

Flex Funding A/S

Strandvejen 100, Indgang 3, 2. Sal, 2900 Hellerup

CVR-no. 25 61 99 78

Annual report 2019

Approved at the Company's annual general meeting on 2020

Chairman:

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Ulrik Bayer

Contents

Statement by Management on the annual report	2
Independent auditor's report	3
Management's review	6
Financial statements 1 January – 31 December	7
Income statement	7
Balance sheet	8
Statement of changes in equity	10
Notes	11

Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Flex Funding A/S for the financial year 1 January - 31 December 2019.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Hellerup, 10 March 2020

Executive Board:

Henrik Vad
CEO

Board of Directors:

Martin Nymark Hansen
Chairman

Hans-Henrik Horsted Eriksen

Christian Lundgaard

Henrik Vad

Independent auditor's report

To the shareholders of Flex Funding A/S

Opinion

We have audited the financial statements of Flex Funding A/S for the financial year 1 January – 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of 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 the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Independent auditor's report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note 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.

Statement on the Management's review

Management is responsible for the Management's review.

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

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

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

Copenhagen, 10 March 2020
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Anders Duedahl-Olesen
State Authorised
Public Accountant
mne24732

Rasmus Berntsen
State Authorised
Public Accountant
mne35461

Company details

Name	Flex Funding A/S
Address, Postal code, City	Strandvejen 100, Entrance 3, 2. 2900 Hellerup Denmark
CVR-no.	25 61 99 78
Established	5 December 2013
Registered office	Gentofte
Financial year	1 January - 31 December
Website	www.flexfunding.com
E-mail	info@flexfunding.com
Telephone	+45 70 60 52 00
Board of Directors	Martin Nymark Hansen, Chairman Hans-Henrik Horsted Eriksen Christian Lundgaard Henrik Vad
Executive Board	Henrik Vad, CEO
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Dirch Passers Allé 36 P.O. Box 250 2000 Frederiksberg Denmark

Management's review

Flex Funding A/S

Flex Funding is an online marketplace lender where investors can obtain attractive returns on investments by lending money directly to creditworthy companies who in turn can access flexible financing with ease and speed. Flex Funding carries out the anti-money laundering processes, credit assessments and manages the comprehensive process for loan origination, contracts, collateral management, payments etc. with a highly automated platform.

Flex Funding's main asset is its proprietary online crowdlending platform. It is developed by Flex Funding, offered to own customers and used as a tailored solution for partners. Our customized partner-branded platform is fully integrated in the Flex Funding ecosystem. In May 2019 Flex Funding onboarded SMVerhvervslån (SMEbusinessloan) as new white label partner for SMVdanmark (the Danish association of SMEs). Additional partners will be launched in Q1-2020.

Flex Funding had a volume growth of 164% in loan origination with a total loan origination of DKK 84.2 mill. in 2019.

As the first Nordic marketplace lender, Flex Funding in February 2019 started publishing standardised and verified performance metrics in a partnership with Brismo, the leading provider of standardised loan performance data for global crowdlenders. The Brismo database demonstrates that Flex Funding's track record is top of the list compared to peers and industry benchmarks.

In April 2019 Flex Funding onboarded the first international institutional investor – a leading UK-based AA rated global debt fund. The debt fund invests up to 50 percent in each loan on our marketplace depending on the risk class.

Flex Funding is the first Danish crowdlending platform to be approved by the Danish state and the European Investment Fund (EIF) to invest on our platform via Vækstfonden (the Danish State's investment fund). Vækstfonden will fund up to 25 per cent of the value of each loan that meets Flex Funding's risk assessment process and where Flex Funding successfully raises the first 75 per cent of the loan from private sector investors. Vækstfonden has been an active investor on Flex Funding's marketplace since November 2019 and is a very important future partner in order to support even more Danish companies' growth with co-financing.

Flex Funding is a payment institution under the Payment Services Directive 2 (PSD2) authorized by the Danish Financial Supervisory Authority (FTID No. 22012). Flex Funding is granted permission to offer payment services in accordance with Annex 1, no. 3, to the Danish Act on Payments ("Betalingsloven"). Strong governance, risk management and controls are vitally important to the long-term sustainability of the platform and to be wholly compliant with the EBA Guidelines under Directive (EU) 2015/2366 (PSD2) on the information to be provided for the authorization of payment institutions. As such, and in line with the guidelines, Flex Funding always seeks to be in compliance with the EBA Guidelines, to embed and develop a strong risk and compliance culture across the business.

Financial review

The income statement for 2019 shows a profit after tax of DKK 1.107.309 against a loss before tax of DKK 16.093.869 last year, and the balance sheet at 31 December 2019 shows equity of DKK 13.108.146. This is in line with the strategic plan for the company and with Management's expectations. It is a strategic decision continuing to invest in developing the IT-platform and in growth entering new markets. Flex Funding expects to launch its services in the Nordic market beginning with Sweden in Q2-2020.

Capital resources

It is Management's expectation that the company has sufficient funding to continue its operation in 2020. Management will adjust the company's investments in line with the available capital and liquidity.

Significant events after the presentation of the Annual Report 2019

No significant events have occurred after the closing of the Annual Financial Statement.

Financial statements 1 January – 31 December

Income statement

Note	DKK	2019	2018
	Gross profit/loss	- 56.156	- 6.571.276
3	Staff costs	- 6.010.513	- 5.988.604
	Depreciation property, plant and equipment	- 20.902	- 6.113
	Profit/loss before net financials	- 6.087.571	- 12.565.992
	Income from investments in subsidiaries	1.095.019	- 3.275.520
	Financial income	979.894	445.806
	Financial expenses	- 604.174	- 698.163
	Profit/loss before tax for the year	- 4.616.831	- 16.093.869
	Company tax	5.724.140	0
	Profit/loss after tax for the year	<u>1.107.309</u>	<u>- 16.093.869</u>
	Recommended appropriation of loss		
	Retained earnings	<u>1.107.309</u>	<u>- 16.093.869</u>

Financial statements 1 January – 31 December

Balance sheet

Note	DKK	2019	2018
	Assets		
	Non-current assets		
	Property, plant and equipment		
	Fixtures and fittings, plant and equipment	41.188	48.905
	Total Non-current assets	41.188	48.905
	Financial assets		
	Investments in subsidiaries	662.725	50.000
4	Receivables from subsidiaries	14.289.229	7.986.582
	Other securities and investments	155.644	111.531
	Deposits, investments	155.461	153.024
	Total Financial assets	15.263.059	8.301.137
	Total non-current assets	15.304.247	8.350.042
	Current assets		
	Receivables		
	Receivables from subsidiaries	0	627.916
	Other receivables	1.640	2.274
	Prepayments	203.823	234.799
	Total Receivables	205.463	864.989
	Cash	4.831.151	467.650
	Total current assets	5.036.614	1.332.639
	Total assets	20.340.861	9.682.681

Financial statements 1 January – 31 December

Balance sheet

Note	DKK	2019	2018
	Equity and liabilities		
	Equity		
	Share capital	3.202.697	2.002.697
	Share premium account	4.800.003	0
	Retained earnings	5.105.446	3.998.137
	Total equity	13.108.146	6.000.834
	Non-current liabilities		
	Convertible debt instruments	0	414.770
5	Other credit institutions	5.500.000	0
	Total non-current liabilities	5.500.000	414.770
	Current liabilities		
	Other credit institutions	113.686	0
	Trade payables	268.706	897.856
	Other payables	1.350.323	2.369.221
	Total current liabilities	1.732.715	3.267.077
	Total liabilities	7.232.715	3.681.847
	Total equity and liabilities	20.340.861	9.682.681
1	Accounting policies		
6	Contractual obligations and contingencies, etc.		
7	Contingent assets		

Financial statements 1 January – 31 December

Statement of changes in equity

DKK	Share capital	Share premium account	Retained earnings	Total
Equity at 1 January 2018	1.644.239	0	8.190.125	9.834.364
Capital increase	231.516	7.408.512	0	7.640.028
Conversion of debt	126.942	3.681.318	0	3.808.260
Warrants	0	0	800.000	800.000
Transferred from share premium account	0	- 11.089.830	11.089.830	0
Transfer, see "Appropriation of profit/loss"	0	0	- 16.093.870	- 16.093.870
Adjustment of investments through foreign exchange adjustments	0	0	12.052	12.052
Equity at 1. January 2019	2.002.697	0	3.998.137	6.000.834
Capital increase	663.721	2.654.884	0	3.318.605
Conversion of debt	536.279	2.145.119	0	2.681.398
Warrants	0	0	0	0
Transferred from share premium account	0	0	0	0
Transfer, see "Appropriation of profit/loss"	0	0	1.107.309	1.107.309
Equity at 31 December 2019	3.202.697	4.800.003	5.105.446	13.108.146

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Flex Funding A/S for 2019 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B.

In accordance with section 110(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The financial statements have been prepared in accordance with the same accounting policies as last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Foreign group entities

Foreign subsidiaries and associates are considered separate entities. Items in such entities' income statements are translated at the exchange rate on the transaction date, and balance sheet items are translated at closing rates. Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries to closing rates and on translation of the income statements from average exchange rates to closing rates are taken directly to equity.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Income statement

Revenue

Revenue that consist of rendering service and consultancy service is measured at fair value of the agreed consideration, excluding VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Establishment fees are recognised as income when the contract between the investor(s) and the loan recipient has been concluded. The service is considered to be rendered when the contract has been signed. Provision fees are recognised as income over time as the service is provided. Income from consultancy services are recognised in revenue as the service is provided.

Gross margin

The items revenue, other operating income and external expenses and cost of sales have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of current assets.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Leases

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Depreciation

Fixed assets

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Fixtures and fittings, other plant and equipment: 3 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on depreciation charges is recognised prospectively as a change in accounting estimates.

Income from investments in subsidiaries

A proportionate share of the underlying entities' profit/loss after tax as well as impairment of receivables from subsidiaries as a result of negative equity is recognised in the income statement according to the equity method. Shares of profit/loss after tax in subsidiaries are presented as separate line items in the income statement. Full elimination of intra-group gains/losses is made for equity investments in subsidiaries.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

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.

Balance sheet

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Investments in subsidiaries

Equity investments in subsidiaries and associates are measured according to the equity method.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs.

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.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deduced from the carrying amount.

Equity investments in subsidiaries measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

Other securities and investments

Securities which the Company intends to hold to maturity are measured at amortised cost, using the effective interest rate method at the date of acquisition. Value adjustments are recognised in the income statement under "Net financials".

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Cash comprise cash and short term securities which are readily convertible into cash and subject only to minor risks of changes in value.

Equity

Dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the financial year is presented as a separate line item under "Equity".

Reserve for net revaluation according to the equity method

The net revaluation reserve according to the equity method includes net revaluations of investments in subsidiaries and associates relative to cost. The reserve can be eliminated in case of losses, realisation of investments or a change in accounting estimates. The reserve cannot be recognised at a negative amount.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Convertible loans

Convertible loans are broken down into a liability element and an equity element based on the relevant instrument of debt. On initial recognition, the liability is recognised at the fair value of a similar liability without a conversion right. The remaining amount of the convertible loan is recognised as equity. On subsequent recognition, the liability is measured at amortised cost until converted or repaid. The equity element is not re measured after initial recognition.

Financial statements 1 January – 31 December

Notes

2 Capital resources

It is Management's expectation that the company has sufficient funding to continue its operation in 2020. Management will adjust the company's investments in line with the available capital and liquidity.

3

DKK	2019	2018
Staff costs		
Wages and salaries	5.267.210	5.381.605
Pensions	241.880	243.008
Other social security costs	56.353	69.672
Other staff costs	445.069	294.319
	<u>6.010.513</u>	<u>5.988.604</u>
Average number of full-time employees	8	9

4 Receivables from subsidiaries

Receivables from subsidiaries relates to investments in the IT platform used by Flex Funding A/S.

5 Non-current liabilities

Of the long-term liabilities, DKK 1.2 mill. falls due for payment after more than 5 years after the balance sheet date.

6 Contractual obligations and contingencies, etc.

Other financial obligations

Rent commitments comprise a rent commitment totalling DKK 234 thousand (2018: DKK 231 thousand) under a non-terminable rent agreement with a remaining term of 6 months.

The Company has entered into leasing contracts with associated companies with a remaining contract period of 12 months totalling DKK 559 thousand (2018: DKK 2.520 thousand).

The shares of the company have been mortgaged to Vækstfonden as collateral for a company loan. Financial statements 1 January – 31 December.

7 Contingent assets

The Company has tax loss carry-forwards totalling DKK 2.785 thousand, which has not been recognised in the balance sheet due to the uncertainty as to application of the tax losses. The tax asset can be carried forward indefinitely.