VP SECURITIES
Investing in the future

2019

ANNUAL REPORT

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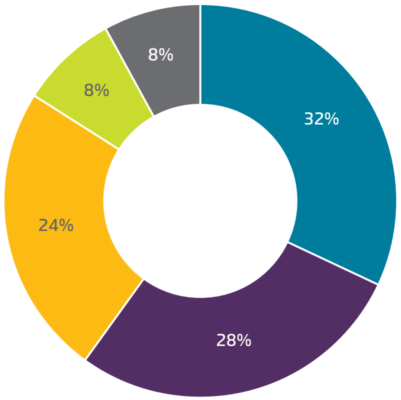
VP at a glance

VP is a financial services company and the Danish central securities depository (CSD) with full European integration.

Based on our platform and processes, our employees' expertise and our long-term relationships with core stakeholders, we support the efficiency and development of the capital market infrastructure. We provide our customers with relevant domestic and cross-border products and services, including a wide range of issuer services, as well as custody & settlement services – and we ensure that securities transactions are processed safely and efficiently.

VP was the first Nordic CSD to join the pan-European settlement platform TARGET2-Securities (T2S), in 2016 with EUR, and with DKK in October 2018. We were also the first Nordic CSD to obtain an European licence to operate as a CSD under the European CSD Regulation (CSDR) at the beginning of 2018. Joining T2S and obtaining a European CSD licence are important steps in achieving our vision to be the preferred CSD partner, delivering the gateway to the European markets.

Ownership structure



Shareholders

- Banks and stockbroking companies
- Bond issuing companies
- The Danish central bank (Danmarks Nationalbank)
- Share issuers
- Institutional investors

Facts about VP

- Financial services company established in 1980 and based in Copenhagen, Denmark.
- Joined TARGET2-Securities, T2S, in 2016 – as the first Nordic CSD.
- Obtained a CSDR licence in 2018 – as the first Nordic CSD.
- AUC of approximately EUR 9,000 billion.
- 3.0 million investor securities accounts.
- Largest supplier of investor services in Denmark.
- 189 employees.
- Owned by the Danish financial sector.

Letter from the CEO

Leveraging the European platform and creating new growth drivers

After the migration of DKK to the T2S platform, the next step for VP and the Danish market is to exploit the potential from the European integration and to take advantage of new opportunities emerging in the wake of the rapidly-changing market environment. During 2019, we adopted a new strategic direction – a direction that will strengthen our core business and also add new growth drivers. The Executive Management team was expanded in order to further strengthen our capability to execute on the business strategy and new initiatives.

Our financial results for 2019 have declined substantially from previous years and is not satisfactory. In 2019, VP incurred a number of unforeseen costs following the T2S migration in October 2018. The result is also affected by a number of extraordinary costs in crafting the new strategic direction as well as significant investments in developing both our organisation and our platform. Finally, as a consequence of the new strategic direction, VP incurred an impairment loss related to the termination of the investor CSD link to Sweden. The extraordinary costs are expected to be non-recurring. We believe, that in 2020, our margins and earnings will normalise and thus we will create a return to our shareholders that exceeds the return for 2019.

A rapidly-changing post-trade market

In recent years, the post-trade market and its participants have faced significant changes, which are gradually transforming business models and processes.

The key driving force is the movement towards an integrated and harmonised European securities settlement market – fuelled by common EU regulation and settlement systems. Within our business areas, the joint regulation of CSDs, CSDR, and the common EU settlement platform, T2S, set the scene.

And there is more to come from Europe. The European Central Bank (ECB) is planning a number of new initiatives that will have a major impact on the future capital and post-trade market. The direction is clear: the EU, including the ECB, is striving for greater harmonisation and standardisation, as well as increased competition among market participants – in other words, a more efficient European capital market.

In parallel, and also as a consequence of the strong European winds, a number of other changes are taking place in our markets – and the pace of change is high. There is ongoing consolidation, driven by the stock exchanges, which are seeking to capture a larger part of the value chains, and the value chains themselves are also changing. The CCP (central counterparties) landscape is also changing.

Integration with the EU infrastructure is key

In order to navigate these changes and respond pro-actively to opportunities and risks, at an early stage VP decided to become part of the common European regime – and VP was the first Nordic CSD to join T2S and also to obtain a CSDR licence. In this way, VP has opened the door to the EU, with the aim of being able to meet our customers' future demands.

We are fully aware that this has implied and will entail significant investments and a lot of hard work for both VP and the Danish financial sector. Yet we consider this to be worthwhile, as the Danish capital market infrastructure is now up-to-date and competitive – paving the way for new business opportunities and greater efficiency, and making Denmark an attractive market for investors and issuers. This is to the benefit of both the overall Danish financial sector and VP. We are therefore convinced that the early decision to bring Denmark closer to the European infrastructure was right.

> *The Danish market has taken important steps to integrate with the European capital market infrastructure - bringing new business opportunities and making Denmark an attractive market for investors and issuers. Now it is time to exploit these opportunities.*

Going forward, it is of vital importance for the Danish capital market and VP that we effectively exploit the potential of the European integration and the develop-ment of more pan-European solutions – and this prioriti-sation was clearly reflected in our 2019 activities and initiatives.

During 2019, we had two important issues on our agenda:

- Restoring settlement efficiency in the aftermath of the T2S migration and initialising further harmoni-sation of the settlement model.
- Setting a new strategic direction for VP.

Restoring settlement efficiency

Entering 2019, after completing the very important and challenging first phase following the migration of DKK to

T2S in the autumn of 2018, our primary objective was to restore high settlement efficiency in the Danish market.

From May 2019, and in close collaboration with market participants, we succeeded in bringing settlement efficiency back to the pre-migration level of around 97 per cent; and by the end of 2019, 98 per cent of all trades on the T2S platform were settled on time. This is a great accomplishment and very satisfactory.

Now it is time to take the next steps in realising the further potential of T2S. In the second half of 2019, VP therefore initiated a dialogue with market participants with the aim of identifying initiatives to further optimise and harmonise the settlement model. We greatly appreciated this dialogue and, based on the market consultations, we decided to move further towards what we call the "Harmonised Settlement Model". Most of the changes will be implemented in 2020, in close cooperation with market participants. Other aspects are still subject to discussion with the market, prior to implementation in 2021.

> *In May 2019, settlement efficiency was back at the pre-migration level of around 97 per cent, and at the end of 2019, 98 per cent of all trades on the T2S platform were settled on time. This is a fine accomplishment and very satisfactory for both VP and the market participants.*

New strategic direction: "Expanding beyond the core"

To take advantage of the opportunities emerging from the T2S platform investments and to create new business opportunities from the trends that are shaping business environment, VP adopted a new strategic direction in 2019. The new direction will strengthen our core business and also add new growth drivers – leading to greater efficiency and profitability, as well as added value for our customers. Our core business will be strengthened by, among other things, modernising our IT platform. We also believe that VP can make a significant difference for our customers by offering new services in three areas in particular: utility services, scalable solutions to handle regulatory-driven demands on the financial sector (RegTech solutions), and data-based services.

Modernising our IT platform is an important part of the strategy, and we have adopted a new IT strategy, including a Blueprint defining the framework for IT development in the coming years. With the Blueprint, VP wants to build a new, technologically advanced platform –to create a state-of-the-art, secure, scalable and flexible CSD. The first phase is to establish a new operating platform. IT development, as well as testing and implementation, will take place in close cooperation with the market and key stakeholders.

For VP, the new IT platform is not just about IT, since we expect the modernisation to bring a transformation of the way we think and work. On this journey, it is vital to success that customers are involved in the process, so that "co-creation" with customers will be a keyword in ensuring alignment in the implementation of new technology.

> *By adopting a new strategic direction we want to enable greater efficiency, growth opportunities and profitability - by strengthening our core business and also offering new, value-adding services to our customers.*

Cyber security remains in focus

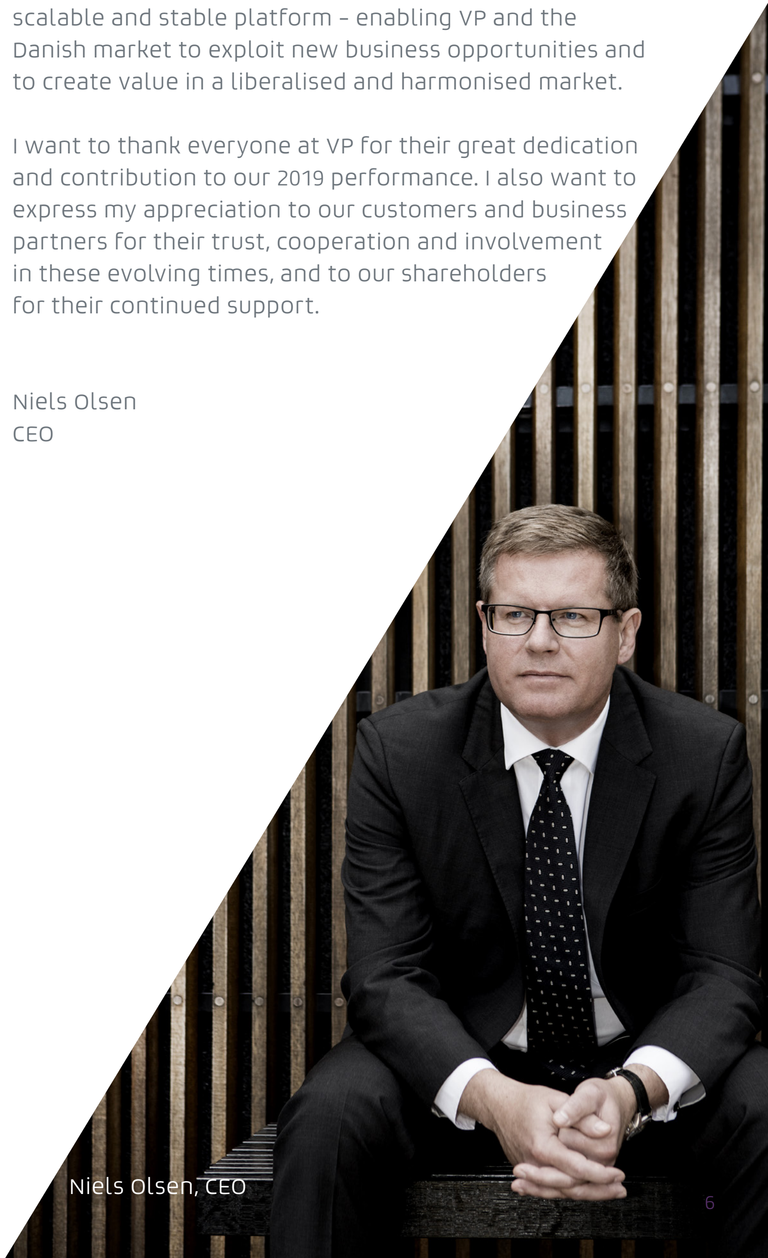
As a provider of critical infrastructure for the financial services industry, we are highly aware of our responsibility to keep information secure and to maintain our operational capability. We are continuously investing in and enhancing our information security control environment, cyber defences and operational processes.

During 2019, VP worked closely with the Danish financial market, the Nordic Financial CERT and the European Central Bank, and VP also took part in the EU-based TIMBER framework – with the aim of identifying the risks to which the financial infrastructure is exposed, and to enhance protection from potential threats.

We enter 2020 with a strong commitment to deliver on our strategic priorities and to cooperate with our customers on the continued development of an efficient, scalable and stable platform – enabling VP and the Danish market to exploit new business opportunities and to create value in a liberalised and harmonised market.

I want to thank everyone at VP for their great dedication and contribution to our 2019 performance. I also want to express my appreciation to our customers and business partners for their trust, cooperation and involvement in these evolving times, and to our shareholders for their continued support.

Niels Olsen
CEO



Niels Olsen, CEO

Key events 2019

13 JANUARY
VP launches new website and customer centre

1 FEBRUARY
Maria Hjorth joins VP as Deputy CEO

5 MAY
The settlement ratio in the Danish market is back to the pre-T2S migration level

29 MAY
Publication of an evaluation of the Danish market migration to T2S by the Danish National Stakeholder Group

15 AUGUST
VP introduces a simpler new price structure for exchange traded products (ETP)

26 AUGUST
VP launches support for fixed-rate callable bonds with a negative coupon and a lifetime of up to 30 years

20 SEPTEMBER
Publication of a plan to introduce the Harmonised Settlement Model

VP unveils a new strategic direction

15 NOVEMBER
T2S 3.2 and SWIFT releases

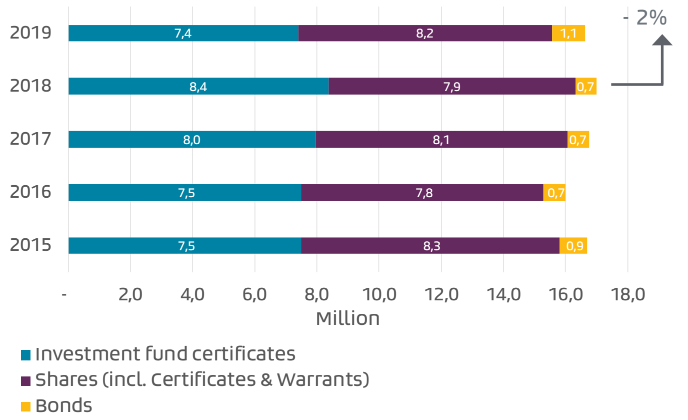
Operating highlights in 2019

Financial development

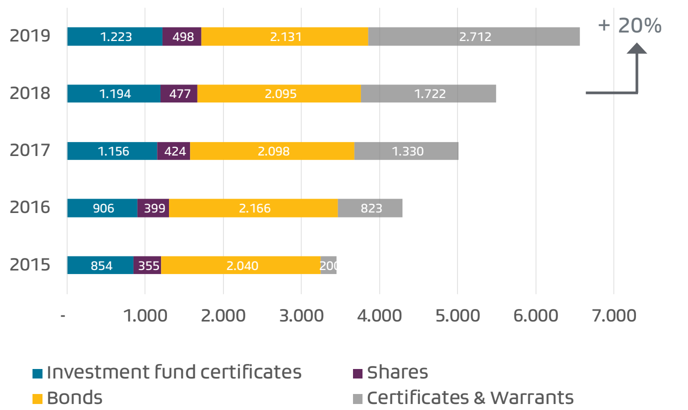
Compared to 2018, VP's financials developed adversely in 2019.

- Net turnover amounted to DKK 426 million, which is DKK 2 million higher than in 2018, corresponding to an increase of 1 per cent. The increase in revenue is predominantly attributable to a slight increase in revenues from core activities.
- Total costs including depreciation and amortisation amounted to DKK 407 million, which is DKK 108 million higher than in 2018, whereof increasing depreciations account for DKK 42 million and write-downs account for DKK 31 million. The remaining increase is attributable to extraordinary costs associated to post-T2S migration initiatives as well as the development of a new corporate strategy.
- The operating profit was DKK 18 million, which is DKK 106 million lower than 2018.
- The profit after tax for the year was DKK 8 million, which is DKK 90 million lower than in 2018.
- Equity, including the statutory non-distributable reserve, was DKK 641 million by the end of 2019, of which the statutory non-distributable reserve amounted to DKK 61 million. The return on equity was thus 1 per cent in 2019, compared to 17 per cent in 2018.
- The capital requirement regulation for CSD's entered into force for VP 3 January 2018 and comprises four elements which all reflect the activity level of the CSD. The capital requirement is primarily based on the level of activities, measured by income and costs.
- As per end of 2019, the capital base, which comprises equity less reserve for internal IT development projects, was DKK 475 million. This corresponds to a surplus of capital of DKK 168 million (54 per cent).
- The Board of Directors has set a target of 50 cent in regard to capital surplus. Hence, excess capital of DKK 14 million is proposed as dividend.

Number of securities transactions



Number of issuances



VP's activities

Trading activities decreased by 2 per cent compared to 2018 in terms of number of trades.

- The total market value of securities book-entered at VP at the end of 2019 amounted to DKK 9,027 billion, which is DKK 1,108 billion higher than at the end of 2018, corresponding to an increase of 14 per cent.
- The turnover, or market value, of securities settled in 2019 amounted to DKK 55,438 billion. This is DKK 13,090 billion higher than in 2018, corresponding to an increase of 31 per cent.
- The number of securities transactions completed remain relatively stable at around 17 mio. annually
- The total number of issuances is 6,564, which is an increase of 20 per cent to 2018.
- As per end of 2019, the number of custody accounts is on par with 2018 at 3.0 million accounts.

Key figures and key ratios

DKK 1,000 - *See page 54 for definition of Key Figures and Key Ratios.*	**2019**	**2018**	**2017**	**2016**	**2015**
Key figures					
Net turnover	425,841	423,581	438,436	413,828	411,276
Gross profit	279,916	297,538	311,963	301,102	284,205
EBITDA	125,423	157,837	180,038	166,542	163,084
Operating result	18,371	124,203	160,684	160,303	160,498
Profit/loss on financial items	-5,973	1,678	5,684	2,949	-407
Profit for the year	7,960	98,324	130,034	127,230	122,568
Total assets	738,066	737,404	636,085	485,936	347,304
Investments in property, plant and equipment	1,596	2,380	6,348	708	795
Equity including statutory non-distributable reserve	641,398	633,438	535,114	405,080	277,849
Net interest-bearing debt	-490,776	-420,388	-376,831	-321,866	-174,754
Intangible fixed assets	187,819	244,036	188,663	95,992	77,289
Invested capital, year-end	150,622	213,051	158,283	83,214	103,095
Average invested capital	181,837	185,667	120,748	93,155	55,251
Key ratios					
Gross margin (per cent)	66	70	71	73	69
Net margin (per cent)	2	23	30	31	30
Return on invested capital (per cent)	67	70	119	140	225
Return on equity (per cent)	1	17	28	37	50
Solvency ratio (per cent)	87	86	84	83	80
Capital surplus (per cent) *	50	47	-	-	-
Profit per share (DKK)	199	2,458	3,251	3,181	3,064
Proposed dividend per share (DKK)	344	-	-	-	-
Employees	189	188	179	176	178
Other KPIs					
Net turnover per transaction (DKK/transaction)	25.61	24.93	26.10	25.86	24.63
Cost per transaction (DKK/transaction)	22.62	17.62	16.53	15.85	15.08
Net turnover pr. AuC (Bps/AuC)	0.47	0.53	0.53	0.55	0.53
Cost per AuC (Bps/AuC)	0.42	0.38	0.34	0.34	0.32

* *After payment of proposed dividend for 2019.*

New strategic direction

"Expanding beyond the core"

During recent years, we have invested continuously in our platform, technology and organisation and we have achieved important milestones on our journey to adapt to the liberalised and more harmonised environment within our business areas. Obtaining our CSDR licence and the migration to the T2S platform were important achievements. In 2019, we considered how we and our customers can take advantage of the European T2S functionality and our positions of strength – and we set a new strategic direction for the coming years: "Expanding beyond the core".

VP's investment in the T2S platform, combined with our existing range of products and services, offers a number of opportunities for business growth. To take advantage of these opportunities and to optimise existing strengths, VP is embarking on a new strategic direction in order to strengthen our core business and add new growth drivers – and to achieve greater efficiency and profitability, besides increased value for our customers.

The aim is to address market challenges proactively and to support the achievement of our vision of becoming "the preferred CSD partner" – by strengthening our performance as an innovative, customer-focused and collaborative organisation, delivering high-value products and services.

To evaluate and follow up on the strategy – and to ensure that VP stays relevant and competitive – we have defined KPIs covering four areas: return on equity (RoE), revenue, customer satisfaction and employee satisfaction. Both the financial and the non-financial KPIs are key to attaining our overall goals.

The strategy will be implemented over the next three years, and in ongoing cooperation with our customers.

An integrated part of our new strategy is that we are committed to streamline our project portfolio and to structurally lower the cost base within the strategy period. As a first step, we executed a cost cutting exercise in 2019 and in that regard we incurred additional costs to severance obligations.

> *"We expect industry trends to lead to further blurring of the value chain within our business areas as well as a changing industry structure. Based on our new strategic direction - and the qualities and strengths inherent in VP's set-up, we endeavour to position VP so that we can exploit our opportunities to grow.*

A changing market environment

The new strategic direction is based on key industry trends:

Revenue under pressure

European CSDs experience increased pressure on revenue. This trend also affects VP, and in response VP is looking towards new market opportunities that fit the current market demands.

A financial sector with increased focus on efficiency and structural costs

In the future, value for customers is expected to be even more centred on creating a well-functioning platform that is stable, effective and leads to lower structural costs. As reduced structural costs and efficiency gains become more and more important for our customers, VP will focus on offering services that meet these demands.

Customer focus

Customer service and customer experience are expected to play an even more important role going forward. VP's commitment and ability to deliver high quality customer service is thus a prerequisite for succeeding with the planned expansion within new services and for capturing a greater share of the value chain.

Regulatory changes and technological innovation
Increased regulation, greater focus on compliance, and technological innovation all present challenges for both VP and our customers. Yet, they also create a window of opportunity from which we can leverage our market position and competences in new ways.

New service offerings to supplement our core business

In our changing market environment, we believe that VP can make a significant difference for our customers by offering new services in three areas in particular:

- To meet the financial sector's increasing need for structural cost reductions and greater efficiency, we offer customers simple and effective utility services.
- As regulatory demands on the financial sector increase, we can provide sector-wide, cost-saving and innovative RegTech solutions (scalable solutions to handle regulatory driven demands on the financial sector) to customers.
- To meet the growing need for efficiency and optimisation of processes, we can supply customers with data-based services, and help them streamline and enhance their internal processes.

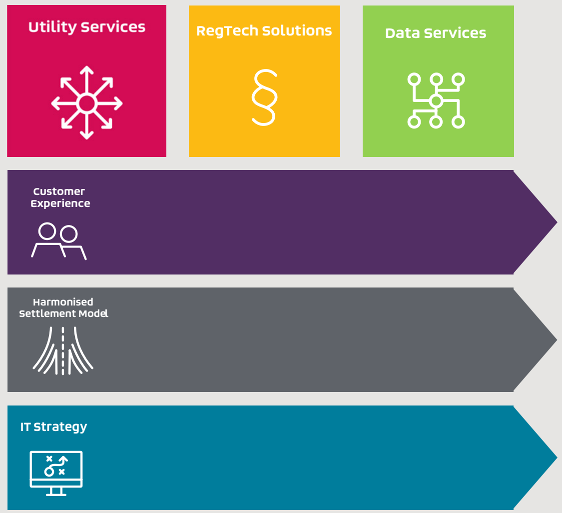
We expect that our customers' interest in these value-added services will create opportunities for VP to accompany our customers along the value chain and offer services that give priority to stability, standardisation and cost efficiency.

While VP's core business will remain the same, we will expand beyond that core – levering on our unique position in the market and our expertise within both technology and the financial sector.

> *"We have carefully selected growth areas that are natural extensions of our core business. This will ensure that we grow responsibly, with continued focus on our core business of issuance, post-trade, safekeeping and investor services.*

Our strategy "Expanding beyond the core"

The foundation



Our foundation

VP has increased its focus on creating a better customer experience and on improving our systems, to bring the individual user experience more in line with contemporary expectations. This commitment will be maintained in the coming years, and it is of vital importance to VP that our customers experience this commitment throughout the entire organisation when they work with us.

VP is aware that a greater update of our IT systems might be appropriate. This will take time, as updates need to match customer expectations and create the most value for our customers. While working on this, VP will continually strive to create incremental improvements, that will strengthen the customers' user experience in important ways and improve customer impression when interacting with VP through the various touchpoints.

With a reinforced commitment to creating a better customer experience VP also wants to increase customer involvement and feedback, to ensure that the updates and changes matches customer expectations and wishes in the most optimal way. Therefore, VP will invite customers to participate in workshops, dialogue meetings and analyses, with the aim of gathering as much knowledge as possible and investing in the ideas that create most value.

When VP migrated to the T2S platform, we and the Danish financial sector became part of a wider community. Being part of an European platform offers various advantages in terms of scalability and gives us the opportunity to cooperate more closely with the rest of Europe. Yet, it also requires us to be aligned with the European infrastructure – with the aim of reducing complexity.

During 2019, VP identified a number of initiatives that will bring us closer to a more harmonised infrastructure, in line with international standards – we call this the "Harmonised Settlement Model". As a consequence of the planned changes, international investors will be able to apply the same approach to the Danish market as to other markets on the T2S platform. This will integrate the Danish market more closely with the European capital market infrastructure and, ultimately, make it more attractive to international investors, due to the structural cost savings from avoiding different set-ups.

Most of the planned changes will be implemented in 2020 and the remainder will be finalised in Q3 2021. Read more about the Harmonised Settlement Model in the "Business Review" section.

VP is a financial services company with strong technological DNA. For many years we have been engaged in the development and operation of tech solutions that bridge finance and technology in scalable ways.

In 2019, VP adopted an ambitious new IT strategy, which is an integrated element of the corporate strategy. The IT strategy is based on a number of key principles, with focus on enabling new business opportunities and growth initiatives:

- The new platform will include fundamental new architecture comprising a component-based and open platform, i.e. offering APIs.
- The new platform will be built for scale and built for change. This means that simplicity is key when building the new platform.
- Low operating and development costs, are central and the new platform will ensure a fast time to market for new solutions and services.
- The new platform also supports future operating models.

The IT strategy will be implemented according to an IT Blueprint that is expected to run over the next five years. With the IT Blueprint, VP wants to build a new platform that leverages container technology and cloud native design principles. As today the new IT Blueprint will deliver a state-of-the-art, secure, scalable and flexible CSD.

IT development, as well as testing and implementation, will take place in close cooperation with the market and key stakeholders – to ensure the right scope and alignment with other strategic IT activities in the market.

Growth drivers

MVP has a thorough and deep understanding of both the complex nature of the financial sector and capital market, but also the structure, organisation and set-up of key customers. This enables VP to deliver targeted and specific technical administrative services that match the needs of our customers.

VP wants to be the natural partner and service provider for customers that are seeking to outsource the development of solutions that can reduce their cost burdens and contribute to making their business more profitable and efficient.

One example is issuing agent services, whereby VP can take on the Danish banks' issuing functionalities, in order to improve quality, standardise solutions and elimination costs for banks.

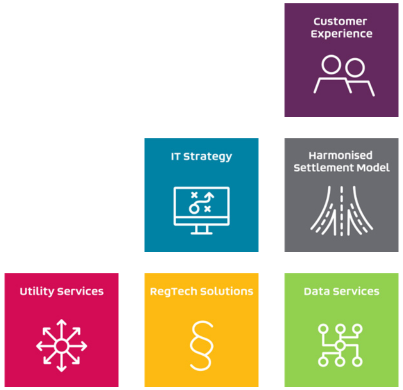
VP has the infrastructure, technology and competences in place to be able to optimise issuing agent services and other utility services – on behalf of the market and within non-competitive areas between the banks.

In an environment facing increasing regulatory requirements, there is a strong demand for efficient and scalable solutions. VP will help customers identify these regulatory challenges by proposing innovative cost savings and scalable and sector-wide solutions that can change the compliance mindset in the sector.

VP has a history of creating regulatory solutions, with the knowledge to design such solutions – based on an attractive position in the cross-field of both technical, regulatory and sector expertise. Going forward, we will work to improve current regulatory solutions and replace the banks in solving current regulatory challenges. We will also prepare for upcoming regulatory challenges and will be a first mover in providing solutions.

Many industries, including the financial sector, are investigating how they can use data to optimise their business performance. VP has vast amounts of data that can be used to help customers in a variety of ways. VP can use its data portfolio to provide valuable insights to customers. These insights can, for example, benchmark customers' performance against the market, or help customers gain an overview of their own key data.

Due to the varied nature of VP's data holdings, VP might also be able to pinpoint specific trends and patterns in the sector – and potentially predict future tendencies and identify patterns within the market. These can both be sector-wide or specific relating to certain niches of the sector.



DEVELOPMENT 2019

Business review

As our primary objective at the start of 2019, VP and market participants cooperated successfully on restoring very high settlement efficiency after the Danish krone joined the T2S platform in the autumn of 2018. After completing this very important first phase, following the migration to T2S, VP has started to plan the next phase: Further harmonisation and standardisation of the settlement processes. In 2019, we also adopted a new strategic direction for the coming years and continued our proactive adjustment to the common EU agenda – among other things by implementing further price changes and preparing for the upcoming new EU regulation.

An integrated element of our strategy and future vision is to support an efficient European and Danish capital market. This capital market must be as harmonised and standardised as possible – for the benefit of the market in general, and our customers, as well as the sustainability of VP's business model.

The T2S platform is crucial to the success of this harmonisation and standardisation. It is the driver and facilitator in relation to the standardisation agenda, and also in terms of ensuring an attractive infrastructure for both issuers and investors. Hence, in 2019 a large proportion of our business initiatives were focused on exploiting the potential of the European platform. We collaborate closely with the Danish financial sector and the European community on further integration of the Danish capital market infrastructure with the European set-up. These initiatives are aimed to lead to a Harmonised Settlement Model.

Together with the development of the settlement platform and our core business, we seek to create new business opportunities from trends that are shaping our own and our customers' business environment. These trends include regulatory and economic change, as well as technological advancements that will continue to have a huge impact on our business.

Business initiatives

T2S – settlement efficiency restored

The migration of the Danish krone to TARGET2-Securities (T2S) on 29 October 2018 brought changes to most of the Danish market's operating procedures, in order to support the new securities settlement platform. During the first months after the migration, VP and the market participants experienced a number of unforeseen challenges, of which most had been resolved at the beginning of 2019.

During the year, VP implemented various further changes and improvements, to ensure high market efficiency. We focused on improving functionality and the settlement flow across the VP and T2S platforms. We also focused on harmonising market claims and the processes related to interest payments, redemptions and taxation of tap issuances. These changes were made in close collaboration with the market and since May 2019, settlement efficiency has been back at the pre-migration level of around 97 per cent. At the end of 2019, 98 per cent of all trades on the T2S platform were settled on time. This is a great accomplishment and very satisfactory.

VP's intensive work to restore settlement efficiency and improve the T2S platform resulted in significant non-expected costs during the year.

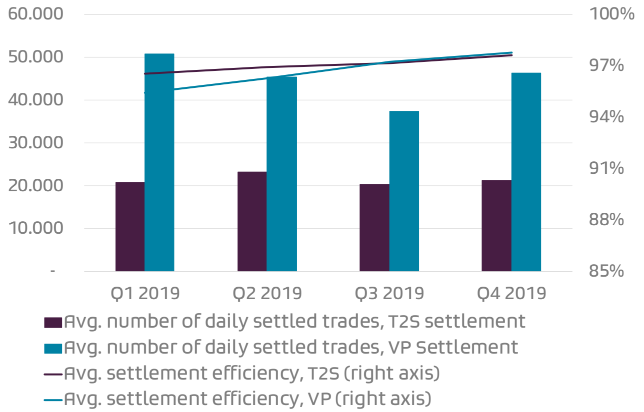
At the end of 2019, the T2S platform had a 75 per cent share of the total value traded. This is higher than expected and is primarily attributable to the fact that the total flow from professional investors is settled on the T2S platform.

We believe that the migration of DKK to T2S is a major achievement for the Danish financial market, yet further harmonisation with international standards is still required in order to achieve the full potential of T2S. Accordingly, during 2019, VP initiated dialogue with market participants with the aim of identifying initiatives to further optimise and harmonise the settlement model.

Transactions on the T2S and VP platforms in 2019

Platform	Total market value traded in 2019	Share of total market value traded	Share of total settlements
VP settlement	DKK 13,846 billion	25%	68%
T2S settlement	DKK 41,592 billion	75%	32%

Settlement efficiency and transactions



Towards a Harmonised Settlement Model

Based on market consultations, VP has identified a number of key design parameters that will improve the settlement processes, including the account structure, identification methods and communication standards. The planned adjustments will ensure more harmonised processes, enabling the market to streamline the T2S settlement processes.

The following enhancements and changes will take place in 2020 and up to Q3 2021:

A cleaner cut between the VP and T2S platforms

> All VP securities accounts belonging to professional investors will be transferred to T2S, while retail client settlement will take place on the VP platform.
> Possible settlement instruction changes.

Harmonisation with T2S standards

> Partial settlement, priorisation and match principles in accordance with T2S rules.
> T2S settlement deadlines applied.
> Party identification in accordance with T2S rules (BIC11 as the preferred identification code).

In addition, VP will continue to support both segregated and omnibus accounts, and the omnibus functionality will be improved.

We will work closely with our customers in the coming period to make the implementation of this new model as smooth as possible for everyone involved.

Ongoing implementation of price strategy

During recent years, the implementation of common EU regulation and subsequent increased cross-border activities have intensified competition within most core CSD services, including issuance.

It is our ambition to provide competitive prices, as well as a transparent and simple price structure – with the purpose of maintaining and strengthening VP's position as an attractive location for issuers, and achieving competitive pricing for segregated accounts and settlement. In 2017, we revised our price strategy to ensure that both the price structure and the price level are market conform and harmonised with the central European model. Since then, the revised price strategy has gradually been put into operation through various initiatives.

During 2017 and 2018, we implemented price reductions for issuance, to ensure that price structures reflect European standard levels and also to attract issuance in other currencies.

In 2019, we successfully implemented additional changes to our pricing – with the aim of simplification and harmonisation with both European standards and the T2S model. The price changes included a reduced price for recycling, which is now only paid as of the intended settlement date. Furthermore, the prices for issuance were lowered, while at the same time prices for selected custody services were increased. These changes are in line with the European price structure, which has less focus on issuer payments and greater focus on custody payments.

Further initiatives from THE ECB will affect the future European capital market infrastructure

T2S, the ECB and the Eurosystem (the European Central Bank) laid the foundations for a single market for securities settlement and for achieving greater integration of Europe's financial markets. This was achieved by introducing a common platform on which securities and cash can be transferred between investors across Europe, and by using harmonised rules and practices.

Currently, 21 European CSDs are connected to T2S.

ECB initiatives that have already been planned and introduced will play an important role in the years to come:

TARGET Instant Payment Settlement – TIPS

- A new market infrastructure service launched by the ECB in November 2018.
- Enables payment service providers to offer fund transfers to their customers in real time and around the clock, every day of the year.
- An extension of TARGET2 for settlement of payments in central bank money.

Consolidation of TARGET2 and T2S

- Technical and functional consolidation of TARGET2 (platform for processing large-value payments that is used by both central banks and commercial banks to process euro-denominated payments in real time) and T2S.
- Replacement of TARGET2 with a new real-time gross settlement (RTGS) system and optimisation of liquidity management across all TARGET services.
- The new, consolidated platform will be launched in November 2021.

Eurosystem collateral management system – ECMS

- A single collateral management system for management of the assets used as collateral in Eurosystem credit operations for all jurisdictions.
- Will replace the individual collateral management systems currently in use and is expected to increase efficiency in the mobilisation and management of collateral.
- Planned go-live in November 2022.

European Distribution of Debt Instruments – EDDI

- The EDDI platform will facilitate a centralised issuance and distribution service for European debt securities.
- Exploration of synergies with the other Target services (Target2, T2S and TIPS) and the future Eurosystem Collateral Management System (ECMS).
- No planned go-live date

In 2020, further simplification of the price structure will be implemented, primarily for custody services. In addition, with effect from 1 January 2020, VP is to introduce a new, simpler price structure for exchange traded products (ETP). The new structure includes price reductions for issuance, settlement and closing of warrants, certificates, turbos and mini-futures.

CSD investor link to Sweden

As part of VP's new strategy for 2019, we streamlined our product portfolio and it was decided to terminate the investor CSD link to Sweden. The background is a wish to focus on core functionality and the termination entailed an impairment loss.

Market regulation and compliance

SRD II - new rights and obligations
On 4 April 2019, the legislative package implementing the amendments to the Shareholder Rights Directive (SRD II) in Denmark was adopted by the Danish Parliament. The implementation of SRD II marks a transition to a new phase for shareholders, companies, asset managers and intermediaries – entailing new rights and obligations.

The general implementation deadline was 10 June 2019, while the rules on shareholder identification and voting will enter into force in early September 2020.

For listed companies, the implementation of SRD II entails – among other things – that they will have the right to identify their shareholders in order to enable shareholders to exercise shareholder rights, and also the right to request intermediaries to provide the relevant information about the company's shareholders. SRD II will change the processes intermediaries currently use to answer shareholder disclosure requests, as well as general meeting processes that are not currently harmonised.

VP already offers issuers a range of services to facilitate shareholder disclosure, voting and general meetings. All these services will be adapted and enhanced to make them fully compliant with SRD II.

VP is proactively participating in and monitoring the implementation of SRD II. Towards the implementation deadline in September 2020, we will update our customers on the specific implications of the new regulation and new processes/solutions on an ongoing basis.

CSDR - the new settlement discipline regime
The implementation of the CSD Regulation (CSDR) to harmonise the regulatory environment for securities settlement within the EU is gradually taking shape.

The European Parliament and the Council approved CSDR in July 2014. Since then, different bodies, including the ECB (the European Central Bank), ESMA (the European Securities and Markets Authority) and ECSDA (the European Central Securities Depository Association), as well as European CSDs and other market participants, have worked to implement the new regulatory regime.

One element of CSDR is a new framework for settlement discipline, including guidelines for design of the penalty mechanism, the collection and re-distribution of penalties, and other complementary functionalities. As a CSD operating under a CSDR licence, VP Securities is obliged to implement the new settlement discipline regime, and this

Customer and market engagement – an integrated part of our business model

It is our ambition to have a close and open dialogue with the market and our customers.

In recent years, industry trends and macroeconomic factors have changed considerably. This applies to banking activities and the market in general, but also to regulation, harmonisation and, last but not least, technological development. To meet these challenges and exploit upcoming opportunities, a close and open dialogue between all market stakeholders, including banks, data centres and interest groups, is required.

Dialogue is a prerequisite for ensuring an efficient and stable capital market infrastructure. Efficiency is needed to solve the tasks in the best possible and most cost-efficient way, and stability is required to ensure predictability and security for market participants.

The dialogue takes place in numerous ways and at different levels. Our new business strategy, "Expanding beyond our core business"; the initiatives to stabilise T2S settlement; the "Harmonised Settlement Model" and the ongoing simplification of VP's price structure have all been developed in close cooperation and dialogue with our customers and the market. To formalise the dialogue, we use a range of forums, including the VP User Committee, the National Stakeholder Group (a T2S expert group) and the Market Advisory Group.

will have an extensive impact on our customers and also on VP.

On 13 September 2018, the European Commission officially published the Regulatory Technical Standards (RTS) on settlement discipline, providing a set of measures to prevent and address failures in the settlement of securities transactions. The new settlement discipline regime has a deferred implementation of 24 months, thereby establishing the compliance deadline of 13 September 2020.

During 2019, VP was in the process of identifying the necessary changes to the T2S platform resulting from the CSDR legislation. As part of the process, VP also initiated a regulatory dialogue with the Danish FSA.

In parallel, VP has intensified the dialogue with market stakeholders for the purpose of providing background information regarding the CSDR settlement discipline regime, discussing the impact of the upcoming new regime and exchanging views on the settlement discipline solution – with the aim of ensuring a smooth transition to the new regime. The dialogue will be further intensified as we approach the implementation deadline in September 2020.

The implementation of the new settlement measures and the development of the penalty mechanism are well under way.

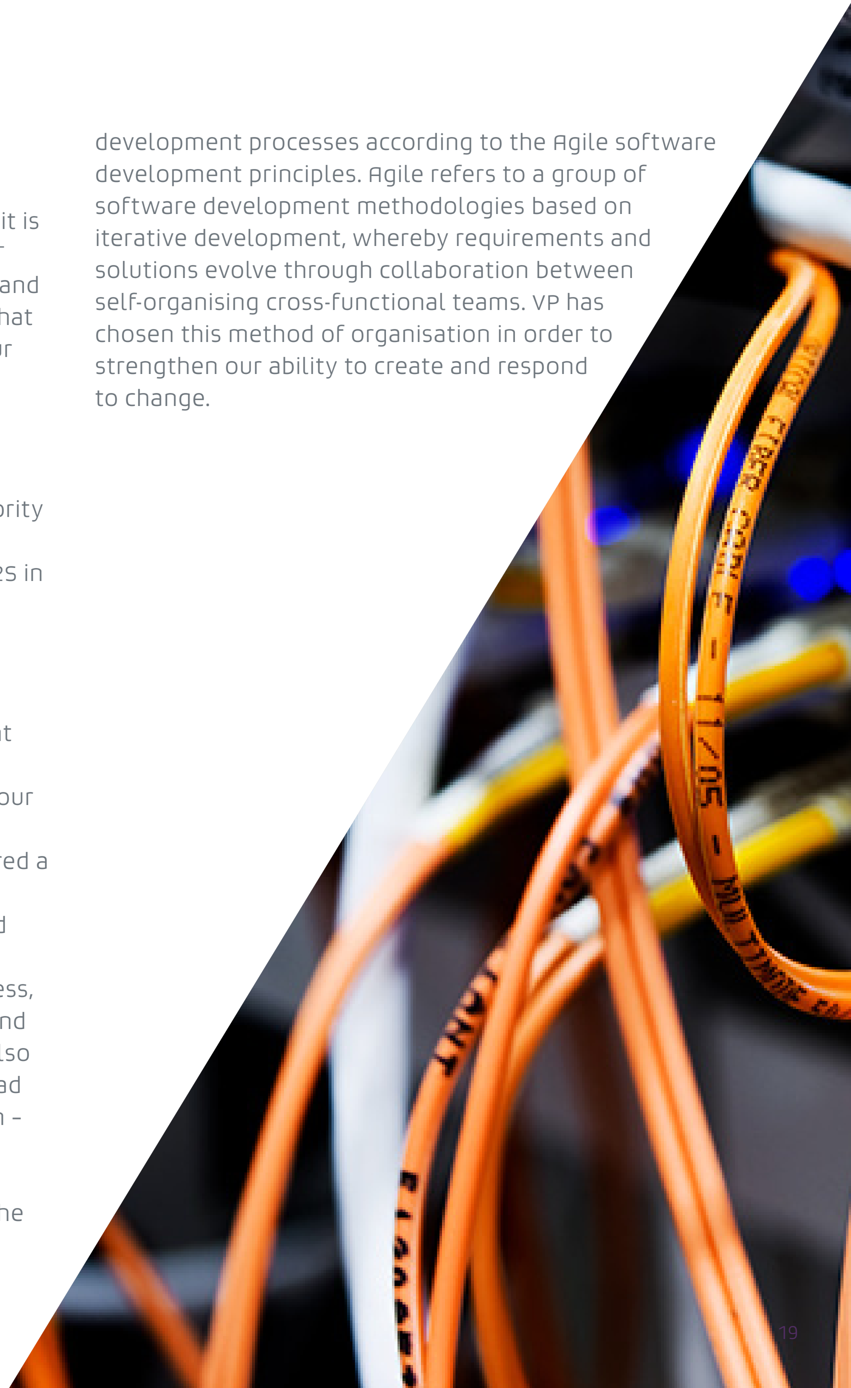
Technology

As a provider of critical capital market infrastructure, it is vital that VP can offer customers a well-functioning IT platform characterised by high reliability, availability and stability – and a fully functioning CSD infrastructure that supports T2S in both EUR and DKK. It is also part of our strategy to provide a platform enabling us to deliver relevant services and solutions across the financial market infrastructure value chain.

At the beginning of 2019 in particular, it was a key priority to implement the changes needed to restore high settlement efficiency after the migration of DKK to T2S in October 2018.

In a market characterised by integration and harmonisation, the use of new technologies and the development of existing IT platforms play a significant role for VP and for CSDs in general – and we are continuously evaluating how to handle and optimise our software development processes. Hence, in 2019, we formulated and adopted a new IT strategy and prepared a new IT Blueprint for the next five years' software modernisation. The ambition is to further develop and modernise our IT platform via a flexible and open architecture, ensuring a smoother development process, as well as a faster time-to-market for new products and enhancements to the current product portfolio. We also aim to reduce operational and maintenance costs. Read more about our IT strategy in "New strategic direction – expanding beyond our core business".

During 2019, Agile principles were introduced across the VP organisation and we began to conduct our development processes according to the Agile software development principles. Agile refers to a group of software development methodologies based on iterative development, whereby requirements and solutions evolve through collaboration between self-organising cross-functional teams. VP has chosen this method of organisation in order to strengthen our ability to create and respond to change.



Issuing euro-based mortgage bonds under Danish law

Customer case

Since 2017, several Danish financial institutions have chosen to issue euro-based mortgage bonds under Danish law with VP Securities – reaping the benefits of lower costs and simpler processes. The UK's exit from the European Union has also led many issuers to consider changing their established practice of developing prospectuses based on UK law.

We believe that the trend for issue of euro-based securities under Danish law will continue.

"When we decided to issue euro-based mortgage bonds through VP Securities, the primary advantage was the significant cost savings from using a prospectus based on Danish law, rather than English law. Even though Danish law could be used for some of the security-related aspects of the prospectus, an Ireland- or Luxembourg-based regulator was still necessary. Previously, it was also necessary to engage an external counsel to maintain the programme. Handling everything under Danish law thus now saves money," states Jimmy Bak, Head of Legal, Funding at Nykredit.

"This simpler process is also more transparent. Previously, many issuers experienced the prospectus development process as a bit of a black box, since so much of it took place outside their four walls and outside the country. Handling things in-house and in-country makes the entire process far more transparent. Another benefit was that we were able to use our ordinary infrastructure. We can issue the bonds ourselves, and this is a more hands-on procedure," comments Jimmy Bak.

As part of the decision-making process for issuing under Danish law, some Danish issuers were initially concerned about how international investors would react to mortgage bonds being issued through VP Securities. Yet, this did not prove to be an obstacle for Nykredit.

"It wasn't really a big deal, after all. Once investors get used to how things are, there are very few questions. It doesn't come up as often now and when we could see that investors didn't have many concerns, this made the choice quite easy," concludes Jimmy Bak.

VP supports fixed-rate callable bonds with a negative coupon

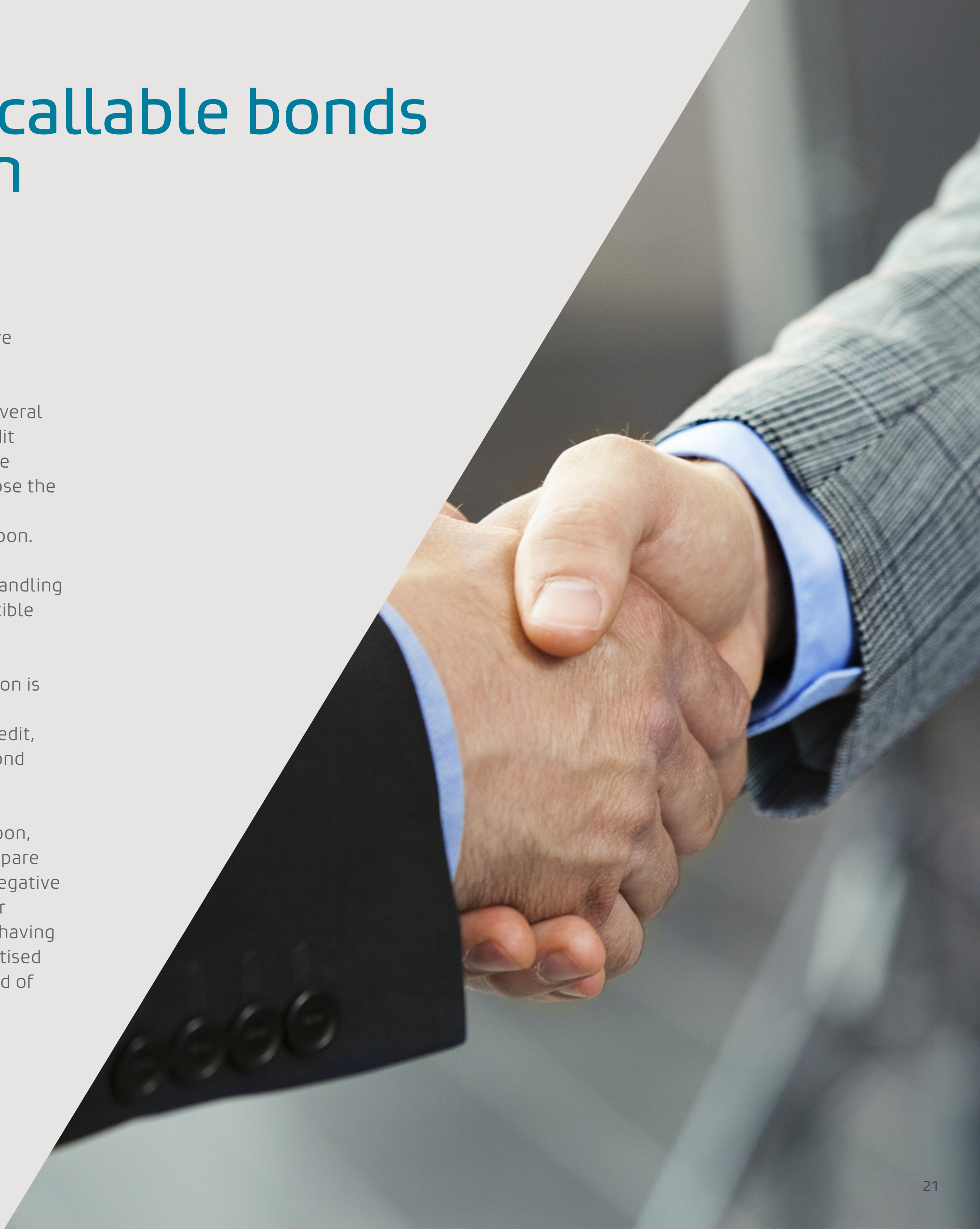
Customer case

Since August 2019, VP has been able to support fixed-rate bonds with a negative coupon and a lifetime of up to 30 years.

The journey towards issuing bonds with a negative coupon actually started several years ago. In as early as 2012, VP began discussing contingency plans with credit institutions for the issue of floating-rate bonds with a negative coupon, and we introduced three different negative coupon models, so that issuers could choose the model that made sense for their business and customers. Since 2016, VP has supported the automated issuance of floating-rate bonds with a negative coupon. Throughout the entire process, from the initial contingency plans and manual processes, to today's situation, where we have a fully automated system for handling negative coupons, we have worked closely with our customers to create a flexible process that meets their needs.

The new offering that supports fixed-rate callable bonds with a negative coupon is an example of VP's commitment to supporting market development. It was developed in close cooperation with credit institutions, including Jyske Realkredit, which was the first mortgage credit institution to issue a fixed-rate callable bond with a negative coupon.

"We'd already begun to offer floating-rate callable bonds with a negative coupon, and there was a healthy interest in that product. At that time, we began to prepare ourselves to have the next product in place, which is fixed-rate bonds with a negative coupon. For us, it's a matter of having the right products on the shelves for our customers – products that fit the market and investor demand. It's also about having a relationship with the issuing CSD in which you feel that your needs are prioritised and that you have the support you need," comments Anders Lund Hansen, Head of Mortgage ALM at Jyske Realkredit.



Financial review

Income Statement

The net turnover for 2019 amounted to DKK 425.8 million, which is an increase from DKK 423.6 million in 2018, driven by an underlying growth in our core business, where CSD and Securities Services has grown from DKK 384.9 million to DKK 389.6 million.

The cost base increased to DKK 300.4 million from DKK 265.7 million in 2018. The increase is due to extraordinary costs incurred following the T2S migration in October 2018 in order to get back at previous levels of high operational stability. Also, the cost increase is due to considerable investments incurred in regard to crafting our new strategy "Expanding beyond the core ". Finally, we have completed several IT development projects below the capitalisation threshold of DKK 2.5 million causing the overall capitalisation level to be significantly lower than in 2018.

Depreciation and amortisation amounted to DKK 107.1 million compared to DKK 33.6 million in 2018. The increase is largely driven by full-year effect on T2S deprecations, as well as an impairment loss of DKK 31.2 million following the new direction as outlined in our new strategy.

The operating result amounted to DKK 18.4 million versus DKK 124.3 million last year. The decline is primarily due to the increase in depreciations on IT development projects and the extraordinary cost items. The net margin was 4.3 per cent.

Net financial items showed a loss of DKK 6.0 compared to last year's gain of DKK 1.7 million. The decline is primarily attributable to mark to market adjustments on an increased bond portfolio following the low interest market.

Tax on ordinary profit was DKK 4.4 million against DKK 27.6 million, whereof the change in deferred tax amounted to DKK 23.2 million. The deferred tax item emerge from timing differences between the taxable and the accounting depreciations on intangible assets.

The profit for the year amounts to DKK 8.0 million where the profit last year was DKK 98.3 million.

Balance sheet as per 31 December 2019

Assets

As per 31 December 2019 VP's balance sheet was DKK 738.1 million compared to DKK 737.4 million as per 31 December 2018.

Intangible assets amounted to DKK 187.8 million, which is a decrease of DKK 56.2 million compared to 2018. The decrease can be attributed to increased depreciations, impairment loss and the reduced level of capitalisation of internal IT development costs.

The total value of property, plant and equipment decreased from DKK 8.0 million in 2018 to DKK 6.1 million in 2019. The decrease is primarily related to depreciations on production, plant and machinery.

The vast majority of the security holdings totalling DKK 360 million are Danish mortgage bonds.

Current assets increased in 2019 to DKK 544.1 from DKK 485.4 million in 2018, whereof securities increased by DKK 81.5 million.

Liabilities

Equity

Equity, including the statutory non-distributable reserve, increased to DKK 641.4 million compared to DKK 633.4 million as per end of 2018. The increase corresponds to the net result.

The statutory non-distributable reserve as per 31 December 2019 was unchanged DKK 61.2 million. This is due to, pursuant to Section 213(2) of the Danish Financial Services Act, the interest rate was 0 per cent throughout 2019.

Deferred tax

Deferred tax amounted to DKK 40.5 million, which compared to 2018 is a decrease of DKK 11.3 million. The decrease can be attributed to the development in the deferred tax obligation, emerging as a consequence of timing differences between the taxable and accounting depreciations on intangible assets.

Current liabilities decreased from DKK 104.0 million to DKK 96.7 million as per end of 2019.

Cash Flows

Operating profit was DKK 18.4 million compared to DKK 124.2 million in 2018. Cash flows concerning operations amounted to DKK 129.7 million compared to DKK 134.9 million in 2018.

Cash flows concerning investments were DKK -48.9 million, compared to DKK -87.4 million in 2018. The major change was seen for internal IT development projects.

Cash flows concerning financing are nil. The total change in liquidity for 2018 was DKK 80.7 million, which lead to a value of cash and cash equivalents of DKK 490.8 million as of 31 December 2019.

Capital requirement

Due to changes in the reserve for internal IT development projects, together with the net profit, the capital base at the end of 2019 amounds to at DKK 475.4 million. The regulatory capital requirement totals DKK 307.8 million. In addition to this, the internal buffer of 50 per cent excess capital is DKK 153.9 million. Total capital requirement including the internal buffer, should reach a minimum of DKK 461.7 million.

Dividend

Excess cash is defined as all cash exceeding the total requirement including the internal buffer of 50 per cent. Hence, proposed dividend correspond to a dividend payment of DKK 13.8 million, corresponding to DKK 344 per share.

Events occurring after the balance sheet date

No circumstances have occurred since the balance sheet date, which would alter the assessment of this Annual Report.

Expected development for 2020

In general, the market and macro-economic factors for 2020 are expected to be on par with 2019. However, the negative interest being introduced on private savings accounts could incentivise increased demand for securities in 2020 and thus have a positive effect on trading volumes.

In VP, the main focus is to continue maturing the strategic tracks following the new direction as outlined in our new strategy "Expanding beyond the core". However, we do not as such expect a significant top line increase as the lead time for such projects are long. While being focused on executing the new strategy, we remain just as committed on delivering safe, reliable and stable systems and services to our customers.

In 2020, we expect our margins and earnings to normalise and thus create a higher return to our shareholders than in 2019.

CORPORATE GOVERNANCE

Risk management, compliance and information security

We assume our responsibility for keeping our part of the financial market infrastructure stable and functioning in an evolving business environment. It is therefore vital to monitor and assess risk and compliance on a systematic and structured basis. VP has defined clear risk management processes, including policies and instructions for different risk types and compliance.

VP continuously monitors changes to our risk profile, and in 2019, we continued to develop our risk and compliance activities and framework with the aim of proactively meeting the increasing requirements as a consequence of changes in the regulatory framework, market conditions, the threat assessment and stakeholder expectations. The key objective is to support viable and stable operations and to advance our compliance work, with focus on commercial transparency, reliability and predictability.

Risk management principles

VP's Board of Directors believes that a comprehensive and effective risk governance framework, underpinned by a sound risk culture, is critical to the overall effectiveness of VP's risk management.

The Board of Directors holds the ultimate responsibility for the risk strategy and risk policy. It sets the strategic targets that lay down the framework for VP's risk management and the level of VP's risk exposure. It also approves VP's risk policy, monitors risk management and ensures that the internal control systems are effective.

The Risk Committee is responsible for advising the Board of Directors on VP's overall current and future risk tolerance and strategy and oversees the management and control of VP's risk at aggregate level. It also evaluates the adequacy of the risk frameworks, controls and processes.

The Executive Board (CEO and Deputy CEO) holds the overall responsibility for developing and maintaining effective risk and compliance management principles.

The Risk Forum, chaired by the CEO, assists the Executive Board in fulfilling their responsibilities. The Risk Forum determines the general principles for the measurement, management and reporting of VP's risks, and also determines the risk tolerance and the handling of larger risks. Furthermore, the Risk Forum oversees VP's compliance with the risk policy and information security policy, and also assesses threats, as well as evaluating the adequacy of the risk management framework, proposing changes to risk policies and reporting to the Risk Committee on an ongoing basis.

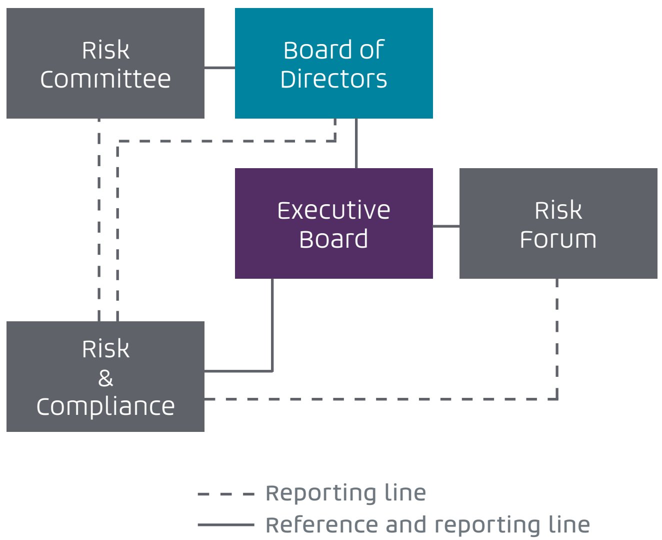
The Risk & Compliance Department is organised as the second line of defence and reports directly to VP's CEO. Overall, the compliance and information security activities are part of risk management and are defined in the three basic elements of VP's risk activities: risk policy, risk leadership and risk management.

Risk policy – The risk policy outlines the standard for how VP consistently and effectively identifies, assesses and manages risks, and ensures that all employees understand the organisation's risk acceptance levels.

Risk leadership – VP's risk organisation is characterised by clearly defined structures, roles and responsibilities.

Risk management – To achieve an overview of the consolidated risk level, VP has a centralised risk system used for the ongoing systematic and centralised prioriti-sation and assessment of all significant risks. As an element of the risk management framework, employees continuously assess and report new risks. Risk reporting is incorporated in regular business reviews and the Risk & Compliance Department is responsible for facilitating and following up on risk action plans for the most significant risks at VP.

Risk management structure



VP also participates in relevant risk and business continuity forums across the Danish financial sector, in which VP receives updated information and shares information concerning potential risk factors.

Key risks

VP works with structured risk identification, risk assessment and risk mitigation as an integrated aspect of the decision-making process.

For each of the risks identified, VP's Executive Board assesses the risk level and plans risk reduction measures (to the extent possible and desirable) if the risk exceeds the accepted level. VP endeavours to take appropriate steps to address significant risk deviations at an early stage, in line with our risk profile and with the Board of Directors' risk tolerance.

The key risk categories VP currently faces are:

- *Operational risks,* including cybercrime or cyberattacks directly on VP or via suppliers, IT infrastructural incidents, including incidents and system failures at external suppliers and business dependencies, *legal and reputational risks,* such as compliance and ethical risks, and *other operational risks* – for example direct or indirect human error.
- *Strategic risks*, including risk related to the transformation from monopoly to competition within VP's business areas, "insourcing" of investment fund activity by banks, more far-reaching legislation and supervision by authorities due to, for example, scandals in the financial sector, increasing capital requirements, and macroeconomic and geopolitical development.
- *Financial risks*, including liquidity and credit risk.

Compliance

European licence to operate as a CSD

On 3 January 2018, VP gained a European licence to operate as a CSD under the CSD Regulation. VP was among the first European CSDs to apply for the European licence, and gaining the licence ensures that customers and partners can rely on VP as a reliable and compliant CSD with a robust business platform and organisation.

International standard for CSDs

CPMI-IOSCO is the global cooperation between central banks and the International Organization of Securities Commissions. The Committee on Payments and Market Infrastructures (CPMI) promotes the safety and efficiency of payments, clearing, settlement and related arrangements, thereby supporting financial stability and the wider economy. The International Organization of Securities Commissions (IOSCO) is the international body that brings together the world's securities regulators and is recognised as the global standard setter for the securities sector.

CPMI-IOSCO has defined the international standards for financial market infrastructures and the framework is widely recognised as a benchmark for CSDs. VP complies with the framework.

In addition, VP also provides information for other assessment bodies such as Thomas Murray Data Services and the Association of Global Custodians.

Participation in sector forums

In 2019, VP participated actively in the work of the Financial Sector Forum for Operational Resilience (FSOR), a forum for cooperation between Danish authorities and key players in the Danish financial sector, sponsored by Danmarks Nationalbank. In 2019, a main focus of the work of FSOR was developing an understanding of risks relating to mutual dependencies and the financial sector's wider risk exposure.

Furthermore, the Chief Risk & Compliance Officer at VP, is Chair of the Risk Working Group in ECSDA (the European Central Securities Depositories Association).

Supervision and oversight

VP is subject to both supervision and oversight. While supervision focuses on VP as a company, oversight concerns VP's systems and their role in the financial system. Finanstilsynet (the Danish FSA) conducts supervision of VP as a company, including that VP's IT systems comply with applicable statutory requirements. Danmarks Nationalbank oversees cash settlement in VP's clearing and settlement system, as part of its oversight of systemically important payment systems.

Information security

VP provides critical infrastructure for the financial services industry, and we are highly aware of our responsibility to keep information secure and to maintain our operational capability.

According to the Centre for Cyber Security at the Danish Defence Intelligence Service (CFCS), the Danish financial sector faces a very high threat of cybercrime, and cyberattacks against the financial sector might cause major losses for businesses, but would also have an impact on the community-friendly services provided by the sector.

We continuously invest in and enhance our information security control environment, cyber defences and operational processes. The information security training and awareness of our people remains a key component of the control framework.

Protection from cyber threats takes place at our own initiative and in cooperation with the Danish financial market, the Nordic Financial CERT and the European Central Bank. The aim is to identify cyber risks to which the financial infrastructure is exposed, with the objective of enhancing protection from potential threats.

VP also takes part in the Threat Intelligence-Based Ethical Red Teaming (TIBER-DK). TIBER is a shared EU-based framework that delivers a controlled, bespoke, intelligenceled red team test of entities' critical live production systems. An intelligence-led red team test involves the use of a variety of techniques to simulate an attack on an entity's critical functions and underlying systems (i.e. its people, processes and technologies). It helps an entity to assess its protection, detection and response capabilities – with the aim of enhancing the cyber resilience of entities, and of the financial sector more generally.
VP conducts red team tests on an ongoing basis and believes that this is an important aspect of understanding and improving our cyber defence.

Latest cyber surveys and inspections from the Danish FSA

Danmarks Nationalbank survey of the cyber robustness
In 2018, Danmarks Nationalbank conducted a survey of the cyber robustness of the Danish financial sector. The survey followed up on a similar survey from 2016 and aimed to provide an overview of the sector's cyber robustness, as well as a benchmark for the individual survey participants.

Danish FSA inspection with focus on cyber security
In June 2018, the Danish FSA visited VP for an inspection with focus on cyber security. The inspection was a functional study conducted as part of the ongoing supervision of VP. A report following the inspection was published in October 2019, and it is the Danish FSA's overall assessment that VP is focused on and handles its IT risks, including cyber risks. VP received three orders of an administrative character and was asked to provide one statement. All orders have been implemented and reported to the Danish FSA.

The CPMI-IOSCO cyber resilience framework
In 2016, the Committee on Payments and Market Infrastructures (CPMI) and the International Organization of Securities Commissions (IOSCO) published the "Guidance on cyber resilience for financial market infrastructures" (the Cyber Guidance). The Cyber Guidance concerns the preparations and measures that market infrastructures should undertake to enhance their cyber resilience capabilities, in order to limit the escalating risks that cyber threats pose to financial stability.

The framework is widely recognised as a benchmark for a CSD's work with cyber resilience.

At the end of 2019, VP conducted a self-evaluation for CPMI-IOSCO in accordance with the Cyber Guidance.

Corporate governance

VP's Board of Directors and Executive Management focus on good corporate governance practices. Our management systems and practices are continuously being developed and adjusted, to reflect changes in statutory requirements, developments at VP and stakeholder expectations.

Current legislation and regulation, including the CSD Regulation, best practice and internal rules, provide the framework for VP's corporate governance.

VP Securities A/S is a limited liability company owned by significant participants in the Danish financial market and has a two-tier management structure comprising the Board of Directors and the Executive Management. The two bodies are independent of each other and have no shared members.

The members of the Board of Directors are elected at the Annual General Meeting based on the nominations by shareholders. Details of the individual members of the Board of Directors can be found in the "Board of Directors" section on page 31.

Board of Directors

The Board of Directors undertakes the overall strategic management of VP on behalf of the shareholders, including financial and managerial supervision of VP.

At present, the Board of Directors consists of ten members elected by the Annual General Meeting and five members elected by the employees.

The Board of Directors undertakes its work in accordance with the company's Articles of Associations and the Rules of Procedure for the Board of Directors, which outline the more detailed regulation of the performance of the duties of the Board of Directors.

The Rules of Procedure are reviewed and updated regularly and at least once a year.

According to CSDR, one thirds of the members of the Board of Directors must be independent. VP complies with this requirement.

The Board of Directors held nine meetings during 2019. Particular matters considered, in addition to those included in the annual cycle of work, included the new VP strategy, the new IT strategy and the first phase of the Technology Blueprint programme.

Executive Management and Group Management

The Executive Management is appointed by the Board of Directors, which determines the terms of employment of the Executive Management. The Executive Management, which comprises two persons, is responsible for the day-to-day operation of VP's activities.

VP's Group Management consists of the CEO and deputy CEO and five members with responsibility for individual business areas and functions.

Remuneration of the Board of Directors and the Executive Management

At the 2019 Annual General Meeting, VP Securities adopted a remuneration policy for the Board of Directors and the Executive Management. See the Remuneration Policy at vp.dk.

The purpose of the remuneration policy is to ensure a remuneration policy and practice which:

- Is in accordance with VP's business strategy, values and long-term objectives, including a sustainable business model.
- Is competitive and in conformity with the market, and thereby sufficiently attractive to attract and retain employees with the right expertise.
- Is in harmony with the principles concerning the protection of customers and investors in conjunction with the performance of VP's business and services, and includes measures to avoid conflicts of interest.
- Ensures that the overall variable remuneration which VP has undertaken to pay does not erode the company's opportunities to strengthen its capital base.
- Is in accordance with and promotes sound and effective risk management and does not encourage excessive risk taking.

The remuneration policy is approved at the Annual General Meeting at least every fourth year and upon material amendments.

Each member of the Board of Directors receives a fixed annual remuneration. In 2019, the remuneration to the Board of Directors amounted to DKK 1,750,000, of which

DKK 300,000 to the Chairman, DKK 250,000 to the Vice Chairman and DKK 150,000 to each of the other members of the Board of Directors. Remuneration to Board committees amounted to DKK 300,000.

The Board of Directors determines the remuneration of the Executive Management. In 2019, the remuneration of the Executive Board comprised a basic salary, including customary employee benefits, and a bonus to the CEO. The total remuneration to the Executive Board was DKK 5.8 million.

Board Committees

The Board of Directors has established four committees, which conduct preparatory tasks on behalf of the Board of Directors. Each committee is subject to a charter of procedures approved by the Board of Directors. The following committees have been established:

Audit Committee

The Audit Committee's objective is to advise the Board of Directors on the performance of VP's independent internal audit function, to supervise VP's statutory audit and financial reporting, and to supervise VP's system of internal controls.

The Board of Directors has elected the following members to the Audit Committee: Søren Holm (chair), Flemming Jacobsen and Rasmus Bessing.

Risk Committee

The Risk Committee is responsible for advising the Board of Directors on VP's overall current and future risk tolerance and strategy. The main objectives are to assess the internal control and risk management systems of VP, to monitor VP's risk management strategy, risk tolerance, and policies, to submit risk management policies and/or policies for undertaking risks for approval by the Board of Directors, and to monitor reporting to the Board of Directors concerning the development in the most significant risk areas, as well as reporting on compliance with any adopted policies.

The Board of Directors has elected the following members to the Risk Committee: Jan W. Andersen (chair), Bengt Lejdström and Christoffer Møllenbach.

Remuneration Committee

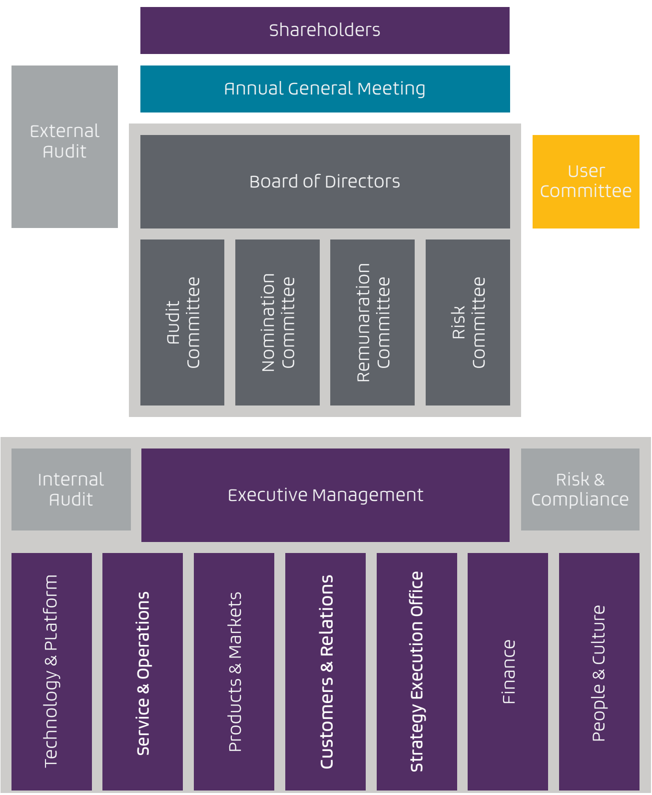
The Remuneration Committee's objective is to improve the quality of the work of the Board of Directors by contributing to the preparation of the basis for the Board of Directors' decisions in connection with the drawing up, implementation and pursuit of the remuneration policy for members of the Board of Directors and the Executive Management of VP, and to advise the Board of Directors on VP's remuneration policy.

The Board of Directors has elected the following members to the Remuneration Committee: John Christiansen (chair), Peter Lybecker and Rene Stockner.

Nomination Committee

The Nomination Committee assists the Board of Directors in providing a basis for its decisions for the purpose of identifying and nominating appropriate candidates for the Board of Directors of VP, ensuring that the members of VP's Board of Directors have the appropriate skills, a good reputation and relevant experience at all times, and that a sufficient number of the members are independent, and meeting the policy target set by the Board of

VP's governance structure



Directors for the under-represented gender on the Board of Directors.

The Board of Directors has elected the following members to the Nomination Committee: Peter Lybecker (chair), John Christiansen and René Stockner.

Diversity policy and the competence profile of the Board of Directors

The Board of Directors has approved a diversity policy. The diversity policy describes the Board of Directors' policy and target for promoting diversity with regard to qualifications and competences among the members of the Board of Directors. As a supplement, the diversity policy also includes the policy and target for the under-represented gender's membership of the Board of Directors. Both the diversity policy and the competence profile of the Board of Directors are available on VP's website. The competence profile is split into different categories of competences, covering personal, professional, sector-related and chairman-specific competences. The competence profile is updated at least once a year.

The Board of Directors conducts an annual self-assessment, and the most recent assessment was performed in December 2019.

The Board of Directors considers it important to balance the composition of the Board in order to reflect and support VP's strategic ambitions. The diversity of the Board of Directors concerns knowledge, professional skills, experience, sector background, gender, independence and other differences, which collectively ensure that VP's Board of Directors provides the strongest possible foundation for VP as a commercial CSD in a competitive environment. In addition, it is critical that the Board of Directors is able to supplement and challenge the Executive Management with regard to issues within capital markets and Post Trade infrastructure, regulatory insight, intercultural competences and transformational management, in step with the expected significantly increased competition within VP's business areas in the coming years.

The Board of Directors has a target gender diversity ratio of 40/60 for the members of the Board of Directors elected by the Annual General Meeting. The initial target was to achieve this ratio over a maximum of four years, with a specific target of 20/80 by 2017 at the latest, and 40/60 in 2019. The targets had not been reached by 2019.

Whistleblower scheme

VP has established a whistleblower scheme whereby VP's employees can report infringements within a specific area via a special, impartial and independent channel. Reports can be filed anonymously, and the protection of employees' identity will give plausibility to any reports of suspected infringements of legislation by VP, including by employees or members of VP's Board of Directors. The reporting method is approved by the Danish Data Protection Agency.

No reports were submitted and processed in 2019.

Board of Directors
Elected at the Annual General Meeting

Peter Lybecker
(born 1953)

- Chairman of the Board
- Elected to the Board of Directors in 2013
- Independent member

Chairman of the Board of:
- Seatruck Ferries Holding LTD

Board member of:
- RN Holding A/S
- 441 Trust Company Ltd.

VP Committees:
- Chairman of the Nomination Committee
- Member of the Remuneration Committee

Peter Schleidt
(born 1964)

- Vice-Chairman of the Board
- Director at Jyske Bank
- Elected to the Board of Directors in 2018
- Dependent member

Chairman of the Board of:
- Gl. Skovridergaard A/S

Vice-Chairman of the Board of:
- JN Data A/S

Appointed to the Board of:
- Statens IT-Råd

Board member of:
- Jyske Realkredit A/S
- Jyske Banks Pensionstilskudsfond

Jan W. Andersen
(born 1958)

- Executive General Manager AL Bank A/S
- Elected to the Board of Directors in 2017
- Independent member

Vice-Chairman of the Board of:
- Forvaltningsinstituttet for Lokale Pengeinstiutter

Board member of:
- AL Finans A/S
- BI Holding A/S
- Arbejdsmarkedets Tillægspension - ATP
- Lønmodtagernes Garantifond
- Arbejdsmarkedets Fond for Udstationerede (AFU)

VP Committees:
- Chairman of the Risk Committee

Rasmus Bessing
(born 1974)

- Executive Director, COO at PFA Asset Management A/S
- Elected to the Board of Directors in 2018
- Independent member

Board member of:
- Danish Investment Association
- Finance Denmark

VP Committees:
- Member of the Audit Committee

John Christiansen
(born 1964)

- CEO of Lån & Spar Bank
- Elected to the Board of Directors in 2015
- Independent member

Vice-Chairman of the Board of:
- Skandinavisk Data Center A/S
- Association of Local Banks, Savings Banks and Cooperative Banks in Denmark

Board member of:
- The Danish Bankers Association
- KAB
- Totalkredit A/S
- PRAS A/S

Member of the Board of Representatives of:
- Det Private Beredskab

VP Committees:
- Chairman of the Remuneration Committee
- Member of the Nomination Committee

Board of Directors, continued

Søren Holm
(born 1956)

- Former Group CRO of Nykredit A/S
- Elected to the Board of Directors in 2013
- Dependent member

Board member of:
- Sydbank A/S
- BSG at European Banking Authority

VP Committees:
- Chairman of the Audit Committee

Flemming Jacobsen
(born 1970)

- Senior Vice President at TDC
- Elected to the Board of Directors in 2018
- Independent member

Board member of:
- TDC Pensionskasse
- Teglholm Park P/S
- Teglholm Park Komplementar ApS

VP Committees:
- Member of the Audit Committee

Bengt Lejdström
(born 1962)

- CFO at Sdiptech AB
- Elected to the Board of Directors in 2017
- Independent member

Board member of:
- Castella Entreprenad AB
- CentralByggarna i Åkersberga AB
- Centralmontage i Nyköping AB
- Cliff Models AB
- Medicvent AB
- Storadio Aero AB
- Tello Service Partner AB
- Thors Trading AB
- Topas Vatten AB
- Unipower AB
- Hydrostandard Mätteknik Nordic AB
- Polyproject Environment AB
- Cryptify AB
- Optyma Security Systems Ltd

VP Committees:
- Member of the Risk Committee

Christoffer Møllenbach
(born 1972)

- Head of Group Treasury at Danske Bank
- Elected to the Board of Directors in 2014
- Dependent member

Board member of:
- Danske Corporation

VP Committees:
- Member of the Risk Committee

René Stockner
(born 1957)

- Elected to the Board of Directors in 2017
- Independent member

Board member of:
- E Foqus

VP Committees:
- Member of the Nomination Committee
- Member of Remuneration Committe

Board of Directors
Elected by the employees

Amra Kovacevic
(born 1987)

- Customer Experience Manager
- Elected to the Board of Directors in 2018
- Term expires 2020
- Dependent member

René Paludan
(born 1963)

- Database Administrator
- Elected to the Board of Directors in 2016
- Term expires 2020
- Dependent member

Jeppe Sigfusson
(born 1972)

- Head of Architecture & Technology
- Elected to the Board of Directors in 2016
- Term expires 2020
- Dependent member

Helen Sørensen
(born 1984)

- Product Manager, Post Trade Products
- Elected to the Board of Directors in 2019
- Term expires 2020
- Dependent member

Frank Thermann
(born 1980)

- Head of Application Development Issuer
- Elected to the Board of Directors in 2016
- Term expires 2020
- Dependent member

Executive Management and Group Management

Niels Olsen
(born 1962)

- CEO & Interim CIO
- Appointed in 2013

Board member of:
- European CSD Association

Maria Hjorth
(born 1972)

- Deputy CEO
- Appointed in 2019

Board member of:
- Asetek A/S

Mette Bagge-Petersen
(born 1969)

- Chief People Officer and Company Secretary
- Appointed in 2017

Morten Kierkegaard
(born 1970)

- Chief Operation Officer
- Appointed in 2004

Henrik Ohlsen
(born 1974)

- Customer & Relations Director
- Appointed in 2015

Board member of:
- Berg Furniture A/S

Niels Hjort Rotendahl
(born 1976)

- Chief Financial Officer
- Appointed in 2015

Board member of:
- Practio Aps

Pia Aarestrup
(born 1967)

- Head of Strategy Execution Office
- Appointed in 2019

Other executives

Jakob Hermansen
(born 1972)

- Chief Risk & Compliance Officer
- Appointed in 2015

Arne Joensen
(born 1962)

- Chief Audit Executive
- Appointed in 2014

Board member of:
- P/F Smyril Line

Corporate social responsibility

VP endeavours to conduct its business on an ethical, responsible and sustainable basis. Our CSR work is focused on three areas – people, the environment and crime prevention.

VP emphasises responsible conduct in all our activities and we aspire to contribute positively to the development in the areas in which we operate.

As a critical infrastructure supplier serving and supporting the financial sector and our society, it is crucial to our business to maintain a high degree of reliability and to deliver high-quality products and services in the markets and countries in which we operate. VP is recognised as a trusted business partner to all stakeholders, and we continuously aim to define high ethical standards to guide our business, including such aspects as care for the environment, human and labour rights, crime prevention and customer/supplier relations.

VP has chosen to target its CSR efforts at the following areas: People, including human and labour rights, competence development and people's well-being, the environment and crime prevention. VP has not currently defined specific KPIs or target figures within these areas, but we are continuously endeavoring to make progress.

VP's activities in the individual areas are described on the following pages.

People

At VP, we fully recognise our responsibility to our people and their importance for our ability to achieve our strategic targets.

VP is a knowledge-based company and our people are key in everything we do. We therefore endeavour to create a culture that encourages talent, develops skills and competences, recognises achievements and values each individual.

We believe that the top skills required for the future are; complex problem-solving, critical thinking, techno-logical design and programming, innovation, creativity, curiosity and collaboration. We also believe that a strong commercial and learning-focused culture is essential to attract passionate and dedicated professionals who are able and willing to take responsibility and lead the way.

Development is a key aspect of our people strategy and we encourage all our staff to continue to develop their skills throughout their career. With the vision of "Keeping people relevant" we implemented a new framework for people development in 2019. As part of this framework, we have defined different roles and paths, with the aim of providing both leaders and employees with useful tools for ongoing dialogue, in order to unfold their potential. The new framework is key to strengthening the learning mindset and ensuring the continuous development of all our people, and it supports the day-to-day feedback, as well as the annual employee dialogue. Our ambition is to build the competences needed for the future and to ensure the long-term employability of our people.

A diversified culture

Our organisation should reflect the diversity of today's society and we believe that diversity creates the best and most dynamic workplace climate. We believe that we all have different perspectives and that each of us can make a contribution. We create more value when we see and understand through different lenses.

In 2019, VP began the journey towards being an Agile Organisation. The four goals to be achieved through this transformation are:

- Faster delivery and increased customer value.
- Efficient development processes and increased quality.
- Increased transparency and higher accountability.
- Ability to retain and attract talent.

We believe that Agile can enable us to achieve our strategic targets and create a company culture that has the ability to constantly adapt and adjust – and with employees that have fun and enjoy a high level of job satisfaction and motivation. We aspire to ensure that, in overall terms, all employees have equal access to promotion from within the organisation, regardless of age, gender, ethnic background or culture. We also seek to ensure that the organisation always has an open and unbiased selection process, without any form of discrimination.

Well-defined labour rights

VP's people are covered by the standard collective agreement between the Danish Employers' Association for the Financial Sector (FA) and Financial Services Union Denmark. VP complies with the standards for human and labour rights set out in the international declarations. We ensure and respect the rules concerning working hours, maternity/paternity leave, children's illness, pension contributions, insurance and early retirement benefits, as well as compensation, health insurance and care of seriously ill children and close relatives.

VP has a zero-tolerance policy concerning sexual harassment and bullying and does not accept any behaviour of this kind.

VP works systematically to maintain a safe and healthy working environment and to develop our people's awareness of their own safety and that of their colleagues. We have a strong safety record and had no reported accidents in 2019.

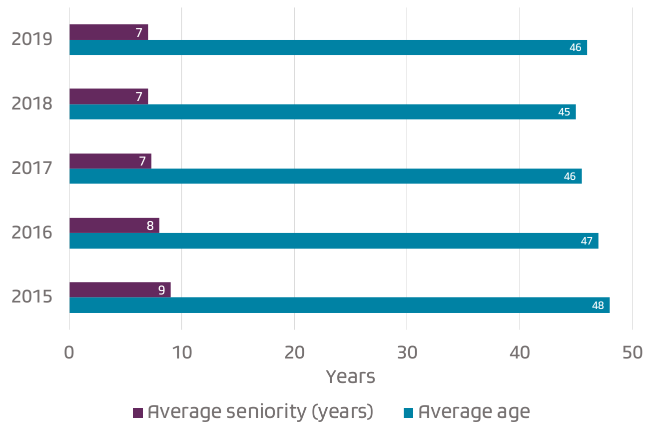
VP has no significant CSR risks associated with human and labour rights, but we continuously assess and address risks associated with our workforce.

Monitoring employee satisfaction

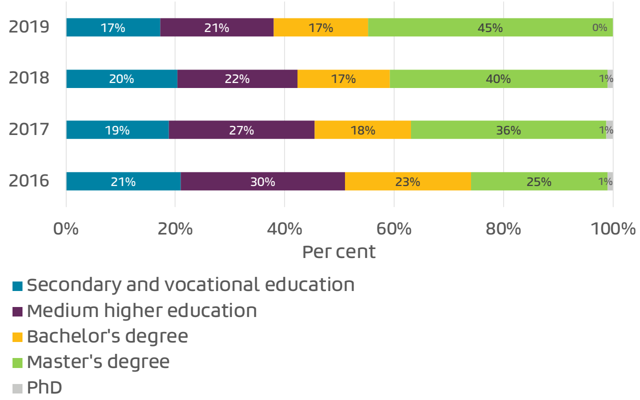
VP aims to be a workplace with a high level of employee satisfaction. We conduct annual employee surveys as an opportunity to get a clear and representative picture of the workplace climate and job satisfaction. Since the first survey in 2015, we have taken specific measures to address four strategic themes: Satisfaction and motivation, Loyalty, Leadership and Execution. As from 2019, we also measure Strategy Execution and Change.

Overall job satisfaction has taken a small step forward by +1 to 72 from the 2018 survey. This is satisfactory in a year highly affected by post-T2S. The Leadership dimension also took a small step forward to 77 (+1), while the other dimensions are at status quo. Both Strategy Execution and Change have a satisfactory starting point, at 71 and 76, respectively.

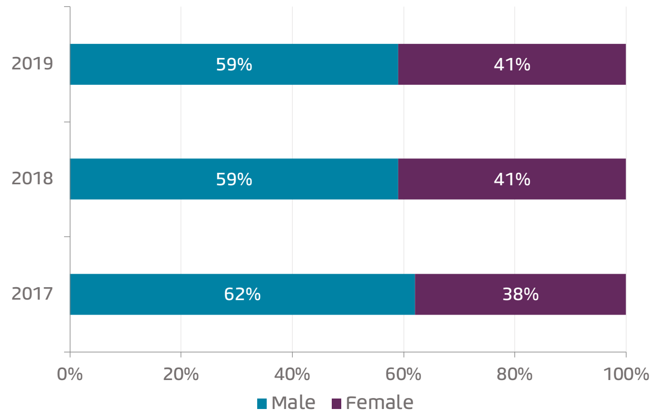
Average age and average senority



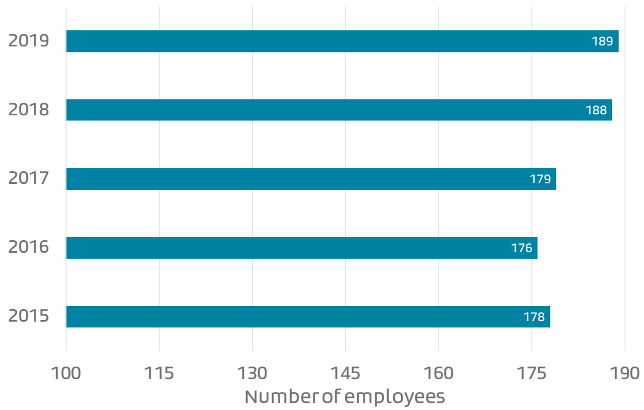
Education level Education level



Gender



Number of employees



Environment

As a responsible corporate citizen, VP works continuously to reduce the environmental footprint of our business operations. This applies in particular to the premises where we operate, for which the ambition is to provide the best possible working environment, while at the same time optimising energy consumption.
Our ambition is to reduce and minimise our consumption of resources and to optimise sustainable working procedures. In 2019, we increased our focus on sustainability by partly using "green" energy, by continuously replacing electronic devices and bulbs with more eco-friendly solutions, and by optimising the operation of our office building. Additionally, we implemented our food policy, and we have a continued focus on reducing food waste, buying more local food products, and offering more vegetarian food and less meat. In 2019, we phased out disposable cups and plastic.

VP has no significant CSR risks associated with climate change and the environment, but we are naturally aware of the use of resources in connection with our business activities.

Crime prevention

VP operates with a high degree of integrity and ethical conduct, and seeks to prevent all forms of crime, including corruption, money laundering, extortion and bribery, and our activities must always be in full compliance with relevant legislation, irrespective of the place of operation.

In our Issuing Agent Services and Asset Services business areas, VP undertakes anti-money laundering control in accordance with legislation. VP has a mandatory procedure for all contact with new and existing customers. This means, for example, that all relevant employees receive the statutory mandatory training and are subject to monitoring of transactions, and that VP takes part in the international cooperation to report suspicious circumstances to SØIK (the Danish State Prosecutor for Serious Economic and International Crime).

VP's anti-money laundry policy ensures (i) instructions, procedures, processes and controls for the implementation of anti-money laundering measures in compliance with the requirements of the Danish Anti-Money Laundering Act; and (ii) that VP's instructions, procedures, processes and controls prevent and reduce the risk of money laundering at VP.

Supporting society

VP has decided to support three initiatives outside our field of business. In 2019, VP supported the Child Cancer Foundation, the Danish Cancer Society. In addition, we donate a large number of used PCs to a hospital in Africa.

VP's CSR policies and guidelines

Human rights

VP endeavours to observe human rights and to treat our people with dignity and respect. We support and respect the protection of internationally proclaimed human rights as set out in the UN Universal Declaration of Human Rights and in the declarations and recommendations of the ILO.

Working environment and employee well-being

VP aims to be a responsible employer and to ensure our people's well-being. We strive to provide proper employment conditions, healthy and safe working conditions and an inspiring working environment for our people. Our culture and policies are rooted in respect for diversity and we believe a diverse workforce enhances the value we create for all of our stakeholders.

Climate and the environment

VP seeks to conduct its business on a safe and environmentally-friendly basis, and we aim to reduce our impact on the environment and climate change as far as possible, taking due account of our size and the nature of our activities.

Anti-corruption, compliance and business ethics

VP's reputation as a trusted business partner is of vital importance and therefore our people are trained and kept up to date with policies concerning anti-corruption and compliance. VP's objective is to operate according to the highest ethical standards and to safeguard our business from corruption and non-compliance.

FINANCIAL STATEMENTS

Management statements

The Board of Directors and the Executive Management have as of today's date considered and approved the Annual Report of VP Securities A/S for the financial year from 1 January to 31 December 2019.

The Annual Report is prepared and presented in accordance with the provisions of the Danish Financial Statements Act.

In our opinion, the Consolidated Financial Statements and the Parent Company's Financial Statements give a true and fair view of the Group's and the company's assets, liabilities and financial position as at 31 December 2019 and of the result of the Group's and the company's activities, as well as the Group's cash flows for the financial year from 1 January to 31 December 2019.

In our opinion, the Management's Review presents a true and fair account of the matters covered by the Review.

We recommend the Annual Report for approval by the Annual General Meeting.

Copenhagen, 24 February 2020

Executive Management

Niels Olsen
CEO

Maria Hjorth
Deputy CEO

Board of Directors

Peter Lybecker
Chairman

Peter Schleidt
Vice-Chairman

Jan W. Andersen

Rasmus Bessing

John Christiansen

Søren Holm

Flemming Jacobsen

Bengt Lejdström

Christoffer Møllenbach

René Stockner

Amra Kovacevic

René Paludan

Helen Sørensen

Jeppe Sigfusson

Frank Thermann

The independent auditor's report

To the shareholders of VP Securities A/S

Opinion
We have audited the financial statements of VP Securities A/S for the financial year from 1 January to 31 December 2019, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31 December 2019 and of the results of its operations and cash flows for the financial year from 1 January to 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements
Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable 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 conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of 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 the Entity'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 in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity'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 Entity to cease to continue as a going concern.

> Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act. Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 24 February 2020

Deloitte Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Henrik Wellejus
State-Authorised Public Accountant
MNE NO.: 24807

Michael Thorø Larsen
State-Authorised Public Accountant
MNE NO.: 35823

Accounting policies applied

The Annual Report is presented in compliance with the provisions of the Danish Financial Statements Act for accounting class C (large).

The Financial Statement for 2019 is presented in accordance with the same accounting policies as in 2018.

General information on recognition and measurement

Assets are recognised in the balance sheet when, as a result of a prior event, it is likely that future economic benefits will accrue, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when, as a result of a prior event, the company has a legal or actual obligation and it is likely that future financial benefits will divest from the company, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement after initial recognition is as described for each accounting item below.

On recognition and measurement, account is taken of foreseeable risks and losses occurring before the Annual Report is presented and which confirm or refute conditions existing on the balance sheet date.

Income is recognised in the income statement as and when it is earned, while costs are recognised as the amounts concerning the financial year.

Consolidated financial statements

In 2019, the liquidation of the wholly owned subsidiary VP Lux S.a.r.l. was completed.

Furthermore, and as per 1 January 2019, the wholly owned subsidiary VP Services A/S has merged with the parent company VP Securities A/S. The merger method applied was the aggregation method which means that comparative figures for 2018 have been adjusted.

The liquidation and the merger have the effect that there is no longer any basis for preparing consolidated financial statements.

Translation of foreign currencies

On initial recognition, transactions in foreign currencies are translated at the exchange rate prevailing on the transaction date. Receivables, debt commitments and other monetary items in foreign currencies that are not settled on the balance sheet date are translated at the exchange rate prevailing on the balance sheet date.

Currency differences arising between the exchange rate on the transaction date and the rate prevailing on the date of payment or on the balance sheet date, respectively, are recognised in the income statement as financial items.

Balance sheet items are translated at the exchange rates on the balance sheet date.

Income Statement

Net turnover

Net turnover corresponding to the invoiced sales for the year under review is recognised in the income statement, once services have been rendered to the buyer. Net turnover is recognised exclusive of VAT and excise duties.

Other external costs

Other external costs include activity-dependent costs, costs of IT operations, costs of consulting services, audit and supervisory costs, facility management and office costs.

Payroll costs

Payroll costs comprise wages and salaries plus social security costs, pensions, etc., for the staff.

Depreciation, amortisation and write-downs

Depreciation, amortisation and write-down of property, plant and equipment and intangible assets consist of the depreciation and amortisation for the financial year, compiled according to the assets' residual values and the expected economic lifetime. Write-downs as a consequence of impairment tests, or due to gains or losses on the divestment of the assets, are also included here.

Other financial income

Other financial income comprises interest receivable, net capital gains in respect of securities, foreign exchange transactions, as well as refunds under the tax prepayment scheme, etc.

Other financial costs
Other financial costs comprise interest payable, net capital losses in respect of securities, debt commitments and foreign exchange transactions, as well as interest payable under the tax prepayment scheme, etc.

Tax
Tax for the year (comprising actual tax for the year and change in deferred tax for the year) is recognised in the income statement to the extent that it is directly attributable to profit for the year, or recognised directly in equity to the extent that it is attributable to items pertaining directly to equity.

Balance Sheet

Intellectual property rights, etc.
Other intangible assets comprises ongoing and completed IT development projects and software. IT development projects are recognised as intangible assets provided that such projects relate to clearly defined, identifiable products and processes, where the degree of technical utilisation, adequate resources and a potential future market or development opportunity within the business can be demonstrated, and where the intention is to produce, market or use the product or process in question. Other development costs are recognised as costs in the income statement at the time they are incurred.

The cost price of development projects comprises costs, including salaries and depreciation, which are directly or indirectly attributable to the development projects. Completed development projects are depreciated on a straight-line basis over the anticipated useful life. The depreciation period is 3-5 years.

Development projects, including current projects, are written down to their recovery value where this is below the book value.

Software licenses are measured at cost after deduction of accumulated depreciation, amortisation and write-downs. Software licenses are depreciated over maximum three years and are written down to the recovery value if this is below the book value.

Property, plant and equipment
Leasehold improvements, technical plant and machinery and other equipment, operating plant and fixtures and fittings are measured at cost less accumulated depreciation and write-downs. Sites, art objects or other assets of which the value cannot depreciate as a consequence of use and wear are not subject to depreciation.

Cost price includes acquisition price, costs directly associated with the acquisition, as well as costs for preparation of the asset until it is ready to be taken into use.

The basis for depreciation is the cost price less the expected residual value when the asset ceases to be used. Depreciation takes place on a straight-line basis, according to the following expected economic lives:

> Production plant and machinery – 3-10 years.
> Other plant, operating equipment and fixtures and fittings – 3-10 years.
> Leasehold improvements – 10 years.

Assets with a cost price below DKK 25,000 are recognised as costs in the income statement as of the acquisition date.

Property, plant and equipment are written down to their recovery value where this is below the book value.

Gains and losses on the disposal of property, plant and equipment are calculated as the difference between the sales prices less sales costs on the one hand, and the accounting value at the time of the sale on the other.

Gains or losses are recognised in the income statement together with depreciation, amortisation and write-downs or under other operating income, should the sales price exceed the original cost price.

Receivables
Receivables are recognised at amortised cost price, which usually corresponds to face value, less write-downs to compensate for anticipated losses.

Deferred tax
Deferred tax is calculated on all provisional differences between the values of assets and liabilities in the internal accounts and tax accounts respectively, whereby the value for tax purposes of the assets is obtained based on the planned use of the individual asset.

Deferred tax assets, including the tax value of deductible losses that can be carried forward, are recognised in the balance sheet at the anticipated realisable value of the asset, either by being offset against the deferred tax liability or as net tax assets.

Receivable and payable corporate tax
The current tax liability or tax receivable is recognised in the balance sheet as tax calculated on the taxable profit for the year, adjusted for tax paid on account.

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

Securities and investments
Securities recognised under current assets include listed shares and bonds measured at their officially listed values on the balance sheet date. Both realised and unrealised capital gains and losses are recognised in the income statement under financial items.

Liquid funds
Liquid funds include cash holdings and bank deposits.

Treasury shares
Acquisition and selling prices of treasury shares and dividends from the same are recognised directly in profit carried forward under equity. Gains or losses from sales are thus not included in the income statement. Capital reduction from cancellation of treasury shares reduces the share capital by an amount corresponding to the face value of the Treasury shares.

Dividend
Dividend is recognised as a debt commitment at the time of its adoption by the annual general meeting. The proposed dividend for the financial year under review is shown as a separate item under equity.

Liabilities
Liabilities are measured at amortised cost price which usually corresponds to face value.

Leasing obligations
Leasing liabilities relating to operational leasing agreements are recognised in the income statement on a straight-line basis during the term of the lease.

Cash flow statement
The cash flow statement is presented using the indirect method and shows the cash flows in respect of operations, investments and financing combined with cash and cash equivalents at the beginning and end of the year.

Cash flows in respect of operations are calculated as the operating profit adjusted for non-cash operating items and the change in working capital, less corporate tax paid.

Cash flows in respect of investments include payments in connection with the acquisition, disposal and development of intangible assets and property, plant and equipment.

Cash flows concerning financing activities include changes in the size or composition of the company's share capital and associated costs, as well as the raising of loans, repayment of debts attracting interest, purchase of treasury shares and payment of dividends.

Cash and cash equivalents comprise liquid funds and short-term securities with an insignificant price exposure.

Income statement 2019

DKK 1,000	Note	2019	2018
Net turnover	1	425,841	423,581
Other external costs		-145,925	-126,043
Gross profit		**279,916**	**297,538**
Payroll costs	2	-154,493	-139,701
Depreciation, amortisation and write-downs	3	-107,052	-33,634
Operating result		**18,371**	**124,203**
Other financial income	5	6,285	6,517
Other financial costs	6	-12,258	-4,839
Result from ordinary activities before tax		**12,398**	**125,881**
Tax on ordinary profit	7	-4,438	-27,557
Profit for the year		**7,960**	**98,324**
Proposed appropriation of profit			
Profit for the year		7,960	98,324
Proposed dividend		-13,777	-
Profit carried forward		**-5,817**	**98,324**

Balance sheet – Assets

As at 31 december 2019

DKK 1,000	Note	2019	2018
Internal development projects	8	165,932	223,624
Other development projects	8	21,887	20,412
Intangible fixed assets		**187,819**	**244,036**
Production plant and machinery	9	3,986	5,256
Other equipment, process materials, fixtures and fittings	9	897	1,145
Leasehold improvements	9	1,228	1,601
Property, plant and equipment		**6,112**	**8,002**
Fixed assets		**193,931**	**252,038**
Receivables from sales and services		30,028	41,468
Other receivables		7,615	8,213
Receivables, corporation tax		-	1,705
Prepayments	10	15,716	13,593
Receivables		**53,359**	**64,979**
Other securities and investments		**360,048**	**278,526**
Liquid funds		**130,728**	**141,862**
Current assets		**544,135**	**485,367**
Total assets		**738,066**	**737,404**

Balance sheet – liabilities

As at 31 december 2019

DKK 1,000	Note	2019	2018
Corporate capital		40,000	40,000
Other statutory reserves		61,176	61,176
Reserve for internal IT development projects		165,932	223,624
Profit or loss carried forward		360,513	308,638
Proposed dividend		13,777	-
Equity and non-distributable reserve		**641,398**	**633,438**
Deferred tax	11	40,479	51,760
Provisions		**40,479**	**51,760**
Suppliers of goods and sevices		10,247	14,420
Corporation tax payable		4,243	-
Other debt commitments		41,699	37,786
Short-term debt commitments		**56,189**	**52,206**
Debt		**96,668**	**103,966**
Total liabilities		**738,066**	**737,404**

Other notes	
Fees for auditors elected by the Annual General Meeting	4
Unrecognised rental and lease commitments	13
Contingent liabilities	14

Equity statement

As at 31 december 2019

DKK 1,000	Corporate capital	Other statutory reserves	Reserve for development costs	Profit or loss carried forward	Dividend proposal for the financial year	Total DKK
Equity at the beginning of the year	40,000	61,176	223,624	308,638	-	633,438
Proposed dividend					13,777	13,777
Profit carried forward			-57,692	51,875	-	-5,817
Equity at year-end	**40,000**	**61,176**	**165,932**	**360,513**	**13,777**	**641,398**

Statutory allocation to non-distributable reserve

The conversion of the private foundation Værdipapircentralen into a limited liability company required the establishment of a non-distributable reserve corresponding to the value of the assets contributed by the private foundation after deduction of the contributed liabilities. Pursuant to the Danish Securities Trading Act, VP Securities A/S must allocate 10 per cent of the profit for the year which has not been used to cover any losses from previous years to the non-distributable reserve. This allocation may not, however, exceed the yield on the non-distributable reserve, which corresponds to the interest rate calculated in accordance with Section 213(2) of the Danish Financial Business Act, less a pro rata share of the corporation tax for the year. The latter rule of limitation is to be used for the 2019 financial year. As the interest rate pursuant to Section 213(2) of the Danish Financial Business Act was 0 per cent in both the first and second half of 2019 there is thus no adjustment in respect of 2019.

Cash flow statement for 2019

DKK 1,000	Note	2019	2018
Operating result		18,371	124,203
Depreciation, amortisation and write-downs		107,052	33,634
Change in working capital	12	8,022	-10,664
Cash flow from ordinary activities		**133,445**	**147,173**
Financial income received		6,399	6,579
Financial costs paid		-723	-917
Corporation tax paid		-9,452	-17,911
Cash flow from operations		**129,669**	**134,924**
Addition of intangible assets		-47,352	-85,013
Purchase of property, plant and equipment		-1,597	-2,380
Cash flow from investments		**-48,949**	**-87,393**
Change in cash and cash equivalents		**80,722**	**47,531**
Cash and cash equivalents as at 1 January		420,388	376,831
Mark to market ajustment of FX and securities		-10,334	-3,974
Cash and cash equivalents as at 31 December		**490,776**	**420,388**
Cash and cash equivalent compromise			
Liquid funds		130,728	141,862
Securities		360,048	278,526
Cash and cash equivalents as at 31 December		**490,776**	**420,388**

Notes
Financial statements

1. Net turnover (DKK 1,000)

	2019	2018
CSD & Securities Services	389,628	384,907
Issuer Services	36,213	38,674
	425,841	**423,581**

Of which the total net turnover for the sales to foreign customers account for DKK 96,976 (2018: DKK 101,280). Change related to the liquidation of VP Lux S.à.r.l.”

2. Payroll costs (DKK 1,000)

	2019	2018
Wages and salaries	159,610	149,926
Pensions	11,006	10,352
Other social security costs	21,580	20,506
Capitalisation of salaries	-37,703	-41,083
	154,493	**139,701**
Of which total remuneration paid to the Executive Management and the Board of Directors	7,905	5,740
Average number of full-time employees	**189**	**188**

Capitalisation of salaries pertains to internal IT development projects ref. note 8.

3. Depreciation, amortisation and write-downs (DKK 1,000)

	2019	2018
Amortisation of intangible fixed assets	103,567	29,639
Depreciation of property, plant and equipment	3,485	3,995
	107,052	**33,634**

4. Fees for auditors elected by the Annual General Meeting (DKK 1,000)

	2019	2018
Statutory audit	427	472
Tax, VAT and duty advice	106	217
Other services	1,272	178
Regulation regarding 2018	78	-
	1,883	**867**

5. Other financial income (DKK 1,000)

	2019	2018
Other interests receivable	6,183	5.413
Fair value ajustments	73	-
Other financial income	29	1,104
	6,285	**6,517**

6. Other financial costs (DKK 1,000)

	2019	2018
Other interests receivable	719	548
Fair value ajustments	11,122	3,787
Other financial income	417	504
	12,258	**4,839**

7. Tax on ordinary profit (DKK 1,000)

	2019	2018
Current tax	15,322	15,525
Change in deferred tax	-11,281	11,935
Ajustments relatiing to previous years	398	96
	4,438	**27,557**

8. Intangible fixed assets (DKK 1,000)

	Other develop-ment projects	Develop-ment projects
Costs, beginning of year	27,801	281,958
Additions	6,902	40,450
Cost end of year	**34,703**	**322,408**
Depreciations, amortisations and write-downs, beginning of year	-7,389	-58,335
Depreciations and amortisations for the year	-5,427	-98,141
Depreciations, amortisations and write-downs, end of year	**-12,816**	**-156,476**
Carry amount, end of year	**21,887**	**165,932**

9. Property, plant and equipment (DKK 1,000)

	Production, plant and machinery	Other equipment, process material, fixtures and fittings	Leasehold improve-ments
Costs, beginning of year	16,687	10,273	8,640
Additions	1,414	182	-
Cost end of year	**18,101**	**10,455**	**8,640**
Depreciations, amortisations and write-downs, beginning of year	-11,431	-9,128	-7,039
Depreciations and amortisations for the year	-2,684	-430	-373
Depreciations, amortisations and write-downs, end of year	**-14,115**	**-9,558**	**-7,412**
Carry amount, end of year	**3,986**	**897**	**1,228**

10. Prepayments

Prepayments and accruals primarily comprise accrued prepaid costs relating to multi-year contracts with suppliers.

11. Deferred tax (DKK 1,000)

	2019	2018
Intangible fixed assets	-41,320	-53,688
Property, plant and equipment	375	134
Securities and investments	466	466
Tax deficit carried forward	-	1,328
	-40,479	**-51,760**

12. Change in working capital (DKK 1,000)

	2019	2018
Change in receivables	8,281	-2,039
Change in creditors, ect.	-259	-8,625
	8,022	**-10,664**

13. Unrecognised rental and lease commitments

The company has entered into a mutually non-terminable lease. The annual commitment is DKK 16,000.

14. Contingent liabilities

Severance commitments

The Executive Management are subject to an ordinary notice of termination of 12 months. Should an Executive Management member die, the company is obliged to pay six months' remuneration to the spouse.

Definition of key figures and key ratios

Key ratios	Calculation formula	Ratio expresses
Net turnover per transaction (DKK/transaction)	$\frac{\text{Net turnover}}{\text{Number of securities transactions}}$	
Cost per transaction (DKK/transaction)	$\frac{\text{Cost}}{\text{Number of securities transactions}}$	
Net turnover per AuC (Bps/AuC)	$\frac{\text{Net turnover x 10.000}}{\text{Amount under Custody (AuC)}}$	
Cost per AuC (Bps/AuC)	$\frac{\text{OPEX incl. depreciation x 10,000}}{\text{Amount under Custody (AuC)}}$	
Gross margin (%)	$\frac{\text{Gross profit x 100}}{\text{Net turnover}}$	Operational profitability of the company.
Net margin (%)	$\frac{\text{Profit for the year x 100}}{\text{Net turnover}}$	The company's earnings.
Return on invested capital (%)	$\frac{\text{NOPAT x 100}}{\text{Average invested capital}}$	The return the company generates on investor's funds.
Return on equity (%)	$\frac{\text{Profit for the year excluding minority interests x 100}}{\text{Average equity}}$	The company's return on the capital invested by the owners of the company.
Solvency ratio (%)	$\frac{\text{Equity excluding minority interests x 100}}{\text{Total liabilities}}$	Financial capacity of the company.
Profit per share (DKK)	$\frac{\text{Profit for the year}}{\text{Number of shares}}$	
Dividend per share (DKK)	$\frac{\text{Dividend paid}}{\text{Number of shares}}$	

Glossary of words

API
Application Programming Interface – often used to refer to a specific kind of interface between a client and a server.

AUC
Assets Under Custody.

BIC
Bank Identifier Code – an international bank code that identifies particular banks worldwide.

CFCS
Center for Cybersikkerhed.

CPMI
Committee on Payments and Market Infrastructures.

CSD
Central Securities Depository.

CSD Regulation (CSDR)
Regulation no. 909/2014/EU of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (CSDs).

ECB
European Central Bank.

ECSDA
European Central Securities Depositories Association.

ESMA
European Securities Markets Authority.

ETP
Exchange Traded Products – the collective name for a group of investment and trading products listed by an issuer.

Financial Sector forum for Operational Resilience (FSOR)
FSOR is a forum for collaboration between authorities and key financial sector participants which aims to increase operational resilience when using IT across the sector, including resilience to cyberattacks.

The Danish central bank chairs and acts as the secretariat of FSOR.

General Data Protection Regulation (GDPR)
GDPR was approved by the EU Parliament on 14 April 2016 and replaces the Data Protection Directive, 95/46/EC. GDPR is designed to harmonise data privacy laws across Europe, to protect and empower all EU citizens' data privacy and to reshape the way organisations across the region approach data privacy.

Enforcement date: 25 May 2018.

Hypercare
Period with intensive care and attention following the launch of a major IT development project.

IT blueprint
A planning tool that an IT organisation creates in order to guide its priorities, projects, budgets, staffing and other IT strategy-related initiatives.

Nordic Financial CERT
The Nordic Financial CERT, a Nordic financial sector forum, aims at fortifying the Nordic community in the face of cyber-risks to customer assets and at providing a safety net for all financial institutions.

IOSCO
International Organization of Securities Commissions.

RegTech
Management of regulatory processes within the financial industry through technology.

SRD II
Shareholder Rights Directive II – imposes new requirements on listed companies, intermediaries (depository banks, central securities depositories, etc.), asset managers and institutional investors.

SWIFT
Society for Worldwide Interbank Financial Telecommunication.

T2S
TARGET2-Securities, the name of the pan-European settlement platform to which VP became connected in September 2016 with regard to settlement in EUR, and in 2018 with regard to settlement in DKK.

VP Securities A/S
Weidekampsgade 14
DK - 2300 Copenhagen S
CVR 21599336

+45 4358 8888
vp@vp.dk
www.vp.dk

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