Luminor Bank
Interim Report
Q4 2021

AT A GLANCE

THE QUARTER IN BRIEF

- Increased new lending volumes in mortgages, consumer loans and to business customers
- Lower costs and improved cost efficiency
- Net Profit increased to 20.7 million EUR – a 11.3% increase compared to the fourth quarter 2020
- Continued improvement in asset quality – non-performing loans fell to 1.8% of gross loans, our lowest level ever
- Dividend of 190 million EUR paid during the quarter; continued strong capital position

FINANCIAL PERFORMANCE

€m	4th Quarter		Jan-Dec	
	2020	2021	2020	2021
Total operating income	82.6	91.9	328.2	328.9
Total operating expenses	-75.7	-66.0	-275.4	-262.8
o/w exceptional costs	-27.8	-15.3	-102.6	-76.8
Credit loss allowance	14.5	-2.4	-17.6	14.8
Other items and taxation	-2.8	-2.8	-2.1	-6.2
Profit for the period	**18.6**	**20.7**	**33.1**	**74.7**
Return on equity, %	4.5	5.0	2.0	4.6
Return on equity excluding exceptional costs, %	10.1	8.2	7.3	8.7

VOLUMES & KEY RATIOS

€m	31 December 2020	30 September 2021	31 December 2021
Loans to customers	9,430.8	9,831.5	9,950.0
Deposits from customers	11,821.7	10,958.8	10,305.4
Equity	1,665.2	1,718.3	1,548.8
Common Equity Tier 1 ratio, %	22.4	22.3	20.5[1]
Liquidity coverage ratio, %	197.2	160.2	137.2

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

ABOUT US

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

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

CHIEF EXECUTIVE'S STATEMENT

The fourth quarter saw a continued expansion of the Baltic economies with high growth matched by high inflation and the ongoing presence of COVID-19. Against this environment, we boosted our business performance, advanced our digital transformation, and increased our net profits as compared to the same quarter last year. Our staff continued to do a super job.

In January 2021 we turned the focus of Luminor to our customers and to business growth. Our priorities are to grow our lending, notably in mortgages and to SME customers, to increase customer satisfaction, and to raise our level of digitisation and automation, while fulfilling our wider obligations to our communities and the environment.

We have substantial work ahead of us to realise these goals, but I am encouraged by our continued progress in the fourth quarter. We achieved our highest ever monthly sales of mortgages in November, loans to business customers grew and, once again, we were at the heart of developments in the Baltic capital markets, lead managing two inaugural green bonds for our customers. We introduced digital wallets – including Apple Pay – and enhanced the accessibility of our ATM network, all the while focusing on ensuring IT stability as we improve our services, products, and performance. To advance our ESG agenda we conducted our first materiality assessment amongst our key stakeholders.

We generated a net profit of 20.7 million EUR in the quarter, as compared to 18.6 million EUR in the same quarter last year. This improvement was driven principally by an increase in revenues and reduction in expenses, offset partially by credit loss allowances as compared to a net reversal of credit loss allowances in the fourth quarter of 2020. Our return on equity improved to 5.0% from 4.5%. Exceptional costs, incurred as we transform our operations, totaled 15.3 million EUR. Without these costs we would have generated a return on equity of 8.2%.

Despite COVID-19, our capital position has continued to improve and is very strong. Considering this and the positive economic outlook in the region, in December our shareholders approved our proposal to pay a dividend of 190 million EUR. All of our capital is composed of equity, hence at 31 December 2021 our Common Equity, Tier 1 and Total Capital Ratios were all 20.5% of Risk Exposure Amounts. We are reviewing our capital levels and structure to ensure alignment with our plans and outlook, and improve the efficiency of our capital resources.

Preventing money laundering and terrorist financing remains firmly in the focus of our Management Board and the Supervisory Council. The Baltic supervisory authorities published in August the results of their routine anti-money laundering inspections conducted last year. During the fourth quarter, we continued to improve our internal processes and rules, as we followed the plans we submitted to our supervisors in response to their findings, to enhance further our anti-money laundering effectiveness.

The outlook for the Baltic region is strong. While the increased incidence of COVID-19 and the spectre of price inflation are near term challenges for the societies we serve, our path and ambitions are clear. I look forward to Luminor doing more business, more effectively, with more individuals and businesses across our home markets of Estonia, Latvia, and Lithuania. In so doing, we will maintain our strong financial standing, prudent risk management and commitment to preventing financial crime, while raising our ESG focus.

Peter Bosek

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This interim report has been prepared in accordance with IAS 34 Interim Financial Reporting and Estonian law. In this report 'Luminor', 'Luminor Bank', 'we', 'us' and 'our' refer to Luminor Bank AS together with its subsidiaries. The abbreviations '€m' and '€bn' represent millions and billions (thousands of millions) of euro, respectively.

MANAGEMENT REPORT

Financial Performance

Summary income statement	4th Quarter		Jan-Dec	
€m	**2020**	**2021**	**2020**	**2021**
Net interest and similar income	57.1	64.4	226.9	239.2
Net fee and commission income	20.7	23.4	73.6	78.5
Net other operating income	4.8	4.1	27.7	11.2
Total operating income	**82.6**	**91.9**	**328.2**	**328.9**
Total operating expenses	-75.7	-66.0	-275.4	-262.8
Share of profit from associates	-0.1	0.4	1.0	1.8
Credit loss allowance	14.5	-2.4	-17.6	14.8
Other non-operating expenses	-0.5	0.0	-0.4	-0.3
Profit before tax	**20.8**	**23.9**	**35.8**	**82.4**
Tax expense	-2.2	-3.2	-2.7	-7.7
Profit for the period	**18.6**	**20.7**	**33.1**	**74.7**
Cost / income ratio, %	91.6	71.8	83.9	79.9
Cost / income ratio excluding exceptional costs, %	58.0	55.1	52.7	56.5

Profit for the quarter was 20.7 million EUR, an increase of 11.3% as compared to the same quarter last year. An increase in Total operating income of 9.3 million EUR and a 9.7 million EUR decrease in Total operating expenses were offset partially by credit loss allowances as compared to a net reversal of credit loss allowances in the fourth quarter of 2020.

Total operating income was 91.9 million EUR, an increase of 11.3%, as compared to the prior year fourth quarter.

Net interest income increased by 7.3 million EUR to 64.4 million EUR. Thereof, interest income increased by 0.5 million EUR as continued pressure on lending margins was offset by growing lending volumes and increased income from negative rates on high-volume deposits from large corporate and public sector customers. Interest expense fell by 6.8 million EUR as we no longer incurred commitment fees on the funding facilities provided by our former parents, as well as lower liquidity cost this quarter. Last year we also incurred one-off costs in connection with our tender offer for a bond issue, which did not recur this year.

Net fee and commission income increased by 2.7 million EUR supported by growth in commission income for all key products, notably in cards, investments and pensions driven in part by the pickup in activity as compared to the year before. Net other operating income decreased by 0.7 million EUR driven by an increase in our contribution to the Single Resolution Fund and payment of a guarantee fee to the European Investment Bank in relation to our synthetic securitization transaction.

Total operating expenses were 66.0 million EUR, a decrease of 12.8% as compared to the same period last year, as we continued to focus on improving our efficiency. Exceptional costs decreased 12.4 million EUR, or 44.8% to 15.3 million EUR. Despite the decline in costs, we continued to make significant investments into IT operations and credit risk analytics.

Our credit quality continues to be strong. We incurred a minor credit loss allowance of 2.4 million EUR this quarter. This compares to a net reversal of credit loss allowances of 14.5 million EUR in the same period last year, as we exited from a major non-performing exposure. Our annualised return on equity was 5.0% in this period as compared to 4.5% in the same period last year. Excluding exceptional costs, respective returns were 8.2% and 10.1%.

Retail Banking

Financial performance	4th Quarter		Jan-Dec	
€m	2020	2021	2020	2021
Net interest income	27.2	28.2	114.2	110.2
Other net income	15.9	17.3	56.2	60.3
Total operating income	**43.1**	**45.5**	**170.4**	**170.5**
Total operating expenses	-48.8	-41.9	-173.7	-170.3
Credit loss allowance	5.6	8.8	5.4	11.6
Other non-operating expenses	0.0	0.0	0.1	-0.1
Profit (-loss) before tax	**-0.1**	**12.4**	**2.2**	**11.7**
Cost/ income ratio, %	113.2	92.1	101.9	99.9
Cost / income ratio excluding exceptional costs, %	79.4	69.2	64.9	69.7

Balances €m	31 December 2020	30 September 2021	31 December 2021
Loans to customers [1]	5,251.8	5,353.0	5,437.6
Deposits from customers	5,743.1	5,842.0	6,066.3

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

We remain focused on growing private lending, increasing the number of active customers, and raising customer satisfaction. We improved further our digital solutions, which aid our customers to do business with us despite the ongoing COVID-19 restrictions. In December we introduced Google Pay, Apple Pay, Garmin Pay and Fitbit Pay.

Market demand for mortgages and consumer lending remained at a high level. Our new sales of mortgages in the fourth quarter were 67% more than in the same quarter of last year, and in November we achieved the highest monthly level of new sales of 2021. Our new sales of consumer lending in the fourth quarter were more than double what they were in the same quarter of last year.

We continued to expand our digital channels for both private and small business customers. Private customers more often choose to become a customer remotely, with some 60% of new customers onboarded remotely in the fourth quarter.

Positive economic developments and growing financial markets in the fourth quarter led to an increase of more than 4% in pension assets under management. The Third Pension Pillar contributions in December were the highest monthly contributions of 2021, while the number of Third Pension Pillar customers increased in all the Baltic countries.

Corporate Banking

Financial performance	4th Quarter		Jan-Dec	
€m	2020	2021	2020	2021
Net interest income	30.0	32.6	123.2	125.8
Other net income	8.1	10.9	33.2	35.3
Total operating income	**38.1**	**43.5**	**156.4**	**161.1**
Total operating expenses	-27.3	-22.9	-96.1	-89.9
Credit loss allowance	8.6	-11.2	-24.0	2.5
Other non-operating expenses	0.0	0.4	0.1	1.7
Profit before tax	**19.4**	**9.8**	**36.4**	**75.4**
Cost/ income ratio, %	71.7	52.6	61.4	55.8
Cost / income ratio excluding exceptional costs, %	56.2	41.4	37.1	40.2

Balances €m	31 December 2020	30 September 2021	31 December 2021
Loans to customers [1]	4,307.8	4,598.0	4,630.1
Deposits from customers	6,024.8	5,085.8	4,196.8

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

Lending to corporate banking customers continued to grow in the fourth quarter. New loans disbursed to customers were 48% above the same quarter last year.

The overall portfolio grew by 0.7% over the quarter. Record volumes of new sales were offset by a seasonal contraction in the use of overdrafts from customers in the agricultural sector. Sales volumes of new leases fell because of a shortage of vehicles to lease.

In line with our strategic expansion in corporate lending, in November we signed a contract to acquire from Danske Bank a portfolio of corporate loans in Lithuania worth some 40 million EUR. This purchase follows the acquisition of a portfolio of Danske Bank's corporate loans, leases, and guarantee agreements in Latvia in April 2021.

We continued to take a leading role to develop the Baltic debt capital markets. In the fourth quarter, we secured a clear number one position in the Baltic corporate bond market with 43% market share in the primary market, including two inaugural green bond transactions for our large corporate clients.

Financial condition

Summary balance sheet €m	31 December 2020	30 September 2021	31 December 2021
Cash and central bank balances	4,926.5	3,712.0	2,502.7
Loans to customers	9,430.8	9,831.5	9,950.0
Other assets	566.8	643.1	914.8
Total assets	**14,924.1**	**14,186.6**	**13,367.5**
Deposits from customers	11,821.7	10,958.8	10,305.4
Debt securities issued	1,201.2	1,269.1	1,163.6
Other liabilities	236.0	240.4	349.7
Equity	1,665.2	1,718.3	1,548.8
Total liabilities and equity	**14,924.1**	**14,186.6**	**13,367.5**

Loans to customers increased in the fourth quarter by 1.2%, while the total balance sheet decreased by 5.8%, as we managed down excess deposits. At period end, Loans to customers accounted for nearly three-quarters of Total assets, up five percentage points in the quarter.

Loans to customers increased by 118.5 million EUR, as we grew our lending to both Business and Individual customers. Other assets grew by 271.7 million EUR, driven mainly by a 183.5 million EUR increase in investments in low-risk debt securities. Due to the growth in Loans to customers and Other assets, as well as a reduction in excess deposits, Cash and central bank balances decreased by 1,209.3 million EUR.

Deposits from customers decreased by 653.4 million EUR, as we applied negative rates on high-volume deposits from larger corporate and Public Sector customers and reduced the concentration of our deposit base. Within the net reduction of Deposits from customers, a fall in deposits from Public sector customers of 915.4 million EUR was offset in part by an increase of 206.8 million EUR in deposits from Individual customers and 54.2 million EUR from Business customers.

In October we redeemed our 1.5% senior bond and repaid the outstanding nominal amount of 99.2 million EUR. Equity reduced by 169.5 million EUR, driven principally by payment of a 190.0 million EUR dividend in December, offset partly by 20.7 million EUR net profit for the period. As originally agreed between Blackstone and Nordea, once the dividend payment was made, the Blackstone managed funds purchased from Nordea approximately 8% of the share capital of Luminor Holding AS, our parent company. After this transaction, funds managed by Blackstone own approximately 68% of Luminor Holding, DNB owns 19.95% and Nordea the remainder.

On 31 December 2021 our MREL- eligible securities were 29.05% of our total Risk Exposure Amounts and 14.55% of our leverage exposure, as compared to our minimum requirement from 1 January 2022 of 26.92% and 5.91% respectively.

Capital and liquidity

Capital €m	31 December 2020	30 September 2021	31 December 2021
Shareholders' Equity	1,665.2	1,718.3	1,548.8
Regulatory adjustments	-78.5	-94.2	-118.6
Prudential filters	-0.3	-0.4	-0.5
Common Equity Tier 1	**1,586.4**	**1,623.7**	**1,429.7**
Credit risk exposure amounts	6,375.2	6,584.9	6,307.2
Operational risk exposure amounts	673.6	673.6	648.8
Other risk exposure amounts	37.5	34.0	31.7
Total risk exposure amounts	**7,086.3**	**7,292.5**	**6,987.7**
Common Equity Tier 1 ratio, %	22.4	22.3	20.5
Leverage ratio, %	10.2	11.0	10.2

At the end of the fourth quarter, our own funds totalled 1,429.7 million EUR, composed entirely of Common Equity Tier 1 (CET1) capital. Our CET1, Tier 1, and Total capital ratios fell in the quarter to 20.5%, driven principally by payment of a 190 million EUR dividend. We had retained within the Bank substantially all of the net profits we had generated since May 2019. This led to an increase in our CET1 ratio to 22.3%, substantially above our internal target. Given this accumulation of capital and positive economic outlook, we decided to pay a dividend. Risk Exposure Amounts, which we measure on a standardised basis, also reduced as a result of a synthetic securitization transaction on part of the corporate loan book we executed during the quarter. Retained profits for 2021 have not been included into the capital calculation. Including the retained profits for 2021 would increase our CET1 ratio to 21.5%.

Our capital ratios remain well above our minimum capital requirements set by our regulators, which require us to have a CET1 ratio exceeding 10.1%, a Tier 1 ratio above 12.0% and a Total Capital ratio greater than 14.5%. These include a Pillar 2 additional own funds requirement of 2%. We are reviewing our capital levels and structure to ensure alignment with our plans and outlook, and improve the efficiency of our capital resources. Our leverage ratio decreased to 10.2% during the quarter due to the dividend pay-out, offset partly by a decrease of total assets and off-balance sheet exposures.

Liquidity %	31 December 2020	30 September 2021	31 December 2021
Liquidity Coverage Ratio	197.2	160.2	137.2
Net Stable Funding Ratio	159.0	148.6	140.8

Our structural liquidity risk is conservative and well-balanced. It is based on metrics that measure liquidity risk and is appropriately adapted to the current economic and regulatory environment. We use a range of metrics to measure liquidity risk, one of which is the Liquidity Coverage Ratio (LCR). On 31 December 2021 our LCR was 137.2% compared to 160.2% at end of the third quarter of 2021, and a minimum regulatory requirement of 100%. Changes in the LCR were driven mainly by our strategy to lower our depositor concentration via implementation of negative rates on certain deposits, which resulted in a more optimal and stable liquidity position. The liquidity buffer is composed of cash and liquid central bank eligible securities.

Long-term liquidity risk is measured by the Net Stable Funding Ratio (NSFR). On 31 December 2021 our NSFR was 140.8% compared to 148.6% at end of the third quarter of 2021, and a minimum regulatory requirement of 100%. The decrease of the ratio during the quarter was driven by the decrease of Available Stable Funding resulting from lower deposit volume, and an increase in the Required Stable Funding, driven by the continuing growth of our loan portfolio. The NSFR for December 2021 was calculated in accordance with the new European Banking Authority and Capital Requirements Regulation 2 (CRR 2) requirements.

Asset Quality

Loans to customers €m	31 December 2020	30 September 2021	31 December 2021
Stage 1	7,958.3	8,764.1	8,455.4
Stage 2	1,304.0	945.5	1,411.0
Stage 3	305.4	230.1	185.6
Gross carrying amount	**9,567.7**	**9,939.7**	**10,052.0**
Allowance for impairment	-136.9	-108.2	-102.0
Net carrying amount	**9,430.8**	**9,831.5**	**9,950.0**
Non-performing loans ratio, %	3.2	2.3	1.8

The quality of our loan portfolio remains good and stable. Over the fourth quarter, the ratio of non-performing loans to gross loans fell once again to finish at 1.8%, our lowest level ever. The continued incidence of COVID-19 means the outlook for loan losses remains uncertain.

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

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

The majority of the increase in Stage 2 exposures during the quarter occurred when we incorporated a collective significant increase in credit risk (SICR) adjustment for exposures modified due to COVID-19. Hence, by the end of the period, all still performing exposures, earlier modified due to COVID-19, were classified as Stage 2.

Total loan loss provisions during the fourth quarter were 2.4 million EUR. Provisions increased as we updated macroeconomic scenarios and changed their probabilities, incorporated a top-down collective significant increase in credit risk (SICR) adjustment, amended our methodology for collectively assessed Stage 3 exposures and by adjustments of provision levels for a few existing individually assessed Stage 3 exposures. The increase was partly offset by a decrease of the management overlay.

Total non-performing loans ('Stage 3') decreased by nearly one-fifth over the fourth quarter to 185.6 million EUR, or 1.8% of gross lending, at the end of the fourth quarter. The outflow of non-performing loans was around four times higher than the inflow, and this left the volume of non-performing loans at its lowest level ever. The key drivers for the decrease were repayments, collection activities including sales of collateral and claim rights, write-offs, and cures resulting from the end of probation periods.

Of the 102.0 million EUR total allowances for expected credit losses on the balance sheet at the end of the quarter, 56.6 million EUR were for Stage 3 exposures. The net carrying amount of Stage 3 loans was 129.0 million EUR against which we held collateral with a fair value of 167.4 million EUR.

Additional information

ECONOMIC ENVIRONMENT

The Baltic economies continue to perform well despite the higher incidence of COVID-19 and attendant restrictions.

As anticipated, economic growth in the third quarter remained strong, with an annualised increase of 8.6% in Estonia, 5.1% in Latvia and 4.8% in Estonia. While the rate of increase slowed as compared to the double-digit growth recorded in the second quarter, third quarter growth was once again above the EU average of 3.9%. White-collar service exports continue to perform well, given continued demand. In July-September revenues from information and telecommunications, and business and financial services grew by 62% over the year in Estonia, 23% in Latvia and 45% in Lithuania.

During the fourth quarter, most export sectors performed well and were little affected by the pandemic, though tourism remained subdued. Manufacturing was buoyed by the strong global demand for goods. Output in September-November grew on average by 6.4% in Estonia, 4.2% in Latvia and 21.2% in Lithuania. In December, annual inflation ranged between 7.9% and 12.0% across the Baltic countries, well above 5% in euro area on average. Energy and food accounted for some ten percentage points of total inflation in Estonia and some five percentage points in Lithuania.

Average wages rose in the third quarter by 7.8% in Estonia, 10.4% in Latvia and 9.8% in Lithuania, maintaining real incomes. After the rises in energy prices subside, tight labour markets will continue to sustain strong wage growth. The seasonally adjusted average job seekers ratio in September-November 2021 was 5.3% in Estonia, 7.1% in Latvia and 6.4% in Lithuania. Resilient consumer optimism, wage growth and growth in mortgage lending will sustain strong rises in house prices, as the average price of a square metre was up over the year in the third quarter by 16.1% in Estonia, 12.4% in Latvia and 13.3% in Lithuania.

While access to services was somewhat restricted during the fourth quarter, consumption of goods was strong. Average annual retail turnover growth to November 2021 was 13.7% in Estonia, and 11.5% in Lithuania. The -0.6% change in Latvia is partly explained by the incomplete inclusion of online retail in the statistics.

BUSINESS DEVELOPMENTS

In the fourth quarter we finalised the modernisation of our ATM network in cooperation with Worldline, and increased accessibility to our network for people with disabilities. In December we introduced Google Pay, Apple Pay, Garmin Pay and Fitbit Pay. These digital payment tools were well received by our customers with some 20,000 cards added straightaway and saw good use from these customers.

We advanced our work with Kyndryl to accelerate our digital development, as we prepared for the launch of additional functionalities and products, and strengthened our security and regulatory compliance processes. We developed our technological operation with a focus on ensuring IT stability while improving our services, products, and performance. We are further strengthening our product and software development capabilities and teams, increasing quality assurance, and making greater use of the capabilities of our partners.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)

During the quarter we conducted our first ESG materiality assessment among our key stakeholders. The assessment, which identified eight key areas, will guide our annual disclosures and allows us to understand the concerns of our stakeholders and take any action needed in response to them. Furthermore, the assessment will help us to prepare for possible impact on our business model caused by global trends or regulation, and to minimise risks and detect business opportunities. Finally, it will aid us to make informed decisions in our own affairs and when dealing with clients as well as to define or improve our standards and our voluntary commitments across our sector.

We updated our sustainability policy to ensure that ESG considerations and risks are integrated into our business model, risk management framework, investment decisions, and financing activities. We updated our sustainability strategy, which now contains a timeline and a list of the activities we must carry out to implement the sustainability considerations detailed in our sustainability policy, and we did a considerable amount of work to get ready for our annual reporting on sustainability. We also updated our remuneration policy, risk policy, strategy and risk appetite framework.

We defined our ESG data governance as well as the function and role of the ESG data product owner. Furthermore, we delivered the first set of ESG data to our Risk team as an input for climate stress testing, and developed proxies for assessing the energy efficiency rating of collaterals. This quarter, we also switched to green energy sources in our fully owned offices in Latvia and continued to identify suitable social entrepreneurs to implement our social action plan.

In Estonia we donated to Perepesa, a community-based family support centre. It empowers and provides parents with timely and professional help in raising children and creating supportive relationships.

PREVENTING FINANCIAL CRIME

We do not tolerate financial crime. During the quarter we continued to apply our financial crime risk management framework to prevent, detect, and report potential financial crime. Our framework covers the technology as well as the policies and procedures we employ to prevent and detect financial crime, assess risks, run training and awareness-raising sessions, and monitor new and developing financial crime risks.

Luminor has a low-risk appetite and a conservative business model. We operate only in the Baltic countries and target our products and services at residents of the Baltic countries, or individuals and companies with a strong connection to the Baltic countries. During the fourth quarter, we continued to improve our internal processes and rules following the plans we have submitted to our supervisors, to enhance further the effectiveness of our anti-money laundering activities. We also continued to raise awareness about fraud and cyber security amongst our customers.

OTHER EVENTS

Trygve Young resigned from the Supervisory Council effective 31 December 2021. Ottar Ertzeid was appointed to the Supervisory Council, effective 1 January 2022.

On 1 February, we signed an agreement to acquire 99% of Maksekeskus, the leading e-commerce payment service provider in the Baltic region. The acquisition will advance our digital transformation and strengthen our presence in the fast-growing e-commerce payments market. The transaction is expected to close in the upcoming months, and is subject to approval by the Estonian authorities.

Country information

Estonia

Loans to customers by Asset Quality, as at 31 December 2021

€m		Stage 1	Stage 2	Stage 3	Total
Individual customers	Gross carrying amount	1,159.7	126.0	7.5	1,293.2
	Allowance for impairments	-0.5	-2.3	-1.4	-4.2
	Carrying amount	1,159.2	123.7	6.1	1,289.0
of which Mortgages	Gross carrying amount	951.4	111.0	5.4	1,067.8
	Allowance for impairments	-0.2	-1.8	-0.8	-2.8
	Carrying amount	951.2	109.2	4.6	1,065.0
Business customers	Gross carrying amount	731.9	153.9	22.5	908.3
	Allowance for impairments	-1.3	-3.7	-6.1	-11.1
	Carrying amount	730.6	150.2	16.4	897.2
Financial institutions	Gross carrying amount	102.1	0.1	0.3	102.5
	Allowance for impairments	-0.1	0.0	-0.3	-0.4
	Carrying amount	102.0	0.1	0.0	102.1
Public sector	Gross carrying amount	58.4	0.0	0.0	58.4
	Allowance for impairments	0.0	0.0	0.0	0.0
	Carrying amount	58.4	0.0	0.0	58.4
Total	Gross carrying amount	2,052.1	280.0	30.3	2,362.4
	Allowance for impairments	-1.9	-6.0	-7.8	-15.7
	Carrying amount	2,050.2	274.0	22.5	2,346.7

Deposits from customers, by customer type and country of registration, as at 31 December 2021

€m	Total
Individual customers	478.3
Business customers	635.9
Financial institutions	46.7
Public sector	189.6
Total	**1,350.5**

€m	Total
Estonia	1,306.1
Other Baltic countries	1.0
Other EU countries	15.5
Other countries	27.9
Total	**1,350.5**

In Estonia we have 549 employees and serve our approximately 111,000 customers via 5 client service locations. We have a lending market share of 10.2% and 5.0% deposit market share as of December 2021.

Latvia

Loans to customers by Asset Quality, as at 31 December 2021

€m		Stage 1	Stage 2	Stage 3	Total
Individual customers	Gross carrying amount	1,372.8	152.8	44.2	1,569.8
	Allowance for impairments	-0.6	-2.8	-13.7	-17.1
	Carrying amount	1,372.2	150.0	30.5	1,552.7
of which Mortgages	Gross carrying amount	1,203.2	141.6	39.4	1,384.2
	Allowance for impairments	-0.3	-2.4	-12.3	-15.0
	Carrying amount	1,202.9	139.2	27.1	1,369.2
Business customers	Gross carrying amount	858.6	408.0	54.8	1,321.4
	Allowance for impairments	-1.8	-5.1	-17.1	-24.0
	Carrying amount	856.8	402.9	37.7	1,297.4
Financial institutions	Gross carrying amount	3.4	0.2	0.0	3.6
	Allowance for impairments	0.0	0.0	0.0	0.0
	Carrying amount	3.4	0.2	0.0	3.6
Public sector	Gross carrying amount	42.0	0.0	0.1	42.1
	Allowance for impairments	-0.1	0.0	-0.1	-0.2
	Carrying amount	41.9	0.0	0.0	41.9
Total	Gross carrying amount	2,276.8	561.0	99.1	2,936.9
	Allowance for impairments	-2.5	-7.9	-30.9	-41.3
	Carrying amount	2,274.3	553.1	68.2	2,895.6

Deposits from customers, by customer type and country of registration, as at 31 December 2021

€m	Total
Individual customers	1,467.6
Business customers	1,255.5
Financial institutions	111.0
Public sector	78.6
Total	**2,912.7**

€m	Total
Latvia	2,839.5
Other Baltic countries	17.7
Other EU countries	28.8
Other countries	26.7
Total	**2,912.7**

In Latvia we have 802 employees and serve our approximately 234,000 customers via 8 client service locations. We have a lending market share of 22.2% and 15.2% deposit market share as of December 2021.

Lithuania

Loans to customers by Asset Quality, as at 31 December 2021

€m		Stage 1	Stage 2	Stage 3	Total
Individual customers	Gross carrying amount	2,622.1	177.3	18.9	2,818.3
	Allowance for impairments	-9.3	-5.8	-3.8	-18.9
	Carrying amount	2,612.8	171.5	15.1	2,799.4
of which Mortgages	Gross carrying amount	2,260.8	112.1	8.7	2,381.6
	Allowance for impairments	-7.7	-4.0	-0.9	-12.6
	Carrying amount	2,253.1	108.1	7.8	2,369.0
Business customers	Gross carrying amount	1,334.9	384.1	37.3	1,756.3
	Allowance for impairments	-2.6	-9.1	-14.1	-25.8
	Carrying amount	1,332.3	375.0	23.2	1,730.5
Financial institutions	Gross carrying amount	85.5	8.6	0.0	94.1
	Allowance for impairments	-0.1	-0.2	0.0	-0.3
	Carrying amount	85.4	8.4	0.0	93.8
Public sector	Gross carrying amount	84.0	0.0	0.0	84.0
	Allowance for impairments	0.0	0.0	0.0	0.0
	Carrying amount	84.0	0.0	0.0	84.0
Total	Gross carrying amount	4,126.5	570.0	56.2	4,752.7
	Allowance for impairments	-12.0	-15.1	-17.9	-45.0
	Carrying amount	4,114.5	554.9	38.3	4,707.7

Deposits from customers, by customer type and country of registration, as at 31 December 2021

€m	Total
Individual customers	2,842.7
Business customers	2,153.4
Financial institutions	89.2
Public sector	956.9
Total	**6,042.2**

€m	Total
Lithuania	5,896.7
Other Baltic countries	14.9
Other EU countries	35.7
Other countries	94.9
Total	**6,042.2**

In Lithuania we have 911 employees and serve our approximately 514,000 customers via 12 client service locations. We have a lending market share of 20.0% and 16.8% deposit market share as of December 2021.

Statement of the Management Board

The interim report of Luminor Bank AS for the fourth quarter of 2021 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 2021 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 as adopted by the European Union and the requirements established by the Credit Institutions Act of the Republic of Estonia for the disclosure of information.

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

Peter Bosek
Chief Executive Officer and
Chairman of the Management Board

Tallinn, 2 February 2022

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

€m	Notes	4th Quarter		Jan-Dec	
		2020	2021	2020	2021
Interest income calculated using the effective interest method	3	56.7	57.5	226.6	223.5
Other similar income	3	11.6	11.3	47.1	42.9
Interest and similar expense	3	-11.2	-4.4	-46.8	-27.2
Net interest and similar income		**57.1**	**64.4**	**226.9**	**239.2**
Fee and commission income	4	24.7	29.4	95.8	102.1
Fee and commission expense	4	-4.0	-6.0	-22.2	-23.6
Net fee and commission income		**20.7**	**23.4**	**73.6**	**78.5**
Net other financial income	5	6.3	6.1	27.7	20.9
Other operating income		0.7	0.7	6.4	1.6
Other operating expense		-2.2	-2.7	-6.4	-11.3
Net other operating income		**4.8**	**4.1**	**27.7**	**11.2**
Total operating income		**82.6**	**91.9**	**328.2**	**328.9**
Salaries and other personnel expenses		-28.1	-28.7	-100.2	-101.0
Other administrative expenses	6	-44.4	-34.2	-163.1	-149.7
Depreciation, amortization and impairment		-3.2	-3.1	-12.1	-12.1
Total operating expenses		**-75.7**	**-66.0**	**-275.4**	**-262.8**
Share of profit from associates		-0.1	0.4	1.0	1.8
Credit loss allowance, excluding off-balance sheet commitments	7	14.5	-1.4	-14.5	13.1
Credit loss allowance on off-balance sheet commitments	7	0.0	-1.0	-3.1	1.7
Other non-operating expenses		-0.5	-0.0	-0.4	-0.3
Profit before tax		**20.8**	**23.9**	**35.8**	**82.4**
Tax expense		-2.2	-3.2	-2.7	-7.7
Profit for the period		**18.6**	**20.7**	**33.1**	**74.7**
Total other comprehensive income		**0.0**	**0.0**	**0.0**	**0.0**
Total comprehensive income		**18.6**	**20.7**	**33.1**	**74.7**

CONDENSED CONSOLIDATED BALANCE SHEET

€m	Notes	31 December 2020	30 September 2021	31 December 2021
Assets				
Cash and balances with central banks		4,926.5	3,712.0	2,502.7
Due from other credit institutions		103.6	39.3	64.4
Loans to customers	7	9,430.8	9,831.5	9,950.0
Debt securities		284.3	424.7	608.2
Derivative financial instruments	10	43.4	57.3	117.8
Equity instruments		2.8	2.8	3.2
Investments in associates		5.3	6.7	6.4
Intangible assets		6.7	10.5	10.0
Property, plant and equipment, etc.		56.6	46.2	47.0
Investment properties		0.6	0.1	0.1
Current tax assets		0.5	1.8	2.6
Deferred tax assets		9.4	10.4	8.7
Other assets		53.6	43.3	46.4
Total assets		**14,924.1**	**14,186.6**	**13,367.5**
Liabilities				
Loans and deposits from credit institutions		47.3	57.5	83.8
Deposits from customers	8	11,821.7	10,958.8	10,305.4
Debt securities issued	9	1,201.2	1,269.1	1,163.6
Derivative financial instruments	10	50.6	48.3	112.5
Tax liabilities		0.2	0.2	0.5
Lease liabilities		49.7	42.7	43.4
Other financial liabilities		14.7	31.0	37.5
Other liabilities		64.2	55.5	63.0
Provisions		9.3	5.2	9.0
Total liabilities		**13,258.9**	**12,468.3**	**11,818.7**
Shareholder’s equity				
Share capital and premium		1,447.1	1,447.1	1,447.1
Retained earnings		215.1	268.2	97.9
Other reserves		3.0	3.0	3.8
Total shareholder's equity		**1,665.2**	**1,718.3**	**1,548.8**
Total liabilities and shareholder’s equity		**14,924.1**	**14,186.6**	**13,367.5**

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€m	Share capital and premium	Retained earnings	Other reserves	Total equity
Balance as at 31 December 2019	**1,447.1**	**183.9**	**1.2**	**1,632.2**
Profit for the period	0.0	33.1	0.0	**33.1**
Total comprehensive income	**0.0**	**33.1**	**0.0**	**33.1**
Transfer to mandatory reserve	0.0	-1.8	1.8	**0.0**
Other	0.0	-0.1	0.0	**-0.1**
Balance as at 31 December 2020	**1,447.1**	**215.1**	**3.0**	**1,665.2**
Balance as at 31 December 2020	**1,447.1**	**215.1**	**3.0**	**1,665.2**
Profit for the period	0.0	74.7	0.0	**74.7**
Total comprehensive income	**0.0**	**74.7**	**0.0**	**74.7**
Transfer to mandatory reserve	0.0	-0.8	0.8	**0.0**
Dividends	0.0	-191.0	0.0	**-191.0**
Other	0.0	-0.1	0.0	**-0.1**
Balance as at 31 December 2021	**1,447.1**	**97.9**	**3.8**	**1,548.8**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

€m	Notes	1 January to 31 December 2020	1 January to 31 December 2021
Profit or loss before tax		35.8	82.4
Adjustment for non-cash items:			
Credit loss allowance		17.6	-14.8
Depreciation, amortisation, and impairment		12.1	12.1
Other non-cash items		-3.1	-1.5
Interest income	3	-273.6	-266.4
Interest expenses	3	46.8	27.2
Change in operating assets/liabilities:			
Increase (-) / decrease (+) of lending to customers		763.8	-512.4
Increase (-) / decrease (+) of other assets		-50.4	-357.4
Increase (+) / decrease (-) of client deposits	8	658.2	-1,478.5
Increase (-) / decrease (+) of liabilities		-35.8	-26.6
Interest received		285.0	276.5
Interest paid		-54.8	-27.8
Income tax paid		-13.1	-8.8
Dividend income		-0.1	-0.7
Cash flow from operating activities		**1,388.4**	**-2,296.7**
Acquisition of property, equipment and intangible assets		-3.0	-8.0
Proceeds from disposal of property, equipment and intangible assets		3.5	0.3
Proceeds from disposal of investment property		1.5	0.5
Dividend received		0.8	0.7
Cash flows from investing activities		**2.8**	**-6.5**
Debt securities issued	9	802.8	300.0
Debt securities bought back		-254.9	-228.5
Payments of principal on leases		-6.2	-6.3
Dividends paid		0.0	-191.0
Cash flows from financing activities		**541.7**	**-125.8**
Net increase or decrease in cash and cash equivalents		**1,932.9**	**-2,429.0**
Cash and cash equivalents at the beginning of the period		2,948.7	4,884.7
Effects of currency translation on cash and cash equivalents		3.1	0.0
Net increase or decrease in cash and cash equivalents		1,932.9	-2,429.0
Cash and cash equivalents at the end of the period		**4,884.7**	**2,455.7**
Cash and cash equivalents comprise:			
Cash on hand		123.8	144.6
Non-restricted current account with central bank		4,690.3	2,249.3
Due from other credit institutions within three months		70.6	61.8
Total		**4,884.7**	**2,455.7**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

CORPORATE INFORMATION

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

BASIS OF PRESENTATION

The condensed consolidated interim financial information of Luminor Bank AS 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 Luminor Bank AS annual financial statements for the year ended 31 December 2020 (Annual Report 2020).

The accounting policies adopted in the preparation of these condensed consolidated interim financial information are consistent with those followed in the preparation of the Luminor Bank AS Annual Report 2020, except for the adoption of new standards effective as of 1 January 2021. Several amendments and interpretations are effective for the first time in 2021, but do not have a material impact on the interim condensed consolidated financial statements of Luminor. Luminor has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The financial information in this interim report is presented in the same format as in the Luminor Bank AS Annual Report 2020, except for several changes in classification as described below.

Change in presentation

Content of the Statement of Profit or Loss and Other Comprehensive Income and the Balance Sheet were reviewed during 2021 and adjusted as described in the sections below. As a result, reclassifications have been made for a better presentation of the financial information.

Reclassification of consolidated statements

To enhance the presentation of the primary financial statements, certain positions related to other net income from Luminor's financial assets/liabilities have been consolidated into “Net other financial income” position as is shown below:

€m	4th Quarter 2020			Jan-Dec 2020		
	As restated	Change	As previously reported	As restated	Change	As previously reported
Net gain on financial assets and liabilities designated at fair value through profit or loss	0.0	0.0	0.0	0.0	-0.2	0.2
Net gain on debt securities at fair value through profit or loss	0.0	-8.4	8.4	0.0	-1.8	1.8
Net gain on financial assets and liabilities held for trading	0.0	-4.8	4.8	0.0	-1.3	1.3
Net gain from financial derivatives	0.0	9.6	-9.6	0.0	4.8	-4.8
Net gains (-loss) from foreign currency operations	0.0	-24.1	24.1	0.0	-7.8	7.8
Net other financial income	27.7	27.7	0.0	6.3	6.3	0.0

Reclassification impacted the following Balance Sheet items:

€m	31 December 2020		
	As restated	Change	As previously reported
Debt securities	284.3	284.3	0.0
Equity instruments	2.8	2.8	0.0
Financial assets held for trading	0.0	-2.9	2.9
Financial assets at fair value through profit or loss	0.0	-284.1	284.1
Financial assets at fair value through other comprehensive income	0.0	-0.1	0.1

SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

Luminor makes estimates and applies assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities. Estimates and judgements are continuously evaluated and are based on management's experience and expectations of future events. Consistent with Luminor Bank AS Annual Report 2020 the significant estimates are the impairment of financial instruments, as well as the determination of the fair value.

Impairment of financial instruments

The methods and the key assumptions related to the calculation of the impairment of financial instruments are consistent with those applied by Luminor for the year ended 31 December 2020 except as noted further. For more detailed information on the impairment policies, please, refer to the Note 5 'General Risk Management Policies' of the Luminor Bank AS Annual Report 2020.

The applied Expected Credit Loss (the ECL) model was enhanced during 2021. Three aspects must be mentioned which had been introduced to improve the ECL model.

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

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

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

A management overlay adjustment introduced in the fourth quarter of 2020 was also applied during 2021 to adjust the standard ECL model output for the potential credit losses due to COVID-19 related uncertainties. However, the amount of the overlay was reduced as collective SICR trigger was introduced, the ECL model parameters re-estimated, and macroeconomic scenarios and their weights re-considered. Please, refer to the Note 2, Impairment policies section for more details on the management overlay.

Fair value determination

The methods and the key assumptions related to the calculation of the fair value are consistent with those applied by Luminor for the year ended 31 December 2020. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from the active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For the fair value of financial assets and liabilities, please, refer to the Note 12.

2. GENERAL RISK MANAGEMENT POLICIES

CREDIT RISK

COVID-19

Luminor's credit risk management and approach to address COVID-19 are described in detail in the Note 5 'General Risk Management Policies' of the Luminor Bank AS Annual Report 2020. During 2021, the approach remained unchanged.

Impairment policies

Luminor recognises credit losses in accordance with the requirements of IFRS 9, which applies a forward-looking ECL approach. For more detailed information on the impairment policies, please, refer to the Note 5 'General Risk Management Policies' of the Luminor Bank AS Annual Report 2020.

The three stages model is followed. For Stage 1 financial assets, loss allowances equal 12-month ECL and interest revenue is calculated on the instrument's gross carrying amount, using the effective interest rate method. For Stage 2 (including non-defaulted Purchased or Originated Credit Impaired (POCI) assets) loss allowances for ECL are calculated at an amount equal to lifetime ECL and the calculation of interest revenue is the same as for Stage 1. Also, for Stage 3 (including defaulted POCI assets) financial assets, lifetime ECL is calculated, interest revenue is calculated based on the instrument's amortised cost (that is, the gross carrying amount less the loss allowance). For Stage 3 financial assets which are classified as material, loss allowances are calculated on an individual basis.

A collective assessment of impairment is performed for all financial instruments that are not defaulted as at the reporting date, i.e., are classified to either Stage 1 or Stage 2 or are non-defaulted POCI assets. The expected loss is calculated as the probability weighted average of losses expected in different macroeconomic scenarios. The expected loss in the specific macroeconomic scenario is calculated as the multiple of PD, LGD, EAD and cumulative prepayment rate and is discounted using a discount rate.

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

Separate forecasts of macroeconomic variables with projections and assumptions over three years are prepared for each of the Baltic countries. The most recent review of the forecasts of macroeconomic variables over three years and historically observed default frequency levels was performed in the fourth quarter of 2021. During the fourth quarter of 2021, the probability weights for scenarios were reviewed, which resulted in a change of probability weight assumptions for optimistic and pessimistic scenarios. Luminor assumes a 10% (previously 30%) probability for the optimistic scenario, 60% for the baseline, and 30% (previously 10%) for the pessimistic scenario. Previous macroeconomic variables with projections and assumptions have been presented in the Luminor Bank AS Interim Report Q3 2021. The following tables show the parameters that were used for macroeconomic modelling.

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

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

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

1. *Annual change*

The above-mentioned review of macroeconomic variables together with a review of historically observed default frequency levels performed at the same time, indicated additional reversals of ECLs as compared to the end of 2020.

However, given the unprecedented uncertainty caused by COVID-19 and based on further analysis, Luminor decided to partially maintain a management overlay. The underlying reasons for the overlay, presented in the Luminor Bank AS Annual Report 2020, remained relevant. The decision to partially maintain the overlay was based on the concerns with regard to the spread of the Omicron and Delta variants, uncertainty over the efficacy of vaccines towards new variants, and new restrictions being applied in different parts of the world. Luminor's decision was also supported by the relative lack of effective early indicators to predict credit quality developments in the current unprecedented crisis, no clear trend of customers' post grace period behaviour and risks of inflation.

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

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

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

The Note 7 provides a summary of changes in the credit loss allowances and gross carrying amounts for loans to customers.

MARKET RISK

Luminor has a low appetite for market risk. The most significant parts of market risk for Luminor are interest rate risk and credit spread risk, both stayed within internal limits during the fourth quarter of 2021. Luminor has further increased its liquidity bond portfolio during the fourth quarter to 541.6 million EUR by actively managing liquidity buffer in accordance with internal procedures. The significance of other risks is lower as Luminor does not have any open positions in equity instruments for trading, customer related foreign exchange flow is managed through daily hedging activities, and all derivative contracts with customers are hedged with back-to-back transactions.

LIQUIDITY RISK

Liquidity risk is managed to ensure a constant ability to settle contractual obligations. Luminor has developed a set of early warning indicators for a timely identification of liquidity crises, and business and funding contingency funding plans to manage Luminor's liquidity during market disruptions. The liquidity risk management strategy is reviewed at least annually or after any significant change in the internal or external environment Luminor operates in.

Luminor uses a range of liquidity metrics for measuring, monitoring, and controlling liquidity risk including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), internal liquidity limits for funding concentration, and the survival horizon metric as a part of the liquidity stress testing. Luminor's liquidity position has remained strong, despite the decrease in LCR from 160.2% at the end of the third quarter of 2021 to 137.2% at the end of fourth quarter of 2021. The decrease in LCR was mainly caused by the outflow of deposits impacted by the deposit base optimization activities (e.g., introduction of negative rates for corporate deposits). The liquidity metrics stayed within internal and regulatory limits during the fourth quarter of 2021.

3. NET INTEREST AND SIMILAR INCOME

€m	4th Quarter		Jan–Dec	
	2020	2021	2020	2021
Loans and advances to customers at amortised cost	56.2	55.1	225.4	215.9
Deposits with other banks	0.0	0.1	0.7	0.4
Negative interest on financial liabilities	0.5	2.3	0.5	7.2
Interest income calculated using effective interest method	**56.7**	**57.5**	**226.6**	**223.5**
Finance leases	11.3	11.1	46.5	42.0
Other interest	0.3	0.2	0.6	0.9
Other similar income	**11.6**	**11.3**	**47.1**	**42.9**
Interest and similar income	**68.3**	**68.8**	**273.7**	**266.4**
Loans and deposits from credit institutions[1]	-4.6	-3.1	-15.0	-15.1
Deposits from customers	-1.1	-0.2	-8.2	-1.3
Impact of hedging activities	-1.7	0.4	-0.5	-1.2
Debt securities issued	-2.3	-1.3	-9.8	-7.5
Other[2]	-1.5	-0.2	-13.3	-2.1
Interest expense	**-11.2**	**-4.4**	**-46.8**	**-27.2**
Net interest and similar income	**57.1**	**64.4**	**226.9**	**239.2**
[1] Of which interest paid on cash balances at central bank	-4.2	-3.0	-12.1	-14.7
[2] Of which former parent funding loan commitment interest expense	-1.1	0.0	-10.6	-1.2

Interest and similar income by country of income generation	4th Quarter		Jan–Dec	
€m	2020	2021	2020	2021
Estonia	17.1	16.8	69.5	65.8
Latvia	21.5	21.8	86.8	85.0
Lithuania	29.7	30.2	117.4	115.6
Total	**68.3**	**68.8**	**273.7**	**266.4**

4. NET FEE AND COMMISSION INCOME

€m	4th Quarter		Jan-Dec	
	2020	2021	2020	2021
Cards	7.8	9.6	32.4	34.2
Credit products	1.2	1.3	5.4	4.9
Daily banking plans	4.1	4.4	14.2	16.0
Deposit products and cash management	4.2	4.2	16.3	16.8
Insurance	1.0	1.0	4.2	3.9
Investments	1.1	1.8	3.9	5.1
Pensions	2.9	4.4	9.8	11.5
Trade finance	2.0	2.5	8.3	8.9
Other fee and commission income	0.4	0.2	1.3	0.8
Fee and commission income	**24.7**	**29.4**	**95.8**	**102.1**
Cards	-2.8	-4.4	-17.2	-17.2
Credit products	-0.0	-0.1	-0.2	-0.6
Deposit products and cash management	-0.6	-0.3	-2.5	-2.9
Investments	-0.3	-0.3	-1.2	-1.4
Pensions	-0.2	-0.9	-0.6	-1.3
Other fee and commission expense	-0.1	-0.0	-0.5	-0.2
Fee and commission expense	**-4.0**	**-6.0**	**-22.2**	**-23.6**
Cards	5.0	5.2	15.4	17.0
Credit products	1.2	1.2	5.2	4.3
Daily banking plans	4.1	4.4	14.2	16.0
Deposit products and cash management	3.6	3.9	13.8	13.9
Insurance	1.0	1.0	4.2	3.9
Investments	0.8	1.5	2.6	3.7
Pensions	2.7	3.5	9.1	10.2
Trade finance	2.0	2.5	8.3	8.9
Other fee and commission income	0.3	0.2	0.8	0.6
Net fee and commission income	**20.7**	**23.4**	**73.6**	**78.5**

Fee and commission income by country of income generation	4th Quarter		Jan-Dec	
€m	2020	2021	2020	2021
Estonia	3.6	4.6	15.3	15.8
Latvia	7.5	9.4	28.9	31.6
Lithuania	13.6	15.4	51.6	54.7
Total	**24.7**	**29.4**	**95.8**	**102.1**

Fee and commission income by products and type of revenue recognition

€m	4th Quarter					
	2020			2021		
	Over time	Point in time	Total	Over time	Point in time	Total
Cards	2.0	5.8	**7.8**	2.5	7.1	**9.6**
Credit products	0.6	0.6	**1.2**	0.4	0.9	**1.3**
Daily banking plans	4.1	0.0	**4.1**	4.4	0.0	**4.4**
Deposit products and cash management	0.7	3.5	**4.2**	0.7	3.5	**4.2**
Insurance	0.0	1.0	**1.0**	0.0	1.0	**1.0**
Investments	0.4	0.7	**1.1**	0.6	1.2	**1.8**
Pensions	2.9	0.0	**2.9**	4.4	0.0	**4.4**
Trade finance	1.8	0.2	**2.0**	2.3	0.2	**2.5**
Other fee and commission income	0.1	0.3	**0.4**	0.0	0.2	**0.2**
Total	**12.6**	**12.1**	**24.7**	**15.3**	**14.1**	**29.4**

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

5. NET OTHER FINANCIAL INCOME

€m	4th Quarter		Jan-Dec	
	2020	2021	2020	2021
Net gain on financial assets and liabilities at fair value through profit or loss	0.2	0.1	0.0	0.3
Net gain (-loss) on debt securities designated at fair value through profit or loss	1.8	-1.5	8.4	-1.9
Net gain on financial assets and liabilities held for trading	1.3	2.1	4.8	7.0
Net gain (-loss) from financial derivatives	-4.8	6.6	-9.6	23.4
Net gain (-loss) from foreign currency operations	7.8	-1.2	24.1	-7.9
Total	**6.3**	**6.1**	**27.7**	**20.9**

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

6. OTHER ADMINISTRATIVE EXPENSES

€m	4th Quarter		Jan-Dec	
	2020	2021	2020	2021
IT related expenses	-25.8	-24.4	-106.4	-96.8
Consulting and professional services	-9.2	-1.7	-19.9	-24.8
Advertising and marketing expenses	-1.3	-2.6	-3.0	-6.5
Real estate expenses	-1.3	-0.9	-5.2	-3.7
Taxes and duties	-2.4	-0.6	-8.1	-3.8
Other expenses	-4.4	-4.0	-20.5	-14.1
Total	**-44.4**	**-34.2**	**-163.1**	**-149.7**
of which Exceptional costs	-27.8	-15.3	-102.6	-76.8

7. LOANS TO CUSTOMERS

€m	31 December 2020	30 September 2021	31 December 2021
Individual customers	5,391.5	5,545.4	5,641.1
Business customers	3,768.8	3,965.9	3,925.1
Financial institutions	131.9	154.2	199.5
Public sector	138.6	166.0	184.3
Total	**9,430.8**	**9,831.5**	**9,950.0**
of which Pledged loans (as shown below)	887.7	582.4	549.1

Pledged loans **€m**	31 December 2020	30 September 2021	31 December 2021
Former parent committed funding facility	292.8	0.0	0.0
Covered bond	548.5	548.5	549.1
Other	46.4	33.9	0.0
Total	**887.7**	**582.4**	**549.1**

Loans to customers by country of registration **€m**	31 December 2020	30 September 2021	31 December 2021
Estonia, Latvia, and Lithuania	9,188.3	9,567.9	9,675.2
Other EU countries	175.6	174.8	178.5
Other countries	66.9	88.8	96.3
Total	**9,430.8**	**9,831.5**	**9,950.0**

Loans to Business customers by economic sectors **€m**	31 December 2020	30 September 2021	31 December 2021
Real estate activities	1,161.6	1,135.7	1,167.8
Wholesale and retail trade	705.8	800.3	760.9
Manufacturing	456.2	519.9	504.6
Transport and storage	308.3	319.4	300.4
Agriculture, forestry, and fishing	272.3	303.2	296.6
Construction	151.6	199.5	214.4
Professional, scientific, and technical activities	179.8	142.2	125.0
Administrative and support service activities	190.0	178.9	187.6
Electricity, gas, steam, and air conditioning supply	117.9	85.2	78.4
Other sectors	225.3	281.6	289.4
Total	**3,768.8**	**3,965.9**	**3,925.1**

Loans to customers by gross carrying amount and expected credit loss allowance

31 December 2020 €m	Gross carrying amount	Allowance for impairment	Net carrying amount
Mortgage loans	4,614.2	-44.2	4,570.0
Leasing	454.3	-4.1	450.2
Consumer and card loans	106.3	-1.1	105.2
Other loans	275.0	-8.9	266.1
Individual customers	**5,449.8**	**-58.3**	**5,391.5**
Loans	2,823.1	-61.7	2,761.4
Leasing	843.0	-14.3	828.7
Factoring	180.8	-2.1	178.7
Business customers	**3,846.9**	**-78.1**	**3,768.8**
Financial institutions	**132.4**	**-0.5**	**131.9**
Public sector	**138.6**	**0.0**	**138.6**
Total	**9,567.7**	**-136.9**	**9,430.8**

30 September 2021 €m	Gross carrying amount	Allowance for impairment	Net carrying amount
Mortgage loans	4,738.0	-40.0	4,698.0
Leasing	454.6	-3.7	450.9
Consumer and card loans	107.9	-1.7	106.2
Other loans	296.9	-6.6	290.3
Individual customers	**5,597.4**	**-52.0**	**5,545.4**
Loans	2,868.5	-43.3	2,825.2
Leasing	892.7	-10.7	882.0
Factoring	260.3	-1.6	258.7
Business customers	**4,021.5**	**-55.6**	**3,965.9**
Financial institutions	**154.8**	**-0.6**	**154.2**
Public sector	**166.0**	**0.0**	**166.0**
Total	**9,939.7**	**-108.2**	**9,831.5**

31 December 2021 €m	Gross carrying amount	Allowance for impairment	Net carrying amount
Mortgage loans	4,833.6	-30.4	4,803.2
Leasing	456.1	-2.1	454.0
Consumer and card loans	108.3	-1.2	107.1
Other loans	283.3	-6.5	276.8
Individual customers	**5,681.3**	**-40.2**	**5,641.1**
Loans	2,837.1	-47.5	2,789.6
Leasing	891.9	-11.7	880.2
Factoring	257.0	-1.7	255.3
Business customers	**3,986.0**	**-60.9**	**3,925.1**
Financial institutions	200.2	-0.7	**199.5**
Public sector	184.5	-0.2	**184.3**
Total	**10,052.0**	**-102.0**	**9,950.0**

Loans to customers by risk category and stage

The credit quality of loans to customers is disclosed in the tables below according to our internal risk scale and methodology, the details of which have been disclosed in the Luminor Bank AS Annual Report 2020.

31 December 2020, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	5,091.2	63.7	0.0	3.5	**5,158.4**
Moderate risk	2,721.0	868.2	0.0	12.6	**3,601.8**
High risk	146.1	334.3	0.0	21.7	**502.1**
Default	0.0	0.0	288.2	17.2	**305.4**
Gross carrying amount	**7,958.3**	**1,266.2**	**288.2**	**55.0**	**9,567.7**
Allowance for impairment	-21.3	-23.1	-89.1	-3.4	**-136.9**
Net carrying amount	**7,937.0**	**1,243.1**	**199.1**	**51.6**	**9,430.8**

30 September 2021, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	5,826.7	85.6	0.0	3.2	**5,915.5**
Moderate risk	2,719.4	451.5	0.0	2.2	**3,173.1**
High risk	218.0	375.0	0.0	28.0	**621.0**
Default	0.0	0.0	218.3	11.8	**230.1**
Gross carrying amount	**8,764.1**	**912.1**	**218.3**	**45.2**	**9,939.7**
Allowance for impairment	-25.2	-23.6	-55.9	-3.5	**-108.2**
Net carrying amount	**8,738.9**	**888.5**	**162.4**	**41.7**	**9,831.5**

31 December 2021, €m	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	5,951.6	307.4	0.0	3.5	**6,262.5**
Moderate risk	2,343.9	745.4	0.0	6.8	**3,096.1**
High risk	159.9	324.6	0.0	23.3	**507.8**
Default	0.0	0.0	180.5	5.1	**185.6**
Gross carrying amount	**8,455.4**	**1,377.4**	**180.5**	**38.7**	**10,052.0**
Allowance for impairment	-16.4	-28.6	-55.5	-1.5	**-102.0**
Net carrying amount	**8,439.0**	**1,348.8**	**125.0**	**37.2**	**9,950.0**

Information about credit loss allowances

For the purposes of the movement schedules below, Luminor assesses Stages only at the reporting date and transfers between the Stages reflect this. Movements between stages are measured at the beginning of the reporting period.

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

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

€m	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2020	**-21.3**	**-23.1**	**-89.1**	**-3.4**	**-136.9**	**7,958.3**	**1,266.2**	**288.2**	**55.0**	**9,567.7**
Movements with impact on credit loss allowances										
Transfers within Stages:										
to Stage 1	-7.7	6.5	1.2	0.0	**0.0**	231.4	-221.3	-10.1	0.0	**0.0**
to Stage 2	3.4	-12.2	8.8	0.0	**0.0**	-724.5	778.8	-54.3	0.0	**0.0**
to Stage 3	1.9	1.1	-3.0	0.0	**0.0**	-23.3	-45.3	68.6	0.0	**0.0**
Originated or purchased	-10.1	0.0	0.0	0.0	**-10.1**	1,936.5	0.0	0.0	2.8	**1,939.3**
Derecognised and repaid	21.1	23.3	59.7	0.9	**105.0**	-923.0	-401.0	-90.4	-18.8	**-1,433.2**
Changes to ECL model assumptions and effect from changes in Stages	-16.3	-20.7	-52.5	-1.4	**-90.9**	0.0	0.0	0.0	0.0	**0.0**
Management overlay adjustment	12.6	-3.5	0.0	0.0	**9.1**	0.0	0.0	0.0	0.0	**0.0**
Total	**4.9**	**-5.5**	**14.2**	**-0.5**	**13.1**	**497.1**	**111.2**	**-86.2**	**-16.0**	**506.1**
Movements without impact on credit loss allowances										
Write-offs	0.0	0.0	19.4	2.4	**21.8**	0.0	0.0	-21.5	-0.3	**-21.8**
As at 31 December 2021[1]	**-16.4**	**-28.6**	**-55.5**	**-1.5**	**-102.0**	**8,455.4**	**1,377.4**	**180.5**	**38.7**	**10,052.0**

[1] Out of total POCI loans credit loss allowances -0.5 million EUR is in non-credit-impaired, and -1.0 million EUR is in credit-impaired, gross carrying amount 33.6 million EUR is in non-credit-impaired and 5.1 million EUR in credit-impaired.

8. DEPOSITS FROM CUSTOMERS

€m	31 December 2020	30 September 2021	31 December 2021
Term deposits	1,087.0	825.8	888.5
Demand deposits	10,734.7	10,133.0	9,416.9
Total	**11,821.7**	**10,958.8**	**10,305.4**

Deposits from customers by type of customer €m	31 December 2020	30 September 2021	31 December 2021
Individual customers	4,509.4	4,581.8	4,788.6
Business customers	4,272.9	3,990.6	4,044.8
Financial institutions	345.0	245.9	246.9
Public sector	2,694.4	2,140.5	1,225.1
Total	**11,821.7**	**10,958.8**	**10,305.4**

Deposits from customers by country of registration €m	31 December 2020	30 September 2021	31 December 2021
Estonia, Latvia, and Lithuania	11,614.2	10,698.8	10,075.9
Other EU countries	110.5	90.4	80.0
Other countries	97.0	169.6	149.5
Total	**11,821.7**	**10,958.8**	**10,305.4**

9. DEBT SECURITIES ISSUED

€m	First call date	Maturity date	Nominal amount	Carrying amount		
				31 December 2020	30 September 2021	31 December 2021
1.5% senior bond[1]		October 2021	99.2	100.1	100.7	0.0
1.375% senior bond[2]		October 2022	71.5	301.6	72.5	71.8
0.01% covered bond		March 2025	500.0	502.0	497.7	494.6
0.792% senior bond	December 2023	December 2024	300.0	297.5	299.4	298.3
0.539% senior bond	September 2025	September 2026	300.0	0.0	298.8	298.9
Total			**1,270.7**	**1,201.2**	**1,269.1**	**1,163.6**

[1] Initial nominal amount was 350 million EUR. We repurchased 250.8 million EUR in December 2020.

[2] Initial nominal amount was 300 million EUR. We repurchased 228.5 million EUR in September 2021.

10. DERIVATIVE FINANCIAL INSTRUMENTS

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

30 September 2021	Notional	Fair values	
€m	amounts	Assets	Liabilities
Interest rate-related contracts	2,192.8	6.5	5.8
Currency-related contracts	1,201.3	25.5	17.4
Commodity-related contracts	150.5	25.3	25.1
Total	**3,544.6**	**57.3**	**48.3**

31 December 2021	Notional	Fair values	
€m	amounts	Assets	Liabilities
Interest rate-related contracts	2,023.7	7.6	10.0
Currency-related contracts	1,351.3	22.8	15.5
Commodity-related contracts	170.1	87.4	87.0
Total	**3,545.1**	**117.8**	**112.5**

Hedge accounting

Luminor applies hedge accounting only to fair value hedges of issued debt securities. To test hedge effectiveness, Luminor uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk. Ineffectiveness was clearly immaterial as at 31 December 2020, 30 September 2021, and 31 December 2021. The carrying amount of the derivatives is included in line item 'Derivative financial instruments' in the Balance Sheet on Assets or Liability side depending on the fair value of the instruments. The notional and fair value of hedging instruments are:

Interest rate swaps €m	31 December 2020	30 September 2021	31 December 2021
Notional amount	1,100.0	800.0	800.0
Carrying amount	5.3	0.9	-3.5

11. CONTINGENT LIABILITIES

€m	31 December 2020	30 September 2021	31 December 2021
Undrawn loan commitments given	1,199.1	1,195.5	1,230.1
Financial guarantees given	433.5	502.5	498.9
Performance guarantees	147.1	169.7	190.5
Total	**1,779.7**	**1,867.7**	**1,919.5**

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

12. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The valuation techniques along with the selection of relevant inputs have not changed in the reporting period. For detailed information on the valuation techniques and inputs, please, refer to the Luminor Bank AS Annual Report 2020.

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

30 September 2021, €m	Level 1	Level 2	Level 3	Total	Carrying amount
Financial assets at amortised cost for which fair values are disclosed					
Cash on hand	150.5	0.0	0.0	**150.5**	**150.5**
Balances with central banks	0.0	3,561.5	0.0	**3,561.5**	**3,561.5**
Due from other credit institutions	0.0	39.3	0.0	**39.3**	**39.3**
Loans to customers	0.0	0.0	9,697.6	**9,697.6**	**9,831.5**
Debt securities	146.1	0.0	0.0	**146.1**	**141.3**
Other financial assets	0.0	13.9	0.0	**13.9**	**13.9**
Financial assets at fair value					
Financial assets held for trading					
Debt securities	8.4	0.0	0.0	**8.4**	**8.4**
Financial assets at fair value through profit or loss					
Equity instruments	0.0	2.7	0.0	**2.7**	**2.7**
Debt securities					
Governments	243.2	0.0	0.0	**243.2**	**243.2**
Credit institutions	23.9	0.0	0.0	**23.9**	**23.9**
Other financial corporations	0.0	0.0	7.1	**7.1**	**7.1**
Derivative financial instruments	0.0	57.1	0.2	**57.3**	**57.3**
Financial assets at fair value through other comprehensive income					
Debt instruments	0.8	0.0	0.0	**0.8**	**0.8**
Equity instruments	0.0	0.0	0.1	**0.1**	**0.1**
Total	**572.9**	**3,674.5**	**9,705.0**	**13,952.4**	**14,081.5**
Liabilities at amortised cost for which fair values are disclosed					
Loans and deposits from credit institutions	0.0	57.5	0.0	**57.5**	**57.5**
Deposits from customers	0.0	10,133.0	825.8	**10,958.8**	**10,958.8**
Debt securities issued	0.0	1,281.2	0.0	**1,281.2**	**1,269.1**
Other financial liabilities	0.0	31.0	0.0	**31.0**	**31.0**
Financial liabilities at fair value					
Derivative financial instruments	0.0	48.3	0.0	**48.3**	**48.3**
Total	**0.0**	**11,551.0**	**825.8**	**12,376.8**	**12,364.7**

31 December 2021, €m	Level 1	Level 2	Level 3	Total	Carrying amount
Financial assets at amortised cost for which fair values are disclosed					
Cash on hand	144.6	0.0	0.0	**144.6**	**144.6**
Balances with central banks	0.0	2,358.1	0.0	**2,358.1**	**2,358.1**
Due from other credit institutions	0.0	64.4	0.0	**64.4**	**64.4**
Loans to customers	0.0	0.0	9,743.9	**9,743.9**	**9,950.0**
Debt securities	321.3	0.0	0.0	**321.3**	**325.5**
Other financial assets	0.0	15.5	0.0	**15.5**	**15.5**
Financial assets at fair value					
Financial assets held for trading					
Debt securities	8.7	0.0	0.0	**8.7**	**8.7**
Financial assets at fair value through profit or loss					
Equity instruments	0.0	2.7	0.0	**2.7**	**2.7**
Debt securities					
Governments	242.1	0.0	0.0	**242.1**	**242.1**
Credit institutions	23.7	0.0	0.0	**23.7**	**23.7**
Other financial corporations	0.0	0.0	6.9	**6.9**	**6.9**
Derivative financial instruments	0.0	117.2	0.6	**117.8**	**117.8**
Financial assets at fair value through other comprehensive income					
Debt instruments	1.4	0.0	0.0	**1.4**	**1.4**
Equity instruments	0.0	0.0	0.5	**0.5**	**0.5**
Total	**741.8**	**2,557.9**	**9,751.9**	**13,051.6**	**13,261.8**
Liabilities at amortised cost for which fair values are disclosed					
Loans and deposits from credit institutions	0.0	83.8	0.0	**83.8**	**83.8**
Deposits from customers	0.0	9,416.9	888.5	**10,305.4**	**10,305.4**
Debt securities issued	0.0	1,106.4	0.0	**1,106.4**	**1,163.6**
Other financial liabilities	0.0	37.5	0.0	**37.5**	**37.5**
Financial liabilities at fair value					
Derivative financial instruments	0.0	112.5	0.0	**112.5**	**112.5**
Total	**0.0**	**10,757.1**	**888.5**	**11,645.6**	**11,702.8**

Change in debt securities in Level 3 €m	Full year 2020	Jan-Sep 2021	Sep-Dec 2021
Opening balance	**12.9**	**6.2**	**7.1**
Additions or disposals	-7.2	0.0	0.0
Unrealised gains for assets held at the end of the reporting period	0.5	0.9	-0.2
Closing balance	**6.2**	**7.1**	**6.9**

13. RELATED PARTIES

Related parties are defined as shareholders and entities with significant influence, control, or joint control; 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; and associated companies. A number of banking transactions are entered into with related parties in the normal course of business, as follows:

Parent and ultimate controlling party

During the fourth quarter of 2021 Luminor distributed 190.0 million EUR of dividends to its parent entity (2020: 0 million EUR).

Entities with significant influence

€m	4th Quarter		Jan-Dec	
	2020	2021	2020	2021
Interest expenses	-3.8	-3.2	-11.1	-7.9
Net commission and fee income	-0.0	-0.1	-0.1	-0.2
Net other financial income	-16.7	4.2	-26.8	27.0
Other administrative expenses	-6.6	0.0	-14.4	-4.0
Other income and expenses	-0.6	0.1	-1.4	0.4
Total	**-27.7**	**1.0**	**-53.8**	**15.3**

€m	31 December 2020	30 September 2021	31 December 2021
Due from other credit institutions	55.9	8.1	7.1
Derivative instruments	18.7	35.3	87.7
Other assets	0.1	0.0	0.0
Total assets	**74.7**	**43.4**	**94.8**
Due to credit institutions	3.1	15.8	63.1
Derivative instruments	41.3	19.4	26.9
Other liabilities	4.4	11.6	3.2
Total liabilities	**48.8**	**46.8**	**93.2**

Key management personnel

€m	4th Quarter		Jan-Dec	
	2020	2021	2020	2021
Payments of fixed and variable remuneration	-0.9	-0.6	-2.8	-2.7

€m	31 December 2020	30 September 2021	31 December 2021
Loans to customers	1.0	0.1	0.1
Deposits from customers	1.1	0.5	0.9

Associated companies

ALD Automotive (3 entities) €m	31 December 2020	30 September 2021	31 December 2021
Loans to Customers	11.2	6.7	5.9
Deposits from customers	0.8	0.2	0.5

14. SEGMENT REPORTING

€m	4th Quarter							
	2020				2021			
	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Net interest and similar income	27.2	30.0	-0.1	**57.1**	28.2	32.6	3.6	**64.4**
Net fee and commission income	14.0	6.2	0.5	**20.7**	15.4	7.7	0.3	**23.4**
Net other financial income	1.6	1.7	3.0	**6.3**	1.8	3.2	1.1	**6.1**
Other income	0.3	0.2	-2.0	**-1.5**	0.1	0.0	-2.1	**-2.0**
Total operating income	**43.1**	**38.1**	**1.4**	**82.6**	**45.5**	**43.5**	**2.9**	**91.9**
Total operating expenses	-48.8	-27.3	0.4	**-75.7**	-41.9	-22.9	-1.2	**-66.0**
Credit loss allowance	5.6	8.6	0.3	**14.5**	8.8	-11.2	0.0	**-2.4**
Other	0.0	0.0	-0.6	**-0.6**	0.0	0.4	0.0	**0.4**
Profit (-loss) before tax	**-0.1**	**19.4**	**1.5**	**20.8**	**12.4**	**9.8**	**1.7**	**23.9**

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

Fee and commission income by segment

€m	4th Quarter							
	2020				2021			
	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Cards	6.5	1.3	0.0	**7.8**	8.2	1.4	0.0	**9.6**
Credit products	0.1	1.1	0.0	**1.2**	0.1	1.2	0.0	**1.3**
Daily banking plans	4.0	0.1	0.0	**4.1**	3.9	0.1	0.4	**4.4**
Deposit products and cash management	2.0	1.9	0.3	**4.2**	2.1	2.0	0.1	**4.2**
Insurance	0.7	0.3	0.0	**1.0**	0.8	0.2	0.0	**1.0**
Investments	0.5	0.4	0.2	**1.1**	0.8	1.0	0.0	**1.8**
Pensions	2.9	0.0	0.0	**2.9**	4.3	0.1	0.0	**4.4**
Trade finance	0.0	1.9	0.1	**2.0**	0.0	2.5	0.0	**2.5**
Other fee and commission income	0.2	0.2	0.0	**0.4**	0.1	0.1	0.0	**0.2**
Total	**16.9**	**7.2**	**0.6**	**24.7**	**20.3**	**8.6**	**0.5**	**29.4**

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

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

30 September 2021, €m	Retail	Corporate	Other	Total
Loans to customers[1]	5,353.0	4,598.0	18.7	**9,969.7**
Deposits from customers	5,842.0	5,085.8	31.0	**10,958.8**

31 December 2021, €m	Retail	Corporate	Other	Total
Loans to customers[1]	5,437.6	4,630.1	19.3	**10,087.0**
Deposits from customers	6,066.3	4,196.8	42.3	**10,305.4**

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

The table below shows reconciliation between the total amount of loans and receivables presented under reportable segments above to the net carrying amount from Luminor's Balance Sheet:

€m	31 December 2020	30 September 2021	31 December 2021
Total under segment reporting	**9,591.5**	**9,969.7**	**10,087.0**
Accrued interest	20.5	14.6	9.4
Allowance	-136.9	-108.2	-102.0
Initial impairment	-18.7	-16.8	-15.7
Amortized fee	-25.6	-27.8	-28.7
Net carrying amount	**9,430.8**	**9,831.5**	**9,950.0**

GLOSSARY

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

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

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

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

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

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

Common Equity Tier 1 ratio
Shareholders' equity subject to regulatory adjustments as a percentage of total Risk Exposure Amounts.

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

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

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

INFORMATION ABOUT LUMINOR

Luminor Bank AS

Location and address	Liivalaia 45
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	Estonia
Registered country	The Republic of Estonia
Main activity:	Credit institution
Commercial Register code	11315936
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SWIFT/BIC	RIKOEE22
E-mail	info@luminor.ee
Investor relations	ir@luminorgroup.com
Balance sheet date	31 December 2021
Reporting period	1 January to 31 December 2021
Reporting currency	euro

Luminor

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