

Lunar Bank A/S
Hack Kampmanns Plads 10
8000 Aarhus C
CVR no. 39 69 76 96

LUNAR[®]

INTERIM REPORT

FIRST HALF 2022

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Company information

Company

Lunar Bank A/S
Hack Kampmanns Plads 10
8000 Aarhus C
CVR no. 39 69 76 96

Financial period:
1 January – 30 June 2022

www.lunar.app

Ownership

The company is fully owned by:
Lunar Group A/S
Hack Kampmanns Plads 10
8000 Aarhus C

Board of Directors

Claus Okholm (chairman)
Vibeke Bak Solok
Lotte Møllerup van Hauen
Jens Peter Leschly Neergaard
Lisa Lund Holst

Executive Board

Anders Hartlev (CEO)
Morten Strande Sønderskov

Audit & Risk Committee

The Board of Directors in its entirety

Auditors

Pricewaterhousecoopers Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup

Statement by Management

The Board of Directors and the Executive Board have today discussed and approved the interim report – first half 2022 of Lunar Bank A/S.

The interim report of Lunar Bank A/S has been prepared in accordance with the Danish Financial Business Act and the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc. ('the Executive order').

In our opinion, the financial statements give a true and fair view of the financial position of Lunar Bank A/S at 30 June 2022 and of the results of Lunar Bank's operations for the financial year 1 January – 30 June 2022.

Further, in our opinion, the Management's review gives a true and fair review of the development in Lunar Banks operations and financial matters, the results for the first half year and Lunar Banks financial position.

The interim report has not been subject to audit or review.

Copenhagen, 16 September 2022

Executive Board:

Anders Hartlev
CEO

Morten Strande Sønderskov

Board of Directors:

Claus Okholm
Chairman

Jens Peter Leschly Neergaard

Lisa Lund Holst

Lotte Møllerup van Hauen

Vibeke Bak Solok

Management's review

Our business

Lunar Group (Lunar) is a financial technology company powering consumers and businesses in the Nordics. Lunar believes the power of money belongs to everyone and gives consumers and businesses all the power they need to bank, pay and invest. Lunar offers a range of financial services and products to consumers and businesses that lets everyone manage their money in a new, transparent and convenient way.

Lunar sees an opportunity to offer subscription based financial services tailored to the everyday needs of forward-thinking people and entrepreneurs and has continued to roll out a number of new features and products across the different tiers.

Lunar Group has more than 500,000 customers across Denmark, Sweden and Norway and +600 employees by June 2022.

The business model for Lunar is not based on heavy gearing of the capital, but rather a range of products being able to generate a stable and recurring revenue. The primary income will therefore be distributed between consumer and business tiers, interchange fees, financial products and third-party services.

Financial review

The result of the first half of 2022 shows a loss after tax of DKK 427.4 million. The negative financial result was expected as Lunar has invested massively in developing new products, markets and growth, acquisitions and the launch of new products across tiers.

In March, Lunar Group successfully secured additional funding of DKK 521 million to accelerate Lunar's future growth. Of this, Lunar Bank has received DKK 520 million in capital increase. During the first half of 2022, Lunar has increased its focus on cost and invested in making the organization scalable to support future growth and ensuring a road to profitability.

The equity position in Lunar Bank totaled DKK 1,462 million on 30 June compared to DKK 1,447 million at 31 December 2021.

During the first half of 2022 Lunar Bank entered into an acquisition of a subsidiary from a sister company. The acquisition will result in financial synergies leading to increased profitability on lending activities. The details of the acquisition are elaborated in note 17.

Management's review

Outlook

Lunar will continue to have a very strong focus to meet user expectations and continue to be the highest rated financial app in the Nordics. In H2 2022 Lunar will continue growth in the user base – both private and business users. Further a number of new products will be introduced across the markets.

Due to continued heightened investments and expenses related to establishing a footprint across the Nordics, Lunar expects to realize a loss after tax in H2 2022 in same level as H1 2022. However, Lunar is launching a number of new products the financial forecast comes with some degree of uncertainty.

Capital and liquidity

On 30 June Lunar Bank's own funds, less deductions, amounted to DKK 800.5 million including Tier 2 capital instruments. In accordance with Commission Delegated Regulation (EU) 2020/2176 entering into force 23 December 2020, Lunar is able to recognise software assets in Common equity tier 1 capital which accounts for DKK 20.1 million on 30 June. Other intangible assets including goodwill amounting to DKK 678.5 million are deducted in the capital base. On 30 June Lunar Bank's own funds and eligible liabilities amounted to DKK 812.8 million.

The solvency need is calculated as DKK 259.2 million or 12.2% of REA on 30 June 2022. The capital target amounts DKK 695.4 million or 32.8% as it adds the capital conservation buffer, an MREL-add-on and a stress buffer amount to. The excess to the capital target is DKK 117.4 million.

Lunar Bank's bid (March 2022) to acquire all shares in Instabank ASA has proven more difficult to fulfill than expected. The change in the economic environment during Q2 2022 has made it difficult to secure binding commitment on the necessary capital raise to meet the Norwegian FSA and the Danish FSA's capital requirements in time to secure their approval ahead of the drop dead date on 30 September 2022. Lunar continues its dialogue with investors, both in terms of the Instabank acquisition and in terms of future growth ambitions. Lunar Bank has hedged the purchase price via a NOK forward contract. The forward contract has a negative impact on equity of DKK 84.6 million on 30 June 2022.

Lunar calculated the liquidity requirements on the basis of the Liquidity Coverage Ratio (LCR). On 30 June 2022 LCR was calculated at 814% against 1,008% in on 31 December 2021. Lunar's Board of Directors has set an internal limit for LCR of 150 %. Based on the current requirements, the institute has a significant excess in relation to liquidity coverage in relation to regulatory requirements.

Risk Management

Lunar operates in a dynamic environment, therefore constantly affected by external and internal risks. The Risk Management Standard Operating Procedure (RM SOP) stipulates the common standard for how activities should be coordinated in terms of identifying and controlling the risks Lunar is exposed to. The purpose of the RM SOP is to ensure an enterprise wide understanding and handling of risk management and it forms the basis for a uniform approach for working with risks across the three lines in Lunar. By adhering to the principles in the RM SOP Lunar enables the organization to be well-prepared and proactive in relation to the challenges and opportunities that the identified risks pose.

Management's review

Risk Governance

Lunar has a structure with relevant committees at board level and below to decide on all relevant risks, and to monitor and perform oversight of risk exposure across risk types. Delegation of decisions-making competences as well as relevant escalation routes are formalised. This goes hand in hand with clear roles and responsibilities establishing an organization with a relevant functional separation between risk ownership and oversight.

Risk Taxonomy & Risk Appetite

Identifying, defining and assessing the relevant risks and ensuring a common language regarding risk types is key for efficient risk management. As a natural next step on the Lunar journey, Lunar has developed a new and broader Risk Taxonomy in 2021 to reflect the increasing complexity of the business. This will enable the entity to define risk appetite with more granularity going forward. The financial risk appetite is expressed through limits for all areas where Lunar is exposed and is reflected in a number of risk appetite statements embedded in the relevant policies.

Risk culture

Management openly expresses the mindset and necessary qualifications Lunar wishes for our organization to possess. Risk is not a topic for leaders or functions only, but a widespread task across the entire organisation. Employees at all levels are encouraged to ask for help and share any concerns they might have, and a whistleblower setup is in place. The policy on healthy company culture has been approved by the Board of Directors and implemented.

Control Environment & Reporting

Lunar's ambition is to build an integrated offering within banking, payments and investments and Lunar will target growth in revenue and in customers while staying within risk appetite. This strategy entails significant requirements for controls and reporting as evidenced by the 2021 Lendify acquisition, which increased the credit risk reporting requirements significantly in order for Lunar management and board to be informed and enable them to discuss and challenge.

Well-functioning control and reconciliation routines are a prerequisite for calculating correct and credible values in risk and financial reporting. Reporting supports personnel at all levels to understand the relationships between risk, culture, and performance and to improve decision-making in strategy- and objective-setting, governance, and day-to-day operations.

Lunar has matured the control and reporting setup in the first half of 2022 and will continue to do so in the coming years to ensure the extent and quality is sufficient given the stages Lunar will go through on its ambitious voyage.

The main categories of financial risks are elaborated in note 15.

Events after the balance sheet date

In September 2022 Lunar Group has raised an additional DKK 212 million in capital, which was injected to Lunar Bank as a capital raise of DKK 212 million. Furthermore, NOK has strengthened lowering the potential loss on the forward contract covering the acquisition cost of Instabank.

During Q3 2022, Lunar has been in continuous dialogue with the management and the largest shareholders of Instabank regarding the transaction and the regulatory approval that is yet to be obtained from the Norwegian FSA. The management of Lunar is of the belief that all reasonable efforts have been used to obtain the regulatory approval, and Lunar Group has been actively and diligently seeking to obtain the required capital after the rejection of the ownership application by the Norwegian FSA.

In case the regulatory approval is not obtained in due time ahead of the drop dead date, Lunar is of the belief that no liability can be imposed on the company as the transaction is conditional upon approval by the relevant authorities. As the condition is currently not fulfilled there is consequently no binding obligation for Lunar to acquire the shares in Instabank.

No further events have occurred after the balance sheet date, which could affect the assessment of the interim financial statements.

Uncertainty relating to recognition and measurement

On an ongoing basis, management assesses the group's capital resources in order to assess the soundness of the group's investments in expansion. Based on Lunar's approved budgets, management assesses that through 2022 the group will comply with all regulatory capital requirements. In the nature of budget planning there are uncertainties related to

realizing those and in the event of a lack in meeting expected growth estimates management has established several contingency options and management will continue to focus on maintaining a sound and adequate capital base.

Lunar Bank has recognized intangible assets at a carrying amount of DKK 698.6 million. Intangible assets include customer relations, IT platform and goodwill. The measurement of intangible assets is supported by earnings expectations to which inherent uncertainties in realizing these expectations exists. Management assesses that no indication of impairment of the intangible assets exists as of 30 June 2022.

Supervisory diamond

The Danish FSA has identified a number of specific risk indicators for banks and mortgage institutions and has set threshold values with which all Danish banks must comply. The requirements are known as the Supervisory Diamond.

As of 30 June 2022, Lunar Bank has complied with the three thresholds as per below. Lending growth is breached as Lunar is a newly established bank and the loan book is in a build-up phase.

(%)	Threshold	30 June 2022	30 June 2021	31 December 2021
Sum of large exposures	<175	12.7	2.5	0.9
Lending growth	<20	48.4	90.1	8,001
Real property exposure	<25	0	0	0
Liquidity indicator	>100	814.6	1,172.0	1,008.0

Financial statements 1 January – 30 June

Income statement and comprehensive income

Note	DKK'000	First half 2022	First half 2021	Full year 2021
	Interest income	61,270	3,469	19,198
	Interest expense	29,548	6,103	30,638
	Net interest income	31,722	-2,634	-11,440
	Fee and commission income	67,497	30,698	95,209
	Fees and commission paid	23,299	12,212	32,278
	Net interest and fee income	75,920	15,852	51,491
4	Market value adjustments	-4,311	-200	-1,154
	Staff costs and administrative expenses	423,415	160,690	496,687
	Amortisation, depreciation and impairment charges	12,885	12,960	25,020
5	Loan impairment charges etc.	55,649	2,260	44,005
8	Income from investments in subsidiaries	-7,072	0	0
	Profit/loss before tax	-427,412	-160,258	-515,375
	Tax for the year	0	0	0
	Profit/loss after tax	-427,412	-160,258	-515,375
	Other comprehensive income after tax	-79,239	0	728
	Total comprehensive income	-506,651	-160,258	-514,647

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Balance sheet

Note	DKK'000	30 June 2022	30 June 2021	31 December 2021
ASSETS				
	Cash in hands and demand deposits with central banks	6,976,340	3,979,588	7,468,404
6	Receivables from credit institutions and central banks	70,356	15,507	59,830
7	Loans and other amounts due at amortised costs	1,550,125	28,931	1,044,676
	Bonds at amortised costs	1,315,936	199,221	255,754
8	Investments in subsidiaries	60,721	0	0
	Goodwill	585,334	0	613,540
	Other intangible assets	113,233	104,348	91,538
9	Other assets	589,037	33,792	57,970
	Prepayments	28,987	7,253	40,210
	TOTAL ASSETS	11,290,069	4,368,640	9,631,922
LIABILITIES AND EQUITY				
Amounts due				
10	Deposits	9,570,358	3,923,139	7,984,268
11	Other liabilities	207,774	81,137	150,548
	Deferred income	17,798	12,941	17,838
	Total liabilities	9,795,930	4,017,217	8,152,654
Provisions				
	Impairment charges on unused credit facilities	106	682	221
	Other provisions	2,688	0	2,666
	Total provision	2,794	682	2,887
Subordinated debt				
	Subordinated debt	29,825	29,765	29,795
	Total subordinated debt	29,825	29,765	29,795
Equity				
12	Share capital	42,077	41,966	42,077
	Share premium	2,538,207	618,315	2,018,207
	Retained earnings	-1,118,764	-339,305	-613,698
	Total equity	1,461,520	320,976	1,446,586
	TOTAL LIABILITIES AND EQUITY	11,290,069	4,368,640	9,631,922

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Statement of changes in equity

DKK'000	Share capital	Share premium	Retained earnings	Total
Equity at 1 January 2021	41,926	395,574	-179,047	258,453
12 Capital increase	151	1,622,633	0	1,622,784
Group contributions	0	0	75,000	75,000
Net profit/loss for the year	0	0	-515,375	-515,375
Share-based payments	0	0	4,996	4,996
Other comprehensive income	0	0	728	728
Equity at 1 January 2022	42,077	2,018,207	-613,698	1,446,586
12 Capital increase	0	520,000	0	520,000
Net profit/loss for the year	0	0	-427,412	-427,412
Share-based payments	0	0	1,585	1,581
Other comprehensive income ¹	0	0	-79,239	-79,239
Equity at 30 June 2021	42,077	2,538,207	-1,118,764	1,461,520

During the first half of 2022 share capital was increased with nom. DKK 1 to a balance of DKK 42,077,075.

¹Other comprehensive income comprises market value adjustments of NOK forward contracts"

Financial statements 1 January – 30 June

Capital and solvency

DKK'000	30 June 2022	30 June 2021	31 December 2021
Equity	1,461,520	320,976	1,446,586
Deduction of Intangible assets ¹	-678,542	-56,748	-674,787
Total core capital after deductions	782,978	264,228	771,779
Total core capital	782,978	264,228	771,779
Subordinated loan capital	30,000	30,000	30,000
Deductions in terms of maturity	-12,500	-6,500	-9,500
Total own funds	800,478	287,728	792,299
Credit risk	2,014,969	107,053	932,188
Market risk	70,077	8,208	2,558
Operational risk ²	34,946	97,058	39,253
Total risk exposure	2,119,992	212,319	973,999
Key figures			
Core capital after deductions, ratio (%)	36.9	124.5	79.2
Core capital ratio (%)	36.9	124.5	79.2
Solvency ratio (%)	37.8	135.6	81.3

¹ Goodwill and customer rights are fully deducted in Common equity tier 1 capital. Software assets are recognized with a prudent valuation in accordance with Commission Delegated Regulation (EU) 2020/2176 entering into force 23 December 2020. Software assets included in Common equity tier 1 capital amounts to DKK 20,094 thousand (30 June 2021: DKK 47,600 thousand). The deductions are included in the credit risk.

² Operational risk is partly derived based on budget figures as Lunar Bank has not realised core earnings for the last three years.

Financial statements 1 January – 30 June

Financial highlights

Income Statement (DKK'000)	First half 2022	First half 2021	Full year 2021	Full year 2020	Full year 2019
Net interest and fee income	75,920	15,852	51,491	3,210	-820
Market value adjustments	-4,311	-200	-1,154	-286	-17
Staff costs and administrative expenses	423,415	160,690	496,687	159,544	7,083
Write-downs on loans and receivables, etc.	55,649	2,260	44,005	4,207	0
Profit/loss for the period	-427,412	-160,258	515,375	-175,971	-4,679

Balance sheet (end of period) (DKK'000)

Loans at amortised costs	1,550,125	28,931	1,044,676	12,895	0
Total assets	11,290,069	4,368,640	9,631,922	1,271,392	193,504
Deposits	9,570,358	3,923,139	7,984,268	928,280	7
Equity	1,461,520	320,976	1,446,586	258,453	170,783

Ratios and key figures

Own funds	800,478	287,728	792,299	225,620	73,951
Solvency ratio (%)	37.8	135.6	81.3	187.7	64.0
Core capital ratio (%)	36.9	124.5	79.2	165.7	64.0
Return on equity before tax (%)	-40.5	-65.2	-60.5	-81.4	-7.0
Return on equity after tax (%)	-40.5	-65.2	-60.5	-82.0	-5.4
Interest-rate risk	0.0	0.1	0.8	0.2	0
Currency position	9.0	0.1	0.3	0.1	0
Loans relative to deposits (%)	16.2	0.7	13.1	1.4	-
Gearing of loans, end of year (%)	106.1	9.0	72.2	5.0	-
Cover relative to statutory liquidity requirements (%)	814.6	1,172.0	1,008.0	1,737.7	413.8
Net impairment ratio (%)	5.2	26.6	4.2	24.6	0
Return on assets (%)	-3.8	-3.7	-5.4	-13.8	-2.4
Average number of full-time employees	130	49	95	19	2

Financial ratios and key figures are calculated in accordance with the Danish Finance Society's guidelines.

As Lunar Bank were established on 27 June 2018, only key figures the period 2019 – 2021 are disclosed. As Lunar Bank received the bank licence in August 2019, no ratios have been calculated for previous periods.

Financial statements 1 January – 30 June

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1 Basis of preparation

The interim report of Lunar Bank A/S has been prepared in accordance with the Danish Financial Business Act and the Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc. ('the Executive order').

The accounting policies used in the preparation of the financial statements are consistent with those of last year's annual report. During the year, Lunar Bank A/S was engaged in investment in subsidiaries. The accounting treatment of business combinations and equity investments in subsidiaries is described below.

With reference to section 137 in the Executive order, no consolidated figures are prepared, as the Lunar Group A/S reflects the consolidated figures for the entire group, including Lunar Bank A/S.

The interim report is presented in DKK thousands.

Business combinations

Business combinations such as acquisitions and disposals of equity investments, merges, demergers, additions of assets and share conversions, etc. are disclosed in accordance with IFRS 3 principles.

Equity investments in subsidiaries

Equity investments in subsidiaries are measured according to the equity method in the parent company financial statements. The Parent Company has chosen to consider the equity method a measurement method. On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding the consolidated financial statements above. The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses. Holdings in group undertakings with negative value are recognised as provisions. Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies in the consolidated financial statements. Negative goodwill is recognised in the income statement. Dividend received is deducted from the carrying amount. Equity investments in subsidiaries measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

2 Significant accounting estimates, assumptions and uncertainties

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Bank's accounting policies.

The judgments, estimates and the related assumptions made are based on future expectations, historical experience and other factors that Management considers to be reliable, but which by their very nature are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise.

Financial statements 1 January – 30 June

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2 Significant accounting estimates, assumptions and uncertainties (continued)

On an ongoing basis, management assess the Bank's capital resources in order to assess the soundness of the Bank's investments in expansion. Based on the bank's approved budgets, management assess that through 2022 the Bank will comply with all regulatory capital requirements. In the nature of budget planning there are uncertainties related to realizing those and in the event of a lack in meeting expected growth estimates Management has established several contingency options and Management will continue to focus on maintaining a sound and adequate level of own funds.

3 Financial highlights

Financial highlights are disclosed on page 12.

DKK'000	First half 2022	First half 2021	Full year 2021
4 Market value adjustments			
Bonds at amortised cost	-1,461	-395	-1,006
Foreign exchanges	-11,483	195	-2,484
Financial instruments measured at fair value	9,739	0	2,396
Other liabilities	-1,106	0	-60
	-4,311	-200	-1,154
5 Loan impairment charges etc.			
ECL on new assets	44,265	2,723	44,625
Final losses on loans previously written down	16,274	0	617
Other movements	-4,890	-463	-877
	55,649	2,260	44,005
6 Receivables from credit institutions and central banks			
Credit institutions	70,356	15,507	59,830
Total	70,356	15,507	59,830
Distribution of terms by maturity			
Overnight	70,356	15,507	59,830
Total	70,356	15,507	59,830

Financial statements 1 January – 30 June

Notes				
	DKK'000	30 June 2022	30 June 2021	31 December 2021
7	Loans and other amounts due at amortised costs			
	Customer loans	1,550,125	28,931	1,044,676
	Total	1,550,125	28,931	1,044,676
	Distribution of terms by maturity			
	Overnight	619	99	5,341
	Up to three months	1,838	294	2,387
	From three months to one year	8,041	1,287	9,283
	From one year to five years	170,312	27,251	88,395
	More than five years	1,369,315	0	939,270
		1,550,125	28,931	1,044,676

Note 15 contains detailed descriptions of financial risks incl. Lunar's credit exposure.

	DKK'000	30 June 2022
8	Investments in subsidiaries	
	Cost at 1 January	0
	Additions	68,029
	Cost at 30 June	68,029
	Value adjustment at 1 January	0
	Foreign exchange rate adjustment	-236
	Share-based payments	0
	Profit/loss for the year	-7,072
	Value adjustment at 30 June	-7,308
	Net carrying amount at 30 June	60,721

Name and registered office	Voting rights and ownership
Lendify Sweden 4 AB	100 %

The business acquisition is described in more detail in note 17.

9 Other assets

Other assets include receivables to affiliates of DKK 451,231 thousand (30 June 2021: 0).

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DKK'000	30 June 2022	30 June 2021	31 December 2021
10 Deposits broken down on maturity			
Deposits	9,570,358	3,923,139	7,984,268
Total	9,570,358	3,923,139	7,984,268
Distribution of terms by maturity			
Overnight	9,304,757	3,923,139	7,934,234
One to five years	265,601	0	50,034
Total	9,570,358	3,923,139	7,984,268

All deposits are related to customer transaction accounts.

11 Other liabilities

Other liabilities include debt to affiliates of DKK 49,358 thousand (30 June 2021: 37,054 thousand).

12 Share capital

Opening amount	42,077	41,926	41,926
Capital increases (by cash payment)	0	40	151
Closing amount	42,077	41,966	42,077
Number of shares	42,077,075	41,965,806	42,077,074

During the first half of 2022 share capital was increased with DKK 1 to a balance of DKK 42,077,075.

Lunar Bank does not hold own shares.

13 Contractual obligations and contingencies, etc.

Contingent liabilities

On 30 June 2022 unaccepted loan commitments and unused credit facilities amounts to DKK 1,483 thousand (30 June 2021: DKK 8,617 thousand).

Of the total value of bond holdings, DKK 255,641 thousand have been provided as collateral to other credit institutions (30 June 2021: 163,208 thousand).

Lunar Bank participates in a Danish joint taxation arrangement in which Lunar Group A/S serves as the administrative company. According to the joint taxation provisions of the Danish Corporation Tax Act, Lunar Bank is therefore liable for income taxes etc. for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities.

14 Related parties

Lunar Bank is 100 % owned by Lunar Group A/S, Hack Kampmanns Plads 10, 8000 Aarhus C. Lunar Group A/S is the ultimate parent company, and the consolidated financial statements are available from The Central Business Register's website; www.cvr.dk.

15 Financial risks and policies and objectives for the management of financial risks

Lunar Bank is exposed to different types of risks. The purpose of the risk management policies is to actively manage risks that may arise as a result of e.g., unpredictable development in financial markets. The main categories of financial risks are the following:

- Credit risk: The risk of loss arising from the failure of a borrower or obligor to meet its contractual obligation towards Lunar
- Market and liquidity risk: The risk of loss on on-/off-balance sheet positions arising from adverse movements in market prices and the risk of not having sufficient liquidity to meet obligations
- Capital and profitability: The risk of not having sufficient capital which can result in having to issue instruments at excessive costs, inability to pursue the business strategy, or failing payment obligations. The risk of failure to optimise earnings in business strategy.

The Management's report provides a detailed description of Lunar Bank's risk management practises.

Credit risk

Lunar Bank strives to differentiate itself in the marketplace through convenient and transparent financing products and an ambition of a state-of-the-art credit decision engine leveraging Lunar data - not by taking above normal credit risk. Further, want to limit impairment volatility.

When assessing the credit exposures on loans and credit facilities, the starting point is the identification of the credit risk of the counterparty according to our general impairment model described in basis of preparation. The exposures are divided into the following rating scales:

- 3) Customers with undoubtedly good credit quality
- 2a) Customers with normal credit quality
- 2b) Customers with certain indications of weakness
- 2c) Customers with significant signs of weakness, but without indications of credit impairment
- 1) Customers with indication of credit impairment, regardless of the stage of exposure

Financial statements 1 January – 30 June

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15 Financial risks and policies and objectives for the management of financial risks (continued)

Below, the gross credit exposure on 30 June 2022 is distributed in rating scales:

DKK'000	Stage 1	Stage 2	Stage 3	Total
3	2,362	359	0	2,721
2a	553,167	4,517	0	557,684
2b	781,683	37,123	0	818,806
2c	77,640	129,143	2,410	209,193
1	0	23,833	23,584	47,417
Gross carrying amount at 30 June 2022	1,414,852	194,975	25,994	1,635,821
Distribution in segments				
Public institutions	0	0	0	0
<i>Business, including:</i>				
Construction	133	93	318	544
Retail	326	128	177	632
Transport, hotels and restaurants	191	40	233	464
Information and communication	276	48	78	402
Finance and insurance	41	12	89	142
Other segments	1,203	323	751	2,277
Business, total	2,170	644	1,646	4,461
Privat	1,412,682	194,331	24,348	1,631,360
Total	1,414,852	194,975	25,994	1,635,821

Loans are issued without any provided security.

Below, the gross credit exposure on 31 December 2021 is distributed in rating scales:

DKK'000	Stage 1	Stage 2	Stage 3	Total
3	935	0	0	935
2a	306,724	340	0	307,064
2b	629,072	6,957	0	636,029
2c	104,827	26,514	0	131,341
1	0	0	17,734	17,734
Gross carrying amount at 31 December 2021	1,041,558	33,811	17,734	1,093,103

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15 Financial risks and policies and objectives for the management of financial risks (continued)

Distribution in segments

Public institutions	0	0	0	0
<i>Business, including:</i>				
Construction	41	38	1	80
Retail	49	15	0	64
Transport, hotels and restaurants	96	7	0	103
Information and communication	19	13	0	32
Finance and insurance	15	7	0	22
Other segments	130	75	0	205
Business, total	350	155	1	506
Private	1,041,208	33,656	17,733	1,092,597
Total	1,041,558	33,811	17,734	1,093,103

The table below show the changes in total impairment charges recognised at 30 June 2022 for loans at amortised cost.

Development on accumulated impairment charges on loans at amortised cost

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2022	24,845	7,599	15,983	48,427
ECL on new assets	22,845	10,853	6,630	40,328
Transfers from stage 1 to stage 2	0	14,508	0	14,508
Transfers from stage 1 to stage 3	0	0	4,286	4,286
Transfers from stage 2 to stage 1	-137	0	0	-137
Transfers from stage 2 to stage 3	0	0	512	512
Transfers from stage 3 to stage 1	-1,258	0	0	-1,258
Transfers from stage 3 to stage 2	0	-37	0	-37
Unchanged	2,293	-1,604	-2,362	-1,673
Write offs debited to the allowance account	0	0	-11,204	-11,204
Other movements	-71	-2,925	-5,060	-8,056
Impairment charges at 30 June 2022	48,517	28,394	8,785	85,696

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15 Financial risks and policies and objectives for the management of financial risks (continued)

The table below show the changes in total impairment charges recognised at 31 December 2021 for loans at amortised cost.

Development on accumulated impairment charges on loans at amortised cost

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2021	977	784	5,568	7,329
ECL on new assets	24,226	7,146	12,838	44,210
Transfer to Stage 1	-130	73	57	0
Transfer to Stage 2	51	-54	3	0
Transfer to Stage 3	20	5	-25	0
Assets derecognised	0	0	0	0
Write offs debited to the allowance account	0	0	0	0
Other movements	-299	-355	-2,458	-3,112
Impairment charges at 31 December 2021	24,845	7,599	15,983	48,427

The table below show the changes in total impairment charges recognised at 30 June 2022 for unused credit facilities.

Development on accumulated impairment charges on unused credit facilities

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2022	68	0	153	221
ECL on new assets	92	3	0	95
Transfers from stage 1 to stage 2	0	0	0	0
Transfers from stage 1 to stage 3	0	0	-1	-1
Transfers from stage 2 to stage 1	0	0	0	0
Transfers from stage 2 to stage 3	0	0	-1	-1
Transfers from stage 3 to stage 1	0	0	0	0
Transfers from stage 3 to stage 2	0	0	0	0
Unchanged	6	0	0	6
Write offs debited to the allowance account	0	0	-11	-11
Other movements	-64	1	-140	-203
Impairment charges at 30 June 2022	102	4	0	106

Only private clients have unused credit facilities, hence no distribution in business segments is disclosed.

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15 Financial risks and policies and objectives for the management of financial risks (continued)

The table below show the changes in total impairment charges recognised at 31 December 2021 for unused credit facilities.

Development on accumulated impairment charges on unused credit facilities

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2021	199	2	691	892
ECL on new assets	44	0	11	55
Transfer to Stage 1	-10	0	10	0
Transfer to Stage 2	2	-12	10	0
Transfer to Stage 3	6	0	-6	0
Unchanged	0	0	0	0
Assets derecognised	0	0	0	0
Write offs debited to the allowance account	0	0	0	0
Other movements	-173	10	-563	-726
Impairment charges at 31 December 2021	68	0	153	221

Only private clients have unused credit facilities, hence no distribution in business segments is disclosed.

16 Fair value information for financial instruments

In 2022 Lunar entered financial instruments with a maturity up to 3 months. Those financial instruments are mainly FX swaps which are entered to reduce the liquidity mismatch, since Lunar has large deposit surplus in DKK, while the loan book is mainly in SEK.

Lunar's position of financial instruments at 30 June 2022 is disclosed in the table below.

	Nominal position (thousand)	Net market value (DKK'000)	Positive market value (DKK'000)	Negative market value (DKK'000)
Spot, buy	SEK 30,500	-49	0	49
Swaps – EUR	EUR 5,000	1	1	0
Swaps - NOK	NOK 145,000	-221	697	918
Swaps – SEK	SEK 3,055,000	37,115	38,137	1,022
Forwards – NOK	NOK 1,290,000	-13,899	0	13,899

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16 Fair value information for financial instruments (continued)

Lunar's position of financial instruments at 31 December 2021 is disclosed in the table below.

	Nominal position (thousand)	Net market value (DKK'000)	Positive market value (DKK'000)	Negative market value (DKK'000)
Spot, buy	SEK 852,000	-1,649	0	1,649
Swaps – EUR	EUR 1,450	2	2	0
Swaps – NOK	NOK 4,000	-23	0	23
Swaps – SEK	SEK 1,632,000	2,418	4,631	2,213

Of the total nominal net position of SEK swaps at 31 December 2021 SEK 735,000 thousand are placed in a long position, while SEK 2,367,000 thousand are placed in a short position.

17 Acquired operations

In January Lunar Bank A/S acquired 100 % of the shares of Lendify Finance 4 AB, a sister company within Lunar Group. The acquisition will result in financial synergies leading to increased profitability on lending activities.

Specification of acquired net assets from Lendify Finance 4 AB:

DKK'000	Lendify Finance 4 AB
Receivables from credit institutions	7,040
Loans at amortised costs	500,417
Other assets	4,059
Acquired assets at fair value in total	511,516
Other liabilities	-507,198
Acquired liabilities and provisions at fair value in total	-507,108
Acquired net assets at fair value in total	4,318
Purchase price	4,318

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