MERKUR
COOPERATIVE BANK

# Interim Report

## 1 January – 30 June 2020

# Contents

# Information about Merkur Cooperative Bank

## Main office

Merkur Cooperative Bank
Vesterbrogade 40, 1
DK-1620 Copenhagen V
CVR No.: 24255689
Municipality of domicile: Copenhagen

## Board of Directors

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

## Executive Board

Lars Pehrson, CEO
Charlotte Skovgaard
Alex Andersen

## Audit Committee

Jakob Brochmann Laursen (Chair)
Henrik Tølløse
Cees Kuypers

## Auditors

PwC, Statsautoriseret Revisionspartnerselskab

# Statement by the Executive Board and the Board of Directors

We have on this date considered and approved the interim report of Merkur Cooperative Bank for the period 1 January – 30 June 2020.

The interim report has been prepared in accordance with the Danish Financial Business Act, including the Executive Order on the Financial Reports for Credit Institutions and Investment Firms etc. In our opinion, the selected accounting policies are appropriate, ensuring that the interim report gives a true and fair view of the cooperative bank's assets, liabilities, financial position and results.

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

The external auditors have not audited or reviewed the interim report.

Copenhagen, 27 August 2020

**Executive Board:**

| | |
|---|---|
| Lars Pehrson, CEO | Alex Andersen |
| Charlotte Skovgaard | |

**Board of Directors:**

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

# Management review for H1 2020

## H1 2020 at a glance

For Merkur, the start of the year was characterised by a high level of customer activity as well as a strong focus on internal optimisations and efficiency improvements in line with our plans for 2020 as an investment year. The start of the coronavirus pandemic halfway through Q1 markedly changed conditions in our market. The high degree of uncertainty created by the pandemic led to lower levels of activity in parts of our business, especially for our lending activities, and like most other banks, Merkur has made relatively substantial provisions to cover any future losses.
We are therefore posting a loss of DKK 15.4m for H1, which is essentially attributable to the corona crisis. Without the impact of the corona crisis, we would have posted a small profit of a couple of million kroner for H1, which would have been in line with our plans for 2020 as an investment year.
We – and the rest of the banking sector – are still facing a high degree of uncertainty as we enter the second half of the year. What will the situation be for our customers after the phase-out of the rescue packages? Are we heading for a second wave? Will low levels of activity in our neighbouring countries lead to job losses in Denmark? How will unemployment levels be affected? These are questions which – for obvious reasons and along with many other questions – we cannot answer, but we have tried to estimate what the inability of some of our customers to pay may potentially cost Merkur. This estimate has resulted in a special provision of DKK 17.1m to cover possible further impairment charges and losses resulting from the corona crisis. Changes in behaviour are also having an impact on our business: While the investment appetite of individuals and businesses are at an all-time low, the corona crisis also led to a marked decline in the use of debit cards in H1, which is resulting in lower transaction income. We are also seeing a significant decline in foreign travel and currency withdrawals, which is also impacting revenue for Merkur.
On a more positive note, however, so far many of Merkur's customers seem relatively unaffected financially by the corona crisis. This goes, for example, for some of our important sectors such as organic farming, the food industry, schools and institutions.

We had already decided to make a number of investments in 2020, for example by devoting additional resources to optimising our internal processes, among other things by means of robots. We are also going to be laying the tracks for the new Merkur, both strategically and organisationally. During this change process, we will be making increased use of consultants, students and temporary employees in order to ensure a good working environment and swift deliveries. The corona crisis has not changed any of this – we remain committed to making sure that Merkur is geared for the future.

Generally speaking, H1 brought virtually no change to our lending portfolio. We are pleased that we have been able to maintain lending levels. In a market dominated by the coronavirus, the development is acceptable. The general economic downturn, combined with improved liquidity for many business customers, who have been able to defer their VAT and withholding tax payments, is causing a natural decline in financing needs. We estimate lending to be impacted by the government's liquidity-boosting initiatives to the tune of between DKK 65m and DKK 80m due to less use of credit facilities. However, as our total lending is virtually unchanged, it means that we have succeeded in increasing other types of lending. The net effect is that interest income from loans is also almost unchanged at DKK 43m.

H1 saw an increase in deposits by DKK 209m to DKK 3.3bn, resulting in increasing interest payments to Danmarks Nationalbank (the Danish Central Bank), but the negative interest rate on deposits is to some extent compensating for this.

Merkur offers a broad range of sustainable investment products. Interest in sustainable investments is growing, and despite the price dives seen at the beginning of the corona crisis, our customers have now invested almost DKK 1.5bn in sustainable investment funds. Transaction numbers have also been high, and both factors are contributing positive earnings from our investment activities in the amount of DKK 6.5m, up DKK 3m on the prior-year period.

**Merkur now has more than 8,000 shareholders**

Merkur's unique values are appealing to ever more people, and in the first half we welcomed more than 400 new shareholders. Together with our existing customers, they have contributed capital of DKK 10m. We now have a total of 8,008 shareholders.
The interest rate environment remains negative, and we see no signs of this changing in the foreseeable future. We have therefore taken the necessary steps to make sure that we do not lose so much on the deposits entrusted to us by our customers. On a positive note, it is worth noting that conditions remain favourable for taking out or converting mortgages. Thus, a 30-year 1% fixed-rate mortgage can currently be obtained at a price of close to 100. This allows many customers to fix their financing costs at an attractive level well into the future.

At the beginning of the year, we could see that our efforts to increase our operating profit were working. However, the adverse effects of the coronavirus soon started making themselves felt. Our profit from ordinary operations is therefore below budget, but exclusive of provisions for corona-related impairment charges and other effects of the crisis, a profit of a couple of million Danish kroner would have been posted. This is almost in line with our expectations, and we consider the results satisfactory, given that H1 was impacted both by massive investments in process improvements and by the added costs of an organisational change process designed to strengthen Merkur in the long term. The next six months remain subject to a lot of uncertainties, but the trends we saw at the beginning of the year, before the corona crisis hit, offer grounds for optimism. At the same time, we are laying the tracks for an even more streamlined organisation and have planned a number of activities, which will materialise in the autumn. We therefore expect to post a profit for H2 of DKK 2-9m. For the full year, a loss after tax of DKK 8-14m is expected. This represents a lowering of our expectations compared to the guidance of a profit after tax of DKK 6-12m announced at the beginning of the year. The lowered guidance is primarily ascribable to the corona pandemic.

**Estimated impact of the corona pandemic***

| | **H1 2020** | **H2 2020** | **2020 in total** |
|---|---|---|---|
| Estimates by management | DKK -17.1m | DKK 0.0m | DKK -17.1m |
| Lower travel costs | DKK +0.5m | DKK +0.3m | DKK +0.8m |
| Less transaction income | DKK -1.2m | DKK -1.0m | DKK -2.2m |
| Lower demand for foreign currency | DKK -0.6m | DKK -0.5m | DKK -1.1m |
| Less revenue from lending | DKK -2.2m | DKK -2.2m | DKK -4.4m |
| Other deferred activities | DKK -1.0m | DKK 0.0m | DKK -1.0m |
| **Total** | **DKK -21.6m** | **DKK -3.4m** | **DKK -25.0m** |

* Our estimates of the potential impact of the corona pandemic are associated with considerable uncertainty. Please see the outlook for the rest of 2020 on page 13.

# Financial developments

## Results and operations

Net interest and fee income totalled DKK 70.6m, up DKK 3.9m compared to the prior-year period.

Net interest income was up DKK 1.3m in H1 2020, which is primarily attributable to the fact that personal customers are now also paying negative interest on deposits of more than DKK 250,000.

In H1 we increased our fee and commission income by DKK 2.8m compared to last year, which is mostly attributable to additional investment-related income.

Together with income from share dividends, this means a total increase in net interest and fee income of DKK 3.9m.

**Net interest and fee income increases by DKK 3.9m**

Despite the positive development relative to 2019, we have – for the reasons already described – not met our budgetary targets. A loss of DKK 15.4m was posted for H1 2020, which is significantly down on last year's H1 profit of DKK 6.3m.The loss can be attributed to the effects of the corona crisis, in particular a management estimate of possible future impairment charges of DKK 17.1m.

Merkur still has too little income and too many costs, but we are heading in the right direction. In the first half of the year, we started implementing a number of process improvements, all of which will either save time or improve the quality or speed of a given process – our focus has, in particular, been on improving the way in which we welcome new customers. We are also working hard to optimise the customer experience for our existing customers, for example by guaranteeing faster response times. Along with more planned improvements, these are important steps when it comes to offering a positive customer experience for new as well as existing customers. The process improvements will help us to strike a markedly better balance between income and costs in the long term.

Merkur's main source of income is still interest related to lending. Lending developed more slowly than budgeted in H1,but is largely unchanged in a difficult market. Towards the end of H1, we attracted a great deal of attention as a result of our announcement of a halt to loans for new petrol and diesel cars in conjunction with an offer of attractive loans for electric and plug-in hybrid cars. Merkur is the first financial institution in Denmark to take this position. Our portfolio also includes EU-guaranteed loans to social enterprises and institutions. These loans are, for example, offered for energy-improving renovation projects. It is positive that the guarantee scheme forming part of the EU's COVID-19 response package has been improved, which means that we can now offer loans of up to DKK 7.4m per customer under this scheme. Our list of product offerings is long, and we expect customer influx to result in lending being maintained at a level similar to the lending level at the end of H1.

IT costs are accounting for an increasing share of Merkur's total costs. We have spent a total of DKK 18m, which is approximately DKK 2.5m more than in H1 2019. Most of these costs were expected development costs in areas such as cybersecurity, compliance, GDPR and anti-money laundering. One million is attributable to a conscious choice by Merkur to invest in innovation and consultancy services for our continuous process optimisations and is thus part of our special investment efforts in 2020.

Staff costs for H1 are DKK 2.8m higher than for the prior-year period. The increase is mainly due to one-off costs of DKK 1.7m in connection with organisational changes. As expected, the increase also covers collective pay increases, higher financial services employer taxes and fierce competition for specialist employees.

Market value adjustments have fallen sharply compared to last year from a positive DKK 2.4m to a negative DKK 0.2m. However, H1 2020 paints a truer picture as last year's positive result included a one-off gain from the sale of our Sparinvest Holding portfolio.

Losses and impairments amount to DKK 24.5m, compared to just DKK 3.3m in H1 2019. As mentioned earlier, an amount of DKK 17.1m is attributable to a management estimate of the consequences of the corona crisis.

Financial developments in H1 2020 and 2019 can be summarised as follows:

| *DKK '000* | **H1 2020** | **H2 2019** | **H1 2019** |
|---|---|---|---|
| Net interest income | 41,076 | 42,498 | 39,794 |
| Other income | 29,525 | 32,935 | 26,931 |
| Net interest and fee income etc. in total | 70,601 | 75,433 | 66,725 |
| Market value adjustments etc. | 159 | -2,008 | 2,428 |
| Costs and depreciation | -65,853 | -61,661 | -58,841 |
| Losses and impairments, including management estimates | -24,506 | -8,009 | -3,317 |
| **Profit before tax** | **-19,599** | **3,755** | **6,995** |

Both income and costs are up compared to the prior-year period. Income for H1 2020 is also impacted extraordinarily by the corona situation. Historically, Merkur's earnings have been significantly higher in the second half, compared to the first half of the year, due to the distribution of activities over the year. In addition, we have announced price increases that will ensure that all our customers contribute more to covering our operating costs. Impairments are expected to remain stable in the second half. We therefore expect our earnings and profit to improve in the second half of the year.

## Share price

The value of the Merkur share has decreased from DKK 1,788.70 at the end of 2019 to DKK 1,715.80, equating to a 4.1% decrease in six months (EUR shares are lowered from EUR 447.18 to EUR 428,95).This is a direct consequence of the loss posted for the period, which relates to the corona crisis.

### Balance sheet

Merkur attracted 1,345 new customers in H1 2020. We are proud of this influx of customers, which we expect to continue now that we will be offering even more value for even more customers. However, we have seen a decline in total customer numbers, from 34,299 at the end of 2019 to 33,746. This development is in line with our expectations and can be attributed, among other things, to our weeding-out of inactive customer relationships and the settlement of a number of loans which have been offered to customers in partnership with energy companies.

We saw yet another marked increase in deposits, up 6.6% (DKK 209m) at DKK 3,370m since the beginning of the year. Some of this increase is corona-related as many customers have been allowed to defer their VAT and tax payments.

Merkur's deposit surplus has grown by DKK 222m, from DKK 1,614m at the beginning of the year to DKK 1,836m at the end of H1. The deposit surplus represents considerable potential for extending loans to good projects, provided that equity is also increased proportionately. At the same time, we are working hard to increase customer interest in the investment products that Merkur is making available together with partners such as Triodos, Sparinvest, Maj invest and SDG Invest. Even though the investment portfolios have grown significantly, the increase has not been sufficient to absorb the growth in deposits.

Under difficult lending conditions, lending fell marginally by DKK 2m in the first half of the year to DKK 1,666m. A pipeline of granted but yet to be disbursed loans will, among other things, contribute to boosting lending in future, combined with lending to new customers, for example as a result of the campaigns that have been or will be launched, such as campaigns for loans to finance electric cars.

Customers are generally keen to repay debt and boost their savings for the future. This is one of the reasons why the repayment of existing loans creates a need for new lending to the tune of more than DKK 50m per quarter to maintain lending volumes at current levels.

## Thematic distribution of Merkur’s lending

| | Number | % | Amount (DKK '000) | % | Committed (DKK '000) | % | *Committed 31.12.2019* | *Dev. relative to 2019* |
|---|---|---|---|---|---|---|---|---|
| **Education and Culture** | **499** | **3,6%** | **257.973** | **10,7%** | **312.590** | **10,9%** | **352.026** | **-11,2%** |
| **People and Health** | **317** | **2,3%** | **133.877** | **5,6%** | **169.898** | **6,1%** | **192.631** | **-11,8%** |
| **Food products** | **460** | **3,4%** | **406.628** | **16,8%** | **486.044** | **17,0%** | **488.064** | **-0,4%** |
| **Environment and Energy** | **2854** | **20,8%** | **296.588** | **12,3%** | **386.351** | **13,6%** | **359.080** | **7,6%** |
| **Communities** | **194** | **1,4%** | **178.563** | **7,4%** | **200.515** | **7,1%** | **192.211** | **4,3%** |
| **Ordinary loans, credits and guarantees** | **9385** | **68,5%** | **1.142.999** | **47,3%** | **1.285.900** | **45,4%** | **1.240.111** | **3,7%** |
| **Total** | **13.709** | **100,0%** | **2.416.628** | **100,0%** | **2.841.298** | **100,0%** | **2.824.123** | **0,6%** |

Merkur is the only bank in Denmark to be offering loans only to business customers who support one of our five focus areas, all of which point towards a sustainable future. Loans to personal customers can also be found in these categories, but due to the many home loans taken out by personal customers, they are mainly found in the category ‘Ordinary loans, credits and guarantees’.
The most marked relative change in the composition of guarantees, ordinary loans and credits is in the ‘People and Health’ category, which includes residential care institutions, fairtrade and alternative therapists etc. Committed loans in this category are down 11.8% since the New Year and now total DKK 170m, compared to DKK 193m at the end of last year. This development is mainly ascribable to extraordinary redemptions.

Looking at the absolute change, we see a decrease in ‘Education and Culture’ of DKK 40m, or 11.2%. This is explained, among other things, by a migration of loans to ‘Environment and Energy’, as a number of our schools are in the process of energy-improving their buildings. In addition, some customers have taken out mortgages instead of bank loans, for example to repay building loans, which means that the loans disappear from Merkur’s balance sheet.

The biggest increase (7.6%) is noted in the ‘Environment and Energy’ category due to strong interest in energy optimisation. We can, for example, help our schools, social institutions, sports halls etc. with favourable loans under the EU EaSI guarantee scheme, which Merkur is the only Danish financial institution to be offering to its customers. The guarantee is free of charge, both for the customer and the bank.

## Investments

Merkur’s customers have become increasingly interested in investing some of their savings, which is positive both for Merkur and for our customers. More people are keen for their money to make a positive impact on society. Positive impact may be achieved through the bank’s lending, but also through impact investments – which can even generate a return for customers, instead of zero interest or even negative interest on their deposits.

Merkur offers a wide range of socially, ethically and environmentally screened investment products – the development in customer investments in the past year can be illustrated as follows:

| Market value of investments | | | | | |
|---|---|---|---|---|---|
| **Investments in DKK '000** | **Q2 19** | **Q3 19** | **Q4 19** | **Q1 20** | **Q2 20** |
| Triodos | 882,150 | 985,305 | 1,118,080 | 1,154,738 | 1,262,665 |
| Sparinvest | 276,427 | 276,860 | 200,700 | 170,692 | 168,231 |
| SDG Invest | 15,887 | 20,623 | 29,296 | 33,258 | 40,694 |
| Maj Invest | 8,398 | 8,574 | 9,376 | 7,760 | 8,405 |
| **Total** | **1,182,862** | **1,291,362** | **1,357,453** | **1,366,447** | **1,479,995** |
| **Change in % relative to last quarter – total market value** | 5% | 8% | 5% | 1% | 8% |

The first half of the year was a turbulent time for investment returns. Prices fell sharply in Q1 (except for bonds) due to the corona crisis, but most of the losses have been regained in Q2. This year's growth in market value of approximately DKK 122m can therefore be attributed primarily to an increase in purchases of investment certificates. We can see that our impact-first funds (microfinance and renewable energy) are generally more stable during times of large price fluctuations.

## Capital structure

Merkur's equity has been increased by DKK 10m since the end of 2019 (3%), which is very positive and a sign of confidence on the part of our shareholders and customers. This is something we greatly appreciate. Over a 12-month period, growth is DKK 26m, or 9%. We expect share subscription to continue at the same level in H2.
Our equity (totalling DKK 360m) consists mainly of three elements: Paid-up share capital (DKK 325m), accumulated results for the current and previous years (DKK 30m) and other reserves (DKK 5m).

As at 30 June 2020, our capital base total DKK 398m after deductions, compared with DKK 416m at the end of 2019, representing a decrease of 4.3%. The decrease is mainly due to the loss posted for H1. This is to some extent compensated by the new subscription of shares. Continuous subscription of shares is important to enable both moderate growth in lending and to meet the increasing capital requirements.

**Newly subscribed share capital of DKK 10m**

The decrease in Tier 1 capital is, of course, primarily ascribable to the loss posted for the period, but deductions under the special transitional arrangements in connection with the phasing-in of the IFRS 9 Impairments rules also contribute around DKK 3m.

Nevertheless, the capital ratio was up at 20.4% on 30 June 2020, which is the highest level in the history of Merkur. This represents an 0.4% increase relative to the end of 2019. The reason for this must be found in a new EU support package, which brings forward a number of changes to the capital requirements rules already adopted. Due to the corona situation, the EU has decided to accelerate the positive parts of the new capital rules in order to facilitate lending by banks to small and medium-sized enterprises. This measure amends the method for calculating total risk-weighted assets, which for this reason decrease by EUR 130m compared to the level at the end of last year.

Merkur's individual solvency requirements is calculated at 11.3%, which means that our solvency requirement has decreased by 0.2 percentage points since the end of last year. Apart from the above-mentioned decrease in risk-weighted assets, the change is primarily attributable to the furnishing of additional collateral by a number of our large customers. The extraordinarily weak basic earnings in H1 2020 make a negative contribution to the calculation of our solvency requirement, which is, however, offset by the above-mentioned reduction in credit risk.

| | 30 June 2020 | 31 December 2019 |
|---|---|---|
| Equity | 359,638 | 365,052 |
| Adjustment for IFRS 9 implementation | 15,524 | 18,850 |
| Deferred tax deduction | -13,313 | -7,476 |
| Other deductions and adjustments | -2,855 | -683 |
| **Tier 1 capital after deductions** | **358,828** | **375,743** |
| Tier 2 capital | 39,525 | 40,596 |
| **Capital base** | **398,353** | **416,338** |
| | | |
| Credit risk exposures | 1,652,629 | 1,788,205 |
| Market risk exposures | 45,810 | 47,647 |
| Operational risk exposures | 252,678 | 248,444 |
| **Total risk exposures** | **1,951,116** | **2,084,296** |
| | | |
| **Tier 1 capital ratio** | **18.4%** | **18.0%** |
| **Capital ratio** | **20.4%** | **20.0%** |

| **Excess capital adequacy** | **30 June 2020** | **30 June 2020** | **31 Dec 2019** | **31 Dec 2019** |
|---|---|---|---|---|
| Weighted assets (basis for calculating capital ratio) | | 1,951,116 | | 2,084,296 |
| Capital ratio (capital base relative to weighted assets) | 20.4% | 398,028 | 20.0% | 416,859 |
| Solvency requirement | 11.3% | 219,855 | 11.5% | 238,784 |
| **Excess capital adequacy before buffer requirement** | **9.1%** | 178,173 | **8.5%** | 178,075 |
| Capital conservation buffer | 2.5% | 48,778 | 2.5% | 52,107 |
| Countercyclical capital buffer | 0.0% | - | 1.0% | 20,843 |
| **Excess capital adequacy after buffer requirement** | **6.6%** | 129,395 | **5.0%** | 105,125 |
| MREL requirement | 1.9% | 37,071 | 0.6% | 12,506 |
| **Excess capital adequacy after buffer and MREL requirements** | **4.7%** | 92,324 | **4.4%** | 92,619 |

With the current capital ratio of 20.4%, this results in excess capital adequacyrelative to the minimum solvency requirement of 9.1% or DKK 178m.
In addition to meeting the minimum solvency requirement, Merkur, like all other financial institutions, must have a capital conservation buffer of 2.5%. In connection with the corona crisis, the countercyclical capital buffer rate has been set to zero. In addition to these two requirements, the MREL requirements for 2020 are of own funds and eligible liabilities of 1.9%, in total 4.4% of the risk-weighted assets or DKK 86m.The total capital requirement is thus 15.7% – based on a capital ratio of 20.4%, the result is excess capital adequacy of 4.7 percentage points.

Based on our current knowledge and expectations for the second half of the year, we expect to end the year with excess capital adequacy of 5 percentage points. In light of the current circumstances, we consider the current level to be satisfactory.

## Supervisory diamond

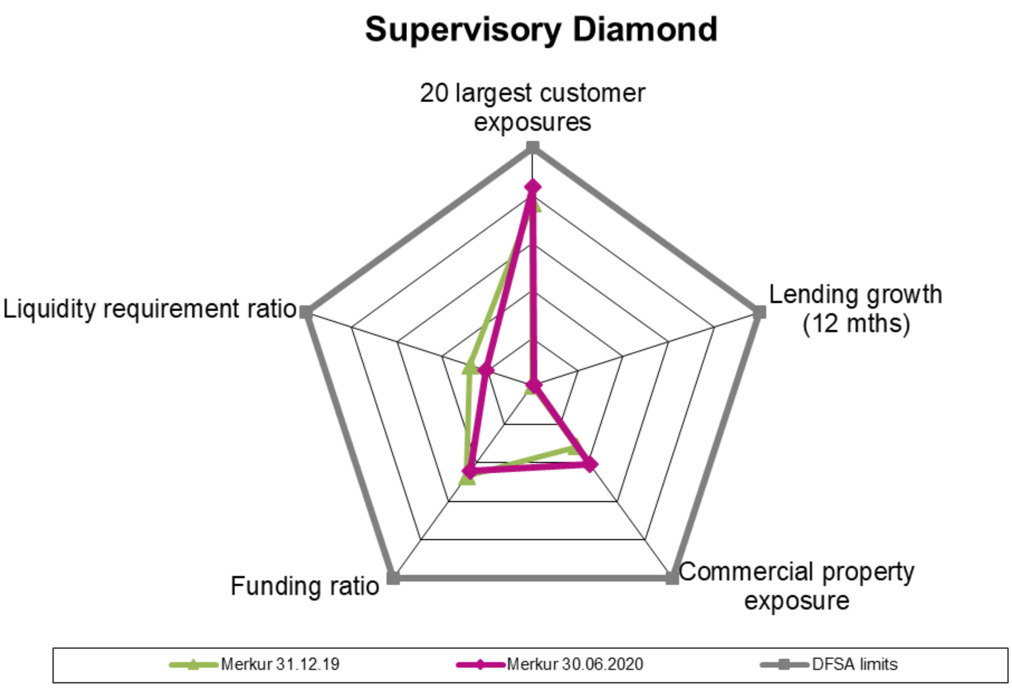
The Danish Financial Supervisory Authority has defined a number of elements (or limit values) intended as an early warning system that a bank is assuming excessive risk.

The five elements are arranged in a pentagon, or 'diamond':

1. **Sum of large exposures:** The sum of the 20 largest customer exposures should not exceed 175% of the financial institution's common equity Tier 1 capital.
2. **Funding ratio:** Loans measured in relation to working capital (deposits + equity + subordinated capital injections[1]) should be no more than 1:1.
3. **Liquidity requirement ratio:** Indicates the ability of the financial institution to survive liquidity stress for a period of three months. This means measuring the financial institution's liquid assets of high quality against expected outflows of capital, less expected inflows of capital. By law, the liquidity requirement ratio must be higher than 100%.
4. **Commercial property exposure:** The financial institution should have a maximum exposure to the real estate sector of 25% of its total loans and guarantee debtors. It should be stressed that the real estate sector does, of course, comprise many other activities apart of the speculators who received a great deal of attention during the financial crisis.
5. **Lending growth:** Annual lending growth should not exceed 20% after impairments.

It should be stressed that exceeding the limit values does not in itself imply a breach of law (except for the liquidity risk limit value) – however, it will lead to varying degrees of increased attention and intervention by the Financial Supervisory Authority.

At the end of H1 2020, Merkur meets all the five limit values with a margin deemed by the management to be suitable. Only marginal changes have been seen since the turn of the year.




[1] Issued bonds with a remaining term to maturity of more than 1 year and debt to Danmarks Nationalbank with a remaining term to maturity of more than 1 year can also be included, but this is not relevant for Merkur at the moment.

| The supervisory diamond in numbers | 30 June 2020 | 31 December 2019 | Diamond limit values |
|---|---|---|---|
| 20 largest customer exposures | 146.3% | 133.5% | Max. 175% |
| Funding ratio | 44.3% | 47.0% | Max. 100% |
| Liquidity requirement ratio | 489.6% | 460.6% | Min. 100% |
| Commercial property exposure | 10.2% | 7.9% | Max. 25% |
| Lending growth (12 mths) | -0.1% | -0.4% | Max. 20% |

## Outlook for the rest of 2020

The outlook for the second half of 2020 will to a large extent depend on how the corona crisis develops. At the time of writing, it is difficult to predict the impact of the coronavirus on our lending, but also its impact on other income-generating activities, including property sales, transaction income, foreign exchange income, conversions etc. On the cost side, a big question hangs over the level of impairments as the aid packages are phased out, and any potential new restrictions are introduced. Against this background, the outlook for the second half of the year is associated with considerable uncertainty.

Merkur expects lending growth of 0-2% in H2. The uncertainty relates, in particular, to the normalisation of tax and VAT payments and when this will start affecting our customers' credit lines, as deadlines vary. Deposits are expected to decline slightly due to an increased focus on alternative investments in the advice we offer to our customers. Also, deposits are expected to be reduced once the deadlines for paying VAT and withholding tax are normalised. We expect our share capital to increase by DKK 10-14m in H2.

The second half of the year will probably be characterised by some activity in the mortgage credit area – not least property sales – which will be reflected in our earnings. Moreover, we expect to see an increase in new mortgage loans in our Totalkredit and DLR portfolios. At the same time, we expect activity levels to remain high in the area of investments and pensions, which is also expected to have a positive impact on our H2 results.

We expect a moderate level of impairments in H2. We deem the societal uncertainty related to COVID-19 to have been covered by management estimates. Management estimates of impairment charges are always associated with considerable uncertainty, as they are influenced by a multitude of factors. At present, the most important factor has to do with the general socio-economic development.

The estimate for the second half of the year is a profit of DKK 2-9m before tax. The estimate for the full year is a loss of DKK 10-17m before tax and DKK 8-13m after tax.

## Focus areas 2020

## Accounting policies

### Uncertainties in recognition and measurement
In the opinion of management, no uncertainties are associated with recognition and measurement over and above what normally follows from the fact that the calculation of accounting values is always to some extent based on estimates and judgements.

No exceptional circumstances affected recognition and measurement in H1.

Our accounting policies were amended on 1 January 2020 following the implementation of IFRS 16. IFRS 16 is an accounting standard that introduces new rules on leases but which also affects the accounting treatment of leased property. All leases must be recognised by the lessee in the form of a lease asset presented as the value of the right to use the underlying asset. Lease assets and lease liabilities are recognised from the time when the bank acquires the right to use such assets. At initial recognition, the asset is measured at the present value of the lease liability including costs. At the same time, the present value of the agreed lease payments is recognised (using the internal rate) as a liability.
As regards the lease agreements for the premises leased by Merkur in Aarhus and Copenhagen, the expected terms of the leases are identical to the periods of non-terminability set out in the lease agreements with the option of an extension for agreements which are terminable within a short period of time, so that the terms of non-terminated leases are at least four years. The effect of this change to our accounting policies is a DKK 6.9m increase in the value of properties. Other liabilities are also increased by DKK 6.9m. The change in accounting policies will have no effect on equity. In the income statement, lease payments will in future be converted to depreciation and interest. The comparative figures in the interim report have not been restated.

Apart from the above, accounting policies are applied consistently with the 2019 financial statements.

### Events after the end of the period
No events have occurred after the end of the accounting period which affect the assessment of the interim financial statements.

**Merkur Cooperative Bank**

# Income statement January-June 2020

***(In 1,000 DKK)***

| Note | | 30 June 2020 | 30 June 2019 |
|---|---|---|---|
| 1 | Interest income | 44,028 | 44,112 |
| 1 | Negative interest income | -5,302 | -4,691 |
| 2 | Interest expenses | -1,633 | -1,799 |
| 2 | Negative interest expense | 3,983 | 2,172 |
| | **Net interest income** | **41,076** | **39,794** |
| | Dividends from shares etc. | 64 | 308 |
| 3 | Charges, fees and commission income | 33,667 | 30,332 |
| | Charges, fees and commission expenses paid | -4,206 | -3,707 |
| | **Net interest and fee income** | **70,601** | **66,726** |
| 4 | Market value adjustments etc. | -202 | 2,360 |
| | Other operating income | 10 | 68 |
| 5 | Staff costs and administrative expenses | -64,126 | -58,008 |
| | Depreciation of tangible assets* | -1,727 | -783 |
| | Other operating expenses | -52 | -52 |
| | **Operating result before tax and provisions** | **4,505** | **10,312** |
| | | | |
| 6 | Impairment charges for loans etc. | -24,506 | -3,317 |
| | Share of profit or loss of associates | 403 | 0 |
| | **Profit before tax** | **-19,599** | **6,994** |
| | | | |
| | Calculated tax on profit for the period | 4,203 | -651 |
| | **Profit after tax** | **-15,396** | **6,343** |

# Balance sheet

## ASSETS *(IN 1,000 DKK)*

| Note | | 30 June 2020 | 31 December 2019 | 30 June 2019 |
|---|---|---|---|---|
| | Cash in hand and demand deposits with central banks | 49,121 | 79,688 | 1,609,813 |
| | Due from credit institutions | 1,831,951 | 1,570,752 | 44,328 |
| 7/8 | Loans at amortised cost | 1,665,683 | 1,667,873 | 1,709,027 |
| | Bonds at fair value | 226,797 | 227,735 | 228,223 |
| | Bonds at amortised cost | 0 | 0 | |
| | Shares etc. | 38,057 | 37,259 | 40,204 |
| | Investments in associates | 2,164 | 2,164 | 2,652 |
| | Investments in affiliated undertakings | 989 | 989 | 1,094 |
| | Intangible assets | 655 | | |
| | **Land and buildings** | | | |
| | Investment properties | 0 | 0 | 0 |
| | Domicile properties | 10,729 | 10,879 | 11,029 |
| | Leased domicile properties* | 6,030 | | |
| | **Total land and buildings** | **16,759** | **10,879** | **11,029** |
| | Tangible assets | 2,058 | 2,155 | 2,439 |
| | Current tax assets | 802 | 422 | 980 |
| | Deffered tax assets | 14,113 | 9,910 | 9,846 |
| | Assets in temporary possession | 0 | 7,575 | 7,100 |
| | Other assets | 54,402 | 84,002 | 78,086 |
| | Prepayments and accrued income | 11,059 | 2,662 | 2,863 |
| | **TOTAL ASSETS** | **3,914,609** | **3,704,064** | **3,747,684** |

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

## EQUITY AND LIABILITIES *(IN 1,000 DKK)*

| Note | | 30 June 2020 | 31 December 2019 | 30 June 2019 |
|---|---|---|---|---|
| | **Debt** | | | |
| | Due to credit institutions and central banks | 93,093 | 86,883 | 110,650 |
| 9 | Deposits and other debt | 3,369,893 | 3,160,409 | 3,208,499 |
| | Current tax liabilities | 0 | 0 | 0 |
| | Other liabilities | 38,135 | 34,161 | 26,011 |
| | **Total debt** | **3,501,121** | **3,281,453** | **3,345,160** |
| | **Provisions** | | | |
| | Provisions for pensions and similar liabilities | 2,045 | 303 | 293 |
| | Provisions for losses on guarantees | 1,902 | 8,785 | 3,001 |
| | Provisions for other obligations | 2,235 | 0 | 1,267 |
| | **Total provisions** | **6,182** | **9,088** | **4,561** |
| | Subordinated debt | 47,667 | 48,472 | 48,526 |
| | **Equity** | | | |
| | Share capital | 205,173 | 199,606 | 190,393 |
| | Share premium account | 120,013 | 115,597 | 108,268 |
| | Other reserves | 4,708 | 4,708 | 4,708 |
| | Retained earnings, including profit for the period* | 29,745 | 45,140 | 46,069 |
| | **Total equity** | **359,639** | **365,051** | **349,438** |
| | **TOTAL LIABILITIES** | **3,914,609** | **3,704,064** | **3,747,684** |
| | **OFF-BALANCE SHEET ITEMS:** | | | |
| | Guarantees etc. | 639,597 | 637,363 | 649,414 |
| | **TOTAL OFF-BALANCE SHEET ITEMS** | **639,597** | **637,363** | **649,414** |

*IFRS9 method change effect is from 2019 included in the retained earnings

## Statement of Capital

| *(In 1,000 DKK)* | **30 June 2020** | **31 December 2019** | **30 June 2019** |
|---|---|---|---|
| Share capital, beginning of year | 199,606 | 174,608 | 174,608 |
| New paid-up share capital | 5,567 | 24,998 | 15,785 |
| **Share capital, end of period** | **205,173** | **199,606** | **190,393** |
| | | | |
| Share price, end of the period. | 1,716 | 1,789 | 1,795.00 |
| | | | |
| Share premium account, beginning of year | 115,597 | 96,131 | 96,131 |
| Share premium during the year | 4,416 | 19,476 | 12,137 |
| Other comprehensive income | 0 | -10 | 0 |
| **Share premium account, end of period** | **120,013** | **115,597** | **108,268** |
| | | | |
| Other reserves, beginning of year | 4,708 | 4,708 | 4,708 |
| Adjustment of opening figures due to adjustments pertaining to earlier years | 0 | 0 | 0 |
| **Other reserves, end of period** | **4,708** | **4,708** | **4,708** |
| | | | |
| Retained earnings, beginning of year | 45,141 | 36,080 | 39,725 |
| Retained earnings for the period | -15,396 | 9,060 | 6,344 |
| **Retained earnings, end of period** | **29,744** | **45,140** | **46,069** |
| | | | |
| ***Composition of equity, end of H1:*** | | | |
| Share capital | 205,173 | 199,606 | 190,393 |
| Share premium account | 120,013 | 115,597 | 108,268 |
| Other reserves | 4,708 | 4,708 | 4,708 |
| Retained earnings from previous years | 45,141 | 36,080 | 39,725 |
| Retained earnings for the period | -15,396 | 9,060 | 6,344 |
| **TOTAL EQUITY** | **359,638** | **365,051** | **349,438** |

# NOTES

| Note | *(In 1,000 DKK)* | 30 June 2020 | 30 June 2019 |
|---|---|---|---|
| 1 | **Interest income from:** | | |
| | Accounts receivable from credit institutions and central banks | 20 | 17 |
| | Lending | 43,158 | 43,436 |
| | Bonds | 850 | 659 |
| | Other interest income | 0 | |
| | **Total interest income** | **44,028** | **44,112** |
| | Of which income from repo transactions | 0 | |
| | | | |
| 1 | **Negative interest income** | | |
| | Accounts receivable from credit institutions and central banks | -5,142 | -4,633 |
| | Bonds | -160 | -58 |
| | **Total negative interest income** | **-5,302** | **-4,691** |
| | | | |
| | **Total interest income** | **38,726** | **39,421** |
| | | | |
| 2 | **Interest expenses for:** | | |
| | Credit institutions and central banks | -17 | -38 |
| | Deposits | -218 | -536 |
| | Subordinated debt | -1,257 | -1,225 |
| | Other | -143 | 0 |
| | **Total interest expenses** | **-1,633** | **-1,799** |
| | Of which expenses relating to repo transactions | 0 | |
| | | | |
| 2 | **Negative interest expense** | | |
| | Deposits and other debt | 3,983 | 2,172 |
| | **Total negative interest expenses** | **3,983** | **2,172** |
| | | | |
| | **Total interest expenses** | **2,350** | **373** |
| | | | |
| 3 | **Charges, fees and commission income:** | | |
| | Securities trading and custody fees | 6,763 | 3,917 |
| | Payment handling | 5,049 | 5,270 |
| | Loan business, fees and charges | 2,180 | 2,474 |
| | Guarantee commission | 11,151 | 10,745 |
| | Other charges, fees and commission income | 8,525 | 7,925 |
| | **Total charges, fees and commission income** | **33,667** | **30,332** |
| | | | |
| 4 | **Market value adjustment of:** | | |
| | Value adjustments of acquired properties | 0 | 0 |
| | Bonds | -1,033 | -208 |
| | Shares | 798 | 3,931 |
| | Mortgages | 0 | -1,365 |
| | Forward trading | 79 | 0 |
| | Foreign exchange income | -46 | 3 |
| | **Total market value adjustment** | **-202** | **2,360** |
| | | | |
| 5 | **Staff costs and administrative expenses** | | |
| | *Salaries and remuneration for Board of Directors and Executive Board* | | |
| | Executive Board | 1,837 | 1,394 |
| | Board of Directors | 903 | 801 |
| | **Total** | **2,741** | **2,195** |
| | *Staff costs* | | |
| | Salaries | 28,082 | 25,292 |
| | Pensions | 3,193 | 2,927 |
| | Financial services employer tax | 4,806 | 4,705 |
| | **Total** | **36,082** | **32,924** |
| | Other administrative expenses | 25,303 | 22,889 |
| | **Total staff costs and administrative expenses** | **64,126** | **58,008** |

Average number of employees (full-time equivalents) was 100.1 in H1 2020.

## 6 Impairments/provisions for loans and guarantees

| | IFRS 9 30 June 2020 | IFRS 9 30 June 2019 |
|---|---|---|
| Impairments for the period | 46,588 | 26,737 |
| Reversal of impairments from previous years | -22,890 | -23,429 |
| Direct write-offs | 1,476 | 921 |
| Costs related to temporarily owned property | 350 | |
| Income from prior write-offs | -1,017 | -912 |
| **Impairments/provisions for loans and guarantees in income statement** | **24,506** | **3,317** |

## 7 Accumulated impairments/provisions for loans and guarantees

| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| Impairments, beginning of period | 87,744 | 99,770 |
| Impairments for the period | 46,588 | 26,737 |
| Reversal of impairments from previous years | -22,890 | -23,429 |
| Write-offs, previously impaired/provided for | -2,313 | -13,869 |
| **Accumulated impairments** | **109,129** | **89,209** |

## 7 Impairments and provisions by stage

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| Accumulated impairments as at 1 January 2020 | 5,756 | 8,925 | 73,062 | 87,744 |
| Impairments for the period | 5,096 | 5,145 | 36,347 | 46,588 |
| Reversal of impairments from previous years | -6,109 | -3,866 | -12,914 | -22,890 |
| Write offs, previously | | | -2,313 | -2,313 |
| **Accumulated impairments as at 30 June 2020** | **4,743** | **10,204** | **94,182** | **109,128** |

Migration between stages increases both impairments and reversals

## 8 Lending

| | 30 June 2020 | 31 december 2019 | 30 June 2019 |
|---|---|---|---|
| On demand | 149,600 | 204,624 | 231,046 |
| Up to and including 3 months | 57,984 | 89,432 | 80,458 |
| Between 3 months and 1 year | 135,931 | 104,232 | 147,394 |
| Between 1 year and 5 years | 499,971 | 480,478 | 454,563 |
| More than 5 years | 822,197 | 789,107 | 795,566 |
| **Total** | **1,665,683** | **1,667,873** | **1,709,027** |

## 9 Deposits

| | 30 June 2020 | 31 december 2019 | 30 June 2019 |
|---|---|---|---|
| On demand | 3,037,778 | 2,757,631 | 2,792,384 |
| Up to and including 3 months | 8,338 | 57,065 | 65,090 |
| Between 3 months and 1 year | 25,856 | 23,951 | 24,545 |
| Between 1 year and 5 years | 82,379 | 88,169 | 89,914 |
| More than 5 years | 215,542 | 233,593 | 236,566 |
| **Total** | **3,369,893** | **3,160,409** | **3,208,499** |

| 10 **Key Figures** | **30 June 2020** | **30 June 2019** | **30 June 2018** | **30 June 2017** | **30 June 2016** |
|---|---|---|---|---|---|
| Net interest and fee income | 70,601 | 66,726 | 66,589 | 63,715 | 60,274 |
| Market value adjustments etc. | -202 | 2,360 | -908 | 3,419 | 8,964 |
| Staff costs and administrative expenses | -64,126 | -58,008 | 55,230 | 51,824 | 44,923 |
| Impairment of loans and receivables | -24,506 | -3,317 | 16,403 | 28,409 | 7,190 |
| Impairment of domicile property | 0 | 0 | 0 | -1,836 | 0 |
| Share of profit or loss of associates | 403 | 0 | 0 | 8 | 0 |
| Profit after tax for the period | -15,396 | 6,343 | -5,530 | -12,942 | 11,515 |
| Deposits | 3,369,893 | 3,160,409 | 2,981,576 | 3,027,182 | 2,501,144 |
| Lending | 1,665,683 | 1,667,873 | 1,763,916 | 1,761,084 | 1,541,011 |
| Equity | 359,639 | 365,051 | 295,783 | 311,359 | 292,119 |
| Total assets | 3,914,609 | 3,704,064 | 3,416,981 | 3,512,540 | 3,000,423 |

| 11 **Ratios** | **30 June** | **30 June** | **30 June** | **30 June** | **30 June** |
|---|---|---|---|---|---|
| **Income statement** | **2020** | **2019** | **2018** | **2017** | **2016** |
| Income/cost ratio | 0.8 | 1.0 | 0.9 | 0.8 | 1.3 |
| Income/cost ratio before value adjustments, impairments and deposit guarantee fund (%) | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 |
| Return on equity for the period before tax (%) | -5.4 | 2.1 | -2.4 | -5.4 | 5.4 |
| Return on equity for the period after tax (%) | -4.2 | 1.9 | -1.9 | -4.1 | 4.3 |
| Development in the price of shares, measured half-yearly against the year before (%) | -4.4 | 3.6 | -2.7 | -1.5 | 5.7 |
| **Solvency** | | | | | |
| Capital ratio | 20.4 | 18.7 | 15.6 | 15.9 | 17.4 |
| Tier 1 capital ratio | 18.4 | 16.8 | 14.2 | 14.0 | 15.0 |
| **Market risk** | | | | | |
| Interest rate risk (%) | 0.3 | 0.4 | 0.7 | 0.1 | -0.6 |
| Currency position (%) | 0.4 | 2.0 | 0.4 | 1.5 | 1.0 |
| Currency risk (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Liquidity** | | | | | |
| Loans and impairment charges in % of deposits | 52.7 | 56.0 | 62.5 | 60.6 | 63.8 |
| Excess cover in % relative to the statutory liquidity requirement | 389.6 | 445.1 | 510.0 | 290.4 | 261.2 |
| **Credit risk** | | | | | |
| Impairment ratio | 1.1 | 0.2 | 0.7 | 1.1 | 0.2 |
| Accumulated impairment ratio | 4.7 | 3.6 | 4.1 | 3.1 | 2.5 |
| Sum of large customer exposures in per cent of own funds** | - | - | - | 69.8 | 24.1 |
| 20 largest customer exposures in per cent of Tier 1 capital** | 146.3 | 126.8 | 131.3 | - | - |
| Growth in lending for the period (%) | -0.1 | 1.7 | 0.7 | 5.1 | 7.7 |
| Lending-to-equity ratio | 4.6 | 4.9 | 6.0 | 5.7 | 5.3 |

* Measurement method based on LCR from 2018 and Section 152 before 2018

** Change in measurement method from 1 January 2018