

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

LUNAR[®]

ANNUAL REPORT

1 JANUARY – 31 DECEMBER 2023

Approved at the Company's annual general meeting on 29 April 2024

Chairman:

Claus Okholm

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Company information

Company	Lunar Bank A/S Hack Kampmanns Plads 10 8000 Aarhus C CVR no. 39 69 76 96 Financial period: 1 January – 31 December www.lunar.app
Ownership	The company is fully owned by: Lunar Group A/S Hack Kampmanns Plads 10 8000 Aarhus C
Board of Directors	Claus Okholm (Chairman) Jens Peter Leschly Neergaard Lotte Møllerup van Hauen Peter Christian Andreasen
Executive Board	Vibeke Bak Solok (CEO) Morten Strande Sønderskov (COO)
Audit & Risk Committee	The Board of Directors in its entirety
Auditors	PwC Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup

Overview - Executive team

Vibeke Bak Solok (CEO)

Private-sector directorships:

DS Norden A/S, Board member

Nordic Solar A/S, Board member

VBSolok ApS, Executive Officer and legal owner

Morten Sønderskov (COO)

Private-sector directorships:

Strande-Sønderskov Invest ApS, Executive

Officer and legal owner

Overview - Board of Directors

Claus Okholm, Chairman

Private-sector directorships:

CEJ EJENDOMSADMINISTRATION A/S, Board member

CEJ AARHUS A/S, Board member

Lunar Group A/S, Board member

Jens Peter Leschly Neergaard

Private-sector directorships:

Airfinity Ltd, Chairman of the board

Kvasir Technologies, Board member

Luxor A/S, Board member

Qblue Balanced A/S, Chairman

Laika Invest ApS, Executive Officer and legal owner

Leschly & Neergaard ApS, Executive Officer and legal owner

L&N Apollo ApS, Executive Officer and legal owner

Rex Invest Holding ApS, Executive Officer and legal owner

Lotte Mollerup van Hauen

Private-sector directorships:

Qblue Balanced A/S, Board member

Investeringsforeningen Lægernes Invest, Board member

Qblue Luxembourg, Board member

Kapitalforeningen Lægernes Invest, Board member

Mollerup - van Hauen ApS, Executive Officer and legal owner

Peter Christian Andreasen

Private-sector directorships:

Andreasen Invest Holding ApS, Executive Officer and legal owner

Eighty2 A/S, Executive Officer

POPFH ApS, Executive Officer

QKON ApS, Executive Officer

Lunar Way A/S, Chairman

Lunar Block A/S, Chairman

Arosource ApS, Board member

DG A/S, Board member

Krogedammen A/S, Board member

MB Investment ApS, Board member

Marselisborg IT ApS, Board member

Noitsa ApS, Board member

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 2023.

The annual report has been prepared in accordance with statutory requirements, including – but not exclusively – the specific accounting rules in the Danish Financial Business Act.

In our opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of Lunar Bank A/S at 31 December 2023 and of the results of Lunar Bank's operations for the financial year 1 January – 31 December 2023.

Further, in our opinion, the Management's review gives a true and fair review of the development in Lunar Bank's operations and financial matters and describes the significant risks and uncertainty factors that may affect the Company.

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

Copenhagen, 29 April 2024

Executive Board:

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Vibeke Bak Solok
CEO

.....
Morten Strande Sønderskov
COO

Board of Directors:

.....
Claus Okholm
Chairman

.....
Jens Peter Leschly Neergaard

.....
Lotte Møllerup van Hauen

.....
Peter Christian Andreasen

Independent auditor's report

To the shareholder of Lunar Bank A/S

Our opinion

In our opinion, the Financial Statements give a true and fair view of the Company's financial position at 31 December 2023 and of the results of the Company's operations for the financial year 1 January to 31 December 2023 in accordance with the Danish Financial Business Act.

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

What we have audited

The Financial Statements of Lunar Bank A/S for the financial year 1 January to 31 December 2023 comprise income statement and comprehensive income, balance sheet, statement of changes in equity and notes to the financial statements, including accounting policies ("Financial Statements").

Basis for opinion

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

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

Independence

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

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

Appointment

We were first appointed auditors of Lunar Bank A/S on 24 February 2022 for the financial year 2022. We have been reappointed annually by shareholder resolution for a total period of uninterrupted engagement of two years including the financial year 2023.

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 2023. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Compliance with regulatory capital requirements</p> <p>The bank has to comply with regulatory capital requirements on an ongoing basis.</p> <p>Based on Lunar's approved budgets and capital preservation plan, management assesses that Lunar within some months will comply with regulatory solvency requirements.</p>	<p>We performed risk assessment procedures with the purpose of achieving an understanding of business procedures and relevant controls regarding compliance with regulatory capital requirements including budgeting.</p>

<p>This assessment is based on assumptions which by nature are uncertain such as:</p> <ul style="list-style-type: none"> • Management's expectations of earnings and cost base including the effect of planned and already taken actions. • Management's established initiatives in the approved capital preservation plan. • Management's additional contingency options <p>We focused on this area because of the increased capital requirement for the Bank and as the compliance with regulatory capital requirements are of vital importance to continue the banking operation.</p> <p>We refer to note 2 in the financial statements.</p>	<p>We evaluated and assessed the models used in budgeting and tested the internal coherence and mathematical accuracy of the budget.</p> <p>Further, our audit procedures included:</p> <ul style="list-style-type: none"> • review and challenge of Management's budget for 2024 with assessment of the underlying assumptions, including realism and the sensitivity for budget and estimates in relation to earnings and cost base. • meetings with Management to discuss and challenge the assumptions and methods for determining future capital simulations. • assessment of the bank's available options in the capital preservation plan including assessing the timeframe of taking the options into force. • assessment of the bank's additional contingency options. <p>We assessed the appropriateness of presentation and disclosure of the uncertainties.</p>
<p>Recognition of contingent liabilities</p> <p>Lunar Bank has disclosed the possible obligation from the Instabank lawsuit as a contingent liability.</p> <p>Contingent liabilities are potential liabilities that may become actual liabilities depending on the outcome of future events that are not wholly within Lunar Bank's control.</p> <p>We focused on contingent liabilities because of the extensive judgement required in assessing the likelihood of the future confirming event occurring or not, which affect whether the event shall be recognised as a provision in the balance sheet or as a contingent liability off-balance.</p> <p>Lunar Bank has disclosed the assessment of the Instabank lawsuit in note 25, Contractual obligations and contingencies, etc. We furthermore refer to accounting policies.</p>	<p>We assessed the appropriateness of the recognition criteria used and we also assessed the reasonableness of the significant judgements that Management made in determining the likelihood of the future outcome of the final court decision. In this respect we:</p> <ul style="list-style-type: none"> • read and gained an understanding of the premises of the district court decision • reviewed the assessment of the court case prepared by an independent legal expert appointed by management and assessed the independence, competences and resources of the independent legal expert appointed by management • held meeting with the independent legal expert • reviewed the assessment of the court case prepared by the lawyer presenting the case in the court and further held meeting with the lawyer presenting the case in the court • held regular meetings with management and internal legal counsels. • as part of our audit procedures, reviewed minutes of board meetings, including the sub-committees. <p>We have assessed the appropriateness of presentation and disclosure of the lawsuit.</p>
<p>Expected credit losses for Loans and other amounts due at amortised cost</p>	

<p>Accounting for Loans and other amounts due at amortised cost is complex and requires subjective judgements over both the timing of the recognition of impairment and the estimation of the size of any such provision for impairment in accordance with IFRS 9 incorporated in the Accounting Executive Order ("Regnskabsbekendtgørelsen"). We refer to the accounting policies note 1.</p> <p>The Company recognises provisions for expected credit losses primarily on a model-based basis.</p> <p>As a result of the model uncertainties and the current uncertain macroeconomic situation, Management has recognised a provision for expected credit losses as based on an accounting estimate ("management overlay").</p> <p>We focused on expected credit losses, as the accounting estimate is by nature complex and influenced by subjectivity and thus to a large extent associated with estimation uncertainty.</p> <p>Important areas within impairment of loans to customers relate to:</p> <ul style="list-style-type: none"> • Identification of credit impaired loans (stage 3) or loans with material weaknesses (stage 2), including completeness of the customer accounts that are included in the impairment calculation. • The appropriateness of the model parameters, Possibility of Default (PD) and Loss Given Default (LGD), included in the model-based impairments in stages 1, 2 and 3. • Assumptions and judgements made by Management related to management overlays recognised as add-ons to the model-based impairments to cover model uncertainties and the uncertain macroeconomic situation. <p>The principles for impairments of loans and receivables at amortised cost are described in note 1 and 2 – basis of preparation and significant accounting estimates, assumptions and uncertainties, note 11 and 14 - Loan impairment charges and Loans and other amounts due at amortised cost and note 28 - Financial risks and policies and objectives for the management of financial risks.</p>	<p>We performed risk assessment procedures with the purpose of achieving an understanding of it-systems, business procedures and relevant controls regarding the calculation of provisions for expected losses on loans. In respect of controls, we assessed whether they were designed and implemented effectively to address the risk of material misstatement. For selected controls including controls regarding model parameters, on which we planned to rely on, we tested whether these controls had been performed on a consistent basis.</p> <p>We tested the impairment calculation on a sample of impaired loans, including assessment of expected future cash flow.</p> <p>We assessed and challenged the appropriateness of the Company's validation of the model and relevant parameters in the impairment model.</p> <p>We assessed and challenged the basis for the management overlay related to the provisioning for expected losses as a result of model uncertainties and current uncertain macroeconomic situation and other management judgements.</p> <p>We also assessed whether the matters that may have an influence on provisions for expected losses on loans have been appropriately disclosed.</p>
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Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit

evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

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

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

Hellerup, 29 April 2024

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab

Business registration no 33 77 12 31

Per Rolf Larssen
State Authorised Public Accountant
mne24822

Lars Dalgaard Agersted
State Authorised Public Accountant
mne46258

Management's review

CEO Letter

"In 2023, we proved our ability to stay laser-focused on our users and our mission, despite external uncertainties."

After a challenging 2022, especially for fintechs that were facing consolidations and increasing awareness of profitable business models, Lunar entered 2023 on slightly new premises. We adapted to the shifting market dynamics, and in many ways 2023 became the year of operational excellence. A year to truly strengthen and sharpen our organisation on the path to profitability, where cost-effectiveness and efficiency remained a top priority throughout the year - an objective that will continue into 2024, and on our journey ahead.

We increased our focus on the journey to profitability without compromising with the essence of who we are a challenger - while reaching the next level of compliance with banking regulation.

Our foundation, centred around innovation and user centricity, remained steadfast as we adapted to the shifting market demands.

Yet again we proved the ability to stay laser-focused on what is important - to build the best everyday Nordic bank. We are now stronger and leaner than ever before, ready to expand our offering and take on the Nordics.

In 2023 we reached 650 k users in the Nordics, a big win reflecting our DNA of being user-centric. More than 150 k new users signed up for our banking offer. Paying users increased by almost 30%, while number of transactions increased by 44% from 2022 to 2023. Moreover, our commitment to support entrepreneurs gain access to basic banking remains steadfast. Our focus going into 2024 is to further enhance support for SMEs.

Furthermore, we introduced a groundbreaking addition to our portfolio with the launch of Banking Services. By opening up our infrastructure to partners we unlocked a highly complex Nordic banking environment and enabled more banks and fintechs to do business in the Nordics. As a product, Banking Service aims to revolutionise the financial sector and surpass the limitations of outdated systems. It will help accelerate innovation and competition in the region as we enable some of the most innovative powerhouses to enter the Nordics and compete with local incumbents.

However, the start of 2024 presented us with some initial hurdles to overcome. Our attempt to acquire the Norwegian bank Instabank in 2022, fell through due to the inability to secure regulatory approval for the acquisition. This resulted in a dispute involving the majority of Instabank's investors. In February 2024, we received an unfavorable verdict in the case, which we immediately appealed. This outcome came as a surprise and, naturally, a setback, particularly for a scale-up company like ours.

In light of this situation, and to fortify our financial stability, we took the prudent action of allocating the full amount to our solvency, thereby covering potential losses from the Instabank verdict. Collaborating closely with our boards and executive management from both Lunar Group and Lunar Bank, and thereby some of our largest investors, we created a capital preservation plan to enhance our solvency. Throughout this process, we maintained a close collaboration with the DFSA, who also gave the green light to the plan.

As I reflect on both the beginning of 2024 and the overall progress of 2023, I am deeply grateful for the hard work and dedication of our team in driving Lunar forward towards our goal of becoming the best everyday bank in the Nordics. I also want to emphasise the invaluable support of our investors. With their backing, Lunar Group secured 413 mDKK in funding in both Q1 and Q4 of 2023, and 45 mDKK in Q1 2024, ensuring that we can launch new products, grow and continue on our road towards profitability. Lunar Bank received capital injections of a total 410 mDKK from Lunar Group during 2023 and 45 mDKK in Q1 2024. Additionally, in response to the Instabank verdict, they contributed a total of 180 mDKK to Lunar Group as part of the capital preservation plan, which has been injected as capital in Lunar Bank. This demonstrates the unwavering belief our investors have in us, and with that and our team, I am confident that we are on the right path towards profitability and beyond.

/Vibeke

Our business model & strategic outlook

Lunar Bank A/S is part of Lunar Group (defined as all companies within the entity Lunar Group A/S) and as such, the strategy in Lunar Bank is a direct reflection of the mission and targets defined by Lunar Group. Therefore, the management review will on an overall level include the view of Lunar Group, as well as Lunar Bank specific perspective.

Being a Nordic digital challenger bank, Lunar strives to be the best everyday bank in the Nordics.

More than 630 k private users across Denmark, Sweden and Norway have a Lunar account today, and close to 20 k businesses have chosen to bank with Lunar. Private users starting from a young age and up, businesses customers characterised by having a small business set up and with simple financial needs. The new business segment - Banking Services - enables our customers to leverage on Lunar's infrastructure and access to clearing in Denmark, Sweden, and Norway.

For our business and private customers, we provide in-app products that inspire a new customer-centric era. Where we put the customer front and centre, and don't leave them in the backseat. That is why Lunar is loved by our users as demonstrated with our Trustpilot rating of 4.6.

Helping customers in Lunar in their everyday life by adding transparency, flexibility, and fun to their financial life is our purpose.

Focus is on providing simple ways to handle day-to-day finances as well as offering relevant products through third-party integrations. Strong focus and our high standards against financial crime helps keep our customers safe.

Lunar aims to go beyond banking and will therefore play a natural role in being a frontrunner in bringing new products into a regulated environment.

Business model

The business model for Lunar is based on a range of products that all contribute with different revenue streams, to create a resilient approach to an ever-changing market. Our focus stays on transparency and fair banking. We therefore strive to offer high interest to our customers on all tiers, fair transparent fee structures and a highly scalable tech platform that will provide a lower cost to serve while enabling easy scaling opportunities.

The Lunar app is supplemented with a web-portal for business customers and "Share-It" app for our private users and non-banking users. Through these platforms Lunar offers all relevant services such as banking and payment products, and third-party products.

Combined, these multiple revenue channels generate a stable and recurring revenue, where the primary income is distributed between consumer and business tiers, interchange and transactional fees, financial products, and third-party services.

In H1 2023 Lunar launched a new tier structure, first for consumers and later for businesses. The new structure offers an entry fee as standard, allowing customers to experience some of the benefits from the paid tiers at a lower price point. Aside from giving the customers more flexibility, the new tiers have also increased the overall number of subscriptions paying business and consumer users with 70k to 118k, an increase of around 70%. The response and conversion rate has exceeded all expectations with 75% staying on a new upgraded tier after the trial period has ended. Overall, this contributed to an increase in subscription-based revenue of 45%. In addition, a number of other improvements have been launched to the business offering, for instance the ability to add multiple owners to business accounts. In the media Lunar also spoke out on behalf of smaller businesses and entrepreneurs on the need to reduce red tape and make bank solutions more accessible.

In 2023 Lunar further expanded our offering with the launch of Banking Service in H2. A product leveraging many years of investment in state-of-the-art infrastructure. The interest and organic inflow of requests for this new service have been tremendous and many contracts have been signed during Q4.

Among other important milestones for 2023 was the beta launch of an AI Co-pilot, which in a compliant setup is guiding and supporting our customers to reach clarity of their financials as well as setting and reaching goals.

Strategic outlook

Lunar will continue to invest in building our latest new offering Banking Services to monetise on the high organic interest from potential partners as well as continue our investment in a strong compliant monitoring and screening setup.

Furthermore, ongoing investments are directed to launch new consumer and business products in Sweden in 2024.

Financial review

As the second half of 2022 forewarned, 2023 has been a challenging year for many, not least in the fintech industry. As a result, Lunar has continued efforts during 2023 to adjust to the new market conditions and macro-economic environment. An increased focus on cost and efficiency is therefore still high on the agenda and will continue to be in the coming year, where break-even is a key target.

While the economic environment has been challenging, Lunar still managed to grow topline by 93.5% and increased net income by 104%, driven by continued inflow of new customers, good conditions on interest rates as well as an uptake in fee generating income.

Our customer deposit increased by 0.6 bnDKK ending the year on a total deposit size of 10.6 bnDKK.

Based on a mandate given by the Board and to optimise potential interest income from the free liquidity, the Treasury department through 2023 increased the bond portfolio from 2.446 mDKK to 4.826 mDKK, which is distributed between 327 mDKK of Norwegian government bonds and 4.499 mDKK of Danish AAA-rated covered bonds. Hence a portfolio with low credit and interest rate risk.

Given the many interest hikes from the Central Banks in 2023 and the nature of the bonds, where a significant part have quarterly interest fixings, the portfolio has generated a decent interest income for Lunar in 2023.

While top line grew, efforts and initiatives to drive automation and to do more with less has proven successful as operational cost has been reduced year-on-year by 22%.

A key focus on our path to profitability is the monetisation of our broad range of offerings as well as continued high engagement of our users.

In 2023 more than 150 k new users joined Lunar's banking offering and of those 72% were active users within 28 days. Paying users increased by almost 30%, while number of transactions increased by 44% from 2022 to 2023.

With the launch of our latest new offering Banking Services in the second half of 2023, additional investments have been made to facilitate the set up for handling the high organic interest from potential partners.

On the 19th of Feb. 2024 Lunar received the first verdict in the Instabank court case. Our counsel and an independent second legal opinion finds it more likely than not that Lunar will win the appeal case and hence the full amount is regarded as a contingent liability in the annual accounts for 2023.

The result of 2023 for Lunar Bank shows a loss after tax of 407 mDKK. The result was in line with H1 adjusted expectations and an improvement year-on-year of 72%.

Lunar Group successfully secured funding of 413 mDKK during 2023 to ensure operations, new product launches and capital requirements are met on Lunar's path to profitability. The capital raises have occurred over two rounds in February and December amounting to 260 mDKK and 153 mDKK respectively from existing investors. Lunar bank received capital injections of a total 410 mDKK from Lunar Group during 2023 and 45 mDKK in Q1 2024.

Further, as stated in section events after the balance sheet date Lunar Group successfully secured additional funding of 45 mDKK from existing investors in February 2024. As a consequence of the Instabank verdict, an additional capital raise of 180 mDKK has been conducted in April 2024 in accordance with the capital preservation plan.

Equity in Lunar Bank amounts to 781 mDKK at year end. There is no proposed dividend for the financial year of 2023.

Events after Balance sheet

On 30 September 2022 a public offer made by Lunar on Instabank ASA lapsed. A majority of the shareholders in Instabank subsequently filed a subpoena against Lunar Bank seeking damages for their loss of 681 mNOK. On 19 February 2024, the Oslo Tingrett in Oslo voted in favour of the shareholders of Instabank, whereafter Lunar is to pay 632 mNOK (416 mDKK) plus interest rates. We do not agree with the ruling and have appealed to Lagmannsretten (High Court).

We have obtained an independent 2nd legal opinion that states that Lunar most likely (>50%) will win in the appeal court. Management and our legal advisors agree with the conclusion from the independent lawyer that the shareholders are not entitled to damages or any other compensation. In accordance with the accounting rules, no loss is recognised in the balance sheet in the annual statement for 2023 but regarded a contingent liability.

Lunar has in 2024 increased the individual solvency need with the potential loss including interest.

Assumptions and uncertainties

On an ongoing basis, management assesses the bank's capital resources in order to assess the soundness of the bank's investments in expansion. Based on Lunar's capital preservation plan and actual status of the inherent initiatives, the approved budgets and planned initiatives to ensure a road to profitability, management assesses that Lunar will live up to the capital requirements set by the Danish FSA in their order of 23 February 2024 during Q2 2024, and thereafter through 2024 will comply with regulatory capital requirements.

In the nature of realising plans, budget planning, internal and external factors may create uncertainties related to realising those and in the event of delayed time to profitability or delayed impact of new product offerings, management has established several contingency options related to the capital base which is considered sufficient to enable the bank to comply with regulatory capital requirements throughout 2024.

Capital and liquidity

On 31 December Lunar Bank's own funds, less deductions, amounted to 710.9 mDKK including Tier 2 capital instruments. In accordance with Commission Delegated Regulation (EU) 2020/2176 entering into force 23 December 2020, Lunar Bank is able to recognise software assets in Common equity tier 1 capital which accounts for 87.2 mDKK at the end of 2023. Other intangible assets amounting to 78.1 mDKK are deducted in the capital base. On 31 December Lunar Bank's own funds and eligible liabilities amounted to 731.8 mDKK.

The solvency need is calculated as 317 mDKK or 17.9% of REA on 31 December 2023. Excess to the combined buffer requirement amounts to 310.1 mDKK. With a risk based MREL requirement (including the combined buffer requirement) calculated to be 488.5 mDKK or 27.5% of REA, and a leverage based MREL requirement calculated to be 517.8 mDKK or 4.5% of the total exposure measure, excess to the highest MREL requirement is 214 mDKK.

As a consequence of the court ruling received 19 February 2024, Lunar has in 2024 increased the individual solvency need with the potential loss including interest, which has led to a breach with the solvency need.

Please refer to note 2 regarding forecast and capital projections related to 2024.

Lunar Bank calculates the liquidity requirements on the basis of the Liquidity Coverage Ratio (LCR). On 31 December 2023 LCR was calculated at 908.3 % against 901 % in 2022. Lunar Bank's Board of Directors has set an internal limit for LCR of 250%. Based on the current requirements, the bank has a significant excess in relation to liquidity coverage regulatory requirements.

Financial outlook

Lunar aspires to be the best everyday bank in the Nordics through a digitalised and user-centric approach to the market.

A key focus for 2024 is to build on product parity and have an aligned product offering across the Nordic's taking local needs into account. The product portfolio will be updated continuously with offerings that support the overall Lunar strategy and aim.

Due to the initial verdict on the Instabank court case, Lunar has found it necessary to pause our ambitions within lending on own book and focus more on 3rd partner solutions for our customers. The postponement is causing a

delay in our expected path to profitability, however it is still a key focus to reach break-even during H2 in 2024. Lunar will continue to invest in our new offering within Banking Services and in creating parity across the Nordics. Lunar expects to realise a loss after tax in 2024 in the range of -250 mDKK to -150 mDKK.

Risk

Risk Management

2023 proved to be an extraordinary year from a Risk Management perspective. Factors, such as the war in Europe, rapidly increasing interest rates, soaring energy prices and accompanying record-breaking inflation levels led to intensified risk focus across all risk types.

The organisation has worked hard on addressing all findings from previous year's DFSA visit. During the last part of 2023 we were once more under inspection and have received orders within Credit and Governance. The number and nature of findings show a positive development compared to previous inspections. Besides the Credit area, it is positive to see this development compared to earlier. The findings have received the same level of attention as the outcome of previous inspections.

During 2023, the updated Risk Taxonomy was in process of being rolled out across Lunar Group with the purpose of obtaining a fixed frame to navigate the rapidly changing risk picture. This will take us towards a widely uniform and analytical approach across pre-defined risk types minimising the risk of blind spots.

Risk Governance

Ensuring a stable and robust Risk Management framework influences all parts of our operations, as it supports a balance between strong awareness of risks and promoting innovation. It empowers the organisation to make informed, prudent decisions considering the balance between risk, return, and market situation. Upholding this standard is crucial for retaining the confidence of our customers, investors, and regulators. Risk Management in Lunar Group is structured in accordance with the three lines of defence model. Relevant committees are anchored at Board and Executive Management level in mainly Lunar Bank to decide on all relevant risks, and to monitor and perform oversight of risk exposure across risk types. Delegation of decision-making competences as well as relevant escalation routes are formalised. This goes hand in hand with clear roles and responsibilities in the organisation with relevant functional separation between risk ownership and oversight.

During 2024 there will be a continued focus on further developing the risk governance and risk culture as the foundation for being a digital challenger bank.

Risk Taxonomy & Risk Appetite

The risk landscape in Lunar Group is defined by a Risk Taxonomy, constituting a common reference point and ensures focus on all significant risk areas. All risk types are assigned to managers with sufficient authority and decision mandate in the 1st line of defence, to ensure accountability and ownership. The Risk Taxonomy is key in the foundation to protect Lunar and our customers. It is updated yearly to reflect the current activities of Lunar Group.

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

Management openly expresses the mindset and necessary qualifications Lunar wishes for our organisation to possess. Risk is not a topic for leaders or specific functions only, but a widespread task across the entire organisation. Employees at all levels are encouraged to ask for help and share any concerns they might have, and a whistleblower setup is in place. Both 1st and 2nd line continuously carry out activities supporting a sound risk culture partly through day-to-day activities, and partly through activities with specific educational purposes.

Control Environment & Reporting

Lunar's fundamental ambition to build an integrated offering within banking, payments and investments remains unchanged, despite the shift of focus to the road to profitability. This is supported by the risk appetite level set by the Board of Directors in Lunar Group and Lunar Bank. To support the risk framework and the risk appetite level, Lunar has in 2023 further enhanced the controls performed by the 2nd line and the reporting routines for selected risk focus

areas and for incident reporting in particular. This gives a higher level of transparency for all levels of stakeholders from Board of Directors and Executive Management to the employees, which in turn enables fast re-prioritisation if needed.

Even with evident continued improvement in 2023, we will maintain focus on the governance around controls and reporting during 2024 for all risk types, also to mitigate effects of fast growth. This focus is natural as the business evolves, but it also reflects our ambition to conduct solid risk management across all three lines of defence.

Governance

People & culture

The Lunar team is the key to realising the vision of shaping the future of banking. The Lunar team is the most valuable asset to continued business success. In 2023, significant focus and investment was made in attracting and retaining top talent within tech and banking. People programs and products have been co-developed with the Lunar team with the singular goal to build an even stronger foundation in which to grow. This includes a new employee growth tool to help guide in professional development, new offices in Stockholm and Copenhagen provides a great space to work, redefining our core values to reflect the Lunar DNA, and amplifying this externally to attract new talent.

To ensure the efforts are effective, Lunar regularly measures employee engagement and development with monthly questionnaires. The entire organisation is involved in the results and action points are openly discussed and handled at the Board of Director level, throughout the organisation and within each department and teams. Lunar also trains managers on how to conduct engagement sessions with their teams.

Lunar wants to go beyond banking with a healthy and thriving organisation, and the wellbeing and development of employees is taken very seriously in Lunar. Additionally, our Next Level initiative strives to support mental and physical wellbeing both inside and outside the organisation. Lunar works to improve the mental and physical health of the employees with meditation, yoga, healthy foods, and exercise both during work hours and after. We also encourage and support activities which encourage team spirit and interaction such as runs, charity events, tournaments, or cups.

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 the last section of the Management's review.

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

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

Statement on the representation of gender in the Board of Directors and other management levels

Lunar strongly believes that diversity and inclusion is essential in creating a better culture and strengthens the organisation by ensuring different perspectives are represented and valued. In 2022, Lunar launched their first ESG report with a strong focus on the social element and within that, targets for gender representation in its Board and Management. Lunar identified a pay gap in 2022 and has therefore put in place a new salary review process including pay grades which assists in identifying pay gaps at different levels. This information helped guide the 2023 salary review process and we are committed to continue this work in 2024 and therefore close this gap.

Target figures for the underrepresented gender on the board

In 2023, two female Board members stepped down from the Lunar Bank Board of Directors, one of which became the CEO of Lunar Bank. We remain committed to strive for a balance of 40% of the underrepresented gender. Focus is both on competences and gender when selecting members to both board and manager positions throughout Lunar.

The gender distribution among the Bank's Board members end of 2023 is 75% men and 25% women compared to 60% female Board members end of 2022.

Policy for other Management levels

Lunar had set a target to increase the proportion of female members of the Executive Team to 40%. Lunar Bank had 0% females by 2022, which has increased to 50% during 2023.

Lunar also outlined a goal for female managers at all Management levels to go from 20% to 40% before 2023 and to 45% end of 2024 and 2025. Lunar Bank reached a 39% proportion at the end of 2023, a decrease from 41% end of 2022. It is Lunar's overall objective to provide an appropriate equal distribution of men and women in Management positions. Lunar wants to be able to follow up on the gender composition in Management and to have the opportunity to adjust efforts along the way in relation to targets set. Lunar considers targets and target numbers as an effective tool to ensure progress and reach goals.

Lunar has set the following specific targets:

1. Lunar employees must experience equal career and management opportunities regardless of their gender
2. Lunar employees must be paid equitably regardless of their gender

Lunar aims for a more equal distribution between the genders in Management. The bank wants an open-minded culture, where the individual employee can utilise their competencies in the best possible way, regardless of gender. Lunar employs managers on the premise that the most suitable person is always hired or appointed regardless of gender and wants to inspire all employees to become part of Management.

In addition, Lunar offers professional development plans as a part of the growth conversations for all employees to ensure each individual's needs are met and our development is inclusive for all regardless of gender.

Underrepresented gender percentage				
	2022	2023		2025 target
Board	60%	1 out of 4	25%	40%
Executive Management team	0%	1 out of 2	50%	40%
Bank Management team	33%	1 out of 4	25%	40%
All Managers	41%	11 out of 28	39%	45%

*The bank Executive team = Chief Risk Officer, General Counsel and Chief Credit officer (and from 2023 also Head of Compliance)

Bank Board

During 2023, we had changes in our Bank Board resulting in us regressing in our progress towards our target in this area. Despite the large gap to our target, one such move was a great example of internal mobility wherein our female board member became Bank CEO. In 2024, we will continue to have changes in the board in which we are committed to consider placements which help us to achieve our target by the end of 2025.

All managers in the Bank

During 2023, the % of the underrepresented group fell from 41% to 39%. We still remain close to our target and are confident that all of the equal opportunities to growth and development will continue to allow for woman to take on managerial roles. We are also aware of this while hiring these roles.

Environmental, Social and Governance Responsibility

Policies on environmental impact

Lunar's activities have minimal impact on the environment, which is why a policy for reducing impact on the environment has not been set. Our focus is directed towards partnerships etc. to fulfil our social responsibility for reducing environmental impact. During 2023, Lunar has carried out a number of initiatives with the aim of fulfilling its social responsibility to reduce environmental impact including,

- Collaboration with various non-profit organisations to remove plastic from the ocean. By the end of 2023, Lunar has removed 60 tons of plastic.
- Heightening the level of waste management by collaborations with "Pant for Pant", "My Trash" and "Atea"
- Building the new Lunar office in Copenhagen using mainly recycled materials.

The Board of Directors and Executive Management will ongoingly reassess whenever policies should be implemented to further the work with Lunar's environmental impact.

Policies on climate impact

Likewise, Lunar has no policies on reducing climate impact following activities of the company. The limited climate impact of Lunar's activities suggests that other areas should be prioritised. Starting in 2022 Lunar has published its first ESG report where independent experts measured the total emissions from Lunar's activities (direct and indirect emissions) and following the process, Lunar made a commitment to reduce emissions. It has been assessed that the commitments are sufficient to fulfil Lunar's social responsibility on reducing climate impact.

In short term Lunar will pursue a "removal strategy" through a partnership with Klimate.co that specialises in removing carbon emissions through a number of initiatives. Lunar will also engage in reducing the carbon footprint via awareness campaigns, encouraging employees to reduce emissions from transportation and by choosing suppliers and consultants that share the same mentality.

Policies on the social responsibility for ensuring respect to human rights

The Board and Management of Lunar considers respect for human rights as fundamental and will not engage in business that breaches this. The Board and Management are yet to agree on formal commitments to actively further human rights and will ongoingly assess if Lunar lives up to social responsibility ensuring respect to human rights.

Policies on the social environment (Incl. staff relations)

Lunar considers their staff and the environment they work in as an integral part of succeeding with the targets set in the business model. Therefore, Lunar has adopted an overarching Policy for Healthy Corporate Culture which is approved by the Board of Directors. The policy stipulates the overall strategy for ensuring a healthy corporate culture and stipulates certain initiatives for the Executive Management to implement. Furthermore, the Board has adopted a Diversity Policy which includes target figures for furthering the underrepresented gender. Lunar is committed to achieving a 40/60 balance of gender representation in both Board and Management.

Policies on anti-bribery and corruption

With Lunar Group being a financial holding company and the sole-owner of Lunar Bank, the company has a great responsibility to report any suspicious activities, including those that may involve corruption and bribery. Lunar's commitments to prevent bribery and corruption is described in Lunar's anti bribery- & corruption program. The strategy is laid out in the before mentioned Policy for Healthy Corporate Culture and even though Lunar has very low risk of being part of bribery-& corruption actions it is still considered absolutely crucial and all employees receive training on an ongoing basis.

Significant risks in relation to ESG related activities

In 2021 and 2022 Lunar went through a transition going from being a start-up to now being considered a scale-up size company which entails a different risk outlook. Some of the significant risks are outlined below.

Environmental risks

Lunar is present in three countries, each with its own set of environmental regulations and compliance requirements. This can make it more difficult to ensure that the Lunar remains compliant with all relevant laws and regulations.

The sheer level of emissions has also increased with the growth and will remain high, since the business plans do not include scaling down any time soon. As Lunar's operations grow, it may also begin to have a larger environmental impact, such as increased greenhouse gas emissions or water usage. This can attract the attention of regulators and the public and may lead to increased scrutiny and potential fines or penalties.

With the growth also comes larger reputational risks since more people are now aware of Lunar and the activities being conducted and Lunar may therefore also face additional reputational risks if it is perceived as not doing enough to address environmental issues, such as climate change.

Risks related to the social environment and staff relations

Lunar continuously measures employee engagement including providing an anonymous tool for feedback regarding the social environment and other relevant areas. In addition, Lunar implemented new programs to provide growth and development for all employees based on a framework of positive psychology. In 2024, we commit to continue on this journey including a more detailed review of our framework and its effectiveness. Lunar employs a diverse workforce which can bring a range of challenges, such as managing cultural differences and conflicts. Even though Lunar has a considerate framework for ensuring the social environment there are still risks associated with the growth. Lunar has taken measures in 2023 to assess the organisation and human capabilities with a focus on personal growth and competencies. This framework is a baseline that we can lean on for inclusive dialogue as we prepare for future growth in more markets.

Anti-bribery and corruption risks

With Lunar operating in three countries, each with its own set of laws and regulations regarding bribery and corruption it remains more difficult to ensure compliance and avoid violations. Lunar may also face increased pressure to win contracts or gain access to resources, which can increase the risk of bribery and corruption. With the growth of Lunar, more interaction with government officials is to be expected, which can increase the risk of bribery and corruption, as well as reputational risks if Lunar is perceived as not acting ethically.

Non-financial KPI's

The board and Management expect to establish KPIs on each relevant ESG component during 2024. Further information can be found in the ESG report for 2023 that will be published on <https://www.lunar.app/en/personal/corporate> in May 2024.

Climate and Environmental impact:

- Carbon emissions: This measures the amount of carbon dioxide and other greenhouse gases emitted by a company's operations.
- Energy consumption: This measures the amount of energy used by a company's operations, which can be broken down by source (e.g. electricity, natural gas) and end use (e.g. lighting, heating).
- Water consumption: This measures the amount of water used by a company's operations, which can be broken down by source (e.g. surface water, groundwater) and end use (e.g. irrigation, cooling).
- Waste generation: This measures the amount of waste generated by a company's operations, which can be broken down by type (e.g. solid, liquid) and disposal method (e.g. recycling, landfilling).
- Biodiversity loss: This measures the effect of a company's operations on wildlife, habitats, and ecosystems.
- Renewable energy: This measures the proportion of energy generated by a company that comes from renewable sources such as wind and solar power.

Respect for human rights:

- Occupational health and safety: This measures the incidence of workplace accidents and injuries, as well as the steps taken to prevent them.
- Discrimination and harassment: This measures the incidence of discrimination and harassment within a company, as well as the steps taken to prevent and address them.
- Forced labour: This measures the amount and kind of forced labour in a company supply chain.

Social environment:

- Employee engagement: This measures the level of engagement, motivation, and satisfaction among a company's employees (via Peakon).
- Employee turnover: This measures the rate at which employees leave a company and need to be replaced.
- Diversity and inclusion: This measures the representation of different groups within a company, such as by gender, race, and ethnicity.

Anti-bribery and corruption:

- Training and education: This measures the amount of training and education provided to employees on the topics of bribery and corruption.

Supervisory diamond

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

As of December 31 2023, Lunar Bank has complied with the four thresholds as per below.

(%)	Threshold	31 December 2023	31 December 2022
Sum of large exposures	<175	0.1	0.6
Lending growth	<20	-42.5	28.0
Real property exposure	<25	0	0
Liquidity indicator	>100	867.5	901.2

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Income statement and comprehensive income

Note	DKK'000	2023	2022
4,5	Interest income	395,522	156,258
4,6	Interest expense	117,782	53,855
	Net interest income	277,740	102,403
4,7	Fee and commission income	178,403	140,391
4	Fee and commission expenses	60,398	48,716
	Net interest and fee income	395,745	194,078
8	Market value adjustments	-6,186	48,080
9	Staff costs and administrative expenses	689,562	883,937
15	Amortisation, depreciation and impairment charges	52,709	643,804
11	Loan impairment charges etc.	46,746	138,821
10	Income from group undertakings	-10,624	-54,355
	Profit/loss before tax	-410,082	-1,478,759
12	Tax for the year	-3,242	-2,419
	Profit/loss after tax	-406,840	-1,476,340
	Currency adjustments	-34,549	-135,198
	Other comprehensive income after tax	29,920	0
	Total comprehensive income	-411,469	-1,611,538

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Balance sheet

Note	DKK'000	31 December 2023	31 December 2022
	ASSETS		
	Cash in hands and demand deposits with central banks	5,276,805	6,302,866
13	Receivables from credit institutions and central banks	75,372	79,447
14	Loans and other amounts due at amortised cost	1,067,135	1,855,025
24	Bonds at amortised cost	4,830,384	2,453,558
10	Holdings in group undertakings	0	37,146
15	Other intangible assets	165,267	171,798
16	Other assets	112,265	156,080
	Prepayments	49,067	17,364
	TOTAL ASSETS	11,576,295	11,073,284
	LIABILITIES AND EQUITY		
	Amounts due		
17	Deposits and other debt	10,623,824	9,979,676
18	Other liabilities	113,847	305,969
	Deferred income	27,965	21,256
	Total amounts due	10,765,636	10,306,901
	Provisions		
	Impairment charges on unused credit facilities	157	106
19	Other provisions	0	3,190
	Total provisions	157	3,296
	Subordinated debt		
20	Subordinated debt	29,915	29,855
	Total subordinated debt	29,915	29,855
	Equity		
21	Share capital	42,077	42,077
	Share premium	3,300,658	2,890,207
	Retained earnings	-2,562,148	-2,199,052
	Total equity	780,587	733,232
	TOTAL LIABILITIES AND EQUITY	11,576,295	11,073,284

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Statement of changes in equity

DKK'000	Share capital	Share premium	Retained earnings	Total
Equity at 1 January 2022	42,077	2,018,207	-618,239	1,442,045
Capital increase	0	872,000	0	872,000
Group contributions	0	0	28,454	28,454
Net profit/loss for the year	0	0	-1,476,340	-1,476,340
Share-based payments	0	0	2,271	2,271
Other comprehensive income	0	0	-135,198	-135,198
Equity at 1 January 2023	42,077	2,890,207	-2,199,052	733,232
21 Capital increase	0	410,451	0	410,451
Group contributions	0	0	48,534	48,534
Exchange rate adjustments	0	0	-34,549	-34,549
22 Net profit/loss for the year	0	0	-406,840	-406,840
23 Share-based payments	0	0	-161	-161
Other comprehensive income	0	0	29,920	29,920
Equity at 31 December 2023	42,077	3,300,658	-2,562,148	780,587

The share capital comprises of shares of DKK 1 nominal value each. Total outstanding shares at 31 December 2023 are 42,077,079 (31 December 2022: 42,077,078).

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Capital and solvency

DKK'000	31 December 2023	31 December 2022
Equity	780,587	733,232
Deductions ¹	-78,711	-71,722
Total core capital after deductions	701,876	661,510
Total Tier 1 capital	701,876	661,510
Subordinated loan capital	9,000	14,500
Own funds	710,876	676,010
Eligible liabilities	20,915	15,355
Own funds and eligible liabilities	731,791	691,365
Credit risk	1,562,352	1,796,875
Market risk	28,019	38,818
Operational risk	184,664	34,946
Total risk exposure	1,775,035	1,870,639
Key figures		
Core capital after deductions, ratio (%)	39.5	35.4
Tier 1 capital ratio (%)	39.5	35.4
Total capital ratio (%)	40.1	36.1
OFEL ratio (%)	41.1	37.0

¹ Software assets are recognised with a prudent valuation in accordance with Commission Delegated Regulation (EU) 2020/2176 entering into force 23 December 2020. Software assets included in Common equity tier 1 capital amounts to DKK 87,205 thousand (2022: DKK 100,116 thousand).

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Overview of notes in the financial statements

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Notes

1 Basis of preparation

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

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

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

The annual report is presented in DKK thousands.

Recognition and measurement

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

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

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

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

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

Business combinations

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

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

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

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

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Notes

1 Basis of preparation (continued)

Significant accounting estimates

The measurement of certain assets and liabilities requires 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 recognised in the period in which the change is made, and the future periods affected.

Foreign currencies and other comprehensive income

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

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

Interest income and expenses

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

Fee and commission income and expenses

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

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

Market value adjustments

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

Staff costs and administrative expenses

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

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

Financial statements 1 January – 31 December

Notes

1 Basis of preparation (continued)

Amortisation, depreciation and impairment charges

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

Customer relations	5 years
Software	3-5 years

Loan impairment charges etc.

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

Taxes

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

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

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

Cash in hands and demand deposits with central banks

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

Receivables from credit institutions and central banks

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

Bonds at amortised cost

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

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Notes

1 Basis of preparation (continued)

Intangible assets

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

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

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

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

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

Equity investments in group undertakings

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

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations above.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses. Holdings in group undertakings with negative value are recognised as provisions.

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

Dividend received is deducted from the carrying amount.

Financial assets

Classification and measurement

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

Financial assets at amortised cost

Financial assets are classified at amortised 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.

Financial statements 1 January – 31 December

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1 Basis of preparation (continued)

Upon initial recognition, these financial assets are recognised at fair value, including transaction costs directly attributable to the transaction and commissions related to the provision of loans. They are subsequently measured at amortised 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 recognised 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 amortised cost or at fair value through shareholders' equity are presented at fair value through profit or loss.

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

Loans and deposits under P2P

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

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

Impairment

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

General impairment model

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

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

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

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Notes

1 Basis of preparation (continued)

Credit-Impaired financial assets

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

- The existence of unpaid instalment for at least 20 to 30 days.
- The knowledge or observation of significant financial difficulties of the customer indicating the existence of a credit risk, even if there is no unpaid instalment, including suspected fraud cases, debt restructuring, private bankruptcy and suspensions of payments.
- Concessions granted to the terms and condition of the loans, which would not have been granted in the absence of financial difficulties of the customer.

This is not consistent with the applied default definition as all defaulted financial assets according to CRR article 178 defaulted after 90 DPD are classified as stage 3 financial assets.

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

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 recognised in a previous closing period, and if there is no longer any indication of significant increase in credit risk for the financial instrument during the current closing period since its initial recognition, then the provision is calculated on the basis of expected credit losses at 12 months.

Significant increase in credit risk (SICR)

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

Assessment of deterioration will be measured by comparing probability of default on the date of initial recognition and those existing at the reporting date.

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

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

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

Under the general impairment model, there is also a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are up to 1-29 days past due or more. Such financial assets are classified in stage 2.

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1 Basis of preparation (continued)

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 Group is based on probabilities of transition into the default stage and on discounted loss rates at default. Calculation of the parameters are made statistically by homogeneous populations which also include cyclical fluctuations.

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

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

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

Other assets

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

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Deposits

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

Other liabilities

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

Deferred income

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

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Notes

1 Basis of preparation (continued)

Other provisions

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

Contingent Liabilities

Contingent liabilities encompass obligations that might arise from past events but hinge on the occurrence of future events. Notably, for a liability to be recognised, there must be a present obligation with a probability exceeding 50%. Otherwise, it falls under the category of contingent liabilities.

Income tax

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

Deferred tax

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

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

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

2 Significant accounting estimates, assumptions and uncertainties

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

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

On an ongoing basis, Management reviews Lunar Bank's capital resources in order to assess the soundness of the Banks's investments in expansion. After the Instabank ruling in the city court of Oslo, that has been appealed to the High court, Lunar included in 2024 the potential loss in the individual solvency need. This led to a breach with the individual solvency need.

The Capital Preservation Plan has been accepted by DFSA, that within some months will ensure that Lunar has the necessary capital to be compliant with the regulatory solvency requirements. The plan includes several initiatives including a capital raise of 180 mDKK that was obtained during April 2024.

In the nature of realising plans, budget planning, internal and external factors may create uncertainties related to realising those plans and in the event of delayed time to profitability or delayed impact of new product offerings,

management has established several contingency options related to the capital base in addition to the options included in the capital preservation plan. This has been considered sufficient to enable the bank to comply with regulatory capital requirements throughout 2024.

Intangible assets

Lunar Bank has recognised intangible assets at a carrying amount of 165,267 tDKK. Intangible assets include IT platforms and software. Impairments tests are performed to test the performance of the assets.

Loans and other amounts due at amortised cost

The expected credit loss (ECL) is calculated on loan level as a function of probability of default (PD), exposure at default (EAD) and loss given default (LGD) and it takes into consideration forward-looking information. The estimation of ECL is forecasting future economic conditions over the coming lifetime of all loans in the book. Such forecasts are based on a statistical combined with a judgmental approach, and as such are prone for uncertainties that may have significant risk of resulting in a material adjustment to a carrying amount in future reporting periods. The incorporation of forward-looking elements reflects the expectations of the Management team and involves a LOPI factor and the creation of scenarios (base case, optimistic and pessimistic), including an assessment of the probability for each scenario weighted based on the likelihood of the different scenarios to materialise.

The weighting of the scenarios was defined as 30 % optimistic, 50 % baseline and 20 % pessimistic. The rationale for this distribution of weight is mostly based on the expected short- and long-term effects of the current macro-environmental uncertainty related to energy prices and interest rates.

Due to model risk inherent in the underlying models for ECL estimate, a management overlay has been added.

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3 Financial highlights

Income Statement (DKK'000)	2023	2022	2021	2020	2019
Net interest and fee income	395,745	194,078	46,906	3,210	-820
Market value adjustments	-6,186	48,081	-1,154	-286	-17
Staff costs and administrative expenses	689,562	883,937	494,744	159,544	7,083
Write-downs on loans and receivables, etc.	46,746	138,821	45,948	4,207	-
Income from group undertakings	-10,624	-54,355	-	-	-
Profit/loss for the period	-406,840	-1,476,340	-519,960	-175,971	-4,679

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

Loans at amortised cost	1,067,135	1,855,025	1,448,586	12,895	-
Total assets	11,576,295	11,073,288	10,019,876	1,271,392	193,504
Deposits	10,623,824	9,979,676	8,376,764	928,280	7
Equity	780,587	733,232	1,442,045	258,453	170,783

Ratios and key figures (DKK'000)

Capital base (own funds)	710,876	676,010	787,758	225,620	73,951
Total capital ratio (%)	40.0	36.1	80.9	187.7	64.0
Tier 1 capital ratio (%)	39.5	35.4	78.8	165.7	64.0
Return on equity before tax (%)	-54.2	-136.0	-61.2	-81.4	-7.0
Return on equity after tax (%)	-53.8	-135.7	-61.2	-82.0	-5.4
Interest-rate risk	0.0	0.1	0.8	0.2	-
Currency position	4.0	0.1	0.3	0.1	-
Loans relative to deposits (%)	11.4	19.9	17.9	1.4	-
Gearing of loans, end of year (%)	155.1	253.0	100.45	5.0	-
Lending growth	-42.5	28.0	11,133.7	-	-
LCR (%)	908.3	901.2	1,008.0	1,737.7	413.8
Sum of large exposures	0.1	0.6	0.9	-	-
Net impairment ratio (%)	11.9	6.9	3.3	24.6	-
Return on assets (%)	-3.5	-14.0	-9.2	-13.8	-2.4
Average number of full-time employees	126	144	95	19	2
Income/cost ratio	0.5	0.1	0.1	0.0	0.2

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

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4 Segments

DKK'000	2023		
	DK	SE	Total
Interest income	263,945	131,577	395,522
Interest expenses	114,632	3,150	117,782
Net interest income	149,313	128,427	277,740
Fee and commission income	171,333	7,070	178,403
Fee and commission expenses	45,844	14,554	60,398
Net fee income	125,489	-7,484	118,005
Net interest and fee income	274,803	120,942	395,745

DKK'000	2023			Total
	Business Tiers	Private Tiers	Financial Products	
Interest income	0	0	395,522	395,522
Interest expenses	0	0	117,782	117,782
Net interest income	0	0	277,740	277,740
Fee and commission income	61,263	106,198	10,942	178,403
Fee and commission expenses	20,741	35,962	3,696	60,398
Net fee income	40,523	70,236	7,246	118,005
Net interest and fee income	40,523	70,236	284,986	395,745

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

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4 Segments (continued)

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

DKK'000	2022			Total
	Business Tiers	Private Tiers	Financial Products	
Interest income	0	0	156,258	156,258
Interest expenses	0	0	53,855	53,855
Net interest income	0	0	102,403	102,403
Fee and commission income	45,669	71,890	22,832	140,391
Fee and commission expenses	18,085	28,468	2,163	48,716
Net fee income	27,584	43,422	20,669	91,675
Net interest and fee income	27,584	43,422	123,072	194,078

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

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DKK'000	<u>2023</u>	<u>2022</u>
5 Interest income		
Loans and other receivables	135,639	131,103
Interests on deposits and other debt	151	3,078
Interest income investments in bonds	124,489	794
From credit institutions and central banks	<u>135,243</u>	<u>21,283</u>
Total	<u>395,522</u>	<u>156,258</u>
6 Interest expenses		
Negative interest paid on deposits in credit institutions and central banks	3,150	23,280
Subordinated debt	3,818	2,900
Interests on deposits and other debt	110,541	19,012
Other interest expenses	<u>273</u>	<u>8,663</u>
Total	<u>117,782</u>	<u>53,855</u>
7 Fee and commission income		
Payment service fees	64,668	43,128
Lending and guarantee fees	11,507	6,004
Other fee and commission income	<u>102,228</u>	<u>91,259</u>
Total	<u>178,403</u>	<u>140,391</u>
8 Market value adjustments		
Foreign exchanges	-507	29,756
Financial instruments measured at fair value	-5,619	18,385
Other liabilities	<u>-60</u>	<u>-60</u>
Total	<u>-6,186</u>	<u>48,081</u>

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DKK'000	2023	2022
9 Staff costs and administrative expenses and fees to the auditor		
Wages and salaries	82,003	83,850
Pensions	10,469	8,251
Social Security costs	1,110	1,149
Share-based payments	-161	2,271
	93,421	95,521
Other administrative expenses	596,141	788,416
Total	689,562	883,937

Number of employees in the financial year

Full-time equivalent employees	126	144
Executive board	2	2
Employees whose activities have a significant impact on the bank's risk profile	7	8
Board of Directors	4	5

Salaries and remuneration to employees whose activities have a significant impact to the bank's risk profile accounted for DKK 4,011 thousand (2022: DKK 7,512 thousand) of which incentive programs account for DKK 162 thousand (2022: DKK 531 thousand).

Salaries and remuneration to the Executive Board was DKK 3,278 thousand (2022: DKK 5,409 thousand) of which incentive programs account for DKK -441 thousand (2022: DKK 956 thousand). Salaries and remuneration to the Board of Directors was DKK 918 thousand (2022: DKK 1,139 thousand) of which incentive programs account for DKK 5 thousand (2022: DKK 14 thousand).

The numbers above reflect the cost on the warrant programs which are to be recognised in relation to the vesting periods relatively. No board members or executive board members were granted warrants in 2023.

Fees paid to auditor appointed at the annual general meeting

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

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DKK'000	2023	2022
10 Holdings in group undertakings		
Cost at 1 January	42,305	0
Additions	0	42,305
Cost at 31 December	42,305	42,305
Value adjustment at 1 January	-5,159	0
Excess value at time of acquisition	0	49,164
Foreign exchange rate adjustment	-695	32
Other adjustments	1,616	0
Dividends paid	-17,838	0
Amortisation and impairment for the year	-20,206	-30,574
Profit/loss for the year	9,582	-23,781
Disposals	-9,605	0
Value adjustment at 31 December	-42,305	-5,159
Net carrying amount at 31 December	0	37,146

During 2023, Lendify Sweden 4 AB was disposed of which as of the balance date had a carrying value of 0.

DKK'000	2023	2022
11 Loan impairment charges		
Change on ECL during year	-21,792	90,202
Realised losses	68,325	48,734
Other movements	213	-115
Total	46,746	138,821

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

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

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DKK'000	2023	2022
12 Tax for the year		
Current tax for the year	-2,399	-2,419
Deferred tax adjustment for the year	-843	0
Total	-3,242	-2,419
At 31 December 2023 the Bank has unrecognised deferred tax assets in the level of DKK 570 million that can be set off against future taxable income (2022: DKK 450 million).		
13 Receivables from credit institutions and central banks		
Central banks	0	0
Credit institutions	75,372	79,446
Total	75,372	79,446
Distribution of terms by maturity		
Overnight	75,372	79,446
Up to three months	0	0
Total	75,372	79,446
14 Loans and other amounts due at amortised cost		
Customer loans	1,067,135	1,525,387
P2P loans	0	329,638
Total	1,067,135	1,855,025
Distribution of terms by maturity		
Overnight	84,505	68,790
Up to three months	478	348,087
From three months to one year	6,141	7,378
From one year to five years	127,804	158,768
More than five years	848,207	1,272,002
Total	1,067,135	1,855,025

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

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15 Intangible assets

DKK'000	Goodwill	Customer relations	Software	Software in process	Total
Cost at 1 January 2023	588,387	46,000	209,392	10,698	854,477
Additions	0	0	36,359	10,061	46,420
Transfers	0	0	8,092	-8,092	0
Currency translation differences	0	0	140	0	140
Cost at 31 December 2023	588,387	46,000	253,983	12,667	901,037
Amortisation and impairment at 1 January 2023	588,387	46,000	48,292	0	682,679
Amortisation	0	0	51,852	0	51,852
Impairment	0	0	388	469	857
Exchange rate adjustment	0	0	382	0	382
Amortisation and impairment losses at 31 December 2023	588,387	46,000	100,914	469	735,770
Carrying amount at 31 December 2023	0	0	153,069	12,198	165,267

Amortised over 5 years 3-5 years

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

Amortised over 5 years 3-5 years

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

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

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DKK'000	<u>2023</u>	<u>2022</u>
16 Other assets		
Positive market value of financial instruments	4,698	29,193
Deposits & Guarantees	10,352	13,894
Intercompany receivables	55,911	33,399
Other assets	41,304	79,592
Total	<u>112,265</u>	<u>156,078</u>
17 Deposits and other debt		
Deposits	10,024,794	9,210,302
Term deposits	599,030	399,146
P2P deposits	0	370,228
Total	<u>10,623,824</u>	<u>9,979,676</u>
Deposits of terms by maturity		
Overnight	10,024,797	9,229,402
Up to three months	104,479	353
From three months to one year	157,836	41,802
From one year to five years	336,712	452,462
More than five years	0	255,657
Total	<u>10,623,824</u>	<u>9,979,676</u>
18 Other liabilities		
Negative market value of financial instruments	14,122	642
Trade payables	9,755	7,400
Intercompany payables	7,926	71,026
Other liabilities	82,044	226,905
Total	<u>113,847</u>	<u>305,973</u>
19 Other provisions		

Other provisions consist of funds to cover potential losses in Lunar's brokerage of loans between private investors and lenders.

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20 Subordinated debt

Lunar Bank has the following subordinated loans:

DKK'000		Interest rate		Carrying amount	
Loan	Maturity	2023	2022	31 December 2023	31 December 2022
Loan 1, Nominal DKK 30,000	2025	9.420% + CIBOR 3M	9.420% + CIBOR 3M	29,915	29,855
				29,915	29,855

The subordinated loan is qualified as a Tier 2 instrument pursuant CRR regulation. In 2023 the costs from subordinated loans amounts to DKK 3,878 thousand (2022: DKK 2,960 thousand) whereas DKK 3,818 thousand (2022: DKK 2,900 thousand) are interests. On 31 December 2023 the carrying amount of amortised borrowing costs amounts to DKK 85 thousand (2022: DKK 145 thousand).

The loan has no instalments before repayment of the full amount at July 1st 2025. Due to amortisation profile of the subordinated debt, the Tier 2 weighting has been reduced by 1/60 part each month over the 5 years maturity. At 31 December 2023 DKK 9,000 thousand is recognised in the capital base.

Tier 2 instruments with a residual maturity of at least one year are considered eligible liabilities, to the extent that they do not qualify as Tier 2 items in accordance with CRR article 64. As at 31 December 2023, DKK 20,915 thousand are considered eligible liabilities according to CRR article 72a (1)(b).

DKK'000	2023	2022
21 Share capital		
Share capital at 1 January	42,077	42,077
Capital increase	0	0
Share capital at 31 December	42,077	42,077
Number of shares	42,077,079	42,077,078

Lunar Bank does not hold own shares.

The share capital comprises of shares of DKK 1 nominal value each. There has been during 2023 one capital increase, increasing the share capital by 1.

22 Proposed distribution of profit/loss

Retained earnings	-406,840	-1,476,341
Total	-406,840	-1,476,341

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23 Share-based payments

In 2017, a warrant program was established for the benefit of Management and certain key employees. The program allows the Board of the parent company to issue up to 10% warrants to be allocated over a period of 3-5 years with a grant of 20-33.3% yearly. In case of an Exit, the rest of the warrants will be granted to the employees. Exercising warrants is only an option in case of an Exit event or by the end of the exercise period. The warrant holder is entitled to subscribe to shares in Lunar Group A/S at a pre-defined strike price.

Until 2020 the valuation principles have been based on the guidance in the Tax assessments Act. From 2021, black-scholes calculation has been introduced and used for the recognition of share-based payments. This is considered to be a change in accounting estimate and the effect of the method change is insignificant, hence comparative figures have not been restated.

During 2023 costs related to the warrant program of DKK -161 thousand have been recognised in the income statement (2022: DKK 2,271 thousand).

24 Fair value information for financial instruments

Bonds at amortised costs are recognised at DKK 4,830,384 thousand in the balance. Fair value of the bonds is DKK 4,828,238 thousand at 31 December.

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

In 2023 Lunar entered financial instruments with a maturity up to 3 months. Those financial instruments are mainly FX swaps which are entered to reduce the liquidity mismatch, since Lunar has large deposit surplus in DKK, while the loan book is mainly in SEK.

Lunar's position of financial instruments at 31 December 2023 is disclosed in the table below.

	Net nominal position (thousand)	Net market value (DKK'000)	Positive market value (DKK'000)	Negative market value (DKK'000)
Forwards - SEK	SEK 17,208	-138	3,486	3,624
Forwards - DKK	DKK 180,000	-43	0	43
Swaps - EUR	EUR 1,500	0	0	0
Swaps - SEK	SEK 415,948	-9,245	1,218	10,463
Swaps - NOK	NOK 225,000	0	0	0

Of the total nominal net position of SEK swaps at 31 December 2023 SEK 827,948 thousand are placed in a long position, while SEK 412,000 thousand are placed in a short position.

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24 Fair value information for financial instruments (continued)

Lunar's position of financial instruments at 31 December 2022 is disclosed in the table below.

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

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

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

25 Contractual obligations and contingencies, etc.

Contingent liabilities

On 31 December 2023 unaccepted loan commitments and unused credit facilities amounts to DKK 3,281 thousand (2022: DKK 1,265 thousand).

Of the total value of bond holdings, DKK 492,157 thousand have been provided as collateral to other credit institutions (2022: DKK 162,320 thousand and NOK 145,000 thousand).

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

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

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

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

On 30 September 2022 a public offer made by Lunar on Instabank ASA lapsed. A majority of the shareholders in Instabank subsequently filed a subpoena against Lunar Bank seeking damages for their loss of 681 mNOK. On 19 February 2024, the Oslo Tingrett in Oslo voted in favour of the shareholders of Instabank, whereafter Lunar is to pay 632 mNOK (416 mDKK) plus interest rates. We do not agree with the ruling and has appealed to Lagmannsretten (High Court). We have obtained an independent 2nd legal opinion that states that Lunar most likely (>50%) will win in the appeal court. Management and our legal advisors agree with the conclusion from the independent lawyer

that the shareholders are not entitled to damages or any other compensation. In accordance with the accounting rules, no loss is recognised in the balance sheet in the annual statement for 2023.

Lunar has increased the individual solvency need with the potential loss including interest, whereby capital is allocated should we lose the appeal case.

26 Related parties

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

27 Principles for intra-group trading

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

DKK'000	2023	2022
Income statement		
Re-invoiced staff costs to other group entities	4,743	3,134
Outsourcing fee to Lunar Way A/S *	347,354	419,039
Outsourcing fee to Lendify AB Group **	82,612	161,788
Development projects invoiced to affiliated companies	39,967	58,023
Service fee invoiced to affiliated companies	2,621	5,643
Intercompany interest income from parent company	1,008	17,691
Intercompany interest income from affiliated companies	16,706	5,250
Share-based payments	-161	2,271
Balance sheet		
Business transfer from affiliated companies	246,030	0
Share acquisition from affiliated companies	0	4,318
Software acquisition from affiliated companies	0	30,359
Receivables from affiliated companies	53,183	4,945
Receivables from parent company	329	30,873
Loans to affiliated companies	83,833	349,492
Payables to affiliated companies	8,086	76,644

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

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

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

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

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

- Credit risk: The risk of loss arising from the failure of a borrower or obligor to meet its contractual obligation towards Lunar
- Market and liquidity risk: The risk of loss on on-/off-balance sheet positions arising from adverse movements in market prices and the risk of not having sufficient liquidity to meet obligations
- Capital risk: The risk of insufficient capital negatively affecting the bank's ability to pursue its business strategy

Credit risk

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

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

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

Below, the net credit exposure on 31 December 2023 is distributed in rating scales.

DKK'000	Stage 1	Stage 2	Stage 3	Total
A	115,298	917	269	116,485
B	157,513	2,877	1,905	162,295
B-C	1,131	89	0	1,220
C	248,719	5,257	2,416	256,391
D	355,777	6,086	5,403	367,266
D-E	0	0	0	0
E	83,866	3,848	5,151	92,865
F	34,136	61,103	118,900	214,139
Gross carrying amount at 31 December 2023	996,440	80,176	134,044	1,210,660
Distribution in segments				
<i>Business, including:</i>				
Construction	132	52	533	717
Retail	44	8	218	270
Transport, hotels and restaurants	82	14	350	446
Information and communication	155	19	118	292
Service	205	79	778	1,062
Finance and insurance	83,846	22	107	83,976
Other segments	153	27	345	525
Business, total	84,618	220	2,449	87,287
Private	911,822	79,956	131,596	1,123,373
Total	996,440	80,176	134,044	1,210,660

Loans are issued without any provided security.

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

Below, the gross credit exposure on 31 December 2022 is distributed in rating scales.

DKK'000	Stage 1	Stage 2	Stage 3	Total
A	734,345	3,751	0	738,096
B	221,809	25,351	0	247,160
B-C	5,825	301	0	6,126
C	340,184	50,275	0	390,459
D	240,241	60,960	0	301,201
D-E	4,129	460	0	4,589
E	93,472	35,448	0	128,920
F	40,776	99,619	25,986	166,381
Gross carrying amount at 31 December 2022	1,680,781	276,165	25,986	1,982,932
Distribution in segments				
<i>Business, including:</i>				
Construction	145	107	317	569
Retail	230	51	93	374
Transport, hotels and restaurants	159	61	173	393
Information and communication	230	47	33	310
Service	728	116	410	1,254
Finance and insurance	347,509	11	31	347,551
Other segments	296	63	160	519
Business, total	349,297	456	1,217	350,970
Private	1,331,484	275,709	24,769	1,631,962
Total	1,680,781	276,165	25,986	1,982,932

Historically, the maximum loan granted to individual customers is DKK 150 / SEK 500 thousand. Lunar Bank has established policies and processes for handling the loan portfolio and systematically conducts detailed monitoring.

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

Due to models' uncertainty managerial adjustments are added on a monthly basis to cover for such uncertainty. As of 31 December 2023, managerial adjustments amount to SEK 46,1 million (31 December 2022: DKK 48,2 million).

Future macro-economic developments are also taken into consideration by utilising a LOPI factor and a scenarios approach, i.e., estimations of optimistic, baseline and pessimistic macro-economic evolution and impact on the Expected Credit Losses are weighted based on the likelihood of the different scenarios to materialise.

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

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

The table below shows the changes in total impairment charges recognised at 31 December 2023 for loans at amortised cost.

Development on accumulated impairment charges on loans at amortised cost

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2023	38,145	64,739	25,023	127,907
ECL on new assets	7,643	33,019	30,436	71,098
Transfer from Stage 1	2,098	7,035	28,745	37,878
Transfer from Stage 2	9,282	-47,626	25,645	-12,699
Transfer from Stage 3	18	44	-15,643	-15,581
Assets derecognised	-10,776	-37,869	0	-48,645
Write offs debited to the allowance account	0	0	-16,316	-16,316
Other movements	0	0	-117	-117
Impairment charges at 31 December 2023	46,410	19,342	77,773	143,525

The lines "Transfer from Stage 1", "Transfer from Stage 2" and "Transfer from Stage 3" in 2023 include the changes in ECL.

The table below shows the changes in total impairment charges recognised at 31 December 2022 for loans at amortised cost.

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2022	24,845	7,599	15,983	48,427
ECL on new assets	20,533	30,143	13,580	64,256
Transfer from Stage 1	3,705	32,047	7,554	43,306
Transfer from Stage 2	34	-1,261	723	-504
Transfer from Stage 3	42	5	-2,247	-2,200
Assets derecognised	-5,762	-3,950	0	-9,712
Write offs debited to the allowance account	0	0	-13,933	-13,933
Other movements	-5,252	156	3,362	-1,734
Impairment charges at 31 December 2022	38,145	64,739	25,023	127,906

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

The table below show the changes in total impairment charges recognised at 31 December 2023 for unused credit facilities.

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2023	80	23	0	103
ECL on new assets	66	14	32	112
Transfer from Stage 1	-12	1	20	9
Transfer from Stage 2	3	-13	13	3
Transfer from Stage 3	0	0	6	6
Assets derecognised	-64	-11	0	-75
Write offs debited to the allowance account	0	0	0	0
Other movements	0	0	0	0
Impairment charges at 31 December 2023	73	14	71	158

The table below show the changes in total impairment charges recognised at 31 December 2022 for unused credit facilities.

DKK'000	Stage 1	Stage 2	Stage 3	Total
Impairment charges at 1 January 2022	68	0	153	221
ECL on new assets	75	22	0	97
Transfer from Stage 1	0	1	0	1
Transfer from Stage 2	0	0	0	0
Transfer from Stage 3	0	0	0	0
Assets derecognised	-45	-1	0	-46
Write offs debited to the allowance account	0	0	-11	-11
Other movements	-18	1	-142	-159
Impairment charges at 31 December 2022	80	23	0	103

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

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

Market and liquidity risk

Taking on market and liquidity risk is necessary as an integrated part of doing business. Lunar has low risk appetite towards market and liquidity risk and engaging in complex financial structures. Hence risk mitigation for potential market risks are covered by plain vanilla products.

Besides cash deposits at the central banks, Nordic government and highly liquid Nordic mortgage bonds (mainly Danish mortgage bonds with a minimum LCR level 1b) are used as a part of liquidity buffer, whereas the bonds as well are used for interest risk management and as collateral for other financial counterparties.

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

We do not see significant nor increased complexity or risk-taking as a result of moving into a more flexible setup for handling our liquidity. We consider it a natural part of acting in different jurisdictions with different needs for liquidity management while continuing to work within a low-risk appetite.

Capital risk

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

LUNAR[®]