

Lunar Bank A/S
Hack Kampmanns Plads 10
8000 Aarhus C
CVR no. 39697696

LUNAR®

ANNUAL REPORT

1 January – 31 December 2020

Approved at the Company's annual general meeting on 25 March 2021

Chairman:

Claus Okholm
.....
Claus Okholm

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Company information

Company	Lunar Bank A/S Hack Kampmanns Plads 10 8000 Aarhus C CVR no. 39697696
	Financial period: 1 January – 31 December 2020
	www.lunar.app
Ownership	The company is fully owned by: Lunar Group A/S Hack Kampmanns Plads 10 8000 Aarhus C
Board of Directors	Claus Okholm (chairman) Jens Peter Leschly Neergaard Henning Kruse Petersen Lotte Mollerup van Hauen
Executive Board	Peter Smith (CEO) Anders Hartlev (CFO, CRO)
Audit & Risk Committee	The Board of Directors in its entirety
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6 2300 København S

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 2020.

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

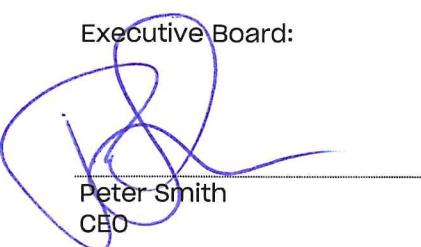
In our opinion, the financial statements give a true and fair view of the financial position of Lunar Bank at 31 December 2020 and of the results of Lunar Bank's operations for the financial year 1 January – 31 December 2020.

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

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

Copenhagen, 25 March 2021

Executive Board:



Peter Smith
CEO

DocuSigned by:



Anders Hartlev

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Anders Hartlev
CFO, CRO

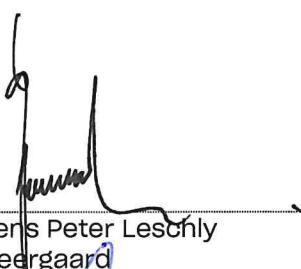
Board of Directors:



Claus Okholm
Chairman



Henning Kruse Petersen



Jens Peter Leschly
Neergaard



Lotte Møllerup van
Hauen

Independent auditor's report

To the shareholders of Lunar Bank A/S

Opinion

We have audited the financial statements of Lunar Bank A/S for the financial year 01.01.2020 to 31.12.2020, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity and notes, including the summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31.12.2020 and of its financial performance for the financial year 01.01.2020 to 31.12.2020 in accordance with the Danish Financial Business Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the Company in accordance with the IESBA Code of Ethics for Professional Accountants and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Lunar Bank A/S achieved status as a public interest entity 19.08.2019 and since this date, we were first elected as auditors at the general meeting conducted 16.04.2020 for the Financial year 2020.

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 the financial year 01.01.2020 to 31.12.2020. 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: The Bank's future compliance with regulatory capital requirements
Due to the importance of maintaining an adequate and sound capital base on an ongoing basis, and based on the Bank's expected expansion plans in 2021 the compliance with regulatory capital requirements throughout 2021 has been deemed a key audit matter.

Independent auditor's report

Key audit matters (continued)

The factors which are most uncertain in relation to the Bank's compliance with the regulatory capital requirements and which have therefore required greater attention during the audit are:

- The capital plan prepared by the Management for the year 2021, including the assumptions included therein.
- Management's expectations of earnings and cost base, including marketing and expansion costs and loan impairments.
- Management's established contingency options in the event of a lack of meeting budget targets.

In connection with this, the underlying assumptions and Management's description in note 2 in the financial statements has been a focus area in our audit.

How the matter were addressed in our audit:

Based on our risk assessment, we have carried out test of key assumptions in the budget and capital plan prepared by Management for the year 2021.

In addition, our audit activities have included:

- Meetings with Management to discuss and understand assumptions and methods for determining future capital simulations.
- Testing the internal coherence of the capital plan, including checking of totals, checking capital ratios, etc.
- Review and challenge of Management's budget for 2021 with assessment of the underlying assumptions, including realism and sensitivity for budget and estimates in relation to earnings and cost base.
- Assessment of the Bank's available contingency options presented to the Board of Directors including assessing the timeframe of taking the options into force.

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, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

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 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 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 in the preparation of the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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, related safeguards.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements (continued)

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 or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Statement on the management review

Management is responsible for the management review.

Our opinion on the financial statements does not cover the management 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 the management review and, in doing so, consider whether the management review is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management review provides the information required under the Danish Financial Business Act.

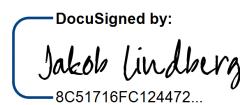
Based on the work we have performed, we conclude that the management review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Business Act. We did not identify any material misstatement of the management review.

Copenhagen, 25 March 2021

Deloitte
Statsautoriseret Revisionspartnerselskab
 Central Business Registration No (CVR) 33 96 35 56



Kasper Bruhn Udam
 State-Authorised Public Accountant
 MNE no. 29421



Jakob Lindberg
 State-Authorised Public Accountant
 MNE no. 40824

Management's review

Our business

Lunar Bank (Lunar) is a technology company and a modern bank that enables everyone to make the most of their money when they save, spend and invest or grow their business. Lunar has the overall ambition of becoming the preferred Financial Super App within the Nordics.

We want to offer our services to a broader range of customers - starting from a young age and up. In addition, we want to offer our services to business customers characterized by having a small business setup and with simple financial needs. Lunar will position itself as the primary bank for this target market, including already established businesses as well as newly founded companies.

Lunar sees an opportunity to differentiate considerably from other Danish banks when it comes to this target group - by offering a simple and easy way to handle the day-to-day finances within the business as well as offering relevant products through third-party integrations. This without compromising our high standards against financial crime.

For both corporate and private customers, Lunar's product development will have the purpose to help the customers in their everyday life by adding integrity, transparency, flexibility, and fun to their financial life.

Lunar has more than 125,000 customers, primarily Danish users migrated from the previous platform in the affiliated company Lunar Way, which still holds remaining users primarily from Sweden and Norway. We have +215 employees by December, of which 48 are directly employed in Lunar Bank, that work every day to give our users the best possible banking experience.

The business model is not based on heavy gearing of the capital, but rather a range of products being able to generate a stable and sticky recurring revenue for the bank. This also means that, in contrast to other banks, the primary income will not be "net interest income" but rather income coming from consumer and business tiers, interchange fees, financial products and third-party services.

Financial review

The result of 2020 shows a loss after tax of DKK 175,971 thousand. The negative financial result was expected as Lunar invested heavily in growth as the Covid-19 crisis fueled the need for digital banking services. The restrictions in our societies and travel activities also led to reduced short term earnings as a major part of Lunar's value is targeted casual living and travelers.

Despite the challenges due to the Covid-19 crisis Lunar Group successfully secured additional funding of EUR 57 million to accelerate our future growth. Also, Lunar managed to complete customer migration from Nykredit to our own banking platform. The migration of more than 71,000 customers has heavily increased our balance sheet figures and is a significant milestone in becoming a profitable Nordic bank. In the autumn Lunar onboarded the former prepaid customers in Sweden to the new platform. During 2020, Lunar has increased its focus on costs and invested in making the organization scalable to support future growth.

Management's review

Financial review (continued)

Equity totaled DKK 258,453 thousand including capital increased of DKK 262,000 thousand from the parent company Lunar Group A/S. During 2020, Lunar strengthened its solvency position with a Tier 2 Loan fully subordinated from Vækstfonden of DKK 30,000 thousand. The growing balance sheet has resulted in Lunar Bank now being a group 3 bank in terms for the Danish FSA's size groupings.

Outlook

Lunar will continue to have a very strong focus to meet user expectations and continue to be the highest rated banking app in the Nordics. During 2021 Lunar will go-live in Norway and heavily increase the user base in Denmark and Sweden – both private and business users. Further a number of new products will be introduced across markets and some of the current Danish offerings will be consolidated into Sweden and Norway.

Due to continued heightened investments and expenses related to establishing a footprint across the Nordics Lunar expect to realize a loss after tax in 2021. However, during 2021 we expect to present positive monthly earnings figures. Lunar plans to attract further external investments to accelerate the strategic journey. As Lunar is launching a number of new products the financial forecast comes with some degree of uncertainty.

Capital and liquidity

At 31 December Lunar's capital base, less deductions, amounts to DKK 225,620 thousand including Tier 2 capital instruments. In accordance with Commission Delegated Regulation (EU) 2020/2176 entering into force 23 December 2020, Lunar is now able to recognise software assets in Common equity tier 1 capital which accounts for DKK 49,830 thousand at the end of 2020.

The solvency need is calculated as DKK 37,250 thousand at 31 December 2020. With a capital target including regulatory buffers and the minimum requirement of eligible liabilities (MREL) requirement calculated to be DKK 45,714 thousand or 38.0 % as per 31 December the excess capital is DKK 179,906 thousand. The excess capital adequacy is considered to be sufficient to support further development of the bank and future growth ambitions based on the budget. The capital target end 2021 amounts to DKK 69,773 thousand or 28.4 %. This includes full MREL requirements of 3.8 % that are to be met by 1 July 2023.

Lunar calculated the liquidity requirements on the basis of the Liquidity Coverage Ratio (LCR). At 31 December 2020 LCR was calculated at 1,738 % against 414 % in 2019. Lunar's BoD has set an internal limit for LCR of 140 %. Based on the current requirements, the institute has a significant excess on the liquidity coverage in relation to regulative requirements.

Risk factors

Lunar is a financial institution, operating in a dynamic environment, therefore we will constantly be affected by external and internal risks.

The Enterprise Risk Management (ERM)-framework stipulates the common standard for how activities should be coordinated in terms of identifying and controlling the risks that we are exposed to. The purpose of the ERM-model is to ensure an inter-organizational understanding of risks and hereby ensure a coordinated effort in managing these risks. Furthermore, the model enables the organization to be well-prepared and proactive in relation to the challenges and opportunities that the found risks will possess.

Management's review

Risk factors (continued)

The Risk Management model is based on the “Danish Financial Business Act” and the “Executive Order on Management” and contains the following elements:

Risk governance

Establishing rules for delegation of decisions-making competence as well as ensuring relevant escalation routes. This goes hand in hand with clear roles and responsibilities establishing an organization with a relevant functional separation between risk ownership and oversight

Risk taxonomy & appetite

Identifying and defining the relevant risk factors and ensuring a common language regarding risk types. When speaking the same language, we are able to identify and quantify different risks and set an appetite or tolerance accordingly. The risk appetite is expressed through limits for all areas where the Group is exposed and is reflected in a number of risk appetite statements.

Risk culture

The management openly expresses the mindset and necessary qualification we wish for our organization to possess. Risk is not a topic for leaders or functions only, but a widespread task across the organisation.

Control environment & reporting

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

Lunar’s risk framework applies an Enterprise Risk Management (ERM) approach and is based on a three lines of defence setup and supports the relatively simple business model.

Lunar has the ambition of being the preferred financial app in the Nordics as described in the business model. Hence Lunar will aggressively target growth in revenue and in customers while staying within risk appetite. Contrary to traditional banks Lunar is less exposed to credit and market risks.

The first public D-FSA inspection took place in mid-August at our offices in Aarhus and Copenhagen. We had a good dialogue with the Danish FSA and Lunars actions to close the orders were fulfilled before the deadline.

The main categories of financial risks are elaborated in note 23.

Management's review

Events after the balance sheet date

In February Lunar launched its private tier products in Norway which is a key milestone in the strategic journey.

However, no 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 the 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.

We want 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 wellbeing both inside and outside our organization. We work to improve our mental and physical health with meditation, yoga, healthy foods and exercise both during work hours and after.

Management

The Board of Directors 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 page 38-39 in the Financial Statements.

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 business and financial risks.

The Board of Directors appoints an Executive Board consisting of one to three members. The Board of Directors has appointed Peter Smith and Anders Hartlev (as of January 1 2021) to the Executive Board, and Peter Smith 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.

Management's review

Management (continued)

In order to allow for confidential reporting of serious offenses or suspicions, a special system has been established in which Lunar's employees can report unethical behavior that they may be aware of or suspect. The Whistleblower system is handled by an external law firm with reference to the Compliance function. The Audit & Risk Committee has not received reports of unethical behavior in 2020.

The Board of Directors is remunerated with a fixed remuneration, which is determined on the basis of market conditions and which reflects the workload. The Board of Directors is covered by Lunar's incentive programs. In order to attract and retain Lunar's management competencies, the members of the Executive Board and senior executives determined taking into account value creation and terms in comparable institutes. The executive board is able to attain up to 20 %. Management's remuneration is elaborated in note 9 in the Financial Statements.

Changes in accounting policies

Besides from the changes due to the adoption of IFRS 16-principles in the Danish Financial Business Act, the accounting policies used in the preparation of the Annual report are consistent with those of last year. As Lunar Bank only had entered in immaterial leases on January 1st, the adoption of IFRS 16-principles has no impact on the 2020 opening balance. At the point in time Lunar Bank A/S only acts as a lessee but has no material ROU assets due to outsourcing agreement with affiliated company. Therefore, the implementation of IFRS 16-principles has no impact on the balance sheet at 31 December 2020.

As the operating activities of Lunar has increased during 2020 the accounting policies of certain areas were not disclosed in the 2019 Annual Report. Accounting policies are described in note 1.

Uncertainty relating to recognition and measurement

On an ongoing basis, management assess the bank's capital resources in order to assess the soundness of the bank's investments in expansion. Based on the bank's approved budgets, management assess that through 2021 the bank will comply with all regulatory capital requirements. In the nature of budget planning there are uncertainties related to realizing those and in the event of a lack in meeting expected growth estimates Management has established several contingency options and Management will continue to focus on maintaining a sound and adequate capital base.

The Bank has recognized intangible assets at a carrying amount of DKK 109,163 thousand. Intangible assets include customer relations and IT platform. The measurement of the 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. We 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 Lunar is a newly established bank the lending growth threshold is not applicable.

As of December 2020, Lunar Bank has complied with the four other thresholds as per below.

(%)	Threshold	31 December 2020	31 December 2019
Sum of large exposures	<175	3.4	N/A
Lending growth	<20	N/A	N/A
Real property exposure	<25	0	0
Stable funding ratio	<100	1.1	N/A
Liquidity indicator	>100	1,737.8	413.8

Financial statements 1 January – 31 December

Income statement and comprehensive income

Note	DKK'000	2020	2019
5	Interest income	579	1
6	Interest expense	4,467	271
	Net interest income	-3,888	-270
7	Fee and commission income	16,506	0
	Fees and commission paid	9,408	550
	Net interest and fee income	3,210	-820
8	Market value adjustments	-286	-17
	Other operating income	43	1,891
9,10	Staff costs and administrative expenses	159,544	7.083
	Amortisation, depreciation and impairment charges	13,855	0
11	Loan impairment charges etc.	4,207	0
	Profit/loss before tax	-174,639	-6.029
12	Tax for the year	1,332	-1,332
	Profit/loss after tax	-175,971	-4,697
	Other comprehensive income after tax	0	0
	Total comprehensive income	-175,971	-4,697

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	31 December 2020	31 December 2019
ASSETS			
	Cash in hands and demand deposits with central banks	9,200	9,759
13	Receivables from credit institutions and central banks	1,000,214	68,220
14	Loans and other amounts due at amortised costs	12,895	0
	Bonds at amortised costs	118,187	0
15	Intangible assets	109,163	95,500
16	Deferred tax assets	0	1,332
	Other assets	15,631	1,206
	Prepayments	6,102	17,487
	TOTAL ASSETS	1,271,392	193,504
LIABILITIES AND EQUITY			
Amounts due			
17	Deposits	928,280	7
18	Other liabilities	45,557	22,714
	Deferred income	8,475	0
	Total amounts due	982,312	22,721
Provisions			
	Impairment charges on unused credit facilities	892	0
Subordinated debt			
19	Subordinated debt	29,735	0
Equity			
20	Share capital	41,926	37,500
	Share premium	395,574	138,000
	Retained earnings	-179,047	-4,717
	Total equity	258,453	170,783
	TOTAL LIABILITIES AND EQUITY	1,271,392	193,504

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Financial statements 1 January – 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Share premium	Retained earnings	Total
		500	0	-20	480
	Equity at 1 January 2019				
	Capital increase	37,000	138,000	0	175,000
	Net profit/loss for the year	0	0	-4,697	-4,697
	Other comprehensive income	0	0	0	0
	Equity at 1 January 2020	37,500	138,000	-4,717	170,783
	Capital increase	4,426	257,574	0	262,000
26	Net profit/loss for the year	0	0	-175,971	-175,971
22	Share-based payments	0	0	1,641	1,641
	Other comprehensive income	0	0	0	0
	Equity at 31 December 2020	41,926	395,574	-179,047	258,453

Financial statements 1 January – 31 December

Capital and solvency

Note	DKK'000	31 December 2020	31 December 2019
Equity	258,453	170,783	
Deferred tax assets	0	-1,332	
Intangible assets ¹	-59,333	-95,500	
Total core capital after deductions	199,120	73,951	
Total core capital	199,120	73,951	
Subordinated loan capital	30,000	0	
Deductions in terms of maturity	-3,500	0	
Total capital base	225,620	73,951	
Credit risk	76,630	18,693	
Market risk	536	0	
Operational risk ²	43,023	96,865	
Total risk exposure	120,189	115,558	
Key figures			
Core capital after deductions, ratio (%)	165.7	64.0	
Core capital ratio (%)	165.7	64.0	
Solvency ratio (%)	187.7	64.0	

¹ In accordance with Commission Delegated Regulation (EU) 2020/2176 entering into force 23 December 2020, the deduction for software assets in Common equity tier 1 capital has been reduced by DKK 49.830 thousand at the end of 2020. The DKK 49,830 thousand is included in credit risk.

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

Financial statements 1 January – 31 December

Financial highlights

DKK'000	2020	2019	2018
Key figures			
Net interest and fee income	3,210	-820	-7
Market value adjustments	-286	-17	0
Staff costs and administrative expenses	159,544	7,083	463
Write-downs on loans and receivables, etc.	4,207	0	0
Profit/loss for the year	-175,971	-4,697	-470
Loans	12,895	0	0
Total assets	1,271,392	193,504	500
Deposits	928,280	7	0
Equity	258,453	170,783	480
Ratios			
Capital base	225,620	73,951	-
Solvency ratio (%)	187.7	64.0	-
Core capital ratio (%)	165.7	64.0	-
Return on equity before tax (%)	-81.4	-7.0	-
Return on equity after tax (%)	-82.0	-5.4	-
Interest-rate risk	0.2	0	-
Currency position	0.1	0	-
Loans relative to deposits (%)	1.4	-	-
Gearing of loans, end of year (%)	5.0	-	-
Cover relative to statutory liquidity requirements (%)	1,737.7	413.8	-
Net impairment ratio (%)	24.6	0	-
Return on assets (%)	-13.8	-2.4	-
Average number of full-time employees	19	2	-

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines. As Lunar Bank were established on 27 June 2018, only key figures for the period 2018 – 2020 are disclosed. As Lunar Bank received the bank licence in August 2019, no ratios have been calculated for previous periods.

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').

Besides from the changes due to adoption of IFRS 16-principles in the Danish Financial Business Act, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

The annual report is presented in DKK thousands.

IFRS 16 - Leasing

Due to changes in local regulation on leasing, deriving from changes of IFRS 16, the methodology for measuring and classification of lease contracts have changed. The standard on IFRS 16 on leases published in January 2016 supersedes the IAS 17 standard. The new definition of a lease contract implies, on one hand the identification of a lease asset and on the other, the control of the Right of Use (ROU) by the Lessor. The standard has been adopted in the Danish Financial Business Act from 1 January 2020.

From a lessee point of view, the new standard stipulates the booking in lessee's balance sheet of all the leasing contracts in the form of Right of Use of the leased asset booked under tangibles and leases (and related payments) as a Liability during the entire lease period. The ROU asset will be amortised and the leases payments in Liabilities will be capitalized during the entire lease period. At the point in time Lunar Bank A/S only acts as a lessee but has no material ROU assets due to outsourcing agreement with affiliated company which is exempted under the IFRS 16-principles.

IFRS 16-principles changes all lease contracts that according to previous standards IAS 17 were defined as simple operational lease and which were not recognized in the balance sheet. Lunar Bank has implemented the changes from January 1st, 2020; however, the changes has no impact on the balance sheet.

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.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

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.

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.

Foreign currencies

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.

Interest income and expenses

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

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.

Other operating income

Other operating income comprises items secondary to the Lunar Banks activities, including income from the sales of insurances.

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.

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.

Demand deposits with central banks

At initial recognition, 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.

Intangible assets

Customer relations consist of the acquired customer base. At initial recognition, customer relations are measured at cost, corresponding to the estimated fair value at the time of acquisition. Subsequently, customer relations are measured at cost less accumulated amortizations and depreciations.

IT platform consist of the acquired IT platform and subsequent investments in improvements and integrations. At initial recognition, IT platform are measured at cost, corresponding to the estimated fair value at the time of acquisition. Subsequently, IT platform are measured at cost less accumulated amortizations and depreciations.

Customer relations are recognized in the balance sheet at cost less straight-line amortization. Amortization is based on the estimated useful lives of the asset, which is set at 5 years.

IT platform are recognized in the balance sheet at cost less straight-line amortization. Amortization is based on the estimated useful lives of the asset, which is set at 3-5 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. 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.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Loans and impairment

Classification and measurement

According to IFRS 9-principles, classification and measurement of financial assets depend on the business model and the contractual characteristics of the instruments. On initial recognition, 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 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 is 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.

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

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.

- Expected credit losses at 12 month (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).
- Expected credit losses at maturity for non-impaired assets (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.

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.

Purchased or originated credit-impaired (POCI) financial assets are loans or credit facilities that are credit impaired at initial recognition.

Credit-Impaired financial assets

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,
- 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

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Significant increase in credit risk

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/ratings on the date of initial recognition and those existing at the reporting date.

Default is defined as 90 days in excess or when significant financial difficulties of the customers are observed even if there are no unpaid installments.

The categorization in stages and calculation of the expected loss is based on Lunars rating model in the form of PD models developed by third party and Lunars internal credit management. 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 when the customer's 12-month PD is below 0.2%.

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

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

In the specific business of consumer credit, the assessment of deterioration in credit risk is also based on the existence of a payment incident that has been regularized but occurred during the last 12 months and measures of forbearance granted to a client.

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. Due to model uncertainty a managerial estimate has been calculated to include expectations of future macroeconomic developments.
- 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.

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

Other assets

Other assets are measured at amortised cost.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Deposits and other amounts due

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 statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

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.

Subordinated debt

Subordinated debt comprises of Tier 2 capital instruments which, in the case of liquidation or bankruptcy and pursuant to the loan conditions, cannot be redeemed until the claims of ordinary creditors have been met.

At initial recognition subordinated debt is measured at fair value, equalling the payment received less directly attributable costs incurred. Subsequently, subordinated debt is measured at amortised cost.

Share-based payments

The value of share-based payments is recognised in the income statement. The most significant conditions of the warrants are disclosed in the notes.

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 22% 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.

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.

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

Segments

Lunar has only one operational business area in the form of banking activities and only one geographical segment in the form of Scandinavia. Hence, the net interest and fee income is not presented in separate business segments.

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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 assess the bank's capital resources in order to assess the soundness of the bank's investments in expansion. Based on the bank's approved budgets, management assess that through 2021 the bank will comply with all regulatory capital requirements. In the nature of budget planning there are uncertainties related to realizing those and in the event of a lack in meeting expected growth estimates Management has established several contingency options and Management will continue to focus on maintaining a sound and adequate capital base.

Lunar Bank has recognized intangible assets at a carrying amount of DKK 109,163 thousand. Intangible assets include customer relations and IT platform. Management assess that no indication of impairment of intangible assets exists, but the assessment is subject for uncertainty related to realizing budgets.

3 Financial highlights

Financial highlights are disclosed on page 18.

4 Segments

Lunar has only one operational business area in form of banking activities and only one geographical segment in the form of Scandinavia. Hence, the net interest and fee income is not presented in separate business segments.

	DKK'000	2020	2019
5 Interest income			
Loans and other receivables	441	0	
Negative interests on deposits and other debt	138	0	
Other interest income	0	1	
	579	1	
6 Interest expenses			
Negative interest paid on deposits in credit institutions and central banks	2,338	271	
Subordinated debt	2,062	0	
Other interest expenses	67	0	
	4,467	271	

Financial statements 1 January – 31 December

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	DKK'000	2020	2019
7 Fee and commission income			
Payment service fees		6,052	0
Other fees and commission income		10,454	0
	<u>16,506</u>	<u>0</u>	
8 Market value adjustments			
Bonds at amortised cost		-267	-17
Foreign exchanges		-19	0
	<u>-286</u>	<u>-17</u>	
9 Staff costs and administrative expenses			
Wages and salaries		18,487	3,044
Pensions		943	364
Social Security costs		120	0
Share-based payments		1,219	0
	<u>20,769</u>	<u>3,408</u>	
Other administrative expenses		<u>138,775</u>	<u>3,675</u>
	<u>159,544</u>	<u>7,083</u>	
Number of employees in the financial year			
Full-time equivalent employees		19	2
Executive board		1	1
Employees whose activities have a significant impact on the bank's risk profile		7	1
Board of directors		4	4
Salaries and remuneration paid to Executive board and Board of Directors			
Executive Board:			
Peter Smith, CEO		3,395	2,979
<i>Of which incentive program remuneration amounts to</i>		<i>131</i>	<i>0</i>
Employees whose activities have a significant impact on the bank's risk profile		5,499	429
<i>Of which incentive program remuneration amounts to</i>		<i>440</i>	<i>0</i>
Board of Directors			
Claus Okholm (Chairman from November)		129	0
Jens Peter Leshly Neergaard		150	0
Henning Kruse Petersen (Chairman until November)		150	0
Lotte Mollerup van Hauen		75	0

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DKK'000	2020	2019
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10 Fees paid to auditor appointed at the annual general meeting

Statutory audit	515	200
Other assurance engagements	44	141
Tax services	16	0
Non-audit services	380	170
Total	955	511

Fees for non-audit services provided by Deloitte includes and consists of various declarations tasks, objective tax advices as well as general accounting and consulting services. Deloitte has complied with Article 4(2) of Regulation (EU) No 537/2014.

11 Loan impairment charges and reconciliation of total allowance account

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

DKK'000	2020	2019
Loan impairment charges		
ECL on new assets	8,221	0
Final losses on loans previously written down	-	0
Other movements	-4,014	0
4,207	0	

Changes in total allowance account during the year is further elaborated in note 23. As the first loans and credit facilities were issued during 2020 no loans impairment charges were recognized in 2019.

12 Tax for the year

Current tax for the year	0	0
Deferred tax adjustment for the year	1,332	-1,332
-1,332	-1,332	

The tax for the year is calculated on the basis of a tax rate at 22 % (2019: 22 %)

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DKK'000

	31 December 2020	31 December 2020
13 Receivables from credit institutions and central banks		
Central banks	993,000	0
Credit institutions	7,214	68,220
Total	1,000,214	68,220
 Distribution of terms by maturity		
Overnight	7,214	0
Up to three months	993,000	68,220
Total	1,000,214	68,220
 14 Loans and other amounts due at amortised costs		
Public institutions	0	0
Business		
Construction	50	0
Retail	229	0
Hotels and restaurants	132	0
Other segments	309	0
Business, total	720	
Private	12,175	0
Total	12,895	0
 Distribution of terms by maturity		
Overnight	2,013	0
Up to three months	988	0
From three months to one year	8,550	0
From one year to five years	1,344	0
Total	12,895	0

In note 23 the loans and other amounts due at amortised costs are distributed in segments and stages.

Financial statements 1 January – 31 December

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15 Intangible assets

DKK'000	Customer relations	Software	Software in process	Total
Cost at 1 January 2020	46,000	49,500	0	95,500
Additions	0	0	27,518	27,518
Transfers	0	26,303	-26,303	0
Cost at 31 December 2020	46,000	75,803	1,215	123,018
Amortisation and impairment at 1 January 2020	0	0	0	0
Amortisation	5,367	8,488	0	13,855
Amortisation and impairment losses at 31 December 2020	5,367	8,488	0	13,855
Carrying amount at 31 December 2020	40,633	67,315	1,215	109,163
Amortised over	5 years	3-5 years		

16 Deferred tax

DKK'000	31 December 2020	31 December 2019
Deferred tax at 1 January	1,332	0
Deferred tax adjustment for the year	-1,332	1,332
Total	0	1,332

At 31 December 2020 the Bank has unrecognized deferred tax assets of DKK 39,375 thousand that can be set off against future taxable income.

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	DKK'000	31 December 2020	31 December 2019
17 Deposits broken down on maturity			
Overnight		928,280	7
Total		928,280	7

All deposits are related to customer transaction accounts.

18 Other liabilities

Other liabilities include debt to affiliates of DKK 12,794 thousand (31 December 2019: DKK 19,017 thousand)

19 Subordinated debt

Lunar Bank has taken out the following subordinated loans:

Loan	Maturity	Interest rate		Carrying amount	
		2020	2019	30 December 2020	31 December 2019
Loan 1, Nominal t.DKK 30,000	2025	9.420% + CIBOR 3M	-	29,735	0
				29,735	0

The subordinated loan is qualified as a Tier 2 instrument pursuant CRR regulation. In 2020 the costs from subordinated loans amounts to DKK 2,062 thousand whereas DKK 1,615 thousand are interests paid. On 31 December 2020 the carrying amount of amortized borrowing costs amounts to DKK 265 thousand. Due to loan agreement, warrants have been issued at a value of DKK 412 thousand, which is recognised as costs in 2020.

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20 Share capital

The share capital comprises # shares of a nominal value of DKK # each.

DKK'000	2020	2019
Changes in share capital		
1 January	37,500	500
Capital increases (by cash payment)	4,426	37,000
31 December	41,926	37,500

Lunar Bank does not hold own shares.

21 Contractual obligations and contingencies, etc.

Contingent liabilities

On 31 December 2020 unaccepted loan commitments and unused credit facilities amounts to DKK 5,289 thousand (31 December 2019: none).

Of the total value of bond holdings, DKK 58,131 thousand has been provided as collateral to other credit institutions (2019: 0).

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

22 Share-based payments

In 2017, a warrant program was established in the parent company for the benefit of Management and certain key employees and lenders. 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% yearly. In case of an Exit or at 1 May 2021, at the latest, the rest of the warrants will be granted to the employees. In total 58.321 warrants were granted to key employees at 31st. of December 2020. 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 31th December 2026, otherwise they will be void unless special circumstances according to the warrants agreement are fulfilled.

During 2020 costs related to the warrant program of DKK 1,641 thousand has been recognized in the income statement.

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

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

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

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

Credit risk

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

When assessing the credit exposures on loans and credit facilities, the starting point is the identification of the credit risk of the counterparty according to our general impairment model described in basis of preparation (note 1). The exposures are divided into the following rating scales:

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

Below, the gross credit exposure on 31 December 2020 is distributed in rating scales:

DKK'000	Stage 1	Stage 2	Stage 3	POCI	Total
3	0	0	0	0	0
2a	365	0	0	1,491	1,856
2b	4,127	37	0	3,147	7,311
2c	1,362	954	0	3,173	5,489
1	0	0	3,413	2,155	5,568
Gross carrying amount at 31 December 2020	5,854	991	3,413	9,966	20,224

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

Below, the gross credit exposures on 31 December 2020 is distributed in segments:

DKK'000	Stage 1	Stage 2	Stage 3	POCI	Total
Public institutions	0	0	0	0	0
Business, including:					
Construction	415	0	852	0	1,267
Retail	328	10	25	0	363
Hotels and restaurants	151	0	6	0	157
Other segments	230	10	94	0	334
Business, total	1,124	20	977	0	2,121
Private	5,184	542	2,411	9,966	18,103
Gross carrying amount at 31 December 2020	6,308	562	3,388	9,966	20,224

Part of the loan portfolio was purchased from external partner during 2020 and at the time of the transfer write offs on loans of DKK 4,445 thousand were recognized as purchases or originated credit impaired (POCI).

The maximum loan granted to individual customers is DKK 370 thousand. Lunar Bank has established policies and processes for handling the segmented loan portfolio. This implies that the loan portfolio systematically is monitored at all stages.

As described in note 1, impairment losses on loans and credit facilities are recognised at the time off 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, the asset will be provisioned with an amount equivalent to the expected credit loss in the remaining lifetime of the asset but based on higher probability of loss (stage 3).

The systematically monitoring of the loan portfolio comprises reporting on the portfolio segmentation are 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 show the changes in total allowances during the financial year for loans at amortised costs and credit facilities respectively.

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

Loans at amortised cost

DKK'000	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31 December 2020	5,854	991	3,413	9,966	20,224
ECL on new assets	285	366	2,946	3,732	7,329
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Write offs debited to the allowance account	0	0	0	0	0
Other movements	0	0	0	0	0
Net carrying amount at 31 December 2020	5,569	625	467	6,234	12,895

As the first credit facilities were issued during 2020 no loan impairment charges were recognised in 2019 and thus, no movements between stages in the financial year 2020.

Unused credit facilities and loan commitments

DKK'000	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying amount at 31 December 2020	5,347	13	23	2,884	8,267
ECL on new assets	155	4	20	713	892
Transfer to Stage 1	0	0	0	0	0
Transfer to Stage 2	0	0	0	0	0
Transfer to Stage 3	0	0	0	0	0
Write offs debited to the allowance account	0	0	0	0	0
Other movements	0	0	0	0	0
Net carrying amount at 31 December 2020	5,192	9	3	2,171	7,275

As the first credit facilities were issued during 2020 no loan impairment charges were recognized in 2019 and thus, no movements between stages in the financial year 2020.

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23 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 as such limit ourselves from having a trading book and engaging in complex financial structures. Government bonds are only used as a part of liquidity management and as collateral for other financial partners.

Capital and profitability

Lunar has been able to attract external funding and this ability is reflected in capital planning. Lunar Bank does want to stay solvent and able to support our customers at all times. We are to be able to absorb severe macroeconomic stress as described in the ICAAP process.

24 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.

25 Principles for intra-group trading

Intra-group transactions and services are settled on an arm's length basis.

DKK'000	2020	2019
Intra-group transactions		
Re-invoiced staff costs to parent company	29	1,891
Outsourcing fee from Lunar Way A/S ¹	110,236	3,408
Purchase of intangibles assets from Lunar Way A/S	0	95,500
Share-based payments	1,641	0

¹ 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.

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

26 Proposed distribution of profit/loss

Retained earnings	-175,971	-4,717
Total	-175,971	-4,717

Management and directorships

Board of directors

Claus Okholm (chairman)	Private-sector directorships: Lunar Group A/S, board member CEJ Ejendomsadministration A/S, board member CEJ Aarhus A/S, board member
Jens Peter Leschly Neergaard	Private-sector directorships: Qblue Balanced A/S, chairman Lunar Group A/S, board member Leschly & Neergaard ApS, executive officer Rex Invest Holding, executive officer Laika Invest ApS, executive officer
Henning Kruse Petersen	Private-sector directorships: Lunar Group A/S, chairman Firstaiders A/S, chairman Midgaard Denmark K/S, chairman Cursum A/S, chairman Komplementarselskabet Midgaard Denmark ApS, executive officer 2KJ A/S, executive officer Entities which do not pursue predominantly commercial objectives: Den Danske Forskningsfond, chairman Orangutang Fonden, board member Det Østasiatiske Kompagnis Almennyttige Fond, board member
Lotte Mollerup Van Hauen	Private-sector directorships: Qblue Balanced A/S, board member Mollerup - van Hauen ApS, legal owner

Management and directorships (continued)

Executive board

Peter Smith (CEO)	Private-sector directorships: None
Anders Hartlev (CFO, CRO)	Private-sector directorships: AH 1879 ApS, executive officer

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