

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

LUNAR[®]

ANNUAL REPORT

1 JANUARY – 31 DECEMBER 2022

Approved at the Company's annual general meeting on 27 April 2023

Chairperson:

Claus Okholm

CONTENTS

Company information	2
Statement by Management	3
Independent auditor's report (currently not included)	4
Management's review	8
Income statement and comprehensive income	16
Balance sheet	17
Statement of changes in equity	18
Capital and solvency	19
Notes	20

Company information

Company

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

Financial period:
1 January – 31 December

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 (chairperson)
Jens Peter Leschly Neergaard
Lotte Møllerup van Hauen

Executive Board

Vibeke Bak Solok (CEO)
Morten Strande Sønderskov (COO)

Audit & Risk Committee

The Board of Directors in its entirety

Auditors

PwC Statsautoriseret Revisionspartnerselskab
Strandvejen 44
2900 Hellerup

Group

The Group consists of Lunar Bank A/S and Lendify Sweden 4 AB

Statement by Management

The Board of Directors and the Executive Board have today discussed and approved the annual report of Lunar Bank A/S for the financial year 1 January – 31 December 2022.

The annual report has been prepared in accordance with the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of Lunar Bank A/S at 31 December 2022 and of the results of Lunar Bank's operations for the financial year 1 January – 31 December 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 and describes the significant risks and uncertainty factors that may affect the Group and the Parent Company.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 25 April 2023

Executive Board:

.....
Vibeke Bak Solok
CEO

.....
Morten Strande Sønderskov
COO

Board of Directors:

.....
Claus Okholm
Chairperson

.....
Jens Peter Leschly Neergaard

.....
Lotte Møllerup van Hauen

Independent auditor's report

To the shareholder of Lunar Bank A/S

Our opinion

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2022 and of the results of the Company's operations for the financial year 1 January to 31 December 2022 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

What we have audited

The Financial Statements of Lunar Bank A/S for the financial year 1 January to 31 December 2022 comprise income statement and comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies ("Financial Statements").

Basis for opinion

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

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

Independence

We are independent of Lunar Bank A/S in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark. We have also fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Appointment

We were first appointed auditors of Lunar Bank A/S on 24 February 2022 for the financial year 2022.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2022. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Expected credit losses for Loans and other amounts due at amortised cost</p> <p>Accounting for Loans and other amounts due at amortised cost is complex and requires subjective judgements over both the timing of the recognition of impairment and the estimation of the size of any such provision for impairment in accordance with IFRS 9 incorporated in the Accounting Executive Order ("Regnskabsbekendtgørelsen"). We refer to the accounting policies note 1.</p>	<p>We performed risk assessment procedures with the purpose of achieving an understanding of it-systems, business procedures and relevant controls regarding the calculation of provisions for expected losses on loans. In respect of controls, we assessed whether they were designed and implemented effectively to address the risk of material misstatement. For selected controls including controls regarding model parameters, on which we planned to rely on, we tested whether these controls had been performed on a consistent basis. We tested the impairment calculation</p>

<p>The Company recognises provisions for expected credit losses primarily on a model-based basis.</p> <p>As a result of the model uncertainties and the current uncertain macroeconomic situation, Management has recognized a provision for expected credit losses as based on an accounting estimate ("management overlay").</p> <p>We focused on expected credit losses, as the accounting estimate is by nature complex and influenced by subjectivity and thus to a large extent associated with estimation uncertainty.</p> <p>Important areas within impairment of loans to customers relate to:</p> <ul style="list-style-type: none"> • Identification of credit impaired loans (stage 3) or loans with material weaknesses (stage 2), including completeness of the customer accounts that are included in the impairment calculation. • The appropriateness of the model parameters, Possibility of Default (PD) and Loss Given Default (LGD), included in the model-based impairments in stages 1, 2 and 3. • Assumptions and judgements made by Management related to management overlays recognized as add-ons to the model-based impairments to cover model uncertainties and the uncertain macroeconomic situation. <p>The principles for impairments of loans and receivables at amortized cost are described in note 1 and 2 – basis of preparation and significant accounting estimates, assumptions and uncertainties, note 11 and 14 - Loan impairment charges and Loans and other amounts due at amortised cost and note 28 - Financial risks and policies and objectives for the management of financial risks.</p>	<p>on a sample of impaired loans, including assessment of expected future cash flow.</p> <p>We assessed and challenged the appropriateness of the Company's validation of the model and relevant parameters in the impairment model.</p> <p>We assessed and challenged the basis for the management overlay related to the provisioning for expected losses as a result of model uncertainties and current uncertain macroeconomic situation and other management judgements.</p> <p>We also assessed whether the matters that may have an influence on provisions for expected losses on loans have been appropriately disclosed.</p>
<p>Compliance with regulatory capital requirements</p> <p>The bank has to comply with regulatory capital requirements on an ongoing basis.</p> <p>Based on Lunar's approved budgets, planned initiatives and established contingency options, management assesses that through 2023 the bank will comply with regulatory capital requirements.</p> <p>This assessment is based on significant assumptions which by nature are uncertain:</p> <ul style="list-style-type: none"> - Management's expectations of earnings and cost base including the effect of planned and already taken actions. 	<p>We performed risk assessment procedures with the purpose of achieving an understanding of business procedures and relevant controls regarding compliance with regulatory capital requirements including budgeting.</p> <p>We evaluated and assessed the models used in budgeting and tested the internal coherence and mathematical accuracy of the budget.</p> <p>Further, our audit procedures included:</p> <ul style="list-style-type: none"> - Review and challenge of Management's budget and capital plan for 2023 with assessment of the underlying

<p>- The capital plan prepared by the Management for the year 2023.</p> <p>- Management's established contingency options in the event of a lack of meeting budget targets.</p> <p>As a consequence of the bank's negative results especially in 2021 and 2022 we focused on compliance with regulatory capital requirements throughout 2023.</p> <p>We refer to note 2 in the financial statements.</p>	<p>assumptions, including realism and the sensitivity for budget and estimates in relation to earnings and cost base.</p> <p>- Meetings with Management to discuss and challenge the assumptions and methods for determining future capital simulations.</p> <p>- Assessment of the bank's available contingency options including assessing the timeframe of taking the options into force.</p>
--	--

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, 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 Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement in Management's Review.

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

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 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Hellerup, 25 April 2023

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Business registration no 33 77 12 31

Per Rolf Larssen
State Authorised Public Accountant
mne24822

Lars Dalgaard Agersted
State Authorised Public Accountant
mne46258

Management's review

Our business

Lunar Bank (defined as the entity Lunar Bank A/S) is part of Lunar Group (defined as all companies within the entity Lunar Group A/S) and as such the strategy in the Bank is a direct reflection of the mission and targets defined by Lunar Group. Therefore, the management review will on an overall level refer to the Group view, but contain elements where specific bank perspectives are applicable.

Lunar Group (hereafter referred to as Lunar or Lunar Group) is a financial technology company with a mission to pioneer how we all engage and thrive with money.

Lunar's mission is to put the user back in control – by empowering them and simplifying their financial lives. At Lunar we therefore strive to go beyond banking, by building a rich ecosystem of high frequency financial products across investments, payments, business management and commerce enablement.

Lunar seeks to win the two-sided marketplace by having an equal focus on private and business customers. We want to offer our services to a broad range of customers, private and businesses. Private users starting from a young age and up, businesses customers characterised by having a small business set up and with simple financial needs. For both business and private customers, we want to create a product vision that inspires a new customer-centric era. Where we put the customer front and center, and don't leave them in the backseat. Lunar's product development will have the purpose to help the customers in their everyday life by adding transparency, flexibility, and fun to their financial life.

At Lunar we see an opportunity to differentiate considerably from other Nordic banks - by offering a simple and easy way to handle the day-to-day finances as well as offering relevant products through third-party integrations. This without compromising our high standards against financial crime.

Lunar is in the midst of shaping the future of banking and will therefore play a natural role in being a frontrunner in bringing new products into a regulated and non-regulated environment.

Today, Lunar has more than 650,000 customers across Denmark, Sweden and Norway, and the organization consists of +500 employees.

The business model for Lunar is based on a range of products that all contribute with different revenue streams, to create a resilient approach to an everchanging market.

Today, the Lunar app is supplemented with a web-portal for business customers and the "Share-It" app for our private users and non-banking users. Through these platforms Lunar offers all relevant services such as banking and payment products, third party products and special offers, benefits and products, including non-regulated Lunar products to support customer loyalty. Combined these products and services generate a stable and recurring revenue, where the primary income is distributed between consumer and business tiers, interchange fees, financial products and third-party services.

During 2022 Lunar has continued to make great improvements in UX and sign-up flow for consumer and on business onboarding. Significant improvements have been made on the business proposition, launching smart billing and ecom-payments as a stand-alone solution. Enabling Lunar to support its business customers with core tasks.

Furthermore, Lunar went live in the Norwegian clearing (NICS Netto) thus enabled domestic intraday account payments and also started to offer local accounts. NICS Netto now acts as a door opener to multiple other payment products that Lunar may choose to connect to. The new infrastructural integration is a game changer for the core offering and clearly emphasises the local play that Lunar does have in Norway.

2022 was a difficult year in many regards and the tech industry in particular saw many companies struggle and resort to layoffs. Lunar too has had to adjust to this new reality and as a result found it necessary to increase focus on cost and efficiency. Therefore, Lunar made an overall reduction in headcount and simultaneously implemented a number of cost efficiency initiatives across the organization. All with the purpose of strengthening the organisation.

Lunar Bank is the main profit center in the Group serving the majority of customers, and is responsible for all regulated activities within Lunar. This includes, but is not limited to, treasury management, credit granting, financial crime prevention, risk management, compliance, and all interactions with financial counterparties. Average number of full-time employees in 2022 working with these areas was 144.

Lunar Bank has its own external board of directors and holds the banking license achieved in 2019.

Management's review

Financial review

The result of 2022 for Lunar Bank shows a loss after tax of DKK 1,476 million. The negative financial result was greater than expected, mainly due to write down goodwill in total DKK 588 million from the Lendify acquisition, loss on a currency hedge in total DKK 87.5 million related to the planned acquisition of InstaBank as well as further impairments on the loan portfolio.

Further Lunar has invested heavily in growth and the launch of new products across tiers, mainly during H1. Given the change in the macro-economic environment, Lunar adjusted the expectations to H2 and made an updated forecast, with an increased focus on cost and efficiency.

Lunar Group successfully secured funding of DKK 769 million from existing investors during 2022, to ensure operations, new product launches and that capital requirements are met on Lunar's path to profitability. The capital raises have occurred over three rounds in April, September and December amounting to DKK 520 million, DKK 209 million and DKK 40 million respectively. DKK 872 million was transferred to Lunar Bank as capital injections during 2022.

Further, as stated in section *Events after the balance sheet date* Lunar Group successfully secured additional funding of DKK 260 million from existing investors in February 2023, of which 200 million was transferred to Lunar Bank as a capital injection.

Equity in Lunar Bank amounts to DKK 733 million end year. There is no proposed dividend for the financial year of 2022.

Correction of material errors

Mid December 2022 The Danish Financial Supervisory Authorities has in a decision ordered Lunar Bank to include activities in its peer-to-peer (P2P) business in the financial statements as loans and deposits. The P2P lending portfolio was acquired by Lunar Bank in June 2021, as part of Lunar Group's acquisition of Lendify A/B, hence there is no correction to the opening balance as of January 1st 2021. Due to the decision from Danish Financial Supervisory Authorities, comparative figures for 2021 have been restated to reflect the recognition of P2P lending. Recognition of loans from P2P Increases the asset on the balance sheet with net 388 million and liabilities from deposits with 392.5 million. Loss after tax for 2021 increases with 4.5 million due to change in amortization of fees from the correction.

Outlook

Lunar strives to be a pan-Nordic (Denmark, Sweden, Norway) player dominating the financial scene through a digitalized and user-centric approach to the market. Despite different positions and product disparity today, the long-term ambition is to reach product parity and have an aligned product offering across the Nordic's taking local needs into account. The product portfolio will be updated continuously with both financial and non-financial products that supports the overall Lunar strategy and aim.

Due to continued investments and expenses related to creating parity across the Nordics, Lunar Bank expects to realize a loss after tax in 2023 in the range of DKK 250-350 million. As Lunar is launching a number of new products and due to the current global uncertainty and the turmoil on the financial markets, the financial forecast comes with some degree of uncertainty.

Capital and liquidity

On 31 December Lunar Bank's own funds, less deductions, amounted to DKK 676 million including Tier 2 capital instruments. In accordance with Commission Delegated Regulation (EU) 2020/2176 entering into force 23 December 2020, Lunar Bank is able to recognise software assets in Common equity tier 1 capital which accounts for DKK 100.1 million at the end of 2022. Other intangible assets amounting to DKK 71.7 million are deducted in the capital base. On 31 December Lunar Bank's own funds and eligible liabilities amounted to DKK 691.4 million.

The solvency need is calculated as DKK 342 million or 18.3% of REA on 31 December 2022. Excess to the combined buffer requirement amounts to DKK 264.2 million. With a risk based MREL requirement (including the combined buffer requirement) calculated to be DKK 484.8 million or 25.9% of REA, and a leverage based MREL requirement

Management's review

calculated to be DKK 483.6 million or 4.4% of the total exposure measure, excess to the highest MREL requirement is DKK 206.6 million.

Please refer to note 2 regarding forecast and capital projections related to 2023.

Lunar Bank calculates the liquidity requirements on the basis of the Liquidity Coverage Ratio (LCR). On 31 December 2022 LCR was calculated at 901.2 % against 1,008 % in 2021. Lunar Bank's Board of Directors has set an internal limit for LCR of 200%. Based on the current requirements, the bank has a significant excess in relation to liquidity coverage in relation to regulatory requirements.

Risk Management

2022 proved to be an extraordinary year from a risk management perspective. The sudden war in Europe, rapidly increasing interest rates, soaring energy prices and accompanying record breaking inflation levels led to intensified risk focus across all risk types. On top of this, the broad D-FSA inspection shed light on a number of areas in need of adjustments and improvements, and it also had a negative impact on our reservations in the form of impairments and solvency requirements. Several of the D-FSA findings have been addressed already, and solving the remaining issues are progressing as planned.

Lunar applied its Risk Taxonomy to navigate the rapidly changing risk picture. This has ensured a wide analytical approach across pre-defined risk types minimising the risk of blind spots.

Risk Governance

Risk Management in Lunar is structured in accordance with the three lines model. Relevant committees are anchored at board and executive management level to decide on all relevant risks, and to monitor and perform oversight of risk exposure across risk types. In 2022, two new committees were established at executive management level. The FCP Committee is dedicated to address topics within financial crime prevention, whereas the Operational Risk Committee deals with a broad range of topics including operational risk incidents, IT and outsourcing.

Delegation of decisions-making competences as well as relevant escalation routes are formalised. This goes hand in hand with clear roles and responsibilities in the organisation with relevant functional separation between risk ownership and oversight.

Risk Taxonomy & Risk Appetite

The risk landscape in Lunar is defined by the Risk Taxonomy. It constitutes a common reference point and secures focus on all significant risk areas. All risk areas are assigned to high level managers in 1st line to ensure accountability. The Risk Taxonomy is considered as key in the foundation to protect Lunar and our customers. It is updated yearly to reflect the current activities of Lunar.

Risk appetite is defined in relevant Policies. For financial risk areas, the defined risk appetite is accompanied by relevant limits. In 2022 we also introduced a nominal limit to clarify our risk appetite within operational risk. For risks that are not quantifiable, the risk appetite reflects our willingness to incur impact on e.g. customers, reputation or of regulatory character.

Risk culture

Management openly expresses the mindset and necessary qualifications Lunar wishes for our organisation 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. Both 1st and 2nd line continuously carry out activities supporting a sound risk culture - partly through day-to-day activities, and partly through activities with specific educational purposes.

Control Environment & Reporting

Lunar's fundamental ambition to build an integrated offering within banking, payments and investments remains unchanged, despite the shift of focus to the road to profitability. This is supported by the risk appetite level set by

Management's review

the board of directors. To support the risk framework and the decided risk appetite level, Lunar has in 2022 further enhanced the controls performed by the 2nd line and the reporting routines for selected risk focus areas and for incident reporting in particular. This gives a higher level of transparency for all levels of stakeholders - from BoD and executive management to the employees, which in turn enables fast re-prioritisation if needed.

Even with evident improvement in 2022, we will maintain focus on the governance around controls and reporting in 2023 for all risk types, including to mitigate effects from fast changes in number of employees.

This focus is natural as the business evolves, but it also reflects our ambition to conduct solid risk management across all three lines.

The main categories of financial risks are elaborated in note 28.

Events after the balance sheet date

In February Lunar Group successfully secured additional funding of DKK 260 million from existing investors, of which 200 million has been transferred from Lunar Group to Lunar Bank.

Lunar Bank has in April 2023 entered into an agreement to sell the Peer-2-Peer portfolio, a part of the product portfolio in Lendify. The sale is pending D-FSA approval.

No further events have occurred after the balance sheet date, which could affect the assessment of the Financial Statements.

Knowledge resources

The Lunar team is the key to realizing the vision of shaping the future of banking. With employees as the key knowledge resources, massive investments are being made in attracting and retaining the best team. Lunar regularly measures employee engagement and development with monthly questions. The employee is secured 100% anonymity and can also communicate on sensitive matters with the direct manager - also with anonymity.

The organization is involved in the results and action points are openly discussed and handled at the board of directors in both Lunar Group and Lunar Bank, throughout the organization and within each department and team. Lunar also trains managers on how to conduct sessions on engagement with their teams.

Lunar wants to change banking with a healthy and thriving organization, and the wellbeing and development of employees is taken very seriously in Lunar. Additionally, our Next Level initiative strives to support mental and physical wellbeing both inside and outside the organization. Lunar works to improve the mental and physical health of the employees with meditation, yoga, healthy foods and exercise both during work hours and after.

Management

The Board of Directors of Lunar Bank is elected by the general meeting for the period of time until the next ordinary general meeting. For an overview of management and directorships for the Board of Directors and Executive Board, please refer to the last section of the Management's review.

The Board of Directors continuously and at least once a year assesses the overall risk factors and the individual risk factors associated with Lunar's activities. The Board of Directors maintains guidelines for the key risk areas, follows developments and ensures the presence of plans for the management of the individual risk factors, including financial and non-financial risks.

The Board of Directors appoints an Executive Board consisting of one to three members. The Board of Directors has appointed Vibeke Bak Solok from 1st of April 2023 and Morten Sønderskov (2021) to the Executive Board, and Vibeke Bak Solok has been appointed CEO.

The Board of Directors has the overall responsibility and the Executive Board handles the daily operations and secures compliance with outlined policies and regulation. This includes securing sufficient internal controls and risk management in the financial reporting process, including compliance with relevant legislation and other adjustments in connection with preparation of the Financial Statements. Detailed information on the remuneration of executive board and board of directors is disclosed on Lunar's website (<https://www.lunar.app/dk/privat/corporate>).

Management's review

Statement on the representation of gender in the board of directors and other management levels

Lunar strongly believes that diversity and inclusion is essential in creating a better culture and strengthens the organization by ensuring different perspectives are represented and valued. In 2022, Lunar launched their first ESG report with a strong focus on the social element and within that, targets for gender representation in the board and management. Further, Lunar identified a pay gap between men and women and is addressing the pay gap to close this within 2023.

Target figures for the underrepresented gender on the board

The gender distribution among the Bank's board members in 2022 is as follows: 40% men and 60% women. There is no underrepresentation of one gender on the Board of Directors.

Policy for other management levels

Lunar Group set out a target to increase the proportion of female members of the Executive Team in 2022 to 40%. Lunar Group had 30 % females end 2022. This has change to 40% on 1st of April 2023 with the new CEO in Lunar Bank. Lunar Group also outlined a goal for female managers at all management levels to go from 20% to 40% before 2023. Lunar Group reached a 36% proportion.

It is Lunar's overall objective to provide an appropriate equal distribution of men and women in management positions. Lunar wants to be able to follow up on the gender composition in management and to have the opportunity to adjust efforts along the way in relation to targets set. Lunar considers targets and target numbers as an effective tool to ensure progress and reach goals.

Lunar has set the following specific targets:

1. Lunar's employees must experience the same career and management opportunities regardless of their gender.
2. Lunar's employees must be paid equitably in terms of males and females.
3. The proportion of female managers will increase from 36% to 45% before 2024.

Lunar aims for a more equal distribution between the genders in management. Initiatives must be launched in those areas where it is needed. Lunar wants an open-minded culture, where the individual employee can utilize their competencies in the best possible way, regardless of gender. Lunar employs managers on the premise that the most suitable person is always hired or appointed regardless of gender and wants to inspire all employees to become part of management.

Lunar offers all employees the opportunity to develop professional and personal competencies through participation in e.g. management training. It is Lunar's goal that all genders in general participate equally in these offers.

Uncertainty relating to recognition and measurement

On an ongoing basis, management assesses the bank's capital resources in order to assess the soundness of the bank's investments in expansion. Based on Lunar's approved budgets and planned initiatives to ensure a faster road to profitability and support further development of the product offering to Consumers and Business across the Nordics, management assesses that through 2023 the bank will comply with regulatory capital requirements. In the nature of budget planning, internal and external factors may create uncertainties related to realizing those and in the event of delayed time to profitability or delayed impact of new product offerings, management has established several contingency options related to the capital base which is considered sufficient to enable the bank to comply with regulatory capital requirements throughout 2023.

Lunar has recognized intangible assets at a carrying amount of DKK 171.8 million. Intangible assets include customer relations and IT platform. 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.

Please refer to the description in note 2.

Management's review

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 December 31, 2022, Lunar Bank has complied with the three thresholds as per below. The lending growth is significantly affected by loans provided to the subsidiary of the bank and other group entities. If these loans were not provided the lending growth would be within the threshold.

(%)	Threshold	31 December 2022	31 December 2021
Sum of large exposures	<175	0.6	0.9
Lending growth	<20	28.0	11,134.0
Real property exposure	<25	0	0
Liquidity indicator	>100	901.2	1,008

Management's review

Overview - executive team

Vibeke Bak Solok (CEO)

Private-sector directorships:

- DS Norden A/S, board member and chair of the audit committee
- Nordic Solar A/S, board member and chair of the audit committee
- Lunar Bank A/S, board member (Resigned 01.04.2023)
- November First A/S, board member (Resigned 01.08.2022)
- Fintech Solution Lab ApS, board member (Resigned 01.08.2022)
- VBSolok ApS, executive officer and legal owner

Morten Strande Sønderskov (COO)

Private-sector directorships:

- Strande-Sønderskov Invest ApS, executive officer and legal owner

Management's review

Overview - Board of Directors

Claus Okholm (chairperson)

Private-sector directorships:

- Lunar Group A/S, board member
- CEJ Ejendomsadministration A/S, board member
- CEJ Aarhus A/S, board member
- HC Okholm I/S, legal owner (Ceased 31.01.2023)

Jens Peter Leschly Neergaard

Private-sector directorships:

- Rex Invest Holding ApS, executive officer and legal owner
- Leschly & Neergaard ApS, executive officer and legal owner
- Qblue Balanced A/S, chairperson
- Laika Invest ApS, executive officer and legal owner
- L&N Apollo ApS, executive officer and legal owner
- Airfinity Ltd, Chairman of the board
- Kvasir Technologies, board member

Lotte Mollerup Van Hauen

Private-sector directorships:

- Mollerup - van Hauen ApS, executive officer and legal owner
- Qblue Balanced A/S, board member
- Investeringsforeningen Lægernes Invest, board member
- Qblue Luxembourg, board member
- Kapitalforeningen Lægernes Invest, board member

Financial statements 1 January – 31 December

Income statement and comprehensive income

Note	DKK'000	2022	2021
4,5	Interest income	156,258	28,684
4,6	Interest expense	53,855	33,131
	Net interest income	102,403	-4,447
4,7	Fee and commission income	140,391	87,429
4	Fee and commission expenses	48,716	36,076
	Net interest and fee income	194,078	46,906
8	Market value adjustments	48,080	-1,154
9	Staff costs and administrative expenses	883,937	494,744
15	Amortisation, depreciation and impairment charges	643,804	25,020
11	Loan impairment charges etc.	138,821	45,948
10	Income from group undertakings	-54,355	0
	Profit/loss before tax	-1,478,759	-519,960
12	Tax for the year	-2,419	0
	Profit/loss after tax	-1,476,340	-519,960
	Currency adjustments	-135,198	772
	Total comprehensive income	-1,611,538	-519,188

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	31 December 2022	31 December 2021
	ASSETS		
	Cash in hands and demand deposits with central banks	6,302,866	7,468,404
13	Receivables from credit institutions and central banks	79,447	59,830
14	Loans and other amounts due at amortised cost	1,855,025	1,448,586
24	Bonds at amortised cost	2,453,558	255,754
10	Holdings in group undertakings	37,146	0
15	Goodwill	0	613,540
15	Other intangible assets	171,798	91,538
16	Other assets	156,080	57,970
	Prepayments	17,364	24,254
	TOTAL ASSETS	11,073,284	10,019,876
	LIABILITIES AND EQUITY		
	Amounts due		
17	Deposits	9,979,676	8,376,764
18	Other liabilities	305,969	150,548
	Deferred income	21,256	17,838
	Total amounts due	10,306,901	8,545,150
	Provisions		
	Impairment charges on unused credit facilities	106	221
19	Other provisions	3,190	2,666
	Total provisions	3,296	2,887
	Subordinated debt		
20	Subordinated debt	29,855	29,795
	Total subordinated debt	29,855	29,795
	Equity		
21	Share capital	42,077	42,077
	Share premium	2,890,207	2,018,207
	Retained earnings	-2,199,052	-618,239
	Total equity	733,232	1,442,045
	TOTAL LIABILITIES AND EQUITY	11,073,284	10,019,876

Financial statements 1 January – 31 December

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
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	-519,960	-519,960
Share-based payments	0	0	4,996	4,996
Other comprehensive income	0	0	772	772
Equity at 1 January 2022	42,077	2,018,207	-618,239	1,442,045
21 Capital increase	0	872,000	0	872,000
Group contributions	0	0	28,454	28,454
22 Net profit/loss for the year	0	0	-1,476,340	-1,476,340
23 Share-based payments	0	0	2,271	2,271
Other comprehensive income	0	0	-135,198	-135,198
Equity at 31 December 2022	42,077	2,890,207	-2,199,052	733,232

The share capital comprises of shares of DKK 1 nominal value each. Total outstanding shares at 31 December 2022 are 42,077,078 (31 December 2021: 42,077,074). The increase in number of shares during 2022 corresponds to the capital increases conducted during the year.

Financial statements 1 January – 31 December

Capital and solvency

DKK'000	31 December 2022	31 December 2021
Equity	733,232	1,442,045
Deductions ¹	-71,722	-674,787
Total core capital after deductions	661,510	767,258
Total Tier 1 capital	661,510	767,258
Subordinated loan capital	14,500	20,500
Total capital base	676,010	787,758
Credit risk	1,796,875	932,188
Market risk	38,818	2,558
Operational risk	34,946	39,253
Total risk exposure	1,870,639	973,999
Key figures		
Core capital after deductions, ratio (%)	35.4	78.8
Tier 1 capital ratio (%)	35.4	78.8
Total capital ratio (%)	36.1	80.9

¹ 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 100,116 thousand (2021: DKK 30,921 thousand).

Financial statements 1 January – 31 December

Overview over notes in the financial statement

- 1 Basis of preparation
- 2 Significant accounting estimates, assumptions and uncertainties
- 3 Financial highlights
- 4 Segments
- 5 Interest income
- 6 Interest expenses
- 7 Fee and commission income
- 8 Market value adjustments
- 9 Staff costs and administrative expenses and fees paid to auditor
- 10 Holdings in group undertakings
- 11 Loan impairment charges
- 12 Tax of the year
- 13 Receivables from credit institutions and central banks
- 14 Loans and other amounts due at amortised cost
- 15 Intangible assets
- 16 Other assets
- 17 Deposits
- 18 Other liabilities
- 19 Other Provisions
- 20 Subordinated debt
- 21 Share capital
- 22 Proposed distribution of profit/loss
- 23 Share-based payments
- 24 Fair value information for financial instruments
- 25 Contractual obligations and contingencies, etc.
- 26 Related parties
- 27 Principles for intra-group trading
- 28 Financial risks and policies and objectives for the management of financial risks

Financial statements 1 January – 31 December

Notes

1 Basis of preparation

The annual 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.

With reference to Executive Order on Financial Reports for Credit Institutions and Investment Companies, etc. paragraph 137 consolidated financial statements have not been prepared as Lunar Group prepares consolidated financial statements for the group including the Lunar Bank group.

The annual report is presented in DKK thousands.

Correction of error

Mid December 2022 The Danish Financial Supervisory Authorities has in a decision ordered Lunar Bank to include activities in its peer-to-peer (P2P) business in the balance sheet as loans and deposits. The P2P business consist of connecting creditors and borrowers via Lunars P2P platform, so they can provide and receive financing. The P2P lending portfolio was acquired by Lunar Bank from June 2021, as part of the acquisition of Lendify A/B, hence there is no correction to the opening balance as of 1.1.2021.

The impact on the income statement and balance sheet is shown below.

DKK'000	2021 annual report	2021 after changes	Change
Income statement and comprehensive income			
Interest income	19,198	28,684	9,486
Interest expenses	30,638	33,131	2,493
Fee and commission income	95,209	87,429	-7,780
Fee and commission expense	32,278	36,076	3,798
Staff and administrative expenses	496,687	494,744	-1,943
Loan impairment charges etc.	44,005	45,948	1,943
Profit/Loss after tax	-515,375	-519,960	-4,585
Other comprehensive income after tax	728	772	44
Total comprehensive income	-514,647	-519,188	-4,541
Balance sheet			
Loans and other amounts due at amortised cost	1,044,676	1,448,586	403,910
Prepayments	40,210	24,254	-15,956
Total assets	9,631,922	10,019,876	387,954
Deposits	7,984,268	8,376,764	392,496
Retained earnings	-613,698	-618,239	-4,541
Total liabilities and equity	9,631,922	10,019,876	387,954

The following notes in the financial statements are affected by the restatement: 4, 5, 6, 7, 9, 11, 14, 17, 22 and 28.

Capital and solvency ratios are, besides the change in equity, not affected by the P2P as the credit risk mitigation articles in CRR are applied to the loan portfolio which is fully guaranteed by deposit from the P2P activity.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Recognition and measurement

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

Liabilities are recognised in the balance sheet when the Bank has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Bank, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at fair value except intangible and tangible assets which are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

At recognition and measurement anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered.

In the income statement income is recognised as it is earned, whereas cost is recognised by the amounts attributable to this financial year. Purchases and sales of financial instruments are recognized on the trading day and recognition ceases when the right to receive/dispense cash flows from the financial asset or liability has expired or if it has been transferred and the Bank has substantially transferred all risks and rewards associated with ownership.

Business combinations

Newly acquired or established entities are recognized in the financial statements from the date of the acquisition. Comparative figures are not adjusted to reflect acquisitions.

The purchase method is applied on acquisitions if the parent company gains control of the respective company. Identifiable assets, liabilities and contingent liabilities in the acquired company are measured at their fair value at the date of acquisition. Intangible assets are recognized if they can be separated or if they arise from a contractual right. Deferred tax on the revaluations is recognized.

Acquisition date is the date from which Lunar Bank gains actual control of the acquired business.

Any excess of the consideration paid for the business over the fair value of the acquired assets, liabilities and contingent liabilities, is recognized as goodwill under intangible assets. Goodwill is not amortized but is annually tested for impairment. The first impairment test is performed before the end of the year of acquisition. On acquisition, goodwill is allocated to the cash-generating units that will subsequently form the basis for the future impairment tests. Goodwill and fair value adjustments in connection with acquisition of a foreign entity with a different functional currency than the presentation currency to Lunar Bank is treated as assets and liabilities belonging to the foreign entity and converted to the entity's functional currency with the rate of the translation date. Negative discrepancies, negative goodwill, is recognized in the income statement at the acquisitions date.

Significant accounting estimates

The measurement of certain assets and liabilities requires the management to estimate the influence of future events on the value of these assets and liabilities.

The accounting estimates are based on assumptions which, according to management, are reasonable, but inherently uncertain. The estimates and assumptions are based on future expectations, historical experience and a range of other factors considered reasonable given the prevailing circumstances. The actual outcome may differ from these estimates and assessments. Estimates and assumptions are reviewed regularly. Changes in estimates are recognized in the period in which the change is made, and the future periods affected.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Foreign currencies and other comprehensive income

Foreign currencies transactions are translated using the exchange rate at the transaction date. Receivables, liabilities and other monetary items are translated using the rate of exchange at the balance sheet date. Exchange rate differences between the transaction date and the settlement date or the balance sheet date, respectively, are recognized in the income statement as value adjustments.

Assets and liabilities of units outside Denmark are translated into DKK at the applicable exchange rates at the balance sheet date. Income and expenses are translated at the applicable exchange rates at the transaction date. Gains and losses arising at the translation of net investments in units outside Denmark are recognised under Other comprehensive income. Net investments include the net assets and goodwill of the units.

Interest income and expenses

Interest income and expenses are accrued over the lifetime of the transactions and recognized in the income statement at the amounts relevant to the financial reporting period.

Fee and commission income and expenses

Fee and commission income are measured at the fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. All discounts and rebates granted are deducted in the income.

Fees are recognized as income when received and sales of services, which include subscriptions, are recognised as income on a straight-line basis over the subscription period.

Market value adjustments

Market value adjustments include value adjustments of assets and liabilities measured at fair value. Foreign currencies adjustments are also included.

Staff costs and administrative expenses

Wages, salaries and other types of remuneration are expensed in the income statement as earned. Compensated absence commitments are expensed as the actual number of holidays are earned and spent.

Administrative expenses comprise expenses paid in the year to manage and administer the Bank, including expenses related to outsourcing and IT services.

Amortisation, depreciation and impairment charges

The item comprises amortisations, depreciation and impairment charges of intangible assets. Impairment charges derives from impairment tests performed on intangibles as elaborated below. The basis of amortisation/ depreciation, which is calculated as cost less any residual value, is amortised/ depreciated on a straight-line basis over the expected useful life. The expected useful lives of the assets are as follows:

Customer relations	5 years
Software	3-5 years

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Loan impairment charges etc.

After initial recognition, amounts due to the bank are measured at amortised cost less impairment losses. Accounting principles for impairment charges etc. are elaborated in subsequent sections on Loans and Impairment.

Taxes

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/ loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity is jointly taxed with other group entities. The total Danish income tax charge is allocated between profit/ loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Cash in hands and demand deposits with central banks

At initial recognition, cash in hands and demand deposits with central banks are measured at fair value. Subsequently, they are measured at amortised cost.

Receivables from credit institutions and central banks

At initial recognition, receivables from credit institutions and central banks are measured at fair value. Subsequently, they are measured at amortised cost, using the effective interest method, less impairment charges for expected credit losses. The impairment charges are based on the three-stage impairment model elaborated in subsequent sections on Loans and impairment.

Bonds at amortized cost

The account comprehends bonds that are measured at amortized cost until maturity. See section *Financial assets at amortised cost* below for further description of the criteria's that are fulfilled to apply amortised cost as measurement method and the interest income recognition principles.

Intangible assets

Goodwill is calculated as the difference between the purchase price of the business transfer and the fair value of its net assets, including contingent liabilities, at the time of the transaction.

Other intangible assets consist of customer relations and software investments. At initial recognition customer relations and software are measured at cost, corresponding to the estimated fair value at the time of acquisition. Subsequently, customer relations and software are measured at cost less accumulated amortizations and depreciations. Amortization is based on the estimated useful lives of the assets, which is set at 5 years.

An impairment test is performed for intangible assets if there is objective evidence of impairment. The impairment test is made for the activity or business area to which the intangible assets relate.

Goodwill is tested for impairment once a year or more frequently if indications of impairment exist. Impairment testing requires management to estimate the present value of future cash flows. A number of factors affect the value of such cash flows, including discount rates, changes in the economic outlook, customer behavior and competition.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Intangible assets are written down to the higher of the value in use and the net selling price for the activity or the business area to which the intangible assets relate, if it is lower than the carrying amount.

Equity investments in group undertakings

Equity investments in subsidiaries are measured according to the equity method in the financial statements.

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 business combinations 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 other than goodwill, if any, compared to the underlying entity's net asset value are amortised. Goodwill is impairment tested annually and negative goodwill is recognised in the income statement.

Dividend received is deducted from the carrying amount.

Financial assets

Classification and measurement

According to IFRS 9, classification and measurement of financial assets depend on the business model and the contractual characteristics of the instruments. Financial assets are measured at amortized cost, at fair value through shareholders' equity (on a separate line), or at fair value through profit or loss.

Financial assets at amortized cost

Financial assets are classified at amortized cost if both of the following criteria are met: the business model objective is to hold the financial instrument in order to collect contractual cash flows (collection business model) and the cash flows consist solely of payments relating to principal and interest on the principal. Disposal of portfolios close to the maturity date and for an amount close to the remaining contractual cash flows or due to a credit risk increase of the customer (debt sale of non-performing portfolio) is compatible with a "collection" business model. Sales imposed by regulatory constraints or to manage the concentration of credit risk (without increasing credit risk) are also compatible with this management model as long as they are infrequent or insignificant in value.

Upon initial recognition, these financial assets are recognized at fair value, including transaction costs directly attributable to the transaction and commissions related to the provision of loans. They are subsequently measured at amortized cost, including accrued interest and net of principal repayments and interest payments made during the period. These financial assets are also initially subject to an impairment calculation for expected credit risk losses (see impairment note). Interest is calculated using the effective interest rate method determined at the inception of the contract.

Financial asset at fair value through shareholders' equity

Financial assets are classified in this category if the business model is achieved by both holding the financial assets in order to collect contractual cash flows and selling the assets and if the cash flows solely consist of payments relating to principal and interest on the principal.

Upon disposal, amounts previously recognized in shareholders' equity is transferred to profit or loss.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Financial assets at fair value through profit or loss

All debt instruments not eligible for classification at amortized cost or at fair value through shareholders' equity are presented at fair value through profit or loss.

Investments in equity instruments such as shares is also classified as instruments at fair value through profit and loss.

Loans and deposits under P2P

On initial recognition, loans and deposits under P2P are measured at fair value including transaction costs directly attributable to the transaction. The loans are subsequently measured at amortized cost, including accrued interest and net of principal repayments and interest payments made during the period. The deposits are subsequently measured at amortized cost.

Due to credit enhancements in the contracts, no expected credit losses are recognised from the loans under P2P, since defaulted loan amounts will reduce the deposits with the corresponding amount.

Impairment

Lunar Banks credit risk impairment model is based on expected losses. This model applies to loans and debt instruments classified at amortized cost, loan commitments and financial guarantee contracts that are not recognized at fair value, as well as to trade receivables.

General impairment model

Lunar Bank identifies three stages each corresponding to a specific situation with respect to the development of the credit risk of the counterparty since the initial recognition of the asset.

Stage 1: if, at closing date, the credit risk of the financial instrument has not increased significantly since its initial recognition, this instrument is subject to a provision for depreciation for an amount equal to expected credit losses at 12 months (resulting from risks of default in the next 12 months).

Stage 2: the provision for depreciation is measured for an amount equal to the expected credit losses over the full lifetime (at maturity) if the credit risk of the financial instrument has increased significantly since initial recognition without the financial asset being impaired.

Credit-impaired financial assets

Stage 3: a financial asset is impaired and classified as stage 3 when one or more events that have a negative impact on the future cash flows of that financial asset have occurred. At the individual level, an objective indication of impairment includes any observable data relating to the following events:

- The existence of unpaid instalment for at least 90 days
- The knowledge or observation of significant financial difficulties of the customer indicating the existence of a credit risk, even if there is no unpaid instalment, including suspected fraud cases, debt restructuring, private bankruptcy and suspensions of payments.
- Concessions granted to the terms and condition of the loans, which would not have been granted in the absence of financial difficulties of the customer

This is consistent with the applied default definition and all defaulted financial assets are classified as stage 3 financial assets.

Financial assets are derecognized when reliable information indicates that the debtor is in serious financial difficulty and recovery seems unrealistic or when non-performing exposures are sold. Recoveries are recognised in profit or loss.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

This general model is applied to all instruments in the scope of the impairment of IFRS 9 measured at amortised cost.

The expected credit loss approach under IFRS 9 is symmetrical, meaning that if some expected credit losses at maturity have been recognized in a previous closing period, and if there is no longer any indication of significant increase in credit risk for the financial instrument during the current closing period since its initial recognition, then the provision is calculated on the basis of expected credit losses at 12 months.

Significant increase in credit risk (SICR)

Significant increase in the credit risk will be assessed on an individual basis or on a collective basis (by grouping the financial instruments according to common credit risk characteristics) by taking into consideration all reasonable and supportable information and comparing the default risk of the financial instrument at the closing date with the default risk on the date of its initial recognition. Assessment of deterioration will be measured by comparing probability of default on the date of initial recognition and those existing at the reporting date.

The categorization in stages and calculation of the expected loss is based on Lunar's models in the form of PD models developed by third parties and internally. In assessing the development in credit risk, it is assumed that there has been a significant increase in risk compared to the time of initial recognition in the following situations:

- An increase in PD for the expected remaining maturity of the financial asset of 100% and an increase in 12-month PD of 0.5% when the 12-month PD at initial recognition was below 1.0%.
- An increase in PD for the expected residual maturity of the financial asset of 100% or an increase in 12-month PD on initial recognition of 2.0 percentage points when 12-month PD on initial recognition was 1.0% or more.

However, if the credit risk on the financial asset is considered low at the balance sheet date, the asset is maintained in stage 1, which is characterized by the absence of a significant increase in credit risk. The credit risk is considered low for loans at amortised cost when the customer's 12-month PD is below 0.2%.

Under the general impairment model, there is also a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are 30 days past due or more. Such financial assets are classified in stage 2.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses (i.e. the present value of cash shortfalls) over the expected lifetime of the financial instrument.

In practise, for exposures classified in stage 1 and stage 2, the expected credit losses are calculated as the product of the probability of default ("PD"), the loss given default ("LGD") and the Exposure at Default ("EAD") discounted at the effective interest rate of the exposure. They result from the risk of default in the next 12 months (stage 1) or the risk of default over the lifetime of the exposure (stage 2). In the specific business of consumer finance and given the characteristics of the portfolios, the method used by Lunar Bank is based on probabilities of transition into the default stage and on discounted loss rates at default. Calculation of the parameters are made statistically by homogeneous populations which also include cyclical fluctuations.

For exposures classified in stage 3, the expected credit losses are calculated as the discounted value at the effective interest rate of the cash shortfall over the life of the instrument. Cash shortfall is the difference between the cash flows that are due by the customer in accordance with the contract and the cash flow that the bank expects to receive.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Due to models' uncertainty a Management Overlay has been added to cover for such uncertainty. Future macroeconomic developments are also taken into consideration via a scenarios approach, i.e., estimations of positive, baseline and pessimistic macroeconomic evolution and impact on the Expected Credit Losses are weighted based on the likelihood of the different scenarios to materialize.

The resulting impairment losses are recognized in the income statement under "Loan impairment charges etc."

Other assets

Other assets, including trade and other receivables, are measured at amortised cost. Financial instruments with positive market values are measured at fair value based on observable market prices.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Deposits

Deposits and other amounts due include deposits with counterparties that are not credit institutions or central banks. Deposits and other amounts due are initially measured at fair value and subsequently amortized cost.

Other liabilities

Other financial liabilities, including trade and other payables, are on initial recognition measured at fair value. The liabilities are subsequently measured at amortised cost. Financial instruments with negative market values are measured at fair value based on observable market prices.

Deferred income

Deferred income is the obligation to transfer services to a customer for which the Bank has received consideration from the customer. If a customer pays consideration before the Bank transfers services to the customer, a contract liability is recognised when the payment is made. Contract liabilities are recognised as fee income when the Bank performs under the contract.

Other provisions

At initial recognition, other provisions are measured at fair value. Subsequently, they are measured at amortised cost.

Income tax

Current tax charges are recognized in the balance sheet as the estimated tax charge in respect of the expected taxable income for the year, adjusted for tax on prior years' taxable income and tax paid in advance.

Deferred tax

Provisions for deferred tax are calculated at local tax rates applicable in the country segment of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income, and temporary differences on non-amortizable goodwill.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Deferred tax assets are measured at the value at which they are expected to be utilized, either through elimination against tax on future earnings or as a set-off against deferred tax liabilities. Due to uncertainty to realising budget no deferred tax assets has been recognised in the balance sheet.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively

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.

On an ongoing basis, management assesses the bank's capital resources in order to assess the soundness of the bank's investments in expansion. Based on Lunar's approved budgets and planned initiatives to ensure a faster road to profitability and support further development of the product offering to Consumers and Business across the Nordics, management assesses that through 2023 the bank will comply with regulatory capital requirements. In the nature of budget planning, internal and external factors may create uncertainties related to realizing those and in the event of delayed time to profitability or delayed impact of new product offerings, management has established several contingency options related to the capital base which is considered sufficient to enable the bank to comply with regulatory capital requirements throughout 2023.

Intangible assets

Lunar Bank has recognized intangible assets at a carrying amount of DKK 171,798 thousand. Intangible assets include IT platforms and software.

When assessing the future projected cash flow management has based its estimates on the budgets in place to reflect the expected effect of business decisions and market developments. Required returns are based on management's requirements for returns of the individual cash generation units and are not expected to change significantly in the foreseeable future. The assessment is subject to uncertainty related to realizing budgets.

Loans and other amounts due at amortised cost

The expected credit loss (ECL) is calculated on loan level as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and it takes into consideration forward-looking information. The estimation of ECL is forecasting future economic conditions over the coming lifetime of all loans in the book. Such

Financial statements 1 January – 31 December

Notes

2 Significant accounting estimates, assumptions and uncertainties (continued)

forecasts are based on a statistical combined with a judgmental approach, and as such are prone for uncertainties that may have significant risk of resulting in a material adjustment to a carrying amount in future reporting periods. The incorporation of forward-looking elements reflects the expectations of the management team and involves the creation of scenarios (base case, optimistic and pessimistic), including an assessment of the probability for each scenario weighted based on the likelihood of the different scenarios to materialize. The purpose of using multiple scenarios is to model the non-linear impact of assumptions about macroeconomic factors on the ECL.

The weighting of the scenarios was defined as 30 % optimistic, 50 % baseline and 20 % pessimistic. The rationale for this distribution of weight is mostly based on the expected short- and long-term effects of the current macro environment and COVID-19. The baseline scenario is determined according to the current price on Lunar Bank's forward flow agreement running until November 2023 for SE and for DK according to the price on the latest one off sale of a non-performing portfolio.

Due to the order from the D-FSA on increased ECL levels in addition to the model risk inherent in the underlying models for ECL estimate, a Management Overlay has been added to cover for these elements.

3 Financial highlights

Income Statement (DKK'000)	2022	2021	2020	2019	2018
Net interest and fee income	194,078	46,906	3,210	-820	-7
Market value adjustments	48,080	-1,154	-286	-17	-
Staff costs and administrative expenses	883,937	494,744	159,544	7,083	463
Write-downs on loans and receivables, etc.	138,821	45,948	4,207	-	-
Income from group undertakings	-54,355	-	-	-	-
Profit/loss for the period	-1,476,340	-519,960	-175,971	-4,679	-470

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

Loans at amortised cost	1,855,025	1,448,586	12,895	-	-
Total assets	11,073,284	10,019,876	1,271,392	193,504	500
Deposits	9,979,676	8,376,764	928,280	7	-
Equity	733,232	1,442,045	258,453	170,783	480

Ratios and key figures (DKK'000)

Capital base (own funds)	676.010	787,758	225,620	73,951	-
Total capital ratio (%)	36.1	80.9	187.7	64.0	-
Tier 1 capital ratio (%)	35.4	78.8	165.7	64.0	-
Return on equity before tax (%)	-136.0	-61.2	-81.4	-7.0	-
Return on equity after tax (%)	-135.7	-61.2	-82.0	-5.4	-
Interest-rate risk	0.1	0.8	0.2	-	-
Currency position	0.1	0.3	0.1	-	-
Loans relative to deposits (%)	19.9	17.9	1.4	-	-
Gearing of loans, end of year (%)	253.0	100.45	5.0	-	-
Lending growth	28.0	11,133.7	-	-	-
Cover relative to statutory liquidity requirements (%)	901.2	1,008.0	1,737.7	413.8	-
Sum of large exposures	0.6	0.9	-	-	-
Net impairment ratio (%)	6.9	3.3	24.6	-	-
Return on assets (%)	-14.0	-9.2	-13.8	-2.4	-
Average number of full-time employees	144	95	19	2	-

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

As Lunar Bank received the bank licence in August 2019, no ratios have been calculated for 2018.

Financial statements 1 January – 31 December

Notes

4 Segments

	2022			
DKK'000	DK	SE	Other	Total
Interest income	39,188	117,069	0	156,258
Interest expenses	48,185	5,669	0	53,855
Net interest income	-8,996	111,400	0	102,403
Fee and commission income	123,593	16,798	0	140,391
Fee and commission expenses	33,102	15,614	0	48,716
Net fee income	90,491	1,184	0	91,675
Net interest and fee income	81,495	112,584	0	194,078

	2022			
DKK'000	Business Tiers	Private Tiers	Financial Products	Total
Interest income	0	0	156,258	156,258
Interest expenses	0	0	53,855	53,855
Net interest income	0	0	102,403	102,403
Fee and commission income	45,669	71,889	22,832	140,391
Fee and commission expenses	18,085	28,469	2,163	48,716
Net fee income	27,584	43,420	20,669	91,675
Net interest and fee income	27,584	43,421	123,072	194,078

Business tiers include the subscription fees for business customer as well as their usage of various transaction based services. The same logic applies for private tiers where the subscription fees combined with various transaction based services make up the revenue, but also including invest. Financial tiers are lending based products as well as central bank deposits, bonds etc.

Financial statements 1 January – 31 December

Notes

4 Segments (continued)

DKK'000	2021			
	DK	SE	Other	Total
Interest income	6,624	22,045	15	28,684
Interest expenses	30,572	2,535	24	33,131
Net interest income	-23,948	19,510	-9	-4,447
Fee and commission income	71,293	14,507	1,629	87,429
Fee and commission expenses	24,170	11,354	552	36,076
Net fee income	47,123	3,153	1,077	51,353
Net interest and fee income	23,175	22,663	1,068	46,906

DKK'000	2021			
	Business Tiers	Private Tiers	Financial Products	Total
Interest income	0	0	28,684	28,684
Interest expenses	0	0	33,131	33,131
Net interest income	0	0	-4,447	-4,447
Fee and commission income	31,860	43,818	11,751	87,429
Fee and commission expenses	10,802	14,855	10,419	36,076
Net fee income	21,058	28,963	1,332	51,353
Net interest and fee income	21,058	28,963	-3,115	46,906

Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.

Business tiers include the subscription fees for business customer as well as their usage of various transaction based services. The same logic applies for private tiers where the subscription fees combined with various transaction based services make up the revenue, but also including invest. Financial tiers are lending based products as well as central bank deposits, bonds etc.

Financial statements 1 January – 31 December

Notes

DKK'000	2022	2021
5 Interest income		
Loans and other receivables	131,103	27,542
Interests on deposits and other debt	3,078	872
Interest income investments in bonds	794	0
From credit institutions and central banks	21,283	270
Total	156,258	28,684
Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.		
6 Interest expenses		
Negative interest paid on deposits in credit institutions and central banks	23,280	21,495
Subordinated debt	2,900	2,768
Interests on deposits and other debt	19,012	8,855
Other interest expenses	8,663	13
Total	53,855	33,131
Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.		
7 Fee and commission income		
Payment service fees	43,128	25,812
Lending and guarantee fees	6,004	3,748
Other fee and commission income	91,259	57,869
Total	140,391	87,429
Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.		
8 Market value adjustments		
Bonds at amortised cost	0	-1,006
Foreign exchanges	29,755	-2,484
Financial instruments measured at fair value	18,385	2,396
Other liabilities	-60	-60
Total	48,080	-1,154

Financial statements 1 January – 31 December

Notes

DKK'000	2022	2021
9 Staff costs and administrative expenses and fees to the auditor		
Wages and salaries	83,850	45,607
Pensions	8,251	2,445
Social Security costs	1,149	313
Share-based payments	2,271	4,996
	95,521	53,361
Other administrative expenses	788,416	441,383
Total	883,937	494,744

Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.

Number of employees in the financial year

Full-time equivalent employees	144	95
Executive board	2	2
Employees whose activities have a significant impact on the bank's risk profile	8	7
Board of directors	5	5

Salaries and remuneration to employees whose activities have a significant impact to the bank's risk profile accounted for DKK 7,512 thousand (2021: DKK 6,522 thousand) of which incentive programs account for DKK 531 thousand (2021: DKK 1,141 thousand).

Salaries and remuneration to the executive board was DKK 5,409 thousand (2021: DKK 7,367 thousand) of which incentive programs account for DKK 956 thousand (2021: DKK 1,516 thousand). Salaries and remuneration to the board of directors was DKK 1,139 thousand (2021: DKK 858 thousand) of which incentive programs account for DKK 14 thousand (2021: DKK 71 thousand).

The numbers above reflect the cost on the warrant programs which have to be recognized in relation to the vesting periods relatively. For executive board in total, variable payments in 2022 at grant date were DKK 0 thousand (2021: DKK 346 thousand). No board members were granted warrants in 2022.

Details on remuneration of the executive board and board of directors are disclosed on Lunar's website <https://www.lunar.app/dk/privat/corporate>

Fees paid to auditor appointed at the annual general meeting

With reference to the Executive Order on financial reports for credit institutions and stockbrokers (regnskabsbekendtgørelsen) § 118, section 2, fees paid to auditors are not reported separately for subsidiaries. Fees paid to auditor appointed at the annual general meeting are disclosed in the Consolidated Financial Statements of Lunar Group A/S.

Financial statements 1 January – 31 December

Notes

DKK'000	2022	2021
10 Holdings in group undertakings		
Cost at 1 January	0	0
Additions	42,305	0
Cost at 31 December	42,305	0
Value adjustment at 1 January	0	0
Excess value at time of acquisition	49,164	
Foreign exchange rate adjustment	32	0
Amortization and impairment for the year	-30,574	0
Profit/loss for the year	-23,781	0
Value adjustment at 31 December	-5,159	0
Net carrying amount at 31 December	37,146	0

Name and registered office	Voting rights and ownership	Profit/loss (DKK'000)	Equity (DKK'000)
Lendify Sweden 4 AB, Stockholm, SE	100 %	-23,781	18,556

The activity of Lendify Sweden 4 AB consists solely of lending.

At the time of the acquisition, fair value of net assets was DKK 49,164 thousand larger than the book value. This excess value is allocated to the loan assets and amortised over the expected average lifetime of the loan assets. As of 31 December 2022, the residual excess value amounts to DKK 18,590 thousand after amortisation and additional Impairments.

DKK'000	2022	2021
11 Loan impairment charges		
Change on ECL during year	90,202	42,557
Realised losses	48,734	3,170
Other movements	-115	221
Total	138,821	45,948

Loan impairment charges include impairment charges for expected credit losses on loans and overdraft facilities.

Changes in total allowance account during the year is further elaborated in note 28.

Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.

Financial statements 1 January – 31 December

Notes

DKK'000	2022	2021
12 Tax for the year		
Current tax for the year	-2,419	0
Deferred tax adjustment for the year	0	0
Total	-2,419	0
At 31 December 2022 the Bank has unrecognised deferred tax assets in the level of DKK 450 million that can be set off against future taxable income (2021: DKK 152 million).		
13 Receivables from credit institutions and central banks		
Central banks	0	0
Credit institutions	79,447	59,830
Total	79,447	59,830
Distribution of terms by maturity		
Overnight	79,447	59,830
Up to three months	0	0
Total	79,447	59,830
14 Loans and other amounts due at amortised cost		
Customer loans	1,525,387	1,044,676
P2P loans	329,638	403,910
Total	1,855,025	1,448,586
Distribution of terms by maturity		
Overnight	68,790	7,406
Up to three months	348,087	3,310
From three months to one year	7,378	12,872
From one year to five years	158,768	122,572
More than five years	1,272,002	1,302,427
Total	1,855,025	1,448,586

See note 28 for a detailed description of financial risks incl. Lunar's credit exposure.

Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.

Financial statements 1 January – 31 December

Notes

15 Intangible assets

DKK'000	Goodwill	Customer relations	Software	Software in process	Total
Cost at 1 January 2022	613,540	46,000	82,853	1,560	743,953
Additions	0	0	124,979	10,698	135,677
Transfers	0	0	1,560	-1,560	0
Currency translation differences	-25,153	0	0	0	-25,153
Cost at 31 December 2022	588,387	46,000	209,392	10,698	854,477
Amortisation and impairment at 1 January 2022	0	14,567	24,308	0	38,875
Amortisation	0	9,200	23,984	0	33,184
Impairment	588,387	22,233	0	0	610,620
Amortisation and impairment losses at 31 December 2022	588,387	46,000	48,292	0	682,679
Carrying amount at 31 December 2022	0	0	161,100	10,698	171,798
Amortised over		5 years	3-5 years		

DKK'000	Goodwill	Customer relations	Software	Software in process	Total
Cost at 1 January 2021	0	46,000	75,803	1,215	123,018
Additions	613,540	0	0	7,395	621,935
Transfers	0	0	7,050	-7,050	0
Currency translation differences	0	0	0	0	0
Cost at 31 December 2021	613,540	46,000	82,863	1,560	743,953
Amortisation and impairment at 1 January 2021	0	5,367	8,488	0	13,855
Amortisation	0	9,200	15,820	0	25,020
Impairment	0	0	0	0	0
Amortisation and impairment losses at 31 December 2021	0	14,567	24,308	0	38,875
Carrying amount at 31 December 2021	613,540	31,433	58,545	1,560	705,078
Amortised over		5 years	3-5 years		

Financial statements 1 January – 31 December

Notes

15 Intangible assets (continued)

Goodwill arose from Lunar Groups acquisition of Lendify AB in 2021 where all regulatory activities were sold to Lunar Bank as part of the transaction.

Specification of acquired net assets from Lendify AB's regulatory activities at acquisition year 2021:

DKK'000	2021
Cash and cash equivalents	36,072
Other receivables	714
Other provisions	-740
Other liabilities	-4,958
Net assets acquired	31,088
Goodwill	613,540
Purchase price	644,628

The Bank's goodwill is tested for impairment at least once a year by testing at the level of identifiable cash-generating units to which goodwill has been allocated. Further, if goodwill in a cash-generating unit is fully impaired, a further impairment loss is recognized as an impairment loss on intangible or tangible assets, if any.

In 2022 following dialogue with the Danish FSA, Lunar Bank revised underlying assumptions in the Impairment test of goodwill and intangible assets. The underlying assumptions reflects Q3 strategic changes Implemented across Lunar Group which resulted in a reduction in consumer lending activities in Sweden. This resulted in the goodwill associated with the Swedish consumer financing activities was fully impaired and completely written down to DKK 0 (thousand) and an impairment loss of DKK 588,387 (thousand) has been recognised in the income statement.

Financial statements 1 January – 31 December

Notes

DKK'000	2022	2021
16 Other assets		
Positive market value of financial instruments	29,193	4,633
Deposits & Guarantees	13,894	16,731
Intercompany receivables	33,399	1,207
Other assets	79,594	35,399
Total	156,080	57,970
17 Deposits		
Deposits	9,210,302	7,934,234
Term deposits	399,146	50,034
P2P deposits	370,228	392,496
Total	9,979,676	8,376,764
Deposits of terms by maturity		
Overnight	9,229,402	7,956,315
Up to three months	353	333
From three months to one year	41,802	5,667
From one year to five years	452,462	112,347
More than five years	255,657	302,102
Total	9,979,676	8,376,764
Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.		
18 Other liabilities		
Negative market value of financial instruments	642	2,236
Trade payables	7,400	19,315
Intercompany payables	71,026	25,252
Other liabilities	226,901	103,745
Total	305,969	150,548
19 Other provisions		
Other provisions consist of funds to cover potential losses in Lunars brokerage of loans between private investors and lenders.		

Financial statements 1 January – 31 December

Notes

20 Subordinated debt

Lunar Bank has the following subordinated loans:

DKK'000		Interest rate		Carrying amount	
Loan	Maturity	2022	2021	31 December 2022	31 December 2021
Loan 1, Nominal DKK 30,000	2025	9.420% + CIBOR 3M	9.420% + CIBOR 3M	29,855	29,795
				29,855	29,795

The subordinated loan of is qualified as a Tier 2 instrument pursuant CRR regulation. In 2022 the costs from subordinated loans amounts to DKK 2,960 thousand (2021: DKK 2,768 thousand) whereas DKK 2,900 thousand (2021: DKK 2,072 thousand) are interests. On 31 December 2022 the carrying amount of amortized borrowing costs amounts to DKK 145 thousand (2021: DKK 205 thousand).

The loan has no instalments before repayment of the fully amount at July 1st 2025. Due to amortization profile of the subordinated debt, the Tier 2 weighting has been reduced by 1/60 part each month over the 5 years maturity. At 31 December 2022 DKK 14,500 thousand is recognized in the capital base.

DKK'000	2022	2021
21 Share capital		
Share capital at 1 January	42,077	41,926
Capital increase	0	151
Share capital at 31 December	42,077	42,077
Number of shares	42,077,078	42,077,074

Lunar Bank does not hold own shares.

The share capital comprises of shares of DKK 1 nominal value each. There has during 2022 been four capital increases, each of them increasing the share capital with DKK 1.

22 Proposed distribution of profit/loss

Retained earnings	-1,476,340	-519,960
Total	-1,476,340	-519,960

Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.

Financial statements 1 January – 31 December

Notes

23 Share-based payments

In 2017, a warrant program was established for the benefit of Management and certain key employees. The program allows the Board of the parent company to issue up to 10% warrants to be allocated over a period of 3-5 years with a grant of 20-33.3% yearly. In case of an Exit, the rest of the warrants will be granted to the employees. Exercising warrants is only an option by an Exit (sale of Lunar Group A/S), the owner is entitled to subscribe shares in Lunar Group A/S at a strike-price defined as the market price when the warrants was issued. The warrants must be exercised by 31 August 2028, otherwise they will be void unless special circumstances according to the warrants agreement are fulfilled. Until 2020 the valuation principles have been using the guidance in the Tax assessments Act. From 2021, black-scholes calculation has been introduced and used for the recognition of share-based payments.

During 2022 costs related to the warrant program of DKK 2,271 thousand has been recognized in the income statement (2021: DKK 4,996 thousand).

24 Fair value information for financial instruments

Bonds at amortised costs are recognized at DKK 2,453,558 thousand in balance sheet. Fair value of the bonds is DKK 2,407,771 thousand at 31 December 2022.

Lunar has assessed that for other financial Instruments measured at amortised cost the carrying amount is a reasonable approximation.

In 2021 and 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 31 December 2022 is disclosed in the table below.

	Net nominal position (thousand)	Net market value (DKK'000)	Positive market value (DKK'000)	Negative market value (DKK'000)
Forwards - SEK	SEK 1,200,686	-10,228	8	10,236
Forwards - NOK	NOK 1,500	2	2	0
Swaps - EUR	EUR 1,500	-1	0	1
Swaps - SEK	SEK 1,770,500	28,981	29,179	195
Swaps - NOK	NOK 20,000	53	53	0

Of the total nominal net position of SEK swaps at 31 December 2022 SEK 135,000 thousand are placed in a long position, while SEK 1,905,000 thousand are placed in a short position.

Lunar Bank has paid significant costs during and after the failed regulatory approval process to external advisors and hedging instruments. The price of the NOK forward contract to hedge the purchase price accounted to DKK 87,5 million on 30 September 2022.

Financial statements 1 January – 31 December

Notes

24 Fair value information for financial instruments (continued)

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

	Net 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.

25 Contractual obligations and contingencies, etc.

Contingent liabilities

On 31 December 2022 unaccepted loan commitments and unused credit facilities amounts to DKK 1,265 thousand (2021: DKK 1,634 thousand).

Of the total value of bond holdings, DKK 162,320 thousand and NOK 145,000 thousand have been provided as collateral to other credit institutions (2021: DKK 213,291 thousand).

The Bank participates in the Danish Guarantee Fund. The Danish Guarantee Fund is currently fully funded, but if the fund subsequently does not have sufficient means to make the required payments, extraordinary contributions of up to 0.5% of the individual institution's covered deposits may be required. Contributions are made on the basis of size and risk relative to other credit institutions in Denmark. The contribution to the Danish Resolution Fund is recognised as operating expenses.

The Bank also participates in the Resolution Fund. If the fund does not have sufficient means to make the required payments, extraordinary contributions may be required. Payments to the Danish Restructuring Fund are calculated on the basis of the individual credit institution's share of covered deposits relative to other credit institutions in Denmark.

Lunar Bank participates in a Danish joint taxation arrangement in which Lunar Group 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.

Lunar Bank is registered jointly with all Danish entities of the Lunar Group for financial services employer tax and VAT, for which Lunar Group A/S and the entities are jointly and severally liable.

On 30 September 2022 a public offer made by Lunar on Instabank ASA lapsed as no regulatory approval had been given by the Norwegian FSA. A majority of the shareholders in Instabank subsequently filed a subpoena against Lunar Bank seeking damages currently estimated in the range of MNOK 580. Lunar Bank and its external advisors are of the opinion that the shareholders are not entitled to damages or any other compensation.

Financial statements 1 January – 31 December

Notes

26 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.

27 Principles for intra-group trading

Intra-group transactions and services are settled on an arm's length basis and/or a cost-plus pricing basis.

DKK'000	2022	2021
Income statement		
Re-invoiced staff costs to other group entities	3,134	78
Outsourcing fee to Lunar Way A/S *	419,039	260,328
Outsourcing fee to Lendify AB Group **	161,788	82,268
Development projects invoiced to affiliated companies	58,023	16,954
Service fee invoiced to affiliated companies	5,643	7,689
Intercompany interest income from parent company	17,691	150
Intercompany interest income from affiliated companies	5,250	14
Share-based payments	2,271	4,996
Balance sheet		
Business transfer from affiliated companies	0	674,073
Share acquisition from affiliated companies	4,318	0
Software acquisition from affiliated companies	30,359	0
Receivables from affiliated companies	4,945	1,197
Receivables from parent company	30,873	10
Loans to affiliated companies	349,492	0
Payables to affiliated companies	76,644	25,252

* Services purchased from Lunar Way A/S according to an intra-group outsourcing agreement. These services include general administration, marketing and costs related to tech staff.

** Services purchased from Lendify AB and subsidiaries according to an intra-group outsourcing agreement. These services include general administration, marketing and costs related to software licenses.

Remuneration of the Executive Board and the Board of Directors are disclosed in note 9.

Financial statements 1 January – 31 December

Notes

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

Lunar Bank is exposed to different types of risks. The purpose of Lunar's 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 risk: The risk of insufficient capital negatively affecting the bank's ability to pursue its business strategy

Credit risk

Lunar Bank strives to differentiate itself in the market through convenient and transparent financing products by leveraging Lunar's credit decision engine based on internal and external data including PSDII data. Furthermore, the ambition is to limit impairment volatility and ensure adequate management overlays to cover for risks not included in the impairment calculations.

When assessing the credit exposures on loans and credit facilities, the starting point is the identification of the credit risk of the counterparty. The exposures are divided into the following rating categories determined by the estimated PD levels outputted from Lunar's PD-models consisting of two models; an application score and a behaviour score. The application score model is an internally developed PD model. The application score model is applied to customers that are new to Lunar, i.e. less than 3 months on the book. The behaviour score model is an internally developed PD model. The behaviour score model is applied to existing customers in Lunar, i.e. more than 3 months on the book.

Financial statements 1 January – 31 December

Notes

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

Below, the gross credit exposure on 31 December 2022 is distributed in rating scales. The disclosed rating scales below are changed from the 2021 annual report to be consistent with Internal management reporting.

DKK'000	Stage 1	Stage 2	Stage 3	Total
A	734,345	3,751	0	738,096
B	221,809	25,351	0	247,160
B-C	5,825	301	0	6,126
C	340,184	50,275	0	390,459
D	240,241	60,960	0	301,201
D-E	4,129	460	0	4,589
E	93,472	35,448	0	128,920
F	40,776	99,619	25,986	166,381
Gross carrying amount at 31 December 2022	1,680,781	276,165	25,986	1,982,932
Distribution in segments				
Public institutions	0	0	0	0
<i>Business, including:</i>				
Construction	145	107	317	568
Retail	230	51	93	375
Transport, hotels and restaurants	159	61	173	393
Information and communication	230	47	33	310
Service	728	116	410	1,253
Finance and insurance	347,509	11	31	347,551
Other segments	296	63	160	519
Business, total	349,297	456	1,217	350,970
Private	1,331,484	275,709	24,769	1,631,963
Total	1,680,781	276,165	25,986	1,982,932

Loans are issued without any provided security.

Financial statements 1 January – 31 December

Notes

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

Below, the gross credit exposure on 31 December 2021 is distributed in rating scales. The disclosed rating scales below are changed from the 2021 annual report to be consistent with Internal management reporting.

DKK'000	Stage 1	Stage 2	Stage 3	Total
A	1,060,981	1,159	0	1,062,140
B	227,275	3,070	0	230,345
B-C	1,914	58	0	1,972
C	66,873	3,124	0	69,997
D	37,972	5,455	0	43,427
D-E	17,601	1,661	0	19,262
E	14,752	2,447	0	17,199
F	18,100	16,837	17,734	52,671
Gross carrying amount at 31 December 2021	1,445,468	33,811	17,734	1,497,013
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	1,445,118	33,656	17,733	1,496,507
Total	1,445,468	33,811	17,734	1,497,013

Comparative figures for 2021 have been restated to reflect the recognition of P2P lending.

The maximum loan granted to individual customers is DKK 150 / SEK 500 thousand (2021: DKK 370 / SEK 501 thousand). Lunar Bank has established policies and processes for handling the loan portfolio and systematically conducts detailed monitoring.

As described in note 1, impairment losses on loans and credit facilities are recognised at the time of booking, provisioned with an amount equivalent to the expected credit loss in 12 months (stage 1). In case of a significant deterioration of the credit risk, the asset will be provisioned with an amount equivalent to the expected credit loss in the remaining lifetime of the asset (stage 2). In case of objective indication of impairment is registered (stage 3), the asset will be provisioned with an amount equivalent to the expected credit loss in the remaining lifetime of the asset but based on a probability of default of 100%.

Due to models' uncertainty managerial adjustments are added on a monthly basis to cover for such uncertainty. As of 31 December 2022, managerial adjustments amount to DKK 48,2 million (31 December 2021: DKK 8,9 million).

Future macroeconomic developments are also taken into consideration via a scenarios approach, i.e., estimations of positive, baseline and pessimistic macroeconomic evolution and impact on the Expected Credit Losses are weighted based on the likelihood of the different scenarios to materialize.

Financial statements 1 January – 31 December

Notes

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

The systematic monitoring of the loan portfolio comprises reporting on relevant portfolio segmentation and is regularly prepared for internal committees with participation of the bank's management. Also, a separate reporting is prepared for scheduled Board of Directors meetings.

The table below shows the changes in total impairment charges recognised at 31 December 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	20,533	30,143	13,580	64,257
Transfer from Stage 1	3,705	32,047	7,554	43,306
Transfer from Stage 2	34	-1,261	723	-504
Transfer from Stage 3	42	5	-2,247	-2,200
Assets derecognised	-5,762	-3,950	0	-9,712
Write offs debited to the allowance account	0	0	-13,933	-13,933
Other movements	-5,252	156	3,362	-1,734
Impairment charges at 31 December 2022	38,145	64,739	25,023	127,907

The lines "Transfer from Stage 1", "Transfer from Stage 2" and "Transfer from Stage 3" in 2022 also includes the changes in ECL.

The table below shows the changes in total impairment charges recognised at 31 December 2021 for 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 from Stage 1	-130	73	57	0
Transfer from Stage 2	51	-54	3	0
Transfer from 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

Financial statements 1 January – 31 December

Notes

28 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 2022 for 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	75	22	0	97
Transfer from Stage 1	0	1	0	1
Transfer from Stage 2	0	0	0	0
Transfer from Stage 3	0	0	0	0
Assets derecognised	-45	-1	0	-46
Write offs debited to the allowance account	0	0	-11	-11
Other movements	-18	1	-142	-159
Impairment charges at 31 December 2022	80	23	0	103

The table below show the changes in total impairment charges recognised at 31 December 2021 for 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 from Stage 1	-10	0	10	0
Transfer from Stage 2	2	-12	10	0
Transfer from Stage 3	6	0	-6	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.

Financial statements 1 January – 31 December

Notes

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

Market and liquidity risk

Taking on market & liquidity risk is necessary as an integrated part of doing business. Lunar has low risk appetite towards market & liquidity risk and will consequently abstain from having a trading book and engaging in complex financial structures. Nordic Government and highly liquid Nordic Government bonds (mainly Danish mortgage bonds with a minimum LCR level 1b) are used as a part of liquidity, interest risk management and as collateral for other financial partners.

Recognising that we have now become a cross border bank, we to a higher instant also foresee that we will start utilizing other aspects for liquidity management, such as short maturity covered bonds in Norway and Sweden withhold to maturity and repos. This will make us more flexible and aligned with market practice, and we also expect it to be in the interest of our shareholders.

We still limit ourselves from building up a trading book, and do not see significant increased complexity or risk-taking as a result of moving into a more flexible setup for handling our liquidity. We consider it a natural part of acting in different jurisdictions with different needs for liquidity management while continuing to work within a low-risk appetite.

Capital risk

Lunar has been able to attract external funding to ensure capital to cover for the planned investments in the Bank and this ability is reflected in the capital planning. The objective of Lunar Bank's capital management framework is to ensure that Lunar Bank at any time has a sufficient level and quality of capital to support its business ambitions and to absorb unexpected losses under a severe economic downturn without breaching regulatory capital requirements.

LUNAR[®]