUR	-705	-850
NOK	14	-3
SEK	116	96
Total	**1,515**	**541**
Interest rate risk in percentage of capital base:		
Securities	0.69	0.67
Fixed rate deposits and loans	-0.29	-0.50
Interest rate risk in percentage of capital base	**0.40**	**0.17**

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

The interest rate risk is defined as the loss that the cooperative bank will suffer on its capital base in the event that the effective interest rate increases by 1 percentage point on the fixed-rate exposures.

Share price exposure
The cooperative bank only buys shares in companies and credit institutions with which there exists a strategic cooperation or some other type of cooperative relationship. Shares are therefore not bought with the intention of selling. Merkur's share portfolio is to a large extent independent of developments in the overall stock market.

Liquidity risk
The cooperative bank's financial reserves are managed by maintaining adequate cash and cash equivalents, ultra-liquid securities and adequate credit facilities. The necessary cash and cash equivalents are determined so that it, at any given time, is stable and adequate. Merkur's liquidity is substantially above the minimum statutory requirement of 100%, cf. DSFA Diamond. Liquidity constitutes DKK 1.8 billion as of 31 December 2019.
Liquidity Coverage Ratio (LCR) is a key ratio that describes the level of high liquidity reserves compared to the expected outflow for the comming month. The statutory requirement is 100%. The cooperative bank has a current LCR of 461% which equals an excess of 361 percent points compared to the statutory requirement.

Operational risk
Written procedures have been drawn up in order to minimise dependence on individuals, just as contingency plans for IT are meant to limit losses in the event of lacking IT facilities or another similar crisis situation. Operational risk related to crime and liability is covered by insurance.

(DKK 1,000)	2019	2018

NOTE 35. Loans etc. to members of the board of directors and the executive board

Loans, credit lines etc. for the management		
Executive board	4,260	290
Board of directors	3,832	3,336
Collateral		
Executive board	0	0
Board of directors	1,074	1,982

Most important conditions
Loans to members of the Supervisory Board have been provided on Merkurs' general terms and conditions. Level of interest is within the interval of 2,75 - 9,5% p.a. Loans to board members elected by the employees have been provided at special employee rates, within the same interval as mentioned above. The board of directors does not have shares representing more than 25% in companies, which have outstanding accounts with Merkur. Pursuant to the Danish Executive Order on the Preparation of Financial Statemants article 120 paragraph 4 information about outstanding accounts with the Committee of Representatives is omitted.

(DKK 1,000)	2019	2018	2017	2016	2015
NOTE 36. Financial Highlights					
Income Statement (in mill DKK)					
Net income, interest and fees	142.2	139.0	130.7	125.6	113.4
Market value adjustments	1.0	-3.2	-5.6	9.7	-1.5
Staff and administration expenses	118.7	112.7	106.5	92.6	80.1
Impairment of loans/advances and receivables, etc.	11.3	17.1	36.6	17.0	14.0
Income from capital shares in associated companies	-0.8	0.1	0.0	0.0	0.0
Profit of the year	**9.1**	**3.1**	**-19.0**	**20.2**	**7.8**
Balance sheet (in mill DKK)					
Loans/advances*	1,667,9	1,676,4	1,752,4	1,676,0	1,430,9
Deposits	3,160,4	3,127,3	3,065,8	2,676,0	2,300,4
Equity*	365,1	311,5	315,9	316,9	249,3
Total assets*	3,704,1	3,611,1	3,536,4	3,146,2	2,688,0
Guarantees	637,4	619,5	675,9	685,4	480,9
Other data					
No. of clients	34,299	34,367	29,888	28,464	26,278
No. of shareholders	7,637	7,037	6,686	6,067	5,480
Financial ratios (%)					
Capital ratio*	20.0	17.8	16.3	17.5	16.6
Core capital ratio*	18.0	15.8	14.5	15.4	14.1
Return on equity before tax (%)	3.2	1.2	-7.1	8.5	3.6
Return on equity after tax (%)	2.7	1.0	-5.9	7.1	3.3
Income/cost ratio	1.1	1.0	0.9	1.2	1.1
Income/cost ratio before market value adjustments and impairments	1.2	1.2	1.2	1.3	1.4
Return on assets	0.2	0.1	-0.5	0.6	0.3
Interest-rate risk (%)	0.4	0.2	0.1	0.2	1.6
Currency position (%)	2.7	0.4	2.4	1.0	1.7
Currency risk (%)	0.0	0.0	0.0	0.0	0.0
Liquidity Coverage Ratio (LCR) in %**	460.6	527.8	448.0	364.0	-
Loans/advances + impairments in % of deposits	55.6	56.9	59.5	64.6	64.4
Loans/advances relative to equity	4.6	5.3	5.5	5.3	5.7
Growth in loans/advances of the year	-0.5	-4.1	4.6	17.1	4.7
Sum total of large-scale commitments in % of capital base	30.3	11.6	35.5	53.5	37.3
Top 20 exposures in percentage of core capital	133.5	137.5	162.0		
Share og accounts receivable with reduces interest	1.1	1.3	2.1	1.2	1.5
Impairment ratio of the year	0.5	0.7	1.5	0.7	0.7
Accumulated impairment ratio	3.7	4.0	2.9	2.3	2.6

** Loans, equity and core capital has been negativly affected by changed accounting practices regarding amortised loan document fees*

*** the key ratio replaced §152-liquidity from 2018*