Luminor

INTERIM REPORT

Q4 2019

The interim report has been prepared in accordance with the IAS 34 Interim Financial Reporting and requirements set by the Bank of Estonia for quarterly reporting by credit institutions.

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CEO COMMENT

In the final quarter of 2019, Luminor continued its wide-scale business and organisational transformation. A lot of good work has been done in separating Luminor from its former parent banks, building the foundations for an independent bank and strengthening the organisation. We have also succeeded in changing our funding structure quite substantially and in boosting our overall financial resilience, as we have reduced the loan-to-deposit ratio over the past year from 126.5% to 99.9%.

On 19 December, the European Central Bank issued a licence to Luminor to issue covered bonds. This is another important step towards reaching a fully independent funding structure and in continuing to improve our stability and liquidity position. Luminor is the first bank in the Baltic countries to receive such a licence, and this marks an important milestone in the development of Baltic financial markets.

In the fourth quarter, Luminor also continued building its payment infrastructure and information systems to be independent of former parent banks. We completed the carve-out of SEPA payment flows, which means that all our SEPA payments are now routed and processed through the Luminor Payment Hub and the Latvian Central Bank. Significant progress was also made in establishing an independent correspondent banking network.

Luminor's Products and Offering team launched Luminor Investor platform in Lithuania and Latvia as a platform tailored for investors with different levels of experience and offering over 14,500 financial instruments.

The Retail Banking team continued to focus on total customer asset growth in deposits and investments, while the Corporate Banking team was preparing to return to lending growth after successfully repricing the legacy portfolios and reducing the portfolio of non-performing loans.

Our Wealth Management segment concentrated on growing the business and on customer satisfaction. The pension assets under management reached EUR 1.45 billion in the fourth quarter of 2019, which was 20% more than in the same quarter of 2018.

In order to adapt in a constantly changing environment, we continued to invest in the systems and processes that we have developed to prevent, detect, manage and report potential financial crime risk. In the fourth quarter, 68 compliance-related training events were organized at Luminor with coverage over 17 different topics.

The Baltic states remain some of the faster-growing economies of the EU, outpacing the euro area average by a solid margin. In the fourth quarter of 2019, Luminor completed an important part of its overall transformation. After rightsizing the organisation and repricing the bank's portfolio, Luminor is now ready to enter a stage of growth.

Erkki Raasuke

CEO

MANAGEMENT REPORT

Overview

Luminor Bank AS ("Luminor") was established on 1 October 2017 by the merger of the operations in the Baltic states of DNB Bank ASA (Commercial Register no. 984 851 006) and Nordea Bank AB (currently Nordea Bank Abp, as Nordea has been domiciled in Finland since 1 October 2018 following the cross-border reversed merger between Nordea Bank AB (publ) and Nordea Bank Abp, registration no. 2858394-9) to create a new-generation financial service provider for local businesses and financially active people.

On 30 September 2019 it was announced that the transaction signed on 13 September 2018 between DNB Bank ASA and Nordea Bank AB and the US-based private equity firm Blackstone had been closed, and as a result a consortium led by private equity funds managed by Blackstone acquired a 60% majority stake in the bank. The bank's initial owners Nordea Bank Abp ("Nordea") and DNB Bank ASA ("DNB") each retained a 20% equity stake in Luminor, but an agreement has been signed by Blackstone and Nordea for the purchase of Nordea's 20% stake over the coming years.

Luminor is the third-largest provider of financial services in the Baltics, with approximately 1 million clients, 2489 employees, and market share of 16.6% in deposits and 18.7% in lending as at the end of the fourth quarter of 2019. Total shareholders' equity amounts to EUR 1.6 billion and Luminor is capitalised with a CET1 ratio of 19.7%. Luminor's vision is to become the best financial ecosystem for its customers.

Luminor offers a wide range of products and services to its customers through all possible channels, digital and physical, with a total of 34 customer service centres, of which 8 are meet-up points, in total in Latvia, Lithuania and Estonia. Luminor owns 357 ATMs throughout the Baltic states, and additionally provides services through 100 ATMs in partnership with other financial services providers.

31 December 2019				
	Estonia	*Latvia*	*Lithuania*	**Total**
Number of customers	*~134 000*	*~229 000*	*~577 000*	~940 000
Market shares				
Lending	*13.9%*	*23.0%*	*20.3%*	18.7%
Deposits	*9.9%*	*17.5%*	*21.2%*	16.6%
Number of client service centres, including meet-up points	*8*	*10*	*16*	34
Number of employees	*577*	*887*	*1025*	2489

At the end of fourth quarter Luminor had 24 subsidiaries in the Baltics: Luminor Asset Management IPAS (Latvia), Luminor Latvijas atklātais pensiju fonds AS (Latvia), UAB Luminor Investiciju valdymas (Lithuania), and Luminor Pensions Estonia AS (Estonia) manage pension assets; Recurso UAB (Lithuania), Promano Lit UAB (Lithuania), Industrius UAB (Lithuania), Gėlužės projektai LUAB (Lithuania), Intractus UAB (Lithuania), Promano Estonia OÜ (Estonia), Luminor Finance SIA (Latvia), Realm SIA (Latvia), Trioleta SIA (Latvia), Baltic ipašums SIA (Latvia), Promano Lat SIA (Latvia), Salvus SIA (Latvia), Salvus 2 SIA (Latvia), Salvus 3 SIA (Latvia), Salvus 4 SIA (Latvia), and Salvus 6 SIA (Latvia) are property management companies; and Luminor Liising AS (Estonia), Luminor Līzings SIA (Latvia), Luminor Līzings Latvija SIA (Latvia), and Luminor Lizingas UAB (Lithuania) provide leasing services.

On 10 October, the Supervisory Council of Luminor elected Georg Kaltenbrunner as a member of the bank's Management Board and new Chief Risk Officer. Georg Kaltenbrunner took over the position on 1 November from Hannu Saksala.

On 19 December 2019, the European Central Bank issued a licence to Luminor to issue covered bonds following the assessment of the Estonian Financial Supervision Authority. Luminor is the first bank in the Baltic states to receive such a licence.

Macroeconomic overview

Global trade and the global economy continued to soften on the back of trade uncertainty, heightened geopolitical risks, and a slowdown in manufacturing that spread to other parts of the global economy, albeit to a limited degree. Advanced and emerging markets experienced headwinds with weaker economic confidence and growth resting largely on domestic demand as the key driver. While global manufacturing is still experiencing substantial weakness, there are early signs of stabilisation. Services are poised to face soft growth as there has so far been limited spill-over to the more strongly performing services sector, which benefits from domestic demand and supportive financial conditions. There has been a tepid recovery to an uninspiring level of growth, but with diminished economic and policy risks.

Growth moderated in the key export markets for the Baltics, including the euro area and the Nordic countries, and the outlook for growth was subdued. Growth in the euro area, the key destination for Baltic exports, decelerated noticeably, with GDP growing only by around 1.2% year on year, and 0.2% quarter on quarter in the second and third quarters of 2019, reflecting a drag from industry and trade. The risk of a hard Brexit added to the economic uncertainty in the UK and in related EU economies. The euro area slowdown is now showing tentative signs of bottoming out as the economies that are more open to global trade, including Germany, go through a soft patch.

The Baltic states along with Ireland, Poland, Hungary and some southern European peers like Malta today have some of the fastest growing economies in the EU. The Baltic economies have expanded robustly, outpacing the euro area average by a solid margin, with annual real GDP growth averaging 5% in Estonia and around 4% in Latvia and Lithuania since 2017. The average in the euro area meanwhile was 2%.

The Baltic countries have exceeded expectations and have so far largely escaped disruption to trade, as they sustained softer, but still broadly based, momentum in their economies in the third quarter, benefiting not least from investment, consumption and healthy residential construction. Annual growth in the third quarter was 4.1% in Estonia, 1.9% in Latvia and 3.6% in Lithuania, as the growth trend remained moderate.

Given the external headwinds and the slower expansion in key export markets, growth has started to weaken gradually, albeit from high levels, but labour markets are still firm and tight. The economies are integrated, so all the European economies will go through the current cyclical softness in trade to different degrees, and will face headwinds for export demand.

We expect growth to weaken only gradually given the continued support from strong labour markets and healthy domestic demand, which remain the key engine of growth. The consumer still holds strong in advanced countries including the Baltic states and the labour markets remain tight, though there are early signs of wage and labour demand moderating in future from their current robust levels.

With the first phase of the trade deal between the US and China signed, there is more cautious optimism about a recovery in global trade. The worst may be over for European manufacturers, while domestic demand is still robust and unemployment is close to a record low.

Activities

Luminor completed its cross-border merger on 2 January 2019 and continues its operations in all the three Baltic states through the bank headquartered in Estonia and its branches in Latvia and Lithuania. After the completion of the merger, all the assets, rights and liabilities of Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania) were transferred to Luminor Bank AS in Estonia. The bank continues its activities in Latvia and Lithuania through its locally established branches. A new organisational set up and a new governance structure were also introduced, and new members of the management bodies were appointed.

As a result of the cross-border merger, the deposits and holdings in financial instruments of the customers of Luminor Bank AS Latvian branch and Luminor Bank AS Lithuanian branch are guaranteed by the deposit guarantee and investor protection scheme established and operated by the Estonian Guarantee Fund.

Luminor continued to roll out the new operating model during the fourth quarter by simplifying its structure and decision-making process, unifying and executing IT consolidation, strengthening its controls, and becoming more efficient, more resilient and more resolvable.

In the fourth quarter of 2019, Luminor continued building its payment infrastructure and information systems that are independent of its former parent banks. In November 2019, Luminor completed the carve out of SEPA payment flows so that all the SEPA payments as of that date are routed and processed through the Luminor Payment Hub and the Latvian Central Bank. Luminor has also established its own correspondent banking network and carved out the international payment flows that were previously routed and processed via the systems and correspondent banking accounts of DNB Bank. Luminor is also progressing with the equivalent change to international payment flows processed through the Nordea Group, with plans to become fully independent during the first half of 2020.

The gradual migration of the legacy Nordea customers to the Luminor information systems continued in Latvia, resulting in the successful transfer of some 30% of active legacy Nordea customers by the end of 2019.

At the end of the fourth quarter, Luminor started issuing Qualified Smart ID, which is a digital authentication tool with qualified e-signature, in its customer services centres. The launch was made in all three Baltic countries. Around 92% of new customers use this solution to access the bank’s digital channels. It creates a way to deliver and sign up for more complex products through digital channels in the very near future.

PRODUCT AND DIGITAL DEVELOPMENT

In the fourth quarter of 2019, Luminor continued the migration of customer and product data and services to the unified Luminor system in Latvia. The process of migrating the customers to the targeted unified systems is progressing according to plan and will be finalised in Latvia, Lithuania and Estonia in 2020.

In October the Luminor Investor platform was launched in Lithuania and Latvia. The investment platform is tailored for investors of all levels of experience and offers a wide range of non-complex financial instruments, with more than 14,500. The platform was built jointly with Scandinavian partners and provides a simplified customer experience and the option for customers to build their savings at their own pace. The launch of the platform in Estonia is planned for the first quarter of 2020.

THE RETAIL BANKING SEGMENT

The Retail Banking team continued to focus on growing total customer assets in deposits and investments. After the Luminor Investor platform was launched, more than 100 retail customers started to use it and the total portfolio invested through the platform by retail customers reached 650 thousand EUR at the end of the year.

The team also executed a sales campaign for the third pillar pension across the Baltics and achieved a new record sales portfolio of 7.4 million EUR.

The Retail Banking team continued to consolidate the distribution channels and improve efficiency in related areas. Three new concept meet-up points were opened in Lithuania during the fourth quarter, and at the end of the fourth quarter, Luminor was serving its customers in a total of 34 locations across the Baltics.

The team continued to put its emphasis on advancing customer service quality as well, so frontline advisory training sessions were held, and 345 advisors and managers were trained during the extensive practical training sessions.

THE CORPORATE BANKING SEGMENT

In the fourth quarter of 2019 the Corporate Banking team continued to focus on increasing the profitability of our corporate lending portfolio and reducing the portfolio of non-performing loans. The team also succeeded in increasing the corporate deposit portfolio during the quarter.

Loan loss provisions in the fourth quarter were higher than in the previous year because of additional provisions for the non-performing loan book. The macro environment continues to be very supportive.

THE WEALTH MANAGEMENT SEGMENT

The main focus in the Wealth Management segment in the fourth quarter was on growing the business, with the focus on high customer satisfaction and preparing for the possible changes in the pension system in Estonia.

Collaboration with other business segments supported both growth and customer satisfaction in the Private Banking and the Pensions segments.

All the major Management Board level re-appointments have been made for the Luminor pension entities, and approvals have been received from the local financial supervisory authorities. To facilitate an orderly transition, multiple workshops have been held to map functional responsibilities and conflicts of interest, as in the quality and risk analysis (QRA) framework.

The pension assets under management in the Baltics reached EUR 1.45 billion in the fourth quarter of 2019, increasing by 20% from the same quarter of 2018. Total assets under management have grown solidly as financial markets have performed well and the external sales channel for pension products in Estonia has been successful.

Luminor had 295 thousand second pillar and 62 thousand third pillar pension customers at the end of the quarter.

The Private Banking team focused on growing the assets under management and reached EUR 1.42 billion in the fourth quarter of 2019, increasing by 19% from the same quarter of 2018. The focus remains on ensuring a high level of customer satisfaction by helping affluent and high net worth individuals and their families to grow, manage and preserve their wealth. During the quarter the Private Banking team introduced a new VISA Infinite card for the Private Banking segment in Latvia. Lithuania and Estonia will follow.

CORPORATE SOCIAL RESPONSIBILITY

In the fourth quarter Luminor continued with the review of its ESG principles and how they are implemented, and continued with its efforts to promote financial literacy and education and to support sustainable business and local entrepreneurship.

A range of financial literacy classes and talks were given to school children, and lectures on saving and on pensions were given to university students. Initiatives to promote digital literacy and cyber security were supported.

Luminor organised a series of seminars for its customers to support an entrepreneurial attitude and share best practices in building and maintaining a sustainable career or business, with advice on marketing, insurance, finance, and work-life balance.

Luminor sold 28 works of art at an auction, the proceeds of which were donated to create an interdisciplinary computer science course, the Baltic IT Leadership Bachelor Program, launched by Riga Technical University and the University of Latvia in cooperation with the State University of New York at Buffalo, USA. The programme is run by the Riga Business School of RTU and gives 22 young people a chance to start their studies on the new course.

In addition to all that, a Luminor scholarship was awarded to one university student to promote new ideas in local technology and the local economy, and to help reduce the ecological footprint.

ANTI-MONEY LAUNDERING EFFORTS

Luminor is continuously committed to preventing and detecting money laundering and financial crime, reviewing its AML practices regularly, and investing in the necessary human and technological capabilities in this field. As it is subject to a range of legal requirements, Luminor acts in full transparency and in collaboration with all the relevant supervisory and regulatory authorities. Luminor predominantly serves residents of Estonia, Latvia and Lithuania, and customers with a strong personal or business connection to the Baltic states.

Luminor has developed and implemented a financial crime risk management framework to prevent, detect, manage and report potential financial crime risk. The framework consists of financial crime detection technology, comprehensive policies and procedures, regular risk assessments, training and awareness-raising, and ongoing monitoring of new and developing financial crime risks. In addition, Luminor follows international guidelines, recommendations and standards issued by the regulatory and supervisory authorities, relevant international bodies, local banking associations and financial intelligence units in each Baltic state. Luminor continuously invests in its systems and processes to adapt in a constantly changing environment.

Luminor considers awareness raising activities as an important component of the financial crime risk management framework. During the fourth quarter, 68 compliance-related training events were held on 17 different topics.

EVENTS AFTER 31 DECEMBER 2019

On 13 January Moody's Investors Service assigned a provisional (P) Aa1 long-term rating to the mortgage covered bonds to be issued by Luminor Bank AS, under by the Estonian Covered Bonds Act. The credit analysis by Moody's considered among other things the credit quality of the assets backing the covered bonds, the Estonian legal framework providing for regulation and supervision of the issuer, and the cover pool exposure to market risk and the level of over-collateralisation.

Financial Results

The funding structure continued to change during the quarter leading to an increase of 12.9% in the deposits portfolio and a decline of 10.9% in the loan portfolio from a year earlier. The loan-to-deposit ratio has fallen from 126.5% to 99.9% over the past 12 months. Net profit in the fourth quarter was by EUR 0.7 million higher than in the same period of 2018.

Net interest income fell from EUR 65.3 million in the fourth quarter of the previous year to EUR 55.0 million in that quarter of 2019. Interest income remained at a similar level to what it was a year earlier thanks to the successful right-sizing of the business to ensure fair and rational pricing of risk. Interest expenses increased by EUR 8.0 million as a result of the continuous work to become an independently funded bank.

Total operating expenses in the fourth quarter were EUR 78.4 million, which is EUR 7.5 million higher than last year. The result is mainly explained by the transformation costs incurred. Exceptional costs in the fourth quarter were EUR 19.2 million, of which 88% were IT expenses for technology developments and the rest were other transformation costs.

Impairment of loans to customers were EUR 11.7 million in the fourth quarter, which is EUR 5.6 million higher than they were in the same period of the previous year, while the non-performing loans (NPL) ratio continued to improve to 3.8%.

Key figures and ratios of Luminor*

T EUR	Q4	Q3	Q4	January-December	
	2019	2019	2018	2019	2018
Net profit	4 032	16 887	3 333	53 997	123 447
Average equity	1 633 540	1 624 589	1 793 679	1 715 240	1 756 227
Return on equity (ROE), %	1.0	4.1	0.7	3.1	7.0
Average assets	13 764 821	13 905 118	15 012 427	14 523 417	15 201 099
Return on assets (ROA), %	0.1	0.5	0.1	0.4	0.8
Net interest income	54 969	62 104	65 275	244 167	259 409
Average interest earning assets	13 458 875	13 579 747	14 739 778	14 192 831	14 844 146
Net interest margin (NIM), %	1.6	1.8	1.8	1.7	1.7
Cost / Income ratio (C/I), %	82.8	73.5	74.5	77.6	63.0
Credit impairment ratio, %***	0.44	0.33	0.21	0.22	-0.05
Loans to customers	10 222 547	10 760 156	11 472 138	10 222 547	11 472 138
Deposits from customers	10 235 443	9 923 439	9 069 885	10 235 443	9 069 885
Loans / Deposits ratio, %	99.9	108.4	126.5	99.9	126.5
CET1 ratio, %	19.7	18.7	18.0**	19.7	18.0**
NPL ratio (gross), %	3.8	4.3	5.3**	3.8	5.3**
Net interest income / Loans, %	2.1	2.3	2.3	2.4	2.3

* Quarterly ratios and Jan-Dec 2019 ratios (ROE, ROA, NIM, C/I, Credit impairment ratio) are expressed on an annualised basis

**Luminor Group AB full year consolidated figures

***If loan recoveries prevail, the ratio is negative

Explanations

Average equity (belonging to the owners of the company) = (equity at the end of the reporting period + equity at the end of the previous period) / 2

Return on equity (ROE) = Net profit / Average equity * 100

Average assets = (assets at the end of the reporting period + assets at the end of the previous period) / 2

Return on assets (ROA) = Net profit / Average assets * 100

Average interest earning assets = (interest-earning assets at the end of the reporting period + interest-earning assets at the end of the previous period) / 2

Net interest margin (NIM) = Net interest income / Average interest earning assets * 100

Cost / Income ratio = Total operating expenses / Net total operating income * 100

Credit impairment ratio = Net losses or reversal on loans to customers / Net loans, average * 100

Loans / Deposits ratio = Loans to customers / Deposits from customers * 100

CET 1 ratio = Common Equity Tier 1 Capital / Risk-weighted Assets

NPL ratio = Gross impaired loans (Stage 3 loans) / Gross loans * 100

LENDING AND DEPOSITS

Loans to customers totalled EUR 10.2 billion at the end of fourth quarter, having been EUR 11.5 billion previous year. The composition of loans has changed slightly during the past 12 months as the share of loans to individual customers has increased from 51% to 55% and share of loans to business customers has declined from 46% to 43%, at Baltic level. Luminor's share of the lending market in the Baltics has decreased from 21.5% to 18.7% over the past 12 months.

Lending	31 December 2019				
T EUR	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	5 606 413	4 412 164	174 715	29 255	10 222 547
Estonia	*1 348 890*	*1 318 889*	*71 337*	*22 465*	*2 761 581*
Latvia	*1 614 138*	*1 306 403*	*8 656*	*4 554*	*2 933 751*
Lithuania	*2 643 385*	*1 786 872*	*94 722*	*2 236*	*4 527 215*

Deposits	31 December 2019				
T EUR	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	4 034 036	4 160 787	1 623 322	417 298	10 235 443
Estonia	*507 650*	*861 458*	*324 753*	*268 219*	*1 962 080*
Latvia	*1 278 593*	*1 355 221*	*201 485*	*70 037*	*2 905 336*

Lithuania	*2 247 793*	*1 944 108*	*1 097 084*	*79 042*	*5 368 027*

Lending			**31 December 2018**		
T EUR	**Individual customers**	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	5 871 503	5 326 847	216 002	57 786	11 472 138
Estonia	*1 440 658*	*1 646 543*	*85 844*	*39 750*	*3 212 795*
Latvia	*1 752 192*	*1 530 567*	*5 358*	*4 702*	*3 292 819*
Lithuania	*2 678 653*	*2 149 737*	*124 800*	*13 334*	*4 966 524*

Deposits			**31 December 2018**		
T EUR	**Individual customers**	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	3 727 385	3 924 201	1 107 476	310 823	9 069 885
Estonia	*507 157*	*843 320*	*205 786*	*167 791*	*1 724 054*
Latvia	*1 211 066*	*1 278 286*	*212 215*	*110 499*	*2 812 066*
Lithuania	*2 009 162*	*1 802 595*	*689 475*	*32 533*	*4 533 765*

Deposits from customers totalled EUR 10.2 billion at the end of fourth quarter, having been EUR 9.1 billion a year ago. The composition of deposits has changed slightly as the share of deposits from individual customers has declined from 41% to 39% while the share of public sector deposits has increased from 12% to 16% at the Baltic level. Luminor's share of the deposits market in the Baltics continued to increase and reached 16.6% from 16.4% a year ago.

ASSET QUALITY FOR Q4 2019

Luminor continues to focus on reducing the problematic part of the loan portfolio and this positive trend in the quality of the loan portfolio is visible in the NPL ratio. The share of impaired loans in the total loan portfolio, shown as the NPL ratio, was 3.8% at the end of the fourth quarter of 2019, down 0.5 percentage point from the previous quarter. The NPL ratio for the mortgage loans portfolio stood at 2.9% at the end of the fourth quarter of 2019, down 0.4 percentage point from the previous quarter.

The reduction of EUR 81.6 million in the amount of impaired loans was faster than the reduction of EUR 13.4 million in allowances for impaired loans, and this increased the Stage 3 impairment ratio. At the end of the fourth quarter of 2019 the ratio of allowances to impaired loans, shown as the Stage 3 impairment ratio, stood at 36.7%, which was up 3.5 percentage points on the previous quarter. The level of allowances for impaired mortgage loans alone was 26.3% at the end of the fourth quarter of 2019.

The impairment ratio for the total loan portfolio did not change significantly during the quarter and was 1.8% at the end of the fourth quarter of 2019. The ratio of allowances for the total mortgage loan portfolio was 1.2%.

Asset quality of Luminor as at 31 December 2019

	31 December 2019			
T EUR*	**Total**	***Estonia***	***Latvia***	***Lithuania***
Financial institutions				
Stage 1				
Gross carrying amount	26 419	21 645	2 570	2 204
Allowances	-82	-71	-5	-6
Carrying amount	**26 337**	**21 574**	**2 565**	**2 198**
Stage 2				
Gross carrying amount	2 844	797	2 008	39
Allowances	-38	-13	-24	-1
Carrying amount	**2 806**	**784**	**1 984**	**38**
Stage 3				
Gross carrying amount	116	110	6	0
Allowances	-4	-3	-1	0
Carrying amount	**112**	**107**	**5**	**0**
Total carrying amount for financial institutions	**29 255**	**22 465**	**4 554**	**2 236**
Public sector				
Stage 1				
Gross carrying amount	174 307	71 342	8 656	94 309
Allowances	-17	-8	0	-9
Carrying amount	**174 290**	**71 334**	**8 656**	**94 300**
Stage 2				
Gross carrying amount	47	3	0	44
Allowances	0	0	0	0
Carrying amount	**47**	**3**	**0**	**44**
Stage 3				
Gross carrying amount	378	0	0	378
Allowances	0	0	0	0
Carrying amount	**378**	**0**	**0**	**378**
Total carrying amount for the public sector	**174 715**	**71 337**	**8 656**	**94 722**
Individual customers				
Stage 1				
Gross carrying amount	5 187 286	1 276 561	1 463 370	2 447 355
Allowances	-8 444	-2 642	-2 326	-3 476
Carrying amount	**5 178 842**	**1 273 919**	**1 461 044**	**2 443 879**
Stage 2				
Gross carrying amount	322 330	61 342	110 041	150 947

Allowances	-18 801	-1 321	-8 580	-8 900
Carrying amount	**303 529**	**60 021**	**101 461**	**142 047**
Stage 3				
Gross carrying amount	171 294	17 055	81 836	72 403
Allowances	-47 252	-2 105	-30 203	-14 944
Carrying amount	**124 042**	**14 950**	**51 633**	**57 459**
Total carrying amount for individual customers	**5 606 413**	**1 348 890**	**1 614 138**	**2 643 385**
of which mortgage loans				
Stage 1				
Gross carrying amount	4 340 029	1 003 244	1 280 015	2 056 770
Allowances	-4 050	-411	-1 702	-1 937
Carrying amount	**4 335 979**	**1 002 833**	**1 278 313**	**2 054 833**
Stage 2				
Gross carrying amount	211 991	40 067	94 872	77 052
Allowances	-15 866	-1 028	-8 092	-6 746
Carrying amount	**196 125**	**39 039**	**86 780**	**70 306**
Stage 3				
Gross carrying amount	137 299	12 954	73 750	50 595
Allowances	-36 163	-1 134	-27 300	-7 729
Carrying amount	**101 136**	**11 820**	**46 450**	**42 866**
Total carrying amount for mortgage loans	**4 633 240**	**1 053 692**	**1 411 543**	**2 168 005**
Business customers				
Stage 1				
Gross carrying amount	3 743 116	1 130 790	1 066 563	1 545 763
Allowances	-7 945	-3 586	-1 168	-3 191
Carrying amount	**3 735 171**	**1 127 204**	**1 065 395**	**1 542 572**
Stage 2				
Gross carrying amount	562 046	143 799	200 845	217 402
Allowances	-7 429	-1 992	-1 579	-3 858
Carrying amount	**554 617**	**141 807**	**199 266**	**213 544**
Stage 3				
Gross carrying amount	218 039	89 879	72 940	55 220
Allowances	-95 663	-40 001	-31 198	-24 464
Carrying amount	**122 376**	**49 878**	**41 742**	**30 756**
Total carrying amount for business customers	**4 412 164**	**1 318 889**	**1 306 403**	**1 786 872**
Totals				
Gross carrying amount Stage 1	9 131 128	2 500 338	2 541 159	4 089 631
Gross carrying amount Stage 2	887 267	205 941	312 894	368 432
Gross carrying amount Stage 3	389 827	107 044	154 782	128 001

Total gross carrying amount	**10 408 222**	**2 813 323**	**3 008 835**	**4 586 064**
Allowances Stage 1	-16 488	-6 307	-3 499	-6 682
Allowances Stage 2	-26 268	-3 326	-10 183	-12 759
Allowances Stage 3	-142 919	-42 109	-61 402	-39 408
Total allowances	**-185 675**	**-51 742**	**-75 084**	**-58 849**
Total carrying amount	**10 222 547**	**2 761 581**	**2 933 751**	**4 527 215**
Gross Stage 3 loans vs Gross loans (NPL ratio), %	3.75	3.80	5.14	2.79
Gross Stage 3 mortgage loans vs Gross mortgage loans (NPL ratio for mortgage loans), %	2.93	1.23	5.09	2.32
Allowances Stage 3 vs Gross Stage 3 loans (Stage 3 impairment ratio), %	36.66	39.34	39.67	30.79
Allowances vs Gross loans (Impairment ratio), %	1.78	1.84	2.50	1.28

* Excluding Loans to Credit Institutions

The table above contains POCI contracts in stage 3 of EUR 61 723 thousand.

Explanations:

Gross Stage 3 Loans vs Gross Loans (NPL ratio) % = Gross Stage 3 Loans / Gross Loans

Gross Stage 3 mortgage loans vs Gross mortgage loans (NPL ratio for mortgage loans), % = Gross Stage 3 Mortgage Loans / Gross Mortgage loans

Stage 3 Impairment ratio % = Allowances Stage 3 / Gross Stage 3 Loans

Impairment ratio % = Total Allowances / Total Gross Loans

The credit quality of loans as at 31 December 2019 is disclosed in the table below using the risk scale set in the Luminor Credit Manual: the probability of default for low-risk rating grades (1 to 4) is in the range of 0.00% to 0.75%, for moderate-risk rating grades (5 to 7) it ranges from 0.75% to 3.00%, and for high-risk rating grades (from 8 to 10) it is from 3.00% to 40.00%.

Loans to customers, 31 December 2019, T EUR	Stage 1	Stage 2	Stage 3	Total
Low risk	5 189 555	48 617	0	5 238 172
Moderate risk	3 734 575	358 867	0	4 093 442
High risk	206 998	479 783	0	686 781
Default	0	0	389 827	389 827
Gross	**9 131 128**	**887 267**	**389 827**	**10 408 222**
Allowance for impairment	-16 488	-26 268	-142 919	**-185 675**
Net	**9 114 640**	**860 999**	**246 908**	**10 222 547**

Economic sectors

The following table breaks down the loans and advances to customers at their carrying amounts, as categorised by the economic sectors of our counterparties.

T EUR	Amount as at 31 December 2019	%
Private individuals*	5 347 166	52.3%
Real estate activities	1 148 238	11.2%
Wholesale and retail trade	944 965	9.2%
Other industries	650 900	6.4%
Agriculture, hunting, forestry, fishing	576 824	5.6%
Manufacturing	563 937	5.6%
Transport, storage, communication	430 828	4.2%
Construction	197 338	1.9%
Electricity, gas, water supply	164 626	1.6%
Public sector	139 511	1.4%
Financial intermediation	58 214	0.6%
Total	**10 222 547**	**100.0%**

*Private individuals do not include non-profit organisations and self-employed individuals.

Information about collaterals of loans

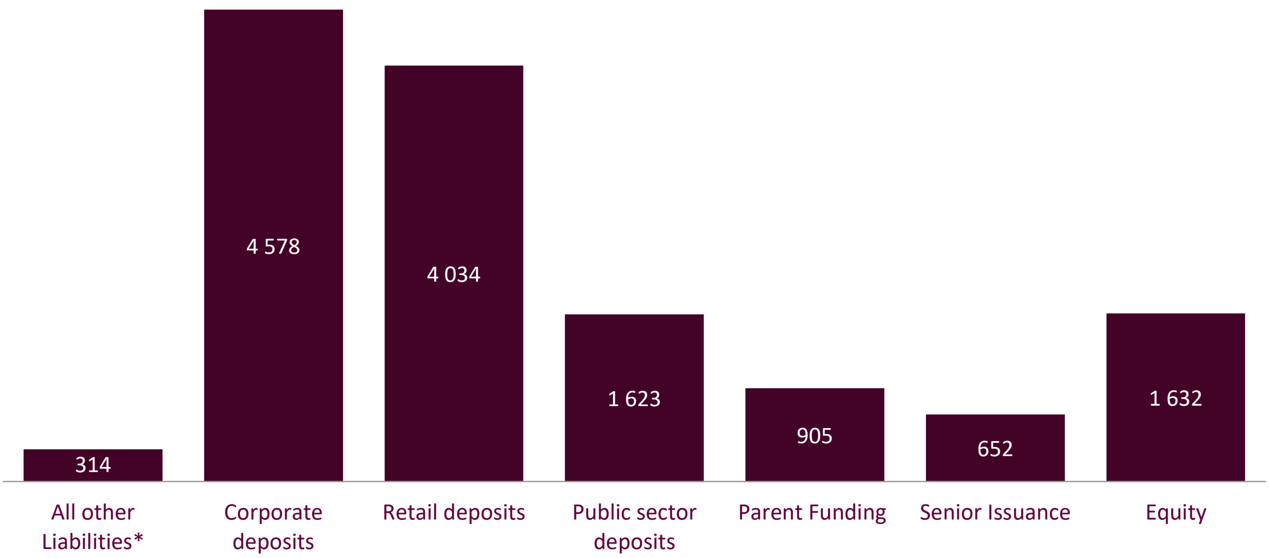
The amount of credit-impaired loans is reported together with the value of related collateral held as security in the tables below. Credit-impaired loans are most often secured by real estate and movable assets. The value for such collateral is equal to its market value, and not its liquidation value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

31 December 2019 Credit-impaired loans	Gross	of which initial impairment	Allowance for impairment	Net	Fair value of collateral
Business customers	218 533	-469	-95 667	122 866	152 900
Individual customers	171 294	-1 031	-47 252	124 042	145 641
Total	**389 827**	**-1 500**	**-142 919**	**246 908**	**298 541**

FUNDING

Luminor has a stable funding base with strong funding and liquidity ratios. Deposits from customers are the main source of funding for Luminor and made up EUR 10.2 billion or 74.5% of total liabilities and shareholders' equity at the end of the fourth quarter of 2019, having been EUR 9.9 billion or 72.0% at the end of the third quarter. The funding base is predominantly EUR-denominated.

In addition to deposits, Luminor also has outstanding debt securities and funding from its former parent banks, DNB Bank ASA and Nordea Bank Abp, that together constitute a substantial part of the funding base. At the end of the fourth quarter of 2019 the value of outstanding bonds under the EMTN programme totalled EUR 652 million, with the transaction of 11 June 2019 building on the inaugural transaction of EUR 350 million from October 2018. The Senior Unsecured Medium-Term Note Program has been assigned a rating of Baa2 by Moody's.



At the end of the fourth quarter of 2019, funding from former parents amounted to EUR 905 million and was provided by DNB Bank ASA and Nordea Bank Abp in the form of a syndicate, where each syndicate partner provides 50%. Following the changes in the ownership of Luminor, a new wording of the facility agreement has come into force from the fourth quarter of 2019. The total amount committed to the facility under the new agreement (used and un-used combined) is EUR 2,837 million at the closure of the Blackstone transaction. The facility amount is committed for five years from 1 October 2019 and it can be drawn with maturities of one, two or three years.

In addition, the facility is partly secured, as Luminor has assigned mortgage loans with a carrying value of EUR 1,929 million as collateral. The pledge on the mortgage loans is applicable from 25 September 2019. The reduction in the overall limit of the new wording facility agreement with DNB and Nordea means that the total committed but unused credit line was EUR 1,932 million as at the of the fourth quarter of 2019.

Rating

On 13 September 2018, Moody's assigned Luminor long and short-term, foreign and local currency deposit ratings of Baa1/Prime-2, with a stable outlook. There have been no changes to Luminor's ratings since then.

On 13 January 2020, Moody's assigned a provisional (P) Aa1 long-term rating to the mortgage covered bonds issued by Luminor Bank AS, which are governed by the Estonian Covered Bonds Act.

LIQUIDITY

Luminor uses different metrics to measure liquidity risk. One metric used is the LCR (Liquidity Coverage Ratio). The LCR for Luminor was 149.8% as at the end of the fourth quarter by the CRR LCR definition. The liquidity buffer is composed of highly liquid central bank eligible securities and cash. Long-term liquidity risk is measured as the Net Stable Funding Ratio (NSFR). As at the end of fourth quarter of 2019, Luminor's NSFR was 123.0%. The NSFR increased by 5.0% from the third quarter of 2019, when it was 118.0%, mainly due to the decline of the loan portfolio, which requires stable funding.

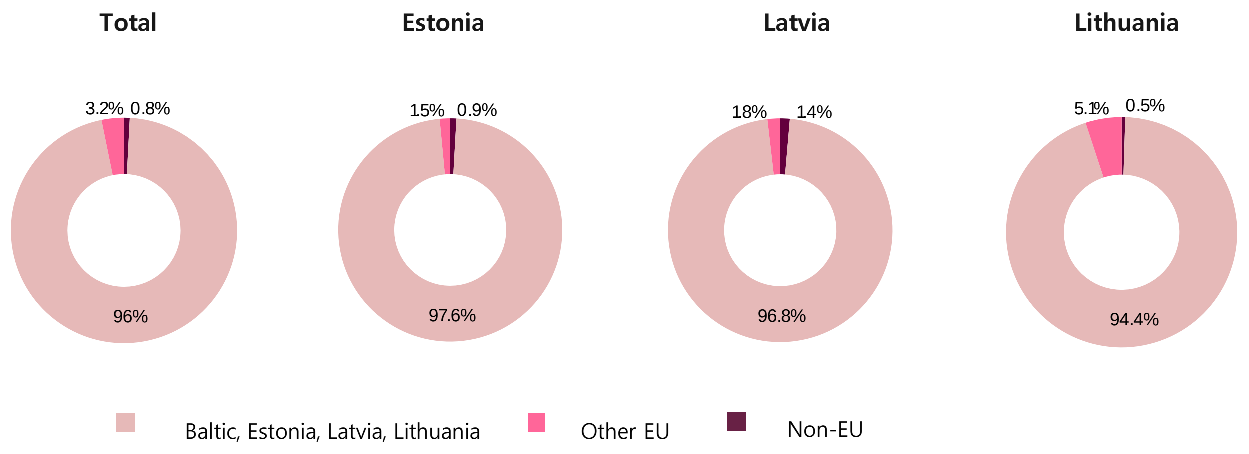
(percentage)	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018*
LCR	149.8%	144.3%	132.5%	131.2%	189%
NSFR	123.0%	118.0%	127.4%	122.0%	114.0%

* Luminor Group AB consolidated figures

Deposit structure

Deposits from customers are predominantly from residents of the Baltics. In total, 99.2% of all deposits from households and non-financial corporations are from EU residents.

Deposits by residency per country:



CAPITAL

Luminor continues to have a strong capitalisation that is sufficient to ensure financial stability and supply the capital needed to deliver the business strategy. The Total Capital Ratio of Luminor was 19.7% as at the end of the fourth quarter of 2019, which is comfortably above the internal target of 17.0%.

The Total Capital Ratio is fully covered by Common Equity Tier 1 (CET1) capital. Luminor uses the Standardised method in the Capital Adequacy calculations to calculate credit and market risk. Operational risk is calculated using the Basic Indicator Approach method.

At the end of the fourth quarter of 2019, the Leverage Ratio, calculated using CRR, was 10.9%, as it also was in the third quarter of 2019. The Leverage Ratio is calculated as the bank's total Tier 1 own funds divided by its total risk exposure measure, including the risk positions on assets and off balance sheet liabilities.

Capital ratios

Position	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018*
Capital adequacy	19.66%	18.73%	17.99%	20.02%	18.04%
Leverage Ratio	10.88%	10.89%	10.59%	12.00%	10.38%
CET 1 Ratio	19.66%	18.73%	17.99%	20.02%	18.04%
T1 Capital Ratio	19.66%	18.73%	17.99%	20.02%	18.04%
Total Capital Ratio	19.66%	18.73%	17.99%	20.02%	18.04%

* Luminor Group AB consolidated figures

Own funds requirements

T EUR	31 December 2019	31 December 2018*
TOTAL RISK EXPOSURE AMOUNT	7 969 099	9 206 164
1. RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	7 252 440	8 449 588
1.1 Standardised approach (SA)	7 252 440	8 449 588
1.1.1 SA exposure classes excluding securitisation positions	7 252 440	8 449 588
Central governments or central banks	0	9
Regional governments or local authorities	13 445	12 270
Public sector entities	674	3 983
Institutions	54 281	73 973
Corporations	3 742 611	4 490 837
Retail	1 347 232	1 352 161
Secured by mortgages on immovable property	1 532 931	1 593 688
Exposures in default	292 472	589 516
Items associated with particularly high risk	134 498	54 733
Equity	5 778	13 828
Other items	128 517	264 589
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	19 232	48 050
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	679 644	691 897

TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	17 784	16 629

* Luminor Group AB consolidated figures

Statement of the Management Board

The interim report of Luminor Bank AS for the fourth quarter of 2019 consists of the following parts and reports:

- The Management Report;
- The Condensed Consolidated Interim Financial Statements.

The data and additional information presented in the interim report of Luminor Bank AS for the fourth quarter of 2019 are true and complete. The Condensed Consolidated Interim Financial Statements have been prepared according to the principles of the International Accounting Standard IAS 34 Interim Financial Reporting and the requirements established by the Credit Institutions Act for the disclosure of information.

Luminor Bank AS and the Bank's subsidiaries are going concerns.

Erkki Raasuke

Chairman of the Board

Tallinn, 18 February 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

T EUR	Notes	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
Interest income calculated using the effective interest method	4	243 382	236 169	60 320	60 565
Other similar income	4	58 295	62 031	13 491	15 595
Interest and similar expense	4	-57 510	-38 791	-18 842	-10 885
Net interest income	**4**	**244 167**	**259 409**	**54 969**	**65 275**
Fee and commission income	5	105 827	109 578	25 902	27 757
Fee and commission expense	5	-28 441	-25 817	-7 138	-6 711
Net fee and commission income	**5**	**77 386**	**83 761**	**18 764**	**21 046**
Net gain on financial assets and liabilities designated at fair value through profit/loss		6 167	-659	4 956	-378
Net gain on financial assets and liabilities held for trading		5 683	5 048	1 815	1 408
Net gain from financial derivatives		10 736	10 403	-3 146	-2 989
Net gain from operations with foreign currency		11 344	14 240	11 354	8 835
Dividend income		90	89	32	25
Other operating income		17 749	4 531	5 955	1 945
Net other operating income		**51 769**	**33 650**	**20 966**	**8 846**
Net total operating income		**373 322**	**376 821**	**94 699**	**95 168**
Salaries and other personnel expenses	6	-111 296	-111 292	-24 130	-28 138
Other administrative expenses	7	-147 460	-103 844	-44 972	-34 601
Depreciation and impairment of property, plant and equipment and intangible assets		-13 177	-8 760	-3 126	-2 890
Other operating expenses	8	-17 889	-13 372	-6 180	-5 289
Total operating expenses		**-289 822**	**-237 268**	**-78 408**	**-70 918**
Share of profit from an associate		1 066	860	331	276

Net impairment (-)/ reversal on loans to customers	12	-24 015	6 313	-11 742	-6 142
Other non-operating expenses		-1 289	-7 135	-790	-5 307
Profit before tax		**59 262**	**139 591**	**4 090**	**13 077**
Tax expense		-5 265	-16 144	-58	-9 744
Profit for the period		**53 997**	**123 447**	**4 032**	**3 333**
Items that will be reclassified to profit or loss					
Changes in the fair value of debt securities at fair value through other comprehensive income		0	-4	0	-1
Total items that will be reclassified to profit or loss		**0**	**-4**	**0**	**-1**
Items that will not be reclassified to profit or loss					
Changes in the fair value of equity assets at fair value through other comprehensive income		-55	1 515	-2 477	711
Changes of deferred tax asset through other comprehensive income		0	85	0	85
Total items that will not be reclassified to profit or loss		**-55**	**1 600**	**-2 477**	**796**
Other comprehensive income		-55	1 596	-2 477	795
Total comprehensive income		**53 942**	**125 043**	**1 555**	**4 128**
Profit attributable to:					
Equity holders of the Bank		53 997	123 447	4 032	3 333
Total comprehensive income attributable to:					
Equity holders of the Bank		53 942	125 043	1 555	4 128

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T EUR	Notes	31.12.2019	31.12.2018
Assets			
Cash and balances with central banks	9	2 924 019	3 293 090
Due from other credit institutions	10	141 645	185 346
Loans to customers	12	10 222 547	11 472 138
Financial assets held for trading	19	3 021	1 006
Financial assets at fair value through profit or loss	19	227 896	143 758
Derivative financial instruments	11, 19	59 217	44 352
Financial assets at fair value through other comprehensive income	19	140	8 872
Investments in associates		5 639	6 256
Intangible assets		8 199	7 414
Property, plant and equipment and right-of- use assets	1	67 472	16 383
Investment properties	13	2 427	23 970
Current tax assets		0	886
Deferred tax assets		3 031	908
Other assets		70 495	70 922
Non-current assets and disposal groups held for sale		2 916	30 557
Total assets		**13 738 664**	**15 305 858**
Liabilities			
Loans and deposits from credit institutions	14	980 692	3 939 396
Deposits from customers	15	10 235 443	9 069 885
Debt securities issued	16	651 716	351 235
Derivative financial instruments	11, 19	58 304	41 255
Tax liabilities		3 845	8 850
Lease liabilities	1	57 051	0
Other financial liabilities	17	45 303	27 914

Other liabilities	69 793	64 308
Provisions	4 248	5 914
Total liabilities	**12 106 395**	**13 508 757**
Shareholders' equity		
Issued capital	34 912	34 912
Share premium	1 412 243	1 628 274
Retained earnings	183 916	127 821
Other reserves	1 198	6 094
Total shareholders' equity attributable to the shareholders of the Bank	**1 632 269**	**1 797 101**
Total liabilities and shareholders' equity	**13 738 664**	**15 305 858**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

T EUR	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Restated equity as at 1 January 2018 (Note1 Accounting for the merger)	**34 912**	**1 628 274**	**4 125**	**5 857**	**1 673 168**
Profit (loss) for the period	0	0	0	123 447	**123 447**
Other comprehensive income	0	0	1 596	0	**1 596**
Other changes	**0**	**0**	**0**	-1 110	**-1 110**
Other reserves	0	0	373	-373	**0**
Total equity at 31 December 2018	**34 912**	**1 628 274**	**6 094**	**127 821**	**1 797 101**
Total equity at 31 December 2018	**34 912**	**1 628 274**	**6 094**	**127 821**	**1 797 101**
Application of IFRS 16 (Note 1)	0	0	0	-2 514	**-2 514**
Restated equity as at 1 January 2019	**34 912**	**1 628 274**	**6 094**	**125 307**	**1 794 587**
Increase in share capital*	216 031	-216 031	0	0	**0**
Decrease of share capital*	-216 031	0	0	0	**-216 031**
Profit (loss) for the period	0	0	0	53 997	**53 997**
Other comprehensive income	0	0	-3 249	3 194	**-55**
Total comprehensive income for the period	**0**	**0**	**-3 249**	**57 191**	**53 942**
Other	0	0	-1 921	1 692	**-229**
Other reserves	0	0	274	-274	**0**
Total equity at 31 December 2019	**34 912**	**1 412 243**	**1 198**	**183 916**	**1 632 269**

* On 28 May 2019 Luminor's shareholders decided to carry out a bonus share issue, followed by a reduction of share capital. The bonus share issue is based on the bank's interim balance sheet as of January 2, 2019 and involves a partial conversion of share premium in the amount of EUR 216 030 920 into share capital. Following the bonus issue, the share capital of the bank has been reduced by the same amount and was paid out to the shareholder in September 2019.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

T EUR	Notes	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018
Cash flows from operating activities			
Profit before tax		53 947	139 591
Adjustment for:			
-Net impairment (losses)/ reversal on loans to customers		24 015	-6 313
-Net impairment (losses)/ reversal on other assets, change in fair value of investment property and provisions		1 317	7 464
-Dividend income		-1 754	-497
-Unrealised changes in value		-17 511	-14 240
-Depreciation, amortization and impairment		13 177	8 760
-Interest Income		-301 677	-298 200
-Interest expenses		57 510	38 791
Cash flow from operations before changes in Operating Assets/Liabilities		**-170 976**	**-124 644**
Change in Operating Assets/Liabilities			
Increase (-) / decrease (+) of lending to customers		**1 219 134**	**158 053**
Increase (-) / decrease (+) of other assets		-9 489	197 389
Increase (+) / decrease (-) of client deposits not qualified as cash equivalents		-1 796 273	-610 328
Increase (+) / decrease (-) of liabilities		48 541	10 349
Interest received		314 015	306 471
Interest paid		-61 775	-36 085
Income tax paid		-11 507	-14 167
Cash flow form operations		**-297 354**	**11 682**

Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-9 385	-8 938
Acquisition of investment property		0	-204
Proceeds from disposal of property and equipment and intangible assets		5 161	1 424
Proceeds from disposal of investment property	13	19 995	23 059
Dividend received		1 754	497
Other cash receipts related to investing activities		0	20 776
Cash flows from investing activities		**17 524**	**36 614**
Financing activities			
Debt Securities Issued	16	298 809	284 326
Cashflows from Hedging activities		8	0
Payments of principal on leases		-5 965	0
Payments of interest on leases		-1 228	0
Pay out to the Shareholder		-216 031	0
Cash Flows from financing activities		**75 593**	**284 326**
Net increase/(decrease) in cash and cash equivalents		**-375 213**	**207 978**
Cash and cash equivalents at the beginning of the period		3 310 517	3 088 299
Effects of currency translation on cash and cash equivalents		17 511	14 240
Net increase/(decrease) in cash and cash equivalents		-375 213	207 978
Cash and cash equivalents at the end of the period		**2 952 815**	**3 310 517**
Cash and Cash equivalents comprises			

Cash on hand	9	140 518	178 440
Non-restricted current account with central bank	9	2 670 701	2 986 626
Due from other credit institutions on demand or with original maturity of three months or less	10	141 596	145 451
Total		**2 952 815**	**3 310 517**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

New company Luminor Holding AS established on the 14th of May 2019 is the new parent company of Luminor Bank AS (the Bank or the Group) since 23 September 2019.

On 2 January 2019 Luminor Bank AS has completed its cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank, Luminor Bank AS, and its branches in Latvia and Lithuania.

On 30th of September 2019 a consortium led by private equity funds managed by Blackstone acquired a 60% majority stake in the Luminor Holding AS, the owner of Luminor Bank AS. Luminor Bank AS current owners, Nordea Bank Abp ("Nordea") and DNB BANK ASA ("DNB"), each retains a 20% equity stake in the Bank.

As at 31 December 2019 Luminor Bank AS directly or indirectly owned majority in the following subsidiaries (100%):

Registered country

Republic of Estonia:

- Luminor Liising AS
- Luminor Pensions Estonia AS
- Promano Estonia OÜ

Registered country

Republic of Latvia:

- Luminor Asset Management IPAS
- Luminor Finance SIA
- Luminor Latvijas atklātais pensiju fonds AS
- Luminor Līzings SIA
- Luminor Līzings Latvija SIA
- Promano Lat SIA
- Realm SIA
- Salvus SIA
- Salvus 2 SIA
- Salvus 3 SIA
- Salvus 4 SIA
- Salvus 6 SIA
- Trioleta SIA
- Baltic ipasšums SIA

Registered country

Republic of Lithuania:

- Industrius UAB
- Intractus UAB
- Promano Lit UAB
- Recurso UAB
- Luminor Investiciju Valdymas UAB
- Luminor Lizingas UAB
- Gėlužės projektai UAB (under liquidation)

As at 31 December 2019 Luminor Bank AS had ownership in the following associated companies (25%):

- ALD Automotive AS
- ALD Automotive SIA
- ALD Automotive UAB
- SIA Kredītinformācijas Birojs

BASIS OF PREPARATION

The condensed consolidated interim financial information of Luminor Bank AS (the Bank or the Group) was prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union. The condensed consolidated interim financial information does not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the annual financial statements of Luminor Bank AS for the year ended 31 December 2018. As described in the section Accounting for the merger below, following the merger on 2 January 2019, the condensed consolidated interim financial information includes the financial information for 3 merged banks, therefore for the purpose of obtaining annual financial information for the same group of entities, we advise the reader to also refer to the consolidated annual financial statements for the year ended 31 December 2018 of Luminor Bank AS's parent entity, Luminor Group AB (holding), available at https://www.luminor.ee/en/financial-reports. Those consolidated financial statements represent substantially the financial position and results of the 3 merged banks, with certain minor additional balances and transactions from Luminor Group AB (holding) entity.

The accounting policies adopted in the preparation of the condensed consolidated interim financial information are consistent with those followed in the preparation of the Luminor Bank AS annual financial statements for the year ended 31 December 2018, except for the additional policy for accounting for the merger, and adoption of new and amended standards as set out below.

ACCOUNTING FOR THE MERGER

IFRS does not prescribe the method of accounting for transactions under common control. Pursuant to IAS 8, management has determined that the merger is accounted for using the predecessor method of accounting. Under this method the financial statements are presented as if the businesses had been combined from the beginning of the earliest period presented (or the date that the entities were brought under common control, if later). The assets and liabilities of the banks transferred under common control are recognised at their predecessor values, i.e at their carrying values from the financial statements at the highest level of consolidation (i.e. Luminor Group AB (holding)). No new goodwill arises under predecessor method. Any difference between the consideration given and the aggregate book value of the assets and liabilities (as of the date of the transaction) of the acquired entity is included in equity.

After the completion of the merger on 2 January 2019, all assets and liabilities of Luminor Bank AS, Luminor Bank Latvia and Luminor Bank Lithuania have been combined with the retrosepective effect. Therefore, 2018 comparatives in this condensed consolidated interim financial information of Luminor Bank AS include also the financial results of the Luminor Bank Latvia and Luminor Bank Lithuania in accordance with the policy described above.

CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 below.

IFRS 16 "Leases" was issued on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees are required to recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) using depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases and account for those two types of leases differently.

The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, has a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

Adjustments recognised on adoption of IFRS 16

The Group decided that it will apply the standard using the modified retrospective method and has not restated comparatives for the 2018 reporting period. The Group recognized a right of use asset of 30 623 thousand Euro against a corresponding lease liability in the amount of 33 207 thousand Euro and the impact to the equity as of 1 January 2019 amounts to 2 514 thousand Euro, decreasing its balance. Net impact on equity was caused by the fact that the Group decided to recognise the right-of-use assets at the date of initial application, measuring them at their carrying amount as if the standard had been applied since the commencement date, but discounted using the incremental borrowing rate at the date of initial application.

The lease liabilities as at 1 January 2019 are reconciled to the operating lease commitments as of 31 December 2018 as follows:

T EUR	
Operating lease commitments disclosed as at 31 December 2018	**36 656**
Weighted average incremental borrowing rate as at 1 January 2019	2,45%
Discounted operating lease commitments at 1 January 2019	**31 847**
Less	
Commitments relating short-term leases	158
Add	
Adjustment as a result of a different treatment of extension and termination options	1 518

Total lease liability recognized as at 1 January 2019	**33 207**
Of which are:	
Current lease liabilities	4 201
Non-current lease liabilities	29 006
Total	**33 207**

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2019.

The recognised right-of-use assets relate to the following types of assets (TEUR):

T EUR	31 December 2018	1 January 2019	31 December 2019
Properties	0	30 529	54 330
Other assets	0	164	52
Total right-of-use assets	**0**	**30 693**	**54 382**
Property, plant and equipment	16 383	16 383	13 090
Total Property, plant and equipment	**16 383**	**47 076**	**67 472**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019 (TEUR):

- property, plant and equipment – increase by 30 257 TEUR
- lease liabilities – increase by 33 207 TEUR

The net impact on retained earnings on 1 January 2019 was a decrease of 2 514 TEUR.

The Group recognised rent expense from short-term leases, leases of low-value assets and variable lease payments of totally 1 189 thousand Euros for the 12 months ended 31 December 2019.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- excluding initial direct costs from the measurement of the right-of-use asset, and
- using hindsight, eg in determining the lease term where the contract includes extension or termination options.

The Group’s leasing activities and how these are accounted for

The Group leases various offices and other assets (IT equipment and cars). Rental contracts are typically made for fixed periods of 4 to 15 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases of property, IT equipment and cars were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, 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 the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable

(b) variable lease payment that are based on an index or a rate

(c) amounts expected to be payable by the lessee under residual value guarantees

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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.

To determine incremental borrowing rate we have considered:

1. existing borrowings (own funding cost) that need to be adjusted for amount, security, term etc. and
2. property yield that need to be adjusted for term, amount, quality of property, potential weighted average cost of capital (WACC) element in yields etc.

For property leases the Bank has decided the usage of the Bank's own funding cost as a discount rate. For other assets the Bank uses the interest rate implicit in the lease as discount rate, as it is readily determinable.

After the commencement date, the Bank measured the lease liability by:

(a) increasing the carrying amount to reflect interest on the lease liability;

(b) reducing the carrying amount to reflect the lease payments made; and

(c) remeasuring the carrying amount to reflect any reassessment or lease modifications (like changes in lease term, in the assessment of an option to purchase the underlying asset, in the amounts expected to be payable under a residual value guarantee, in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review and in floating interest rates, or to reflect revised in-substance fixed lease payments (payments are structured as variable lease payments, but there is no genuine variability in those payments and those payments contain variable clauses that do not have real economic substance).

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

The cost of the right-of-use asset comprises:

(a) 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;

(b) any lease payments made at or before the commencement date, less any lease incentives received;

(c) any initial direct costs incurred by the lessee; and

(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

After the commencement date, the right-of-use asset is measured at cost:

(a) less any accumulated depreciation and any accumulated impairment losses; and

(b) 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.

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 5 000 EUR.

Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, the management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated) and based on the assessment performed, the potential impact is immaterial.

MOVEMENTS OF THE GROUP'S RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

T EUR	1 January 2019	31 December 2019
Right-of-use assets	30 693	54 382
Lease liability	33 207	57 051

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and assumptions that affect the amounts recognized in the consolidated financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognized in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

The Group recognizes the credit losses in accordance with IFRS 9. The Standard applies a forward-looking expected credit loss (ECL) approach. The Group is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The assets to test for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition. In stage 1, the allowances equal the 12-month expected credit loss. Stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. In stage 2 and 3, the allowances equal the lifetime expected credit losses. Loss allowances based on lifetime expected credit losses are calculated also for additional category - purchased or originated credit-impaired assets (POCI) - regardless of the changes in credit risk during the lifetime of an instrument.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The model applied was not majorly changed during the year. The inputs and parameters were reviewed as part of regular process. Elements of the ECL models that are considered accounting judgements and estimates include:

- evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1 or 2;
- identification of unlikely to pay criteria and assignment of loans to stage 3;
- 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 ECL model, 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 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 material assets individual assessments and assigning probabilities to those scenarios;
- setting principles for stage 3 immaterial assets collective assessment.

Please refer to Note 12.

3. GENERAL RISK MANAGEMENT POLICIES

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Luminor Bank AS annual financial statements as at 31 December 2018.

Overall improvements have been performed in the risk management framework, including governance, risk appetite, limits and documentation since the end of the year 2018.

4. NET INTEREST INCOME

T EUR	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
Interest income calculated using the effective interest method:				
Loans to customers	241 217	234 516	59 780	59 412
Due from other credit institutions	2 165	1 653	540	1 153
Total interest income calculated using effective interest method	**243 382**	**236 169**	**60 320**	**60 565**
Other similar income:				
Finance Leases	56 045	58 926	13 228	14 972
Derivative financial instruments	0	0	0	0
Other	2 250	3 105	263	623
Total other similar income	**58 295**	**62 031**	**13 491**	**15 595**
Total interest income	**301 677**	**298 200**	**73 811**	**76 160**
Interest expense:				
Loans and deposits from credit institutions	-22 019	-17 497	-8 474	-4 921
Deposits from customers	-15 317	-10 797	-3 830	-3 039
Impact of hedging activities	1 221	-139	-530	-139

Debt Securities Issued	-8 381	-1 240	-2 635	-1 080
Other	-13 014	-9 118	-3 373	-1 706
Total interest and similar expense	**-57 510**	**-38 791**	**-18 842**	**-10 885**
Net interest income	**244 167**	**259 409**	**54 969**	**65 275**

5. NET FEE AND COMMISSION INCOME

T EUR	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
Securities	788	1 339	226	409
Clearing and settlement*	35 700	33 743	9 267	8 846
Asset Managment	7 043	7 795	1 787	2 028
Custody	1 108	1 160	346	286
Payment services*	25 188	26 944	5 655	6 622
Collective Investments commission	0	3 784	0	1 012
Insurance commission	3 517	4 109	840	987
Loan commitments given	4 142	4 638	1 052	1 226
Financial guarantees given	5 100	4 856	1 415	1 217
Factoring	4 473	4 857	924	1 146
Other*	18 768	16 353	4 390	3 978
Total fee and commission income	**105 827**	**109 578**	**25 902**	**27 757**
Clearing and settlement*	-23 593	-21 432	-6 386	-5 642
Custody	-373	-350	-114	-91
Financial guarantees received	-208	-80	-43	-15
Other*	-4 267	-3 955	-595	-963
Fee and commission expense	**-28 441**	**-25 817**	**-7 138**	**-6 711**
Net fee and commission income	**77 386**	**83 761**	**18 764**	**21 046**

* Fee and commission are recognised at a point in time when the Group 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, commissions.

The breakdown of net fee and commission income division by segments is the following:

T EUR	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
Corporate	28 187	31 825	6 929	8 067
Retail	44 514	45 170	11 254	11 263
Wealth Management	2 111	2 350	491	618
Other	2 574	4 416	90	1 098
Net fee and commission income	**77 386**	**83 761**	**18 764**	**21 046**

6. SALARIES AND OTHER PERSONNEL EXPENSES

T EUR	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
Wages and salaries	-88 434	-79 601	-21 127	-20 179
Social security cost	-14 908	-23 848	-3 178	-5 725
Indirect personnel cost (recruitment, training)	-7 954	-7 843	175	-2 234
Total	**-111 296**	**-111 292**	**-24 130**	**-28 138**

Decrease in social security cost is primarily caused by change in the Lithuanian regulation (effective since 1 January 2019) under which social security taxes are treated as part of payroll expenses.

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

7. OTHER ADMINISTRATIVE EXPENSES

T EUR	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
IT related expenses	-93 669	-54 552	-25 816	-18 341
Consulting and professional services	-21 283	-13 864	-10 319	-5 613
Advertising and marketing expenses	-4 263	-3 750	-1 716	-1 765
Real estate expenses	-8 991	-14 928	-1 515	-4 496
Taxes and membership fees	-4 335	-2 134	-841	-321
Travel Expenses	-1 708	-1 621	-552	-447
Other expenses	-13 211	-12 995	-4 213	-3 618
Total	**-147 460**	**-103 844**	**-44 972**	**-34 601**

8. OTHER OPERATING EXPENSES

T EUR	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
Taxes other than income tax and deductible VAT	-5 730	-5 925	-2 842	-2 768
Deductible VAT	-4 070	-1 824	-1 898	-579
Investment property maintenance	-203	-1 180	-30	-1 180
Other insurance expenses (bank risk, etc.)	-894	-721	-156	-20
Other legal expenses (notarial services, issued documents of state institutions, etc.)	-3 456	-615	-573	-217
Other expenses	-3 536	-3 107	-681	-525
Total	**-17 889**	**-13 372**	**-6 180**	**-5 289**

9. CASH AND BALANCES WITH CENTRAL BANKS

T EUR	31.12.2019	31.12.2018
Cash on hand	140 518	178 440
Cash balances at central banks	2 783 501	3 095 653
TOTAL	**2 924 019**	**3 274 093**
of which mandatory reserve requirement	112 800	109 027
Term deposits	0	18 997
Total cash and balances with central banks	**2 924 019**	**3 293 090**

10. DUE FROM OTHER CREDIT INSTITUTIONS

T EUR	31.12.2019	31.12.2018
Demand deposit	141 596	145 451
Loans	58	39 899
TOTAL	**141 654**	**185 350**
Allowance	-9	-4
TOTAL	**141 645**	**185 346**

11. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into derivative transactions with household customers. These mainly include interest rate swaps, collars and CAPs.

T EUR	Notional amounts	Fair values	
		Positive market value	Negative market value
As at 31 December 2019			
Derivatives held for trading			
Interest rate-related contracts	2 309 201	11 599	11 254
Currency-related contracts	1 419 244	47 128	46 740
Commodity-related contracts	18 783	490	310
Total	**3 747 228**	**59 217**	**58 304**

As at 31 December 2018			
Derivatives held for trading			
Interest rate-related contracts	3 020 308	8 892	8 223
Currency-related contracts	1 027 717	31 493	29 374
Commodity-related contracts	28 070	3 967	3 658
Total	**4 076 095**	**44 352**	**41 255**

HEDGING ACTIVITIES

Fair value hedge

At 31 December 2019 the Group had total three interest rate swap agreements in place, two of them with a notional amounts of EUR 200 million and EUR 150 million, whereby the Group receives a fixed rate of interest of 1.50% and pays floating interest at 6 months EURIBOR + 1.478% and 3 months EURIBOR + 1.526% and EUR 300 million, whereby the Group receives a fixed rate of interest of 1.375% and pays floating interest at 3 months EURIBOR + 1.732% on the notional amount respectively. The swaps are being used to hedge interest rate risk exposure that is created by the issued bonds. Trade date for EUR 200 million and EUR 150 million interest swap agreements is 10 October 2018, effective date is 18 October 2018 and maturity date is 18 October 2021. For EUR 300 million interest swap agreement trade date is 11 June 2019, effective date is 21 June 2019 and maturity date 21 October 2022.

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 bond (i.e. notional amount, maturity and payment). The Group 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, the Group 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.

Hedge ineffectiveness can theoretically arise from:

- A different interest rate curve applied to discount the hedged item and hedging instrument
- Differences in the timing of cash flows of the hedged item and hedging instrument, also a different day count
- The counterparties' credit risk differently impacting the fair value movements of the hedging instrument and hedged item.

31.12.2019	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	650 000	1 898	Assets: Derivative financial instruments*

* Ineffectiveness was clearly immaterial for the period 01 January 2019 to 31 December 2019

31.12.2018	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	350 000	1 128	Assets: Derivative financial instruments*

* Ineffectiveness was clearly immaterial during 2018. Please also refer to Note 16.

12. LOANS TO CUSTOMERS

T EUR	31.12.2019	31.12.2018
Financial institutions	**29 378**	**58 752**
Public sector	**174 732**	**216 020**
Business customers	**4 523 201**	**5 419 617**
-Loans	3 156 365	3 606 710
-Leasing	1 088 325	1 479 655
-Factoring	278 511	333 252
Individual customers	**5 680 911**	**5 968 156**
-Mortgage loans	4 689 319	4 930 374
-Leasing	533 611	551 675
-Consumer and card loans	132 862	146 996
-Other loans	325 119	339 111
Impairment allowances	**-185 675**	**-190 407**
Loans to customers total	**10 222 547**	**11 472 138**

Due from customers, registered in Estonia, Latvia, Lithuania	9 957 570	11 178 321
Due from customers, registered in EU (except Estonia, Latvia, Lithuania)	201 739	221 384
Due from customers, registered in other countries	63 238	72 433
Loans to customers total	**10 222 547**	**11 472 138**

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	**TOTAL**
At 31 Decemeber 2018	-14 690	-32 942	-151 928	9 153	-190 407	9 488 150	1 545 251	570 834	58 310	**11 662 545**
Reclassification	0	0	0	-14 175	-14 175	0	0	0	14 175	**14 175**
At 1 January 2019	-14 690	-32 942	-151 928	-5 022	-204 582	9 488 150	1 545 251	570 834	72 485	**11 676 720**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	1 722	-5 939	4 217	0	0	-439 370	494 957	-55 587	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	421	3 442	-3 863	0	0	-43 599	-66 901	110 500	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-17 483	11 915	5 568	0	0	742 783	-700 897	-41 886	0	**0**
New originated or purchased	-3 424	0	0	0	-3 424	1 022 179	0	0	12 437	**1 034 616**
Derecognised and repaid during the period	2 762	2 882	20 338	1 317	27 299	-1 639 081	-426 305	-177 942	-16 864	**-2 260 192**
Changes in PDs/LGDs/EADs	14 220	-5 254	-54 226	-2 630	-47 890					
Total movements with impact in credit loss allowance charge for period	-1 782	7 046	-27 966	-1 313	-24 015	-357 088	-699 146	-164 915	-4 427	**-1 225 576**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	40 976	1 946	42 922	0	0	-40 976	-1 946	**-42 922**
At 31 December 2019	**-16 472**	**-25 896**	**-138 918**	**-4 389**	**-185 675**	**9 131 062**	**846 105**	**364 943**	**66 112**	**10 408 222**

Explanations

Stage 1 (12 - months ECL)

Stage 2 (Lifetime ECL for SICR)

Stage 3(Lifetime ECL for Credit Impaired)

13. INVESTMENT PROPERTIES

T EUR	31.12.2019	31.12.2018
As at 1 January	23 970	51 283
Acquisitions	105	216
Assets classified as held for sale	0	-3 960
Net result from adjustments of fair value	-1 653	-3 722
Disposals (sale)	-19 995	-19 847
Carrying amount at the end of the period	**2 427**	**23 970**

14. LOANS AND DEPOSITS FROM CREDIT INSTITUTIONS

T EUR	31.12.2019	31.12.2018
Term deposits	951 612	3 917 244
Demand deposits	29 080	22 152
Total	**980 692**	**3 939 396**
Due to credit institutions, registered in Estonia, Latvia, Lithuania	68 467	228 624
Due to credit institutions, registered in EU (except Estonia, Latvia, Lithuania)	458 953	1 856 280
Due to credit institutions, registered in other countries	453 272	1 854 492
Total	**980 692**	**3 939 396**

T EUR	Division by remaining maturity			Interest rate	Base currency	Termination
	in 12 months	1-5 years	Total			
31.12.2019						
Ultimate owners of Luminor Bank AS	910 398	0	910 398	0-(+1,5%)	EUR	2020
Central banks	45 000	0	45 000	<0%	EUR	2020
Other credit institutions	23 975	0	23 975	-1%-(+2%)	EUR	2020
Interest payable	1 319	0	1 319			
	980 692	**0**	**980 692**			

31.12.2018						
Ultimate owners of Luminor Bank AS	2 758 280	957 000	3 715 280	0 - +1%	EUR	2019-2021
Central banks	0	199 500	199 500	<0%	EUR	2020
Other credit institutions	23 863	0	23 863	0 - +1,3%	EUR	2019
Interest payable	200	553	753			
	2 782 343	**1 157 053**	**3 939 396**			

15. DEPOSITS FROM CUSTOMERS

T EUR	31.12.2019	31.12.2018
Term deposits	2 161 033	1 932 891
Demand deposits	8 074 410	7 136 994
Total	**10 235 443**	**9 069 885**

Due to customers by type of customers		
Due to corporate customers	4 578 084	4 235 028
Due to public sector customers	1 623 323	1 107 472
Due to individuals	4 034 036	3 727 385
Total	**10 235 443**	**9 069 885**

Due to customers, registered in Estonia, Latvia, Lithuania	9 825 534	8 693 043
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	326 379	213 232
Due to customers, registered in other countries	83 530	163 610
Total	**10 235 443**	**9 069 885**

16. DEBT SECURITIES ISSUED

LUMINO 1 1/2 18/10/21

In October 2018 Luminor Bank AS issued its inaugural bond under the Luminor Euro Medium Term Notes (EMTN) program. The company issued EUR 350 000 000 of fixed-rate bonds maturing October 2021, with annual coupons and bearing interest at an annual rate of 1.50%. There were no specific covenants related to the bond issuance.

LUMINO 1 3/8 21/10/22

In June 2019 Luminor Bank AS issued the bond under the Luminor Euro Medium Term Notes (EMTN) program. The company issued EUR 300 000 000 of fixed-rate bonds maturing October 2022, with annual coupons and bearing interest at an annual rate of 1.375%. There were no specific covenants related to the bond issuance.

T EUR	31.12.2019	31.12.2018
LUMINO 1 1/2 18/10/21		
Nominal amount	350 000	350 000
Intragroup transactions	-1 000	0
Fees at amortized costs	-1 269	-1 998
Accrued interest	1 079	1 079
Hedged item fair value changes	2 982	2 154
Carrying amount	**351 792**	**351 235**

T EUR	31.12.2019	31.12.2018
LUMINO 1 3/8 21/10/22		
Nominal amount	300 000	0
Intragroup transactions	0	0
Fees at amortized costs	-982	0
Accrued interest	814	0
Hedged item fair value changes	92	0
Carrying amount	**299 924**	**0**

Total Carrying amount	**651 716**	**351 235**

17. OTHER FINANCIAL LIABILITIES

T EUR	31.12.2019	31.12.2018
Transit accounts (incl.cards transactions)	41 865	22 953
Other	3 438	4 961
Total	**45 303**	**27 914**

18. PLEDGED ASSETS AND CONTINGENT LIABILITIES AND COMMITMENTS

T EUR	31.12.2019	31.12.2018
Pledged assets		
Encumbranced loans*	1 999 895	132 138
Debt securities	0	110 982
Total	**1 999 895**	**243 120**

Contingent liabilities and commitments		
Loan commitments given	1 134 433	1 304 189
Financial guarantees given	110 724	265 707
Other commitments given (including letters of credit)	543 659	414 368
Total	**1 788 816**	**1 984 264**

*Due to the changes in the ownership of Luminor, a new wording of Facility agreement is applicable since Q4 2019. Facility is partly secured, Luminor has assigned a total of EUR 1,929 million of mortgage loans as collateral to the facility. The pledge on mortgage loans is applicable since 25 September 2019.

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of the major part of the Group'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 purposes of current financial statements, the above mentioned techniques related to unobservable inputs were not used as no such financial assets and liabilities exist on the statement of financial position of the Group.

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTIZED COST

T EUR	Carrying amount 31.12.2019	Fair value 31.12.2019	Carrying amount 31.12.2018	Fair value 31.12.2018
Assets				
Financial assets at amortized cost				
Cash and Balances with Central banks	2 924 019	2 924 019	3 293 090	3 293 090
Due from other credit institutions	141 645	141 645	185 346	185 346

Loans to customers	10 222 547	11 431 020	11 472 138	11 484 286
Total financial assets	**13 288 211**	**14 496 684**	**14 950 574**	**14 962 722**

Liabilities				
Financial liabilities at amortized cost				
Loans and deposits from credit institutions	980 692	980 692	3 939 396	3 906 454
Deposits from customers	10 235 443	10 235 443	9 069 885	9 098 414
Debt securities issued	651 716	653 967	351 235	353 233
Lease liabilities	57 051	57 051	0	0
Other financial liabilities	45 303	45 303	27 914	27 914
Total financial liabilities	**11 970 205**	**11 972 456**	**13 388 430**	**13 386 015**

The next table below summarises the fair value measurement hierarchy of the Bank's financial assets and liabilities accounted for at fair value. 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. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.
- 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. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for a substantial part of the term of the asset or liability.
- 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, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about the risk.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments as at 31 December 2019 was as follows:

Fair value measurement using (T EUR)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and Balances with Central banks	2 924 019	0	0	2 924 019
Due from other credit institutions	141 587	58	0	141 645
Loans to customers	0	0	11 431 020	11 431 020
Financial assets at fair value				
Financial assets held for trading				
Debt securities	3 021	0	0	3 021
Financial assets at fair value through profit or loss				
Equity instruments	0	4 033	0	4 033
Debt securities	211 012	0	12 851	223 863
Derivative financial instruments				
Derivative financial instruments	0	58 087	1 130	59 217
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	140
Total	**3 279 639**	**62 178**	**11 445 141**	**14 786 958**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	29 080	951 612	0	980 692
Deposits from customers	0	8 074 410	2 161 033	10 235 443

Debt securities issued	0	651 716	0	651 716
Lease liabilities	0	0	57 051	57 051
Other financial liabilities	0	0	45 303	45 303
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	56 042	2 262	58 304
Total	**29 080**	**9 733 780**	**2 265 649**	**12 028 509**

Fair value measurement of financial instruments as at 31 December 2018 was as follows:

Fair value measurement using (T EUR)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and Balances with Central banks	3 293 090	0	0	**3 293 090**
Due from other credit institutions	145 447	39 899	0	**185 346**
Loans to customers	0	0	11 484 286	**11 484 286**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	0	1 006	0	**1 006**
Financial assets at fair value through profit or loss				
Debt securities	83 192	60 566	0	**143 758**
Derivative financial instruments				
Derivative financial instruments	0	44 352	0	**44 352**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	7 607	**7 607**
Debt securities	1 265	0	0	**1 265**
Total	**3 522 994**	**145 823**	**11 491 893**	**15 160 710**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	21 967	3 884 487	0	**3 906 454**

Deposits from customers	0	7 159 443	1 938 971	**9 098 414**
Debt securities issued	0	351 235	0	**351 235**
Other financial liabilities	22 953	0	4 961	**27 914**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	41 255	0	**41 255**
Total	**44 920**	**11 436 420**	**1 943 932**	**13 425 272**

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

- Cash and cash balances with central banks – The fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction.
- Due from other credit institutions – The fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction. Due from other credit institutions are demand deposits.
- Loans to customers – Fair value has been estimated by discounting estimated future cash flows with the base curve used by the Bank (6m Euribor curve as average for all loans).
- Financial assets at fair value through profit or loss (debt 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.
  - The fair value of interest-bearing 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.
- Financial assets at fair value through other comprehensive income (equities, debt securities):
  - The quotes of local (Baltic) market makers shall be the priority source for local equities. These are securities for which active market exists based on the turnover, meaning availability of quotes at which market participants transact in the local stock market. The quotes of foreign equities shall be taken from Bloomberg giving the priority to the primary market, and then to the country of issuer if the active market exists there. Otherwise, the market with the highest liquidity (turnover) shall be used as a source for pricing. If the quotes in primary data sources are clearly incorrect or artificial, the price of particular equity shall be derived from liquid market data using sources like Bloomberg or similar. Correctness of the quotes described above are the subject of expert judgment of the Market and Liquidity Risk Management Department member together with the Bank's Markets Department's dealer responsible for equity trading. For equities of non-listed

companies for which active market does not exist, any available trusted public information on recent trades shall be used for the pricing of the equity. Alternatively, dividend discount model shall be used to determine the price of equity. Expert opinion based on other available related market data shall be used for pricing of equity if the previously described methods are not possible.

- 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.
- The fair value of interest-bearing 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.

◆ 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 – The fair value of loans equals to their carrying value. Pricing of the loans from credit institutions is under market conditions. Expected cash flows of the liabilities from the banks are discounted with the same market rates as loans. Loans from credit institutions are long-term. Deposits from credit institutions are demand deposits. The fair value of deposits equals to their carrying value. Pricing of the deposits from credit institutions is under market conditions.

◆ Deposits from customers – The gross carrying amount of demand deposits as a fair value is applied as an approximation due to very short maturities.

◆ Debt securities issued – The debt securities issued by the Bank are initially recognized at fair value less transaction costs and are subsequently carried at amortized cost using effective interest rate (EIR) method. The fair value is calculated by discounting the future cash flows using the market interest rate yield curve.

20. RELATED PARTIES

Parties are considered to be 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, members of the Supervisory Council and the Management Board as key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

Parent company is considered to be Luminor Holding AS and the ultimate owners are considered to be DNB Bank ASA, Nordea Bank AB and Blackstone.

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 were carried out on commercial terms and at market rates. There have been no doubtful debts due from related parties as well as allowances for doubtful debts as at 31 December 2019 and 31 December 2018.

The volumes of related party transactions outstanding balances at the year end and relating income and expense for the year were as follows:

TRANSACTIONS WITH RELATED PARTIES

(T EUR)	01 January 2019 to 31 December 2019	01 January 2018 to 31 December 2018	Q4 2019	Q4 2018
Interest Income				
Ultimate owners	9 792	14 230	4 007	4 831
Interest Expenses				
Ultimate owners	-5 609	-10 251	-1 201	-3 389
Net commission and fee income				
Ultimate owners	-21	-10	-40	-1
Other expenses				
Parent company	0	0	0	0
Ultimate owners	-12 051	-4 557	-4 490	-8 715
Total	**-7 889**	**-588**	**-1 724**	**-7 274**

(T EUR)	31.12.2019	31.12.2018
Loans to Credit Institutions		
Ultimate owners	0	172 634

Loans to Customers		
Key management personnel	697	*
Derivative instruments		
Ultimate owners	46 519	32 946
Other Assets (incl. demand deposits)		
Ultimate owners	77 771	567
Total Assets	**124 987**	**206 147**
Due to Credit Institutions		
Ultimate owners	912 807	3 714 129
Deposits from customers		
Key management personnel	983	*
Derivative instruments		
Ultimate owners	19 849	16 851
Other Liabilities		
Ultimate owners	1 345	2 447
Total Liabilities	**934 984**	**3 733 427**

* Due to merger that took place on 2 January 2019 comparative information as at 31 December .2018 does not give fair overview as the structure of management has changed.

Payments to the key management personnel in Q4 2019 were 508 thousand EUR and for the period 1 January to 31 December 2019 were 2 581 thousand euros. Due to merger that took place on 2 January 2019 comparative information does not give a fair overview as the structure of management has changed.

As at 31 December 2019 loans and advances with associates ALD Automotive (3 entities) amounted to 15 919 thousand EUR (31.12.2018: 13 517 thousand EUR), deposits – 985 thousand EUR (31.12.2018: 294 thousand EUR), interest income for Q4 2019 - 6 thousand EUR (Q4 2018: 4 thousand EUR), interest income for period 1 January to 31 December 2019 was 31 thousand euros (1 January to 31 December 2018 was 32 thousand euros) and interest expenses for Q4 2019 - 0 thousand EUR (Q4 2018: 0 thousand EUR) , interest expenses for period 1 January to 31 December 2019 was 0 thousand euros (1 January to 31 December 2018 was 2 thousand euros).

21. SEGMENT REPORTING

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 IFRS 8. In the Bank, the CODM has been defined as 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 the three main operating segments: Corporate Banking, Retail Banking and Wealth Management. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. Corporate Banking segment services business customers that have a dedicated relationship manager. Retail Banking segment services business customers without a dedicated relationship manager and private individuals not belonging to Wealth Management segment. Wealth Management services wealthy private individuals and holding companies associated with those individuals. Results of 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 Unallocated segment) and income and expenses not booked on customer level, which are allocated between the operating segments using internally agreed allocation mechanisms. 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 reported under Other segment.

Starting from 2019, new operating model got implemented in Luminor Group and CODM started monitoring operating segments on the new basis (as described above). Restatement was made for historic periods for comparability. In June 2019 it was decided to transfer customers with leasing exposures but without a relationship to bank entities from Retail segment to segment Other.

	Corporate Banking	Retail Banking	Wealth Management	Other	Total
01 January 2019 to 31 December 2019					
The Group					
Net interest income	122 583	107 593	7 626	6 365	**244 167**
Net fees & commission income	28 187	44 514	2 111	2 574	**77 386**
Trading income	10 961	6 084	343	11 227	**28 615**
Other income	331	1 037	0	16 499	**17 867**
Total income	**162 062**	**159 228**	**10 080**	**36 665**	**368 035**
Personnel costs, administrative costs and depreciation	-90 506	-173 208	-7 481	-738	**-271 933**
Net impairment (losses/ reversal) on loans to customers	-31 226	8 906	-1	-1 694	**-24 015**
Other*	0	0	0	-18 140	**-18 140**
Profit before Tax	**40 330**	**-5 074**	**2 598**	**16 093**	**53 947**
Q4 2019					
The Group					
Net interest income	29 967	27 339	1 706	-4 043	**54 969**
Net fees & commission income	6 929	11 254	491	90	**18 764**
Trading income	3 087	1 364	76	5 137	**9 664**
Other income	87	291	0	5 637	**6 015**
Total income	**40 070**	**40 248**	**2 273**	**6 821**	**89 412**
Personnel costs, administrative costs and depreciation	-23 169	-45 741	-2 045	-1 273	**-72 228**
Net impairment (losses/ reversal) on loans to customers	-9 394	-706	-98	-1 544	**-11 742**
Other*	0	0	0	-6 667	**-6 667**
Profit before Tax	**7 507**	**-6 199**	**130**	**-2 663**	**-1 225**
31.12.2019					

The Group					
Assets					
Loans and receivables	4 303 965	5 401 323	82 047	435 212	**10 222 547**
Liabilities					
Deposits from customers	5 094 953	4 185 510	945 223	9 757	**10 235 443**

	Corporate Banking	Retail Banking	Wealth Management	Other	Total
01 January 2018 to 31 December 2018					
The Group					
Net interest income	132 000	104 214	6 524	16 671	**259 409**
Net fees & commission income	31 825	45 170	2 350	4 416	**83 761**
Trading income	11 780	6 143	464	10 644	**29 031**
Other income	831	1 131	1	2 986	**4 949**
Total income	**176 436**	**156 658**	**9 339**	**34 717**	**377 150**
Personnel costs, administrative costs and depreciation	-70 911	-135 431	-5 372	-12 182	**-223 896**
Net impairment (losses/ reversal) on loans to customers	3 149	4 369	-532	-673	**6 313**
Other*	0	0	0	-19 976	**-19 976**
Profit before Tax	**108 674**	**25 596**	**3 435**	**1 886**	**139 591**
Q4 2018					
The Group					
Net interest income	32 710	26 508	1 869	4 188	**65 275**
Net fees & commission income	8 067	11 263	618	1 098	**21 046**
Trading income	2 977	1 653	125	2 120	**6 875**
Other income	234	239	0	1 829	**2 302**
Total income	**43 988**	**39 663**	**2 612**	**9 235**	**95 498**

Personnel costs, administrative costs and depreciation	-21 678	-41 545	-1 579	-827	**-65 630**
Net impairment (losses/ reversal) on loans to customers	-5 708	-362	-486	414	**-6 142**
Other*	0	0	0	-10 649	**-10 649**
Profit before Tax	**16 602**	**-2 244**	**547**	**-1 828**	**13 077**
31.12.2018					
The Group					
Assets					
Loans and receivables	5 270 357	5 581 559	92 801	527 421	**11 472 138**
Liabilities					
Deposits from customers	4 704 640	3 559 706	801 593	3 946	**9 069 885**

*Other includes other operating expenses, share of profit from an associate and net gain on other assets, change in fair value of investment property and provisions.

CONTACT DETAILS

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Balance sheet date	31 December 2019
Reporting period	01.01.2019 – 31.12.2019
Reporting currency	Euro