Luminor Bank
Annual Report
2021

AT A GLANCE

OUR YEAR IN BRIEF

- Increased lending by 5% - with growth in Retail and Corporate segments – and grew net fee income by 7%
- Lowered costs and improved cost efficiency
- Doubled net profit to 74.7 million EUR
- Continued improvement in asset quality – non-performing loans fell to 1.8% of gross loans, our lowest ever level
- Dividend paid; with continued strong capital position

FINANCIAL PERFORMANCE

€m	2020	2021
Total operating income	328.2	328.9
Total operating expenses	-275.4	-262.8
of which exceptional costs	-102.6	-76.8
Credit loss allowance	-17.6	14.8
Other items and taxation	-2.1	-6.2
Profit for the period	**33.1**	**74.7**
Return on equity, %	2.0	4.6
Return on equity excluding exceptional costs, %	7.3	8.7

VOLUMES & KEY RATIOS

€m	31 Dec 2020	31 Dec 2021
Loans to customers	9,430.8	9,946.7
Deposits from customers	11,821.7	10,305.4
Equity	1,665.2	1,548.8
Common Equity Tier 1 ratio, %	22.4	20.5[1]
Liquidity coverage ratio, %	197.2	137.3

[1] Retained profits for 2021 have not yet been included into the capital calculation. Including these profits would increase this ratio to 21.5%.

ABOUT US

Luminor is the leading independent bank in the Baltics and the third-largest provider of financial services in our region. We serve the financial needs of individuals, families, and companies. Just like our home markets of Estonia, Latvia, and Lithuania we are young, dynamic, and forward looking. Further information about us can be found at www.luminor.ee

Cover and inside photographs: Images from our brand campaign 'Say it out loud', launched in December 2021.

CHIEF EXECUTIVE'S STATEMENT

Last year I wrote of my pride at my appointment to lead Luminor and my excitement at the Bank's prospects. My optimism was justified. 2021 saw a continued expansion of the Baltic economies characterised by strong growth, despite rising inflation and the continued impact of COVID-19. Against this backdrop, as we implemented our strategy, we improved our business performance, more than doubled net profit and advanced our transformation. This progress has been made possible by our staff. They did a super job, often in difficult circumstances.

In January 2021 we initiated the next stage of our strategy, focused on serving our customers – individuals and enterprises resident in the Baltic countries - and business growth. Our priorities are to increase lending, notably in mortgages and to SME customers, improve customer satisfaction, and raise our level of digitisation and automation – while fulfilling our wider obligations to our communities and the environment.

We have work to do to realise our objectives fully, but I am encouraged by our progress through the year as our actions were rewarded increasingly with results. We grew customer lending to both individuals and enterprises and increased substantially new lending volumes. We led developments in Baltic capital markets with innovative new issues and were the leading manager of Baltic corporate bonds. We improved our digital offering and introduced digital wallets including Apple Pay. We also streamlined our organisational design and continued our technological development with a new agreement with Kyndryl and signed a contract with Worldline to unify and upgrade our ATM network.

We generated net profit of 74.7 million EUR in the year, as compared to 33.1 million EUR in 2020. This improvement was driven principally by an increase in net interest and net fee income, reduction in expenses, and net reversal of credit loss allowances. Our return on equity improved to 4.6%, up from 2.0% in the previous year. Exceptional costs incurred as we continued the transformation of our operations, totalled 76.8 million EUR. Excluding these costs, return on equity would have been 8.7%.

Despite COVID-19, our capital position improved. Given this and encouraged by the positive economic outlook in the region, in December our shareholders approved our proposal to pay a dividend of 190 million EUR. Our capital base remains strong with our Common Equity, Tier 1 and Total Capital Ratios above 20% of Risk Exposure Amounts. We continue to review our capital levels and structure to ensure alignment with our plans and outlook, and improve the efficiency of our capital resources. Moody's recognised our progress when they upgraded their long-term rating, by one notch, to Baa1. Following this, we sold a new 300 million EUR senior bond and repurchased an existing security, which strengthened our MREL base.

Through the year, we enhanced our risk framework, stepped up our ESG efforts and raised our ability to prevent financial crime. We introduced revised credit risk models, which improve our risk differentiation and prediction capabilities, and prepare us to apply to measure our risk exposures on an advanced internal ratings-based approach in the medium term, rather than the standardised approach we use today. We agreed our ESG ambitions, updated our Sustainability policy and ESG credit risk assessment guidelines, and commenced sustainability training for our employees. To help realise our ambitions we defined our ESG data governance, conducted our first ESG materiality assessment amongst stakeholders, and joined the Partnership for Carbon Accounting Financials. We will publish our first sustainability report this year. In August, the Baltic supervisory authorities published the results of their routine anti-money laundering inspections conducted in 2020. We have implemented many of the improvements required and we will complete the remaining actions in accordance with the plans we have submitted.

While COVID-19, rising price inflation, and consequences from the invasion of Ukraine are near-term challenges, our path for the year ahead is clear. As we support our customers, our staff, and the societies we serve, we have three priorities. First, to do more business with more customers – notably more mortgage and consumer lending and lending to SME customers - widen our product offering, and improve customer experience. Second, to raise our efficiency and enhance our IT operations. And third, to build our unique culture. We will maintain our strong financial standing, exercise prudent risk management, and fulfil our wider obligations - while continuing to engage constructively with our regulators.

I look forward to Luminor doing more business, more effectively, with more individuals and businesses across our home markets of Estonia, Latvia, and Lithuania.

WE ARE LUMINOR

We are the leading independent bank in the Baltic region and serve the financial needs of individuals, enterprises and institutions across Estonia, Latvia, and Lithuania. The economies of our three home markets are young, dynamic, and forward-looking.

Since the restoration of independence in the early 1990's, the Baltic countries have been transformed; planned economies are now robust democracies. All three countries are members of NATO, the European Union and have adopted the euro. GDP per head has doubled since 2000, yet is just 80% of the EU average. That should support continued, above EU-average, growth. Governments have pursued conservative fiscal policies. In 2020, Government debt was 36.3% of GDP, less than half the EU average of 90.1%. Principal export markets, beyond the region, are other EU members, the USA, and the UK. Meanwhile exports to Russia have declined and are low. For example, local origin exports of goods to Russia were circa 1% of GDP in 2021.

The total population of the three countries, at some 6 million, is similar to other Nordic countries such as Denmark, Finland or Norway. Like their neighbours, the Baltic countries score highly for openness and freedom. In Transparency International's 2021 Corruption Perceptions Index, all the Baltic countries were ranked in the top quartile of 180 countries globally, with an average score of 64.6, just behind the United States, with a score of 67, and well ahead of CEE countries.

The Baltic banking market is competitive but profitable. We are the third largest bank with a market share of 17% in lending. We compete against two Swedish banks which operate across the region, together with a smaller sized, local bank in each country. Lending balances in the region have grown in recent years, with just a minor decrease in 2020, but low private indebtedness gives room for further credit growth. Mortgage penetration is low.

Luminor was created in 2017 when DNB and Nordea pooled their Baltic operations, to serve the financial needs of these dynamic economies. We manage our business by customer segment – Retail Banking and Corporate Banking – on a pan-Baltic basis from our headquarters in Estonia and branches in Latvia and Lithuania. Our subsidiaries provide leasing, manage pension funds and other specialist activities. We operate only in the Baltic countries, 98.5% of our total deposits come from EU residents.

We have a robust governance structure and aspire to the highest standards of conduct. Our non-executive Supervisory Council oversees the executive Management Board. The Council members are appointed amongst the nominees of the shareholders of Luminor Holding, the parent company of Luminor Bank. The Board members are a blend of local and international executives.

We are regulated by the European Central Bank (the ECB). In July last year, the ECB, in cooperation with the Estonian Financial Supervision and Resolution Authority, completed its Comprehensive Assessment of us. The results of the Comprehensive Assessment were encouraging and confirmed our resilience, robust asset quality and capitalisation.

We do not tolerate financial crime. To prevent, detect, and report any potential financial crime, we have a low-risk appetite, have built our compliance culture, and enhanced our capabilities. We work closely with governments and supervisors and use this work to augment our systems and processes, to raise our effectiveness.

We built an independent bank between 2017 and 2020. Specifically, we merged 6-banks into one, and established our headquarters in Tallinn, the capital of Estonia. We carved out our IT systems from our founding parents and repaid 4 billion EUR funding to them. Further, we halved our non-performing loans ratio in the period. We have developed a leading position in Baltic capital markets. In 2019, Blackstone managed funds purchased a 60.1% interest in Luminor Holding, while DNB and Nordea each retained a minority interest. In 2021 the funds managed by Blackstone increased their ownership to some 68%, having purchased additional shares from Nordea.

We are well placed to grow. We have a straightforward business model; we are a retail and corporate bank, and our business is balanced, by customer type, by sources and uses of funds, and by country. We are easy to understand; our largest asset, Loans to customers, accounts for three-quarters of our balance sheet. Those Loans are funded by Deposits from customers. We are well capitalised, with capital ratios above 20% of risk exposure amounts – which we measure in a standardised basis.

WE ARE INTEGRATING ESG INTO OUR STRATEGY

We have three strategic priorities for the year ahead. First, to do more business with more customers – notably more mortgage and consumer lending and lending to SME customers - widen our product offering, and improve customer experience. Second, to raise our efficiency and enhance our IT operations. And third, to build our unique culture. We will maintain our strong financial standing, exercise prudent risk management, and fulfil our wider obligations.

We recognise that sustainability of our business is inexorably linked to the sustainability of the world around us. We will not be successful in a world that fails. Due to increasing extreme weather events as well as changing technologies, regulations and customer demand, our business environment is changing. We will adapt, and help our customers adapt as well.

We are committed to running our business in a responsible, sustainable, and caring manner. To do that we will set objectives to create positive impacts on the environment and the societies we serve, and will report on our progress. And we are determined to integrate ESG-related considerations and analyse ESG-related risks while organizing our business model, risk management framework, investment decisions, and financing activities. We have developed a strategy which contains a timeline and activities to implement our Sustainability Policy.

We set objectives in 2021 for creating positive impacts on the environment and the societies we serve, and ensure we satisfy relevant laws and regulations. Furthermore, we aim to support our customers on the journey toward climate resilience and help ensure that those in our society, who are exposed most to climate, social or governance risks, have a plan and a strategy in place to continue towards sustainable future.

Our updated Sustainability Strategy has three core elements: To be responsible - with regards to conduct, consumption, and waste - and CO2 neutral in our own operations. To support the transition to a low-carbon economy. And to care for local Baltic issues, including employee wellbeing, diversity and inclusion and measurable community engagement. To realise our strategy, we will in 2022 we will continue to develop a set of key performance indicators and key risk indicators.

WE ARE ACQUIRING MAKSEKESKUS

We signed an agreement on 31 January 2022 to acquire 99% of Maksekeskus, which is the leading e-commerce payment service provider in the Baltic region. The acquisition supports our strategic goals and will advance our digital transformation and strengthen our presence in the fast-growing e-commerce payments market.

Maksekeskus is wholly focused on e-commerce payments, offering e-merchants and their customers a secure and convenient payment solution and e-commerce-related services. Since it was founded in 2012 it has grown to become the largest payments service provider in Estonia with 2,600 active merchants. In Latvia and Lithuania, where it has a little under 500 active merchants, it is a challenger to incumbent providers.

The acquisition gives us access to the fast-growing e-commerce payments market and enhances our proposition for SME customers in Estonia. It is also a testament to our commitment to deliver value enhancing digital solutions to our customers. The acquisition will also allow Maksekeskus to significantly accelerate its roll-out outside of Estonia, leveraging our network and customer base in Latvia and Lithuania. We will keep Maksekeskus as a separate entity and Art Lukas, Maksekeskus CEO, will stay in his present role to lead the company in the next phase of its growth.

This transaction is subject to approvals by the Estonian Financial Supervision and Resolution Authority and the Estonian Competition Authority. The transaction is expected to close in the upcoming months.

CONTENTS

This annual report has been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union, and Estonian law. In this report 'Luminor', 'Luminor Bank', 'we', 'us' and 'our' refer to Luminor Bank AS together with its subsidiaries. The abbreviations '€m' and '€bn' represent millions and billions (thousands of millions) of euro, respectively. The ratios we use to measure and explain our performance and condition are defined in the Glossary.

MANAGEMENT REPORT

Financial Performance

Summary income statement, €m	2020	2021
Net interest and similar income	226.9	239.2
Net fee and commission income	73.6	78.5
Net other operating income	27.7	11.2
Total operating income	**328.2**	**328.9**
Total operating expenses	-275.4	-262.8
Share of profit from associates	1.0	1.8
Credit loss allowance	-17.6	14.8
Other non-operating expenses	-0.4	-0.3
Profit before tax	**35.8**	**82.4**
Tax expense	-2.7	-7.7
Profit for the period	**33.1**	**74.7**
Cost / income ratio, %	83.9	79.9
Cost / income ratio excluding exceptional costs, %	52.7	56.5

Profit for 2021 was 74.7 million EUR, double that of 2020. Net interest and fees increased by 17.2 million EUR, while Total operating expenses decreased by 12.6 million EUR.

Total operating income was virtually unchanged from last year.

Net interest and similar income increased by 12.3 million EUR, or 5.4%. Despite higher lending volumes interest and other similar income fell by 7.3 million EUR as margins came under pressure. Interest and similar expense fell by 19.6 million EUR as interest payable on deposits reduced and, with effect from the second quarter, we no longer incurred commitment fees on the funding facilities provided by our former parent banks.

Net fee and commission income increased by 4.9 million EUR, or 6.7%, supported by growth in commission income for several key products, notably in Cards, Daily banking, Investments and Pensions driven in part by the pickup in activity as compared to the year before.

Net other operating income decreased by 16.5 million EUR driven by lower net other financial income, as income generated in 2020 from the substantial, positive revaluation of Treasury bonds and VISA shares did not recur, together with an increase in our contribution to the Single Resolution Fund. We also started the accrual of guarantee fee payments to the European Investment Bank and European Investment Fund in relation to our synthetic securitization transaction.

Total operating expenses fell 12.6 million EUR, a decrease of 4.6%, as we continued to focus on improving our efficiency. Exceptional costs decreased by 25.8 million EUR, or 25.1% to 76.8 million EUR. Despite the decline in costs, we continued to make significant investments into IT operations, credit risk analytics and business development.

We benefitted from a 14.8 million EUR net reversal of credit loss allowances this year. This compares to a credit loss allowance of 17.6 million EUR last year. Details of this can be found in the 'Asset Quality' section below. Tax expense increased by 5.0 million EUR as profit before tax increased. We generated a return on equity of 4.6%, as compared to 2.0% last year. Excluding exceptional costs, respective returns were 8.7% and 7.3%.

Retail Banking

Financial performance, €m	2020	2021
Net interest income	114.2	110.2
Other net income	56.2	60.3
Total operating income	**170.4**	**170.5**
Total operating expenses	-173.7	-170.3
Credit loss allowance	5.4	11.6
Other non-operating expenses	0.1	-0.1
Profit before tax	**2.2**	**11.7**
Cost/ income ratio, %	101.9	99.9
Cost / income ratio excluding exceptional costs, %	62.0	69.7

Balances, €m	31 Dec 2020	31 Dec 2021
Loans to customers (excludes allowances and accumulated interest)	5,251.8	5,436.5
Deposits from customers	5,743.1	6,066.3

In line with our strategy, Retail Banking focused on three principal areas in 2021:

- to grow lending notably in mortgages,
- to improve customer satisfaction, and
- to increase customer numbers.

Against a growing mortgage market in 2021 we doubled the volume of a new sales as compared to 2020. In November we achieved our highest monthly new sales, which helped to increase our market share by five percentage points over the year. Mortgage demand recovered from the impact of COVID-19 at the beginning of the year, and the pace of new unsecured borrowing also picked up over the year. We almost doubled our volumes of new consumer lending from where they were in the previous year, as compared to a near 20% growth in the market. Competition amongst providers of mortgages and consumer lending remains intense.

We took a number of actions to improve our customers' experience. We consolidated our distribution channels and simplified our processes, redesigned our digital journey and our application forms, launched digital application signing and enhanced the design and user experience of our website. To help customers bank with us despite COVID-19 restrictions we expanded our digital channels for both private and business customers, and enabled remote onboarding of customers.

Our dedicated efforts to improve customer experience when banking with us is reflected in the growing active customer base, which increased by six percentage points over the course of 2021. More importantly, our newly onboarded customers rate Luminor products and services highly, which is evidenced by the improving customer survey results. Our customers especially highlight the welcoming and advisory aspects of the customer service in their feedback.

Assets of private banking grew 18% and pension customers grew 4% as we enhanced the functionality of our investor platform, improved customer experience, and extended our pension offering. We launched passively managed pension funds that promote ESG priorities. These 'Sustainable Future' funds invest only in companies that are leaders for their environmental, social, and governance-related criteria, meaning they are Article 8 Funds under the Sustainable Finance Disclosure Regulation. By the end of the year, we had over quarter of a million Second Pillar pension customers and more than fifty thousand Third Pillar pension customers.

Corporate Banking

Financial performance, €m	2020	2021
Net interest income	123.2	125.8
Other net income	33.2	35.3
Total operating income	**156.4**	**161.1**
Total operating expenses	-96.1	-89.9
Credit loss allowance	-24.0	2.5
Other non-operating expenses	0.1	1.7
Profit before tax	**36.4**	**75.4**
Cost/ income ratio, %	61.4	55.8
Cost / income ratio excluding exceptional costs, %	39.9	40.2

Balances, €m	31 Dec 2020	31 Dec 2021
Loans to customers (excludes allowances and accumulated interest)	4,307.8	4,627.9
Deposits from customers	6,024.8	4,196.8

In line with our strategy, Corporate Banking focused on three principal areas in 2021:

- to grow lending,
- to extend its market footprint, and
- to be a leader in the development of the Baltic capital markets.

Lending to corporate banking customers grew throughout 2021 as we increased our market and customer activity. Demand for credit was subdued at the beginning of the year because of the Covid-19 restrictions, but then grew across both customer segments and economic sectors, notably in commercial real estate, agriculture, wholesale and retail trade, and manufacturing. Loans to customers increased through a record volume of new fixed-term loans and leases, and increased use of overdraft facilities and factoring. Competition from other lenders increased downward pressure on margins. We, thus, observed lower prices in the market for new lending, and softer credit terms.

We supplemented our organic growth with the acquisition of two credit portfolios from Danske Bank, a 32 million EUR portfolio of Latvian business loans, leases, and guarantee agreements and a 39 million EUR Lithuanian business portfolio in the fourth quarter. We also assumed from Nordea Bank a 67 million EUR portfolio of Latvian business loans and a 51 million EUR business loan in Lithuania. Leasing balances, notably to the transportation and agricultural sectors, and lending to the SME segment benefitted from the European Investment Bank and European Investment Fund guarantee programme we launched in the first quarter. As a consequence, we increased our share of the leasing segment.

We were at the forefront of developments in the Baltic capital markets and were the leading underwriter of Baltic corporate bonds in 2021. We arranged the first commercial paper programme and sold the first commercial paper in the Baltics for a large corporate customer, as part of a supranational initiative to develop a regional commercial paper market. We led the first international bond issue from the real estate sector in the Baltic states, acted as a sole arranger for two debut issuers from the sovereign and financial sectors, and lead managed two inaugural green bonds for our large corporate clients.

In 2021, we prepared for a series of seminars to address different aspects of climate impact that are relevant to our customers, including greenhouse gas accounting methodology, and practical aspects of climate impact assessment and target setting. The seminars will be launched from the beginning of 2022 and will support our customers and ensure that companies exposed to high levels of climate risk have a plan and a strategy in place to ensure their resilience, and that they are also ready to deal with the additional regulatory expectations.

Financial condition

Summary balance sheet, €m	31 Dec 2020	31 Dec 2021
Cash and balances with central banks	4,926.5	2,494.2
Debt securities	284.3	608.2
Loans to customers	9,430.8	9,946.7
Other assets	282.5	267.7
Total assets	**14,924.1**	**13,316.8**
Deposits from customers	11,821.7	10,305.4
Debt securities issued	1,201.2	1,163.6
Other liabilities	236.0	299.0
Equity	1,665.2	1,548.8
Total liabilities and equity	**14,924.1**	**13,316.8**

Loans to customers grew in the year by 5%, while our total balance sheet decreased by 11%, as we managed down excess deposits. At year end, Loans to customers accounted for three quarters of Total assets, up ten percentage points as compared to the prior year end.

Loans to customers increased by 515.9 million EUR as we grew lending to Business and Individual customers. We also grew our portfolio of Debt securities, which is invested in low-risk bonds and almost entirely eligible as collateral for the ECB, by 323.9 million EUR. Consequently, we reduced our Cash and balances with central banks while maintaining a strong liquidity position.

Deposits from customers decreased by 1,516.3 million EUR, as we applied negative rates on high-volume deposits from larger corporate and Public sector customers and reduced the concentration of our deposit base. Within this net reduction, deposits from Individual customers increased by 279.2 million EUR. Debt securities issued fell marginally. We issued a 300 million EUR senior preferred bond at our lowest ever yield and at same time repurchased 228.5 million EUR of an existing security. We also repaid the outstanding nominal amount of 99.2 million EUR due on a senior security which matured.

Equity reduced by 116.4 million EUR, driven principally by payment of a 190.0 million EUR dividend in December, offset partly by net profit for the period. As originally agreed between Blackstone and Nordea, once the dividend payment was made, the Blackstone managed funds purchased from Nordea approximately 8% of the share capital of Luminor Holding AS, our parent company. After this transaction, funds managed by Blackstone own approximately 68% of Luminor Holding, DNB owns 19.95% and Nordea the remainder.

We received from the Estonian Financial Supervision and Resolution Authority a revised minimum requirement for own funds and eligible liabilities (MREL). From 1 January 2022 our MREL requirements are 22.42% of our risk exposure amounts (REA) and 5.91% of our leverage ratio exposure. We did not receive any subordination requirement. Given the own funds we use to comply with our combined buffer requirement (CBR) of 4.5% are ineligible to meet the MREL requirement, our new total MREL requirement is 26.92%. On 31 December 2021 our MREL-eligible securities equalled 29.05% of REA and 14.56% of our leverage ratio exposure.

Moody's Investors Service upgraded their long-term deposit rating of us from Baa1 to A3, and their long-term senior rating from Baa2 to Baa1. Following this, Moody's changed its rating outlook to stable. The credit agency explained the primary drivers for their upgrade were 'the strengthened solvency of the bank, with improved asset risk, a solid capital base, and a return to lending growth that will support sustainable growth in revenues.'

Capital and liquidity

Capital, €m	31 Dec 2020	31 Dec 2021
Shareholders' Equity	1,665.2	1,548.8
Regulatory adjustments	-78.5	-118.6
Prudential filters	-0.3	-0.4
Common Equity Tier 1	**1,586.4**	**1,429.8**
Credit risk exposure amounts	6,375.2	6,307.2
Operational risk exposure amounts	673.6	648.8
Other risk exposure amounts	37.5	31.7
Total risk exposure amounts	**7,086.3**	**6,987.7**
Common Equity Tier 1 ratio, %	22.4	20.5
Leverage ratio, %	10.2	10.3

We are strongly capitalised with own funds composed entirely of Common Equity Tier 1 (CET1) capital. Our CET1, Tier 1, and Total capital ratios reduced by nearly two percentage points over the year, as we lowered both our own funds and REA. The reduction in CET1 was driven principally by payment of a 190 million EUR dividend in December. REA, which we measure on a standardised basis, reduced as an increase in Loans to customers was more than offset by the effect of a synthetic securitization transaction executed in December on part of the corporate loan book. Retained profits for 2021 have not been included into the capital calculation. Including the retained profits for 2021 would increase our CET1 ratio to 21.5%.

Our capital ratios remain well above our minimum capital requirements set by our regulators which, from 1 March 2022, require us to have a CET1 ratio exceeding 10.24%, a Tier 1 ratio above 12.2% and a Total Capital ratio greater than 14.7%. These include a Pillar 2 additional own funds requirement of 2.2%. We reviewed our capital requirements and concluded that, from 1 March 2022 our limits for CET1, Tier 1 and Total capital ratios will be 12.94%, 14.9% and 17.4% of REA respectively. These limits include Pillar 2 guidance and management buffers. We continue to assess the value of Tier 2 capital to improve the efficiency of our capital resources in the future.

%	31 Dec 2020	31 Dec 2021
Liquidity Coverage Ratio	197.2	137.3
Net Stable Funding Ratio	159.0	140.8

Our structural liquidity risk is conservative and well-balanced. The Liquidity Coverage Ratio (LCR), which must be at least 100%, is one of a range of metrics we use to measure our liquidity risk. Our LCR reduced as we lowered our depositor concentration. This resulted in a more optimal and stable liquidity position. The liquidity buffer is composed of cash and liquid central bank eligible securities. During the year we terminated the committed funding facility provided by our former parent banks. The collateral assigned to this facility was released.

Long-term liquidity risk is measured by the Net Stable Funding Ratio (NSFR), which must be at least 100%. The decrease of the ratio during the year was driven by the decrease of Available Stable Funding resulting from lower deposit volumes, and an increase in the Required Stable Funding, driven by the growth of our loan portfolio.

Asset Quality

Loans to customers, €m	31 Dec 2020	31 Dec 2021
Stage 1	7,958.3	8,452.0
Stage 2	1,304.0	1,411.0
Stage 3	305.4	185.6
Gross carrying amount[1]	**9,567.7**	**10,048.6**
Credit loss allowance	-136.9	-101.9
Net carrying amount	**9,430.8**	**9,946.7**
Non-performing loans ratio, %	3.2	1.8

[1] POCI loans are spread between Stage 2 and Stage 3

The quality of our portfolio of Loans to customers improved in 2021 and we finished the year with a ratio of non-performing loans to gross loans at 1.8%, our lowest level ever. However, the continued incidence of COVID-19 means that the outlook for loan losses remains uncertain.

The negative consequences of COVID-19 on our credit quality have so far been limited. Certain industries and customers have been impacted negatively, while others have been almost unaffected. The most severe impact has been felt by the accommodation, food service, tourism, and aviation sectors. Our exposure to these sectors is 0.5% of our total net Loans to customers, with almost no exposure to the aviation sector. We have classified a little more than one fifth of our net exposure within these affected sectors as Stage 3.

The overall portfolio modified due to COVID-19 continues to perform well and almost all contracts are back to the original repayment schedules. Short-term overdues (more than 5-days) are higher for the modified portfolio than for the portfolio without modifications (4.3% vs 1.7%), however the difference in overdues more than 30-days is lower (2.0% vs 1.0%). The outstanding balance of loans under modifications was 14 million EUR at the end of the year, or 0.1% of Loans to customers.

Stage 2 exposures increased by 107 million EUR driven principally by incorporation of a top-down collective Significant Increase in Credit Risk (SICR) adjustment for exposures previously modified due to COVID-19. By year end, all still performing exposures, earlier modified due to COVID-19, were classified as Stage 2. This was partly offset by exposures moving from Stage 2 to Stage 1 due to rating upgrades and their removal from Watch list.

Stage 3 loans decreased by 119.8 million EUR after a focused effort in this area. The outflow of non-performing loans was around 3 times higher than the inflow, and this left the volume of non-performing loans at its lowest ever level. The key drivers for this decrease were repayments, collection activities including sales of collaterals, sales of claim rights, write-offs of the amounts remaining after collection activities and cures resulting from the end of probation periods.

Of the 101.9 million EUR credit loss allowance for impairment, 56.6 million EUR was for Stage 3 exposures. The net carrying amount of Stage 3 loans was 129.0 million EUR against which we held collateral with a fair value of 154.8 million EUR.

There was a net 14.8 million EUR reversal of credit loss allowances during the year as allowance reversals exceeded allowance increases. Reversals were driven by four principal reasons: a halving of the management overlay to 11.9 million EUR; repayments and exits from non-performing exposures; the one-off effect of aligning our credit management methodology with new regulations; and the ends of probation period for loans to Individual customers. Increases in allowances were driven by four principal reasons: updated macroeconomic scenarios, incorporation of the SICR adjustment, amended methodology for collectively assessed Stage 3 exposures and adjustments of provision levels for some individually assessed Stage 3 exposures.

Further details can be found in Note 4 to the Financial Statements.

Additional information

ECONOMIC ENVIRONMENT

The incidence and impact of COVID-19, the public health measures used to combat its effect, and Government policies to support economic activity, had the biggest effect on the Baltic economies in 2021. Economic activity and demand for our services increased throughout the year as widespread lockdowns of the first quarter abated and vaccination programmes were introduced.

The Baltic economies are growing, but the high cost of basics, especially heating, is dampening real consumption as the ability of households to spend on non-essentials is restrained. Further, the consequences from the invasion of Ukraine may lead to reduced rates of growth in the Baltic region, though the scale and impact of such lower growth rates is very difficult to assess at present. The sharp rises in energy prices pushed inflation into double digits in Estonia and Lithuania in December. We, therefore, expect growth in 2022 will be lower than 2021, notably in Estonia, where GDP was boosted by one-off factors.

The incidence of COVID-19 cases increased again in December. The Omicron variant is more infectious, but less virulent than earlier variants. This will have economic effects as worker availability falls as a large number of people fall moderately sick at the same time. The latest variant is both a risk and a sign of hope, as the level of immunity after this wave is likely to be high.

It is expected that in the second half of 2022 and in 2023, higher public investment and a global recovery will positively impact the Baltic economies. Government investment spending should support economic expansion with, for example, resources from the EU funds available to Latvia near doubling from 614 million EUR in 2021 to 1,175 million EUR in 2022. Industrial investment is expected to be strong as it is propelled by capacity shortages. The housing market cycle should also be an important positive factor.

The outlook for exports is forecast to be good. A downward price correction is likely in some manufacturing sectors, especially timber processing, while travel services are expected to recover as the effects of COVID-19 ebb, and white-collar services continue their strong performance. In the first three quarters of 2021 the annual growth in the exports of information and telecommunications services was 75% in Estonia, 13% in Latvia and 30% in Lithuania, while exports of business services grew by between 23% (Latvia) and 38% (Lithuania), according to the central banks of the Baltic countries.

It is expected that consumption will continue to support the economy in 2022, but probably less than might have been expected recently given the winding down of the emergency pandemic support measures and the saturation of demand for durables, combined with inflation briefly pushing real wage growth into negative territory.

Unemployment should continue to fall, and companies may find it harder to recruit workers. Labour markets in Tallin, Riga and Vilnius are tight, though away from the capital cities there is still some slack, especially in Latvia and Lithuania, where the employment level for men in their prime working age remains below the EU average.

BUSINESS DEVELOPMENTS

We are the leading independent bank in the Baltics and serve the financial needs of individuals, enterprises and institutions across our three home markets. We manage our business by customer segment – Retail Banking and Corporate Banking – from our headquarters in Estonia and branches in Latvia and Lithuania. At the turn of the year, we embarked on the next phase of our strategy, to increase customer focus and grow our business. To realise our ambitions, through 2021 we changed our organisation design, continued our technological development and enhanced our way of doing business, while improving the products and services we offer.

We integrated our Products and Offering Division into our Retail Banking and Corporate Banking Divisions, and other divisions including Finance, Legal and Technology. Through this change we sought to increase our customer focus and agility, and improve collaboration and process efficiency, while reducing organisational complexity. The integration was announced in the second quarter and completed by the end of the third quarter. In addition, Operations department became part of Technology Division.

We continued our technological development. Our priority is to ensure IT stability as we improve our services, products and performance. We are focused on strengthening our product and software development capabilities and teams, increasing quality assurance, and utilizing more fully the capabilities of our partners. Accordingly, we started a new five-year agreement with Kyndryl, to accelerate our digital transformation, ensure smooth banking services for our customers and strengthen further our security and regulatory compliance processes. Under the agreement, 185 people from our Technology Division were transferred to Kyndryl. We also signed a five-year contract with Worldline to unify and upgrade the ATM network throughout the Baltics. By year end the network had been modernised and functionality increased.

Our digital development continued with the preparation and rollout of new functionalities and products to our customers. We scaled up our e-commerce Gateway service and continued to enhance our e-commerce acquiring capabilities. In Estonia we launched a new mobile bank application and improved our online user experience, in Latvia we raised our level of automation, and in Lithuania we enabled push notifications to customers. We implemented solutions to resolve service stability challenges in Estonia and improve our processes. In December we introduced Google Pay, Apple Pay, Garmin Pay and Fitbit Pay, with some twenty thousand active cards added straightaway.

Through the year, we enhanced our resilience and risk framework. As part of our roll-out of revised credit risk models and to prepare to apply to use in the medium term the advanced internal ratings-based approach to measure the risk weights, we revised our internal model landscape and introduced the first of several incremental rating model updates. The newly developed rating systems for classifying credit exposures apply to our internal models that provide ratings and estimates for the key risk parameters of probability of default, loss given default and exposure at default.

These models are being applied in both application ratings and regular re-ratings and their output is used in a broad range of business and risk management processes, including the frontline systems of credit application, pricing, and credit monitoring, and the downstream systems of IFRS 9 provisioning, the Internal Capital Adequacy Assessment Process, and internal reporting. They provide an improved risk differentiation capability and higher predictive power than the models used previously, and they have been subjected to independent validation.

The ECB, working with the Estonian Financial Supervision and Resolution Authority, completed its Comprehensive Assessment of us, which comprised an Asset Quality Review (AQR) and a stress test. The Asset Quality Review was performed on our financial position at the end of 2019. The Stress Test applied the 2020 European Banking Association Stress Test methodology at the same starting point and incorporated regulatory and governmental relief measures passed in response to Covid-19. The results of the Comprehensive Assessment confirmed our resilience, robust asset quality and capitalisation.

We have three priorities for the year ahead. First, to do more business with more customers – notably more mortgage and consumer lending and lending to SME customers - widen our product offering, and improve customer experience. Second, to raise our efficiency and enhance our IT operations. And third, to build our unique culture. We will maintain our strong financial standing, exercise prudent risk management, and fulfil our wider obligations.

EVENTS AFTER 31 DECEMBER 2021

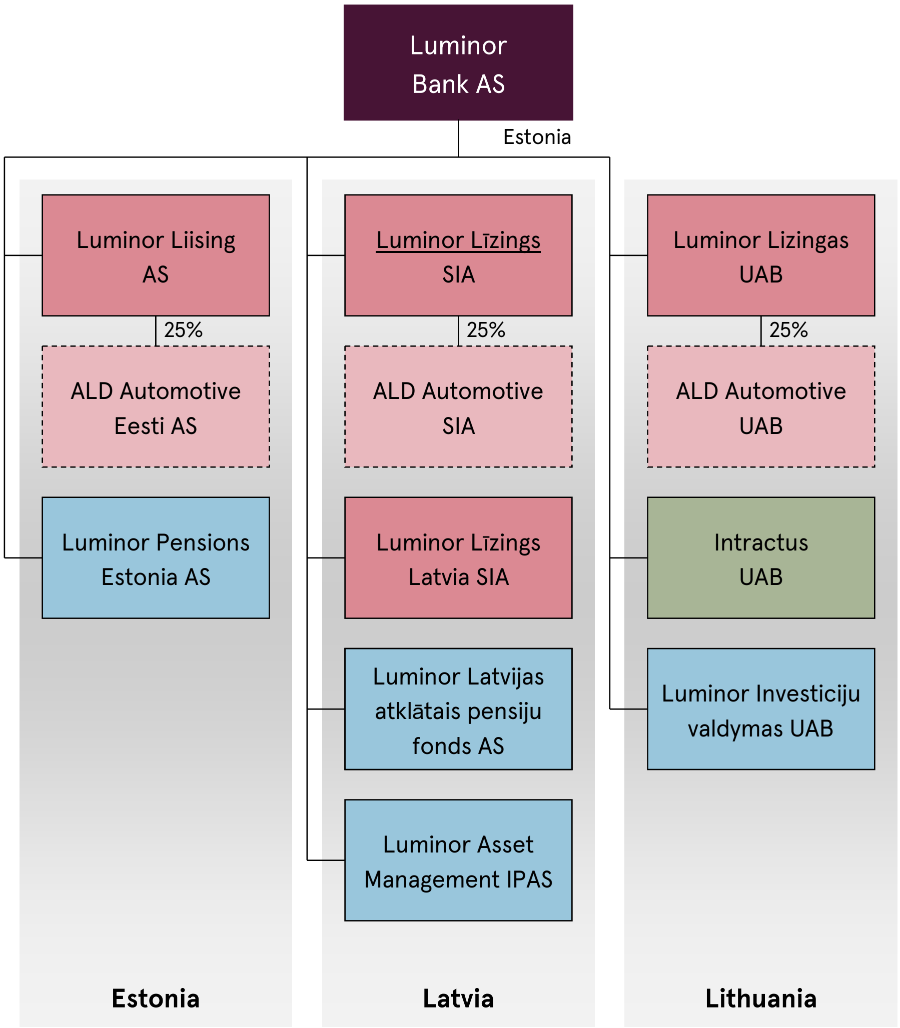
Effective 1 January, Ottar Ertzeid was elected to the Supervisory Council and subsequently to the Council's Audit, Remuneration and Risk committees. Mr Ertzeid is a career banker with over 30-years' experience. Most recently, he was Group Chief Financial Officer at DNB ASA and DNB Bank ASA, and a member of the Group Management Board. Prior to this he was Head of DNB Markets, DNB's investment banking unit.

On 31 January, we signed an agreement to acquire 99% of Maksekeskus, the leading e-commerce payment service provider in the Baltic region. The acquisition supports our strategic goals, and will advance our digital transformation and strengthen our presence in the fast-growing e-commerce payments market. The transaction is expected to close in the upcoming months, and is subject to approval by the Estonian authorities.

We have completed an initial high-level evaluation of the possible consequences to our credit portfolio from the invasion of Ukraine. We have assessed customers' ownership structures, sales markets, sourcing markets, location of production units/operation and energy intensity. We have concluded that our customers' exposure is limited, and the number of our customers (legal entities) with ownership links to the affected region is limited. Payment flows to and from Belarus, Russia, or Ukraine account for less than 2% of our total customer payment flow. Risks related to the material sourcing, location of production units/operations are mitigated in most cases. Sales markets for most of the customers are diversified. However, we also note that the situation is unpredictable, for example regarding potential energy flow reductions or sanctions, and it is therefore not possible to come to a final assessment.

ORGANISATION STRUCTURE

We operate principally through Luminor Bank AS, Estonia including our branches in Latvia and Lithuania. Through subsidiaries we provide leasing, manage pension funds and own repossessed assets. In the Notes to the Financial Statements, we list subsidiaries liquidated in 2021 and those we are liquidating. We have omitted such subsidiaries from the structure chart below. We own 100% of all subsidiaries unless shown otherwise.



ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

During 2021 we developed our approach to ESG and advanced how we will align such considerations to our business. We agreed our ESG ambitions, updated our Sustainability policy and ESG credit risk assessment guidelines, and commenced sustainability training for our employees. Our ambitions are to act responsibly and be carbon neutral, to support the transition to low carbon economy, and care for Baltic issues. To help realise our ambitions we defined our ESG data governance, conducted our first ESG materiality assessment amongst stakeholders, and joined the Partnership for Carbon Accounting Financials.

Environmental and Social impacts of our activities

Climate risks have two elements - physical risks which result from long-term changes in environmental conditions, e.g., rising sea levels, and transitional risks which arise from the shift to climate-resilient economies, e.g., greenhouse gas (GHG) emission - a key risk for our customers and us. In 2021, we established our GHG emissions' baselines for Scope 1, 2 and 3 emissions. From this we will set emission targets and measure our progress. We implemented GHG accounting standards for our main asset classes, including corporate lending. Emissions from own operations were:

Greenhouse gas emissions, mtCO_2e	**2021**
Scope 1	51
Scope 2	2,155
Scope 3	1,054
Total	3,260

We have established GHG emissions baselines also for our corporate lending, mortgage and commercial real estate portfolios.

We play an important role in climate-related financing and investment, credit risk management, and the development of new climate risk management products. In 2021, we analysed our lending by exposure to climate-related risks to prioritise development of our ESG sector strategy, based on the European Bank for Reconstruction and Development (EBRD) climate risk framework. Most of our exposures are 'Low risk' or 'Medium risk' according to the EBRD framework, that is the customer's business activities have minor / few environmental and social risks and impacts associated with them or have limited environmental and social risks and impacts, and these are capable of being readily prevented or mitigated through technically and financially feasible measures.

Based on this analysis, we initiated the development of sector specific strategies that outline key risks and mitigation actions we expect our customers to take. We looked initially at those sectors with high or medium climate risk exposure and are undertaking a climate risk and risk driver analysis. This analysis will be rerun annually as part of our corporate strategy development and update process. We also developed a proxy standard for real estate energy efficiency, based on building type.

In 2021, we did not consider principal adverse impact, including climate impact in our investment advice nor in our discretionary portfolio management services. During the reporting period we revised our investment offering and analysed how to incorporate sustainability related risks and consideration of principal adverse impacts into our processes. It is our objective to set targets in 2022 associated with promotion of ESG characteristics and sustainable investments exposure of our assets under management. During the upcoming period, the integration of sustainability-related criteria and risks into the investment decision processes will be fostered by reviewing and updating internal governance framework for provision of Independent Advice and Discretionary Portfolio Management services.

We do not underwrite insurance policies but do sell policies as an agent. Considering the intensity and distribution of extreme weather events such as floods and storms, and resultant risk of catastrophic property claims thereof, we perceive climate change as a threat for our partners - the insurance companies, which could materially affect the overall profitability of both our customers and our insurance partners' business and consequently also affect us as their trading partner.

Our ESG Credit Risk Assessment Guideline describes the integration of the human rights arrangements into the due diligence questionnaire and consideration of the outcome thereof in the processes pertaining to the lending projects of large corporate customers. The outcome of this assessment informs our next actions and additional information requirement or the necessity to avoid such a business relationship. We are developing a Due Diligence Policy and reviewing our KYC process to ensure human rights due diligence of all our corporate customers as well as vendors and suppliers.

Compliance with laws and regulations and regulatory interactions

In 2021, no fines, nor sanctions were applied to Luminor due to infringement of environmental and social laws. In 2021, we were fined 0.35 million EUR by the Bank of Lithuania for payments related incidents that occurred in July and August 2022. In August 2021, the Baltic supervisory authorities published the results of the routine anti-money laundering inspections which were conducted at our offices last year. The supervisors highlighted areas for improvement within our internal processes and rules. We have implemented many of the required improvements already and we will complete the remaining actions in accordance with the plans we have submitted to our supervisors. The audits will help us to enhance further our AML effectiveness.

Human Resource Management

Employee wellbeing is of paramount importance. Our regulations adhere to International Labour Organization conventions and the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. In 2021, we sought to increase employee wellbeing. We created a new Wellbeing Partner role and conducted a series of online seminars on wellbeing and mental health, and tools to cope with workplace stress. We integrated questions on wellbeing and mental health into our survey of employees conducted in November 2021 and were encouraged that employees feel psychologically safe within their teams and with their managers. Our target is to maintain the improving positive trend for Employee Net Promoter Score and for next year reach a score +20.

We value diversity of mindset, ability, and background. We believe this leads to better outcomes, and means we are better able to meet the needs of our customers. We foster an inclusive working environment that demonstrates and supports respect, and eliminates any type of psychological harm, verbal and physical harassment, and discrimination. Our internal processes incorporate the requirements of applicable legislation and best practices. Annually, as part of our performance management cycle, we offer training about equal remuneration to all our managers.

Human Rights and Responsible Practices

We respect and promote fundamental human rights. We respect the rights contained in the United Nations Global Compact and in the Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, and the Tripartite Declaration mentioned above. We do not do business with individuals or enterprises that systemically violate human rights and incorporate consideration of human rights into our due diligence when lending to large corporate customers. In 2021, we conducted a training programme for employees that covered Human Rights.

We are committed to behaving with integrity and avoid activities which enable bribery and corruption. To this end we have established a Sustainability Policy, Code of Conduct, Conflict of Interest Management Policy and Anti-Financial Crime and Sanctions Policy. In addition, we have in place measures to know our customers, implement financial sanctions quickly, and exchange financial information within international frameworks. These policies and measures are supported by mandatory training for all employees to promote integrity and combat corruption and financial crime, and a gifts and events registry. We receive notifications from law enforcement agencies if suspicion of corrupt practices arises against any employee.

PREVENTING FINANCIAL CRIME

We do not tolerate financial crime. To raise our ability to prevent, detect, and report any potential financial crime, in 2021 we further built our compliance culture, enhanced our capabilities, and implemented a work plan to address the conclusions of an anti-money laundering inspection by our supervisory authorities. We continued to raise awareness of the risk of financial fraud.

Preventing financial crime is a high priority for our Management Board and Supervisory Council. We have a low-risk appetite and a conservative business model. We operate only in the Baltic countries and target our products and services at residents of those countries, or individuals and companies with a strong connection to them. We work closely with governments and the supervisory authorities and use this work to enhance our systems and processes. We follow international guidelines, recommendations and standards issued by the regulators, international bodies, local banking associations, and financial intelligence units.

We strengthened the leadership and governance of our anti-financial crime unit. At the start of the year, we assessed the maturity of our Compliance Division. The assessment identified steps we need to take to achieve our desired state. We established a dedicated workstream to address the risk of fraud. In addition, we created a Conduct & Ethics and Reputation Department to build a solid ethics and risk culture within the Bank. We reviewed our Code of Conduct and ran a range of different activities throughout the year to increase awareness of the Code.

We held 70 training sessions on preventing financial crime and other Compliance topics, with a special focus on fraud, through the year. Lead by international specialists and internal experts, the training was given to the entire organisation, from new employees to members of the Supervisory Council. These sessions were supplemented by monthly financial crime intelligence summaries, which raised awareness of new and developing trends in financial crime.

We upgraded our anti-fraud framework and technological solutions and will continue to invest in this area in 2022. Significant changes were introduced in fraud governance. We established a dedicated external fraud function within Compliance Division and created a Fraud Risk Management unit under the Retail Division that is focused on payment and lending fraud. We enhanced our common monitoring and screening solution across all three Baltic countries and will also continue this work in 2022.

In August, the Baltic supervisory authorities published the results of their routine anti-money laundering inspections which were conducted at our offices in 2020. The supervisors highlighted areas for improvement within our internal processes and rules. We had already applied many of the improvements required by our supervisors at the time their report was published, and we will complete the remaining actions in accordance with the plans we have submitted to them. The audits help us enhance further our AML effectiveness. The findings confirmed our low-risk appetite and our conservative business model.

Through the year, we raised public awareness about fraud and cyber security. We contributed to the 'No thank you!' anti-fraud campaign organised by the Estonian Banking Association. This multi-media campaign, motivated by the growing number of fraudulent calls being made to customers, informed people about financial fraud and how to counter it. In addition, in all three Baltic countries, we worked continuously with the media to warn customers on the increasing number of attempts at cyber and investment fraud. We also informed our customers about the sanctions imposed on Belarus.

Our Anti-Bribery and Anti-Corruption Policy describes the requirements for anti-bribery and anti-corruption practices and supports our employees in their efforts to prevent bribery and corruption. We have zero tolerance for any activities that include or could be considered as including any kind of bribery and corruption. Accordingly, employees must not offer any bribe or any other unauthorized payment or benefit of any kind to anyone; refuse any kind of benefit, payment, gift or event invitation, that would not be authorized by us in the ordinary course of business, and to do so in a manner that is not leading to misunderstanding or giving rise to false expectations, and to report any such offers; not to make Facilitation payments; and treat Related Persons and friends in a customer or business situations in the same way as any other customer or business relationship; and report any breaches of this Policy.

CORPORATE GOVERNANCE REPORT

Corporate Governance Principles

This Corporate Governance Report is prepared in accordance with the requirements of the Estonian Accounting Act, the European Banking Authority's Guidelines on internal governance, and with consideration to Global Reporting Initiative Standards. Our internal governance principles which follow the Corporate Governance Code of the Estonian Financial Supervision Authority, define lines of responsibility, risk management processes, control mechanisms and remuneration policies.

We have a two-tier governance structure. The Supervisory Council (the Council) has non-executive responsibilities whose members do not have management responsibilities. The Management Board (the Board) consists of members who have management responsibilities and conducts executive functions. Members of the Board cannot simultaneously be members of the Council. Together we refer to the Council and Board as 'management bodies.'

The General Meeting of Shareholders is our highest decision-making body. The General Meeting is responsible for approving our business strategy and material changes to the scope and direction or nature of our business. The General Meetings are held at least once a year. The General Meeting alone can amend the Articles of Association, subject to a two thirds majority of the votes represented at the General Meeting. A resolution to change the share capital also requires a two-thirds majority.

Shareholders who hold at least 10% of the votes in Luminor Holding, our parent company, can appoint their pro rata proportion of members to our Council. A shareholder holding a majority of the voting rights of Luminor Holding can appoint 50% of the members of the Council. DNB and Nordea have the right to request a review of our compliance with the Compliance Policy or the ESG Standards and other similar corporate social responsibility policies and standards, which may be conducted by an external person or by the relevant requesting party.

Corporate Values and Principles of Conduct

We aspire to the highest standards of ethical and professional conduct. All Luminor people are expected to know and follow our values, ethical standards and the principles of compliance and risk management. Each employee must abide by our Principles of Conduct and identify, prevent and report bribery and corruption. We have developed corporate values and expected behaviours to reinforce the principles of compliance and risk management.

Our three corporate values are: to be curious, which drives change; to be collaborative - we praise teamwork and value team targets above individual ones; and to be focused, and work with a clear purpose.

We are committed to act in a fair and professional manner. We make every effort to identify, prevent and manage conflicts of interest to ensure all stakeholders are treated fairly and shareholders' interests are protected. Our Conflict-of-Interest Management Policy details possible conflicts and how they are to be managed. Each employee must recognize, prevent and report any cases of conflicts of interests, and report their economic interests by filling in a declaration of external engagements.

The main principle of our gifts and events reporting procedure is that employees do not accept or offer gifts or events regardless of their value if doing so can be considered inappropriate or may be ethically questionable, may affect the recipient in performing their duties or may create a reputational risk for Luminor. The procedure provides specific examples to support employees in making decisions on the appropriateness of gifts and events and handling various situations.

We seek to create an environment where individual differences and contributions are valued, dignity and respect are promoted and there is a workplace equality. We have processes for evaluating and enhancing diversity and apply the principle of equal pay for equal work, through pre-defined salary ranges for various positions in recruitment and salary reviews. We plan that by 2024, 40% of the Supervisory Council, and 50% of the Management Board will be female.

Selection Criteria to the Managing Bodies

Only people who have the necessary professional experience and possess the appropriate character may be members of our management bodies. We do not discriminate on the basis of any protected characteristics. To encourage independent opinions and critical thinking, and allow a variety of views and experiences, we seek diversity by age, gender, geographical provenance, and background. We have policies to address sudden or unexpected absences or resignations from the management bodies. We seek to prevent too many members having to be replaced simultaneously and so preserve continuity of decision making.

The members of the Council are appointed amongst the nominees of Luminor Holding shareholders as provided in the shareholders' agreement, with each shareholder having the right to remove and replace a member appointed by it. The Nomination Committee, the Council or the CEO can identify the need to appoint a new Board member, and the Nomination Committee supports the CEO before and through the recruitment process. The Board members are removed by the Council.

Supervisory Council

The Council represents the shareholders' interests, supervises the Board, takes decisions on strategic issues, and oversees the risk culture. The Council is elected by the General Meeting and all members of the Council must be assessed according to applicable external legislation and internal procedures before they can be elected. The Council has five to fifteen members, whose term of office is five years. Meetings are held at least quarterly. In 2021, the Supervisory Council held 34 meetings.

The Council members elect from among themselves a Chair. The Chair is responsible for the effective functioning of the Council, coordinates its work and contributes to the flow of information within the Council and with the Board and committees. The Chair promotes open and critical discussions, ensures that dissenting views can be expressed and discussed, and ensures the Council makes well-informed and sound decisions.

Jerome Mourgue d'Algue and Trygve Young resigned from the Council, and committees of which they were a member, effective 6 July and 31 December 2021 respectively. Ottar Ertzeid, was appointed to the Council effective 1 January 2022 and subsequently to the Audit, Remuneration and Risk committees. At year end, therefore, the members of the Council were:

Name	Date appointed	Committee memberships
Nils Melngailis (Chair)	2 January 2019	Nomination (Chair)
Jørgen Christian Andersen	2 January 2019	Audit, Nomination, Remuneration
Maria Elena Cappello	1 July 2020	Nomination, Remuneration (Chair), Transformation
Mathias Patrick Laurent Favetto	26 August 2020	Audit, Risk, Transformation
Nadim Diaa El Din El Gabbani	30 September 2019	Nomination, Remuneration, Risk
Michael Richard Jackson	2 January 2019	Remuneration, Risk, Transformation (Chair)
Bjørn Erik Naess	2 January 2019	Audit (Chair), Nomination, Remuneration
Elizabeth Jane Nelson	1 December 2020	Risk (Chair), Transformation
Trygve Young	2 January 2019	Audit, Remuneration, Risk

Committees of the Council support it in specific areas, and where required by law or regulation. Committee regulations ensure the allocation of duties and tasks between the committees. Each committee has at least three members and a documented mandate, which covers the scope of its responsibilities and appropriate working procedures.

Audit Committee

The Audit Committee assists the Council in fulfilling its responsibility for monitoring, analysing and establishing sound internal controls, accounting policies and budgeting processes, and internal audit and risk management systems for financial reporting, and that financial reporting is reliable and objective. The Committee also monitors the effectiveness of the statutory audit. At least one member of the Committee must have more than three years of experience in accounting or auditing. The Committee meets at least once per quarter and in 2021 held 11 meetings.

Nomination Committee

The Nomination Committee nominates to the Council candidates for the Board and other key function holders, oversees succession planning and talent management processes, and assesses the structure, performance, knowledge, skills and experience of the Board collectively and of its members individually. The Committee members must have relevant knowledge, skills and expertise to fulfil its mandate. The Committee meets at least annually and in 2021 held 9 meetings.

Remuneration Committee

The Remuneration Committee verifies that remuneration systems conform to effective risk management and are designed to reduce the possibility of excessive risk-taking. The Committee meets at least annually and in 2021 held 14 meetings.

Risk Committee

The Risk Committee supports the Council in and setting and monitoring risk strategy and appetite. The Committee oversees risk management and control, reviews asset, liability and capital structure, assesses product risks, and monitors our compliance system. The Committee also considers business model risk and our risk profile in normal and stressed situations. Members of the Committee must have relevant experience and knowledge of risk management and control practices, our risk strategy and how best to supervise its implementation. The committee meets at least quarterly and in 2021 held 15 meetings.

Transformation Committee

The Transformation Committee advises and supports the Council with regard to strategic IT-related projects, strategic IT supplier agreements, development and implementation of technology strategy (including sourcing strategy), and the review of our technology priorities and plans. The Committee meets at least annually and in 2021 held 14 meetings.

Management Board

The Board is the Bank's executive body. The Board primarily directs day-to-day activities, oversees risk management and internal control, and follows the strategies and general principles approved by the Council. The Board reviews proposals and explanations presented to it, takes sound, well-informed decisions and reports appropriately to the Council.

The Board has three to ten members whose term of office is five years. Board members must be assessed according to applicable external legislation and internal procedures before they can be appointed by the Council. Members are removed by the Council. The Council appoints a Chair from the members of the Management Board. The Chair or two Board members legally represent the Bank. Areas of responsibility are divided between the members of the Board to suit their skills, expertise and responsibilities. The Board meets at least monthly and in 2021 held 94 meetings.

The Board must have: a Chair, who is the Chief Executive Officer (CEO) who has overall responsibility for Bank; a Chief Financial Officer (CFO), who has responsibility for managing financial resources, financial planning and financial reporting; and a Chief Risk Officer (CRO), who is responsible for ensuring that our material risks are identified, assessed, monitored, tested and reported to our management bodies, and that the business is advised on appropriate risk mitigation and management.

Peter Bosek, the CEO, was appointed and made the Chair of the Board effective 1 January 2021. Marilin Pikaro, Chief Compliance Officer (CCO), resigned effective 6 January 2021 and her replacement, Mari Mõis, was appointed effective 1 August 2021. Palle Nordahl, CFO, was appointed effective 1 May 2021. On 31 December 2021, therefore, the members of the Board were:

Name	Date appointed	Title
Peter Bosek (Chair)	1 January 2021	Chief Executive Officer
Georg Jürgen Kaltenbrunner	1 November 2019	Chief Risk Officer
Mari Mõis	1 August 2021	Chief Compliance Officer
Andrius Načajus	12 November 2018	Head of Corporate Banking
Palle Nordahl	1 May 2021	Chief Financial Officer
Ilja Sovetov	2 September 2019	Chief Technology Officer
Kerli Vares (previously Gabrilovica)	2 January 2019	Head of Retail Banking

Internal Control Framework

Our comprehensive internal control framework covers management's responsibilities, and the activities of business lines and internal units, including internal control functions, outsourced activities and distribution channels. Our framework ensures effective and efficient operations, prudent conduct of business, adequate risk management, sound processes and compliance with all relevant laws and regulations. Furthermore, our internal control framework covers the processes of accounting and reporting to ensure that our financial statements are reliable and free from material misstatements. We have designed and implemented through established policies and procedures the following control activities to mitigate financial reporting risk: segregation of duties, IT general controls, entity-level and process-level controls, and preventive and detective controls.

We have a conservative overall risk profile and will only assume risks which we are able to assess, manage and monitor. We do not offer products or services which entail a material risk of contributing to unethical conduct, infringement of human or labour rights, corruption or serious environmental harm.

We use a three lines of defence model to manage our risks. Our first line of defence, our business and supporting divisions, own their risks and are responsible for ongoing management of risks in line with our framework. Among other, one of Management's key responsibilities is to ensure that design and operating effectiveness of the controls are sufficient to prepare reliable financial information.

Our second line of defence is an independent control and reporting function which verifies that the first line operates as intended. Risk Division led by Chief Risk Officer (CRO) and Compliance Division lead by Chief Compliance Officer (CCO) are the second line of defence functions. Internal Audit function, our third line of defence, assesses the total risk management and controls in the first and second lines of defence. To ensure independence, the Head and the staff of Internal Audit are appointed by the Supervisory Council. Monitoring and assessment of accounting and financial reporting processes fall within the scope of our control functions.

Each quarter the internal control functions report to management bodies major risks and any deficiencies identified together with an impact assessment and remediation plan. The Council follows up on the findings in a timely manner and requires remedial actions to be taken. The CRO and CCO report to the Board and have direct access to the Council. In addition to the regular reports, the management bodies consistently communicate directly with the CRO on key risk issues.

Risk Management Function

The function defines risk policies and the risk management framework, ensures that effective risk management processes are in place and is involved in all material risk management decisions. The Risk Management Function consists of the Risk Division and reports to the CRO, who is responsible for providing comprehensive information on material risks to the Board and the Council, to enable them to understand overall risk profile and advise on matters related to risk management. For more details, refer to the Note 4 to the Financial Statements, please.

Compliance Function

The Compliance function identifies, assesses, monitors and reports on compliance risks and compliance with our internal framework and all applicable laws and regulations. The Compliance function is led by the CCO who is responsible for the control of compliance risks and, reports to the Board and has direct access to the Council. The operation of the Compliance function and its responsibilities are defined in the Compliance Policy and associated internal regulations.

Internal Audit Function

The Internal Audit, commissioned by the Council, provides reliable, independent and objective assurance to the Council and the Board about the effectiveness of governance, risk management and internal control processes within the first and second lines of defence. Internal Audit has no direct operational responsibility or authority over audited activities, and has unrestricted access to all functions, property, people and service providers to fulfil its responsibilities. The Internal Audit is committed to adhere to International Auditing Standards and promote a sound control culture within Luminor.

Management of Branches

Our branches in Latvia and Lithuania provide financial services as notified to the supervisory authorities in the Baltic countries. The branches enter into agreements and undertake obligations on our behalf, acquire other rights and assume other duties, consistent with the law and their mandate. The Branch Managers (also deputy of the Branch Manager in Lithuania) are appointed by the Council. The Board acts as a supervisory body for the branches and the Branch Manager, and approves the branches' business plans, financial results and performance.

Management of Subsidiaries

Our subsidiaries provide leasing, manage pension funds and own distressed assets. The management bodies of each subsidiary depend on the laws that apply to that subsidiary and its role. The CEO or the Management Board of a subsidiary is responsible for executing the decisions taken by the management bodies of the subsidiary. The management bodies of subsidiaries report to the Management Board of the shareholders of the subsidiary on matters related to business plans and budgets of the subsidiary. Dividends payments within the consolidation group are governed by procedures which detail the timing, approvals required and amounts of any payments.

Auditors

We have been audited by AS PricewaterhouseCoopers (PWC) since 2018. Ago Vilu is the lead partner for the audit. We comply with the auditor rotation requirement. In addition to the statutory audit, PWC provided additional services required by regulations in the Baltic countries and other assurance services that are permitted under the Estonian Auditors Activities Act and other EU and national laws and regulations.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

€m	Notes	2020	2021
Interest income calculated using the effective interest method	5	226.6	223.5
Other similar income	5	47.1	42.9
Interest and similar expense	5	-46.8	-27.2
Net interest and similar income		**226.9**	**239.2**
Fee and commission income	6	95.8	102.1
Fee and commission expense	6	-22.2	-23.6
Net fee and commission income		**73.6**	**78.5**
Net gain (-loss) from derivatives	7	-9.6	23.4
Net gain (-loss) from foreign currency operations	7	24.1	-7.9
Net other financial income	7	13.2	5.4
Other operating income		6.4	1.6
Other operating expenses	8	-6.4	-11.3
Net other operating income		**27.7**	**11.2**
Total operating income		**328.2**	**328.9**
Salaries and other personnel expenses	9	-100.2	-101.0
Other administrative expenses	10	-163.1	-149.7
Depreciation and amortization	15, 16	-12.1	-12.1
Total operating expenses		**-275.4**	**-262.8**
Share of profit from associates	14	1.0	1.8
Credit loss allowance, excluding off-balance sheet commitments	12	-14.5	13.1
Credit loss allowance on off-balance sheet commitments		-3.1	1.7
Other non-operating expenses		-0.4	-0.3
Profit before tax		**35.8**	**82.4**
Tax expense	24	-2.7	-7.7
Profit for the period		**33.1**	**74.7**
Total comprehensive income		**33.1**	**74.7**

The notes on pages 31 to 102 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

€m	Notes	31 Dec 2020	31 Dec 2021
Assets			
Cash and balances with central banks	11	4,926.5	2,494.2
Due from other credit institutions		103.6	64.4
Debt securities	13	284.3	608.2
Loans to customers	12	9,430.8	9,946.7
Derivative financial instruments	23	43.4	75.5
Equity instruments		2.8	3.2
Investments in associates	14	5.3	6.4
Intangible assets	15	6.7	10.0
Property, plant and equipment	16	56.6	47.0
Investment properties		0.6	0.1
Current tax assets		0.5	2.6
Deferred tax assets	24	9.4	8.7
Other assets	17	53.6	49.8
Total assets		**14,924.1**	**13,316.8**
Liabilities			
Loans and deposits from credit institutions		47.3	83.8
Deposits from customers	18	11,821.7	10,305.4
Debt securities issued	19	1,201.2	1,163.6
Derivative financial instruments	23	50.6	70.3
Tax liabilities		0.2	0.5
Lease liabilities	16	49.7	43.4
Other liabilities	20	78.9	91.9
Provisions	21	9.3	9.1
Total liabilities		**13,258.9**	**11,768.0**
Equity			
Share capital and premium	22	1,447.1	1,447.1
Retained earnings		215.1	97.9
Other reserves		3.0	3.8
Total equity		**1,665.2**	**1,548.8**
Total liabilities and shareholder’s equity		**14,924.1**	**13,316.8**

The notes on pages 31 to 102 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021

€m	Share capital and premium	Retained earnings	Other reserves[1]	Total equity
Balance as at 1 January 2020	**1,447.1**	**183.9**	**1.2**	**1,632.2**
Profit for the period	0.0	33.1	0.0	**33.1**
Total comprehensive income	**0.0**	**33.1**	**0.0**	**33.1**
Transfer to mandatory reserve	0.0	−1.8	1.8	**0.0**
Other	0.0	−0.1	0.0	**−0.1**
Balance as at 31 December 2020	**1,447.1**	**215.1**	**3.0**	**1,665.2**
Balance as at 1 January 2021	**1,447.1**	**215.1**	**3.0**	**1,665.2**
Profit for the period	0.0	74.7	0.0	**74.7**
Total comprehensive income	**0.0**	**74.7**	**0.0**	**74.7**
Transfer to mandatory reserve	0.0	−0.8	0.8	**0.0**
Dividends	0.0	−191.0	0.0	**−191.0**
Other	0.0	−0.1	0.0	**−0.1**
Balance as at 31 December 2021	**1,447.1**	**97.9**	**3.8**	**1,548.8**

[1] The majority of Other reserves consist of mandatory statutory reserve capital calculated according to Estonian Commercial Code par. 5. The statutory reserve capital may be used for covering losses.

The notes on pages 31 to 102 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021

€m	Notes	2020	2021
Profit before tax		35.8	82.4
Adjustment for non-cash items:			
Credit loss allowance		17.6	-14.8
Depreciation and amortisation	15,16	12.1	12.1
Other non-cash items		-3.1	-1.5
Interest and similar income	5	-273.7	-266.4
Interest and similar expense	5	46.8	27.2
Change in operating assets/liabilities:			
Increase (-) / decrease (+) of lending to customers		763.8	-509.1
Increase (-) / decrease (+) of other assets		-50.3	-318.5
Increase (+) / decrease (-) of client deposits		658.2	-1,478.5
Increase (+) / decrease (-) of other liabilities		-35.8	31.2
Interest received		285.0	276.5
Interest paid		-54.8	-27.8
Income tax paid		-13.1	-8.8
Dividend income		-0.1	-0.7
Cash flow from operating activities		**1,388.4**	**-2,196.7**
Acquisition of property, equipment and intangible assets	15,16	-3.0	-8.0
Proceeds from disposal of property, equipment and intangible assets		3.5	0.3
Proceeds from disposal of investment property		1.5	0.5
Dividend received		0.8	0.7
Cash flows from investing activities		**2.8**	**-6.5**
Debt securities issued		802.8	299.3
Debt securities bought back	19	-254.9	-235.5
Debt securities repayment on maturity		0.0	-100.8
Payments of principal on leases		-6.2	-6.3
Dividends paid	28	0.0	-191.0
Cash flows from financing activities		**541.7**	**-234.3**
Net increase or decrease in cash and cash equivalents		**1,932.9**	**-2,437.5**
Cash and cash equivalents at the beginning of the period		2,948.7	4,884.7
Effects of currency translation on cash and cash equivalents		3.1	0.0
Net increase or decrease in cash and cash equivalents		1,932.9	-2,437.5
Cash and cash equivalents at the end of the period		**4,884.7**	**2,447.2**
Cash and cash equivalents comprise:			
Cash on hand	11	123.8	136.1
Non-restricted current account with central banks		4,690.3	2,249.3
Due from other credit institutions within three months		70.6	61.8
Total		**4,884.7**	**2,447.2**

The notes on pages 31 to 102 are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

Luminor Bank AS is a pan-Baltic credit institution whose headquarter is in Tallinn. Luminor Bank AS is owned by Luminor Holding AS, which is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. Other shareholders of Luminor Holding AS are Nordea Bank Abp and DNB BANK ASA.

These consolidated financial statements for the year ended 31 December 2021 have been approved for issue by the Management Board and the Supervisory Council and are subject to approval by the shareholders on 2 March 2022. Shareholders have the right not to approve the consolidated financial statements prepared by the Management Board and demand the preparation of new consolidated financial statements. Neither Luminor's shareholders nor others have the power to amend the financial statements after issue.

BASIS OF PRESENTATION

The financial statements of the Luminor Bank AS and consolidated financial statements of Luminor are prepared in accordance with International Financial Reporting Standards (IFRSs or Standards) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU). The consolidated financial statements are prepared under the historical cost convention, except for financial instruments measured at fair value through profit or loss (FVTPL) or other comprehensive income (FVOCI), as well as financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships (which otherwise would have been measured at amortized cost) which are measured at amortized cost with adjustments for hedging gain or loss. In the financial statements of Luminor Bank AS as a separate entity the investments in its subsidiaries are carried at cost less impairment and investments in associates are carried at equity method while other policies are the same as consolidated.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts for the comparative period are also reclassified. The euro (EUR) is the functional and reporting currency for Luminor and, unless otherwise stated, all amounts are reported in millions of euro with one decimal digit.

Certain new IFRS Standards, amendments and interpretations to existing ones that are mandatory for Luminor became effective for accounting periods beginning after 1 January 2021 or later periods. The overview of these Standards and Luminor's Management estimate of potential or actual impact of applying the new Standards and interpretations are provided in Note 3.

Change in presentation

Content and structure of the financial statements have been reviewed during 2021 to enhance the presentation and clarity of the financial statements.

Reclassification of consolidated statements

Certain positions related to other net income from Luminor's financial assets/liabilities have been consolidated into "Net other financial income" position as is shown below:

€m	Jan-Dec 2020		
	As restated	Change	As previously reported
Net other financial income	13.2	13.2	0.0
Net gain on debt securities at fair value through profit or loss	0.0	-8.4	8.4
Net gain on financial assets and liabilities held for trading	0.0	-4.8	4.8

Amendments in presentation impacted the following Statement of Financial Position and Statement of Changes in Equity items:

	31 Dec 2020		
€m	As restated	Change	As previously reported
Debt securities	284.3	284.3	0.0
Equity instruments	2.8	2.8	0.0
Financial assets held for trading	0.0	-2.9	2.9
Financial assets at fair value through profit or loss	0.0	-284.1	284.1
Financial assets at fair value through other comprehensive income	0.0	-0.1	0.1
Share capital and premium	1,447.1	1,447.1	0.0
Issued capital	0.0	-34.9	34.9
Share premium	0.0	-1,412.2	1,412.2

Luminor's investments in debt and equity securities were previously presented on the face of Statement of Financial Position based on the accounting treatment as Financial assets held for trading, Financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income. This changed to presentation by type of investment (Debt securities and Equity securities) with further details being disclosed in the Notes.

Reclassification of unconsolidated primary financial statements

Certain positions related to other net income from Luminor's unconsolidated financial assets/liabilities have been consolidated into Net other financial income position as is shown below:

€m	Jan - Dec 2020		
	As restated	Change	As previously reported
Net other financial income	15.7	15.7	0.0
Net gain on debt securities at fair value through profit or loss	0.0	-8.3	8.3
Net gain on financial assets and liabilities held for trading	0.0	-7.4	7.4

Amendments in presentation impacted the following unconsolidated Statement of Financial Position items:

€m	31 Dec 2020		
	As restated	Change	As previously reported
Debt securities	284.3	284.3	0.0
Equity instruments	0.1	0.1	0.0
Financial assets held for trading	0.0	-2.9	2.9
Financial assets at fair value through profit or loss	0.0	-281.4	281.4
Financial assets at fair value through other comprehensive income	0.0	-0.1	0.1
Share capital and premium	1,447.1	1,447.1	0.0
Issued capital	0.0	-34.9	34.9
Share premium	0.0	-1,412.2	1,412.2

BASIS FOR CONSOLIDATION

Subsidiaries are defined as entities in which Luminor, directly or indirectly, has control. The control exists when Luminor is exposed or has the rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is obtained and until control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries (other than those acquired from parties under common control). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any bargain purchase ("negative goodwill") is recognised in profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Luminor companies are eliminated, and unrealised losses are also eliminated unless the cost cannot be recovered. Luminor and all its subsidiaries use uniform accounting policies consistent with Luminor policies.

Associates are entities over which Luminor has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The carrying amount of investments in associates includes goodwill identified on acquisition minus accumulated credit losses, if any. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in Luminor's share of net assets of an associate are recognised based on Luminor's share in profit or loss (or other comprehensive income) of associates and is recorded respectively in profit loss or other comprehensive income. When Luminor's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, Luminor does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between Luminor and its associates are eliminated to the extent of Luminor interest in the associates, and unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries and associates. When Luminor ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in the carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if Luminor had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

REPORTING CURRENCY

The presentation and functional currency in the Luminor's consolidated financial statements is euro (EUR). All monetary assets and liabilities denominated in foreign currencies are translated into euro at the official rate of the European Central Bank (the ECB) prevailing at the reporting period end. Gains and losses arising from this translation are included in the profit or loss statement for the period. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined. Transactions denominated in foreign currency are recorded at the rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the profit or loss statement at the time of settlement using the exchange rate ruling at that date.

INCOME AND EXPENSE RECOGNITION

Interest income and expense

Interest income and expense are recorded for all financial assets or liabilities measured at amortized cost or fail value through other comprehensive income (FVOCI) using the effective interest method. This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by Luminor relating to the creation or acquisition of a financial asset or issuance of a financial liability. Commitment fees received by Luminor to originate loans at market interest rates are integral to the effective interest rate if it is probable that Luminor will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination.

For financial assets that are originated or purchased credit impaired (POCI), the credit adjusted effective interest rate is applied which discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost net of the expected credit loss (ECL) provision, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortised cost.

Fee and commission income and expense

Fees and commissions are recognised over time as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by Luminor's performance. Such income includes fees for account maintenance, account servicing fees, account subscription fees, portfolio and other asset management advisory and service fees, wealth management and financial planning services, or fees for servicing loans on behalf of third parties (except for those subject to effective interest rate). Variable fees are recognised only to the extent that Management determines that it is highly probable that a significant reversal will not occur.

Other fee and commission are recognised at a point in time when Luminor satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received, or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for arranging a sale or purchase of foreign currencies on behalf of a customer, fees for processing payment transactions, fees for cash settlements, collection or cash disbursements as well as other commissions.

Fee and commission expense is recognised as the service being received (accrual basis) and when liability has been incurred.

Operating income and administrative expense

Operating income and administrative expense are recognised on the basis of accrual.

Dividend income

Dividends are recognised in the profit or loss statement only when:
(a) Luminor Bank’s right to receive payment of the dividend is established
(b) it is probable that the economic benefits associated with the dividend will flow to the entity, and
(c) the amount of the dividend can be measured reliably.

CORPORATE INCOME TAX

Estonia

According to Estonian Income Tax Act, corporate income tax is charged upon distribution of profits at the rate of 20% from gross amount. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Starting from 2018, quarterly profits of credit institutions are subject to advance corporate income tax at the rate of 14%. Advance corporate income tax payment can be offset with the corporate income tax liability arising from profit distribution. If no dividends are paid, the advance tax payments are not refunded. Corporate income tax payable on the quarterly profits is recognised as a current income tax expense. Deferred tax asset (and deferred tax income) on quarterly losses is recognised only if it is probable that future taxable profits will be available during 19 subsequent quarters to utilise those losses.

Due to a distribution-based system, there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise (except for recognising deferred tax liability for all taxable differences associated with investments in subsidiaries, associates and branches, unless it is probable that the temporary difference will not reverse in the foreseeable future).

Lithuania

According to Law on Corporate Income Tax, the standard corporate income tax rate is 15 %. For profits of credit institutions for financial years 2020-2023 in excess of 2 million euro the income tax rate is 20%. Expenses related to taxation charges and included into these financial statements are based on calculations made by the Management in accordance with the Lithuanian tax legislation.

Latvia

According to Corporate Income Tax Law, corporate income tax is charged upon distribution of profits or conditionally distributed profit at the rate of 20% from gross amount. Corporate income tax on distributed profit will be recognized when the shareholders of Luminor decide on profit distribution. Corporate income tax is recognised as expenses in the profit and loss calculation in the reporting period when the dividends or conditional dividends are calculated, whereas for other objects of conditionally distributed profit – at the moment when the expenses occurred within the reporting period.

DEFERRED TAX

Deferred income tax is provided using the balance sheet liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that a taxable profit will be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

In distribution-based tax regimes (Estonia and Latvia) no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. This policy applies only to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Deferred tax liability is recognized in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future. Luminor has assessed the impact of the IFRS Interpretation Committee agenda decision and concluded that, based on the intra-group dividend plans for the foreseeable future, no deferred tax liability should be recognized in respect of undistributed profits of Luminor subsidiaries as of 31 December 2020 and 31 December 2021. Deferred income tax from Luminor share of associates retained earnings should be recognized, but accounting treatment differs from subsidiaries deferred income tax treatment. Deferred tax liability is recognized as a deduction from the investment value.

CASH AND BALANCES WITH CENTRAL BANKS

For the purposes of the cash flow statements, cash and cash equivalents comprise cash balances, non-restricted balances due from the central banks, due from other credit institutions with original maturity less than 3 months and insignificant risk due to change in value. Cash and cash equivalents as specified above are defined in the cash flow statement.

Mandatory cash balances with the central banks are carried at amortised cost and represent non-interest-bearing mandatory reserve deposits, which are not available to finance Luminor's day to day operations, and hence are not considered as part of cash and cash equivalents for the purposes of the consolidated statement of cash flows.

FINANCIAL INSTRUMENTS

Classification and measurement

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The subsequent measurement of financial assets depends on the classification determined by Luminor at initial recognition. At initial recognition, financial assets can be classified into one of the following categories:

- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVOCI)
- Amortised cost.

Classification is performed based on both Luminor's business model for managing financial assets and the characteristics of contractual cash flows of these assets. However, financial assets that meet the amortised cost or FVOCI measurement criteria, may be designated on initial recognition by Luminor to FVTPL measurement category, provided that qualifying criteria are met. In addition, Luminor may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income.

Financial liabilities are classified at amortised cost, except for financial liabilities that are required to be measured at FVTPL or designated at FVTPL. Financial liability is classified as measured at FVTPL if it meets the definition of held for trading, or it is designated upon initial recognition to the FVTPL measurement category. All other financial liabilities are classified as measured at amortised cost.

Financial assets and liabilities mandatorily measured at fair value through profit or loss

Trading securities

Trading securities are securities that were acquired either for generating a profit from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists. Post initial recognition, all related realised and unrealised gains and losses are included in other net finance income or expenses.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ('regular way' purchases and sales) are recognised at settlement date, which is the date that an asset is delivered to or by Luminor.

Derivative financial instruments

Derivative financial instruments including foreign exchange forwards, swaps, options (both written and purchased) and other derivative financial instruments are initially recognised at fair value and subsequently remeasured at fair value. Fair values are determined according to the model, based on market observable inputs. All derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Changes in the fair value of derivatives are included in net gain from financial derivatives.

Securities for liquidity management

Debt securities which were acquired for liquidity management purposes and for which derivatives are used to limit interest rate risk exposure, are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net gain (loss) on transactions with securities. Dividends received are included in dividend income. Fair value through profit and loss option was elected for those securities as it leads to significant reduction or elimination of accounting mismatch.

Financial assets measured at fair value through other comprehensive income

Financial assets at FVOCI include financial assets that are invested in equity shares and debt securities. Debt securities should comply with hold to collect and sell business model and are initially recognised at fair value plus transaction costs based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of those financial assets are recognised in other comprehensive income. When the financial asset is derecognised the cumulative gain or loss previously recognised in other comprehensive income is not reclassified to profit or loss.

Dividend receivables are included separately in dividend income when the right of the payment has been established. All regular way purchases and sales of securities are recognised at settlement date, which is the date that an asset is delivered to or by Luminor. All other purchases and sales are recognised as derivative forward transactions until settlement.

Financial assets measured at amortised cost

Financial assets are measured at amortised cost, provided that the following criteria are met:

- they are held within the business model, the aim of which is achieved by collecting contractual cash flows ("Held to collect" business model)
- their contractual cash flows represent solely payments of principal and interest.

Loans to customers are recognised at their settlement date when cash is advanced to borrowers. From the date of signing a contractual agreement until the settlement date they are accounted for as off-balance sheet items.

Financial liabilities measured at amortised cost

After the initial recognition, financial liabilities measured at amortized cost by Luminor are recognised using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method. Amortised cost is calculated by considering any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as net interest income in the statement of profit and loss.

Impairment of financial instruments

The following financial instruments are subject to the IFRS 9 impairment requirements:

- financial assets measured at amortised cost
- financial assets measured at fair value through other comprehensive income
- loan commitments and financial guarantee contracts.

For financial instruments, which are in scope of impairment requirements, a forward-looking expected credit loss approach is applied and loss allowances for expected credit losses are calculated in the following way:

- for Stage 1 financial instruments where there has been no significant increase in credit risk since the initial recognition (or financial instruments which are considered to have low credit risk) – loss allowances for expected credit losses are calculated at an amount equal to 12-month expected credit losses. Interest revenue is calculated on the instrument´s gross carrying amount, using the effective interest rate method.
- for Stage 2 financial instruments where there has been a significant increase in credit risk since the initial recognition (but they are not classified as credit impaired) -– loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses. The calculation of interest revenue is the same as for Stage 1.
- for Stage 3 financial instruments which are treated as credit-impaired – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses. Interest revenue is calculated based on the instrument´s amortised cost (that is, the gross carrying amount less the loss allowance).
- for purchased or originated credit-impaired assets (POCI) – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses regardless of the changes in credit risk during the lifetime of financial assets. For POCI portfolio, credit-adjusted effective interest rate applied.

At each reporting date any adjustment in expected credit losses amount is recognized in profit or loss as an impairment gain or loss. For a more detailed information on an impairment of financial assets, refer also to Note 2 Significant accounting estimates and judgments and Note 4 General Risk Management Policies, please.

Offsetting

Financial assets and financial liabilities are set off and the net amount is presented in the statement of financial position only when Luminor has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Hedge Accounting

At the inception of a hedge relationship, Luminor formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how Luminor will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is ‘an economic relationship’ between the hedged item and the hedging instrument
- The effect of credit risk does not ‘dominate the value changes’ that resulting from that economic relationship
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Luminor actually hedges and the quantity of the hedging instrument that Luminor actually uses to hedge that quantity of the hedged item.

Luminor applies the fair value hedge for some of the issued debt securities. Fair value hedge is hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

The change in the fair value of a hedging instrument is recognised in the statement of profit or loss. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the statement of profit or loss.

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. The effective interest rate amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to Luminor. In case there are no observable prices, the fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The fair value of interest-bearing non-quoted financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. The fair value of a liability is measured using the assumptions that market participants would use when pricing the liability, assuming that market participants act in their economic best interest.

Luminor uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. When the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is used in establishing fair values. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk, to the extent that Luminor believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate. For measuring over the counter (OTC) derivatives fair values include credit valuation adjustment (CVA) when market participants would take this into consideration in pricing the derivatives.

Derecognition of financial assets and liabilities

A financial asset (or, where applicable a part of a financial asset or a part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- Luminor has transferred the rights to receive cash flows from the asset, or retained the right to receive cash flows from the asset, but have assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; and
- Luminor either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but have transferred control of the asset.

Luminor sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. Luminor assesses whether the modification of contractual cash flows is substantial. In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, Luminor compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. Luminor recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate and recognises a modification gain or loss in profit or loss.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or when the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss statement.

LEASES — WHEN LUMINOR IS A LESSOR

Finance leases

Finance lease transactions are lease transactions under which all significant risks and rewards from using the assets are immediately transferred from Luminor to the lessee. Legal ownership of assets is transferred to the customer (or contracted third party) at the end of the lease term. The receivables from the finance lease contract are recognized at net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and finance income.

Finance income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the finance lease. The lessor's direct expenses included in the lease contract fee and related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. A lease receivable from a client is recognized in the statement of financial position as of the moment of delivering the assets being the subject of the contract to the client. Luminor applies the derecognition and impairment requirements in IFRS 9 to the net investment in the finance lease.

LEASES — WHEN LUMINOR IS A LESSEE

Luminor leases various offices and other assets (IT equipment and cars). Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by Luminor. Right-of-use assets are presented withing Property, plant and equipment balance sheet position. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Liabilities arising from a lease are initially measured on a net present value basis. To determine the net present value of a lease liability the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

For property leases Luminor has decided to use Luminor’s own funding cost as a discount rate. For other assets Luminor uses the interest rate implicit in the lease as discount rate, as it is readily determinable.

After the commencement date, Luminor measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment (lease term, payments or any other conditions) or lease modifications.

At the commencement date, the right-of-use asset is measured at cost. The cost of the right-of-use asset comprises:

- the amount of the initial measurement of the lease liability at the present value of the lease payments that are not paid at that date
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs incurred by the lessee; and

- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset. The lessee incurs the obligation for those costs either at the commencement date or because of having used the underlying asset during a particular period.

After the commencement date, the right-of-use asset is measured at cost:
- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In determining the lease term, Management of Luminor considers all facts and circumstances with respect to extension or termination options. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture below 5 thousand EUR.

FACTORING RECEIVABLES

Valuation of factoring receivables follows the same concept as described above under financial assets measured at amortised cost. Impairment indicators for factoring receivables are the same as for assets measured at amortized cost. Expected credit losses are presented on the respective line of the statement of financial position at negative value and are accounted for similarly as loans to customers.

Factoring transactions are considered to be financing transactions where Luminor provides the financial resources to its selling partners through the transfer of the rights to the receivables from these sales transactions. Luminor acquires the right for the receivables payable by the buyer subject to the sales contract. Depending on the terms of the factoring contract the buyer either accepts the transfer of substantially all the risks and rewards of the ownership of the receivable or retains the right to transfer the risks and rewards back to the seller during a pre-specified term. The receivable is included in the statement of financial position until payment is received, or recourse is expired. If a contract does not include the seller's guarantee and Luminor acquires control of all rights at the moment of selling the receivable, the transaction is accounted for as an acquisition of a receivable at fair value. Subsequently receivables are measured at amortised cost. The receivable from the client is recognised when the receivable is acquired.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost minus accumulated depreciation and impairment losses, if any. Where the carrying amount of an asset is greater than its estimated recoverable amount, the impairment charge is recognized to reduce carrying amount to its recoverable amount. Depreciation is calculated using the straight-line method to expense the cost of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates are applied:

Category	Annual Rate
Equipment	20 - 33%
Property	2%

Maintenance and repair costs are charged to the statement of comprehensive income as incurred. The residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period. Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

INTANGIBLE ASSETS

An intangible asset is recognised only when its cost can be measured reliably, it is controlled by Luminor as a result of past events, and it is probable that the expected future economic benefits that are attributable to it will flow to Luminor. Luminor controls an asset if Luminor has the power to obtain the future economic benefits flowing from the underlying resource and restrict the access of others to those benefits.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any provision for impairment (if any).

Expenditure on internally developed software is recognised as an asset when Luminor is able to demonstrate that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development.

The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised using the straight–line method over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end in order to reflect the pattern of consumption of such asset. The amortization period is ranges to 3-5 years in average.

PROVISIONS

Provisions are recognised when Luminor has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The assessment of provisions requires the application of the Management's judgment and estimates as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements, where appropriate, and the amounts and timings of such outflows and recoveries, if any.

OFF-BALANCE SHEET ITEMS (FINANCIAL GUARANTEES, PERFORMANCE GUARANTEES AND CREDIT-RELATED COMMITMENTS)

In the ordinary course of business, Luminor obtains off-balance sheet financial instruments consisting of commitments to extend loans to customers, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the statement of financial position when they are funded, or related fees are incurred or received. All these items are initially recognised at their fair value, which is normally evidenced by the amount of fees received. Further, these amounts are amortised on a straight-line basis over the life of the contract.

At each balance sheet date, the issued financial guarantees are measured at the higher of either the unamortised balance of the amount after initial recognition or an amount calculated in accordance with IFRS 9.

Luminor issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Documentary and commercial letters of credit represent written undertakings by Luminor on behalf of a customer authorising a third party to draw amounts on Luminor up to a stipulated amount under specific terms and conditions. Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk.

Synthetic securitisation transactions are structured in a way that an institution buys the protection using financial guarantees where the exposures are not derecognized from the balance sheet i.e., there are no changes in recipients of contractual cash flows of the financial assets subject to securitization. For synthetically securitized loans the impairment allowances for expected credit losses are calculated without the consideration of the guarantee protection bought. The reimbursement right for guarantees is recognized as an asset and reflected in net other finance income once it is virtually certain that the guarantee will be received based on the amounts of qualifying losses incurred. The related guarantee fees are accrued linearly in net commission income and any concessions with respect to the guarantee fees to be reflected in the same line once received.

RELATED PARTIES

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Related parties are defined as shareholders of Luminor, members of the Supervisory Council and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The immediate parent of Luminor Bank AS is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. BCP VII is treated to be both an ultimate parent and ultimate controlling entity of Luminor Bank AS. Other shareholders of Luminor Holding AS – Nordea Bank Abp and DNB BANK ASA - are considered to be the entities with significant influence over Luminor. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions are carried out on commercial terms and at market rates. For more information about related parties refer to Note 28.

EVENTS AFTER THE REPORTING PERIOD

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, Luminor will disclose for each material category of non-adjusting event after the reporting period the nature of the event and an estimate of its financial effect or a statement that such an estimate cannot be made.

As of the last day of the reporting year until the date of signing these consolidated financial statements there have been no events requiring adjustment of or disclosure in the consolidated financial statements or notes thereto.

MEASUREMENT OF OPERATING SEGMENTS PERFORMANCE

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM) as required by the IFRS 8. In Luminor, the CODM has been defined as the Management Board. The Management Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit before tax and is measured consistently with profit before tax in the consolidated financial statements. Interest income is reported net of expenses after internal funds transfer pricing, as Management primarily relies on net interest revenue across product categories as a performance measure. Fees and commission income for segment performance is also reported net of expenses and split is made between different product categories for segment reporting.

Financial results are presented for two main operating segments: Retail Banking and Corporate Banking. Retail Banking serves private individuals and holding companies associated with individuals, and business customers without a dedicated relationship manager, which tend to be small. Corporate Banking serves business customers that have a dedicated relationship manager and all leasing customers who do not have a bank relationship. The results of all other operating segments are included in 'Other' segment.

Segment results consist of income and expenses associated directly to the customers belonging under respective segments (including internal funds transfer pricing result between operating segments and Other segment) and income and expenses not booked on a customer level, which are allocated between the operating segments using internally agreed allocation drivers. Operating expense allocation to the respective segments and products is carried out by Activity Based Costing. Only assets and liabilities relating to customers who belong to the operating segments are reported under the respective segments, all other balance sheet items are not reported under the operating segments to CODM. Loans and Deposits are reported under operating segments at Gross amounts (and excluding accrued interest). Credit loss allowance (losses/reversal) on loans to customers is monitored for each of the segments at profit or loss side, while at the assets side, the CODM only monitors Gross amounts of Loans to customers, with impairment allowances not being allocated to operating segments. Geographical split of revenues (by country of revenue generation) is disclosed in Note 5 and Note 6.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Luminor makes estimates and applies assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities. Estimates and judgements are continuously evaluated and are based on Management's experience and expectations of future events.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

Luminor's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The following accounting judgements and estimates of the ECL models are made when determining impairments of financial assets:

- evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to Stage 1 or 2
- identification of unlikeliness to pay criteria and assignment of loans to Stage 3
- classification of forbearance and watch list
- assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL, including the various formulas and the choice of inputs
- the modelling and calculation of key parameters of the ECL models, including probability of default (PD), loss given default (LGD), and exposure at default (EAD)
- determining the macro-economic indicators and incorporating forward-looking information into the ECL models
- estimating the above-mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic, and pessimistic), and assigning probabilities to those scenarios
- estimating ECL under base case and risk case scenarios for individually assessed Stage 3 assets, and assigning probabilities to those scenarios
- setting principles for Stage 3 immaterial assets collective assessment
- assessing necessity of Management overlay adjustments to ECL models and determining the magnitude of the adjustments.

The applied ECL model was enhanced during 2021. Three aspects should be mentioned which had been introduced to improve the ECL model.

Firstly, as part of Luminor's roll-out of revised credit risk models and to prepare to apply to use in the medium term the advanced internal ratings-based approach to measure risk weights, rather than the standardised approach, the internal model landscape was revised and the first of several incremental rating model updates was introduced. The newly developed rating systems for classifying credit exposures apply to Luminor's internal models that provide ratings and estimates for the key risk parameters of PD, LGD, and EAD. These models are being applied in both application ratings and regular re-ratings, and their output is used in a broad range of business and risk management processes, including the downstream system of ECL calculation under IFRS 9 requirements. The models provide an improved risk differentiation capability and higher predictive power than the models used previously, and they have been subjected to independent validation.

Secondly, a collective significant increase in credit risk (SICR) trigger for COVID-19 modified exposures was incorporated into the ECL model. Thus, currently all COVID-19 modified exposures are treated at least as Stage 2 exposures.

Thirdly, Stage 3 collective provisioning methodology was amended in the fourth quarter of 2021 by implementing dynamic (increasing) collateral haircuts based on vintage of non-performing loans instead of fixed haircuts. The change largely follows the ECB guidance on prudential provisioning (the ECB Addendum to the ECB Guidance to banks on non-performing loans: supervisory expectations for prudential provisioning of non-performing exposures) and is reducing any potential deviation between accounting provisions and prudential provisions.

The ECL model inputs and parameters were reviewed and where necessary updated. Besides the updated parameters, a Management overlay adjustment introduced in the fourth quarter of 2020 was also applied in 2021 to adjust the standard ECL model output for the potential credit losses due to COVID-19 pandemic related uncertainties. However, the amount of the overlay was reduced as collective SICR trigger was introduced, the ECL model parameters re-estimated, and macroeconomic scenarios and their weights re-considered.

For a more detailed qualitative and quantitative information on the impairment of financial assets, refer to Note 1 Significant Accounting Policies, Note 4 General Risk Management Policies, and Note 12 Loans to customers, please.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the part of Luminor's assets and liabilities is a reasonable approximation of their fair value. Where the fair values of financial assets and liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined in a way that unobservable inputs used to measure fair value would reflect the assumptions that market participants would use when pricing assets and liabilities, including assumptions about the risk. Where observable market data is not available, expert judgment is required to establish fair values. For the fair value of financial assets and liabilities, refer to Note 27, please.

Financial instruments are distributed by 3 levels of the fair value:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
- Level 2 — valuation techniques for which inputs other than quoted prices included within Level 1 are observable for the asset or liability, either directly or indirectly
- Level 3 — valuation techniques for which inputs are unobservable for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about the risk.

The following methods and assumptions have been used to estimate the fair values:

- Cash and balances with central banks – carrying amount approximates its fair value given high liquidity.
- Due from other credit institutions – carrying amount approximates its fair value given high liquidity. Due from other credit institutions are generally demand deposits and other deposits subject to insignificant change in the fair value.
- Loans to customers – fair value has been estimated by discounting estimated future cash flows with the loan portfolio average rate which was calculated based on Luminor new sales margin of the fourth quarter of 2021 and total volume of the loan portfolio that included credit risk factors. Same valuation technique is applied to all loan classes and accordingly all loan classes are classified under fair value level 3.
- Debt and equity securities - for domestic debt instruments issued in the Baltic states, the quotes of local (Baltic) market makers shall be the priority source. Local market makers (usually banks) publish the trading offers in the form of prices, yields or equivalent figures. If there are more than one market maker locally, the average of bid prices shall be used taking the data from Bloomberg. If the debt instrument is issued outside the Baltic states, or there are no quotes available from local market makers on particular debt issue, or quotes of local market makers are clearly incorrect or artificial, the prices of particular debt securities shall be derived from liquid market data using sources like Bloomberg or similar. Correctness of the quotes described above is a subject of expert judgment of the Market & Liquidity Risk Department member together with the Luminor's Markets Department's dealer responsible for equity trading. Pension fund units managed by Luminor Pensions Estonia AS (equity instruments) are initially recognised at acquisition cost, which is the fair value paid for them. Pension fund units are revalued according to the effective net asset value on the balance sheet date.
- The fair value of interest-bearing financial instruments, which are not actively traded, is estimated based on discounted

cash flows using the interest rates for items with similar terms and risk characteristics. The fair value of a liability is measured using the assumptions that market participants would use when pricing the liability, assuming that market participants act in their economic best interest.

- Derivative financial instruments – market data from financial data vendors, electronic trading platforms or third-party valuation are used for valuation purposes. The derivatives represent non-complex products valued with generally accepted models. Valuation inputs are derived from the market data.
- Loans and deposits from credit institutions – carrying amount approximates its fair value given high liquidity, low interest rates and short term.
- Deposits from customers – the gross carrying amount of demand deposits as a fair value is applied as an approximation due to very short maturities and low interest.
- Debt securities issued – the fair value of the debt securities issued by Luminor is determined with reference to Bloomberg quotes available as at the end of the reporting period.

3. ADOPTION OF NEW OR REVISED STANDARDS AND INTERPRETATIONS

The following new or revised Standards and interpretations became effective and applicable for Luminor as from 1 January 2021:

INTEREST RATE BENCHMARK (IBOR) REFORM – PHASE 2 AMENDMENTS TO IFRS 9, IAS 39, IFRS 7, IFRS 4 AND IFRS 16 (ISSUED ON 20 AUGUST 2020 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021).

The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: for instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: the Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- Additional temporary exceptions from applying specific hedge accounting requirements: the Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- Additional IFRS 7 disclosures related to IBOR reform: the amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

Impact to Luminor - Luminor is not making any changes to any EURIBOR instruments before their maturity or voluntarily switching to a new benchmark instrument as there is a plan to distribute EURIBOR in the foreseeable future. Existing credit agreements already include necessary fallback clauses if anything were to happen to EURIBOR. Luminor has assessed there are no impacts from EURIBOR instruments on Luminor financial positions and cash flows.

In addition to EURIBOR, Luminor has exposures with different IBORs (ex-carrying amounts are disclosed in the table below) which are either replaced by other benchmarks at economically equal terms or include fallback clauses in original contracts.

No other changes of the instrument's terms will be done together with benchmark replacements. Therefore, there have been no impacts on the carrying values of the instruments as a result of interest rate benchmark reform – the Phase 2.

Instrument type	IBOR	Replacement benchmark	Carrying amount as at 31 Dec 2021
Loans to customers	EUR LIBOR	EURIBOR	172.0
	USD LIBOR	SOFR USD + ISDA adjustment[1]	73.3
	CHF LIBOR	Compounded SARON+ISDA adjustment[1]	31.8
	GBP LIBOR	SONIA GBP	0.9
	EONIA	EURIBOR	85.9

[1]New risk-free rates are structurally lower than LIBOR, thus 3rd party calculated adjustment need to be added for fair pricing.

OTHER STANDARDS

The following new amendments to Standards will become effective for annual periods beginning on or after 1 January 2022, but not yet endorsed by the EU.

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)

IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures. Luminor expects limited effect from these amendments to the financial statements.

Definition of Accounting Estimates (Amendments to IAS 8)

The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates. Luminor expects limited effect from these amendments to the financial statements.

4. GENERAL RISK MANAGEMENT POLICIES

Luminor's risk management policies balance the rewards of taking risk to generate income and the risk of loss. Luminor ensures that all risks, which could potentially affect Luminor's business model are identified and assessed and that all material risks are monitored and controlled.

Luminor's Supervisory Council approves Luminor policies and sets out the strategic objectives and overarching risk management principles for the most important aspects of Luminor's operations. The Risk Committee advises and supports the Supervisory Council in its responsibilities. Luminor's Risk Division, an independent control and reporting function, ensures that an appropriate risk management framework is established and is authorised to verify that Luminor's business and supporting divisions operate within the set risk appetite and risk strategy. Risk management is organised so that any possible conflicts of interest are avoided or escalated, should they occur.

CREDIT RISK

Credit risk is defined as the risk that a debtor and/or counterparty is unable to meet their obligations as they fall due partly or in full. Credit exposures arise primarily from lending activities, including from off-balance sheet items such as loan commitments, guarantees and letters of credit, and from investment activities such as purchasing debt securities.

The principles of Luminor's credit risk management are outlined in Luminor's Credit Policy, Credit Strategies for Private Individuals, Legal Entities and Financial Institutions. Application of the principles in these documents and decision-making processes are regulated by relevant internal regulations.

Luminor's principal objective for lending is that the loan portfolio must have a quality and a composition that ensure profitability in the short and long term. The target is to maintain a low to moderate risk profile of Luminor's loan portfolio. The assessment of creditworthiness is based on the customer's ability and willingness to meet its contractual obligations. Cash flows from customers' activities dedicated for loan payments must be clearly understandable and sustainable.

Credit decisions are made by Credit Committees and by authorised individuals according to defined decision-making authorisations. The decisions of the Credit Committees must be unanimous. Decision-making authorisations for individuals are based on the competence level of the individual.

Regular reports are prepared and presented to Luminor's management bodies to observe and monitor the portfolio composition, to follow the level and development of the assumed credit risk and make corrective actions when needed to manage the credit risk on a portfolio level.

COVID-19

Luminor's customers were directly or indirectly affected by the pandemic. Luminor responded with support to its customers including participation in the moratoria agreements introduced by the European Banking Authority (the EBA) in 2020. Modification gains / losses were immaterial during the current and comparative periods.

Although initial concerns on credit quality deterioration have not materialised so far, largely due to strong demand and governmental support, the uncertainty caused by COVID-19 remains. During the fourth quarter of 2021, Luminor updated macroeconomic scenarios and changed probability weight assumptions, incorporated top-down collective significant increase in credit risk adjustment for exposures modified due to COVID-19 as well as amended the methodology for collectively assessed Stage 3 exposures by implementing dynamic (increasing) collateral haircuts based on vintage of non-performing loans.

The Management overlay was reduced to 11.9 million EUR. The decision was based on concerns in relation to the spread of Omicron and Delta variants of COVID-19, uncertainty over the efficacy of vaccines towards new variants, and new restrictions being applied in different parts of the world. This decision was supported by relative lack of effective early indicators to predict credit quality developments in the current pandemic, higher overdue levels for COVID-19 modified exposures and risks of inflation.

The assumption used to calculate the Management overlay as at 31 December 2021 is based on consideration that the standard ECL model output requires an adjustment for potential credit losses due to the uncertainty and risks related to COVID-19 pandemic (and Omicron variant development, in particular). The Management overlay maintained as at 31 December 2021 relates to those Stage 2 exposures to legal entities modified due to COVID-19 which might move to Stage 3 and, thus, may impose higher risk of potential credit losses. The calculation is based on estimated potential movements percentage and the average provisioning coverage level for Stage 3 exposures to legal entities.

Credit risk measurement

(a) Loans to customers

Credit risk is managed by analysing the customer before granting the credit and by monitoring after credit disbursement. Luminor measures credit risk using the rating models that estimate PD, LGD and EAD.

The rating models, which estimate PD and risk grade, are used to estimate default risk of the counterparty, determine compliance of customers and exposures with the Credit Policy, and set requirements for the frequency of the follow-up within the regular monitoring process. The assessment is made by using the customer segment/product specific rating models, which are used for six homogeneous groups of customers: large corporates, corporates, small and medium-sized enterprises, microbusinesses, real estate projects of legal entities and individual customers.

All credits granted to Retail customers are re-classified using these rating models every time a commitment is renewed. Where the rating process is more automated, the risk estimates are also reviewed on a quarterly basis. Ratings assigned to larger Corporate clients are reviewed at least once a year.

Luminor's internal rating scale for performing customers and the indicative mapping of external ratings is as follows:

Risk level	Rating grade	PD	Fitch, Standard & Poor's	Moody's
Low risk	1 -4	<0.75%	AAA – BB+	Aaa – Ba1
Moderate risk	5-7	0.75% - 3%	BB – BB-	Ba2 – Ba3
High risk	8-10	>3%	B+ – C	B1 - Ca
Default	11-12	100%	D	C

The PD models rely on both internally and externally available information. Internal information incorporates information on delinquencies, account behaviour and set up of the loan, while external data includes social demographic aspects, late payments, financials, and leverage.

The LGD models are based on the historically realized loss for different collaterals, customer segments, and types of facilities. The EAD models estimate exposure at default and are segmented across customer types and facility groups.

In addition to credit decision-making, internal risk models are used in credit pricing, loan portfolio quality monitoring, and risk reporting as well as economic capital (risk-adjusted capital, (RAC) calculations. The RAC is used for decision-making with respect to strategic capital allocation, i.e., for determining the strategic segments in the lending activity, as well as capital planning for Luminor and stress testing.

When a loan is granted to a large business customer a risk-adjusted return on risk-adjusted capital (RAROC) is calculated, measured at both an individual loan and customer level. The same principles of RAC-based pricing as well as RAROC-based profitability assessment are also extended to the other segments of the loan portfolio through standardized pricing tools or rules.

Luminor has developed ESG Risk Assessment Guidelines which describe the assessment process of ESG risks as a part of the overall creditworthiness assessment. To evaluate the ESG risk level of a customer, the ESG risk assessment principles have been determined. The extensiveness of assessment procedures to be applied depends on the amount of exposure, industry, physical and transition risks, social and governance risks. In cases, when ESG risks are high with exposure exceeding certain amount, the credit decision shall be escalated to one level higher than standard decision-making body.

(b) Due from banks and other credit institutions
Counterparty risk of banks and financial institutions is managed by establishing limits for investment grade counterparties and then by monitoring those counterparties. In exceptional situations, where an investment grade counterparty does not exist, the best available counterparties are chosen.

All correspondent banks are risk classified, and risk limits are established. The risk grade and PD of banks and countries are primarily based on the available risk classifications from credit rating agencies. If an external rating for a counterparty is unavailable, Luminor will derive its own internal rating. This internal rating reflects the counterparty's credit strength, derived from macroeconomic factors and the counterparty's own solvency and liquidity factors, together with its qualitative non-financial adjustments. The internal risk grade and PD of banks and countries are based on the available risk classifications from Moody's, Standard & Poor's and Fitch.

All limits of counterparties and countries are reviewed at least once a year with the purpose to assess the counterparty's creditworthiness, review the risk grade as well as the available limits. All externally rated counterparties and countries are monitored on a quarterly basis. Early warning signal monitoring that could potentially indicate a material change in the credit risk of counterparties is an important part of the regular monitoring of the counterparties.

(c) Debt securities
Luminor invests in debt securities in the trading book and banking book. Debt securities in the trading book are classified as held-for-trading. Investments are made in accordance with the trading book strategy and are used to provide secondary market liquidity to local investors and service Luminor clients.

Bond investments in the banking book are generally held-to-maturity and are classified as FVTPL (designated or held mandatorily), FVOCI or Amortized Cost instruments depending on business model or other criteria mandated by IFRS 9. Debt securities investments for the banking book are conducted in line with Luminor's internal investment and risk strategies.

Debt securities investments are performed in accordance with the limits set by Luminor's Management Board and Supervisory Council.

Risk limit control and mitigation policies

(a) Concentration risk
Luminor limits exposure to customers and sectors to manage its concentration risk. Luminor's portfolio of the products bearing credit risk derived from lending to groups of connected borrowers and single borrowers is well diversified. The absolute legal lending limit according to Capital Requirements Regulation is <25% of eligible capital. Luminor limits exposures to the 10 largest customer groups to less than 70% of Luminor's total equity. In addition, a single name concentration limit (excluding state and municipality risk) states that the maximum exposure to one customer group should be less than 150 million EUR (currently ~10% from eligible capital).

Luminor limits exposure to economic sectors. For the real estate sector, a limit of 35% from lending to legal entities is set, for the construction sector the limit is 10% while for other sectors the limit is 20%. At the end of and during the year 2021 and 2020, the loan portfolio of Luminor was well diversified by economic sectors and none of the set limits were breached.

Limits to industry sector, as a percent of lending to legal entities	Limit as at 31 Dec 2021[1]	Actual	
		31 Dec 2020[1]	31 Dec 2021[1]
Real Estate sector limit	35%	29.3%	29.6%
incl. Real Estate sector limit for projects under development	10%	3.5%	3.1%
Construction sector limit	10%	5.8%	5.7%
Retail trade	20%	3.0%	2.6%
Wholesale trade	20%	15.0%	14.4%
Food processing	20%	1.8%	2.1%
Timber and metal processing	20%	5.6%	5.5%
Other manufacturing	20%	3.3%	4.4%
Any other industry	20%	<10%[2]	<10%[2]

[1] Same limits were applied during the whole reporting period and were never breached. All the limits for legal entities are from the total consolidated loan portfolio towards legal entities (EAD).

[2] Except Agriculture, forestry and fishing, which was 10.2% at the end of 2020 and 10.1% at the end of 2021.

Geographical concentration risk is not considered material in Luminor business since the principle of focusing on domestic (Baltic) customers is followed.

(b) Collateral

Luminor mitigates credit risk through collateral. When deciding on the type of collateral the maturity of the loan is considered. Long-term financing and lending to business customers are generally secured. Long-term loans should preferably be covered by long-term property. Consumer loans (including credit card limits) to individual customers are usually unsecured.

Valuation of collateral

Upon the initial recognition of loans to customers, the fair value of collateral is established. For real estate, market values estimated by external valuers or the purchase price, whichever is lower, are used, while for movable assets book value is typically used. The value of collateral is monitored and reconsidered periodically. The statistical revaluation is performed periodically for the Residential Real Estate by applying relevant real estate indices. For leased assets after origination, the market value is adjusted by depreciation of the movable asset. When calculating collateral realisation value, the collateral value reduction (haircut) is applied. The amount of the haircut depends on different factors, e.g., type of collateral, expected realisation time, market conditions.

(c) Derivative financial instruments

Luminor counterparty credit risk represents the potential cost to replace derivative contracts if counterparties fail to perform their obligations. Luminor assesses counterparties to control the level of credit risk taken. Counterparty credit risk is managed primarily through limitation of exposures to each counterparty, regular valuation of exposures and collateralization of exposures.

Derivative financial instruments are initially recognized and subsequently carried at their fair value. They are revalued at least monthly. Fair values are obtained from quoted market prices discounting cash flows as appropriate, as well as from third parties. For OTC derivatives additional fair value adjustments are introduced to reflect counterparty's credit risk.

Margining agreements are established with the customers. Credit limits are usually granted to manage credit risk of these financial instruments. Cash deposits are sometimes used as a collateral. Derivatives are used to hedge market risk positions arising from ordinary banking operations and from derivative transactions with customers.

(d) Credit-related commitments

Credit related commitments entered by Luminor expose Luminor to the same credit risk as loans. Commitments are generally collateralised either by the funds in Luminor account, material assets, or other collateral such as third-party guarantees.

Impairment policies

Luminor recognises credit losses in accordance with the requirements of IFRS 9 applying a forward-looking expected credit loss approach.

(a) General ECL assessment principles

Luminor classifies loans, and other credit instruments, into one of three stages:

Stage 1 – loans for which no significant deterioration in credit quality has occurred since initial recognition or the exposure is of low credit risk, and the financial instrument is not considered credit-impaired. Luminor applies low credit risk exemption for exposures to central governments, central banks, regional governments and local authorities, and institutions if these counterparties possess an investment grade credit rating. For Stage 1 financial assets, loss allowances equal 12-month ECL.

Stage 2 – that part of the portfolio for which significant deterioration in credit quality has occurred since initial recognition, evidenced by the significant increase in credit risk (SICR) indicator, and the financial instrument is not considered credit-impaired.

Stage 3 – the credit-impaired part of the portfolio. All credit-impaired exposures are treated as defaulted, and vice versa. For Stage 2 and Stage 3 financial instruments, loss allowances are calculated on a lifetime ECL basis.

In addition, financial assets that were purchased or originated as credit impaired (POCI) are treated as a fourth category. A financial asset once classified as POCI remains in this group until derecognised. ECL is estimated with a lifetime horizon until maturity. The loss expected at initial recognition is referred to as initial impairment. At subsequent periods, only the cumulative changes in the lifetime expected credit losses since initial recognition are recognised.

Restructured loans

Where possible, Luminor seeks to restructure loans rather than takes possession of collateral. This mostly involves adjusting the payment schedule made by a borrower in a manner matching the borrower's financial capacity (temporarily reducing principal repayments, extending payment terms) and the agreement of new loan conditions. Once the terms have been renegotiated and executed, a loan is no longer considered non-performing as long as a borrower complies with the renegotiated terms and conditions. Such loans are continuously reviewed to ensure that all criteria are met and that future payments are likely to occur and interest and fee income is accrued and recognised as for other performing loans.

(b) Default definition

Luminor identifies default when either a customer is past due more than 90 days on any material overdue amount to Luminor or the customer is considered unlikely to pay its credit obligations to Luminor, or both. For exposure to banks, the default is recognised when payments are overdue by more than 7 days. Counting of days past due on a customer level starts when the overdue amount on a customer level breaches materiality threshold. For individual customers the threshold is more than 100 EUR and more than 1% of its credit obligations to Luminor, for business customers the threshold is more than 500 EUR and more than 1% of its credit obligations to Luminor. The default is recognised on a customer level.

Indications of unlikeliness to pay include:

- major financial problems of the customer (present or expected)
- distressed restructuring of credit obligation (forbearance triggering a non-performing status)
- recognition of specific credit risk adjustments resulting from a significant perceived decline in the credit quality of the exposure
- Luminor sells the credit obligation at material credit-related economic loss
- bankruptcy of the customer or similar protection
- non-accrued status
- disappearance of an active market for a financial asset because of financial difficulties of the customer
- credit fraud
- external rating indicating default.

Return to non-defaulted status is possible no earlier than 3 months after all default triggers cease to be met. During those 3 months of the probation period the customer must make payments due in a timely fashion. In a distressed restructuring at least 1 year needs to pass since the moment of extending restructuring measures and the moment when a customer is deemed to have an ability to comply with the post-restructuring conditions before the obligation is considered non-defaulted.

(c) Significant increase in credit risk ('SICR')

A financial asset is treated as facing a SICR if one of six SICR indicators is identified after initial recognition of the financial instrument and was not present as of its origination. All of the SICR indicators are recognised on a financial instrument level in order to track changes in credit risk since the initial recognition date for a particular financial instrument, even though some of them refer to the customer's characteristics.

SICR indicators comprise of the following:

- significant increase of lifetime PD since initial recognition until the reporting date (2.5 times and 0.6 p.p. jointly)
- risk grade 9 or 10 as at the reporting date
- more than 30 days past due on any material (consistent with default definition thresholds) overdue amount to Luminor as at the reporting date
- forborne (restructured) performing status as at the reporting date (forbearance not triggering non-performing status)
- COVID-19 modified exposures – a collective SICR trigger for COVID-19 modified exposures
- watch list status as at the reporting date.

The collective SICR trigger under a top-down approach was incorporated into the ECL model in the fourth quarter of 2021, representing collective SICR adjustment for exposures modified due to COVID-19. All COVID-19 modified exposures are treated at least as Stage 2 exposures.

The cumulative lifetime PD (probability of default over the lifetime of a financial asset) conditional on macroeconomic scenarios is calculated as weighted sum of point-in-time (PIT) forward-looking PDs generated for every future year until maturity of the financial instrument. In respect of more than 30 days past due on a financial instrument SICR, the same principles for counting days past due considering materiality thresholds are applied as for default identification, as above. In case of payment holidays, the counting of days past due is based on the modified payment schedule.

Return to Stage 1 is possible no earlier than 3 months after >30 days past due SICR trigger ceases to be met. During those 3 months of the probation period the customer must make payments due in a timely fashion. No probation period is applied for backward transfer from Stage 2 in respect of other SICR indicators as the probation period is already integrated in the reversal of those SICR triggers, e.g., probation period for forborne performing exposures.

(d) 12-month and lifetime expected credit losses

A collective assessment of impairment is performed for all financial instruments that are not defaulted as at the reporting date, i.e., are classified to either Stage 1 or Stage 2 or are non-defaulted POCI assets.

The expected loss is calculated as the probability weighted average of losses expected in different macroeconomic scenarios. The expected loss in the specific macroeconomic scenario is calculated as the multiple of PD, LGD, EAD and cumulative prepayment rate and is discounted using a discount rate.

Macroeconomic scenario-based PD is the probability that the performing exposure defaults during a particular time period provided that it has survived until the beginning of this period. Macroeconomic scenario based LGD is the expected percentage share of an exposure that would be irretrievably lost if the default event occurs. EAD is the exposure at default parameter, which represents a total exposure under a specific facility upon default. The cumulative prepayment rate describes the cumulative likelihood that the exposure would be fully prepaid (i.e., closed before its contractual maturity) in the periods up to the end of the analysed period. The credit conversion factor is the percentage of the currently undrawn amount of the off-balance sheet commitment that could be drawn and that would therefore be outstanding at default.

The rules for the discount rate assignment depend on the type of financial instrument and availability of the contractual repayment schedule. For facilities for which contractual repayment schedules are available, the effective interest rate or its approximation (i.e., nominal rate) is applied as a discount rate. In case of exposures without contractual repayment schedules, which contain both financial assets and off-balance sheet items (e.g., credit lines, credit cards), the best possible proxy of the effective interest rate is applied. In case of exposures without contractual repayment schedules, representing off-balance sheet products (guarantees, letters of credit), the contractual rate associated with the exposure is applied or, if it is not available, the relevant market rate.

PD, LGD and EAD curves are estimated for every future year until the maturity date of the facility. If the facility is classified as Stage 1, expected losses are estimated over a period of up to 12 months. If the facility is classified as Stage 2, the expected loss is estimated over the period up to the maturity date of the facility.

Estimation of PD and LGD curves considers forward looking macroeconomic information. The methodology of estimation of these risk parameters includes modelling of the relationship between risk parameters and macroeconomic variables. Forecasts of macroeconomic variables under different scenarios for 3 upcoming years prepared by Luminor's macroeconomists are used for macroeconomic modelling. Starting from the fourth year it is assumed that risk parameters (PD and LGD) converge to their long-term average levels. Three macroeconomic scenarios – optimistic, baseline/realistic and pessimistic – are considered. Luminor's macroeconomists also propose the scenario probabilities, giving the highest probability weight for the baseline/realistic scenario.

Three macroeconomic variables – the annual change in real GDP, the rate of unemployment, and the annual change of residential real estate prices – are included in the modelling for the individual customers' segment. Two of them – the annual change in real GDP together with the unemployment rate – are used in the modelling for the business customers' segment.

Separate forecasts of macroeconomic variables with projections and assumptions over three years are prepared for each of the Baltic countries. The most recent review of the forecasts of macroeconomic variables over three years and historically observed default frequency levels was performed in the fourth quarter of 2021. Regular IFRS 9 risk parameters' review was also performed in the fourth quarter of 2021.

During the fourth quarter of 2021, the probability weights for scenarios were reviewed, which resulted in a change of probability weight assumptions for optimistic and pessimistic scenarios. Luminor assumes a 10% (previously 30%) probability for the optimistic scenario, 60% for the baseline, and 30% (previously 10%) for the pessimistic scenario. Previous macroeconomic variables with projections and assumptions have been presented in the Luminor Bank Interim Report Q3 2021. The following tables show the parameters that were used for macroeconomic modelling.

The following tables show the scenarios by country as at 31 December 2020:

Estonia	**Scenarios**											
Measure, %	**Optimistic**				**Baseline**				**Pessimistic**			
	2020f	**2021f**	**2022f**	**2023f**	**2020f**	**2021f**	**2022f**	**2023f**	**2020f**	**2021f**	**2022f**	**2023f**
Real GDP[1]	-3.0	4.6	5.6	3.5	-4.0	3.7	4.8	3.3	-4.3	1.1	4.3	4.1
Unemployment rate	7.4	7.0	5.4	4.5	8.0	8.0	5.9	5.0	8.2	9.6	7.1	5.6
Residential Real Estate price[1]	5.7	4.1	6.7	6.2	4.5	2.2	5.0	5.8	4.1	-5.5	2.3	4.7

Latvia	**Scenarios**											
Measure, %	**Optimistic**				**Baseline**				**Pessimistic**			
	2020f	**2021f**	**2022f**	**2023f**	**2020f**	**2021f**	**2022f**	**2023f**	**2020f**	**2021f**	**2022f**	**2023f**
Real GDP[1]	-4.2	4.5	6.4	4.2	-4.3	3.2	5.3	4.0	-4.4	-0.2	5.8	3.9
Unemployment rate	8.2	8.1	7.3	6.6	8.3	9.1	8.1	7.3	8.4	10.2	8.4	7.6
Residential Real Estate price[1]	1.7	3.7	8.7	7.9	1.5	1.1	6.2	5.7	1.1	-5.6	3.3	6.0

Lithuania	Scenarios											
Measure, %	**Optimistic**				**Baseline**				**Pessimistic**			
	2020f	**2021f**	**2022f**	**2023f**	**2020f**	**2021f**	**2022f**	**2023f**	**2020f**	**2021f**	**2022f**	**2023f**
Real GDP[1]	−1.5	4.5	5.7	3.8	−1.7	2.7	4.5	3.1	−1.8	−2.5	3.5	2.6
Unemployment rate	8.6	8.3	7.1	6.9	8.8	10.0	8.4	7.5	9.0	12.5	10.3	8.5
Residential Real Estate price[1]	6.1	3.8	7.0	6.3	5.8	1.8	4.8	4.8	5.3	−4.0	2.0	4.8

The following table show the scenarios by country as at 31 December 2021:

Estonia		Scenarios											
Measure, %		**Optimistic**				**Baseline**				**Pessimistic**			
	2020a	**2021f**	**2022f**	**2023f**	**2024f**	**2021f**	**2022f**	**2023f**	**2024f**	**2021f**	**2022f**	**2023f**	**2024f**
Real GDP[1]	-3.0	9.2	5.9	5.0	3.0	9.2	4.6	3.7	3.5	9.2	-2.0	3.0	4.0
Unemployment rate	6.8	6.6	5.2	4.4	3.9	6.6	5.7	4.9	4.6	7.0	9.0	8.0	6.0
Residential Real Estate price[1]	4.8	14.2	12.8	8.8	4.7	14.2	8.3	6.8	5.4	14.2	-10.0	5.0	7.0

Latvia		Scenarios											
Measure, %		**Optimistic**				**Baseline**				**Pessimistic**			
	2020a	**2021f**	**2022f**	**2023f**	**2024f**	**2021f**	**2022f**	**2023f**	**2024f**	**2021f**	**2022f**	**2023f**	**2024f**
Real GDP[1]	-3.6	5.2	7.8	5.3	3.5	5.5	5.5	4.5	3.6	5.1	-2.0	4.0	5.0
Unemployment rate	8.1	7.6	5.8	4.7	4.5	7.6	6.5	5.6	5.2	7.9	10.0	9.0	7.0
Residential Real Estate price[1]	2.2	7.0	11.2	11.6	8.3	6.6	7.8	7.7	5.7	5.8	-7.0	6.0	7.0

Lithuania		Scenarios											
Measure, %		**Optimistic**				**Baseline**				**Pessimistic**			
	2020a	**2021f**	**2022f**	**2023f**	**2024f**	**2021f**	**2022f**	**2023f**	**2024f**	**2021f**	**2022f**	**2023f**	**2024f**
Real GDP[1]	−0.9	4.5	5.7	4.7	3.5	4.5	4.1	3.7	3.0	4.4	−1.0	3.0	5.0
Unemployment rate	8.6	7.5	6.3	5.4	5.1	7.5	6.8	6.2	5.9	7.9	10.0	9.0	7.0
Residential Real Estate price[1]	9.4	18.0	10.0	6.0	4.0	18.0	7.0	5.0	3.0	18.0	-15.0	6.0	7.0

1. Annual change

Recent reviews of the forecasts were performed mainly to reflect the outlook due to COVID-19. These, together with a review of historically observed default frequency levels performed at the same time, indicated additional reversals of ECLs as compared to the end of 2020.

However, given the unprecedented uncertainty caused by COVID-19 and based on further analyses performed by the Management, Luminor decided to partially maintain a Management overlay. The underlying reasons for the overlay, presented in the Luminor Bank AS Annual Report 2020, remained relevant as still in the view of Luminor Management the ECL models which are based on historical data with forward looking adjustments might not accurately reflect increase in the credit risk related to COVID 19. The decision to partially maintain the overlay was based on concerns with regard to the spread of the Omicron and Delta variants of COVID-19, uncertainty over the efficacy of vaccines towards new variants, and new restrictions being applied in different parts of the world. Luminor's decision to partially maintain the overlay was also supported by relative lack of effective early indicators to predict credit quality developments in the current unprecedented crisis, no clear trend of customers' post grace period behaviour and risks of inflation.

Material exposures are reviewed regularly. The regularity and deepness of the assessment are based on the risk level and size of the exposure. The aim of the follow-up is to identify a potential worsening of the situation and start early actions to improve Luminor's position, and to identify the occurrence of unlikeliness to pay criteria. Credit-impaired large exposures that are above materiality thresholds are reviewed every quarter or more frequently when individual circumstances require this. The valuation is updated when there are significant changes in cash flows, otherwise it is performed at least once a year.

For Stage 3 financial asset exposures (including defaulted POCI assets), which are classified as material, Luminor evaluates the impairment amount on an individual basis (individual assessment) under the discounted cash flows method, where both future cash flows from the customer's operations and cash flows from collateral realisation are considered. As a rule, two scenarios – base case and risk case – with certain probability weights are used. For exceptional cases one scenario may be used, where only cash flow from collateral realisation without any cash flow from operating activities is considered. The circumstances in which only one scenario may be acceptable could be a workout case.

During the fourth quarter of 2021, Luminor amended the impairment calculation methodology for Stage 3 financial asset exposures (including defaulted POCI assets), which are classified as immaterial, by implementing dynamic (increasing) collateral haircuts based on vintage of non-performing loans instead of fixed haircuts. At the end of 2021, Luminor evaluated the impairment amount on a collective basis where collective assessment is defined by asset type, product, and non-performing loans vintage. Previously the approach of the collective assessment was defined by asset type. Impairment is calculated by applying a provision rate for the unsecured part. The unsecured part for impairment purposes is calculated using the collateral value capped to the exposure amount and afterwards discounted, eliminating situations when over-collateralised loans have an entirely secured part and result in zero impairment. Different provision rates for the unsecured part are applied for three homogeneous groups, i.e., mortgage loans and other loans with real estate collateral issued to individual customers, consumer loans and other loans to individual customers (including leasing), and loans to business customers.

For further quantitative information on Loans from customers refer to Note 12, please.

(e) Sensitivity analysis

Sensitivity analysis for expected credit losses is carried out along three dimensions: impact from the changes in SICR - significant increase in credit risk - thresholds for absolute and relative PD; influence of weights for pessimistic and optimistic macro scenarios; and effect from alternative changes in LGD levels. In the following tables, the results are illustrated both on a country and consolidated level.

The following table shows the impact on the 31 December 2020 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

31 December 2020 ECL impact €m	**Actual relative threshold applied**	**Actual absolute threshold applied**	**Change in relative threshold**	**Change in absolute threshold**	**Lower thresholds**	**Higher thresholds**
Estonia	2.5	60bps	-/+ 20%	-/+ 12bps	0.20	-0.15
Latvia	2.5	60bps	-/+ 20%	-/+ 12bps	0.02	0.00
Lithuania	2.5	60bps	-/+ 20%	-/+ 12bps	0.28	-0.08
Luminor	2.5	60bps	-/+ 20%	-/+ 12bps	0.50	-0.24

The following table shows the impact on the 31 December 2020 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

31 December 2020 ECL impact €m	**Pessimistic scenario probability applied**	**Optimistic scenario probability applied**	**Absolute change in pessimistic scenario probability**	**Absolute change in optimistic scenario probability**	**Lower pessimistic scenario probability**	**Higher pessimistic scenario probability**
Estonia	30%	10%	-/+ 2%	+/- 2%	-0.29	0.29
Latvia	30%	10%	-/+ 2%	+/- 2%	-0.06	0.06
Lithuania	30%	10%	-/+ 2%	+/- 2%	-0.23	0.23
Luminor	30%	10%	-/+ 2%	+/- 2%	-0.58	0.58

The following table shows the impact on the 31 December 2021 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

31 December 2021 ECL impact €m	Actual relative threshold applied	Actual absolute threshold applied	Change in relative threshold	Change in absolute threshold	Lower thresholds	Higher thresholds
Estonia	2.5	60bps	-/+ 20%	-/+ 12bps	0.04	-0.07
Latvia	2.5	60bps	-/+ 20%	-/+ 12bps	0.43	-0.20
Lithuania	2.5	60bps	-/+ 20%	-/+ 12bps	0.25	-0.26
Luminor	2.5	60bps	-/+ 20%	-/+ 12bps	0.72	-0.53

The following table shows the impact on the 31 December 2021 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

31 December 2021 ECL impact €m	Pessimistic scenario probability applied	Optimistic scenario probability applied	Absolute change in pessimistic scenario probability	Absolute change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
Estonia	30%	10%	-/+ 2%	+/- 2%	-0.04	0.04
Latvia	30%	10%	-/+ 2%	+/- 2%	-0.09	0.13
Lithuania	30%	10%	-/+ 2%	+/- 2%	-0.18	0.18
Luminor	30%	10%	-/+ 2%	+/- 2%	-0.31	0.35

The following table shows the impact on the 31 December 2021 ECL allowance of changing the LGD values at individual exposure level. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

31 December 2021 ECL impact €m	Relative change in LGD	Lower LGD impact	Higher LGD impact	Relative change in LGD	Lower LGD impact	Higher LGD impact
Estonia	-/+ 5%	-0.45	0.53	-/+ 10%	-0.93	1.02
Latvia	-/+ 5%	-0.79	0.82	-/+ 10%	-1.58	1.63
Lithuania	-/+ 5%	-0.88	1.39	-/+ 10%	-2.00	2.53
Luminor	-/+ 5%	-2.12	2.74	-/+ 10%	-4.51	5.18

Comparative information for LGD sensitivity is not presented due to technical changes in calculation approach, which does not allow to produce a meaningful comparatives.

(f) Risk assessment on modified financial assets

As a rule, each time the modification of a financial instrument takes place due to financial problems of the debtor, a new rating/scoring should be obtained and a new PD assigned, and the loan should be marked as forborne if the regulatory reporting definition is met. Therefore, as a result of modification, the loan would be classified as Stage 2 if the forborne (restructured) performing status is assigned (or Stage 3 if the forborne non-performing status is assigned) and/or the loan would be classified as Stage 2 if the change in PD is considered significant. In case of substantial modification resulting in derecognition of the asset and the origination of a new asset, the newly recognised asset is classified as either a POCI asset (if credit-impaired) or Stage 1 (if not credit-impaired).

During the fourth quarter of 2021, collective SICR trigger under the top-down approach was incorporated into the ECL model representing collective SICR adjustment for exposures modified due to COVID-19. Thus currently, all COVID-19 modified exposures are treated at least as Stage 2 exposures.

(g) Write-off policy

Luminor writes off financial assets, in whole or in part, which are considered as being non-collectible. However, prior to the write-off decision, Luminor performs an assessment of certain indicators to make sure there is no reasonable expectation of recovery. The assessment covers, inter alia, evaluation of the legal recoverability of a claim, assessment of the possibility of voluntary recovery solutions based on a customer's willingness and ability to settle a claim. In general, the indication that financial assets are non-collectible is the situation when all collaterals (except guarantees of private individuals) are sold. However, the write-off fact does not limit Luminor's recovery measures towards a particular customer. The outstanding contractual amount on financial assets that were written off during the year ended 31 December 2021 and were still subject to enforcement activity was 9.8 million EUR (15.3 million EUR in 2020).

(h) Maximum exposure to credit risk not taking into account collateral held or other credit enhancements

Luminor 's maximum exposure to credit risk is reflected in the gross amounts of financial assets in the consolidated statement of financial position. For financial and performance guarantees issued, commitments to extend credit, undrawn credit lines and export/import letters of credit, the maximum exposure to credit risk is the amount of the commitment.

€m	Notes	31 Dec 2020	31 Dec 2021
Credit risk exposures relating to on-balance sheet assets subject to ECL assessment are:		**14,597.8**	**12,934.1**
Cash and balances with central banks	11	**4,926.5**	**2,494.2**
Due from other credit institutions		**103.6**	**64.4**
Debt securities classified as amortised cost and FVTOCI	13	**0.0**	**326.9**
Loans to customers		**9,567.7**	**10,048.6**
Individual customers	12	5,449.8	5,680.1
Business customers	12	3,846.9	3,983.8
Financial institutions and Public sector	12	271.0	384.7
Credit risk exposures relating to off-balance sheet items subject ECL assessment are:		**1,779.7**	**1,919.5**
Loan commitments given	25	1,199.1	1,230.1
Financial guarantees given	25	433.5	498.9
Performance guarantees	25	147.1	190.5
Total credit risk exposure – financial instruments subject to ECL assessment		**16,377.5**	**14,853.6**
Credit risk exposures relating to on-balance sheet assets not subject to ECL assessment are:			
Financial assets held for trading		**9.1**	**15.5**
Debt securities	13	9.1	15.5
Debt securities designated as at FVTPL		**275.2**	**265.8**
Governments	13	251.1	242.1
Credit institutions	13	24.1	23.7
Derivative financial instruments	23	43.4	75.5
Total credit risk exposures not subject to ECL assessment		**327.7**	**356.8**
Total credit risk exposure		**16,705.2**	**15,210.4**

The table above represents credit risk exposure as at 31 December 2021 and 31 December 2020, without taking into account any credit risk mitigation techniques. The credit quality of financial assets subject to the ECL assessment as at 31 December 2020 and 31 December 2021 is disclosed in the notes as indicated in the table above. Cash and balances with central banks and Due from other financial institutions are subject to low credit risk with immaterial ECL created and classified as Stage 1.

j) Information about collaterals of loans

Luminor takes into account guarantees issued by the state and other parties issuing guarantees that are equivalent to the state guarantees. Guarantees and warranties issued by other parties (private individuals, legal entities), although they mitigate the risk, are considered immaterial.

If exposure is secured by several different types of collateral, priority in recognition of a collateral is based on its liquidity. Securities, cash and guarantees are treated as the types of collateral with the highest liquidity, followed by residential real estate and then other real estate. Movable assets like transport vehicles, equipment and other assets are treated as having the lowest liquidity.

As at 31 December 2020	Unsecured	Loans collateralised by				Total
€m		Residential Real estate	Other Real estate	Other security	Total secured	
Mortgage loans	56.2	4,443.30	53.8	60.9	4,558.0	**4,614.2**
Leasing	36.9	0.0	0.0	417.4	417.4	**454.3**
Consumer and other loans	115.3	116.6	101.4	48.0	266.0	**381.3**
Individual customers	**208.4**	**4,559.9**	**155.2**	**526.3**	**5,241.4**	**5,449.8**
Loans	245.3	69.8	1,834.9	673.1	2,577.8	**2,823.1**
Leasing	105.7	0.0	0.8	736.5	737.3	**843.0**
Factoring	170.9	0.0	0.0	9.9	9.9	**180.8**
Business customers	**521.9**	**69.8**	**1,835.7**	**1,419.5**	**3,325.0**	**3,846.9**
Financial institutions and Public sector	**127.2**	**0.2**	**125.5**	**18.1**	**143.8**	**271.0**
Total	**857.5**	**4,629.9**	**2,116.4**	**1,963.9**	**8,710.2**	**9,567.7**

As at 31 December 2021	Unsecured	Loans collateralised by				Total
€m		Residential Real estate	Other Real estate	Other security	Total secured	
Mortgage loans	34.6	4,757.5	41.0	0.5	4,799.0	**4,833.6**
Leasing	37.7	0.0	0.0	417.2	417.2	**454.9**
Consumer and other loans	120.8	140.1	90.8	39.9	270.8	**391.6**
Individual customers	**193.1**	**4,897.6**	**131.8**	**457.6**	**5,487.0**	**5,680.1**
Loans	390.6	86.8	2,062.2	297.5	2,446.5	**2,837.1**
Leasing	129.0	0.0	0.5	760.2	760.7	**889.7**
Factoring	257.0	0.0	0.0	0.0	0.0	**257.0**
Business customers	**776.6**	**86.8**	**2,062.7**	**1,057.7**	**3,207.2**	**3,983.8**
Financial institutions and Public sector	**186.4**	**0.0**	**187.8**	**10.5**	**198.3**	**384.7**
Total	**1,156.1**	**4,984.4**	**2,382.3**	**1,525.8**	**8,892.5**	**10,048.6**

The amount of credit-impaired loans is reported together with the value of related collateral held as security in the tables below. Credit-impaired loans are most often secured by real estate and movable assets. The value of such collateral is equal to its market value (not liquidation value) which is updated shortly after identification of default.

Credit-impaired loans

As at 31 December 2020 €m	Gross exposure	Allowances for impairment	Net exposure	Fair value of collateral
Business customers[1]	148.8	-56.2	92.6	126.8
Individual customers	156.6	-36.1	120.5	138.8
Total	**305.4**	**-92.3**	**213.1**	**265.6**

As at 31 December 2021 €m	Gross exposure	Allowances for impairment	Net exposure	Fair value of collateral
Business customers[1]	115.0	-37.7	77.3	91.2
Individual customers	70.6	-18.9	51.7	63.6
Total	**185.6**	**-56.6**	**129.0**	**154.8**

[1] Under business customers are also disclosed exposures to Public sector and Financial institutions.

The extent to which collateral mitigates credit risk for the credit impaired loans is presented below by disclosing collateral values separately for the assets where collateral values are equal to or exceed gross carrying amount of the exposure and those assets where collateral values are less than the carrying value of the asset.

As at 31 December 2020 €m	Over-collateralised assets		Under-collateralised assets	
	Gross exposure	Value of collateral	Gross carrying value of assets	Value of collateral
Business customers	94.4	240.8	54.4	32.3
Individual customers	109.9	275.4	46.7	28.9
Total	**204.3**	**516.2**	**101.1**	**61.2**

As at 31 December 2021 €m	Over-collateralised assets		Under-collateralised assets	
	Gross exposure	Value of collateral	Gross carrying value of assets	Value of collateral
Business customers	72.5	347.8	42.4	19.7
Individual customers	52.7	158.9	18.0	10.8
Total	**125.2**	**506.7**	**60.4**	**30.5**

OPERATIONAL RISK

Operational risk in Luminor comprises twelve sub-risks: Legal risk, Compliance risk, External theft and fraud risk, Money laundering, terrorism financing, sanctions and proliferation financing risk, Conduct risk, Information and communications technology risk, Information security risk, Data management and protection risk, People risk, Third party and outsourcing risk, Operational continuity and resilience risk, Process and reporting risk.

Operational risk management in Luminor is governed by the Operational Risk Management Policy and other relevant operational risk management framework documents. Operational risk management framework establishes requirements for identifying, managing, assessing, treating, monitoring and reporting operational risks. The prime responsibility for the management of operational risk and the compliance with framework requirements rests within the business and functional units where the risk arises. This includes fostering a sound risk culture in their respective reporting lines to ensure that employees understand the operations that are performed by them, the risks inherent in these, and the importance of controls they execute or oversee the execution of.

Operational Risk Department oversees management of this risk. It identifies any deviations from Luminor's Risk Appetite Framework and ensures in a timely manner any deviations can be effectively managed without significant detriment to Luminor, its customers or other stakeholders.

Luminor operates a system of COVID-19 response states which allows Luminor to adjust quickly COVID-19 related restrictions in response to perceived threat and risk levels. Should there be a variation between the restrictions in the relevant COVID-19 response state and government rules or advice, the more conservative of the two will prevail.

Luminor Management is kept updated on the status of operational risk through periodic and ad hoc risk reporting.

CAPITAL MANAGEMENT

Luminor complied with minimum capital adequacy, regulatory buffer and liquidity requirements during the current and preceding reporting periods. Managed capital consists entirely of own funds. The capital requirements are the minimum capital requirements, the Other Significant Institution (O-SII) requirement, the Pillar 2 requirement set by the ECB in the 2019 Joint Decision on Capital through the Supervisory Review and Evaluation Process (SREP), and the Systemic Risk Buffer and Countercyclical Risk Buffer requirements set by the supervisory authorities in the Baltic countries. Together they oblige Luminor to hold capital exceeding 10.1% of CET1, 12.0% of Tier 1 and 14.5% of Total Capital as at 31 December 2021 (the same applied as at 31 December 2020).

Our capital ratios remain well above our minimum capital requirements set by our regulators which, from 1 March 2022, require us to have a CET1 ratio exceeding 10.24%, a Tier 1 ratio above 12.2% and a Total Capital ratio greater than 14.7%. These include a Pillar 2 additional own funds requirement of 2.2%. We reviewed our capital requirements and concluded that, from 1 March 2022 our limits for CET1, Tier 1 and Total capital ratios will be 12.94%, 14.9% and 17.4% of REA respectively. These limits include Pillar 2 guidance and management buffers. Luminor uses the Standardised method in its Capital Adequacy calculations to calculate the Risk Exposure Amount (REA) for Credit and Market risk. The REA for operational risk is calculated using the Basic Indicator Approach method.

Own funds

As at 31 December 2021 our own funds totalled 1,429.8 million EUR (2020: 1,586.4 million EUR), composed entirely of Common Equity Tier 1 (CET1) capital.

MARKET RISK

Luminor has a low risk appetite for market risk. The most significant parts of market risk for Luminor are interest rate risk and credit spread risk, both stayed within internal limits during 2021. The significance of other risks is lower as Luminor does not have any open positions in equity instruments for trading, customer related foreign exchange flow is managed through daily hedging activities, and all derivative deals with customers are hedged with back-to-back transactions. Limits for banking and trading activities are approved by the Management Board and the Supervisory Council of Luminor Bank.

Interest rate and Credit spread risk

Interest rate risk can materialize through the change in the net present value of future cash flows or change in the net interest income. Luminor monitors interest rate risk sensitivity, separately, in banking and trading books. Interest rate risk in the banking book is measured in terms of stressed EVE (Economic Value of Equity) and NII (Net Interest Income).

The interest rate risk in the trading book is measured in terms of Basis Point Value (BPV), i.e., the change in net cash flows given a one basis point (0.01%) parallel shift in the market interest rates for different currencies: EUR, USD, and sum of all other currencies.

Credit spread risk arises only from debt securities valued at FVTPL/FVOCI in the banking book bond portfolio and exposures in the trading debt portfolio. Credit spread risk has been within internal risk appetite limits at the end of 2021.

Sensitivity to interest rate risk in banking book

Banking book interest rate risk sensitivity in terms of stressed EVE/NII was within internal limits at the end of 2021.

Luminor stressed EVE/NII exposure for banking book activities, €m	2020[2]	2021
NII (Parallel up +200bp)	59.8	43.4
EVE (Parallel up +200bp)	-39.6	-28.7
NII (Parallel down -200bp1)	-10.8	-4.1
EVE (Parallel down -200bp1)	52.1	118.3

[1] Negative interest rate scenarios floored at -1% based on the EBA guidelines.

[2] Results were not available for the end of the year 2020 as new sensitivity methodology was introduced during 2021. Approximate simplified analysis has been made for 2020 sensitivity amounts.

Sensitivity to interest rate risk in trading book

Trading book interest rate risk sensitivity in terms of total BPV was within internal limits at the end of 2021 and 2020. Sensitivity is immaterial and not disclosed given insignificant volumes of instruments in the trading book.

Foreign exchange (FX) risk

Luminor main exposure is towards euro currency, while positions of other currencies are not significant. Luminor follows a conservative approach to FX risk. It is measured as the nominal value of open FX positions converted to euro using the ECB rates. Luminor has both intraday and overnight limits. Luminor has approved separate limits for the United States Dollar (USD), sum of other currencies, max of other currencies and total currencies.

Luminor exposure to FX risk, €m	2020	2021
USD	0.4	0.1
Max of other currencies[1]	0.0	0.1
Sum of other currencies[2]	0.3	0.3
Total[3]	**0.6**	**0.3**

[1] Max of other currencies –represents the maximum absolute exposure of all foreign currencies other than USD.

[2] Sum of other currencies –represents the sum of all foreign currency exposures in absolute terms excluding USD.

[3] Total – represents the higher absolute value between sum of positive exposures and sum of negative exposures of all foreign currency open positions.

Sensitivity of foreign exchange risk

Luminor applies a value-at-risk (VaR) model to estimate a possible loss due to changes in FX rates. A reasonable change in FX rates would have no material impact on consolidated statement of profit or loss.

LIQUIDITY RISK

Liquidity is managed to ensure a constant ability to settle contractual obligations. Luminor uses a range of liquidity metrics for measuring, monitoring, and controlling liquidity risk including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), internal liquidity limits for funding concentration, and a survival horizon metric as a part of the liquidity stress testing.

Liquidity risk management is divided into intraday, short-term (1 week to 3 months) and long-term (1 year), liquidity management. Intraday and short-term liquidity management ensures compliance with the reserve and liquidity requirements set by the ECB and internal liquidity limits. Long-term liquidity risk management is supported by analysing the estimated future cash flows considering deposit and loan portfolio growth, as well as possible refinancing sources.

Luminor has a set of early warning indicators to identify liquidity crises in a timely fashion, and contingency funding plans to manage Luminor's liquidity during market disruptions. The liquidity risk management strategy is reviewed at least annually or after any significant change in the internal or external environment Luminor operates in. The minimum limit for LCR and NSFR ratios is set at 100%, however Luminor has a substantial liquidity buffer and maintains higher ratios than set by regulatory requirements.

The liquidity risk analysis of Luminor's main balance sheet items per remaining maturity is as follows:

Carrying amount **As at 31 December 2020, €m**	**Up to 1 month**	**1–3 months**	**3–12 months**	**1–5 years**	**Over 5 years**	**Total**
Cash and balances with central banks	4,926.5	0.0	0.0	0.0	0.0	**4,926.5**
Due from other credit institutions	81.0	5.8	4.4	12.4	0.0	**103.6**
Debt securities	8.9	0.0	6.8	178.8	89.8	**284.3**
Loans to customers	270.2	340.5	1,658.8	3,782	3,379.3	**9,430.8**
Derivative financial instruments	19.7	3.8	4.0	15.9	0.0	**43.4**
Equity instruments	0.0	0.1	0.0	1.5	1.2	**2.8**
Other financial assets	10.2	0.0	0.0	0.0	0.0	**10.2**
Total financial assets	**5,316.5**	**350.2**	**1,674**	**3,990.6**	**3,470.3**	**14,801.6**
Loans and deposits from credit institutions	17.3	0.0	0.0	30.0	0.0	**47.3**
Deposits from customers	11,101.4	214.0	451.2	49.0	6.1	**11,821.7**
Debt securities issued	0.0	0.0	101.1	1,100	0.0	**1,201.1**
Derivative financial instruments	20.5	6.8	6.9	16.4	0.0	**50.6**
Lease liabilities	0.5	1.1	4.3	20.9	22.9	**49.7**
Other financial liabilities	14.7	0.0	0.0	0.0	0.0	**14.7**
Total financial liabilities	**11,154.4**	**221.9**	**563.5**	**1,216.3**	**29.0**	**13,185.1**
Net financial assets / (liabilities)	**-5,837.9**	**128.3**	**1,110.5**	**2,774.3**	**3,441.3**	**1,616.5**
Off-balance sheet commitments	1,779.7	0.0	0.0	0.0	0.0	**1,779.7**
Liquidity gap arising from financial instruments	**-7,617.6**	**128.3**	**1,110.5**	**2,774.3**	**3,441.3**	**-163.2**

Carrying amount As at 31 December 2021, €m	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with central banks	2,494.2	0.0	0.0	0.0	0.0	**2,494.2**
Due from other credit institutions	61.8	0.0	0.0	2.6	0.0	**64.4**
Debt securities	11.6	35.1	5.4	330.4	225.7	**608.2**
Loans to customers	242.1	371.4	1,634.4	4,053.9	3,644.9	**9,946.7**
Derivative financial instruments	11.8	12.7	34.4	15.5	1.1	**75.5**
Equity securities	0.0	0.0	0.0	0.0	3.2	**3.2**
Other financial assets	15.3	0.0	0.0	0.0	0.0	**15.3**
Total financial assets	**2,836.8**	**419.2**	**1,674.2**	**4,402.4**	**3,874.9**	**13,207.5**
Loans and deposits from credit institutions	83.8	0.0	0.0	0.0	0.0	**83.8**
Deposits from customers	9,818.0	195.5	248.3	37.0	6.6	**10,305.4**
Debt securities issued	0.0	0.0	71.8	1,091.8	0.0	**1,163.6**
Derivative financial instruments	10.2	10.7	30.7	17.6	1.1	**70.3**
Lease liabilities	0.5	0.9	4.2	19.9	17.9	**43.4**
Other financial liabilities	29.0	0.0	0.0	0.0	0.0	**29.0**
Total financial liabilities	**9,941.5**	**207.1**	**355.0**	**1,166.3**	**25.6**	**11,695.5**
Net financial assets / (liabilities)	**-7,104.7**	**212.1**	**1,319.2**	**3,236.1**	**3,849.3**	**1,512.0**
Off-balance sheet commitments	1,919.5	0.0	0.0	0.0	0.0	**1,919.5**
Liquidity gap arising from financial instruments	**-9,024.2**	**212.1**	**1,319.2**	**3,236.1**	**3,849.3**	**-407.5**

The liquidity gap in the short end is driven by non-maturing deposits which do not have contractual end date but are historically proven to be stable.

Disclosure of contractual undiscounted cash flows for liabilities:

As at 31 December 2020 €m	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loans and deposits from credit institutions	17.3	0.0	0.0	29.8	0.0	**47.1**
Deposits from customers	11,101.8	214.5	452.0	50.0	6.4	**11,824.7**
Debt securities issued	0.0	0.1	107.4	1,108.9	0.0	**1,216.4**
Derivative financial instruments (as shown below)	5.1	6.9	11.6	20.3	2.6	**46.5**
Lease Liabilities	0.6	1.2	5.3	24.5	25.2	**56.8**
Other financial liabilities	14.7	0.0	0.0	0.0	0.0	**14.7**
Total liabilities	**11,139.5**	**222.7**	**576.3**	**1,233.5**	**34.2**	**13,206.2**

Derivative financial instruments As at 31 December 2020, €m	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Inflow	-130.2	-213.1	-170.4	-115.0	0.0	**-628.7**
Outflow	135.0	219.7	175.7	127.3	0.0	**657.7**
Gross settled derivatives	4.8	6.6	5.3	12.3	0.0	**29.0**
Net settled derivatives	0.3	0.3	6.3	8.0	2.6	**17.5**
Total	**5.1**	**6.9**	**11.6**	**20.3**	**2.6**	**46.5**

As at 31 December 2021 €m	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Loans and deposits from credit institutions	83.8	0.0	0.0	0.0	0.0	**83.8**
Deposits from customers	9,818.0	195.5	248.4	37.4	6.6	**10,305.9**
Debt securities issued	0.0	0.0	75.9	1,106.9	0.0	**1,182.8**
Derivative financial instruments (as shown below)	10.2	10.5	30.4	14.9	1.1	**67.1**
Lease Liabilities	0.5	1.0	4.4	21.2	19.0	**46.1**
Other financial liabilities	37.5	0.0	0.0	0.0	0.0	**37.5**
Total liabilities	**9,950.0**	**207.0**	**359.1**	**1,180.4**	**26.7**	**11,723.2**

Derivative financial instruments As at 31 December 2021, €m	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
Inflow	–122.1	–143.7	–192.4	–128.7	0.0	**–586.9**
Outflow	123.5	145.4	195.0	135.3	0.0	**599.2**
Gross settled derivatives	1.4	1.7	2.6	6.6	0.0	**12.3**
Net settled derivatives	8.8	8.8	27.8	8.3	1.1	**54.8**
Total	**10.2**	**10.5**	**30.4**	**14.9**	**1.1**	**67.1**

Liquidity buffer

The liquidity buffer consists of balances with central banks and the liquidity bond portfolio.

Country risk

Country risk is a risk that some event within a country could have an adverse effect on Luminor directly by impairing the value of Luminor or indirectly through an obligor's ability to meet its obligations to Luminor. Country limits are established when Luminor acquires sovereign debt, takes risk backed by a country's government, or when establishing credit limits towards foreign financial institutions. During the reporting and a comparative period, all country exposures stayed within the limits. Luminor has limited insignificant exposure to countries outside the Baltic markets. However, we do not establish country limits for our home markets, for the EU countries rated mid BBB or better, or for other countries rated at AA- or better.

GOING CONCERN

Luminor's Management prepared these financial statements on a going concern basis.

5. NET INTEREST AND SIMILAR INCOME

€m	2020	2021
Loans and advances to customers at amortised cost	225.4	215.9
Deposits with other banks	0.7	0.4
Negative interest on financial liabilities	0.5	7.2
Interest income calculated using effective interest method	**226.6**	**223.5**
Finance leases	46.5	42.0
Other interest	0.6	0.9
Other similar income	**47.1**	**42.9**
Interest and similar income	**273.7**	**266.4**
Loans and deposits from credit institutions[1]	–15.0	–15.1
Deposits from customers	–8.2	–1.3
Impact of hedging activities	–0.5	–1.2
Debt securities issued	–9.8	–7.5
Other[2]	–13.3	–2.1
Interest and similar expense	**–46.8**	**–27.2**
Net interest and similar income	**226.9**	**239.2**
[1] Of which interest paid on cash balances at central banks	–12.1	–14.7
[2] Of which former parent funding loan commitment interest expense	–10.6	–1.2

Interest and similar income by country of income generation, €m	2020	2021
Estonia	69.5	65.8
Latvia	86.8	85.0
Lithuania	117.4	115.6
Total	**273.7**	**266.4**

6. NET FEE AND COMMISSION INCOME

€m	2020	2021
Cards	32.4	34.2
Credit products	5.4	4.9
Daily banking plans	14.2	16.0
Deposit products and cash management	16.3	16.8
Insurance	4.2	3.9
Investments	3.9	5.1
Pensions	9.8	11.5
Trade finance	8.3	8.9
Other fee and commission income	1.3	0.8
Fee and commission income	**95.8**	**102.1**
Cards	-17.2	-17.2
Credit products	-0.2	-0.6
Deposit products and cash management	-2.5	-2.9
Investments	-1.2	-1.4
Pensions	-0.6	-1.3
Other fee and commission expense	-0.5	-0.2
Fee and commission expense	**-22.2**	**-23.6**
Cards	15.4	17.0
Credit products	5.2	4.3
Daily banking plans	14.2	16.0
Deposit products and cash management	13.8	13.9
Insurance	4.2	3.9
Investments	2.6	3.7
Pensions	9.1	10.2
Trade finance	8.3	8.9
Other fee and commission income	0.8	0.6
Net fee and commission income	**73.6**	**78.5**

Fee and commission income by country of income generation, €m	2020	2021
Estonia	15.3	15.8
Latvia	28.9	31.6
Lithuania	51.6	54.7
Total	**95.8**	**102.1**

Fee and commission income by products and type of revenue recognition, €m	2020			2021		
	Over time	Point in time	Total	Over time	Point in time	Total
Cards	8.9	23.5	**32.4**	9.3	24.9	**34.2**
Credit products	2.8	2.6	**5.4**	1.6	3.3	**4.9**
Daily banking plans	14.2	0.0	**14.2**	16.0	0.0	**16.0**
Deposit products and cash management	3.1	13.2	**16.3**	3.0	13.8	**16.8**
Insurance	0.0	4.2	**4.2**	0.0	3.9	**3.9**
Investments	1.7	2.2	**3.9**	2.1	3.0	**5.1**
Pensions	9.8	0.0	**9.8**	11.5	0.0	**11.5**
Trade finance	7.4	0.9	**8.3**	8.1	0.8	**8.9**
Other fee and commission income	0.2	1.1	**1.3**	0.0	0.8	**0.8**
Total	**48.1**	**47.7**	**95.8**	**51.6**	**50.5**	**102.1**

7. NET FINANCE INCOME

€m	2020	2021
Net gain (-loss) from derivatives	-9.6	23.4
Net gain (-loss) from foreign currency operations	24.1	-7.9
Net other financial income	13.2	5.4
of which Net gain on financial assets and liabilities at fair value through profit or loss	0.0	0.3
of which Net gain (-loss) on debt securities designated at fair value through profit or loss	8.4	-1.9
of which Net gain on financial assets and liabilities held for trading	4.8	7.0
Total	**27.7**	**20.9**

The Net other loss from foreign currency operations reflects mainly the revaluation of foreign currency customer liabilities and is offset by the positive revaluation derivatives, with which we hedge these customer liabilities.

8. OTHER OPERATING EXPENSES

€m	2020	2021
Cash contributions to resolution funds and deposit guarantee schemes[1]	-6.4	-10.6
Other costs	0.0	-0.7
Total	**-6.4**	**-11.3**

[1] Increase in the amounts paid is due to change in the basis of underlying calculation in line with regulatory requirements.

9. SALARIES AND OTHER PERSONNEL EXPENSES

€m	2020	2021
Wages and salaries	-80.4	-81.7
Social security cost	-14.0	-14.1
Indirect personnel cost (recruitment, training)	-5.5	-4.9
Contribution to pension funds	-0.3	-0.3
Total	**-100.2**	**-101.0**

Social security tax payments include a contribution to state pension funds. Luminor has no legal or constructive obligation to make pension or similar payments beyond the social security tax.

10. OTHER ADMINISTRATIVE EXPENSES

€m	2020	2021
IT related expenses	-106.4	-96.8
Consulting and professional services	-19.9	-24.8
Advertising and marketing expenses	-3.0	-6.5
Real estate expenses	-5.2	-3.7
Taxes and duties	-8.1	-3.8
Other expenses[1]	-20.5	-14.1
Total	**-163.1**	**-149.7**

[1] Includes mostly costs related to collection services, information services, postal, transport and other services.

11. CASH AND BALANCES WITH CENTRAL BANKS

€m	31 Dec 2020	31 Dec 2021
Cash on hand	123.8	136.1
Balances with central banks	4,802.7	2,358.1
Total	**4,926.5**	**2,494.2**
of which mandatory reserve requirement	112.4	108.8

12. LOANS TO CUSTOMERS

€m	31 Dec 2020	31 Dec 2021
Individual customers	5,391.5	5,640.0
Business customers	3,768.8	3,922.9
Financial institutions and Public sector	270.5	383.8
Total	**9,430.8**	**9,946.7**
of which Pledged loans (as shown below)	887.7	549.1

Pledged loans, €m	31 Dec 2020	31 Dec 2021
Former parent committed funding facility	292.8	0.0
Covered bond[1]	548.5	549.1
Other	46.4	0.0
Total	**887.7**	**549.1**

[1] For more information, refer to Note 26, please.

Loans to Business customers by economic sectors, €m	31 Dec 2020	31 Dec 2021
Real estate activities	1,161.6	1,167.8
Wholesale and retail trade	705.8	760.8
Manufacturing	456.2	503.4
Transport and storage	308.3	299.8
Agriculture, forestry, and fishing	272.3	296.7
Construction	151.6	214.3
Professional, scientific, and technical activities	179.8	124.9
Administrative and support service activities	190.0	187.5
Electricity, gas, steam, and air conditioning supply	117.9	78.4
Other sectors	225.3	289.3
Total	**3,768.8**	**3,922.9**

Gross amount and expected credit loss allowance amount for Loans to customers:

As at 31 December 2020 €m	Gross carrying amount	Allowance for impairment	Net carrying amount
Mortgage loans	4,614.2	-44.2	4,570.0
Leasing	454.3	-4.1	450.2
Consumer and other loans	381.3	-10.0	371.3
Individual customers	**5,449.8**	**-58.3**	**5,391.5**
Loans	2,823.1	-61.7	2,761.4
Leasing	843.0	-14.3	828.7
Factoring	180.8	-2.1	178.7
Business customers	**3,846.9**	**-78.1**	**3,768.8**
Financial institutions and Public sector	**271.0**	**-0.5**	**270.5**
Total	**9,567.7**	**-136.9**	**9,430.8**

As at 31 December 2021 €m	Gross carrying amount	Allowance for impairment	Net carrying amount
Mortgage loans	4,833.6	-30.4	4,803.2
Leasing	454.9	-2.0	452.9
Consumer and other loans	391.6	-7.7	383.9
Individual customers	**5,680.1**	**-40.1**	**5,640.0**
Loans	2,837.1	-47.5	2,789.6
Leasing	889.7	-11.7	878.0
Factoring	257.0	-1.7	255.3
Business customers	**3,983.8**	**-60.9**	**3,922.9**
Financial institutions and Public sector	**384.7**	**-0.9**	**383.8**
Total	**10,048.6**	**-101.9**	**9,946.7**

As at 31 December 2020
Individual customers

Mortgage loans, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	3,768.4	36.3	0.0	2.9	**3,807.6**
Moderate risk	506.2	48.1	0.0	0.6	**554.9**
High risk	39.1	87.1	0.0	0.3	**126.5**
Default	0.0	0.0	122.3	2.9	**125.2**
Gross carrying amount	**4,313.7**	**171.5**	**122.3**	**6.7**	**4,614.2**
Allowance for impairment	-5.4	-10.9	-27.6	-0.3	**-44.2**
Net carrying amount	**4,308.3**	**160.6**	**94.7**	**6.4**	**4,570.0**

Leasing, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	12.9	0.5	0.0	0.0	**13.4**
Moderate risk	409.9	17.4	0.0	0.0	**427.3**
High risk	4.3	5.1	0.0	0.0	**9.4**
Default	0.0	0.0	4.0	0.2	**4.2**
Gross carrying amount	**427.1**	**23.0**	**4.0**	**0.2**	**454.3**
Allowance for impairment	-2.3	-0.5	-1.2	-0.1	**-4.1**
Net carrying amount	**424.8**	**22.5**	**2.8**	**0.1**	**450.2**

Consumer and other loans, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	122.0	3.4	0.0	0.5	**125.9**
Moderate risk	148.3	31.3	0.0	0.3	**179.9**
High risk	26.3	21.7	0.0	0.1	**48.1**
Default	0.0	0.0	25.1	2.3	**27.4**
Gross carrying amount	**296.6**	**56.4**	**25.1**	**3.2**	**381.3**
Allowance for impairment	-1.7	-1.5	-6.3	-0.5	**-10.0**
Net carrying amount	**294.9**	**54.9**	**18.8**	**2.7**	**371.3**

Business customers

Loans, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	765.6	15.6	0.0	0.0	**781.2**
Moderate risk	1,070.4	629.4	0.0	11.5	**1,711.3**
High risk	32.5	148.0	0.0	21.2	**201.7**
Default	0.0	0.0	118.3	10.6	**128.9**
Gross carrying amount	**1,868.5**	**793.0**	**118.3**	**43.3**	**2,823.1**
Allowance for impairment	-6.4	-5.9	-47.2	-2.2	**-61.7**
Net carrying amount	**1,862.1**	**787.1**	**71.1**	**41.1**	**2,761.4**

Leasing, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	119.5	7.9	0.0	0.1	**127.5**
Moderate risk	474.4	118.9	0.0	0.2	**593.5**
High risk	39.0	64.2	0.0	0.1	**103.3**
Default	0.0	0.0	17.5	1.2	**18.7**
Gross carrying amount	**632.9**	**191.0**	**17.5**	**1.6**	**843.0**
Allowance for impairment	-4.4	-3.7	-5.9	-0.3	**-14.3**
Net carrying amount	**628.5**	**187.3**	**11.6**	**1.3**	**828.7**

Factoring, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	45.1	0.0	0.0	0.0	**45.1**
Moderate risk	102.6	21.4	0.0	0.0	**124.0**
High risk	4.4	6.3	0.0	0.0	**10.7**
Default	0.0	0.0	1.0	0.0	**1.0**
Gross carrying amount	**152.1**	**27.7**	**1.0**	**0.0**	**180.8**
Allowance for impairment	-0.7	-0.5	-0.9	0.0	**-2.1**
Net carrying amount	**151.4**	**27.2**	**0.1**	**0.0**	**178.7**

Financial institutions and Public sector

€m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	257.7	0.0	0.0	0.0	**257.7**
Moderate risk	9.2	1.7	0.0	0.0	**10.9**
High risk	0.5	1.9	0.0	0.0	**2.4**
Default	0.0	0.0	0.0	0.0	**0.0**
Gross carrying amount	**267.4**	**3.6**	**0.0**	**0.0**	**271.0**
Allowance for impairment	-0.4	-0.1	0.0	0.0	**-0.5**
Net carrying amount	**267.0**	**3.5**	**0.0**	**0.0**	**270.5**

As at 31 December 2021

Individual customers

Mortgage loans, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	4,125.0	187.9	0.0	3.0	**4.315.9**
Moderate risk	233.0	39.7	0.0	1.0	**273.7**
High risk	57.4	132.3	0.0	0.9	**190.6**
Default	0.0	0.0	52.1	1.3	**53.4**
Gross carrying amount	**4,415.4**	**359.9**	**52.1**	**6.2**	**4,833.6**
Allowance for impairment	-8.2	-8.2	-13.8	-0.2	**-30.4**
Net carrying amount	**4,407.2**	**351.7**	**38.3**	**6.0**	**4,803.2**

Leasing, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	261.0	2.8	0.0	0.0	**263.8**
Moderate risk	116.4	11.5	0.0	0.0	**127.9**
High risk	44.0	16.5	0.0	0.0	**60.5**
Default	0.0	0.0	2.7	0.0	**2.7**
Gross carrying amount	**421.4**	**30.8**	**2.7**	**0.0**	**455.0**
Allowance for impairment	-0.7	-0.7	-0.6	0.0	**-2.0**
Net carrying amount	**420.7**	**30.1**	**2.1**	**0.0**	**452.9**

Consumer and other loans, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	168.5	7.7	0.0	0.3	**176.5**
Moderate risk	132.6	20.7	0.0	0.2	**153.5**
High risk	15.5	31.3	0.0	0.3	**47.1**
Default	0.0	0.0	13.1	1.4	**14.5**
Gross carrying amount	**316.6**	**59.7**	**13.1**	**2.2**	**391.6**
Allowance for impairment	-1.5	-1.9	-3.8	-0.5	**-7.7**
Net carrying amount	**315.1**	**57.8**	**9.3**	**1.7**	**383.9**

Business customers

Loans, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	806.6	80.4	0.0	0.0	**886.9**
Moderate risk	1,164.2	558.7	0.0	5.6	**1,728.5**
High risk	11.0	93.2	0.0	21.6	**125.8**
Default	0.0	0.0	93.7	2.2	**95.9**
Gross carrying amount	**1,981.7**	**732.3**	**93.7**	**29.4**	**2,837.1**
Allowance for impairment	-3.1	-12.3	-31.4	-0.7	**-47.5**
Net carrying amount	**1,978.6**	**720.0**	**62.3**	**28.7**	**2,789.6**

Leasing, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	148.3	18.8	0.0	0.0	**167.1**
Moderate risk	524.8	99.4	0.0	0.1	**624.3**
High risk	31.3	49.4	0.0	0.6	**81.4**
Default	0.0	0.0	16.7	0.2	**16.9**
Gross carrying amount	**704.4**	**167.7**	**16.7**	**0.9**	**889.7**
Allowance for impairment	-1.8	-5.2	-4.6	-0.1	**-11.7**
Net carrying amount	**702.6**	**162.5**	**12.1**	**0.8**	**878.0**

Factoring, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	70.9	4.6	0.0	0.0	**75.5**
Moderate risk	166.0	12.0	0.0	0.0	**178.0**
High risk	0.2	1.5	0.0	0.0	**1.7**
Default	0.0	0.0	1.8	0.0	**1.8**
Gross carrying amount	**237.1**	**18.1**	**1.8**	**0.0**	**257.0**
Allowance for impairment	-0.7	-0.1	-0.9	0.0	**-1.7**
Net carrying amount	**236.4**	**18.0**	**0.9**	**0.0**	**255.3**

Financial institutions and Public sector

€m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	369.3	5.3	0.0	0.0	**374.6**
Moderate risk	5.9	3.5	0.0	0.0	**9.4**
High risk	0.2	0.1	0.0	0.0	**0.3**
Default	0.0	0.0	0.4	0.0	**0.4**
Gross carrying amount	**375.4**	**8.9**	**0.4**	**0.0**	**384.7**
Allowance for impairment	-0.3	-0.2	-0.4	0.0	**-0.9**
Net carrying amount	**375.1**	**8.7**	**0.0**	**0.0**	**383.8**

Information about credit loss allowances

The following tables disclose the changes in the credit loss allowance and gross carrying amount for Loans to customers between the beginning and the end of the reporting period. For the purposes of the movement schedules below, Luminor assesses Stages only at the reporting date and transfers between the Stages reflect this. Movements between stages are measured at the beginning of the reporting period.

2020

Loans to customers total	Credit loss allowance					Gross carrying amount				
€m	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2019	**-16.5**	**-25.9**	**-138.9**	**-4.4**	**-185.7**	**9,131.1**	**846.1**	**364.9**	**66.1**	**10,408.2**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-7.8	6.4	1.4	0.0	**0.0**	195.2	-181.0	-14.2	0.0	**0.0**
to Stage 2	4.2	-7.0	2.8	0.0	**0.0**	-907.2	924.3	-17.1	0.0	**0.0**
to Stage 3	2.4	3.5	-5.9	0.0	**0.0**	-62.8	-74.5	137.3	0.0	**0.0**
Originated or purchased	-11.6	0.0	0.0	0.0	**-11,6**	1,504.7	0.0	0.0	0.3	**1,505.0**
Derecognised and repaid	3.4	4.0	11.3	0.2	**18.9**	-1,902.7	-248.7	-121.2	-9.6	**-2,282.2**
Changes to ECL model assumptions, effect from changes in Stages & other	17.1	4.3	-21.3	-0.9	**-0.8**	0.0	0.0	0.0	0.0	0.0
Management overlay adjustment	-12.5	-8.4	0.0	-0.1	**-21.0**	0.0	0.0	0.0	0.0	0.0
Total	**-4.8**	**2.8**	**-11.7**	**-0.8**	**-14.5**	**-1,172.8**	**420.1**	**-15.2**	**-9.3**	**-777.2**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	61.5	1.8	**63.3**	0.0	0.0	-61.5	-1.8	**-63.3**
As at 31 December 2020[1]	**-21.3**	**-23.1**	**-89.1**	**-3.4**	**-136.9**	**7,958.3**	**1,266.2**	**288.2**	**55.0**	**9,567.7**

[1] Out of total POCI loans credit loss allowances 0.2 million EUR is in non-credit-impaired, and 3.3 million EUR is in credit-impaired, gross carrying amount 37.8 million EUR is in non-credit-impaired and 17.2 million EUR in credit-impaired.

Individual customers

Mortgage loans	Credit loss allowance					Gross carrying amount				
€m	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2019	**-4.1**	**-15.8**	**-35.2**	**-1.0**	**-56.1**	**4,340.0**	**207.5**	**132.6**	**9.2**	**4,689.3**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-5.8	4.9	0.9	0.0	**0.0**	93.8	-83.4	-10.4	0.0	**0.0**
to Stage 2	0.4	-2.3	1.9	0.0	**0.0**	-72.0	85.4	-13.4	0.0	**0.0**
to Stage 3	0.7	2.5	-3.2	0.0	**0.0**	-17.6	-25.5	43.1	0.0	**0.0**
Originated or purchased	-1.5	0.0	0.0	0.0	**-1.5**	337.8	0.0	0.0	0.1	**337.9**
Derecognised and repaid	0.2	1.8	2.8	0.0	**4.8**	-368.3	-12.5	-22.2	-2.1	**-405.1**
Changes to ECL model assumptions, effect from changes in Stages & other	7.9	0.1	-2.2	0.2	**6.0**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	-3.2	-2.1	0.0	0.0	**-5.3**	0.0	0.0	0.0	0.0	**0.0**
Total	**-1.3**	**4.9**	**0.2**	**0.2**	**4.0**	**-26.3**	**-36.0**	**-2.9**	**-2.0**	**-67.2**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	7.4	0.5	**7.9**	0.0	0.0	-7.4	-0.5	**-7.9**
As at 31 December 2020	**-5.4**	**-10.9**	**-27.6**	**-0.3**	**-44.2**	**4,313.7**	**171.5**	**122.3**	**6.7**	**4,614.2**

Leasing	Credit loss allowance					Gross carrying amount				
€m	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2019	**-3.1**	**-0.6**	**-1.2**	**-0.1**	**-5.0**	**491.6**	**36.4**	**5.3**	**0.3**	**533.6**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-0.2	0.1	0.1	0.0	**0.0**	9.4	-8.3	-1.1	0.0	**0.0**
to Stage 2	0.2	-0.4	0.2	0.0	**0.0**	-13.2	13.8	-0.6	0.0	**0.0**
to Stage 3	0.0	0.0	-0.1	0.0	**0.0**	-2.5	-1.9	4.4	0.0	**0.0**
Originated or purchased	-1.0	0.0	0.0	0.0	**-1.0**	114.2	0.0	0.0	0.0	**114.2**
Derecognised and repaid	0.5	0.1	0.2	0.0	**0.8**	-172.4	-17.0	-3.9	-0.1	**-193.4**
Changes to ECL model assumptions, effect from changes in Stages & other	2.4	0.6	-0.5	0.0	**2.5**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	-1.2	-0.3	0.0	0.0	**-1.5**	0.0	0.0	0.0	0.0	**0.0**
Total	**0.8**	**0.1**	**-0.1**	**0.0**	**0.8**	**-64.5**	**-13.4**	**-1.2**	**-0.1**	**-79.2**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.1	0.0	**0.1**	0.0	0.0	-0.1	0.0	**-0.1**
As at 31 December 2020	**-2.3**	**-0.5**	**-1.2**	**-0.1**	**-4.1**	**427.1**	**23.0**	**4.0**	**0.2**	**454.3**

Consumer and other loans, €m	Credit loss allowance					Gross carrying amount				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2019	**-1.3**	**-2.2**	**-8.7**	**-1.2**	**-13.4**	**355.6**	**72.5**	**24.6**	**5.3**	**458.0**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-0.8	0.6	0.2	0.0	**0.0**	18.9	-17.3	-1.6	0.0	**0.0**
to Stage 2	0.2	-0.4	0.2	0.0	**0.0**	-30.3	31.6	-1.3	0.0	**0.0**
to Stage 3	0.4	0.5	-0.9	0.0	**0.0**	-6.2	-9.8	16.0	0.0	**0.0**
Originated or purchased	-0.9	0.0	0.0	0.0	**-0.9**	69.6	0.0	0.0	0.1	**69.7**
Derecognised and repaid	0.4	0.1	0.9	0.1	**1.5**	-111.0	-20.6	-8.4	-1.4	**-141.4**
Changes to ECL model assumptions, effect from changes in Stages & other	1.0	0.7	-2.1	-0.3	**-0.7**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	-0.7	-0.8	0.0	0.0	**-1.5**	0.0	0.0	0.0	**0.0**	**0.0**
Total	**-0.4**	**0.7**	**-1.7**	**-0.2**	**-1.6**	**-59.0**	**-16.1**	**4.7**	**-1.3**	**-71.7**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	4.1	0.9	**5.0**	0.0	0.0	-4.2	-0.8	**-5.0**
As at 31 December 2020	**-1.7**	**-1.5**	**-6.3**	**-0.5**	**-10.0**	**296.6**	**56.4**	**25.1**	**3.2**	**381.3**

Business customers

Loans	Credit loss allowance					Gross carrying amount				
€m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-4.5**	**-3.8**	**-85.3**	**-2.0**	**-95.6**	**2,556.1**	**375.7**	**175.4**	**49.2**	**3,156.4**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-0.4	0.4	0.0	0.0	**0.0**	45.3	-45.3	0.0	0.0	**0.0**
to Stage 2	1.4	-1.4	0.0	0.0	**0.0**	-574.4	574.5	-0.1	0.0	**0.0**
to Stage 3	0.7	0.3	-1.0	0.0	**0.0**	-25.9	-31.7	57.6	0.0	**0.0**
Originated or purchased	-3.5	0.0	0.0	0.0	**-3.5**	540.4	0.0	0.0	0.1	**540.5**
Derecognised and repaid	1.2	1.2	5.5	0.1	**8.0**	-673.0	-80.2	-67.4	-5.6	**-826.2**
Changes to ECL model assumptions, effect from changes in Stages & other	1.7	0.6	-13.6	-0.6	**-11.9**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	-3.0	-3.2	0.0	-0.1	**-6.3**	0.0	0.0	0.0	0.0	**0.0**
Total	**-1.9**	**-2.1**	**-9.1**	**-0.6**	**-13.7**	**-687.6**	**417.3**	**-9.9**	**-5.5**	**-285.7**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	47.2	0.4	**47.6**	0.0	0.0	-47.2	-0.4	**-47.6**
As at 31 December 2020	**-6.4**	**-5.9**	**-47.2**	**-2.2**	**-61.7**	**1,868.5**	**793.0**	**118.3**	**43.3**	**2,823.1**

Leasing	Credit loss allowance					Gross carrying amount				
€m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-3.1**	**-3.3**	**-7.3**	**-0.1**	**-13.8**	**944.1**	**117.9**	**24.3**	**2.1**	**1,088.4**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-0.6	0.4	0.2	0.0	**0.0**	21.8	-21.1	-0.7	0.0	**0.0**
to Stage 2	1.9	-2.4	0.5	0.0	**0.0**	-171.9	173.6	-1.7	0.0	**0.0**
to Stage 3	0.5	0.1	-0.6	0.0	**0.0**	-10.3	-4.8	15.1	0.0	**0.0**
Originated or purchased	-4.2	0.0	0.0	0.0	**-4.2**	276.3	0.0	0.0	0.0	**276.3**
Derecognised and repaid	0.9	0.7	1.5	0.0	**3.1**	-427.1	-74.6	-17.0	-0.4	**-519.1**
Changes to ECL model assumptions, effect from changes in Stages & other	3.3	2.4	-2.8	-0.2	**2.7**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	-3.1	-1.6	0.0	0.0	**-4.7**	0.0	0.0	0.0	0.0	**0.0**
Total	**-1.3**	**-0.4**	**-1.2**	**-0.2**	**-3.1**	**-311.2**	**73.1**	**-4.3**	**-0.4**	**-242.8**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	2.6	0.0	**2.6**	0.0	0.0	-2.5	-0.1	**-2.6**
As at 31 December 2020	**-4.4**	**-3.7**	**-5.9**	**-0.3**	**-14.3**	**632.9**	**191.0**	**17.5**	**1.6**	**843.0**

Factoring	Credit loss allowance					Gross carrying amount				
€m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-0.3**	**-0.2**	**-1.2**	**0.0**	**-1.7**	**243.0**	**33.3**	**2.2**	**0.0**	**278.5**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	0.0	0.0	0.0	0.0	**0.0**	5.5	-5.5	0.0	0.0	**0.0**
to Stage 2	0.1	-0.1	0.0	0.0	**0.0**	-42.8	42.8	0.0	0.0	**0.0**
to Stage 3	0.0	0.1	-0.1	0.0	**0.0**	-0.3	-0.8	1.1	0.0	**0.0**
Originated or purchased	-0.1	0.0	0.0	0.0	**-0.1**	22.2	0.0	0.0	0.0	**22.2**
Derecognised and repaid	0.1	0.1	0.4	0.0	**0.6**	-75.5	-42.1	-2.2	0.0	**-119.8**
Changes to ECL model assumptions, effect from changes in Stages & other	-0.1	0.0	-0.1	0.0	**-0.2**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	-0.4	-0.4	0.0	0.0	**-0.8**	0.0	0.0	0.0	0.0	**0.0**
Total	**-0.4**	**-0.3**	**0.2**	**0.0**	**-0.5**	**-90.9**	**-5.6**	**-1.1**	**0.0**	**-97.6**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.1	0.0	**0.1**	0.0	0.0	-0.1	0.0	**-0.1**
As at 31 December 2020	**-0.7**	**-0.5**	**-0.9**	**0.0**	**-2.1**	**152.1**	**27.7**	**1.0**	**0.0**	**180.8**

Financial institutions and Public sector

€m	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-0.1**	**0.0**	**0.0**	**0.0**	**-0.1**	**200.7**	**2.8**	**0.5**	**0.0**	**204.0**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	0.0	0.0	0.0	0.0	**0.0**	0.5	-0.1	-0.4	0.0	**0.0**
to Stage 2	0.0	0.0	0.0	0.0	**0.0**	-2.6	2.6	0.0	0.0	**0.0**
to Stage 3	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
Originated or purchased	-0.4	0.0	0.0	0.0	**-0.4**	144.2	0.0	0.0	0.0	**144.2**
Derecognised and repaid	0.1	0.0	0.0	0.0	**0.1**	-75.4	-1.7	-0.1	0.0	**-77.2**
Changes to ECL model assumptions, effect from changes in Stages & other	0.9	-0.1	0.0	0.0	**0.8**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	-0.9	0.0	0.0	0.0	**-0.9**	0.0	0.0	0.0	0.0	**0.0**
Total	**-0.3**	**-0.1**	**0.0**	**0.0**	**-0.4**	**66.7**	**0.8**	**-0.5**	0.0	**67.0**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
As at 31 December 2020	**-0.4**	**-0.1**	**0.0**	**0.0**	**-0.5**	**267.4**	**3.6**	**0.0**	**0.0**	**271.0**

2021

Loans to customers total	Credit loss allowance					Gross carrying amount				
€m	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2020	**-21.3**	**-23.1**	**-89.1**	**-3.4**	**-136.9**	**7,958.3**	**1,266.2**	**288.2**	**55.0**	**9,567.7**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-7.7	6.5	1.2	0.0	**0.0**	232.3	-222.2	-10.1	0.0	**0.0**
to Stage 2	3.2	-12.1	8.9	0.0	**0.0**	-721.9	776.2	-54.3	0.0	**0.0**
to Stage 3	0.7	1.3	-2.0	0.0	**0.0**	-19.0	-56.7	75.7	0.0	**0.0**
Originated or purchased	-8.5	0.0	0.0	0.0	**-8.5**	1,984.9	0.0	0.0	2.8	**1,987.7**
Derecognised and repaid	2.7	3.9	9.6	0.2	**16.4**	-982.6	-386.1	-99.4	-16.8	**-1,484.9**
Changes to ECL model assumptions, effect from changes in Stages & other	2.1	-1.9	-3.7	-0.4	**-3.9**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	12.5	-3.2	0.0	-0.2	**9.1**	0.0	0.0	0.0	0.0	**0.0**
Total	**5.0**	**-5.5**	**14.0**	**-0.4**	**13.1**	**493.7**	**111.2**	**-88.1**	**-14.0**	**502.8**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	19.6	2.3	**21.9**	0.0	0.0	-19.6	-2.3	**-21.9**
As at 31 December 2021[1]	**-16.3**	**-28.6**	**-55.5**	**-1.5**	**-101.9**	**8,452.0**	**1,377.4**	**180.5**	**38.7**	**10,048.6**

[1] Out of total POCI loans credit loss allowances 0.4 million EUR is in non-credit-impaired, and 1.1 million EUR is in credit-impaired, gross carrying amount 33.6 million EUR is in non-credit-impaired and 5.1 million EUR in credit-impaired. Initial impairment of POCI loans originated during 2021 was 5.3 million EUR of which 3.5 million EUR related to 1 exposure which was refinanced during 2021 and is not part of the portfolio anymore.

Individual customers

Mortgage loans	Credit loss allowance					Gross carrying amount				
€m	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2020	-5.4	-10.9	-27.6	-0.3	**-44.2**	4,313.7	171.5	122.3	6.7	**4,614.2**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-4.6	3.9	0.7	0.0	**0.0**	69.7	-62.4	-7.3	0.0	**0.0**
to Stage 2	0.5	-7.3	6.8	0.0	**0.0**	-243.3	284.3	-41.0	0.0	**0.0**
to Stage 3	0.1	0.4	-0.5	0.0	**0.0**	-4.7	-5.0	9.7	0.0	**0.0**
Originated or purchased	-0.9	0.0	0.0	0.0	**-0.9**	662.6	0.0	0.0	0.8	**663.4**
Derecognised and repaid	0.4	0.9	3.5	0.0	**4.8**	-382.6	-28.5	-28.6	-1.2	**-440.9**
Changes to ECL model assumptions, effect from changes in Stages & other	-1.5	2.7	0.3	0.0	**1.5**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	3.2	2.1	0.0	0.0	**5.3**	0.0	0.0	0.0	0.0	**0.0**
Total	**-2.8**	**2.7**	**10.8**	**0.0**	**10.7**	**101.7**	**188.4**	**-67.2**	**-0.4**	**222.5**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	3.0	0.1	**3.1**	0.0	0.0	-3.0	-0.1	**-3.1**
As at 31 December 2021	**-8.2**	**-8.2**	**-13.8**	**-0.2**	**-30.4**	**4,415.4**	**359.9**	**52.1**	**6.2**	**4,833.6**

Leasing	Credit loss allowance					Gross carrying amount				
€m	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2020	-2.3	-0.5	-1.2	-0.1	**-4.1**	427.1	23.0	4.0	0.2	**454.3**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-0.2	0.2	0.0	0.0	**0.0**	5.1	-4.7	-0.4	0.0	**0.0**
to Stage 2	0.3	-0.6	0.3	0.0	**0.0**	-28.0	29.1	-1.1	0.0	**0.0**
to Stage 3	0.0	0.1	-0.1	0.0	**0.0**	-1.7	-0.8	2.5	0.0	**0.0**
Originated or purchased	-0.7	0.0	0.0	0.0	**-0.7**	164.5	0.0	0.0	0.0	**164.5**
Derecognised and repaid	0.3	0.1	0.3	0.1	**0.8**	-145.6	-15.8	-2.3	-0.2	**-163.9**
Changes to ECL model assumptions, effect from changes in Stages & other	0.7	-0.2	0.1	0.0	**0.6**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	1.2	0.2	0.0	0.0	**1.4**	0.0	0.0	0.0	0.0	**0.0**
Total	**1.6**	**-0.2**	**0.6**	**0.1**	**2.1**	**-5.7**	**7.8**	**-1.3**	**-0.2**	**0.6**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
As at 31 December 2021	**-0.7**	**-0.7**	**-0.6**	**0.0**	**-2.0**	**421.4**	**30.8**	**2.7**	**0.0**	**454.9**

Consumer and other loans, €	Credit loss allowance					Gross carrying amount				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**Total**
As at 31 December 2020	**-1.7**	**-1.5**	**-6.3**	**-0.5**	**-10.0**	**296.6**	**56.4**	**25.1**	**3.2**	**381.3**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-0.7	0.5	0.2	0.0	**0.0**	21.0	-19.6	-1.4	0.0	**0.0**
to Stage 2	0.3	-1.5	1.2	0.0	**0.0**	-35.0	42.1	-7.1	0.0	**0.0**
to Stage 3	1.2	0.1	-1.3	0.0	**0.0**	-5.4	-0.9	6.3	0.0	**0.0**
Originated or purchased	-1.7	0.0	0.0	0.0	**-1.7**	113.9	0.0	0.0	0.3	**114.2**
Derecognised and repaid	0.3	0.3	0.7	0.1	**1.4**	-74.5	-18.3	-9.0	-1.2	**-103.0**
Changes to ECL model assumptions, effect from changes in Stages & other	0.1	-0.5	0.9	-0.2	**0.3**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	0.7	0.7	0.0	0.0	**1.4**	0.0	0.0	0.0	0.0	**0.0**
Total	**0.2**	**-0.4**	**1.7**	**-0.1**	**1.4**	**20.0**	**3.3**	**-11.2**	**-0.9**	**11.2**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.8	0.1	**0.9**	0.0	0.0	-0.8	-0.1	**-0.9**
As at 31 December 2021	**-1.5**	**-1.9**	**-3.8**	**-0.5**	**-7.7**	**316.6**	**59.7**	**13.1**	**2.2**	**391.6**

Business customers

Loans	Credit loss allowance					Gross carrying amount				
€m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2020	**-6.4**	**-5.9**	**-47.2**	**-2.2**	**-61.7**	**1,868.5**	**793.0**	**118.3**	**43.3**	**2,823.1**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-0.7	0.7	0.0	0.0	**0.0**	75.1	-75.0	-0.1	0.0	**0.0**
to Stage 2	1.0	-1.3	0.3	0.0	**0.0**	-256.2	259.8	-3.6	0.0	**0.0**
to Stage 3	0.1	0.2	-0.3	0.0	**0.0**	-3.1	-33.1	36.2	0.0	**0.0**
Originated or purchased	-2.5	0.0	0.0	0.0	**-2.5**	428.4	0.0	0.0	1.7	**430.1**
Derecognised and repaid	1.0	1.8	3.9	0.0	**6.7**	-131.0	-212.4	-41.4	-13.5	**-398.3**
Changes to ECL model assumptions, effect from changes in Stages & other	1.4	-2.9	-3.8	-0.4	**-5.7**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	3.0	-4.9	0.0	-0.2	**-2.1**	0.0	0.0	0.0	0.0	**0.0**
Total	**3.3**	**-6.4**	**0.1**	**-0.6**	**-3.6**	**113.2**	**-60.7**	**-8.9**	**-11.8**	**31.8**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	15.7	2.1	**17.8**	0.0	0.0	-15.7	-2.1	**-17.8**
As at 31 December 2021	**-3.1**	**-12.3**	**-31.4**	**-0.7**	**-47.5**	**1,981.7**	**732.3**	**93.7**	**29.4**	**2,837.1**

Leasing	Credit loss allowance					Gross carrying amount				
€m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2020	**-4.4**	**-3.7**	**-5.9**	**-0.3**	**-14.3**	**632.9**	**191.0**	**17.5**	**1.6**	**843.0**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-1.5	1.2	0.3	0.0	**0.0**	56.7	-55.8	-0.9	0.0	**0.0**
to Stage 2	1.2	-1.5	0.3	0.0	**0.0**	-142.5	144.0	-1.5	0.0	**0.0**
to Stage 3	0.5	0.3	-0.8	0.0	**0.0**	-8.3	-5.2	13.5	0.0	**0.0**
Originated or purchased	-3.3	0.0	0.0	0.0	**-3.3**	401.3	0.0	0.0	0.0	**401.3**
Derecognised and repaid	0.7	1.0	2.3	0.0	**4.0**	-235.7	-106.3	-11.8	-0.7	**-354.5**
Changes to ECL model assumptions, effect from changes in Stages & other	1.9	-1.0	-0.9	0.2	**0.2**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	3.1	-1.5	0.0	0.0	**1.6**	0.0	0.0	0.0	0.0	**0.0**
Total	**2.6**	**-1.5**	**1.2**	**0.2**	**2.5**	**71.5**	**-23.3**	**-0.7**	**-0.7**	**46.8**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.1	0.0	**0.1**	0.0	0.0	-0.1	0.0	**-0.1**
As at 31 December 2021	**-1.8**	**-5.2**	**-4.6**	**-0.1**	**-11.7**	**704.4**	**167.7**	**16.7**	**0.9**	**889.7**

Factoring	Credit loss allowance					Gross carrying amount				
€m	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2020	**-0.7**	**-0.5**	**-0.9**	**0.0**	**-2.1**	**152.1**	**27.7**	**1.0**	**0.0**	**180.8**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	0.0	0.0	0.0	0.0	**0.0**	4.3	-4.3	0.0	0.0	**0.0**
to Stage 2	0.1	-0.1	0.0	0.0	**0.0**	-11.0	11.0	0.0	0.0	**0.0**
to Stage 3	0.0	0.2	-0.2	0.0	**0.0**	0.0	-11.4	11.4	0.0	**0.0**
Originated or purchased	-0.1	0.0	0.0	0.0	**-0.1**	115.9	0.0	0.0	0.0	**115.9**
Derecognised and repaid	0.1	0.0	0.1	0.0	**0.2**	-24.2	-4.9	-10.6	0.0	**-39.7**
Changes to ECL model assumptions, effect from changes in Stages & other	-0.5	-0.1	0.1	0.0	**-0.5**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	0.4	0.4	0.0	0.0	**0.8**	0.0	0.0	0.0	0.0	**0.0**
Total	**0.0**	**0.4**	**0.0**	**0.0**	**0.4**	**85.0**	**-9.6**	**0.8**	**0.0**	**76.2**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
As at 31 December 2021	**-0.7**	**-0.1**	**-0.9**	**0.0**	**-1.7**	**237.1**	**18.1**	**1.8**	**0.0**	**257.0**

Financial institutions and Public sector

€m	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2020	**-0.4**	**-0.1**	**0.0**	**0.0**	**-0.5**	**267.4**	**3.6**	**0.0**	**0.0**	**271.0**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	0.0	0.0	0.0	0.0	**0.0**	0.4	-0.4	0.0	0.0	**0.0**
to Stage 2	0.0	0.0	0.0	0.0	**0.0**	-8.1	8.1	0.0	0.0	**0.0**
to Stage 3	0.0	0.0	0.0	0.0	**0.0**	-0.1	-0.3	0.4	0.0	**0.0**
Originated or purchased	-0.8	0.0	0.0	0.0	**-0.8**	136.3	0.0	0.0	0.0	**136.3**
Derecognised and repaid	0.0	0.0	0.0	0.0	**0.0**	-20.5	-2.1	0.0	0.0	**-22.6**
Changes to ECL model assumptions, effect from changes in Stages & other	0.0	0.1	-0.4	0.0	**-0.3**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	0.9	-0.2	0.0	0.0	**0.7**	0.0	0.0	0.0	0.0	**0.0**
Total	**0.1**	**-0.1**	**-0.4**	**0.0**	**-0.4**	**108.0**	**5.3**	**0.4**	**0.0**	**113.7**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**
As at 31 December 2021	**-0.3**	**-0.2**	**-0.4**	**0.0**	**-0.9**	**375.4**	**8.9**	**0.4**	**0.0**	**384.7**

Gross and net investments on finance leases €m	Up to 1 year	Year 2	Year 3	Year 4	Year 5	Over 5 years	Total
As at 31 December 2020							
Gross investment	507.1	391.4	272.8	129.0	70.6	10.6	**1,381.5**
Unearned future finance income on finance leases	-22.0	-19.7	-11.0	-5.1	-1.9	-0.3	**-60.0**
Net investment in finance leases	485.1	371.7	261.8	123.9	68.7	10.3	**1,321.5**
As at 31 December 2021							
Gross investment	473.9	390.3	252.6	169.3	135.1	9.2	**1,430.4**
Unearned future finance income on finance leases	-28.1	-20.5	-12.2	-6.7	-2.9	-0.3	**-70.7**
Net investment in finance leases	445.8	369.8	240.4	162.6	132.2	8.9	**1,359.7**

13. DEBT SECURITIES

As at 31 December 2020 €m	At amortised cost[1]	Designated as at FVTPL[2]	Mandatorily measured at FVTPL	Measured at FVTOCI	Total
General governments	0.0	251.1	2.5	0.0	**253.6**
Credit institutions	0.0	24.1	0.0	0.0	**24.1**
Other financial corporations	0.0	0.0	6.2	0.0	**6.2**
Corporate bonds	0.0	0.0	0.4	0.0	**0.4**
Total	**0.0**	**275.2**	**9.1**	**0.0**	**284.3**

As at 31 December 2021 €m	At amortised cost[1]	Designated as at FVTPL[2]	Mandatorily measured at FVTPL	Measured at FVTOCI	Total
General governments	242.7	242.1	1.4	1.4	**487.6**
Credit institutions	37.4	23.7	5.2	0.0	**66.3**
Other financial corporations	0.0	0.0	7.9	0.0	**7.9**
Corporate bonds	45.4	0.0	1.0	0.0	**46.4**
Total	**325.5**	**265.8**	**15.5**	**1.4**	**608.2**

[1] In 2021 Luminor has extended its liquidity portfolio with investments in debt securities which were classified as held at amortised cost. The investments were made in high quality governmental and covered bonds which qualify for being pledged with the ECB to obtain additional liquidity in case of necessity.

[2] Part of debt securities portfolio held for liquidity purposes was designated to FVTPL because of accounting mismatch. Luminor buys derivatives (interest rate swaps) to economically hedge the interest rate risk of debt securities affecting the fair value. Derivatives are accounted for in trading portfolio with the fair value changes through profit or loss, so to avoid or significantly reduce accounting mismatch, debt securities are designated at FVTPL.

The change in the fair value during the year for FVTPL portfolio of debt securities was 2.2 million EUR (loss) in 2021 (in 2020 - 3.5 million EUR (gain)). The credit risk attributable to fair value changes is close to zero in both years. For more information, refer to Note 27, please.

Investment portfolio of debt securities classified as at amortised cost and FVTOCI largely consists of investments into the EU governments and covered bond issues and as a result considered as low risk. All of the portfolio is classified as Stage 1 and total ECLs recognised during 2021 amounted to 0.3 million EUR (2020: 0 million EUR).

14. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

14.1 INVESTMENTS IN ASSOCIATES

€m	2020	2021
Carrying amount at beginning of year	**5.6**	**5.3**
Share of profit for the year	1.0	1.8
Dividends	-0.7	-0.7
Potential corporate income tax from future dividends (previous periods)	-0.6	-0.0
Carrying amount at end of year	**5.3**	**6.4**

As at 31 December 2020 €m	Domicile	Equity	Profit for the year[1]	% of share capital	Book value
UAB ALD Automotive	Lithuania	7.3	0.5	25.0	1.8
ALD Automotive Eesti AS	Estonia	6.6	0.4	25.0	1.4
SIA ALD Automotive	Latvia	9.7	0.5	25.0	2.0
SIA Kredītinformācijas Birojs	Latvia	0.3	0.0	22.6	0.1
Total					**5.3**

As at 31 December 2021 €m	Domicile	Equity	Profit for the year[1]	% of share capital	Book value
UAB ALD Automotive	Lithuania	8.7	0.5	25.0	2.3
ALD Automotive Eesti AS	Estonia	7.9	0.4	25.0	1.7
SIA ALD Automotive	Latvia	10.8	0.6	25.0	2.3
SIA Kredītinformācijas Birojs	Latvia	0.6	0.0	19.8	0.1
Total					**6.4**

[1] Luminor share of the associates' profit

14.2 INVESTMENTS IN SUBSIDIARIES

Name	Domicile	Activity	31 Dec 2020	31 Dec 2021
Luminor Liising AS	Estonia	Leasing, factoring	100%	100%
Luminor Pensions Estonia AS	Estonia	Pension fund management	100%	100%
Luminor Līzings SIA	Latvia	Leasing, factoring	100%	100%
Luminor Līzings Latvija SIA	Latvia	Leasing, factoring	100%	100%
Luminor Latvijas atklātais pensiju fonds AS	Latvia	Pension fund management	100%	100%
Luminor Asset Management IPAS	Latvia	Asset management	100%	100%
Luminor Lizingas UAB	Lithuania	Leasing, factoring	100%	100%
Intractus UAB	Lithuania	Buying and selling of own real estates	100%	100%
Luminor Investiciju Valdymas UAB	Lithuania	Pension fund management	100%	100%

Subsidiaries being liquidated at 31 December 2021

Name	Domicile	Activity	31 Dec 2020	31 Dec 2021
Promano Lat SIA	Latvia	Buying and selling of own real estates	100%	100%
Salvus SIA	Latvia	Buying and selling of own real estates	100%	100%
Salvus 3 SIA	Latvia	Buying and selling of own real estates	100%	100%
Salvus 4 SIA	Latvia	Buying and selling of own real estates	100%	100%
Industrius UAB	Lithuania	Buying and selling of own real estates	100%	100%
PROMANO LIT UAB	Lithuania	Buying and selling of own real estates	100%	100%

Subsidiaries liquidated in 2021

Name	Date liquidated	Domicile	Activity	31 Dec 2020	31 Dec 2021
Promano Est OÜ	3 March 2021	Estonia	Buying and selling of own real estates	100%	0%
Luminor Finance SIA	16 August 2021	Latvia	Buying and selling of own real estates	100%	0%
Realm SIA	18 August 2021	Latvia	Buying and selling of own real estates	100%	0%
Salvus 2 SIA	28 July 2021	Latvia	Buying and selling of own real estates	100%	0%
Salvus 6 SIA	22 September 2021	Latvia	Buying and selling of own real estates	100%	0%
Trioleta SIA	16 August 2021	Latvia	Buying and selling of own real estates	100%	0%
Baltic Īpašums SIA	12 August 2021	Latvia	Renting and operating of own or leased real estate	100%	0%
RECURSO UAB	30 July 2021	Lithuania	Buying and selling of own real estates	100%	0%

15. INTANGIBLE ASSETS

€m	Total[2]
Accumulated cost as at 1 January 2020	**32.5**
Additions	1.7
Disposals	-1.0
Accumulated cost as at 31 December 2020	**33.2**
Additions[1]	6.7
Disposals	-0.5
Accumulated cost as at 31 December 2021	**39.4**
Accumulated amortisation and impairment as at 1 January 2020	**-24.4**
Amortisation	-2.2
Disposals	0.6
Impairment for the year	-0.5
Accumulated amortisation and impairment as at 31 December 2020	**-26.5**
Amortisation	-3.1
Disposals	0.5
Impairment for the year	-0.3
Accumulated amortisation and impairment as at 31 December 2021	**-29.4**
Carrying amount as at 31 December 2020	**6.7**
Carrying amount as at 31 December 2021	**10.0**

[1] In 2021 0.6m EUR of development costs were capitalized (2020: 0 million EUR).

[2] Intangible assets mainly consist of computer software and goodwill (0.4 million EUR).

No impairment for goodwill was recognized.

16. PROPERTY PLANT AND EQUIPMENT AND RIGHT-OF-USE-ASSETS

€m	Property	Equipment	Right-of-use assets[1]	Total
Accumulated cost as at 1 January 2020	**4.2**	**29.7**	**60.0**	**93.9**
Additions	0.9	3.3	0.9	**5.1**
Disposals	-3.9	-4.7	-2.1	**-10.7**
Accumulated cost as at 31 December 2020	**1.2**	**28.3**	**58.8**	**88.3**
Additions	0.0	1.1	0.2	1.3
Disposals	-0.3	-13.0	-2.2	-15.5
Accumulated costs as at 31 December 2021	**0.9**	**16.4**	**56.8**	**74.1**
Accumulated depreciation as at 1 January 2020	**-1.2**	**-19.6**	**-5.7**	**-26.5**
Depreciation	-0.1	-3.8	-6.0	**-9.9**
Disposals	0.9	4.3	-0.5	**4.7**
Accumulated depreciation as at 31 December 2020	**-0.4**	**-19.1**	**-12.2**	**-31.7**
Depreciation	0.0	-3.5	-5.5	-9.0
Disposals	0.2	12.0	1.4	13.6
Accumulated depreciation as at 31 December 2021	**-0.2**	**-10.6**	**-16.3**	**-27.1**
Carrying amount as at 31 December 2020	**0.8**	**9.2**	**46.6**	**56.6**
Carrying amount as at 31 December 2021	**0.7**	**5.8**	**40.5**	**47.0**

[1] Majority of Right of Use assets relate to headquarters lease arrangements in Estonia, Latvia and Lithuania

Set out below are the carrying amounts of lease liabilities and the movements during the period:

€m	2020
As at 31 December 2019	**57.0**
Lease modifications	-0.2
Interest	1.0
Payments	-8.1
As at 31 December 2020	**49.7**

€m	2021
As at 31 December 2020	**49.7**
Lease modifications	-0.4
Termination of agreements	-0.8
New leases	0.1
Interest	1.0
Payments	-6.2
As at 31 December 2021	**43.4**

The maturity analysis of lease liabilities is disclosed in Note 4 Liquidity risk. Short-term leases, low-value leases, variable lease payments and income from subleasing are immaterial and therefore not disclosed.

17. OTHER ASSETS

€m	31 Dec 2020	31 Dec 2021
Non-financial assets		
VAT recoverable and other taxes	1.3	2.1
Account receivables	12.0	6.2
Accrued income	9.3	6.3
Advance payments	9.5	15.5
Repossessed assets[1]	1.3	1.8
Other	10.0	2.6
Financial assets		
Payments in transit	10.2	15.3
Total	**53.6**	**49.8**

[1] Confiscated assets due to termination of lease contracts will be realised through the cooperation partners.

18. DEPOSITS FROM CUSTOMERS

€m	31 Dec 2020	31 Dec 2021
Term deposits	1,087.0	888.5
Demand deposits	10,734.7	9,416.9
Total	**11,821.7**	**10,305.4**

Deposits from customers by type of customers, €m	31 Dec 2020	31 Dec 2021
Individual customers	4,509.4	4,788.6
Business customers	4,272.9	4,044.8
Financial institutions	345.0	246.9
Public sector	2,694.4	1,225.1
Total	**11,821.7**	**10,305.4**

19. DEBT SECURITIES ISSUED

€m				Carrying amount	
	First call date	Maturity date	Nominal amount	31 Dec 2020	31 Dec 2021
1.5% senior bond[1]		October 2021	99.2	100.1	0.0
1.375% senior bond[2]		October 2022	71.5	301.6	71.8
0.792% senior bond	December 2023	December 2024	300.0	297.5	298.3
0.539% senior bond	September 2025	September 2026	300.0	0.0	298.9
0.01% covered bond		March 2025	500.0	502.0	494.6
Total			**1,270.7**	**1,201.2**	**1,163.6**

[1] Initial nominal amount was 300 million EUR, which was reduced as a result of buyback in December 2020
[2] Initial nominal amount was 300 million EUR, which was reduced as a result of buyback in September 2021

Reconciliation of movement in the carrying amount of debt securities

€m	Total
As at 31 December 2019	**651.7**
New issuance	800.0
Intragroup transactions	-0.5
Premium	4.8
Interest accrued	9.5
Interest paid	-10.0
Amortization of transaction costs, discounts	-1.5
Buyback	-250.8
Hedge effect	-2.0
As at 31 December 2020	**1,201.2**

€m	Total
As at 31 December 2020	1,201.2
New issuance	300.0
Maturity	-99.2
Intragroup transactions	0.0
Premium	-0.7
Interest accrued	7.5
Interest paid	-7.9
Buyback	-228.5
Hedge effect	-8.8
As at 31 December 2021	**1,163.6**

20. OTHER LIABILITIES

€m	31 Dec 2020	31 Dec 2021
Non-financial liabilities		
Accrued liabilities	43.3	46.9
Received prepayments	2.2	3.6
Other liabilities	14.6	9.3
Other tax liabilities	1.8	1.4
VAT liabilities	2.3	1.7
Financial liabilities		
Payments in transit	14.4	27.8
Other	0.3	1.2
Total	**78.9**	**91.9**

21. PROVISIONS

The movement of provisions was as follows:

€m	Loan commitments & guarantees	Legal disputes	Restructuring	Other	Total
As at 31 December 2019	**3.5**	**0.1**	**0.6**	**0.2**	**4.4**
Arising during the year	10.45	0.3	0.0	0.1	**10.8**
Other movements	-7.2	-0.1	-0.6	2.0	**-5.9**
As at 31 December 2020	**6.7**	**0.3**	**0.0**	**2.3**	**9.3**

€m	Loan commitments & guarantees	Legal disputes	Restructuring	Other	Total
As at 31 December 2020	**6.7**	**0.3**	**0.0**	**2.3**	**9.3**
Arising during the year	13.6	0.4	0.0	2.8	**16.8**
Other movements	-15.2	-0.3	0.0	-1.5	**-17.0**
As at 31 December 2021	**5.1**	**0.4**	**0.0**	**3.6**	**9.1**

Litigations and claims

In the ordinary course of business, Luminor has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals. The Management of Luminor believes that any legal proceedings pending and for which provisions have not been created as at 31 December 2021 will not result in material losses for Luminor.

Loan commitments and guarantees:

€m	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	1.6	0.4	1.5	3.5
Arising during the year	10.4	0.0	0.0	10.4
Derecognition and other movements[1]	-8.4	2.1	-0.9	-7.2
As at 31 December 2020	**3.6**	**2.5**	**0.6**	**6.7**

€m	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020	3.6	2.5	0.6	6.7
Arising during the year	13.6	0.0	0.0	13.6
Derecognition and other movements[1]	-15.2	-0.2	0.2	-15.2
As at 31 December 2021	**2.0**	**2.3**	**0.8**	**5.1**

[1]Majority of movements consisted of derecognition with minor effect from ECL measurement model assumptions revision.

Credit quality of loan commitments and guarantees

As at 31 December 2020, €m	Stage 1	Stage 2	Stage 3	Total
Low risk	566.6	20.5	0.0	**587.1**
Moderate risk	809.5	255.2	0.0	**1,064.7**
High risk	35.6	70.0	0.0	**105.6**
Default	0.0	0.0	22.3	**22.3**
Total	**1,411.7**	**345.7**	**22.3**	**1,779.7**
Provisions	-3.6	-2.5	-0.6	**-6.7**

As at 31 December 2021, €m	Stage 1	Stage 2	Stage 3	Total
Low risk	721.5	37.6	0.0	**759.1**
Moderate risk	891.1	219.0	0.0	**1,110.1**
High risk	14.7	22.3	0.0	**37.0**
Default	0.0	0.0	13.3	**13.3**
Total	**1,627.3**	**278.9**	**13.3**	**1,919.5**
Provisions	-2.0	-2.3	-0.8	-5.1

22. ISSUED CAPITAL

€m	31 Dec 2020	31 Dec 2021
Share capital (€m)	34.9	34.9
Share premium (€m)	1,412.2	1,412.2
Total share capital and premium (€m)	**1,447.1**	**1,447.1**
Number of shares	3 491 223	3 491 223
Nominal value of share (EUR)	10	10

All shares are issued and fully paid.

23. DERIVATIVE FINANCIAL INSTRUMENTS

As at 31 December 2020	Notional	Fair values	
€m	amounts	Assets	Liabilities
Interest rate-related contracts	2,879.4	13.1	11.5
Currency-related contracts	1,147.1	28.8	37.6
Commodity-related contracts	12.8	1.5	1.5
Total	**4,039.3**	**43.4**	**50.6**

As at 31 December 2021	Notional	Fair values	
€m	amounts	Assets	Liabilities
Interest rate-related contracts	2,023.7	7.6	10.0
Currency-related contracts	1,351.3	22.8	15.5
Commodity-related contracts	170.1	45.1	44.8
Total	**3,545.1**	**75.5**	**70.3**

Commodity-related contracts portfolio has grown during 2021 as a result of clients' activity. All commodity-contracts with clients are mirrored with equivalent deals.

HEDGING ACTIVITIES

Fair value hedge

The following table provides summary of hedging instruments (interest rate swaps) and related hedged items:

€m	Effective	Maturity	Paying	Notional amount	
Hedged instrument and receiving coupon	date	date	coupon	31 Dec 2020	31 Dec 2021
1.375% senior bond[1]	June 2019	October 2022	6 months EURIBOR + 1.732%	300.0	0.0
0.792% senior bond	December 2020	December 2023	6 months EURIBOR + 1.289%	300.0	300.0
0.01% covered bond	March 2020	March 2025	6 months EURIBOR + 0.289%	500.0	500.0
Total				**1 100.0**	**800.0**

[1]Previously outstanding interest rate swap – 300 million EUR – was closed in September 2021 as part of the senior bonds buyback.

There is an economic relationship between the hedged item and the hedging instruments as the terms of the interest rate swaps match the terms of the fixed rate loan (i.e., notional amount, maturity, payment and reset dates). Luminor has established a hedge ratio of 1:1 for the hedging relationships, as the underlying risk of the interest rate swaps is identical to the hedged risk component. To test hedge effectiveness, Luminor uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk. During 2021 hedging activities' total result was impacted by buyback of one of the hedged items and related hedging instrument was settled before the maturity (see Note 5 please). This has not changed hedge effectiveness conclusion.

Interest rate swaps, €m	31 Dec 2020	31 Dec 2021
Notional amount	1,100.0	800.0
Carrying amount (Derivatives financial instruments assets/liabilities)	5.3	-3.5

24. INCOME TAX

€m	31 Dec 2020	31 Dec 2021
Current tax for the year	-8.1	-6.8
Adjustment of current tax for previous years	-0.8	-0.2
Deferred tax movement	6.2	-0.7
Total	**-2.7**	**-7.7**
Profit before tax	**35.8**	**82.4**
Changes related to deferred tax assets	6.3	-0.7
Income tax on taxable income in foreign jurisdictions	-8.4	-9.1
Effect of non-deductible expenses/non-taxable income	0.6	2.3
Tax on dividends	-0.4	0.0
Adjustment of current tax for previous years	-0.8	-0.2
Income tax for the year	**-2.7**	**-7.7**
Effective tax	8%	9%
Deferred tax recognised in the balance sheet		
Opening balance, deferred tax assets	**3.0**	**9.4**
Charged/(credited) to other comprehensive income	0.0	0.0
Other deferred tax temporary changes	1.3	-2.0
Tax loss carry forwards	5.1	1.3
Other	0.0	0.0
Closing balance, deferred tax assets	**9.4**	**8.7**
Closing balance, deferred tax liabilities	**-0.1**	**0.0**

The retained earnings of Luminor as at 31 December 2021 were 97.9 million EUR (as at 31 December 2020 it was 215.1 million EUR). Distribution of retained earnings as dividends to the owners is subject to the income tax at the maximum rate of 20/80 on the amount paid out as net dividends. Therefore, considering regulatory requirements for net own funds and capital, from the retained earnings available at the reporting date, it is possible to pay out to the shareholders as dividends 97.0 million EUR and the corresponding income tax would amount to 16.0million EUR. The estimate of potential tax effects is made considering the tax regime in Lithuania where tax is paid on accounting profits. As at 31 December 2020, taking into account regulatory requirements for net own funds and capital the comparatives are 172.1 million EUR and corresponding income tax would amount to 43.0 million EUR. Please, note the current calculation of income tax does not take into account prepaid advance income tax and also derived dividends which underlie participation exemption regime.

25. CONTINGENT LIABILITIES

€m	31 Dec 2020	31 Dec 2021
Undrawn loan commitments given	1,199.1	1,230.1
Financial guarantees given	433.5	498.9
Performance guarantees	147.1	190.5
Total	**1,779.7**	**1,919.5**

All off-balance sheet items have a short-term maturity. All exposures have either on demand or less than 1-month settlement.

26. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial instruments subject to offsetting, enforceable master netting and similar arrangements as at 31 December 2020 are presented below and also in Note 21.

€m	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position			Net amount of exposure
				Financial instruments	Cash collateral received	Cash collateral pledged	
Assets							
Financial derivatives	43.4	0.0	43.4	0.0	3.9	0.0	39.5
Loans to customers	548.5	0.0	548.5	502.0	0.0	0.0	46.5
Total	**591.9**	**0.0**	**591.9**	**502.0**	**3.9**	**0.0**	**86.0**
Liabilities							
Financial derivatives	50.6	0.0	50.6	0.0	0.0	33.0	17.6
Debt securities issued	502.0	0.0	502.0	502.0	0.0	0.0	0.0
Total	**552.6**	**0.0**	**552.6**	**502.0**	**0.0**	**33.0**	**17.6**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements as at 31 December 2021 are presented below.

€m	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position			Net amount of exposure
				Financial instruments	Cash collateral received	Cash collateral pledged	
Assets							
Financial derivatives	75.5	0.0	75.5	0.0	62.0	0.0	137.5
Loans to customers	549.1	0.0	549.1	494.6	0.0	0.0	54.5
Total	**624.6**	**0.0**	**624.6**	**494.6**	**62.0**	**0.0**	**192.0**
Liabilities							
Debt securities issued	494.6	0.0	494.6	494.6	0.0	0.0	0.0
Total	**494.6**	**0.0**	**494.6**	**494.6**	**0.0**	**0.0**	**0.0**

Cash collateral pledged and cash collateral received constitutes part of Due from other credit institutions and Loans and deposits from credit institutions caption lines respectively. Cash collateral balances are related to derivatives positions and vary depending on exposure amounts with certain counterparties.

27. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments as at 31 December 2020 was as follows:

As at 31 December 2020 **€m**	**Level 1**	**Level 2**	**Level 3**	**Total**	**Carrying amount**
Financial assets at amortised cost for which fair values are disclosed					
Cash on hand	123.8	0.0	0.0	**123.8**	**123.8**
Balances with central banks	0.0	4,802.7	0.0	**4,802.7**	**4,802.7**
Due from other credit institutions	0.0	103.6	0.0	**103.6**	**103.6**
Loans to customers	0.0	0.0	9,107.0	**9,107.0**	**9,430.8**
Other financial assets	0.0	0.0	10.2	**10.2**	**10.2**
Financial assets at fair value					
Financial assets held for trading					
Debt securities	2.9	0.0	6.2	**9.1**	**9.1**
Financial assets at fair value through profit or loss					
Equity instruments	0.0	2.7	0.0	**2.7**	**2.7**
Debt securities designated as at FVTPL					
Governments	251.1	0.0	0.0	**251.1**	**251.1**
Credit institutions	24.1	0.0	0.0	**24.1**	**24.1**
Derivative financial instruments	0.0	42.7	0.7	**43.4**	**43.4**
Financial assets at fair value through other comprehensive income					
Equity instruments	0.0	0.0	0.1	**0.1**	**0.1**
Total	**401.9**	**4,951.7**	**9,124.2**	**14,477.8**	**14,801.6**
Liabilities at amortised cost for which fair values are disclosed					
Loans and deposits from credit institutions	0.0	47.3	0.0	**47.3**	**47.3**
Deposits from customers	0.0	10,734.7	1,087.0	**11,821.7**	**11,821.7**
Debt securities issued	499.2	701.0	0.0	**1,200.2**	**1,201.2**
Other financial liabilities	0.0	0.0	14.7	**14.7**	**14.7**
Financial liabilities at fair value					
Derivative financial instruments	0.0	49.3	1.3	**50.6**	**50.6**
Total	**499.2**	**11,532.3**	**1,103.0**	**13,134.5**	**13,135.5**

Fair value measurement of financial instruments as at 31 December 2021 was as follows:

As at 31 December 2021 €m	Level 1	Level 2	Level 3	Total	Carrying amount
Financial assets at amortised cost for which fair values are disclosed					
Cash on hand	136.1	0.0	0.0	**136.1**	**136.1**
Balances with central banks	0.0	2,358.1	0.0	**2,358.1**	**2,358.1**
Due from other credit institutions	0.0	64.4	0.0	**64.4**	**64.4**
Debt securities	314.4	6.9	0.0	**321.3**	**325.5**
Loans to customers	0.0	0.0	9,740.6	**9,740.6**	**9,946.7**
Other financial assets	0.0	15.3	0.0	**15.3**	**15.3**
Financial assets at fair value					
Financial assets held for trading					
Debt securities	2.3	6.3	6.9	**15.5**	**15.5**
Financial assets at fair value through profit or loss					
Equity instruments	0.0	2.7	0.0	**2.7**	**2.7**
Debt securities designated as at FVTPL					
Governments	242.1	0.0	0.0	**242.1**	**242.1**
Credit institutions	23.7	0.0	0.0	**23.7**	**23.7**
Derivative financial instruments	0.0	74.9	0.6	**75.5**	**75.5**
Financial assets at fair value through other comprehensive income					
Debt securities	0.0	1.4	0.0	**1.4**	**1.4**
Equity instruments	0.0	0.0	0.5	**0.5**	**0.5**
Total	**718.6**	**2,530.0**	**9,748.6**	**12,997.2**	**13,207.5**
Liabilities at amortised cost for which fair values are disclosed					
Loans and deposits from credit institutions	0.0	83.8	0.0	**83.8**	**83.8**
Deposits from customers	0.0	9,416.9	888.5	**10,305.4**	**10,305.4**
Debt securities issued	0.0	1,106.4	0.0	**1,106.4**	**1,163.6**
Other financial liabilities	0.0	29.0	0.0	**29.0**	**29.0**
Financial liabilities at fair value					
Derivative financial instruments	0.0	70.3	0.0	**70.3**	**70.3**
Total	**0.0**	**10,706.4**	**888.5**	**11,594.9**	**11,652.1**

Change in debt securities in level 3:

€m	2020	2021
Opening balance	**12.9**	**6.2**
Disposals	-7.2	0.0
Unrealised gains/losses for assets held at the end of the reporting period	0.5	0.7
Closing balance	**6.2**	**6.9**

28. RELATED PARTIES

Related party definition and general principles of identification are disclosed in Note 1. All transactions with related parties are conducted in the normal course of business and at fair market terms. There have been no debts classified as Stage 3 due from related parties as at 31 December 2021 and 31 December 2020.

Parent and ultimate controlling party

During 2021 Luminor distributed 191.0 million EUR of dividends to its parent entity (2020: 0 million EUR).

Entities with significant influence

€m	2020	2021
Interest expenses	-11.1	-7.9
Net commission and fee income	-0.1	-0.2
Net other financial income	-26.8	27.0
Other administrative expenses	-14.4	-4.0
Other income and expenses	-1.4	0.4
Total	**-53.8**	**15.3**

€m	31 Dec 2020	31 Dec 2021
Due from other credit institutions	59.2	11.5
Derivative financial instruments	18.7	54.8
Other assets	0.1	0.3
Total assets	**78.0**	**66.6**
Loans and deposits from credit institutions	3.1	63.1
Derivative financial instruments	41.3	21.2
Other liabilities	4.4	0.0
Total liabilities	**48.8**	**84.3**

The changes in profit or loss items and balance sheet positions in relation to entities with significant influence are largely driven by derivatives and related cash collateral positions with respective parties.

Key management personnel

Members of the Management Board and other key management personnel are entitled for 6 up to 12 months of non-compete restriction in case of employment termination. Besides risk-adjusted performance based variable remuneration no other short-term nor long term benefits are applied.

€m	2020	2021
Payments of fixed and variable remuneration	-2.8	-2.7

€m	31 Dec 2020	31 Dec 2021
Loans to Customers	1.0	0.1
Deposits from customers	1.1	0.9

Associated companies

ALD Automotive (3 entities), €m	31 Dec 2020	31 Dec 2021
Loans to Customers	11.2	5.9
Deposits from customers	0.8	0.5

29. SEGMENT REPORTING

€m	2020				2021			
	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Net interest and similar income	114.2	123.2	-10.5	**226.9**	110.2	125.8	3.2	**239.2**
Net fee and commission income	49.2	24.3	0.1	**73.6**	52.8	25.3	0.4	**78.5**
Net other financial income	6.1	8.0	13.6	**27.7**	7.2	9.7	4.0	**20.9**
Other income	0.9	0.9	-1.8	**0.0**	0.3	0.3	-10.3	**-9.7**
Total operating income	**170.4**	**156.4**	**1.4**	**328.2**	**170.5**	**161.1**	**-2.7**	**328.9**
Total operating expenses	-173.7	-96.1	-5.6	**-275.4**	-170.3	-89.9	-2.6	**-262.8**
Credit loss allowance	5.4	-24.0	1.0	**-17.6**	11.6	2.5	0.7	**14.8**
Other	0.1	0.1	0.4	**0.6**	-0.1	1.7	-0.1	**1.5**
Profit (-loss) before tax	**2.2**	**36.4**	**-2.8**	**35.8**	**11.7**	**75.4**	**-4.7**	**82.4**

Fee and commission income by segment

€m	2020				2021			
	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Cards	27.4	5.0	0.0	**32.4**	29.1	5.1	0.0	**34.2**
Credit products	0.9	4.6	-0.1	**5.4**	0.5	4.2	0.2	**4.9**
Daily banking plans	13.9	0.2	0.1	**14.2**	15.3	0.3	0.4	**16.0**
Deposit products and cash management	8.3	7.4	0.6	**16.3**	8.5	8.1	0.2	**16.8**
Insurance	2.9	1.2	0.1	**4.2**	3.0	0.9	0.0	**3.9**
Investments	1.9	1.1	0.9	**3.9**	2.8	1.6	0.7	**5.1**
Pensions	9.7	0.0	0.1	**9.8**	11.3	0.2	0.0	**11.5**
Trade finance	0.1	8.0	0.2	**8.3**	0.1	8.8	0.0	**8.9**
Other fee and commission income	0.7	0.5	0.1	**1.3**	0.5	0.3	0.0	**0.8**
Total	**65.8**	**28.0**	**2.0**	**95.8**	**71.1**	**29.5**	**1.5**	**102.1**

As at 31 December 2020, €m	Retail	Corporate	Other	Total
Loans to customers[1]	5,251.8	4,307.8	31.9	**9,591.5**
Deposits from customers	5,743.1	6,024.8	53.8	**11,821.7**

As at 31 December 2021, €m	Retail	Corporate	Other	Total
Loans to customers[1]	5,436.5	4,627.9	19.3	**10,083.7**
Deposits from customers	6,066.3	4,196.8	42.3	**10,305.4**

[1] Amounts in Segment reporting do not include allowances and accumulated interests.

Reconciliation between the total amount of loans to customers, above, to the net carrying amount in the balance sheet:

€m	31 Dec 2020	31 Dec 2021
Total under segment reporting	**9,591.5**	**10,083.7**
Accrued interest	20.5	9.4
Allowance	-136.9	-101.9
Initial impairment	-18.7	-15.7
Amortized fee	-25.6	-28.8
Net carrying amount	**9,430.8**	**9,946.7**

30. COUNTRY BY COUNTRY REPORTING

Article 89 of the EU Capital Requirements Directive IV (CRD IV) requires credit institutions and investment firms in the EU, which are regulated under CRD IV, as well as their subsidiaries and branches, to make certain disclosures on an annual basis by member state and by third country in which they have an establishment. The requirement is implemented locally by Estonian Credit Institutions Act § 92 Disclosure of reports and other information part 8 and requires a credit institution to disclose in the annual report or on the date and location of the disclosure of the annual report the following information for contracting states and third states where the place of business of a credit institution is located: the geographical location, business name and nature of business; turnover or sales revenue; the number of employees on the full-time basis accounting; pre-tax profit or loss; income tax or other tax on profit or loss payable; an the amount of state support received.

The primary activities of Luminor, regardless of country, are financial services. Luminor Bank operates through its head office in Estonia (Luminor Bank AS), as well as operations in Latvia and Lithuania are represented through its respective branches (Luminor Bank AS Latvijas filiāle and Luminor Bank AS Lietuvos skyris). Luminor is also represented through a number of subsidiaries. Information on each subsidiary geographical location, business name and nature of business is provided in Note 17.2 Investment in subsidiaries. No state support was received.

2020, €m	Estonia	Latvia	Lithuania	Total
Sales revenue[1]	84.8	115.7	169.0	**369.5**
Profit before tax	-72.0	61.4	46.4	**35.8**
Income tax or other tax on profit or loss payable	-5.5	0.0	8.2	**2.7**
Number of employees on the full-time basis accounting	594	823	961	**2,378**

2021, €m	Estonia	Latvia	Lithuania	Total
Sales revenue[1]	81.6	116.6	170.3	**368.5**
Profit before tax	-73.0	64.6	90.8	**82.4**
Income tax or other tax on profit or loss payable	-1.3	0.0	9.0	**7.7**
Number of employees on the full-time basis accounting	549	802	911	**2,262**

[1] Sales revenue defined as sum of Interest and similar income and fee and commission income after intragroup eliminations.

31. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

Effective 1 January, Ottar Ertzeid was elected to the Supervisory Council and subsequently to the Council's Audit, Remuneration and Risk committees. Mr Ertzeid is a career banker with over 30-years' experience. Most recently, he was Group Chief Financial Officer at DNB ASA and DNB Bank ASA, and a member of the Group Management Board. Prior to this he was Head of DNB Markets, DNB's investment banking unit.

On 31 January, we signed an agreement to acquire 99% of Maksekeskus, the leading e-commerce payment service provider in the Baltic region. The acquisition supports our strategic goals, and will advance our digital transformation and strengthen our presence in the fast-growing e-commerce payments market. The transaction is expected to close in the upcoming months, and is subject to approval by the Estonian authorities.

We have completed an initial high-level evaluation of the possible consequences to our credit portfolio from the invasion of Ukraine. We have assessed customers' ownership structures, sales markets, sourcing markets, location of production units/operation and energy intensity. We have concluded that our customers' exposure is limited, and the number of our customers (legal entities) with ownership links to the affected region is limited. Payment flows to and from Belarus, Russia, or Ukraine account for less than 2% of our total customer payment flow. Risks related to the material sourcing, location of production units/operations are mitigated in most cases. Sales markets for most of the customers are diversified. However, we also note that the situation is unpredictable, for example regarding potential energy flow reductions or sanctions, and it is therefore not possible to come to a final assessment.

32. PRIMARY STATEMENTS OF LUMINOR BANK AS A SEPARATE ENTITY

Luminor Bank's unconsolidated primary financial statements have been prepared in accordance with Estonian Accounting Act and do not constitute separate financial statements of Luminor Bank AS in the meaning of IAS 27 "Separate financial statements".

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021 FOR LUMINOR BANK AS

€m	2020	2021
Interest income calculated using the effective interest method	250.5	238.0
Other similar income	0.6	0.9
Interest and similar expense	-46.7	-27.1
Net interest and similar income	**204.4**	**211.8**
Fee and commission income	82.6	87.3
Fee and commission expense	-21.6	-21.7
Net fee and commission income	**61.0**	**65.6**
Net gain (-loss) from derivatives	-9.6	23.4
Net gain (-loss) from foreign currency operations	21.6	-7.9
Net other financial income	15.7	5.0
Dividend income	47.7	6.5
Other operating income	6.8	6.4
Other operating expense	-6.4	-10.8
Net other operating income	**75.8**	**22.6**
Total operating income	**341.2**	**300.0**
Salaries and other personnel expenses	-95.3	-96.4
Other administrative expenses	-158.7	-146.8
Depreciation and amortization	-11.5	-11.4
Total operating expenses	**-265.5**	**-254.6**
Credit loss allowance, excluding off-balance sheet commitments	-10.8	11.0
Credit loss allowance on off-balance sheet commitments	-2.6	1.8
Other non-operating expenses	-0.2	1.8
Profit before tax	**62.1**	**60.0**
Tax expense	-1.8	-6.7
Profit for the period	**60.3**	**53.3**
Total comprehensive income	**60.3**	**53.3**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021 FOR LUMINOR BANK AS

€m	31 Dec 2020	31 Dec 2021
Assets		
Cash and balances with central banks	4,926.5	2,494.2
Due from other credit institutions	103.6	64.4
Debt securities	284.3	608.2
Loans to customers	9,305.3	9,827.0
Derivative financial instruments	43.4	75.5
Equity instruments	0.1	0.5
Investments in subsidiaries	260.8	226.8
Intangible assets	4.5	8.4
Property, plant and equipment	54.8	45.3
Current tax assets	0.5	2.6
Deferred tax assets	9.4	8.7
Other assets	46.1	38.9
Total assets	**15,039.3**	**13,400.5**
Liabilities		
Loans and deposits from credit institutions	47.3	83.8
Deposits from customers	11,963.7	10,442.6
Debt securities issued	1,201.2	1,163.6
Derivative financial instruments	50.6	70.3
Tax liabilities	0.2	0.0
Lease liabilities	49.7	43.4
Other liabilities	71.8	79.8
Provisions	9.0	8.9
Total liabilities	**13,393.5**	**11,892.4**
Equity		
Share capital and premium	1,447.1	1,447.1
Retained earnings	195.7	57.2
Other reserves	3.0	3.8
Total equity	**1,645.8**	**1,508.1**
Total liabilities and shareholder’s equity	**15,039.3**	**13,400.5**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2021 FOR LUMINOR BANK AS

€m	Share capital and premium	Retained earnings	Other reserves	Total equity
Balance as at 1 January 2020	**1,447.1**	**137.1**	**1.2**	**1,585.4**
Profit for the period	0.0	60.3	0.0	**60.3**
Total comprehensive income	**0.0**	**60.3**	**0.0**	**60.3**
Transfer to mandatory reserve	0.0	−1.7	1.7	**0.0**
Other	0.0	0.0	0.0	**0.0**
Balance as at 31 December 2020	**1,447.1**	**195.7**	**2.9**	**1,645.7**
Balance as at 31 December 2020	**1,447.1**	**195.7**	**3.0**	**1,645.8**
Profit for the period	0.0	53.3	0.0	**53.3**
Total comprehensive income	**0.0**	**53.3**	**0.0**	**53.3**
Transfer to mandatory reserve	0.0	−0.8	0.8	**0.0**
Other	0.0	0.0	0.0	**0.0**
Dividends	0.0	−191.0	0.0	**−191.0**
Balance as at 31 December 2021	**1,447.1**	**57.2**	**3.8**	**1,508.1**

€m	31 Dec 2020	31 Dec 2021
Equity capital of the parent undertaking	1,645.7	1,508.1
Value of subsidiaries in the unconsolidated statement of financial position of the parent (minus)	−260.8	−226.8
Value of subsidiaries under equity method	280.2	265.9
Total	1,665.1	1,547.2

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2021 FOR LUMINOR BANK AS

€m	2020	2021
Profit before tax	62.1	60.0
Adjustment for non-cash items:		
Credit loss allowance	13.5	-12.8
Depreciation and amortisation	11.5	11.4
Other non-cash items	-2.7	-1.8
Interest and similar income	-251.1	-238.9
Interest and similar expenses	46.7	27.1
Change in operating assets/liabilities:		
Increase (-) / decrease (+) of lending to customers	688.3	-522.1
Increase (-) / decrease (+) of other assets	-42.3	-311.1
Increase (+) / decrease (-) of client deposits	715.0	-1,483.3
Increase (+) / decrease (-) of other liabilities	-47.5	25.9
Interest received	241.0	249.0
Interest paid	-46.0	-27.4
Income tax paid	-10.1	-8.3
Dividend income	-47.7	-6.5
Cash flow from operating activities	**1,330.7**	**-2,238.8**
Acquisition of property, equipment and intangible assets	-4.4	-7.1
Proceeds from disposal of property, equipment and intangible assets	3.5	0.3
Proceeds from disposal of investment property	1.5	0.0
Proceeds from disposal of subsidiaries	0.0	35.8
Dividend received	47.7	6.5
Cash flows from investing activities	**48.3**	**35.5**
Debt securities issued	802.8	299.3
Debt securities bought back	-254.9	-235.5
Debt securities repayment of maturity	0.0	-100.8
Payments of principal on leases	6.1	-6.2
Dividends paid	0.0	-191.0
Cash flows from financing activities	**554.0**	**-234.2**
Net increase or decrease in cash and cash equivalents	**1,933.0**	**-2,437.5**
Cash and cash equivalents at the beginning of the period	2,948.7	4,884.7
Effects of currency translation on cash and cash equivalents	3.1	0.0
Net increase or decrease in cash and cash equivalents	1,932.9	-2,437.5
Cash and cash equivalents at the end of the period	**4,884.7**	**2,447.2**
Cash and cash equivalents comprise:		
Cash on hand	123.8	136.1
Non-restricted current account with central banks	4,690.3	2,249.3
Due from other credit institutions within three months	70.6	61.8
Total	**4,884.7**	**2,447.2**

Independent auditor's report

To the Shareholder of Luminor Bank AS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Luminor Bank AS (the "Bank") and its subsidiaries (together – the "Group") as at 31 December 2021, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 1 March 2022.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021;
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of changes in equity for the year ended 31 December 2021;
- the consolidated statement of cash flows for the year ended 31 December 2021; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated 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 Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

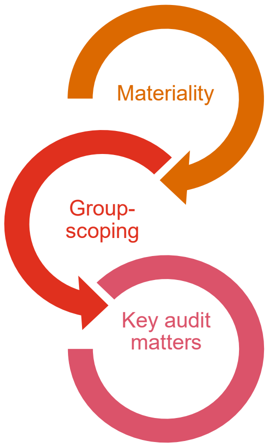
To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its parent and subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia.

AS PricewaterhouseCoopers
Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

The non-audit services that we have provided to the Company and its parent and subsidiaries in the period from 1 January 2021 to 31 December 2021 are disclosed in the management report.

Our audit approach

Overview



- Overall group audit materiality is EUR 10.8 million, which represents 0.7% of consolidated total equity as at 31 December 2021.

- A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms for Group entities covering substantially all of the Group's consolidated assets and revenues. Selected audit procedures were performed on remaining balances to ensure we obtained sufficient appropriate audit evidence to express an opinion on the Group's financial statements as a whole.

- Key audit matter relates to impairment of loans to customers.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall Group audit materiality	EUR 10.8 million
How we determined it	0.7% of consolidated total equity as at 31 December 2021
Rationale for the materiality benchmark applied	We have applied this benchmark, as total equity is, in our view, one of the principal considerations when assessing the Group's performance and a key performance indicator for Management and Supervisory Board, as well as the regulatory authorities.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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
Impairment of loans to customers (refer to Note 1 "Significant accounting policies", Note 2 "Significant accounting estimates and judgments", Note 4 "General risk management policies" and Note 12 "Loans to customers" for further details). As at 31 December 2021 the net carrying amount of loans to customers amounted to EUR 9,947 million and related impairment allowance amounted to EUR 102 million. In 2021 the Group recognised net impairment on loans to customers in the amount of EUR -13 million (reversal). We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses (ECL). Key areas requiring significant management judgements and modelling include: • evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3; • assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL; • the modelling and calculation of key parameters of ECL model, including	We assessed whether the Group's accounting policies and methodology applied for the calculation of impairment of loans to customers are in compliance with IFRS 9. We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including: • IT general controls over relevant systems; • IT application controls over exposure balances and overdue information; • automated application of staging; • automated calculations of ECL for stages 1 and 2; • automated calculations of ECL for stage 3 immaterial exposures that are evaluated on collective basis; • review and approval of customer credit rating grades; • review and update of collateral values; • regular customer reviews; • review and approval of loan loss calculations for individual material exposures (stage 3). We performed detailed testing over: • the completeness and accuracy of data used

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

probability of default (PD), loss given default (LGD) and exposure at default (EAD);

- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above-mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic and pessimistic) and assigning probabilities to those scenarios;
- estimating ECL under base case and risk case scenarios for Stage 3 individual assessments and assigning probabilities to those scenarios; and
- applying significant management judgement in estimating overlays (e.g. adjustments to the model calculated ECL results to address ECL model limitations and/or emerging trends).

in the ECL calculation system;

- the compliance of key inputs used in ECL calculation system with IFRS 9 methodology;
- the accuracy and completeness of data used for staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default);
- the internal assignment of credit ratings for corporate loan customers, which serve as inputs into the corporate loan ECL model;
- the correctness of information on collaterals and their values in the loan systems, which serve as an input into the ECL model; and
- the completeness of loans subject to stage 3 assessment and related ECL calculations.

We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, corporate portfolio point in time PD estimates, key forecasts of macroeconomic information and multipliers used for different scenarios.

In addition, we have assessed the validity and reasonability of management overlays applied as at 31 December 2021.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of entities operating in Estonia, Latvia and Lithuania (see further information on the Group structure in Note 14 to the Consolidated Financial Statements). Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope considering the relative significance of each entity to the Group and the overall coverage obtained over each material line item in the consolidated financial statements. A full scope audit was performed by PwC Estonia, or under our instructions, by other PwC network firms for entities covering substantially all revenues and assets.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. At the Group level we also audited the consolidation process and performed selected audit procedures on remaining balances to ensure we obtained audit evidence to express an opinion on the Group’s financial statements as a whole.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises of the following sections: Introduction, Management report, Glossary and Contact details (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group'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 the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board’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 Group’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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of Luminor Bank AS on 31 May 2018 for the financial year ended 31 December 2018 and the total period of our uninterrupted audit engagement has lasted for four years. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Luminor Bank AS can be extended for up to the financial year ending 31 December 2027 and after a new tendering process for up to the financial year ending 31 December 2037.

AS PricewaterhouseCoopers

Ago Vilu
Certified auditor in charge, auditor's certificate no.325

1 March 2022
Tallinn, Estonia

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PROFIT ALLOCATION PROPOSAL

In accordance with the audited financial results, the Management Board recommends the annual shareholders' meeting that the Luminor 2021 net profit of 74.7 million EUR and retained earnings from previous financial periods of 23.2 million EUR, totalling to 97.9 million EUR, to be distributed as shown below:

€m	
Net profit for the period ended 31 December 2021	74.7
Retained earnings from previous periods	23.2
Total retained earnings	97.9
To be paid as dividends	0.0
Balance of undistributed profit	97.9

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2021

The Management Board of Luminor Bank AS has approved the Management Report and Annual Accounts for the year 2021.

The Annual Report as compiled by the Management Board consists of the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statement, profit allocation proposal and auditor's report. The Supervisory Council of Luminor Bank AS has reviewed the Annual Report and has approved it for submission to the General Meeting of Shareholders.

1 March 2022

Peter Bosek
Chairman of the Management Board

Georg Jürgen Kaltenbrunner
Member of the Management Board

Mari Mõis
Member of the Management Board

Andrius Načajus
Member of the Management Board

Palle Nordahl
Member of the Management Board

Ilja Sovetov
Member of the Management Board

Kerli Vares (previously Gabrilovica)
Member of the Management Board

GLOSSARY

Cost/income ratio
Total operating expenses as a percentage of total operating income.

Cost/income ratio excluding exceptional costs
Total operating expenses, less exceptional costs, as a percentage of total operating income.

Common Equity Tier 1 ratio
Shareholders' equity subject to regulatory adjustments as a percentage of total risk exposure amounts.

Exceptional costs
Costs which relate to specific projects which are temporary in nature and are approved by the Supervisory Council as part of our financial plan. These include investments into IT operations as part of our digital transformation, credit risk analytics, and business development.

Leverage ratio
Tier 1 capital as a percentage of total assets and off-balance sheet items subject to regulatory adjustments.

Liquidity coverage ratio
High-quality liquid assets as a percentage of the estimated net liquidity outflow over the next 30 calendar days.

Net stable funding ratio
Available stable funding as a percentage of required stable funding over a one-year horizon.

Non-performing loans ratio
Gross carrying amount for Stage 3 loans as a percentage of gross carrying amount of total loans.

POCI loans
Loans which were credit impaired when purchased or originated.

Return on Equity
Profit for the period (annualized) as a percentage of average shareholders' equity for that period. The average shareholders' equity is calculated using the opening and closing balances for the period.

Return on Equity excluding exceptional costs
Profit for the period (annualized), excluding tax-adjusted exceptional costs, in relation to average shareholder's equity for that period.

CONTACT DETAILS

Luminor Bank AS

Registered country:	The Republic of Estonia
Main activity:	Credit institution
Commercial Register code:	11315936
Telephone:	+372 628 3300
SWIFT/BIC:	RIKOEE22
E-mail:	info@luminor.ee
Investor relations:	ir@luminorgroup.com
Balance sheet date:	31 December 2021
Reporting period:	1 January to 31 December 2021
Reporting currency:	euro


Luminor
Luminor Bank AS
Liivalaia 45
10145 Tallinn
Estonia
www.luminor.ee