

Lunar Risk Report 2021 - Other Information



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1. Introduction

According to Capital Requirement Regulation (CRR) Lunar is required to publicly disclose our risk exposure. This is done in two reports;

- Risk Report on capital target and solvency requirements
- Risk Report on other information (this document)

The two reports are reviewed and updated once a year in relation to the disclosure of the annual financial statement and created with the purpose of complying with the disclosure obligations in CRR article 431 to 455. The reports are disclosed at Lunar Bank's homepage www.Lunar.app.

The reports are structured based on section eight of the CRR in relation to disclosure of a summary of Lunar Bank (the Bank) approach for assessing the adequacy of internal capital to support current and future activities, and with the objectives of informing stakeholders of Lunar's risk management approach.

This report will include information to comply with CRR articles 431-455, except for article 438, which is handled in the separately disclosed report "Capital target and solvency requirements".

This report is disclosed in connection with the publication of the Annual Report. The content of this report is based on financials as per December 31st 2021 and was last updated and approved in February 2022.

2. Risk Management Objectives & Policies, CRR 435

2.1 Article 435, no. 1, litra e-f

Lunar Bank A/S Board of Directors has approved the Risk Report on capital target and solvency requirements 2021 and the Risk Report on other information 2021, with the following statement;

'The Board of Directors of Lunar Bank A/S (the Bank), assess that the Bank's risk management arrangements and mechanisms are proportionate with the Bank's risk profile and business strategy. It is the opinion of the Board of Directors that the description of the Bank's risk profile in relation to its business model, strategy, risk appetite and key figures, provides an adequate picture of the Bank's risk management framework.

The Bank's risk taxonomy is approved by the Board of Directors and each identified risk area is handled in related policies, according to our information hierarchy, which describes the key principles that must be adhered to by specified target groups. All policies are reviewed annually and include a risk appetite statement, that is presented and approved by the Board of Directors, in conjunction with the approval of the policy. Thereby, the Board of Directors ensures that all risk areas, as presented in the risk taxonomy, has a clearly defined risk appetite statement, that are reviewed and updated annually, and that these are in line with the Bank's business model and strategy as defined by the Board of Directors.

This assessment by the Board of Directors is based on the by the Board of Directors agreed business model including strategy, material and reporting presented to the Board of Directors by the Executive Management, the Chief Risk Officer, the Chief Compliance Officer and on supplementary collected information.

The Board has issued 'Instructions to the Executive Management' which includes guidelines for responsibilities, limits and mandates within the credit and liquidity areas. The mandated limits are handled in policies and/or underlying standard operating procedures.

/The Board of Directors, February 2022'

2.2 Article 435, no 2

Members of the Board of Directors hold a number of additional directorships besides the position at Lunar Bank A/S. Further information can be found in the Annual Report 2021.

Information about the Bank's strategy for attracting and retaining management competencies, can be found in the Annual Report 2021.

Further information about Lunars including the Bank's Remuneration and Diversity Policy can be found [here](#). Please note that some documents currently only exist in Danish.

Lunar has established an Audit & Risk Committee (ARC), which consists of all members of the Board of Directors. The committee has a separate Charter, that lays down the obligations and mandate for the Committee. The Chairman of the committee can not at the same time, be the same as the Chairman of the Board of Directors or any other Board committee.

Besides the Board appointed members, the Chief Risk Officer (CRO) and the Chief Financial Officer (CFO), participates in all ARC meetings. The CEO participates when requested.

Meetings in ARC are held as often as the Chairman of the ARC wishes, subject to a minimum of four meetings annually.

The CRO reports to the ARC and the Board of Directors in a quarterly CRO-letter on the status and assessment of risk according to the risk taxonomy. Once a year the CRO-letter is replaced by an annual report to the same recipients. Both the quarterly and the annual report are presented to the Bank's Executive Management prior to the presentation at the ARC meeting.

2.3 Article 435, no. 1, litra a-d

Lunar must disclose risk management objectives and policies for risks. These disclosures must include:

- the strategies and processes for managing those risks;
- the structure and organization of the relevant risk management functions, including information on its authority and statute, or other appropriate arrangements;
- the scope of risk reporting and systems;
- the policies for hedging and mitigating risks, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants

More information can be found in the Annual Report for 2021.

Three Lines Model

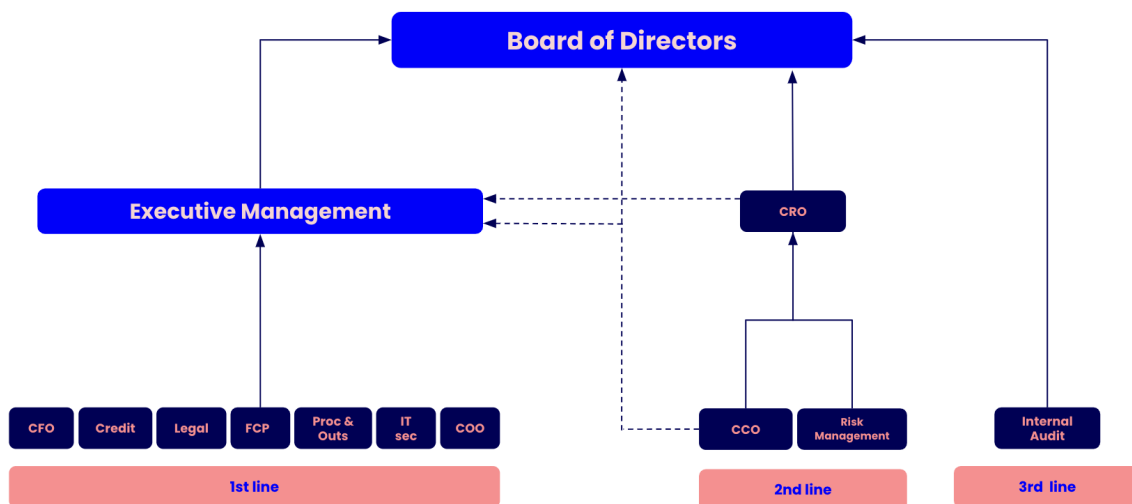
Lunar applies a Three Lines Model, in order to ensure structure around risk management and internal controls, to give a holistic overview of risks in Lunar and to ensure functional separation between risk ownership and oversight.

The Three Line Model defines the roles of each line:

- 1st Line exists in the business areas across the bank. 1st Line takes and owns risks during their daily job, and they are responsible for identifying, measuring, managing and reporting risks within their business area. The 1st Line is responsible for having adequate controls in place and ensuring they operate within the approved risk appetite. 1st Line can not base their control only on 2nd Line control and monitoring.
- 2nd Line exists in Risk Management and Compliance. These are independent functions, who have responsibility for overseeing, controlling and assessing risks. Furthermore, the functions support and challenge the 1st Line in managing risks. Risk Management and

Compliance must assess whether 1st Line's work complies with regulation and is inside the relevant risk appetite across Lunar.

- 3rd Line revises the effectiveness of governance, risk management and processes in Lunar. Internal audit reports directly to the BoD in both Lunar Group and the banking division.



Risk taxonomy

Lunar has identified the risks that the Bank is exposed to in a risk taxonomy, which outlines each risk area and underlying sub-risk areas and who owns the risk (1st Line owner). The taxonomy is used to ensure full transparency throughout the Bank on who is responsible for identifying, measuring, managing and reporting risks within their business area.

This provides Executive Management and the Board of Directors with an overview of risk and a clear anchoring of responsibility. The risk taxonomy is reviewed annually and presented to the Board of Directors.

Reporting & Escalation

The CRO reports to the ARC and through them to the BoD on a quarterly basis. Once a year the quarterly report is replaced by an annual report which summarizes the quarterly reporting. In the reports the Bank's risk exposure is presented to the ARC and the BoD.

The Bank's governing documents framework also includes clear instructions for when an identified risk must be reported and when escalation outside the normal reporting process is necessary and to which governing body the escalation should be done.

3. Scope of application, CRR 436

This report is relevant for Lunar Bank A/S. Lunar Bank A/S does not have any subsidiaries and therefore CRR 436 is not considered to be in scope for this report.

4. Own funds, CRR 437

Reference is made to the Bank's Capital Ratio which can be found in the Annual Report in the section "Capital & Solvency".

For a description of the additional capital (Tier 1) 'subordinated loan', reference is made to note 20 in the Annual Report 2021.

5. Capital requirements, CRR 438

See 'Risk Report on capital target and solvency requirements', which can be found [here](#).

6. Exposure to counterparty credit risk, CRR 439

6.1 439 a) Methodology used to assign internal capital and credit limits for counterparty credit exposures

The counterparty risk is the risk of loss as a consequence of a counter party's lack of compliance with obligations that follows from a contract, prior to the finalization of the related transaction. In the capital coverage statement, the Bank uses the market value method, that follows from CRR Article 274.

The market value method concludes the value of exposure as the sum of the below:

- The cost for replacement of the contract is determined by the positive market value of the contract
- Supplement for the potential future credit exposure is determined by multiplying the fictive values or the underlying values with the percentage stipulated in CRR.

6.2 439 b) Policies for securing collateral and establishing credit reserves

Approval of limits for establishment of exposures related to financial instruments and requirements for collateral follows from the Bank's Credit Policy.

The Bank's exposure towards professional counterparties (other credit institutions) are subject to the limits set out in the Instruction to the Executive Management from the Board of Directors.

6.3 439 c) Policies with respect to Wrong-Way risk exposures

The Bank's counterparty risk is not determined by the use of internal models (EPE-models), so the disclosure requirement is not relevant.

6.4 439 d) Impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating

The Bank's counterparty risk is not determined by credit rating models, so the disclosure requirement is not relevant.

6.5 439 e-h) (e) gross positive fair value of contracts, netting benefits, netted current credit exposure, collateral held and net derivatives credit exposure; (f) measures for exposure value under the methods set out in Part Three, Title II, Chapter 6, Sections 3 to 6; (g) the notional value of credit derivative hedges, and the distribution of current credit exposure by types of credit exposure; and (h) the notional amounts of credit derivative transactions, segregated between use for the institution's own credit portfolio, as well as in its intermediation activities, including the distribution of the credit derivatives products used, broken down further by protection bought and sold within each product group

The Bank does not have any positions that are relevant for the disclosure requirement.

6.6 439 i) Estimate of if the institution has received the permission of the competent authorities

The Bank has not received any permission from the competent authorities, the Danish FSA (Finanstilsynet), to use the internal models for estimation of counterparty risk, so the disclosure requirement is not relevant.

7. Capital Buffers, CRR 440

The countercyclical capital buffer is set by the competent authorities in each EU member state. The buffer is built up when the collected growth in lending is assessed to contribute to the build up of systemic risk, and is reduced during critical periods.

In Denmark this is set by the Ministry of Industry, Business and Financial Affairs after recommendation from the Systemic Risk Council and based on chosen risk indicators such as credit exposures compared to gross national product.

A change to the buffer requirement is announced 12 months in advance by the authorities.

The actual countercyclical capital buffer applied to Danish financial credit institutions as per December 31st 2021 is 0,0%. In 2022 the buffer will increase to 2,0% and 2,5% in 2023 and 2024.

8. Indicators of Global systemic Importance, CRR 441

Lunar Bank A/S is not considered as systemic important.

9. Credit Risk Adjustment, CRR 442

9.1 442 a) and b) Definitions for accounting purposes of 'past due' and 'impaired' and description of the approaches and methods adopted for determining specific and general credit risk adjustments

For disclosure of the Bank's accounting principles, reference is made to the Annual Report 2021 note 1.

9.2 442 c) Total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigation, and the average amount of the exposures over the period broken down by different types of exposure classes

CREDIT RISK Overview as of 31 Dec. 2021	The total amount of exposures after accounting offsets and without taking into account the effects of credit risk mitigations (1,000 DKK)	The average amount of the exposures before taking credit risk mitigation into account (1,000 DKK)
Exposures towards central governments and central banks	0	0
Exposures towards regional and local authorities	0	0
Exposures - public authorities	0	0
Exposures - multilateral development banks	0	0
Exposures - international organisations	0	0
Exposures - Credit institutions	0	0
Exposures - corporates etc.	822	771
Exposures - retail customers	1,047,357	531,964
Exposures - secured through mortgages on real estate	0	0
Exposures - violation of agreements	0	0
Exposures - associated with a	0	0

specific high risk		
Exposures - covered bonds and specific covered mortgage bonds	0	0
Securitisations positions	0	0
Exposures - shares and stocks in CIU	0	0
Stock exposures	0	0
Other	0	0
<u>Total with credit risk</u>	<u>1,048,179</u>	<u>532,735</u>

9.3 442 d) Geographic distribution of the exposures, broken down in significant areas by material exposure classes, and further detailed if appropriate

CREDIT RISK (1,000 DKK)	Exposures - corporates etc.	Exposures - retail customers
Overview as of 31 Dec. 2021		
Denmark	822	52,027
Sweden	0	995,330

9.4 442 e) Distribution of the exposures by industry or counterparty type, broken down by exposure classes, including specifying exposure to SMEs, and further detailed if appropriate

(1,000 DKK)	Central governments or central banks	Institutions	Retail customers	Exposures with arrears or overdraft	<u>Total</u>
Public Authorities			0	0	<u>0</u>
Agriculture, farming, hunting, fishing etc.			0	0	<u>0</u>
Industry and raw material			0	0	<u>0</u>
Energy supply			0	0	<u>0</u>

Construction and real estate			0	80	<u>80</u>
Trading in goods			0	64	<u>64</u>
Transport, restaurants and hotels			0	103	<u>103</u>
Information and communication			0	32	<u>32</u>
Financing and insurance			0	22	<u>22</u>
Other occupations			0	205	<u>205</u>
Total			0	506	<u>506</u>
Private			1,075,278	17,319	<u>1,092,597</u>
<u>Total</u>			<u>1,075,278</u>	<u>17,825</u>	<u>1,093,103</u>

9.5 442 f) Residual maturity breakdown of all the exposures, broken down by exposure classes, and further detailed if appropriate

(1,000 DKK)	Overnight	0-3 m	3 m - 1 y	1 y - 5 y	>5 y	<u>Total</u>
Exposures - central governments or central banks						
Exposures - institutions						
Exposures - retail customers		2,387	9,283	88,385	987,697	<u>1,087,762</u>
Exposures - arrears or overdraft	5,341					<u>5,341</u>
<u>Total</u>	<u>5,341</u>	<u>2,387</u>	<u>9,283</u>	<u>88,385</u>	<u>987,697</u>	<u>1,093,103</u>

9.6 442 g) Credit risk by significant industry or counterparty type

(1,000 DKK)	Mismanaged and creditimpaired receivables (stage 3)	Value regulation and write-down (stage 3)	Operating items this year (stage 3)
Public Authorities	0	0	0
Professions:			
Agriculture, hunting, forestry and fishing	2	2	2
Industry	2	2	2
Energy supply	18	18	18
Construction	17	17	17
Trading	42	42	42
Transport, restaurants and hotels	31	31	31
Information and communication	52	52	52
Financing and insurance	23	23	23
Real estate	64	64	64
Other professions	255	255	255
Professions in total	506	506	506
Private	17,827	15,346	9,939
<i>Here of Sweden</i>	970	1,344	1,344
<u>Total</u>	<u>18,333</u>	<u>15,852</u>	<u>10,445</u>

9.7 442 h) Amount of the impaired exposures and past due exposures, provided separately, broken down by significant geographical areas

Reference is made to section 9.6 442 g), where the Sweden part is shown in a row for itself.

9.8 442 i) Reconciliation of changes in the specific and general credit risk adjustments for impaired exposures

1,000 DKK	Stage 1	Stage 2	Stage 3	
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	Lending	Guarantee debtor	Lending	Guarantee debtor	Lending	Guarantee debtor	Write-downs on receivables with credit institutions and other records with credit risk
Write-downs and provisions beginning of year	977		784		5,568		
Net change through the year	24,226		7,146		12,838		
Transferred from stage 1	-130		73		57		
Transferred from stage 2	51		-54		3		
Transferred from stage 3	20		5		-25		
Other movements	-299		-355		-2,458		
Final loss former writedown/provision					2,553		
Write-downs / provisions end year	24,845		7,599		18,536		

10. Unencumbered assets, CRR 443

TABLE A – Assets (1,000 DKK) as of December 31st 2021	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
	010	040	060	090
Total assets			9,631,922	
Stock instruments				
Debt securities			255,753	255,753
Hereof: covered bonds				

Hereof: issued by public authorities			255,753	255,753
Hereof: issued by financial entities				
Hereof: issued by non-financial entities				
Lending			1,048,178	
Other assets			8,327,991	

TABLE B – Securities (1,000 DKK) as of December 31st 2021	Fair value of encumbered received collateral or self-issued debt securities	Fair value of received collateral or self-issued debt securities
	010	040
Collateral received	0	0
Other received securities	0	0
Total assets, received collateral and self issued securities	0	0

TABLE C – Assets (1,000 DKK) as of 31 Dec. 2021	Contradicting liabilities, contingent liabilities or securities on loan	Assets, received securities and self issued debt securities
	010	030
Accounting value of selected financial liabilities	0	0

11. Use of ECAs, CRR 444

The Bank has chosen Standard & Poor's Ratings Services as External Credit Assessment Institution (ECAI). The Bank uses BEC as Data Central and receives external credit assessments from Standard & Poor's Ratings Services via SIX Financial Informations. Credit assessments from Standard & Poor's Ratings Services are subject to continuous IT updates.

The Data Central has converted Standard & Poor's Ratings Services credit assessment classes to credit quality steps by use of the Danish FSA's conversion table. Each credit quality step is assigned

a value, that each exposure on the individual credit quality steps must be assessed by for the calculation of the risk weighted posts under the standard method for credit risks according to CRR articles 111-134.

The table below, shows the Danish FSA's conversion of Standard & Poor's Ratings Services, credit assessment classes to credit quality steps for exposures towards business/corporates, institutions, governments and central banks.

CREDIT QUALITY STEP	STANDARD & POOR'S CREDIT ASSESSMENT CLASSES	EXPOSURE TO CORPORATES	EXPOSURE TO GOVERNMENTS & CENTRAL BANKS
1	AAA to AA-	20%	0%
2	A+ to A-	50%	20%
3	BBB+ to BBB-	100%	50%
4	BB+ to BB-	100%	100%
5	B+ to B-	150%	100%
6	CCC+ and under	150%	150%

Exposures with no rating are assigned a 20% value.

Exposures where the credit assessment is set by the Standard & Poor's Ratings Services, is shown below.

EXPOSURE CLASS (1,000 DKK)	EXPOSURE	RISK WEIGHTED EXPOSURE
INSTITUTIONS	506	506
TOTAL	506	506

12. Exposure to Market Risk, CRR 445

This section is included in the 'Risk Report on capital target and solvency requirements'

13. Operational Risk, CRR 446

This section is included in the 'Risk Report on capital target and solvency requirements'

14. Exposures in equities not incl. in the trading book, CRR 447

The Bank has the following exposure in equities that is not included in the trading book:

In 2021 Lunar entered financial instruments with a maturity of up to 3 months. Those financial instruments are mainly FX swaps which are entered to reduce the liquidity mismatch, since Lunar has a large deposit surplus in DKK, while the loan book is mainly in SEK.

Exposure class (1,000 DKK)	Nominal position	Net market value	Positive market value	Negative market value
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

15. Exposure to interest rate risk on positions not incl. in the trading book, CRR 448

The Bank's interest rate risk on positions not included in the trading book, primarily consist of deposits, loans, obligations, derivatives (spots and swaps), company loan and tier 2 loan (vækstfonden).

Positions	Interest rate risk (1,000 DKK)
Total positions not included in the trading book	6,321

16. Exposure to securitisation positions, CRR 449

The Bank does not use securitisation, why the article is not relevant for this report.

17. Remuneration Policy, CRR 450

Lunar has a Remuneration Policy, which is approved by the Board of Directors. The Bank's setup for salary does not include variable pay to members of the Board of Directors.

When establishing the Remuneration Policy, it has been the target to ensure a practice for salaries that promotes healthy and effective risk management, does not encourage anyone to take

decisions that are outside our risk appetite, are in line with the Bank's business strategy and our values and that ensures a sustainable business model.

The Remuneration Committee consists of all members of the Board of Directors.

18. Leverage, CRR 451

CRR has introduced the leverage ratio and institutions shall disclose information regarding their calculated leverage ratio and their management of the risk of excessive leverage.

The leverage ratio is calculated as the capital measure (Tier 1 capital) divided by the total exposure measure.

The current capital coverage rules apply a fixed requirement for leverage of minimum 3%, applicable from June 2021.

The Bank complies with this requirement, as the leverage ratio as of 31/12/21 is calculated to 8,6%.

In the table below further information about the Bank's leverage ratio according to the requirements for disclosure according to CRR can be found.

Monitoring of the leverage ratio is part of the Bank's ongoing risk monitoring and the continuous reporting to the Board of Directors.

	1,000 DKK/%
Total assets , cf. Financials Statements	9,631,922
Withdrawn credit facilities, garanties and loan offers	3,503
Deduction of core capital	-674,787
Total exposure to the degree of gearing	8,960,638
Core capital with full phasing in of CRR-rules	771,800
Degree of gearing with full phasing in of CRR-rules	8,6%

19. Use of the IRB Approach to credit risk , CRR 452

Lunar does not use the IRB-method, so the disclosure requirement is not relevant.

20. Use of credit risk mitigation techniques, CRR 453

20.1 453 a) Policies and processes for, and an indication of the extent to which the entity makes use of, on- and off-balance sheet netting

The Bank does not use on- and off-balance sheet netting, why this is not relevant for this report.

20.2 453 b) Policies and processes for collateral valuation and management

As the business model operates with consumer and business lending without collateral, there is nothing to report under this article.

20.3 453 c) Description of the main types of collateral taken by the institution

As the business model operates with consumer and business lending without collateral, there is nothing to report under this article.

20.4 453 d) Main types of guarantor and credit derivative counterparty and their creditworthiness

The Bank does not use guarantors and/or credit derivatives for credit risk mitigation.

20.5 453 e) Information about market or credit risk concentrations within the credit mitigation taken

The Bank has only very limited use of credit mitigation, why the item is not relevant for disclosure in this report.

20.6 453 f) Total exposure value that is covered by eligible financial collateral, and other eligible collateral

The Bank has no financial securities set to cover for exposure towards retail customers in the credit risk.

Credit Risk Reducing financial securities distributed on exposure classes:

Overview on December 31st 2021 (DKK 1,000)	Exposure
Exposures to central governments or central banks	0
Exposures to regional or local authorities	0
Exposures to public entities	0
Exposures to multilateral development banks	0

Exposures to international organizations	0
Exposures to institutes	0
Exposures to businesses	0
Exposures to customers	0
Exposures ensured through mortgages on real estate	0
Exposure on which there are arrears or overdraft	0
Exposures related to especially high risk	0
Security positions	0
Short term institutional exposures and business exposures	0
Exposures against collective investment schemes	0
Total	0

20.7 453 g) The total exposure that is covered by guarantees or credit derivatives

The Bank does not have any exposures that are covered by guarantees or credit derivatives.

21. Use of the Advanced Measurement Approaches to operational risk, CRR 454

The Bank uses the basis indicator method for calculation of our own funds requirements for operational risk, why the requirement for disclosure is not relevant.

22. Use of Internal Market Risk Models, CRR 455

The Bank does not use internal models for calculating our capital requirements, why the disclosure requirement is not relevant.