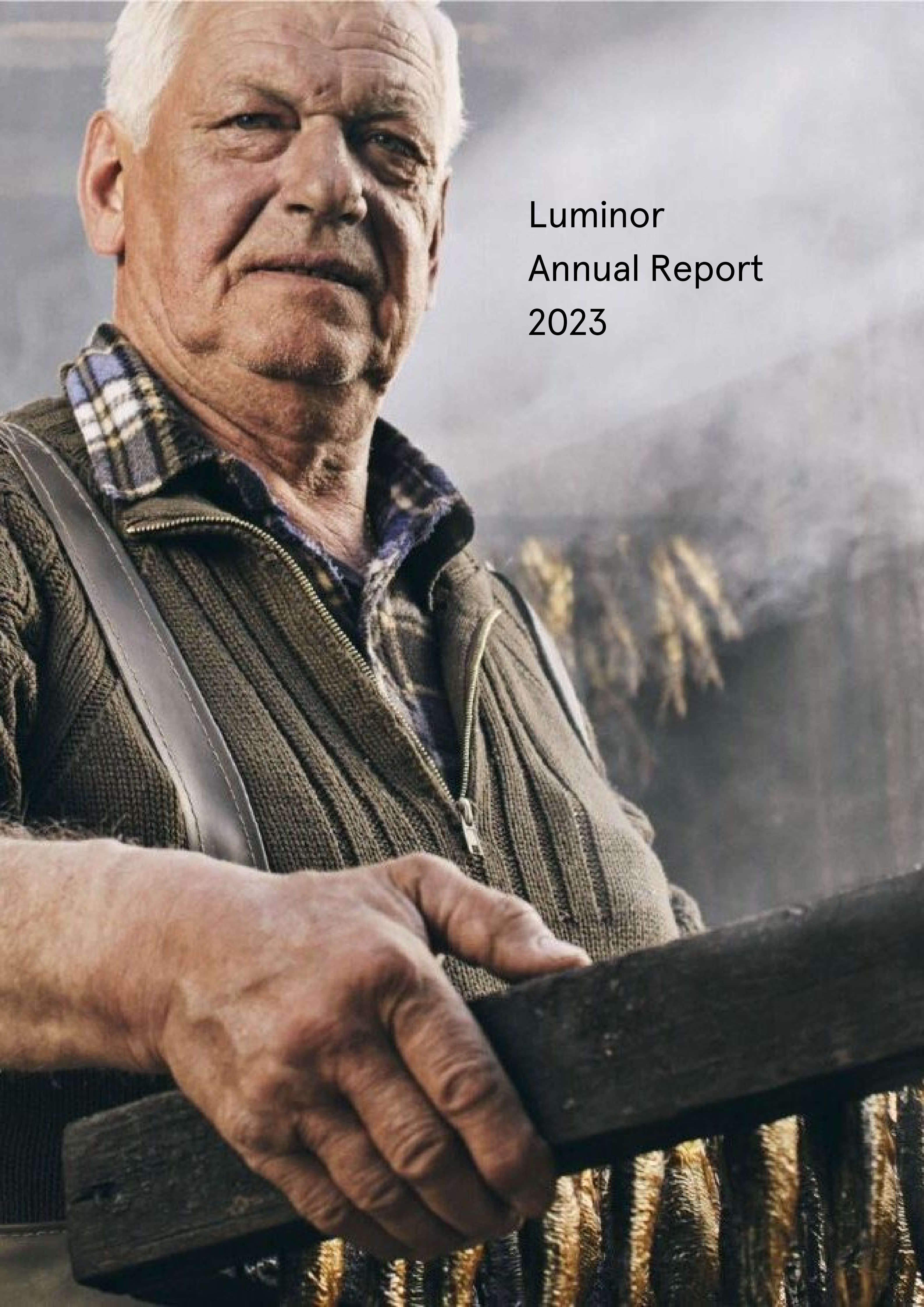


Luminor
Annual Report
2023

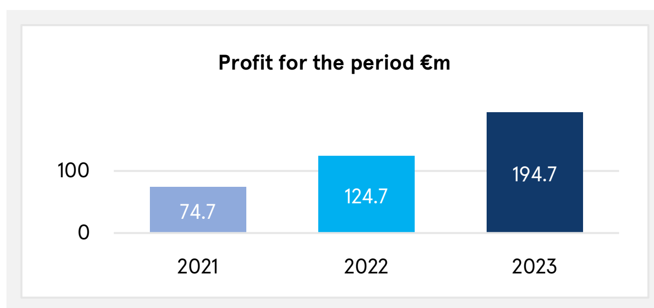
INTRODUCTION

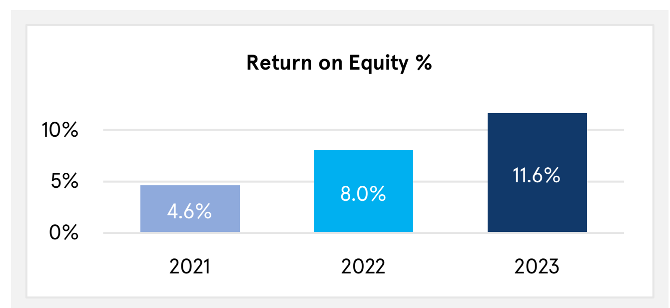
At a glance

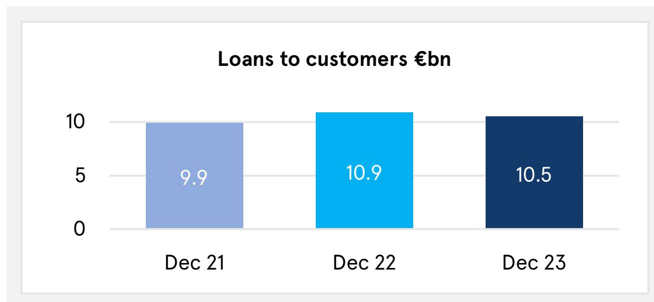
OUR YEAR IN BRIEF

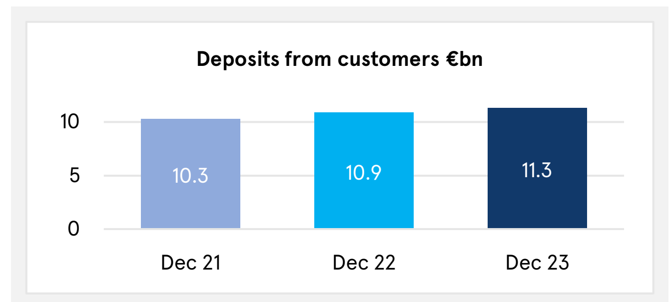
- Strong growth in income (up 65%) reinvested partially in IT and process improvement
- Pre-tax profit up 92% but new taxes in Latvia and Lithuania lowered growth in profit for the period
- Deposits from customers grew 3.1%, which included a doubling of term deposits
- Liquidity and capital ratios increased and remain at a very high level

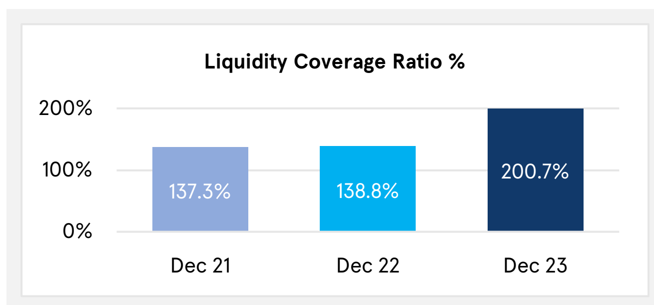
PERFORMANCE IN BRIEF

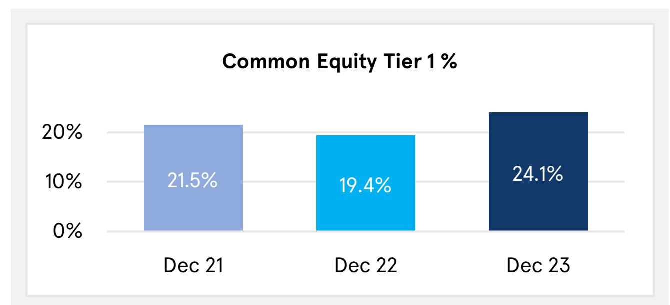












ABOUT US

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. We are here to improve the financial health of our customers and our home countries, and to support their growth. Further information about us can be found at www.luminor.ee.

Chief Executive's statement

In 2023 reference interest rates increased from the extraordinary low levels of recent years. Among other things, this led to a reduction in loan demand and increased competition for customer deposits. In this environment, we continued to support our customers - individuals and companies resident in the Baltic countries – and consequently grew our deposits, whereas our loan book experienced a marginal decline.

We made progress in Retail Banking as we improved our product offering, focused on growing our current account and deposit volumes, and continued to build our business around our customers. Demand for new loans was muted, though we increased our mortgage lending once again. In Corporate Banking we responded to customer needs with increased deposit balances and cemented our position as the leading arranger of new debt securities offered by Baltic corporate issuers. We signed an agreement with the European Investment Bank to facilitate additional lending for Baltic SMEs and support the green transition of the economies. Sustainalytics recognised our progress when they awarded us for the second time, the lowest ESG risk rating of any of the largest banks in the Baltic region.

In 2023 we supported our customers, grew our income and strong liquidity and capital positions, and invested for the future, while improving our efficiency.

We look forward with confidence because of our belief in our home markets and our updated strategy.

Peter Bosek
Chief Executive

We generated an increased pre-tax profit of 273.2 million EUR, 92% higher than the prior year. However, profit after tax of 194.7 million EUR increased by 70.0 million EUR following the introduction of new taxes in Latvia and Lithuania. Total operating income increased by two-thirds as we grew net interest income, as a consequence of the increase in interest rates. Operating expenses increased by 45.7% as we improved our IT systems and our processes, which we will continue in the coming years. Further, we recorded a 17 million EUR increase in expected credit losses driven by a few individual cases. Tax expenses increased four-fold driven principally by the introductions of prepayment of corporate income tax in Latvia and a temporary bank tax in Lithuania.

We generated a pre-tax return on equity of 16.3%, or 11.6% as measured on a post-tax basis. Our liquidity and capital positions are strong. Over the year we increased our Liquidity Coverage ratio to 200.7%, and at year end our Common Equity, Tier 1 and Total Capital Ratios, including net profit for the period, were 24.1%. All our capital is composed of equity. We continue to review our capital levels and structure to align with our plans and outlook, and improve the efficiency of our capital resources.

Our credit quality remains robust. Stage 2 loans reduced over the year by 6.8% as facilities amortised or were repaid as we managed our loan book actively. However, Stage 3 loans increased by 68.8 million EUR, principally as we reclassified the risk of one customer, and consequently accounted for 1.9% of gross lending at year end. We have no direct exposure to companies domiciled in Russia, Belarus or Ukraine. Our exposure to residents of these countries, mostly residential mortgages, fell further over the year and is now less than 1 million EUR.

During the year Qasim Abbas and Iain Plunkett were appointed to the Supervisory Council while Nadim El Gabbani, Elly Hardwick, and Michael Richard Jackson stepped down from the Council and the committees on which they served. Ossi Leikola was appointed to the Management Board and to the new role of Deputy Chief Executive, and Diego Biondo was appointed as Chief Risk Officer as successor to Georg Kaltenbrunner. Jonas Urbonas assumed operational responsibility for Corporate Banking following the resignation of Andrius Načajus, and Andrea Granata was appointed interim head of the Chief Operating Office division as successor to Ian Penny and Ilja Sovetov.

I will resign effective 30 June 2024 to re-join Erste, the Austrian bank, as Chief Executive. The Council have commenced a process to appoint my successor. In the interim I am committed to Luminor; I will work as before with the Council and lead the Board, progress our strategy, and ensure a seamless handover to the next Chief Executive.

Meanwhile, the long-term outlook for the Baltic region is strong. We look forward with confidence, despite the prevailing economic environment, because of our belief in our home markets and our clear strategy, which we updated in the year; we are here to improve the financial health of our customers and our home countries, and to support their growth. In so doing, we will maintain our strong financial standing, exercise prudent risk management, and fulfil our wider obligations.

We are Luminor

Luminor is the leading independent Baltic bank and serves the financial needs of individuals and families, companies and governments across Estonia, Latvia, and Lithuania. Our three home markets are strong, dynamic, and forward-looking. We are dedicated to promoting the financial well-being of our region and supporting its dynamism and innovation.

Since the restoration of independence in the early 1990's, the Baltic countries have been transformed from planned economies to robust democracies. All three countries are members of NATO, the European Union, and the Schengen Area, and have adopted the euro. GDP per head has more than doubled since 2000, yet is just 50% of the EU average. That should support continued, above EU-average, growth. Governments have pursued conservative fiscal policies and have Government debt to GDP ratios of below 40%, less than half the EU average. Principal export markets are the other EU member countries, the United States, and the United Kingdom. Trade with Russia is limited.

The total population of the three countries, at just over 6 million, is similar to other Nordic countries such as Denmark, Finland or Norway. Like their neighbours, the Baltic countries score highly for openness and freedom. In Transparency International's 2022 Corruption Perceptions Index, all the Baltic countries were ranked in the top quartile of 180 countries globally, with an average score of 65.0, similar to South Korea and well ahead of CEE countries.

The Baltic banking market is competitive but profitable. We are the third largest bank in the region with a market share of 15% in lending. We compete against two Swedish banks which operate across the region, together with a smaller sized, local bank in each country. Lending balances in the region have grown in recent years, but low private indebtedness, including low mortgage penetration, gives room for further credit growth.

We were created in 2017 when DNB and Nordea joined their Baltic operations, to serve the financial needs of these dynamic economies. We manage our business by customer segment – Retail Banking and Corporate Banking – on a pan-Baltic basis from our headquarters in Estonia and branches in Latvia and Lithuania. Our subsidiaries provide leasing, manage pension funds and offer e-commerce payments. We operate only in the Baltic countries and target our services at residents of the Baltic countries, or individuals and companies with a strong connection to the Baltic countries.

We are owned, via Luminor Holding, by a consortium led by private equity funds managed by Blackstone (80.05%) and DNB Bank (19.95%). We are regulated by the European Central Bank (the ECB), have a robust governance structure and aspire to the highest standards of conduct. Our non-executive Supervisory Council oversees the executive Management Board. The Supervisory Council members are appointed either from amongst the nominees of the shareholders of Luminor Holding, or are independent. The executive Management Board members are a blend of local and international executives.

We organise our control framework across three lines. The first line, our business and support divisions, are responsible for managing their risks according to our policies, procedures and controls. The second line is a control function comprised of our Compliance and Risk divisions which are independent of, and monitor the activities of, the first line. Internal Audit serves as the third line which assesses the effectiveness of the first two lines. We do not tolerate financial crime. To prevent, detect, and report any potential financial crime, we have a low-risk appetite, have built our compliance culture, and enhanced our risk management capabilities. We work closely with governments and supervisors and use this work to augment our systems and processes, to raise our effectiveness.

We built an independent bank between 2017 and 2020. We merged 6-banks into one, and established our headquarters in Tallinn. We carved out our IT systems from our founding parents and repaid to them 4 billion EUR of funding as we built our independent funding base. And we halved our non-performing loans ratio. Since the start of 2021 we have focused on doing more business with more customers, and doing so more efficiently.

We are well placed to build on our success. We have a simple and straightforward business model; we are a retail and corporate bank, and our business is balanced, by customer type, by sources and uses of funds, and by country. We are easy to understand: Loans to customers' account for two-thirds of our assets, we are funded primarily with Deposits from customers, and well capitalised. We have developed a leading position in Baltic capital markets. And we are committed to carbon neutrality by 2050.

Our strategy

We play a significant role in the Baltic society. Our actions impact customers' well-being and financial market stability. We believe that a strong risk and compliance culture creates trust between our stakeholders and us, and is a foundation for sustainable business.

We therefore adhere to ethical and compliance conduct standards and commit to build sustainable compliance into a competitive advantage. For us, sustainable compliance has four elements. First, employees act with integrity and integrate compliance by design into our processes. Second, we know and respect current and developing regulatory requirements and customer expectations. Third, business functions, support functions and control functions work as trusted and empowered partners. Lastly, we are transparent and reliable to our customers, employees, regulators, partners, and shareholders.

We place a strong emphasis on trust, team spirit, and a sound risk and compliance culture within the organisation. We are perceived as a 'human' bank that is approachable, listens to the needs of our customers, and is interested in an open dialogue with them. Our motivated, open, and proactive employees take responsibility and enable us to provide excellent service and achieve our strategic priorities.

We updated our strategy in 2023, to strengthen our foundation and reinvigorate our customer centric, human approach.

The strategy provides a framework for our actions, focus, and performance over the next three years.

Peter Bosek
Chief Executive

We have eight strategic priorities:

1. build our bank around the customers;
2. be the preferred full-service bank for retail customers by delivering human-centric solutions;
3. be the favoured bank for growing Baltic companies;
4. raise efficiency;
5. elevate the resilience and capability of our IT platform;
6. become a team who execute as owners and take responsibility;
7. be committed to sustainable growth and implementation of ESG targets;
8. ensure a strong risk culture and strong risk and compliance management.

Our vision is to be the trusted partner in building strong financial health across the Baltic region through human-centric banking solutions. This vision is complemented by seven long-term ambitions and targets addressing financial performance and position, customer and employee promoter scores, and climate neutrality.

In line with our priorities, and to realise our ambitions and so meet our targets, we have identified 14 key strategic initiatives to which we committed between now and end 2026. These initiatives cover our business divisions, including service approach, product strategies, and sector initiatives; our support divisions, including our processes, capital efficiency and people strategy; our control divisions, including data and cyber-risk strategies, and initiatives to raise effectiveness further, and, finally, to align our actions with sustainable growth.

We believe our market position, competitive product offering, and home market knowledge will drive our success.

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This annual report has been prepared in accordance with the International Financial Reporting Standards, as adopted by the European Union, and Estonian law. In this report 'Luminor', 'Luminor Bank', 'we', 'us' and 'our' refer to Luminor Bank AS together with its subsidiaries. The abbreviations '€m' and '€bn' represent millions and billions (thousands of millions) of euro, respectively. The ratios we use to measure and explain our performance and position are defined in the Glossary. The corporate governance report is prepared in accordance with the requirements of the Estonian Accounting Act, the European Banking Authority's Guidelines on internal governance, and with consideration to Global Reporting Initiative Standards.

MANAGEMENT REPORT

Financial review

Summary income statement, €m	2022	2023
Net interest and similar income	300.8	542.0
Net fee and commission income	80.3	84.6
Net other operating income	10.7	19.6
Total operating income	**391.8**	**646.2**
Total administration expenses	-233.3	-339.9
Profit before credit losses and tax	**158.5**	**306.3**
Expected credit losses	-16.1	-33.1
Profit before tax	**142.4**	**273.2**
Tax expense	-17.7	-78.5
Profit for the period	**124.7**	**194.7**
Cost / income ratio, %	59.5	52.6

We generated an increased pre-tax profit of 273.2 million EUR, 130.8 million EUR higher than in 2022. However, profit for the period of 194.7 million EUR increased by just 70.0 million EUR, following the introduction of new higher taxes in Latvia and Lithuania. An increase in Total operating income of 254.4 million EUR was offset in part by a 106.6 million EUR increase in Total administration expenses, and we recorded a 17.0 million EUR increase in expected credit losses.

Total operating income was 646.2 million EUR, an increase of 64.9%, as compared to the prior year. Net interest income increased by 241.2 million EUR, or 80%, and we generated a net interest margin of 3.65%, as compared to 2.18%, as reference interest rates normalised after years of extraordinary low interest rates. Interest income increased by 412.2 million EUR while interest expense grew by 171.0 million EUR as the cost of funding, mainly deposits, increased. We grew Net fee and commission income by 4.3 million EUR, or 5%, with growth in fees from Cards, Daily banking plans, and Insurance while fees from Deposits products and cash management fell. Net other operating income increased by 8.9 million EUR as we earned more from our foreign currency operations.

Total administration expenses were 339.9 million EUR, an increase of 45.7% as compared to the previous year. The increase is a consequence of the significant improvements we are making to our IT systems and our processes and so enhance our customers' experience. Most of the increase is therefore related to IT expenses and consultancy costs. We have also invested more into staff. In addition, we wrote down 6.2 million EUR of goodwill, associated with the purchase of Maksekeskus, and realised a loss of 3.6 million EUR on derecognition of capitalised software costs as part of our IT improvements. Despite this, our cost to income ratio improved from 59.5% in 2022 to 52.6%. Excluding the cost of the write-down and derecognition expense, our cost-to-income ratio would have improved further to 51.1%.

Expenses, €m	2022	2023
Personnel	-110.6	-131.3
IT-related	-71.3	-98.9
Other	-41.4	-89.7
Depreciation, etc.	-10.0	-20.0
Total	**-233.3**	**-339.9**

We recorded expected credit losses of 33.1 million EUR this year as compared to 16.1 million EUR last year. Expected credit losses in 2022 benefitted from a €11.9 million EUR reversal as we released in full a management overlay related to potential losses caused by the effect of COVID-19. The higher expected credit losses this year reflect, in particular, an increase in a small number of on and off balance sheet, Stage 3, exposures.

Tax expense was over four times higher at 78.5 million EUR as Latvia enacted mandatory prepayment of corporate income tax (15.8 million EUR), Lithuania introduced a temporary bank tax (30.1 million EUR), and we recorded higher profits. We generated a pre-tax return on equity of 16.3%, or 11.6% as measured on a post-tax basis (2022: 9.1% and 8.0%, respectively).

Summary balance sheet €m	31 Dec 2022	31 Dec 2023
Cash and balances with central banks	2,178.1	3,184.9
Debt securities	1,289.8	1,491.8
Loans to customers	10,874.7	10,502.6
Other assets	414.1	312.8
Total assets	**14,756.7**	**15,492.1**
Deposits from customers	10,947.9	11,287.2
Debt securities issued	1,813.9	1,898.7
Other liabilities	411.5	528.1
Equity	1,583.4	1,778.1
Total liabilities and equity	**14,756.7**	**15,492.1**
Liquidity Coverage ratio, %	138.8	200.7
Net Stable Funding ratio; %	130.5	147.1

In 2023 we grew our balance sheet to 15.5 billion, as we increased Deposits from customers by 3.1%, while balances of Loans to customers reduced by 3.4%, as customers responded to the prevailing, low growth economic environment and higher reference interest rates. Cash and balances with central banks increased by over 1.0 billion EUR and accounted for just over one-fifth of Total assets at year end.

Our balance sheet is very strong, with good credit quality, and robust capital and liquidity ratios.

We are ready and able to support our customers now and in the future.

Palle Nordahl
Chief Financial Officer

Loans to customers decreased by 372.1 million EUR. Loans to individuals decreased marginally. We saw growth in residential mortgage lending, which was more than offset by a reduction in leasing and other personal lending. Loans to companies decreased by a net 361.7 million EUR, with reductions seen across most sectors.

Debt securities increased to nearly 1.5 billion EUR as we continued to build our liquidity portfolio - which consists, in the main, of high-quality government and covered bonds which can be pledged with the European Central Bank to allow us to obtain additional liquidity.

Deposits from customers increased by 339.3 million EUR, with a marginal fall in deposits from individuals more than offset by growth in balances from companies - with deposits from businesses up 268.4 million EUR and deposits from public sector customers up by 141.9 million EUR. Term deposits more than doubled in 2023 to over 2.7 billion EUR, and at year end accounted for nearly a quarter of all deposits.

Debt securities issued increased by 84.8 million EUR as we issued two series of senior preferred securities, totalling 600 million EUR, and exercised our right to call two existing issues concurrent with their loss of MREL-eligibility. These actions strengthened further our MREL-eligible obligations and extended the maturity profile of our liabilities. Shareholder's equity increased by 194.7 million EUR as we retained the profit for the period. At the end of 2023 our own funds and MREL-eligible instruments totalled 33.18% of Total Risk Exposure Amount (TREA) and 14.70% of our Leverage Ratio Exposure (LRE). In November 2023 our MREL targets were reviewed by the Single Resolution Board and confirmed at 23.96% of TREA plus combined buffer requirement and 5.91% of LRE, effective 1 January 2024.

Our Liquidity Coverage ratio (LCR) increased by 61.9 percentage points during the year to 200.7% as compared to a minimum regulatory requirement of 100%. The increase was driven mainly by the increase in Deposits from customers and funding received as part of our agreement with the European Investment Bank (EIB). Our Net Stable Funding ratio at the end of 2023 was 147.1%, an increase of 16.6 percentage points over the year, as compared to a minimum regulatory requirement of 100%. Available stable funding increased, driven by an increase in Deposits from customers and 115 million EUR of funding received from the EIB. Required stable funding decreased, driven mainly by the reduction in our Loans to customers.

Capital resources and uses €m	31 Dec 2022	31 Dec 2023
Reported basis		
Shareholder's equity	1,583.4	1,778.1
Regulatory adjustments	-94.8	-79.4
Prudential filters	-0.6	-0.4
Common Equity Tier 1	**1,488.0**	**1,698.3**
Credit risk exposure amounts	6,944.3	6,145.1
Operational risk exposure amounts	675.2	880.2
Other risk exposure amounts	43.0	31.9
Total risk exposure amounts	**7,662.5**	**7,057.2**
Common Equity Tier 1 ratio, %	19.4	24.1
Leverage ratio, %	9.6	10.7
Regulatory basis		
Common Equity Tier 1	1,407.7	1,441.3
Common Equity Tier 1 ratio, %	18.4	20.4
Leverage ratio, %	9.1	9.0

We are strongly capitalised, with own funds at year end of nearly 1.7 billion EUR, which is composed entirely of Common Equity Tier 1 (CET1). Our CET1, Tier 1, and Total capital ratios increased over the year by 4.7 percentage points as we increased own funds while Risk Exposure Amounts (REA) decreased. CET1 capital increased by 210.3 million EUR, or 14.1%, primarily with the addition to Shareholder's equity of profit for the period together with a reduction in regulatory adjustments. Risk Exposure Amounts, which we measure on a standardised basis, decreased by 605.3 million EUR, or 7.9% as we improved our data quality and refined our methodology for REA measurement, offset in part by increased operational risk exposure amounts driven by higher average gross income.

Our capital ratios remain well above our minimum capital requirements set by our regulators, which require us to have a CET1 ratio exceeding 11.33%, a Tier 1 ratio above 13.25% and a Total Capital ratio greater than 15.80%. These include a Pillar 2 additional own funds requirement of 2.2%. We are subject to an increased Pillar 2 requirement of 2.5% from January 2024 which will increase our CET1, Tier 1 and Total capital requirements by 17, 23, and 30 basis points respectively.

We will be subject to a countercyclical buffer of 0.5% of our risk exposures in Latvia from December 2024 and an additional countercyclical buffer of 0.5% in Latvia from June 2025. We estimate these new buffers will add 26 basis points to our minimum CET1, Tier 1 and Total capital requirements, taking them ultimately to 11.77%, 13.73%, and 16.36% respectively. Our capital targets, internal limits, and Total Capital target are set at the regulatory requirement (excluding P2G) plus a Management Buffer (150-300 bps). We continue to assess the value of Tier 2 capital to improve the efficiency of our capital resources.

Our leverage ratio including profit for the period increased by 1.1 percentage points to 10.7% during the year driven by the increase in capital resources mentioned above, offset in part by an increase in Leverage amounts, as our total balance sheet size increased. The minimum requirement for leverage ratio is 3.0%.

Capital resources measured on a regulatory basis include retained profits verified by our auditors, subject to the application of a deduction for foreseeable dividends. Profit for 2023 has, so far, been excluded from regulatory capital. Our capital ratios, measured on a regulatory basis, increased by 2.0 percentage points to 20.4% as risk exposure amounts decreased.

In November, Moody's Investor Service published an updated credit opinion about us, which affirmed their positive outlook on our A3 rating for bank deposits and Baa1 rating for senior unsecured debt. Moody's highlighted our strong capitalisation, successful unwinding of legacy non-performing loans, and improving profitability as our credit strengths, while noting our digital services as a competitive challenge.

Asset quality of Loans to customers €m	31 Dec 2022	31 Dec 2023
Stage 1	9,205.0	8,895.9
Stage 2	1,637.7	1,526.6
Stage 3	133.4	202.2
Gross carrying amount (a)	**10,976.1**	**10,624.7**
Credit loss allowances	-101.4	-122.1
Total	**10,874.7**	**10,502.6**
Non-performing loans ratio, %	1.2	1.9

a. Stages 2 and 3 include POCI loans

During 2023, total Loans to customers reduced by 372.1 million EUR, or 3.4%, as customers responded to the prevailing economic environment. Stage 2 loans reduced over the year as loans were repaid as a consequence of our active loan portfolio management while Stage 3 loans increased by 68.8 million EUR driven principally by the re-classification of one corporate customer. We have no direct exposure to companies domiciled in Russia, Belarus or Ukraine. Our exposure to residents of these countries, mostly residential mortgages, fell further over the year and is now less than 1 million EUR.

Given higher interest rates, we reviewed closely through the year our exposure to Commercial Real Estate (CRE). We assessed our risks related to exposures in the CRE sector in the second quarter initially and re-assessed them in the fourth quarter. Our initial assessment led us to move some 200 million EUR of loans to the sector from Stage 1 to Stage 2, based on a precautionary collective significant increase in credit risk trigger. Our re-assessment, conducted on an individual basis, led us to return some 160 million EUR of loans of this sub-portfolio from Stage 2 to Stage 1. Stage 2 CRE loans increased over the year by nearly 70 million EUR.

Our exposure to the CRE sector totalled 1.5 billion EUR at year end. Our portfolio is well-diversified, with about one third of the portfolio to the retail sector and another third to offices. Exposure to the logistics sector accounts for a further fifth of the portfolio, with a number of other sectors accounting for the remainder. We have limited exposure to development risks, with some 10% of the CRE portfolio in the development stage. Our CRE portfolio has an average loan-to-value ratio of approximately 50%, with 70% of our CRE exposures having a loan to value ratio below 60%. Payments of principal and/or interest was overdue by more than 5-days for 3.4% of CRE exposures. One exposure is responsible principally for the increase in overdues as compared to the prior year end.

The quality of our loan portfolio remains solid, with diversified exposure by customer type and by sector.

Diego Biondo
Chief Risk Officer

Total Stage 2 exposures decreased by a net 111.1 million EUR. Outflows were driven primarily by positive migrations between stages and exposure decreases. Inflows were seen across different economic sectors. These outflows were offset partly by exposures moving from Stage 1 to Stage 2 due to rating downgrades, newly applied forbearance measures and inclusion of customers in watch lists.

Total Stage 3 loans increased by a net 68.8 million EUR to 202.2 million EUR, or 1.9% of gross lending, at the end of the year. The inflow of non-performing loans was around 2 times higher than the outflow. Some two thirds of the inflows were driven by companies, half of which was to one customer. Exposure to companies was the predominant source of outflows, of which repayments accounted for a little over half, while cures – mostly driven by three larger exposures - contributed most of the remainder.

Stage 3 Loans, €m	31 Dec 23
Gross carrying amount	202.2
Credit loss allowances	-55.5
Total	**146.7**
Collateral fair value	186.8

Details of expected credit losses for the year of 33.1 million EUR can be found in the analysis of our income statement section, above.

Customer segments

Retail Banking, €m	2022	2023
Net interest and similar income	134.2	280.4
Net fee and commission income	53.0	54.7
Net other operating income	7.1	6.0
Total operating income	**194.3**	**341.1**
Total administration expenses	-146.1	-205.2
Profit before credit losses and tax	**48.2**	**135.9**
Expected credit losses	1.2	-12.5
Profit before tax	**49.4**	**123.4**
Cost/ income ratio, %	75.2	60.2

Customer balances €m	31 Dec 2022	31 Dec 2023
Loans to customers	5,667.1	5,700.1
Deposits from customers	6,066.2	5,916.7

In 2023, customers responded to the lower growth economic environment and higher reference interest rates. Loans to customers increased marginally over the year, with growth in the first half offset in part by a reduction in the second half. Conversely balances of Deposits from customers which reduced 6.2% in the first half, increased 4% from June to December, to end the year 2.5% lower.

Residential mortgage loans, which account for over 85% of our lending to individuals, grew in the year while other lending balances fell. Sales volumes for new mortgage and other lending fell through the year, though we observed a slight recovery in market volumes towards year end. Customer interest in savings products increased as interest rates rose and stabilised, with good growth in the balances of term deposits.

Retail Banking focused on three principal areas in 2023: to improve customer experience, grow business volumes, and develop digital solutions.

Kerli Vares
Head of Retail Banking

We grew our active customer base through the year, with more active use of our flagship Luminor Black card, with an increase in transactions and volumes of payments made with our payment cards, and growing popularity of digital wallets. Such growth was accelerated by introducing new product features such as the ability for both adults and children to onboard remotely, expansion of remote photo onboarding to Lithuania after its successful implementation in Latvia, and simplifying our package offerings for private customers across the Baltic countries.

The efforts to grow our customer base were further maintained through the introduction of business solutions, such as the Phone Point Of Sale product which allows customers to receive payments on Android devices and instant payment services, which we launched in Latvia, after being introduced successfully in Estonia and Lithuania.

We continue to develop our offering to better serve our customers, who value personalised solutions and engaging customer experience. Our increasingly proactive customer engagement, across our product lines, helped improve our customer satisfaction scores, among existing as well as new customers, across all channels, during the year.

Corporate Banking, €m	2022	2023
Net interest and similar income	177.8	247.7
Net fee and commission income	26.3	30.6
Net other operating income	16.9	15.6
Total operating income	**221.0**	**293.9**
Total administration expenses	-81.0	-125.2
Profit before credit losses and tax	**140.0**	**168.7**
Expected credit losses	-16.7	-21.2
Profit before tax	**123.3**	**147.5**
Cost/ income ratio, %	36.7	42.6

Customer balances €m	31 Dec 2022	31 Dec 2023
Loans to customers	5,205.9	4,799.2
Deposits from customers	4,788.2	5,286.2

The year was characterised by continued inflation, increased interest rates, and perceptions of heightened geopolitical risk, which resulted in uncertainty about the economic direction of local and international markets. As a consequence, demand for new credit from corporate customers was low, especially for those in the real estate sector, as well as the construction, manufacturing, and transport sectors. Conversely we saw good growth in Deposits from customers.

Companies were more cautious regarding significant investments and hence opted for maintenance financing rather than financing for expansion, despite increased expectations of interest rates stabilising and lower energy prices. We saw, as well, a decrease in demand for working capital facilities as consumer demand fell and prices of certain materials and goods reduced as compared to the previous year.

We did, however, see continued demand for investment in renewable energy, the one segment to display healthy growth throughout the year. We continued to develop our renewable energy financing for Business customers in our small- and medium-sized enterprises segment to finance equipment, such as solar panels and solar parks, and also financed the development of companies that use energy-efficient materials and methods, as well as those that produce renewable energy.

We lead-managed 14 debt securities transactions, including tap issues, raising some 830 million EUR for customers across a range of sectors including notably in the energy, environmental management, and financial services sectors.

In 2023, we were again the leading arranger of corporate bonds for Baltic issuers, as we continued to lead the development of the Baltic capital markets.

Jonas Urbonas
Head of Corporate Banking

We continue to focus on supporting Baltic SMEs, and we signed an agreement with the European Investment Bank (EIB) that will facilitate additional lending. The 115 million EUR loan from EIB is intended to stimulate growth in the Baltic region, with a focus on supporting the green transition of the economy. The financing will be used for investment that will contribute to reducing total greenhouse gas emissions and help the Baltic countries meet the climate targets in their nationwide strategies. Blending the EIB loan with our resources will pave the way for over 330 million EUR in new financing on favourable conditions.

We have hosted ESG seminars for our customers to help the Baltic economies grow sustainably. We delivered seminars on the climate impact of the construction and real estate sectors, opportunities offered by the voluntary carbon market and cleantech sector for reducing the climate impact of Baltic companies, climate risk and its impact in the transportation sector, climate risk and its impact on the retail industry, as well as on the Corporate Sustainability Reporting Directive and European Sustainability Reporting Standards. We also hosted a panel discussion with industry experts about the trends, challenges and perspectives facing the transportation sector.

Supplementary information

ECONOMIC ENVIRONMENT

Macroeconomic data	Public Debt /GDP	Economic growth (GDP) (a)		Inflation (CPI) (a)		Unemployment rate		Wage growth (a)	
%	2Q23	2022	3Q23	2022	2023	2022	3Q23	2022	3Q23
Estonia	18.5	-0.5	-4.0	19.4	9.1	5.6	8.0	11.6	10.6
Latvia	39.5	3.4	0.0	17.2	9.1	6.9	7.2	7.5	11.8
Lithuania	38.1	2.4	0.1	18.9	8.7	5.9	6.8	13.4	12.8

a. Year-on-year change

2023 was a year of adjustment for the Baltic economies given the slowing external environment and changing domestic conditions, and perception of heightened geopolitical risks continuing through the year.

Externally, the reduced rate of growth of the economies of important trading partners, such as Germany, or, in certain sectors, of the other Nordic countries, such as construction and commercial real estate in Finland and Sweden, slowed the Baltic economies. Domestically, with almost all household mortgages and business loans paying interest calculated on a floating rate basis, higher reference interest rates affected quickly investment and borrowing decisions of customers. Raised interest rates and perceptions of risk also affected the start-up sector, making financing harder to source and complete.

Growth in the region diverged by country. The growth dynamics of 2022 - with a fall in Estonia (albeit from a comparatively high level of GDP in 2021) in contrast to growth in Latvia and Lithuania - continued through 2023 with the Estonian economy contracting further while Latvia and Lithuania maintained the level of the 2022. Estonia's greater trade with its Nordic neighbours, lower start-up financing inflow, and weaker real estate market accounted for its negative growth rate.

Inflation reduced significantly in 2023, with rates for the year below 10% for each of the Baltic states, or some 10 percentage points lower than in 2022, while unemployment levels increased marginally, albeit from low levels. Estonian unemployment rates increased more than the Latvian or Lithuanian rates in 2023 principally because of the inclusion of refuges from the war in Ukraine in the official statistics. That said, employment opportunities remained good throughout the year, through the region.

Household income continued to increase. Nominal wage growth was particularly strong, with above 10% increases recorded in each of the Baltic states. With the notable slowdown in price increases, the purchasing power of labour income increased considerably, and restored partially household purchasing power which fell in the prior two years.

Real estate markets normalised in 2023 after significant price increases in 2022 in Estonia and Lithuania, which reduced the purchasing power of households. Rather, price levels remained flat in Estonia, recovering some of the lost demand, while demand remained supressed in Lithuania. Latvia, which historically did not see real estate price growth above wage growth, saw increased purchasing power because of low real estate price growth in contrast to strong increases in wages.

The economic outlook for 2024 is cautiously optimistic. Estonian GDP is expected to grow from the middle of the year, while the outlook for the Latvian and Lithuanian economies is more positive. Growth rates, however, will remain below trend and GDP levels below potential.

Compared to other European Union countries, government indebtedness remains very low, with public debt-to-GDP in Estonia less than 20% of GDP, and less than 40% in Latvia and Lithuania. Budget deficits have not increased debt to GDP ratios as nominal GDP has increased in the recent past. Low levels of public debt means governments are well placed to support economic growth if needed.

Our credit loss allowances reflect the prevailing economic environment.

BUSINESS DEVELOPMENTS

Customers are our top priority, and we took significant steps to improve our services, make additional investments, continued to strengthen our organisation and enhanced cooperation with our partners. We were rewarded with improved customer ratings and more active customers. We grew balances of term deposits, and raised the rates of interest we paid, in line with our purpose to improve the financial health of our customers. We invested in the organisation, focusing on our IT-infrastructure, and strengthened security and regulatory compliance processes and systems.

We focused on ensuring compliance with the Digital Operational Resilience Act (DORA). We aim to create a risk-centric approach for our Information Communication Technologies (ICT) landscape that supports critical business function, and enhance further our governance and ICT risk management practices, incident management and reporting, digital operational resilience testing, and ICT third-party risk management.

These activities are taking place under a dedicated DORA project. We have defined the key milestones in DORA implementation and engaged necessary resources. During 2023, we revamped our ICT risk management and third-party management frameworks, reviewed ICT incident management process, and were educated employees about DORA requirements. In 2024 we will continue DORA implementation to reach compliance with the regulatory requirements.

We continued to take steps to realise our ESG ambitions, including strengthening our governance and risk policies, deepening our assessment of ESG risks, and improving data capture. For the second year in a row, Morningstar Sustainanalytics, the world's leading ESG rating evaluator, awarded us the lowest ESG risk rating of 12.4 among the largest banks in the Baltic States, which placed us amongst the top decile of banks globally.

Moody's Investor Service (Moody's) published an updated credit opinion and affirmed our A3 bank deposit and Baa1 senior unsecured debt ratings, and a positive outlook. Moody's highlighted our strong capitalisation, successful unwinding of legacy non-performing loans and improving profitability as our credit strengths, while noting our digital services as a competitive challenge.

The Estonian Financial Supervision and Resolution Authority fined us 32,000 EUR for a technical disruption on our card platform in November 2022. We have taken measures to prevent a recurrence of such an incident. We merged Luminor Līzings Latvija SIA, one of our leasing subsidiaries in Latvia, into Luminor Līzings SIA, our other leasing subsidiary in Latvia. Following the merger we now offer leasing facilities in Latvia through a single company, consistent with our corporate structure for leasing in Estonia and Lithuania.

The Government of Lithuania introduced a temporary tax on the selected income of banks earned within their jurisdiction. The tax is levied at a rate of 60% on the net interest income generated in each of the years 2023 and 2024, from loans to customers advanced before 31 December 2022, that exceeds by more than 50% the average net interest income of the preceding four financial years. The tax is effective from 16 May 2023 and will remain in force until 17 June 2025.

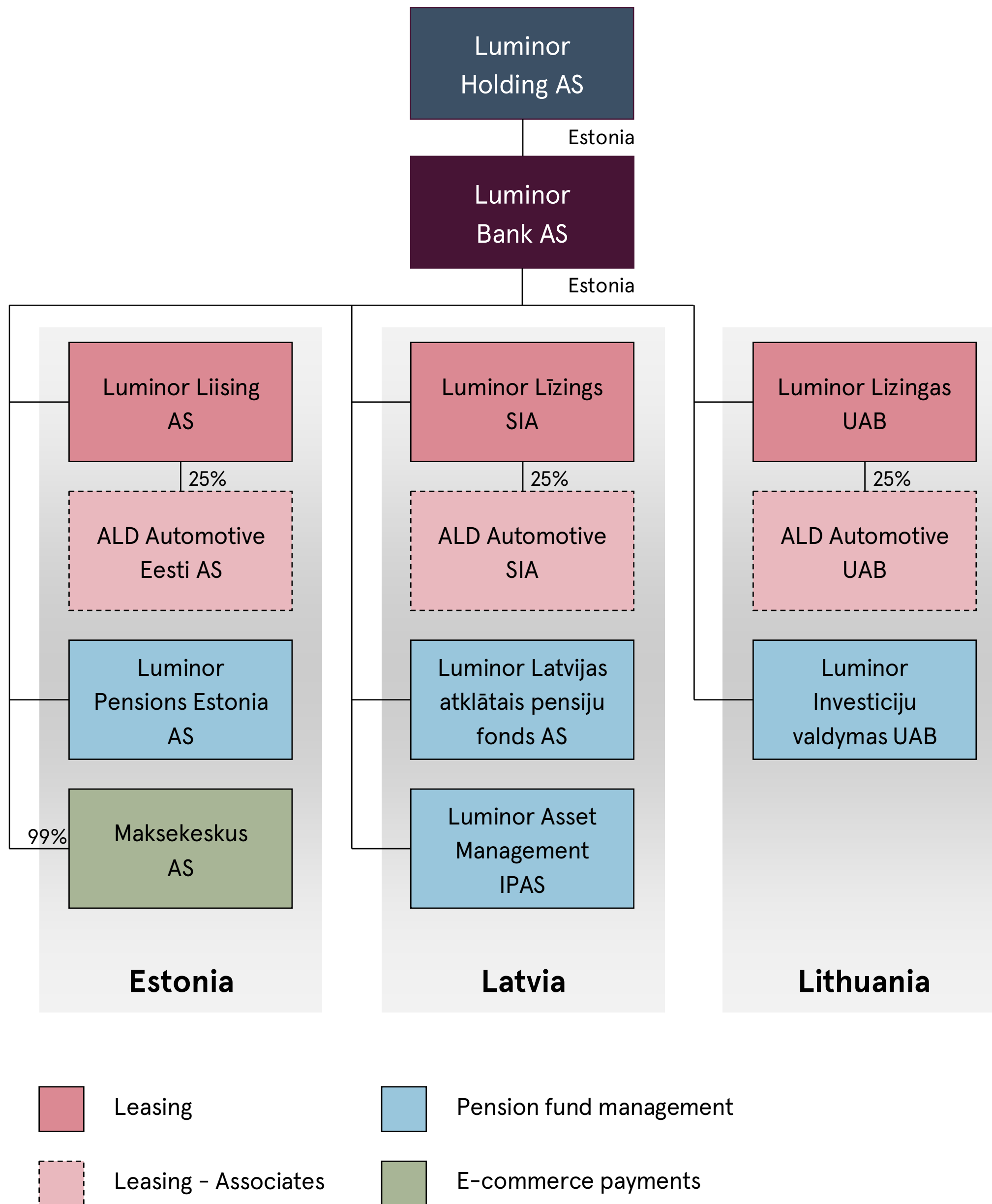
Effective 1 January 2024, the Government of Latvia enacted amendments to the Latvian Corporate income tax law (CIT). The amendments introduced annual mandatory CIT prepayment for credit institutions and consumer crediting service providers, at a rate of 20% on prior year after-tax profit. The first CIT payment is to be made in 2024 based on 2023 profit. Accruals for mandatory prepayment of CIT were created in 2023.

Effective the same date, the Government of Latvia also enacted a temporary tax on credit providers amounting to 2% of their mortgage loan portfolio as at 31 October 2023, as an amendment to the Latvian 'Consumer Rights Protection Law'. The tax, which is payable quarterly, will remain in force for one year and we estimate the cost to us in 2024 will be 27.7 million EUR. We made the first payment in January 2024 in the amount of 6.9 million EUR.

Changes to membership of our Supervisory Council and Management Board, which occurred in 2023, are detailed in the Governance Report, below.

ORGANISATION STRUCTURE

We operate principally through Luminor Bank AS, registered and operating in Estonia, including branches in Latvia and Lithuania. Through subsidiaries we provide leasing, manage pension funds, and offer e-commerce payments. We own 100% of all subsidiaries unless shown otherwise. In addition to the entities shown we own, as well, 19.8% of Kredītinformācijas Birojs based in Latvia. In Note 12, 'Investments in associates and subsidiaries', below, we list subsidiaries which we merged in 2023 or those being liquidated. We have omitted such subsidiaries from the structure chart below.



PREVENTING FINANCIAL CRIME

We do not tolerate financial crime. We operate only in the Baltic countries and target our products and services at residents of the Baltic countries, and at individuals and companies with a strong connection to those countries. Our commitment to protecting our customers and preserving the integrity of the financial system remains at the heart of our actions.

We work closely with regulatory and supervisory authorities and use this work to enhance our systems and processes. We follow laws and regulations, as well as guidelines, recommendations and standards. In 2023, we improved our processes to align them with our low-risk appetite and our conservative business model. We invested in our anti-money laundering capabilities and sanctions compliance, and anti-fraud framework and technology, while planning for IT-upgrades in 2024.

We are committed to the protection of human rights, and to countering the financing of terrorism and the proliferation of weapons of mass destruction. Accordingly, we apply sanctions imposed by the United Nations, the European Union and the governments of Estonia, Latvia and Lithuania, together with sanctions imposed by the United States' Treasury Department's Office of Foreign Asset Control (OFAC), HM Treasury in the United Kingdom, and the governments of Norway and Sweden. We report possible sanctions breaches and violations to the regulatory authorities.

We took proactive steps in elevating fraud awareness among our customers. Throughout the year, we conducted a series of targeted awareness campaigns designed to empower our customers with the knowledge and skills needed to recognise potentially fraudulent activities. These included the dissemination of informative materials and various media activities, aiming to provide practical insights into common fraud schemes and best practices for secure financial transactions.

As a result of these concerted efforts, we achieved a reduction in fraudulently sent funds (non-card related payments) over the past year, underlining our commitment to maintaining the trust and confidence of our customers in a rapidly evolving financial landscape. Furthermore, our actions prevented our customers losing their funds despite an increase in phishing, purchase fraud, and investment fraud.

We continued to prioritise and enhance our fraud risk management measures to safeguard the interests of our customers and maintain the integrity of our financial services. Our approach to fraud risk management is built on prevention-detection-investigation-retrospective analysis lifecycle, which allows focus on each stage of fraudulent action by enhancing technological aspects, applying risk mitigation actions from process and product perspective, and raise employees awareness.

We also continued to enhance our risk culture and carried out various awareness-raising activities over the year, with a special focus on risk management, compliance and governance. Besides ongoing trainings on a range of topics in those areas, we carried out numerous internal communication and engagement projects to promote discussions and common understanding around risk culture.

We continued to brief employees on the evolving threats that our customers and we face, with monthly updates addressing new and developing trends in financial crime, and newsletters to raise the overall awareness of external fraud and to familiarise employees with the most common types of fraud and emerging trends.

We remain dedicated to staying at the forefront of technological advancements and refining our fraud risk management measures to adapt to emerging threats and ensure the continued security of our customers' financial assets.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

Environmental impacts and climate risk management in our activities

We are committed to move environmental sustainability to the heart of our operations. Sustainability is integrated into our governance and risk management frameworks, and forms part of the work of our divisions, departments and units. We aim to foster transition to a low carbon and biodiverse economy, enhance social wellbeing through our business activities, and understand the impact on our business environment of GHG emissions.

GHG emissions are the key driver of transitional risk for our customers and us, as they increase operating expenses whether due to carbon taxation, increased fuel prices, or the cost of meeting new regulations. Hence, we have committed to align our operations to the Paris Agreement and become carbon neutral by 2050, and reduce our Scope 1, 2, and 3 operating emissions per employee by 50% by 2025. We have also added targets to increase the volume of lending to corporate real estate projects where the energy efficiency certification (EPC) class is A or higher, and to renewable energy related projects, by up to 120 million EUR by the end of 2026, and raise the share of lending of our portfolio to A or better EPC labelled housing to 30% by 2027.

To ensure the effectiveness and compliance of our GHG emission commitments, we established transition roadmaps for mortgages and corporate loans, developed medium term decarbonisation targets for our own emissions and loan portfolio which we submitted to the Science Based Targets Initiative for validation, and increased our capacity for the associated data collection. We also made further progress against our broader targets. We worked to reduce our use of unsustainable resources, consumption of fossil fuel-based energy, and lower waste, through greater adoption of hybrid vehicles, installation LED lights and motion sensors, and donated unused office equipment to be re-used by schools and other institutions.

Many of our customers will be exposed to climate and environmental risks, both physical and transitional risks, and therefore, will need to adjust their business methods. To support them, and to reduce adverse climate and environmental impacts, we aim to enhance our products and services, and reorientate capital flows to climate solutions, resiliency, and transition. To foster subjected developments and to better understand market trends, in 2023 we piloted EU Taxonomy alignment related questionnaires on our retail mortgage portfolio.

We updated our Sustainability Policy and its exclusion list in respect of entities involved in coal, oil, and shale oil-based energy production, which are not committed to Net Zero targets by 2050 and not ready to establish a dedicated transition plan. We also revised our ESG Due Diligence Standard and enhanced potential adverse impact severity level assessment methodology, redefined our Risk Appetite Statement to limit our exposure to high physical and transition risk sectors, and reviewed our ESG Risk Assessment Procedure and Industry ESG Risk Management Procedure. We established ESG Business Materiality Assessment and ESG Disclosure Standard and advanced the Discretionary Portfolio Management ESG Due Diligence Procedure.

In 2023, we carried out a climate and environmental risk assessment considering individual climate and environmental risk drivers (such as flood, storms and droughts) and transitional risks, and their potential impacts on different sectors (such as agriculture and manufacturing) over different time horizons. These allow us to mitigate identified risks, and establish and/or update our regulations and processes. We expect to carry out climate and environmental risk assessments regularly, as the risks we face change, data availability improves, and legislation evolves.

We are an active member of the communities we serve. In 2023, we contributed to the work of the Estonian, Latvian and Lithuanian banking associations, the Estonian Green Tiger, the Latvian Foreign Investors' Council and Lithuanian Investors' Forum. We also participated in various environmental stewardship initiatives, such as the GreenEst Summit in Tallinn and Baltic Sustainability Forum in Riga. To increase awareness about the climate and environmental risks and the impacts of climate change, we developed numerous environmental training seminars for our customers and employees.

Our senior management fosters integration of sustainability matters in our governance and risk management frameworks; and ensures that respective targets are cascaded to the divisions, departments and units of the organization, contributing to our progress in implementation of sustainability-related requirements, initiatives, targets and objectives. Further details about our ESG-related activities, including disclosures required by the EU taxonomy and details about KPIs, will be published in our Sustainability, and Pillar 3, reports.

Human resources

We aim to ensure and advance the satisfaction and wellbeing of our employees. We do this through our internal regulations, which we augment with employee satisfaction surveys which we conduct regularly. Further we seek diversity in our employees.

Diversity & inclusion

We pride ourselves on fostering a diverse workforce and upholding principles of inclusivity. Our internal regulations, including Code of Conduct and Equality, Non-Discrimination, and Diversity Policy, serve as guiding principles. In each performance management cycle, managers are equipped with knowledge about diversity and equality, reinforcing our commitment to these values. Additionally, we conduct annual equal pay reviews to address and mitigate potential gender pay gaps. See also our Governance report, below.

Health and safety, and wellbeing

Employee health, safety, and wellbeing are of paramount importance. Our policies, which are available in local languages, cover all employees and contractors regardless of their work location. We mandate regular free health check-ups for all employees, and provide online training to promote best practice. Our offices are equipped with ergonomic workstations, we instituted guidelines for employees working remotely to ensure their home offices adhere to healthy standards, and encourage employees who encounter work-related hazards to report them to our People and Culture division or utilise our whistleblowing channel. In alignment with local regulatory requirements, we have implemented comprehensive occupational health and safety management systems. Annually, employees undergo training to identify, report, and resolve workplace safety concerns.

To help ensure our employee wellbeing we have developed a Mental Health and Wellbeing at Work Standard that outlines the process for protecting and promoting mental health and wellbeing at work, assessing and managing psychosocial hazards, including violence and harassment, reporting and handling complaints and providing support. The standard also provides measures to supports employees in work-related crisis situations, such as those facing mental health challenges or who have encountered violence and harassment at work. In 2023, we furthered our commitment to promoting wellbeing by conducting a Pulse Survey to measure employee satisfaction. Our November 2023 survey, which had a 93% response rate, revealed an improved our employee wellbeing score of +51 as compared to +49 in 2022.

Human rights

We respect and promote fundamental human rights. We do not tolerate any infringement of human or labour rights, corruption, degradation of ecosystems, destruction of the world heritage or other unethical actions. Our commitments are outlined in our Sustainability Policy, which addresses each of these topics. Our actions are aligned with the United Nations' Global Compact, and the Guiding Principles on Business and Human Rights, and the OECD Guidelines for multinational enterprises.

In 2023, we updated our internal regulations on due diligence ensuring the exclusion of forced or child labour from our value chain while upholding human rights standards among our customers and suppliers. We assessed nearly three-quarters of our significant vendor and supplier contracts and engaged in mitigation actions with 36 partners. Furthermore, we codified our human rights obligations in our Code of Conduct. Compliance with our Code is mandatory, necessitating ethical conduct and adherence to both the letter and spirit of applicable laws, regulations, and internal policies.

Our Sustainability Policy addresses human trafficking, and forced and child labour, amongst our employees and in our value chain. We do not condone modern slavery or other human rights abuses within our own operations, nor within our financings and investments. We review continuously and enhance our approach to human rights due diligence, modern slavery and other human rights and sustainability related issues, and expect our stakeholders to do the same. In collaboration with stakeholders, we are dedicated to combatting modern slavery, and other human rights, social, and environmental issues.

Anticorruption efforts

We operate with the highest standards of ethical and professional conduct, and are opposed to corruption in our activities. These ethical standards are enshrined in our internal standards, and we expect our suppliers to adhere to the same principles. Our employees are required to follow these principles, and comprehensive mandatory trainings are provided for all employees on business integrity, conflicts of interest, anti-financial crime, gifts, and events. Furthermore, tax related fraud has been integrated into the exclusion list in our Sustainability Policy. See also our Governance report, below.

Corporate Governance report

We have a two-tier governance structure where supervisory (non-executive) functions are carried out by the Supervisory Council (the 'Council') and management (executive) functions are carried out by the Management Board (the 'Board'). The Council oversees the activities of the Board in managing Luminor. Members of the Council cannot be at the same time members of the Board. We refer to the Council and Board collectively as 'Management Bodies'.

We operate under Estonian Law and follow applicable legal regulations of the European Union. Our governance principles, which follow EBA Guidelines on Internal Governance (EBA/GL/2021/05) define lines of responsibility, risk and conflict of interest management processes, control mechanisms and remuneration policies. We updated our Governance Policy in 2023.

The General Meeting of Shareholders (General Meeting) is a statutory body through which our shareholders exercise their rights. We have one class of registered common shares. Each share grants one vote at the General Meeting. The General Meeting takes decisions that fall within its competence under commercial law, such as decisions on amending the articles of association, increasing and reducing share capital, electing, and removing members of the Council, approving the annual report, distributing profit, and electing a statutory auditor. In addition, the General Meeting is responsible for approving significant changes to our strategy, material changes to our key policies, and financial plans which anticipate an increase in capital, and engaging in other significant activities. The General Meeting is entitled to decide on any other matter related to our activities at the request of the Council or the Board. No General Meetings were convened in 2023, instead 8 decisions were made per capsulam.

Shareholders who hold at least 10% of the votes in Luminor Holding, our parent company, can appoint their pro rata proportion of members to our Council. A sufficiently high number of independent members are elected to the Council to help ensure that the interests of all internal and external stakeholders are considered, and that independent judgement is exercised where there is an actual or potential conflict of interest. DNB, as the minority shareholder, has the right to request a review of our compliance with the Compliance Policy or ESG standards and other similar corporate social responsibility policies and standards, which may be conducted by an external person or by the relevant requesting party.

Conduct

We aspire to the highest standards of ethical and professional conduct. Every employee is expected to know and follow our values, ethical standards, and the principles of compliance and risk management. Each employee must abide by our code of conduct and identify, prevent, and report bribery and corruption. We have developed corporate values – curiosity, collaboration, and focus – and expected behaviours to reinforce the principles of compliance and risk management.

We promote an ethical culture and make every effort to identify, prevent, and manage conflicts of interest to ensure all stakeholders are treated fairly and shareholder's interests are protected. Principles for management of conflict of interest are established by the Council which oversees its implementation and effectiveness. We hold mandatory training on conflict of interest management to ensure that all employees have adequate knowledge of our policy and other relevant internal rules and principles and that all activities within their responsibility are carried out in accordance with the rules. Any conflicts of interest are considered when selecting new members to the Management Bodies and key function holders.

Following the gifts and events reporting procedure, our employees do not accept or offer gifts regardless of their value, nor participate in events if doing so can be considered inappropriate, may be ethically questionable, or may affect the receiver or giver in performing their duties. Our internal regulation provides specific examples to support employees in making decisions on the appropriateness of gifts and events and handling such situations.

We manage information on a "need-to-know" basis, i.e., information is accessible only to employees who have a justified need for such information to carry out their duties. To manage information flow, we have also established physical separation and restricted access to information, or other specific arrangements, around and within certain business activities where confidential customer information is handled.

Diversity and Inclusion

Diversity is an important value of ours, where each employee is respected and valued for their differences. The varied strengths of our employees merge in favour of customers' needs and make it possible to reach our goals. It is in our best interest to

promote diversity and eliminate discrimination in the workplace. We are committed to building and maintaining a workforce comprising individuals from diverse backgrounds, young people, persons with disabilities, and employees representing a variety of cultures. Employees are supported and encouraged to develop their full potential and utilise their unique talents.

We recognize the importance of diverse composition of the Management Bodies. By 2026 we plan that 40% of the Council members will be female (as compared to 22% as at 31 December 2023). The chairs of the Management Bodies review progress on gender diversity goals as key performance indicators in their annual assessments. If targets are not met, the chairs document the reasons, measures to be taken, and timeframe for measures to rectify the situation.

We do not tolerate any form of intimidation, bullying, scapegoating, or harassment in the workplace. We take measures to protect employees from discrimination and have a process in place to discipline those who are in breach. We encourage employees who feel they have been subject to discrimination to raise their concerns through the raise your concern process so that corrective measures are applied.

Dividend policy

We are committed to return excess capital to shareholders while maintaining a strong capital position to support our business activities, stability and allow for profitable growth. We manage the Total Capital Ratio on a Luminor Group level at a Capital Target of the regulatory requirement (excluding P2G) plus a Management Buffer of 150-300bps. Capital distribution will be made by way of dividends or capital repatriations. Dividends are to be paid with a guideline of around 50% of the annual profit. All excess capital above the Capital Target level is considered for distribution, meaning that the actual dividend pay-out ratio can be higher or lower than 50%. A pay-out ratio higher than 50% will be considered if actual capital is above the Capital Target, e.g., because the profitability is higher or growth lower than forecasted, and the stress testing outcome supports a higher pay-out ratio. A pay-out ratio lower than 50% will be considered, e.g., if we assess there are strong growth opportunities in the market (leading to a higher REA growth than anticipated) or if there are unforeseen changes in the regulatory framework for the capital calculations or if the macro environment or portfolio credit quality deteriorates significantly beyond what is reflected in the Management Buffer. The actual pay-out ratio needs to be supported also by the outcome of the stress testing. Additional return of excess capital resources will be considered in the form of extraordinary dividends/capital reductions when the CET1 capital can be replaced by issuing Tier 2 and AT1 capital instruments.

Key function holders

Key function holders are employees who represent a critical business or support function who have a significant influence over the direction of Luminor, according to their mandates. The following are always treated as key function holders, unless these persons are members of the Management Board or CEO: Head of Retail Banking, Head of Corporate Banking, Branch managers, Chief Compliance Officer, Chief Finance Officer, Chief Risk Officer, Chief Operating Officer. Other key function holders are Heads of Credit Advisory and Restructuring, Group Communications, Internal Audit, Legal, and People and Culture.

Selection Criteria to the management bodies

Only people who have the necessary professional experience and possess the appropriate character may be members of our Management Bodies. We do not discriminate based on any protected characteristics. To encourage independent opinions and critical thinking, and allow a variety of views and experiences, we seek diversity by age, gender, geographical provenance, and background. The principles of selecting members for Management Bodies, including assessing suitability and diversity, are set out in our internal regulations. Appointments to Management Bodies are approved by the ECB.

We have established processes and regulations to address sudden or unexpected absences or departures of the chair or members of the Board, and key function holders. By doing so we aim to ensure the transfer of knowledge, preservation of organizational memory, and to support managerial and business continuity during periods of temporary or permanent leadership changes.

The members of the Council are appointed amongst the nominees of Luminor Holding shareholders as provided in the shareholders' agreement, with each shareholder having the right to remove and replace a member appointed by it. The Council and the Nomination Committee members, and the CEO, can identify the need to appoint a new Board member, and the Nomination Committee provides guidance, selection criteria and service conditions for the respective position and performs the suitability assessment.

SUPERVISORY COUNCIL

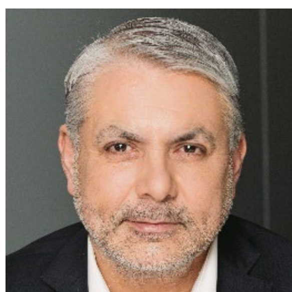
	Nils Melngailis	Syed Qasim (Qasim) Abbas	Maria Elena Cappello	Ottar Ertzeid
Position	Chair	Member	Member	Member
Committees	Nomination (Chair)		Remuneration (Chair) Nomination	Audit Remuneration Risk
Joined	January 2019	December 2023	July 2020	January 2022
Born	1965	1976	1968	1965
Nationality	American Latvian	British	Italian	Norwegian
Education	BA Political Science Boston College, Newton, MA	BA Economics & Government Clark University, Worcester, MA	BSc Engineering, University of Pavia	MA General Business, Norwegian Business School, Oslo
Other positions	Chairman, Supervisory Board, PrivatBank Vice-Chairman, Supervisory Council PQH SA Director, Printful Inc.	Member, Supervisory Councils, NIBC Holdings and NIBC Bank Director, LIA Holdings Director, Redpin Holdings	Director, BPER Banca Director, Fibonacci Holding Senior Advisor, Igneo Ltd	Director, DNB Livsforsikring AS Chair, Entra ASA Vice chair, Argentum Fondsinvesteringer AS Director, Telenor ASA
Background	Director, Qualco Holdco Ltd Operating Executive, Centerbridge Partners Co-head FIG, Alvarez & Marsal	Director, Rothesay Life Director, Kensington Mortgage Company Director, Hipgnosis Song Management	Director, Bank Monte dei Paschi di Siena Director, Telecom Italia Director, Saipem Director, Prysmian CEO, Nokia Italia	CFO, DNB Bank ASA Head, DNB Markets Director, Oslo Bors Director, Bankenes Sikringsfond
Location	Riga, Latvia	London, UK	Milan, Italy	Oslo, Norway
Status	Independent	Blackstone appointee	Independent	DNB appointee
Attendance	15/15	2/2	14/15	13/15

The Council is our supervisory body which approves strategies, general principles of our activities, sets and monitors risk tolerance and risk appetite, and supervises our activities, as well as those of the Board. General rules for convening meetings and organisation of the work of the Council are set forth in our internal regulations, Commercial Code, Credit Institutions Act and Articles of Association. Regular meetings of the Council ensure oversight over the Board along with additional meetings when required. Decisions are passed by simple majority participating in the meeting. Decisions submitted to the Council shall be discussed before by respective committee of the Council. The Council is required to meet at least quarterly. In 2023, the

Mathias Patrick Laurent Favetto	Bjørn Erik Naess	Elizabeth Jane (Betsy) Nelson	Iain Plunkett	Andreas Treichl
Member	Member	Member	Member	Member
Audit Risk	Audit (Chair) Nomination Remuneration	Risk (Chair)	Risk	-
August 2020	January 2019	December 2020	August 2023	September 2022
1988	1954	1954	1971	1952
French	Norwegian	American British	British	Austrian
MSc Management, HEC, Paris	MSc Economics, Norwegian School of Economics, Bergen	MBA, Thunderbird School of Global Management, Phoenix, AZ	BEng, University of Strathclyde, Glasgow	MA Economics, University of Vienna
Member, Supervisory Councils, NIBC Holdings and NIBC Bank	Chairman, Argentum Fondsinvesteringer AS Director, Hafslund AS,	Member, Supervisory Board, Oschadbank	Director, Citigroup Global Markets Senior Advisor, Collabera Digital Senior Advisor, McKinsey & Company	Chair, Erste Foundation Chair, Zweite Sparkasse President, European Forum Alpbach, Vice chair, Vienna Opera
Merchant Banking, Goldman Sachs	CFO, DNB AS CFO, Aker Kvaerner CFO, Carlsberg CFO, Orkla	VP Risk and Compliance and CRO, EBRD Head of Credit Risk, FSA Head of Corporate Banking, JPMorgan Chase EMEA	COO, Santander UK COO, TP ICAP COO & CIO, Aberdeen Asset Management	CEO, Erste Group Director, Erste Bank CEO, Chase Manhattan Bank Vienna
London, UK	Oslo, Norway	London, UK	London, UK	Vienna, Austria
Blackstone appointee	DNB appointee	Independent	Independent	Independent
15/15	15/15	15/15	6/7	15/15

Council held 15 meetings and adopted 42 decisions in circulation. The members elect from among themselves a chair, who is responsible for the effective functioning of the Council, coordinates its work and contributes to the flow of information within the Council and the Board. The chair promotes open and critical discussions, ensures dissenting views are expressed and discussed, and the Council makes informed, sound decisions. The Council has 5 to 15 members elected by the General Meeting, whose term of office is five years. As at 31 December 2023, the Council was composed of 9 members.

MANAGEMENT BOARD

	 Peter Bosek	Ossi Leikola	Diego Biondo	Mari Mõis
Position	Chair	Member	Member	Member
Title	Chief Executive Officer	Deputy Chief Executive Officer	Chief Risk Officer	Chief Compliance Officer
Committees	Credit		Non-financial Risk (Chair) Credit (Deputy chair) Model Risk (Deputy chair) Asset & Liability Data Governance	Non-financial Risk (Deputy chair)
Appointed	January 2021	December 2023	October 2023	September 2022 (reappointed)
Born	1968	1967	1967	1979
Education	PhD Law University of Vienna	MSc Technology Aalto University, Espoo	BA Business Administration University of Turin	BA Law University of Tartu
Background	Chief Executive, Erste Bank Austria AG Management Board member, Erste Group	Head of Operations, Nordea Head of Poland and the Baltic countries, Nordea Managing Director, Metos BV	Head of Risk Governance, BPER Chief Risk Officer, Gruppo Banca Carige EVP Risk, Unicredit Bank CRO, Bank Pekao	Chief Legal Officer, Luminor Bank AS Chief Financial Officer, DNB Bank AS General Counsel, DNB Bank AS
Location	Tallinn, Estonia	Tallinn, Estonia	Tallinn, Estonia	Tallinn, Estonia
Attendance	45/51	1/1	14/14	43/51

The Board is our executive body which directs, manages, represents, and ensures effective and prudent management. It directs day-to-day activities pursuant to the strategies and general principles of activities approved by the Council. The Board reviews proposals and explanations presented to it, takes sound decisions, and reports appropriately to the Council.

General rules for organisation of the work of the Board, including rules for the convening meetings, voting procedures, and decision making process, responsibilities and number of Board members, are set forth in our internal regulations, Commercial Code, Credit Institutions Act and Articles of Association. Decisions are passed by a simple majority of members participating at the meeting. In case of equality of the votes, the chair or, in their absence, the deputy chair of the Board, has a casting vote.

DIVISIONAL HEADS

	Palle Nordahl	**Kerli Vares**	**Andrea Granata**	**Jonas Urbonas**
Position	Member	Member	Attendee	Attendee
Title	Chief Financial Officer	Head of Retail Banking	Interim Head, Chief Operating Office	Head of Corporate Banking
Committees	Asset & Liability (Chair) Data Governance (Chair)		Change Advisory Board (Chair) Data Governance	Credit
Appointed	May 2021	January 2022 (reappointed)	August 2023	August 2023
Born	1975	1976	1971	1976
Education	MSc Business Administration Aarhus University	MSc Business Administration Karlstad University	Scientific lyceum Bertrand Russell Milan	MSc Finance Vilnius University
Background	Executive Vice President Finance, Nykredit CFO, FIH A/S Partner, CP Dyvig & Co Director, Procuritas Partners	Chief Executive Officer Luminor Bank, Latvia AS Development and Marketing Director, and Commercial Director, SIA Lattelecom	Head of DevOps, Architecture & Development, Luminor Head of DevOps and Engineering, Banco Mediolanum SpA	Head of Corporate Banking, Luminor Lithuania Head of Corporate banking Nordea Lithuania branch Head of business customers, SEB Vilnius
Location	Tallinn, Estonia	Riga, Latvia	Tallinn, Estonia	Vilnius, Lithuania
Attendance	46/51	44/51	20/20	17/20

The Council appoints a chair from the members of the Board. The chair, or any two Board members, legally represent the Bank. Areas of responsibility are divided between the members to suit their skills, expertise, and responsibilities. Board members, who are appointed and removed by the Council, are assessed before their appointment in accordance with legislation and internal regulations. Information and documentation on the proposed candidate, as specified in the Credit Institutions' Act is submitted to the ECB at least 10 days before making a decision on his/her appointment.

In 2023 the Board held 51 meetings. The Board consists of 3-10 members whose term of office is 5 years. As at 31 December 2023 the Board was composed of six members.

Council committees

The Council has established four committees to assist it in exercising its tasks. Regulations for the Committees of the Supervisory Council of the Bank ensure the allocation of duties and tasks between and within the committees. Each committee has at least three members, members must have knowledge, skills, and expertise relevant to the committee's work, a documented mandate, and must meet quarterly.

During 2023, the Transformation committee (a non-mandatory committee established by the Council) was dissolved. The committee held three meetings in 2023 before it was dissolved. As at 31 December 2023, the Council committees were:

Committee	Audit	Nomination	Remuneration	Risk
Chair	Bjørn Erik Naess	Nils Melngailis	Maria Elena Cappello	Betsy Nelson
Members	Ottar Ertzeid Mathias Favetto	Maria Elena Cappello Bjørn Erik Naess	Bjørn Erik Naess Ottar Ertzeid	Ottar Ertzeid Mathias Favetto Iain Plunkett
Role	To oversee the establishment of accounting policies, review and monitor the financial reporting process; monitor the statutory audit of the annual financial statements; support an effective internal audit process; and, review and approve non-audit services performed by an audit firm carrying out the statutory audit.	To contribute to the selection and assessment of the Board members; monitor diversity of Board decision making process; approve mandate for the Board members; assess suitability of the Council members before appointment; acknowledge suitability assessment of Key Function Holders; recommend candidates to the Management Bodies of subsidiaries; and, monitor the effectiveness of Suitability and Succession Planning Policy and review its design and implementation.	To work as a preparatory committee for the Council on remuneration issues; ensure the remuneration system aligns with the Bank's financial condition; assess the achievement of performance targets; test how remuneration policies react to events; oversee the design of remuneration packages; advise on the identification of material risk takers; recommend the amount of severance payments above limits; and, approve proposals for variable remuneration pool collectively for all employees and individually for members of Management Boards and the Heads of Compliance, Risk, and Internal Audit.	To ensure sound risk management is applied consistently; oversee risk culture; support formation of an optimal capital and liquidity structure; align customer products with risk strategy; analyse if the principles of remuneration consider prevailing risk profile; oversee investigations of non-compliance with laws and regulations; oversee the Compliance and the Risk divisions; and, collaborate with internal control functions.
Meetings held in 2023	7	10	10	10

Board committees

The Credit committee is a mandatory committee, while other Board committees are non-mandatory and are established to assist the Board in its work. During 2023 the Asset and Liability, Data Governance, and Non-Financial Risk committees were established, and the Conduct Risk committee was dissolved.

Each committee has its own regulations, describing composition of the committee, its mandate, and responsibilities of the committee's members. Committees' members are appointed by the Board from employees who are subject-specific experts. Committees meet as frequent as provided in their regulations. As at 31 December 2023, the Board committees were:

Committee	Asset and Liability	Change Advisory Board	Credit	Customer Risk	Data Governance
Chair	Chief Financial Officer	Chief Operating Officer	Head of Credit Risk	Head of local Corporates	Chief Financial Officer
Role	Support the CFO and Board in activities related to asset liability management, i.e. balance sheet development, liquidity and funding management, interest rate risk, foreign exchange risk, ESG Risk, treasury, dividend distribution arrangements as well as efficient capital planning, management and allocation.	Support the Board in governance of IT change management in order to ensure that IT changes are evaluated, authorised, tested, deployed, documented, and reviewed in a controlled manner. Committee takes go / no-go decisions for the IT change implementation and deployment to the production environment.	Issue recommendations related to credit policies and processes, approve acceptable risk criteria and financing requirements. Take all necessary credit decisions in respect to individual customers (including, approval of assumptions of loan loss provisions of non-performing exposures) and financial institutions.	Oversight of AML/CFT and sanctions compliance related customer risk. Decide cases that are conditional limitations based on our risk appetite, discuss and decide controversial customer cases and cases which can affect the risk appetite thresholds.	Support the Board in defining and executing a data and information strategy. Provide oversight, challenge, and advice on data and information management decisions, guidance on emerging and developing data management risks and relevant recommendations to the Board.

Committee	Financial Institutions Risk	Investment Products Governance	Model Risk	Non-Financial Risk
Chair	Head of Trade Finance & Financial Institutions	Manager of Investment Products & Growth Unit	Head of Model Risk Management	Chief Risk Officer
Role	Support the Board in financial crime and reputational risk management in order to avoid financial institution relationships with counterparts that are not allowed or are unacceptable. Decide counterparty relationship cases that potentially entail higher ML/TF risk and/or Sanctions risk; that are escalated from preceding levels due to different opinions; and exceptions from the applicable risk policies.	Supporting the Board in the governance of investment products and/or services manufactured and (or) distributed by us to ensure compliance with the internal regulations and laws and regulations governing investment products and/or services.	Challenge and approve new risk models, model changes and extensions, non-material model changes, extensions and model re-approvals. Review, challenge and endorse model risk related specific technical topics, and approving the mitigation actions for identified model risks.	To provide oversight, advice, and challenge of risk treatment decisions, provide guidance on emerging and developing risks, providing relevant recommendations to the Board, and support the Board by analysing conduct related matters.

INTERNAL CONTROL FRAMEWORK

We have developed and maintain a culture that entails a strong focus on sound internal control. Our internal control framework entails adequate, clear, transparent, and effective routines for reporting, monitoring, and follow-up processes.

The internal control framework aims to ensure effective and efficient operations, prudent conduct of business, sound change management, adequate identification, measurement, and treatment of risk, compliance with laws, regulations, supervisory requirements and our internal policies and procedures, processes, rules and decisions, sound administrative and accounting procedures and reliability of financial and non-financial information reported both internally and externally. To mitigate process and reporting risk we have segregated duties, and applied IT general controls, entity-level and process-level controls, and preventive and detective controls.

Our internal control framework is based on model of three lines. The first line consists of all units and employees that are neither in the second nor in the third line, in particular all business and supporting divisions, who own their risks are responsible for ongoing managing of risks according to our policies, procedures, and controls.

The second line is an independent control function authorised and responsible to monitor and control that the first line adheres to our risk appetite and risk management framework and all applicable rules and regulations. The second line consists of Compliance and Risk divisions. The Compliance division identifies, assesses, controls, monitors, escalates, and reports on compliance risks, including, compliance with our internal framework and all applicable laws and regulations. The Risk division ensures that an appropriate risk management framework is established and is authorised to verify that our business and supporting divisions operate within the set risk appetite, performs risk monitoring and control activities, oversees adequacy of the risk management activities within the first line.

The third line consists of Internal Audit division, which is an independent internal audit function. It conducts risk based and general audits and reviews that the internal governance arrangements, processes, and mechanisms are sound and effective, implemented and consistently applied. The Internal Audit division evaluates independently whether operations and related controls, risk management and governance processes and structures are functioning, adequate and effective to enhance our ability to reach our business objectives. All activities, including financial reporting process fall within the scope of Internal Audit, which provides independent, objective assurance that financial reporting is adequate and in compliance with applicable internal and external regulatory requirements. Internal Audit provides the Council, the Audit Committee and the Board with a written report regarding their activities and evaluation on governance, risk management and internal control processes.

The Council's Audit Committee oversees our accounting and financial reporting. It oversees the establishment of accounting policies, including tax accounting, as well as the budgeting process, reviews and monitors the financial reporting process, including conducting a review to ensure its reliability, a review of our consolidated financial reports and considering whether they are complete, consistent with information known to the Audit Committee's members, and reflect appropriate accounting policies and principles, as well as provides the Council with recommendations aimed at ensuring reliability and objectivity of consolidated financial reports, integrity of the financial reporting process and make recommendations to the Council for the approval of consolidated financial reports. Furthermore, the Audit Committee is responsible for monitoring the statutory audit of the annual and consolidated financial statements, monitoring and evaluation of the effectiveness of the financial reporting auditing process, including reviewing and monitoring the independence and objectivity of the statutory auditors.

Management of branches

We operate through branches in Latvia and Lithuania. The branches enter into agreements and undertake obligations on our behalf, acquire other rights and assume other duties, consistent with the law and their mandate. The branch managers are appointed by the Council and are accountable for the activities of their branch.

Management of subsidiaries

All subsidiaries are separate legal entities. Notwithstanding this, subsidiaries follow our values, code of conduct, and principles for responsible business conduct, and policies. Individuals with relevant knowledge, skills and experience, and with consideration of collective suitability, are appointed to the supervisory councils and members of the management boards are full time employees of the Bank or subsidiary. Subsidiaries' chief executive officers and management boards are responsible for the implementation of the decisions taken by the Management Bodies. The supervisory councils (or management boards)

follow legal and regulatory provisions when reporting to the Board. Certain subsidiaries are under the supervision of relevant Estonian, Latvian and Lithuanian financial supervision authorities. Governing bodies of the subsidiaries shall ensure that the licensed subsidiary is not in a breach of applicable legal or regulatory provisions or mandatory prudential rules. The proportionality principle shall always be considered when applying regulatory requirements, which includes, but is not limited to the size of the subsidiary as well as the size of its customer base, nature and complexity of business and products, and gravity of risk. Dividend payments are governed by internal regulations.

Auditors

We have been audited by AS PricewaterhouseCoopers (PwC) since 2018. Ago Vilu is the lead partner for the audit.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

€m	Notes	2022	2023
Interest income calculated using the effective interest method	3	277.7	627.6
Other similar income	3	50.3	112.6
Interest and similar expense	3	–27.2	–198.2
Net interest and similar income		**300.8**	**542.0**
Fee and commission income	4	110.3	114.8
Fee and commission expense	4	–30.0	–30.2
Net fee and commission income		**80.3**	**84.6**
Net gain from financial instruments at fair value	5	17.7	16.1
Net gain from foreign currency operations		6.7	18.6
Other operating expense – net	6	–15.3	–16.7
Share of profit from associates	12	1.6	1.6
Net other operating income		**10.7**	**19.6**
Total operating income		**391.8**	**646.2**
Personnel expenses	7	–110.6	–131.3
Other administration expenses	8	–112.7	–188.6
Depreciation, amortisation, and impairment	13,14	–10.0	–16.8
Loss on derecognition of non-financial assets – net		–	–3.2
Total administration expenses		**–233.3**	**–339.9**
Profit before credit losses and tax		**158.5**	**306.3**
Expected credit losses	11	–16.1	–33.1
Profit before tax		**142.4**	**273.2**
Latvian corporate income tax	21	–	–15.8
Lithuanian bank tax	21	–	–30.1
Other corporate income tax	21	–17.7	–32.6
Total income tax		**–17.7**	**–78.5**
Profit for the period		**124.7**	**194.7**
Total comprehensive income		**124.7**	**194.7**

The accompanying Notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

€m	Notes	31 Dec 2022	31 Dec 2023
Assets			
Cash and balances with central banks	9	2,178.1	3,184.9
Balances with banks		123.4	56.2
Debt securities	10	1,289.8	1,491.8
Loans to customers	11	10,874.7	10,502.6
Derivatives	20	121.6	92.2
Equity instruments		2.5	2.9
Investments in associates	12	5.7	5.5
Intangible assets	13	62.8	56.0
Tangible assets	14	30.2	27.0
Current tax assets		0.0	0.7
Deferred tax assets	21	12.5	8.9
Other assets	15	55.4	63.4
Total		**14,756.7**	**15,492.1**
Liabilities			
Loans and deposits from credit institutions		36.6	224.3
Deposits from customers	16	10,947.9	11,287.2
Fair value of changes of hedged items in portfolio hedges of interest rate	20	0.0	6.9
Debt securities issued	17	1,813.9	1,898.7
Derivatives	20	194.1	73.7
Tax liabilities	21	10.0	35.9
Lease liabilities	14	30.0	24.8
Other liabilities	18	118.8	134.5
Provisions	19	22.0	28.0
Total		**13,173.3**	**13,714.0**
Shareholder's equity			
Share capital		34.9	34.9
Share premium		1,412.2	1,412.2
Retained earnings		132.7	327.5
Other reserves		3.6	3.5
Total		**1,583.4**	**1,778.1**
Total liabilities and shareholder's equity		**14,756.7**	**15,492.1**

The accompanying Notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

€m	Share capital	Share premium	Retained earnings	Other reserves	Total
Balance as at 31 December 2021	**34.9**	**1,412.2**	**97.9**	**3.8**	**1,548.8**
Profit for the period	–	–	124.7	–	**124.7**
Total comprehensive income	**–**	**–**	**124.7**	**–**	**124.7**
Dividends	–	–	-90.0	–	**-90.0**
Other	–	–	0.1	-0.2	**-0.1**
Balance as at 31 December 2022	**34.9**	**1,412.2**	**132.7**	**3.6**	**1,583.4**
Balance as at 31 December 2022	**34.9**	**1,412.2**	**132.7**	**3.6**	**1,583.4**
Profit for the period	–	–	194.7	–	194.7
Total comprehensive income	**–**	**–**	**194.7**	**–**	**194.7**
Dividends	–	–	–	–	–
Other	–	–	0.1	-0.1	0.0
Balance as at 31 December 2023	**34.9**	**1,412.2**	**327.5**	**3.5**	**1,778.1**

The majority of Other reserves consist of mandatory statutory reserve capital, calculated in accordance with the Estonian Commercial Code, which may be used to cover losses. At 31 December 2023 and 2022, Luminor's share capital consisted of 12,000,000 authorised registered ordinary shares with a nominal value of €10 each, of which 3,491,223 were issued and fully paid.

Given retained earnings and regulatory requirements, Luminor had the capacity at 31 December 2023, to pay dividends of 327.5 million EUR (31 December 2022: 132.7 million EUR). The corresponding income tax payable on these distributions would be 59.9 million EUR (31 December 2022: 22.1 million EUR).

The accompanying Notes form an integral part of these financial statements.

Consolidated Statement of Cash flows

€m	Notes	2022	2023
Profit before tax		142.4	273.2
Adjustments:			
Expected credit losses		16.1	33.1
Depreciation, amortisation, and impairment	13,14	10.0	16.8
Derecognition of non-financial assets	13,14	0.0	3.2
Other items		-1.5	-1.6
Interest and similar income	3	-328.0	-740.2
Interest and similar expense	3	27.2	198.2
Change in operating assets/liabilities:			
Increase (-) / decrease (+) of lending to customers		-924.6	363.3
Increase (-) / decrease (+) of debt securities		-676.2	-200.5
Increase (-) / decrease (+) of other assets		-90.1	84.0
Increase (+) / decrease (-) of deposits from customers		593.1	310.4
Increase (+) / decrease (-) of other liabilities		74.8	139.2
Interest received		309.8	687.7
Interest paid		-17.6	-137.7
Income tax paid		-9.4	-49.7
Cash flows from operating activities		**-874.0**	**979.4**
Payment for acquisition of subsidiaries, net of cash acquired	13	-48.1	-0.3
Acquisition of tangible assets and intangible assets	13, 14	-6.1	-8.5
Proceeds from disposal of tangible assets		0.1	0.1
Dividend received	12	2.3	1.8
Cash flows from investing activities		**-51.8**	**-6.9**
Debt securities issued	17	796.9	598.5
Debt securities redeemed or matured	17	-71.8	-600.0
Repayments of principal of lease liabilities		-5.6	-5.5
Dividends paid		-90.0	0.0
Cash flows from financing activities		**629.5**	**-7.0**
Net increase (+) or decrease (-) in cash and cash equivalents		**-296.3**	**965.5**
Cash and cash equivalents at the beginning of the period		2,447.2	2,151.0
Effects of currency translation on cash and cash equivalents		0.1	0.1
Net increase or decrease in cash and cash equivalents		-296.3	965.5
Cash and cash equivalents at the end of the period		**2,151.0**	**3,116.6**
Cash and cash equivalents			
Cash on hand	9	127.4	105.4
Balances with central banks less mandatory reserve requirement	9	1,938.1	2,963.7
Balances with banks due within three months less cash collateral (a)	25	85.5	47.5
Total		**2,151.0**	**3,116.6**
a. Balances with banks cash collateral amounts		35.4	8.6

The accompanying Notes form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Material accounting policy information

Luminor Bank AS (which, together with its subsidiaries, is referred to as 'Luminor', below) is a credit institution with its headquarters in Tallinn. Luminor is owned by Luminor Holding (which is controlled ultimately by BCP VII, an investment fund managed by an affiliate of Blackstone) which, in turn, is owned by a consortium led by private equity funds managed by Blackstone (80.05%) and DNB Bank (19.95%). These consolidated financial statements for the year ended 31 December 2023, which have been prepared on a going concern basis, were approved by the Management Board on 20 February, and the Supervisory Council on 21 February, and are subject to approval by the shareholders on 21 February 2024.

BASIS OF PRESENTATION

The Consolidated financial statements (the Statements) of Luminor are prepared in accordance with International Financial Reporting Standards (the Standards) as endorsed by the European Union. In addition, Luminor has adopted the EU carve-out version of IAS 39 to hedge the interest rate risk on a portfolio of non-maturing core deposits. The Statements are prepared under the historical cost convention, except for financial instruments measured at fair value through profit or loss (FVTPL) or other comprehensive income (FVTOCI), as well as financial assets and liabilities designated as hedged items in qualifying fair value hedging relationships which are measured at amortised cost with adjustments for hedging gain or loss. In the primary financial statements of Luminor as a separate entity which are disclosed in these Statements (Note 31, below), the investments in subsidiaries are carried at cost less impairment.

The material accounting policy information and significant accounting estimates and judgements applied in the preparation of these Statements are set out below. Luminor's functional and presentation currency is the euro (EUR) and, unless otherwise stated, all amounts are reported in millions of euro to one decimal place. Monetary assets and liabilities denominated in foreign currencies are translated into euro at the official rate of the European Central Bank at the reporting period end.

Certain new Standards, amendments and interpretations to existing Standards, came into effect for accounting periods beginning after 1 January 2023 or later periods. Standards, that became effective from 1 January 2023, did not have any material impact on Luminor. Amendments to Standards which became effective for annual periods beginning on or after 1 January 2023, include amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies, IFRS 17, IAS 8, and IAS 12. The impact of applying these changes is not material except the amendment to IAS 1 regarding accounting policies which was early adopted by Luminor in 2022 and changed the content of this Note 1 from 'Significant accounting policies' to 'Material accounting policy information'.

Luminor analysed the issued performance guarantee contracts to assess whether they would meet the definition of insurance contracts in the scope of IFRS 17 and concluded that its performance guarantee contracts are out of scope as: the obligation to holder is limited to the guarantee amount and not related to underlying risk in all cases; there are no scenarios with commercial substance where Luminor would have to pay significant additional amounts to the holders of such guarantees; sums drawn shall be reimbursed to Luminor by the applicant; and, the majority of them are issued under limit or guarantee limit agreements of the applicants, which are debt instruments, and so do not expose Luminor to insurance risk. Accordingly, Luminor accounts for these contracts as loan commitments in accordance with IFRS 9.

The International Accounting Standards Board has issued amendments to existing international accounting standards (IAS 1, IAS 7, IAS 21, IFRS 7, and IFRS 16), that have not yet come into force. None of the amendments is expected to have a significant impact on Luminor's financial statements.

Change in presentation

As we have no 'Other Comprehensive income' this term is omitted from the title of the Statement of Profit or Loss.

Fee and commission income and expense

Fees and commission income is recognised either over time as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by Luminor's performance, or at a point in time when Luminor satisfies its

performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received, or receivable, represents the transaction price for the services identified as distinct performance obligations.

Fees and commission recognised over time include fees for account maintenance, servicing, and subscription, portfolio and other asset management advisory and services, wealth management and financial planning services, or fees for servicing loans on behalf of third parties (except for those subject to effective interest rate). Variable fees are recognised only to the extent that Management determines that it is highly probable that a significant reversal will not occur. Fees and commission recognised at a point in time include fees for arranging a sale or purchase of foreign currencies on behalf of a customer, processing payment transactions, cash settlements, collection or cash disbursements, and other commissions. Fee and commission expense is recognised as the service is being received (accrual basis) and when liability has been incurred.

Cash and balances with central banks

In the Statements of cash flows, cash and cash equivalents comprise cash balances, non-restricted balances due from the central banks, and amounts due from other credit institutions with original maturity of less than 3 months and insignificant risk due to change in value but excludes mandatory cash balances with central banks, which represent non-interest-bearing mandatory reserve deposits which are not available to finance Luminor's day to day operations.

Synthetic securitisation

Loans subject to synthetic securitisation remain on balance sheet, with credit protection realised through purchase of guarantees. Any impairment allowances for expected credit losses are calculated without consideration of the guarantee protection bought. The reimbursement right under the guarantees are recognized as an asset and reflected in net other finance income once it is virtually certain that the reimbursement amount for qualifying losses will be received. The related guarantee fees are accrued in net commission income.

Tangible and intangible assets, lessee contracts accounting

Tangible assets are recorded at cost minus accumulated depreciation and impairment losses. Equipment is depreciated between 20 and 33% per annum, and property between 1% and 2% per annum. For property leases Luminor uses its own funding cost as a discount rate. For other assets Luminor uses the interest rate implicit in the lease. Payments associated with leases with a 12 month term or less, or with a value of less than 5,000 EUR, are recognized on a straight-line basis as an expense in profit or loss. Intangible assets are carried at cost minus accumulated amortisation and impairment losses and amortised over 3 to 5 years.

Impairment of goodwill

Luminor tests whether goodwill has suffered any impairment at least annually or more frequently if indications of impairment exist. For 2022 and 2023, the recoverable amount of the cash-generating units was determined based on value-in-use calculations which require the use of assumptions. The calculations use discounted cash flow method covering the period of ten years. Beyond ten-years projections are made using estimated industry growth rates relevant to the cash-generating unit.

Hedge accounting

At the inception of a hedge relationship, Luminor formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how Luminor will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined).

A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements: there is 'an economic relationship' between the hedged item and the hedging instrument; the effect of credit risk does not 'dominate the value changes' that resulting from that economic relationship; the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that Luminor actually hedges and the quantity of the hedging instrument that Luminor actually uses to hedge that quantity of the hedged item.

Luminor applies hedge accounting according to IFRS 9 Financial instruments to fair value hedges of Debt securities issued. From January 2023 Luminor applies hedge accounting to part of Deposits from customers according to EU carve-out version of IAS 39. Luminor enters into interest rate swaps to hedge its Debt securities issued and part of deposit portfolio and applies a fair value hedge. Changes in the fair value are presented under "Net gain (-loss) from financial instruments at fair value" in the Statement of Profit or Loss. Interest income and expense from financial instruments (hedged item) are presented as "Net interest and similar income". The changes in the fair value of the hedged Debt securities issued attributable to the hedged risk are recognised as an addition to or deduction from the balance sheet value of financial liabilities and presented under "Net gain (-loss) on financial instruments at fair value" in the income statement.

The carrying amount of the derivatives used to hedge Deposits from customers are included in line item 'Derivatives' in the Statement of Financial Position, on either the Assets or Liabilities side depending on the fair value of the instruments, whereas portfolio hedging effect is recognised as 'Fair value of changes of hedged items in hedges of interest rate' in the Statement of Financial Position, on Liabilities side corresponding to the change in fair value of designated customer deposits discounted at market interest rates.

Corporate income tax

Quarterly profits of credit institutions in Estonia are subject to advance corporate income tax at a rate of 14%. The tax is payable by the 10th day of the third month of the following quarter. The profit of a quarter can be reduced by losses of up to 19 previous quarters. Quarterly advance corporate income tax payments can be offset by the corporate income tax liability, charged at a rate of 20% arising from profit distribution. If no dividends are paid, the quarterly advance corporate income tax payments are not refunded. Corporate income tax payable on the quarterly profits is recognised as a current income tax expense. Deferred tax asset (and deferred tax income) on quarterly losses is recognised only if it is probable that future taxable profits will be available during 19 subsequent quarters to utilise those losses. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Effective 1 January 2024, the Government of Latvia enacted amendments to the Latvian Corporate income tax law. The amendments introduced annual mandatory prepayment of corporate income tax for credit institutions and consumer credit service providers, at a rate of 20% on prior year after-tax profit. The first payment is to be made in 2024 based on 2023 profit. Payments will be reduced by the amount of tax paid on profits already distributed in the tax year. Accruals for mandatory prepayment of corporate income tax were created in 2023. Previously in Latvia, corporate income tax was charged upon distribution of profits or conditionally distributed profit at the rate of 20% of the gross amount. Corporate income tax on distributed profit was recognized when the shareholders of Luminor decided on profit distribution. Corporate income tax was recognised as expenses in the profit and loss calculation in the reporting period when the dividends or conditional dividends were calculated, whereas for other objects of conditionally distributed profit corporate income tax was recognised at the moment when the expenses occurred within the reporting period.

In Lithuania the standard corporate income tax rate is 15%. For profits of credit institutions in excess of 2 million EUR the income tax rate is 20%. Expenses related to taxation charges and included within these financial statements are based on calculations made by Luminor in accordance with the Lithuanian tax legislation.

In May 2023, the Government of Lithuania enacted a temporary tax on selected income of banks earned within their jurisdiction ('Law on Temporary Solidarity Contribution'). The tax is levied at a rate of 60% on the amount of net interest income generated in each of 2023 and 2024, from loans to customers advanced before 31 December 2022, that exceeds by more than 50% the average net interest income of the preceding four financial years. The tax will remain in force until 17 June 2025. Luminor considered the tax in scope of IAS 12 and recognised under Income tax in the income statement.

Contingent liabilities

Luminor originates off-balance sheet financial instruments consisting of commitments to provide loans, including factoring, guarantees, and financial (loan repayment) guarantees and commercial letters of credit. Such instruments are recorded in the Statement of Financial Position when they are funded, or related fees are incurred or received. All these items are initially recognised at their fair value, which is normally evidenced by the amount of the contract. These amounts are amortised on a

straight-line basis over the life of the contract. At each balance sheet date, the issued financial guarantees are measured at the higher of either the unamortised balance of the amount after initial recognition or an expected credit loss (ECL) amount calculated in accordance with IFRS 9.

Measurement of operating ('Customer') segments performance

Luminor's Management Board, its Chief Operating Decision Maker (CODM), monitors separately the operating results of its Customer segments – Retail Banking and Corporate Banking (including Maksekeskus). The results of all other operations are included in the 'Other' segment. Segment results consist of income and expenses associated directly with the customers belonging to each segment and income and expenses not booked at a customer level, which are allocated between the operating segments using internally agreed allocation methods. Operating expense allocation to the respective segments and products is carried out by activity-based costing. Only assets and liabilities relating to customers which belong to the segments are reported under the respective segments. Loans and Deposits are reported at net carrying amounts including accrued interest and net of credit impairments. Credit loss allowances on loans to customers are monitored for each of the segments. See Note 27, 'Customer segments', below.

Significant accounting estimates and judgements

Fair value of financial instruments

The carrying amount of the part of Luminor's assets and liabilities is a reasonable approximation of their fair value.

Methodology followed to fair value Financial instruments:

Level	Description
1	Unadjusted quoted prices in active markets for identical assets or liabilities
2	Observable inputs, other than quoted prices included within Level 1, are observable for the asset or liability
3	Unobservable inputs for the asset or liability

See also Note 24, 'Fair value of financial assets and liabilities', below.

Methods and assumptions used to estimate fair value

Instrument	Methods and assumptions used to estimate fair value
Cash and balances with central banks	Carrying amount
Balances with banks	Carrying amount
Loans to customers	Future cashflows discounted using the sum of the EURIBOR base rate curve and average new sales margin of the reporting quarter. For mortgages the average new sales margin of mortgages of the reporting quarter is added to the base rate curve
Debt securities	If issued in the Baltic states, quotes from Baltic market makers. If issued outside the Baltic states, or there are no quotes available from local market makers, or the quotes are clearly incorrect or artificial, market data
Equity instruments	If Baltic-listed equities, the quotes of Baltic market makers. Other listed equities, market data. For equities of non-listed companies for which active market does not exist, any available trusted public information on recent trades or dividend discount model
Interest-bearing financial instruments	Discounted cash flows using interest rates for items with similar characteristics
Derivatives	Market data
Loans and deposits from credit institutions	Carrying amount
Deposits from customers	Term deposit future cashflows discounted using the sum of the EURIBOR base rate curve
Debt securities issued	Market data

Impairment of financial instruments

Luminor's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The accounting judgements and estimates of the ECL models are described in the Note 2, 'General risk management policies', below.

2. General risk management policies

Luminor's risk management policies balance the rewards of taking risk to generate income with the risk of loss. Luminor ensures that all material risks are identified, assessed, responded, monitored and reported. Luminor's Risk division is an independent function responsible, in cooperation with Compliance division, for ensuring that Luminor has an appropriate risk management framework and for verifying that Luminor's divisions operate within this framework. Risk management is organised so that any possible conflicts of interest are avoided or escalated, should they occur.

CREDIT RISK

Credit risk is defined as the risk that a debtor or counterparty is unable to meet their obligations as they fall due, in part or in full. Credit exposures arise primarily from lending activities, including contingent liabilities, and from purchasing debt securities. Note 23, below, details Luminor's maximum exposure to credit risk.

The principles of Luminor's credit risk management are outlined in Luminor's Credit Risk Policy. Application of these principles and decision-making processes are regulated by relevant internal regulations. Luminor's principal objective for lending is that the loan portfolio must have a quality and a composition that ensure profitability in the short and long term by maintaining a low to moderate risk profile. The assessment of creditworthiness is based on the customer's ability and willingness to meet their contractual obligations. Cash flows from customers' activities dedicated for loan payments must be clearly understandable and sustainable.

Credit decisions are made by Credit committees and must be unanimous, and by individuals according to decision-making authorisations, based on their competence level. Regular reports are prepared and presented to Luminor's Management Bodies to monitor the portfolio composition, to follow the level and development of the assumed credit risk, and take corrective actions when needed.

Credit risk measurement

Loans to customers

Credit risk is managed by analysing the customer before granting any credit and by monitoring after credit disbursement. Luminor measures credit risk using rating models that estimate Probability of default (PD), Loss given default (LGD), and Exposure at default (EAD).

Rating models, which estimate PD and risk grade, are used to estimate default risk of the counterparty. The assessment is made by using the customer segment/product specific rating models for six homogeneous groups of customers: individuals, large corporates, corporates, small and medium-sized enterprises, microbusinesses, and real estate projects of legal entities. All credits granted to Retail customers are re-classified using these rating models every time a commitment is renewed. Where the rating process is more automated, the risk estimates are reviewed on a quarterly basis. Ratings assigned to larger Corporate customers are reviewed at least once a year.

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

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

The PD models rely on internal and external information. Internal information incorporates information on delinquencies, account behaviour and set up of the loan, while external data includes social demographic aspects, late payments, financials, and leverage. The LGD models are based on the historically realized loss for different collaterals, customer segments, and types of facilities. The EAD models estimate exposure at default and are segmented across customer types and facility groups.

In addition to credit decision-making, internal model outputs are used in credit pricing, loan portfolio quality monitoring, and risk reporting as well as economic capital (risk-adjusted capital (RAC)) calculations, capital allocation, and stress testing. When

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

In 2022, Luminor implemented its ESG Risk Assessment Procedure as part of its assessment of customer's creditworthiness. The extent of the assessment depends on the ESG risks identified. If ESG risks are high, for exposures above a certain threshold the customer's risk grade is reduced by one grade which affects the probability of default. In 2023, we reduced by one grade the risk grade of several corporate customers, though all remained within Stage 1 and hence the impact on ECL was not material. There was no material impact on ECL's from green financing activities. For other exposures their risk mitigation capacity is assessed.

Balances with banks

Counterparty risk of banks and financial institutions is managed by establishing risk limits for investment grade counterparties and then by monitoring those counterparties. If an investment grade counterparty does not exist in a country, the best available counterparties from that country are chosen. All counterparty banks are risk classified and risk limits are established. The risk grade and PD of banks and countries are based primarily on external ratings from recognised credit rating agencies. If an external rating for a counterparty is unavailable, Luminor will derive its own internal rating based on assessment of macroeconomic factors, the counterparty's own solvency and liquidity, and qualitative factors. All counterparties and countries are monitored on a quarterly basis, and limits are reviewed annually.

Debt securities

Luminor invests in debt securities in its banking book and trading book. Debt securities in the banking book are generally held-to-maturity and are classified as Amortised cost, FVTPL (designated or held mandatorily), or FVTOCI depending on business model or other criteria mandated by IFRS 9. Debt securities in the trading book, which are classified as held-for-trading, are used to provide secondary market liquidity to local investors and serve Luminor's customers.

Credit risk limit control and mitigation policies

Concentration risk

Luminor manages concentration risk by limiting exposure to sectors and customers. Lending to individual sectors is capped in general at 20% of total lending to legal entities, with exceptions for real estate (30%) and construction (10%). Luminor limits consumption of its economic capital for the 10 largest customer groups to 50 million EUR and, in addition, has a single name concentration limit (excluding state and municipality risk) of 180 million EUR.

Collateral

Luminor mitigates credit risk through collateral. Long-term financing and lending to business customers is generally secured. Consumer loans (including credit card limits) to individual customers are usually unsecured. Upon the initial recognition of loans to customers, the fair value of collateral is established. For real estate, market values estimated by external valuers or the purchase price, whichever is lower, are used, while for movable assets book value is used typically. The value of collateral is monitored and reconsidered periodically. A statistical revaluation is performed periodically for residential real estate by applying relevant indices. For leased assets, after origination, the market value is adjusted by depreciation of the movable asset. When calculating collateral realisation value, a discount is applied, the amount of which depends on different factors, including the type of collateral and expected realisation time.

Derivatives

Luminor's counterparty credit risk represents the potential loss incurred to replace derivative contracts if counterparties fail to meet their obligations. Luminor assesses counterparties' creditworthiness in conjunction with its derivatives exposure to control the level of credit risk taken. Counterparty credit risk is managed primarily using exposure limits, exchange of collateral and valuation adjustments to reported fair values. Financial derivative instruments are recognised initially and carried subsequently at their fair value, adjusted each month, while credit risk exposure limits and collateral are monitored and exchanged daily.

Credit-related commitments

Commitments are generally collateralised either by the funds held in a Luminor account, tangible assets, or other collateral.

Credit impairment policies

Principles

Luminor recognises credit losses in accordance with the requirements of IFRS 9 applying a forward-looking expected credit loss approach. Luminor classifies loans, and other credit instruments, into one of three stages:

Stage	Status of financial instrument	ECL horizon	Amount on which interest is calculated
1	No significant increase in credit risk since initial recognition or low credit risk	12-months	Gross carrying amount
2	Significant increase in credit risk since initial recognition but not credit impaired	Lifetime	Gross carrying amount
3	Credit-impaired	Lifetime	Gross carrying amount less loss allowance

Luminor's expected credit loss calculation models have a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. These include:

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

The applied ECL model was enhanced during the second quarter of 2023 to reflect the effect of the increase of interest rates leading to increasing level of risk most notably in commercial real estate segment. A new temporary collective significant increase in credit risk (SICR) indicator, for commercial real estate exposures vulnerable to increasing interest rates, was incorporated into the ECL model. As a consequence, an additional collective impairment was established. Implementation of the new SICR indicator had an impact on staging of credit exposures by increasing the amount of exposures classified within Stage 2, as well as by increasing the total amount of impairment, due to reclassification of exposures from Stage 1 to Stage 2.

During the fourth quarter of 2023, collective SICR indicators, that were incorporated into the ECL model in the first quarter of 2022 to reflect the effects of the invasion of Ukraine (including geopolitical risk, inflationary risk including sustained energy price increase, and customers with energy intensive operations), were reconsidered. As a consequence, application of the collective SICR indicators was discontinued and exposures reverted to Stage 1. Furthermore, affected exposures were reviewed based on other regular collective SICR indicators and, where appropriate, reclassified as Stage 2. The total impact of this discontinuation on the amount of impairment was not material. Stage 3 loans increased by 68.8 million EUR, principally as we reclassified the risk of one customer, and consequently accounted for 1.9% of gross lending at year end.

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

Significant increase in credit risk ('SICR')

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

- significant increase of lifetime PD since initial recognition until the reporting date (2.5 times and 0.6 p.p. jointly)
- risk grade 9 or 10 as at the reporting date
- more than 30 days past due on any material overdue amount to Luminor as at the reporting date
- forborne (restructured) performing status as at the reporting date (forbearance not triggering non-performing status)
- watch list status as at the reporting date
- collective SICR indicator for commercial real estate exposures vulnerable to increasing interest rates.

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

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

Expected credit losses

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

Estimation of PD and LGD curves considers forecasts of macroeconomic data. Luminor economists forecast this data three years ahead and propose scenario probabilities. From the fourth year it is assumed that PD and LGD converge to their long-term average. Annual change in real GDP and the unemployment rate are used when modelling for customers of Corporate Banking, while modelling for customers of Retail Banking also includes annual change of residential real estate prices.

Three-year projections of macroeconomic variables and probability weights are prepared for each Baltic country. Macroeconomic scenarios and their weights were most recently re-considered in the fourth quarter of 2023 to reflect, mainly, possible consequences of the prevailing geopolitics, high and persistent inflation, and increased interest rates. The ECL model inputs and parameters were updated, including changes in the estimated current and future states of the economy based on updated macroeconomic variables and forecasts, as well as regular IFRS 9 risk parameters used in ECL calculation.

At the end of 2023, the probability weights for scenarios remained unchanged as compared to the end of 2022. The prevailing probability weights for the three scenarios are 20% for the optimistic scenario, 50% for the baseline, and 30% for the pessimistic scenario. The parameters used for macroeconomic modelling were:

Forecasts under different scenarios:

Economic data, %

		Scenarios											
		Optimistic				Baseline				Pessimistic			
31 December 2022	**2021a**	**22f**	**23f**	**24f**	**25f**	**22f**	**23f**	**24f**	**25f**	**22f**	**23f**	**24f**	**25f**
Real GDP (a)													
Estonia	8.0	1.0	2.0	4.0	3.0	0.0	0.0	4.0	4.0	0.0	-2.0	2.0	4.0
Latvia	4.5	3.0	3.0	4.0	4.0	3.0	0.0	4.0	4.0	2.0	-2.0	3.0	4.0
Lithuania	5.0	2.0	3.0	5.0	4.0	1.3	-1.2	5.5	3.5	0.0	-3.0	3.0	4.0
Unemployment rate													
Estonia	6.2	6.0	6.0	5.0	6.0	6.0	7.0	8.0	7.0	7.0	10.0	8.0	7.0
Latvia	7.6	7.0	7.0	6.0	6.0	7.0	8.0	7.0	7.0	8.0	11.0	8.0	8.0
Lithuania	7.2	5.8	6.0	6.0	6.0	5.8	7.0	6.8	6.4	7.0	10.0	9.0	8.0
Residential Real Estate price (a)													
Estonia	15.0	20.0	7.0	6.0	6.0	20.0	4.0	5.0	5.0	15.0	-7.0	0.0	3.0
Latvia	10.9	11.0	8.0	6.0	5.0	11.0	4.0	6.0	5.0	10.0	-5.0	0.0	2.0
Lithuania	16.1	21.0	6.0	5.0	5.0	21.0	0.0	4.0	4.0	12.0	-6.0	0.0	3.0
31 December 2023	**2022a**	**23f**	**24f**	**25f**	**26f**	**23f**	**24f**	**25f**	**26f**	**23f**	**24f**	**25f**	**26f**
Real GDP (a)													
Estonia	-1.3	-0.6	4.2	7.6	5.6	-2.0	0.0	4.0	2.2	-2.0	-4.0	1.8	4.0
Latvia	2.8	1.9	6.0	6.9	6.4	0.6	1.8	3.4	3.0	0.6	-3.5	-0.4	1.8
Lithuania	1.9	0.8	5.3	5.0	4.6	-0.5	1.9	2.3	2.0	-0.5	-3.5	1.4	4.3
Unemployment rate													
Estonia	5.6	6.1	7.0	6.2	5.8	7.0	8.0	7.0	6.5	7.0	10.5	10.3	8.9
Latvia	6.9	5.8	6.0	5.4	5.6	6.6	7.2	6.4	6.5	6.6	10.5	11.1	10.6
Lithuania	6.0	6.1	5.5	5.2	5.6	7.0	6.8	6.2	6.5	7.0	10.0	10.8	9.9
Residential Real Estate price (a)													
Estonia	22.2	2.0	8.2	8.8	8.7	0.0	1.7	3.4	3.5	0.0	-25.0	-2.4	9.6
Latvia	13.8	3.7	12.0	10.4	8.8	1.3	4.0	4.0	3.0	1.3	-20.0	-6.7	3.5
Lithuania	19.0	4.2	8.7	7.7	5.8	3.0	4.0	3.8	2.1	3.0	-25.0	-5.7	7.4

a. Annual change

Material exposures are reviewed regularly. The regularity and depth of the assessment are based on the risk level and size of the exposure. The aim of the follow-up is to identify any potential worsening of the situation and start early actions to improve Luminor's position, and to identify the occurrence of unlikeliness to pay criteria. Credit-impaired large exposures that are above materiality thresholds are reviewed every quarter or more frequently when individual circumstances require. 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 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, for example, a workout case.

For Stage 3 financial asset exposures (including defaulted POCI assets), which are classified as immaterial, Luminor evaluates the impairment amount on a collective basis (collective assessment) where collective assessment is defined by asset type, product, and non-performing loans vintage. Impairment is calculated by applying a provision rate for the unsecured part. The

unsecured part for impairment purposes is calculated using the collateral value capped to the exposure amount and afterwards discounted, eliminating situations when over-collateralised loans have an entirely secured part and result in zero impairment. Different provision rates for the unsecured part are applied for three homogeneous groups: mortgage loans and other loans with real estate collateral to individuals; consumer and other loans (including leasing) to individuals, and loans to businesses.

Expected credit losses sensitivity analysis

ECL sensitivity analysis, €m	31 Dec 2022		31 Dec 2023	
	Lower	Higher	Lower	Higher
Effect of change in SICR thresholds (a)				
Estonia	0.10	-0.08	0.04	-0.08
Latvia	0.95	-0.38	0.06	-0.06
Lithuania	1.31	-1.12	0.80	-0.40
Luminor	2.36	-1.58	0.90	-0.54
Effect of change in scenario probabilities (b)				
Estonia	-0.03	0.03	-0.03	0.03
Latvia	-0.10	0.10	-0.14	0.14
Lithuania	-0.29	0.28	-0.56	0.56
Luminor	-0.41	0.40	-0.73	0.73
Effect of change in LGD values of Stage 1 and 2 exposures (c)				
Estonia	-0.84	0.85	-0.76	0.78
Latvia	-1.92	1.94	-2.10	2.12
Lithuania	-3.64	3.66	-4.23	4.24
Luminor	-6.39	6.45	-7.09	7.14

In the above, increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

a. Impact on ECL if SICR relative thresholds were increased or decreased by 20% and absolute thresholds increased or decreased by 12bps

b. Impact on ECL if pessimistic scenario weight was increased or decreased by 2bp and optimistic scenario weight was decreased or increased by 2bp

c. Impact on ECL if Loss given default values at exposure level increased or decreased relatively by 10%

ECL sensitivity to changes in SICR thresholds fell during the year as systemic risk factors and their projections were revised, the composition of Loans to customers changed with a greater proportion of lower sensitive loans to private individuals.

Credit risk assessment on modified financial assets

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

Default definition

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

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

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

Write-off policy

Luminor writes off financial assets, in whole or in part, which are considered as being non-collectible – in general following sale of collateral. Before a write-off decision, Luminor ensures there is no reasonable expectation of recovery by assessing the legal recoverability of a claim, and the possibility of voluntary recovery solutions based on a customer's willingness and ability to settle a claim. However, write-off does not limit Luminor's recovery measures. The outstanding contractual amount on financial assets that were written off during the year ended 31 December 2023 and still subject to enforcement activity was 1.3 million EUR (31 December 2022: 1.5 million EUR).

Information about collaterals of loans

Luminor considers guarantees issued by the state and other parties issuing guarantees that are equivalent to the state guarantees. Guarantees and warranties issued by other parties (individuals, legal entities), although they mitigate risk, are considered immaterial. If exposure is secured by several different types of collateral, priority in recognition of a collateral is based on its liquidity. Securities, cash, and guarantees are treated as the types of collateral with the highest liquidity, followed by residential real estate and then other real estate. Movable assets like transport vehicles, equipment, and other assets are treated as having the lowest liquidity.

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events. Operational risk comprises of eight sub-types in Luminor's risk taxonomy: Information and communication technology risk, Information security risk, Data management risk, Legal risk, Operational continuity and resilience risk, People risk, Process and reporting risk, and Third party and outsourcing risk.

Operational risk management is governed by the Operational Risk Management Standard and other relevant operational risk management framework documents which establish requirements for identifying, managing, assessing, treating, monitoring, and reporting operational risks. Business units are responsible for operational risk management within their areas and are overseen by the Operational Risk Department which identifies any deviations from Luminor's Risk Appetite Framework and ensures any deviations can be managed effectively without significant detriment to Luminor, its customers or other stakeholders. Luminor Management is kept updated on the status of operational risk through periodic and ad hoc risk reporting.

MARKET RISK

Market risk is the risk of losses in on- and off-balance sheet positions arising from adverse movements in market prices. The most significant parts of market risk for Luminor are interest rate risk and credit spread risk. Luminor has a low risk appetite for market risk and does not have any open positions in commodities, nor equity instruments for trading. Customer related foreign exchange flow is hedged each day, and all derivative agreements with customers are hedged with back-to-back transactions.

Luminor monitors interest rate risk sensitivity, separately, in the banking and trading books. Trading book interest rate risk sensitivity is immaterial given insignificant volumes of instruments in the trading book. Interest rate risk in the banking book is measured in terms of stressed EVE (Economic Value of Equity) and NII (Net Interest Income), and in the trading book it is measured in terms of Basis Point Value (BPV), i.e., the change in net cash flows given a one basis point (0.01%) parallel shift in the market interest rates for different currencies: EUR, USD, and sum of all other currencies. Credit spread risk arises only from debt securities valued at FVTPL/FVTOCI in the banking book bond portfolio and exposures in the trading book bond portfolio. Luminor applies a value-at-risk (VaR) model to estimate a possible loss due to changes in prices of the bonds. Separate VaR limits are set for the bond portfolios in the banking and the trading books. Stressed net interest income decreased year on year following hedging of 875 million EUR of non-maturing deposits with interest rate swaps of different maturities. Meanwhile stressed EVE increased in the year as bond positions matured and balances of non-maturing deposits decreased.

Sensitivity to interest rate risk in banking book, €m	**2022**	**2023**
Stressed Net interest income (Parallel up +200bp)	24.1	16.0
Stressed Economic value of equity (Parallel up +200bp)	0.0	-37.7
Stressed Net interest income (Parallel down -200bp) (a)	-24.9	-15.9
Stressed Economic value of equity (Parallel down -200bp) (a)	9.9	55.0

a. Negative interest rate scenarios floored at -1.5% based on the EBA guidelines.

Luminor's main currency exposure is euro. Positions in other currencies are insignificant. FX risk is measured as the nominal value of open FX positions converted to euro using the ECB rates. Luminor has approved separate limits for the United States Dollar (USD), sum of other currencies, and maximum of other currencies and total currencies.

Exposure to FX risk, €m	**2022**	**2023**
US Dollars	-0.2	-0.1
Maximum absolute exposure of all foreign currencies other than US Dollars	0.1	0.1
Sum of all foreign currency exposures in absolute terms excluding US Dollars	0.3	0.3
Total (a)	**0.3**	**0.3**

a. The higher absolute value of either sum of positive exposures or sum of negative exposures of all foreign currency open positions.

LIQUIDITY RISK

Liquidity risk is the risk of the bank being unable to fulfil its obligations in a timely manner or to the full extent when they fall due, without incurring significant costs in the process. Liquidity is managed to ensure a constant ability to settle contractual obligations. Liquidity risk management is divided into intraday, short-term, and long-term liquidity management. Intraday and short-term liquidity management ensures compliance with the reserve and liquidity requirements set by the ECB and internal liquidity limits. Long-term liquidity risk management is based on analysis of planned balance sheet developments, preparation of funding plan and is further supported by analysing the estimated future cash flows considering deposit and loan portfolio growth, as well as possible refinancing sources.

Luminor uses a range of liquidity metrics for measuring, monitoring, and controlling liquidity risk including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), internal liquidity limits for funding concentration, and a survival horizon metric as a part of the liquidity stress testing. Luminor has a set of early warning indicators to identify liquidity crises in a timely fashion, and contingency funding plans to manage Luminor's liquidity during market disruptions. The liquidity risk management strategy is reviewed at least annually or after any significant change in the internal or external environment.

The minimum limit for LCR and NSFR ratios is set at 100%, however Luminor has a substantial liquidity buffer – of balances with central banks and the liquidity bond portfolio - and maintains higher ratios than set by regulatory requirements. See also Note 25 'Maturity of financial assets and liabilities', below.

COUNTRY RISK

Country risk is a risk that some event within a country could have an adverse effect on Luminor directly by impairing the value of Luminor or indirectly through an obligor's ability to meet its obligations towards Luminor. Establishment of country limits is required when Luminor acquires sovereign debt, takes risk backed by a country's government or when establishing credit limits towards foreign financial institutions. No country limits are required for exposures to countries that are rated at AA- (S&P, Fitch) or Aa3 (Moody's) or better; EU countries that are rated BBB (S&P, Fitch) or Baa2 (Moody's) or better; and Luminor's home markets of Estonia, Latvia, and Lithuania. At the end of the reporting period Luminor had set country limits of 45 million EUR towards three countries out of which 1 million EUR was utilised.

COMPLIANCE RISK

Compliance risk is the risk of negative impacts due to potential regulatory criticism, direct or indirect financial liabilities, civil penalties, or loss to reputational standing due to non-compliance or as a result of failure to comply with laws, regulations, organizational standards of practice, or other applicable rules. Compliance risk entails financial crime risk, conduct risk and regulatory compliance risk. Compliance risk management is based on a strong compliance culture, where all stakeholders feel empowered and accountable to take active steps to ensure that Luminor remains compliant.

BUSINESS MODEL RISK

Business model risk is a risk to Luminor's profitability from potential adverse developments in the commercial aspects of Luminor's business, in particular the failure to implement the strategy. Business model risk, which is comprised of Business risk and Strategic risk, is managed through the strategic and financial planning processes.

MODEL RISK

Model risk is the risk of adverse effects on capital adequacy, financial loss, poor business, or strategic decision-making from the use of inadequate or deficient quantitative models. Periodical validation and proactive model risk management of Luminor's models is performed according to principles established in internal regulations.

CAPITAL MANAGEMENT

Capital is managed so as to comply with minimum capital, regulatory buffer and liquidity requirements at all times. The capital requirements are the sum of requirements of minimum capital, Other Systemically Important Institution (O-SII), Pillar 2, and Systemic Risk Buffer and Countercyclical Risk Buffers set by the supervisory authorities in the Baltic countries. Together they oblige Luminor to hold capital exceeding 11.33% of CET1, 13.25% of Tier 1 and 15.80% of Total Capital as at 31 December 2023 (31 December 2022: 10.69, 12.60, and 15.15% respectively).

Capital consists entirely of Common Equity Tier 1 (CET 1) which as at 31 December 2023, as measured on a reported basis, totalled 1,698.3 million EUR (31 December 2022: 1,488.0 million EUR). As measured on a regulatory basis CET1 totalled 1,441.3 million EUR as at 31 December 2023 (31 December 2022: 1,407.7 million EUR).

Luminor uses the Standardised method in its Capital Adequacy calculations to calculate the Risk Exposure Amount (REA) for Credit and Market risk. The REA for operational risk is calculated using the Basic Indicator Approach method. Based on information provided internally to key management personnel Luminor complied with external capital requirements during the current and preceding reporting periods.

3. Net interest and similar income

€m	2022	2023
Loans to customers at amortised cost	264.5	534.6
Balances with central banks	6.9	91.9
Balances with banks	1.1	1.1
Negative interest on financial liabilities	5.2	0.0
Interest income calculated using effective interest method	**277.7**	**627.6**
Finance leases	47.4	89.8
Other interest	2.9	22.8
Other similar income	**50.3**	**112.6**
Interest and similar income	**328.0**	**740.2**
Loans and deposits from credit institutions	−5.4	−1.5
Deposits from customers	−4.7	−101.8
Debt securities issued	−17.5	−55.5
Gain (−loss) on hedging activities	1.1	−38.8
Other	−0.7	−0.6
Interest and similar expense	**−27.2**	**−198.2**
Total	**300.8**	**542.0**

4. Net fee and commission income

€m	2022			2023		
	Income	Expense	Net	Income	Expense	Net
Cards	38.6	−21.5	**17.1**	43.5	−22.4	**21.1**
Credit products	7.3	−2.5	**4.8**	6.7	−2.1	**4.6**
Daily banking plans	17.6	0.0	**17.6**	19.4	0.0	**19.4**
Deposit products and cash management	16.5	−2.9	**13.6**	14.3	−3.1	**11.2**
Insurance	3.5	−0.1	**3.4**	3.8	0.0	**3.8**
Investments	5.0	−1.3	**3.7**	5.7	−1.7	**4.0**
Pensions	8.9	−0.8	**8.1**	8.9	−0.8	**8.1**
Trade finance	9.8	0.0	**9.8**	11.4	0.0	**11.4**
Other	3.1	−0.9	**2.2**	1.1	−0.1	**1.0**
Total	**110.3**	**−30.0**	**80.3**	**114.8**	**−30.2**	**84.6**

Fee and commission income by recognition type

€m	2022			2023		
	Over time	Point in time	Total	Over time	Point in time	Total
Cards	10.9	27.7	**38.6**	8.3	35.2	**43.5**
Credit products	1.2	6.1	**7.3**	1.6	5.1	**6.7**
Daily banking plans	17.6	0.0	**17.6**	19.4	0.0	**19.4**
Deposit products and cash management	4.1	12.4	**16.5**	3.7	10.6	**14.3**
Insurance	0.0	3.5	**3.5**	0.0	3.8	**3.8**
Investments	2.1	2.9	**5.0**	2.9	2.8	**5.7**
Pensions	8.9	0.0	**8.9**	8.9	0.0	**8.9**
Trade finance	9.0	0.8	**9.8**	10.8	0.6	**11.4**
Other	0.1	3.0	**3.1**	0.1	1.0	**1.1**
Total	**53.9**	**56.4**	**110.3**	**55.7**	**59.1**	**114.8**

5. Net gain from financial instruments at fair value

€m	2022	2023
Derivatives	30.5	2.1
Financial assets and liabilities held for trading	7.7	6.1
Financial assets and liabilities at fair value through profit or loss	−0.1	1.1
Debt securities designated at fair value through profit or loss	−20.4	6.8
Total	**17.7**	**16.1**

6. Other operating expense – Net

€m	2022	2023
Other income	0.6	1.0
Other operating income	**0.6**	**1.0**
Cash contributions to resolution funds and deposit guarantee schemes	−15.9	−17.7
Other operating expense	**−15.9**	**−17.7**
Total	**−15.3**	**−16.7**

7. Personnel expenses

€m	2022	2023
Wages and salaries	−87.8	−109.0
Social security contributions	−14.9	−17.8
Indirect personnel expenses (recruitment, training)	−7.6	−4.1
Contribution to pension funds	−0.3	−0.4
Total	**−110.6**	**−131.3**

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

8. Other administration expenses

€m		2022	2023
Information Technology related		−71.3	−98.9
Consulting and professional services		−12.7	−54.6
Advertising and marketing		−7.6	−8.6
Real estate		−3.7	−3.3
Taxes and duties		−2.6	−1.3
Other		−14.8	−21.9
Total		**−112.7**	**−188.6**
of which PwC:	Audit of these consolidated financial statements	0.3	0.3
	Other services including audit of subsidiaries financial statements	0.7	0.4

The increase in expenses is a consequence of the significant improvements we are making to our IT systems and our processes and so enhance our customers' experience. Most of the increase is therefore related to IT expenses and consultancy costs. In addition to the statutory audit, PwC provided additional services required by regulations in the Baltic countries and other services permitted under the Estonian Auditors Activities Act and other EU and national laws and regulations.

9. Cash and balances with central banks

€m	31 Dec 2022	31 Dec 2023
Cash on hand	127.4	105.4
Balances with central banks	2,050.7	3,079.5
Total	**2,178.1**	**3,184.9**
of which mandatory reserve requirement	112.6	115.8

10. Debt securities

€m	Govern-ments	Credit institutions	Financial institutions	Corporates	Total
31 December 2022					
Amortised cost	881.9	60.7	0.0	108.0	**1,050.6**
FVTPL (designated)	178.0	22.0	0.0	0.0	**200.0**
FVTPL (mandatorily)	25.4	0.0	4.7	6.4	**36.5**
FVTOCI	2.7	0.0	0.0	0.0	**2.7**
Total	**1,088.0**	**82.7**	**4.7**	**114.4**	**1,289.8**
31 December 2023					
Amortised cost	1,074.4	109.6	7.1	104.2	**1,295.3**
FVTPL (designated)	152.7	22.7	0.0	0.0	**175.4**
FVTPL (mandatorily)	13.7	0.0	4.7	0.0	**18.4**
FVTOCI	2.7	0.0	0.0	0.0	**2.7**
Total	**1,243.5**	**132.3**	**11.8**	**104.2**	**1,491.8**

In 2023 Luminor increased its investments in debt securities recognised at amortised cost. The investments were made mostly in low-risk government (EU, EIB and EU governments) and covered bonds which are ECB-eligible and can be used to obtain additional liquidity in case of necessity. All the portfolio is classified as Stage 1 and total ECLs recognised during 2023 amounted to 1.0 million EUR (2022: 1.0 million EUR).

Luminor buys derivatives (interest rate swaps) to economically hedge the interest rate risk of debt securities affecting the fair value. Derivatives are accounted for in trading portfolio with the fair value changes through profit or loss. To avoid or significantly reduce accounting mismatch, part of the debt securities portfolio are designated at FVTPL. For the debt securities designated at FVTPL, the maximum credit risk equals their carrying amount. Part of the change in fair value that is attributable to credit risk component is immaterial. The credit risk level of these securities is low (all rated AAA to A by Fitch and/or Standard & Poor's).

11. Loans to customers

€m	31 Dec 2022	31 Dec 2023
Individuals	5,951.9	5,941.5
Businesses	4,498.0	4,181.3
Financial institutions	222.2	190.9
Public sector	202.6	188.9
Total	**10,874.7**	**10,502.6**
of which loans pledged as security for covered bonds (see also Note 17, 'Debt securities issued', below)	1,925.0	1,050.0
By country of customer registration		
Estonia, Latvia, and Lithuania	10,685.3	10,353.7
Rest of the European Union	158.9	123.0
Other	30.5	25.9
Total	**10,874.7**	**10,502.6**

Loans to customers by stage and type

€m	Gross carrying amount				Credit loss allowances				Total
	1	2	3	Total	1	2	3	Total	
31 December 2022									
Mortgages	4,842.6	232.7	33.2	**5,108.5**	-10.4	-10.6	-8.0	**-29.0**	**5,079.5**
Leasing	445.1	33.2	1.5	**479.8**	-1.9	-1.1	-0.3	**-3.3**	**476.5**
Consumer loans, cards	110.8	9.6	0.6	**121.0**	-0.5	-0.7	-0.2	**-1.4**	**119.6**
Other	213.9	57.2	11.4	**282.5**	-1.4	-1.6	-3.2	**-6.2**	**276.3**
Individuals	**5,612.4**	**332.7**	**46.7**	**5,991.8**	**-14.2**	**-14.0**	**-11.7**	**-39.9**	**5,951.9**
Loans	2,184.5	1,023.8	72.7	**3,281.0**	-8.3	-13.7	-24.4	**-46.4**	**3,234.6**
Leasing	816.2	188.4	9.1	**1,013.7**	-3.6	-2.9	-3.7	**-10.2**	**1,003.5**
Factoring	224.3	35.0	4.7	**264.0**	-0.4	-0.2	-3.5	**-4.1**	**259.9**
Businesses	**3,225.0**	**1,247.2**	**86.5**	**4,558.7**	**-12.3**	**-16.8**	**-31.6**	**-60.7**	**4,498.0**
Financial institutions	164.9	57.8	0.1	**222.8**	-0.4	-0.2	0.0	**-0.6**	**222.2**
Public sector	202.7	0.0	0.1	**202.8**	-0.2	0.0	0.0	**-0.2**	**202.6**
Total	**9,205.0**	**1,637.7**	**133.4**	**10,976.1**	**-27.1**	**-31.0**	**-43.3**	**-101.4**	**10,874.7**
31 December 2023									
Mortgages	4,903.0	197.4	63.8	**5,164.2**	-11.6	-15.0	-14.3	**-40.9**	**5,123.3**
Leasing	406.8	28.1	3.3	**438.2**	-1.8	-1.3	-0.7	**-3.8**	**434.4**
Consumer loans, cards	116.9	11.2	0.8	**128.9**	-0.8	-0.8	-0.3	**-1.9**	**127.0**
Other	205.0	48.7	8.7	**262.4**	-1.2	-1.5	-2.9	**-5.6**	**256.8**
Individuals	**5,631.7**	**285.4**	**76.6**	**5,993.7**	**-15.4**	**-18.6**	**-18.2**	**-52.2**	**5,941.5**
Loans	1,900.0	1,041.7	98.7	**3,040.4**	-5.6	-18.9	-28.0	**-52.5**	**2,987.9**
Leasing	861.4	120.0	25.2	**1,006.6**	-3.1	-3.3	-8.4	**-14.8**	**991.8**
Factoring	174.1	27.3	1.5	**202.9**	-0.3	-0.2	-0.8	**-1.3**	**201.6**
Businesses	**2,935.5**	**1,189.0**	**125.4**	**4,249.9**	**-9.0**	**-22.4**	**-37.2**	**-68.6**	**4,181.3**
Financial institutions	139.7	52.2	0.1	**192.0**	-0.1	-1.0	0.0	**-1.1**	**190.9**
Public sector	189.0	0.0	0.1	**189.1**	-0.1	0.0	-0.1	**-0.2**	**188.9**
Total	**8,895.9**	**1,526.6**	**202.2**	**10,624.7**	**-24.6**	**-42.0**	**-55.5**	**-122.1**	**10,502.6**

Loans to businesses by stage and sector

€m	Gross carrying amount				Credit loss allowances				Total
	1	2	3	Total	1	2	3	Total	
31 December 2022									
Real estate activities	1,011.3	331.8	13.6	**1,356.7**	-3.8	-4.7	-1.0	**-9.5**	**1,347.2**
Wholesale and retail	512.5	174.5	20.8	**707.8**	-1.6	-1.3	-5.9	**-8.8**	**699.0**
Manufacturing	410.4	226.0	15.9	**652.3**	-0.9	-2.9	-6.7	**-10.5**	**641.8**
Transport & storage	212.4	108.9	0.8	**322.1**	-1.0	-1.3	-0.3	**-2.6**	**319.5**
Agriculture, forestry, fishing	285.7	58.7	4.7	**349.1**	-1.0	-0.9	-2.0	**-3.9**	**345.2**
Construction	189.1	43.7	13.0	**245.8**	-1.1	-1.1	-8.4	**-10.6**	**235.2**
Administrative & support services	191.9	61.7	5.1	**258.7**	-1.0	-0.7	-2.5	**-4.2**	**254.5**
Professional, scientific, technical	117.3	56.0	0.5	**173.8**	-0.8	-1.1	-0.4	**-2.3**	**171.5**
Electricity, gas, steam, aircon	79.9	36.4	1.7	**118.0**	-0.2	-0.3	-1.6	**-2.1**	**115.9**
Other	214.5	149.5	10.4	**374.4**	-0.9	-2.5	-2.8	**-6.2**	**368.2**
Total	**3,225.0**	**1,247.2**	**86.5**	**4,558.7**	**-12.3**	**-16.8**	**-31.6**	**-60.7**	**4,498.0**
31 December 2023									
Real estate activities	963.2	316.5	7.9	**1,287.6**	-2.9	-5.5	-0.9	**-9.3**	**1,278.3**
Wholesale and retail	312.2	320.2	3.5	**635.9**	-0.9	-1.5	-2.2	**-4.6**	**631.3**
Manufacturing	328.9	173.0	16.7	**518.6**	-0.7	-3.3	-10.8	**-14.8**	**503.8**
Transport and storage	212.9	37.1	14.9	**264.9**	-0.8	-0.5	-4.2	**-5.5**	**259.4**
Agriculture, forestry, and fishing	292.2	58.5	16.9	**367.6**	-0.7	-1.4	-6.6	**-8.7**	**358.9**
Construction	157.9	84.0	11.5	**253.4**	-0.6	-2.8	-8.1	**-11.5**	**241.9**
Administrative & support services	240.5	57.5	1.9	**299.9**	-1.0	-1.3	-0.7	**-3.0**	**296.9**
Professional, scientific, technical	70.3	56.7	0.6	**127.6**	-0.5	-2.4	-0.3	**-3.2**	**124.4**
Electricity, gas, steam, & aircon	173.4	13.9	1.0	**188.3**	-0.3	-0.1	-0.7	**-1.1**	**187.2**
Other	184.0	71.6	50.5	**306.1**	-0.6	-3.6	-2.7	**-6.9**	**299.2**
Total	**2,935.5**	**1,189.0**	**125.4**	**4,249.9**	**-9.0**	**-22.4**	**-37.2**	**-68.6**	**4,181.3**

Investments in finance leases

€m	Year 1	Year 2	Year 3	Year 4	Year 5	> 5 years	Total
31 December 2022							
Gross investments	509.2	418.0	306.8	240.8	152.3	15.7	**1,642.8**
Unearned future finance income	-53.4	-40.5	-25.1	-13.5	-4.9	-0.9	**-138.3**
Total	**455.8**	**377.5**	**281.7**	**227.3**	**147.4**	**14.8**	**1,504.5**
31 December 2023							
Gross investments	478.5	443.1	334.3	228.2	125.9	20.9	**1,630.9**
Unearned future finance income	-70.1	-54.2	-32.3	-16.3	-5.5	-1.3	**-179.7**
Total	**408.4**	**388.9**	**302.0**	**211.9**	**120.4**	**19.6**	**1,451.2**

Expected credit losses

€m	2022	2023
Expected credit losses	-9.4	-23.5
Expected credit losses on Contingent liabilities (see Note 22, 'Contingent liabilities', below)	-6.7	-9.6
Total	**-16.1**	**-33.1**

Loans to customers by stage, type, and risk category
(continues on next page)

€m	31 Dec 2022				31 Dec 2023			
	1	2	3	Total	1	2	3	Total
Individuals								
Mortgages								
Low risk	4,558.3	59.9	0.0	**4,618.2**	4,274.9	32.1	0.0	**4,307.0**
Moderate risk	238.1	39.9	0.0	**278.0**	590.7	24.6	0.0	**615.3**
High risk	46.2	132.9	0.0	**179.1**	37.4	140.7	0.0	**178.1**
Default	0.0	0.0	33.2	**33.2**	0.0	0.0	63.8	**63.8**
Gross carrying amount	**4,842.6**	**232.7**	**33.2**	**5,108.5**	**4,903.0**	**197.4**	**63.8**	**5,164.2**
Leasing								
Low risk	265.4	0.3	0.0	**265.7**	188.0	0.0	0.0	**188.0**
Moderate risk	145.4	21.9	0.0	**167.3**	193.4	15.1	0.0	**208.5**
High risk	34.3	11.0	0.0	**45.3**	25.4	13.0	0.0	**38.4**
Default	0.0	0.0	1.5	**1.5**	0.0	0.0	3.3	**3.3**
Gross carrying amount	**445.1**	**33.2**	**1.5**	**479.8**	**406.8**	**28.1**	**3.3**	**438.2**
Consumer loans, cards								
Low risk	69.3	1.6	0.0	**70.9**	69.0	1.2	0.0	**70.2**
Moderate risk	37.6	4.1	0.0	**41.7**	44.1	5.1	0.0	**49.2**
High risk	3.9	3.9	0.0	**7.8**	3.8	4.9	0.0	**8.7**
Default	0.0	0.0	0.6	**0.6**	0.0	0.0	0.8	**0.8**
Gross carrying amount	**110.8**	**9.6**	**0.6**	**121.0**	**116.9**	**11.2**	**0.8**	**128.9**
Other								
Low risk	126.9	2.9	0.0	**129.8**	116.0	1.8	0.0	**117.8**
Moderate risk	82.7	34.6	0.0	**117.3**	86.3	30.9	0.0	**117.2**
High risk	4.3	19.7	0.0	**24.0**	2.7	16.0	0.0	**18.7**
Default	0.0	0.0	11.4	**11.4**	0.0	0.0	8.7	**8.7**
Gross carrying amount	**213.9**	**57.2**	**11.4**	**282.5**	**205.0**	**48.7**	**8.7**	**262.4**

Loans to customers by stage, type, and risk category (continued from prior page)

€m	31 Dec 2022				31 Dec 2023			
	1	2	3	Total	1	2	3	Total
Businesses								
Loans								
Low risk	1,171.9	241.2	0.0	**1,413.1**	752.4	197.4	0.0	**949.8**
Moderate risk	1,007.8	620.1	0.2	**1,628.1**	1,142.6	554.0	0.0	**1,696.6**
High risk	4.8	162.5	0.0	**167.3**	5.0	290.3	0.0	**295.3**
Default	0.0	0.0	72.5	**72.5**	0.0	0.0	98.7	**98.7**
Gross carrying amount	**2,184.5**	**1,023.8**	**72.7**	**3,281.0**	**1,900.0**	**1,041.7**	**98.7**	**3,040.4**
Leasing								
Low risk	212.1	10.8	0.0	**222.9**	221.8	1.8	0.0	**223.6**
Moderate risk	590.0	143.9	0.0	**733.9**	621.7	59.2	0.0	**680.9**
High risk	14.1	33.7	0.0	**47.8**	17.9	59.0	0.0	**76.9**
Default	0.0	0.0	9.1	**9.1**	0.0	0.0	25.2	**25.2**
Gross carrying amount	**816.2**	**188.4**	**9.1**	**1,013.7**	**861.4**	**120.0**	**25.2**	**1,006.6**
Factoring								
Low risk	164.4	9.6	0.0	**174.0**	120.9	1.6	0.0	**122.5**
Moderate risk	59.5	21.0	0.0	**80.5**	52.8	19.7	0.0	**72.5**
High risk	0.4	4.4	0.0	**4.8**	0.4	6.0	0.0	**6.4**
Default	0.0	0.0	4.7	**4.7**	0.0	0.0	1.5	**1.5**
Gross carrying amount	**224.3**	**35.0**	**4.7**	**264.0**	**174.1**	**27.3**	**1.5**	**202.9**
Financial institutions								
Low risk	129.4	52.9	0.0	**182.3**	132.7	4.7	0.0	**137.4**
Moderate risk	35.5	4.9	0.0	**40.4**	6.7	47.3	0.0	**54.0**
High risk	0.0	0.0	0.0	**0.0**	0.3	0.2	0.0	**0.5**
Default	0.0	0.0	0.1	**0.1**	0.0	0.0	0.1	**0.1**
Gross carrying amount	**164.9**	**57.8**	**0.1**	**222.8**	**139.7**	**52.2**	**0.1**	**192.0**
Public sector								
Low risk	202.6	0.0	0.0	**202.6**	189.0	0.0	0.0	**189.0**
Moderate risk	0.1	0.0	0.0	**0.1**	0.0	0.0	0.0	**0.0**
High risk	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**
Default	0.0	0.0	0.1	**0.1**	0.0	0.0	0.1	**0.1**
Gross carrying amount	**202.7**	**0.0**	**0.1**	**202.8**	**189.0**	**0.0**	**0.1**	**189.1**
Total								
Low risk	6,900.3	379.2	0.0	**7,279.5**	6,064.7	240.6	0.0	**6,305.3**
Moderate risk	2,196.7	890.4	0.2	**3,087.3**	2,738.3	755.9	0.0	**3,494.2**
High risk	108.0	368.1	0.0	**476.1**	92.9	530.1	0.0	**623.0**
Default	0.0	0.0	133.2	**133.2**	0.0	0.0	202.2	**202.2**
Gross carrying amount	**9,205.0**	**1,637.7**	**133.4**	**10,976.1**	**8,895.9**	**1,526.6**	**202.2**	**10,624.7**
of which POCI	0.0	13.8	3.0	**16.8**	0.0	6.7	1.3	**8.0**

Movement in Loans to customers and 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.

Movement by stage in Loans to customers and credit loss allowances

€m	2022				2023			
	1	2	3	Total	1	2	3	Total
Gross carrying amount								
Opening balance	**8,452.0**	**1,411.0**	**185.6**	**10,048.6**	**9,205.0**	**1,637.7**	**133.4**	**10,976.1**
Transfers to Stage 1	476.3	-475.0	-1.3	**0.0**	368.3	-367.9	-0.4	**0.0**
Transfers to Stage 2	-1,075.7	1,114.9	-39.2	**0.0**	-853.6	886.9	-33.3	**0.0**
Transfers to Stage 3	-83.8	-31.5	115.3	**0.0**	-52.8	-97.0	149.8	**0.0**
Originated or purchased	2,938.7	0.0	0.0	**2,938.7**	2,007.1	0.0	0.0	**2,007.1**
Derecognised and repaid	-1,502.5	-381.7	-117.1	**-2,001.3**	-1,778.1	-533.1	-44.5	**-2,355.7**
Movement	**753.0**	**226.7**	**-42.3**	**937.4**	**-309.1**	**-111.1**	**71.6**	**-348.6**
Write-offs, recoveries etc.	0.0	0.0	-9.9	**-9.9**	0.0	0.0	-2.8	**-2.8**
Closing balance	**9,205.0**	**1,637.7**	**133.4**	**10,976.1**	**8,895.9**	**1,526.6**	**202.2**	**10,624.7**
of which POCI	0.0	13.8	3.0	**16.8**	0.0	6.7	1.3	8.0
Credit loss allowances								
Opening balance	**-16.3**	**-29.0**	**-56.6**	**-101.9**	**-27.1**	**-31.0**	**-43.3**	**-101.4**
Transfers to Stage 1	-10.8	10.5	0.3	**0.0**	-6.4	6.3	0.1	**0.0**
Transfers to Stage 2	4.7	-9.4	4.7	**0.0**	5.6	-12.1	6.5	**0.0**
Transfers to Stage 3	5.7	1.7	-7.4	**0.0**	4.5	3.2	-7.7	**0.0**
Originated or purchased	-16.4	0.0	0.0	**-16.4**	-13.4	0.0	0.0	**-13.4**
Derecognised and repaid	1.1	3.8	3.1	**8.0**	2.5	5.0	5.5	**13.0**
Change in ECL assumptions, Stages & other	4.9	-20.5	2.7	**-12.9**	9.7	-13.4	-19.4	**-23.1**
Management overlay	0.0	11.9	0.0	**11.9**	0.0	0.0	0.0	**0.0**
Movement	**-10.8**	**-2.0**	**3.4**	**-9.4**	**2.5**	**-11.0**	**-15.0**	**-23.5**
Write-offs, recoveries etc.	0.0	0.0	9.9	**9.9**	0.0	0.0	2.8	**2.8**
Closing balance	**-27.1**	**-31.0**	**-43.3**	**-101.4**	**-24.6**	**-42.0**	**-55.5**	**-122.1**
of which POCI	0.0	-0.1	-0.4	**-0.5**	0.0	-0.1	-0.2	**-0.3**

Movement by stage in Mortgages and credit loss allowances

€m	2022				2023			
	1	2	3	Total	1	2	3	Total
Gross carrying amount								
Opening balance	**4,415.4**	**364.8**	**53.4**	**4,833.6**	**4,842.6**	**232.7**	**33.2**	**5,108.5**
Transfers to Stage 1	183.1	-182.6	-0.5	**0.0**	71.0	-70.8	-0.2	**0.0**
Transfers to Stage 2	-88.2	101.5	-13.3	**0.0**	-90.2	94.1	-3.9	**0.0**
Transfers to Stage 3	-2.7	-9.1	11.8	**0.0**	-13.3	-31.4	44.7	**0.0**
Originated or purchased	817.5	0.0	0.0	**817.5**	616.7	0.0	0.0	**616.7**
Derecognised and repaid	-482.5	-41.9	-15.3	**-539.7**	-523.8	-27.2	-9.4	**-560.4**
Movement	**427.2**	**-132.1**	**-17.3**	**277.8**	**60.4**	**-35.3**	**31.2**	**56.3**
Write-offs, recoveries etc.	0.0	0.0	-2.9	**-2.9**	0.0	0.0	-0.6	**-0.6**
Closing balance	**4,842.6**	**232.7**	**33.2**	**5,108.5**	**4,903.0**	**197.4**	**63.8**	**5,164.2**
of which POCI	0.0	4.2	0.8	**5.0**	0.0	3.5	0.9	**4.4**
Credit loss allowances								
Opening balance	**-8.2**	**-8.2**	**-14.0**	**-30.4**	**-10.4**	**-10.6**	**-8.0**	**-29.0**
Transfers to Stage 1	-2.8	2.8	0.0	**0.0**	-2.7	2.6	0.1	**0.0**
Transfers to Stage 2	0.6	-3.3	2.7	**0.0**	0.7	-1.3	0.6	**0.0**
Transfers to Stage 3	0.4	0.6	-1.0	**0.0**	0.6	2.4	-3.0	**0.0**
Originated or purchased	-0.9	0.0	0.0	**-0.9**	-1.2	0.0	0.0	**-1.2**
Derecognised and repaid	0.3	0.5	1.2	**2.0**	0.2	0.6	0.7	**1.5**
Change in ECL assumptions, Stages & other	0.2	-3.0	0.2	**-2.6**	1.2	-8.7	-5.3	**-12.8**
Management overlay	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	**0.0**
Movement	**-2.2**	**-2.4**	**3.1**	**-1.5**	**-1.2**	**-4.4**	**-6.9**	**-12.5**
Write-offs, recoveries etc.	0.0	0.0	2.9	**2.9**	0.0	0.0	0.6	**0.6**
Closing balance	**-10.4**	**-10.6**	**-8.0**	**-29.0**	**-11.6**	**-15.0**	**-14.3**	**-40.9**
of which POCI	0.0	0.0	-0.1	**-0.1**	0.0	-0.1	-0.1	**-0.2**

Movement by stage in loans to Businesses and credit loss allowances

€m	2022				2023			
	1	2	3	Total	1	2	3	Total
Gross carrying amount								
Opening balance	**1,981.7**	**759.5**	**95.9**	**2,837.1**	**2,184.5**	**1,023.8**	**72.7**	**3,281.0**
Transfers to Stage 1	219.9	-219.9	0.0	**0.0**	162.9	-162.9	0.0	**0.0**
Transfers to Stage 2	-668.8	687.3	-18.5	**0.0**	-572.9	600.8	-27.9	**0.0**
Transfers to Stage 3	-15.7	-18.5	34.2	**0.0**	-12.2	-58.0	70.2	**0.0**
Originated or purchased	1,014.2	0.0	0.0	**1,014.2**	567.7	0.0	0.0	**567.7**
Derecognised and repaid	-346.8	-184.6	-33.4	**-564.8**	-430.0	-362.0	-14.5	**-806.5**
Movement	**202.8**	**264.3**	**-17.7**	**449.4**	**-284.5**	**17.9**	**27.8**	**-238.8**
Write-offs, recoveries etc.	0.0	0.0	-5.5	**-5.5**	0.0	0.0	-1.8	**-1.8**
Closing balance	**2,184.5**	**1,023.8**	**72.7**	**3,281.0**	**1,900.0**	**1,041.7**	**98.7**	**3,040.4**
of which POCI	0.0	8.2	1.7	**9.9**	0.0	2.2	0.0	**2.2**
Credit loss allowances								
Opening balance	**-3.1**	**-12.8**	**-31.6**	**-47.5**	**-8.3**	**-13.7**	**-24.4**	**-46.4**
Transfers to Stage 1	-5.3	5.3	0.0	**0.0**	-1.7	1.7	0.0	**0.0**
Transfers to Stage 2	1.9	-2.5	0.6	**0.0**	3.2	-8.4	5.2	**0.0**
Transfers to Stage 3	4.0	1.1	-5.1	**0.0**	0.3	0.3	-0.6	**0.0**
Originated or purchased	-8.5	0.0	0.0	**-8.5**	-4.2	0.0	0.0	**-4.2**
Derecognised and repaid	0.3	1.3	0.4	**2.0**	1.2	3.5	1.4	**6.1**
Change in ECL assumptions, Stages & other	2.4	-14.5	5.8	**-6.3**	3.9	-2.3	-11.4	**-9.8**
Management overlay	0.0	8.4	0.0	**8.4**	0.0	0.0	0.0	**0.0**
Movement	**-5.2**	**-0.9**	**1.7**	**-4.4**	**2.7**	**-5.2**	**-5.4**	**-7.9**
Write-offs, recoveries etc.	0.0	0.0	5.5	**5.5**	0.0	0.0	1.8	**1.8**
Closing balance	**-8.3**	**-13.7**	**-24.4**	**-46.4**	**-5.6**	**-18.9**	**-28.0**	**-52.5**
of which POCI	0.0	-0.1	-0.1	**-0.2**	0.0	0.0	0.0	**0.0**

Loans to customers by collateral and type

€m	Unsecured	Secured				Total
		Residential Real estate	Other Real estate	Other security	Total	
31 December 2022						
Mortgages	33.6	5,030.1	36.7	8.1	**5,074.9**	**5,108.5**
Leasing	42.0	0.0	0.0	437.8	**437.8**	**479.8**
Consumer loans, cards	112.0	0.5	0.1	8.4	**9.0**	**121.0**
Other	18.3	144.5	84.1	35.6	**264.2**	**282.5**
Individuals	**205.9**	**5,175.1**	**120.9**	**489.9**	**5,785.9**	**5,991.8**
Loans	262.3	69.4	2,244.9	704.4	**3,018.7**	**3,281.0**
Leasing	150.2	0.0	1.6	861.9	**863.5**	**1,013.7**
Factoring	264.0	0.0	0.0	0.0	**0.0**	**264.0**
Businesses	**676.5**	**69.4**	**2,246.5**	**1,566.3**	**3,882.2**	**4,558.7**
Financial institutions	10.2	0.6	201.2	10.8	**212.6**	**222.8**
Public sector	179.5	0.0	18.3	5.0	**23.3**	**202.8**
Total	**1,072.1**	**5,245.1**	**2,586.9**	**2,072.0**	**9,904.0**	**10,976.1**
31 December 2023						
Mortgages	30.2	5,103.6	26.2	4.2	**5,134.0**	**5,164.2**
Leasing	14.5	0.0	0.0	423.7	**423.7**	**438.2**
Consumer loans, cards	121.3	0.4	0.0	7.2	**7.6**	**128.9**
Other	11.6	142.1	74.7	34.0	**250.8**	**262.4**
Individuals	**177.6**	**5,246.1**	**100.9**	**469.1**	**5,816.1**	**5,993.7**
Loans	465.8	64.1	2,026.5	484.0	**2,574.6**	**3,040.4**
Leasing	61.4	0.0	0.1	945.1	**945.2**	**1,006.6**
Factoring	202.9	0.0	0.0	0.0	**0.0**	**202.9**
Businesses	**730.1**	**64.1**	**2,026.6**	**1,429.1**	**3,519.8**	**4,249.9**
Financial institutions	1.8	0.1	170.5	19.6	**190.2**	**192.0**
Public sector	141.4	0.0	13.9	33.8	**47.7**	**189.1**
Total	**1,050.9**	**5,310.3**	**2,311.9**	**1,951.6**	**9,573.8**	**10,624.7**

Stage 3 Loans to customers by type of customer and collateral value

€m	31 Dec 2022			31 Dec 2023		
	Individuals	Businesses	Total	Individuals	Businesses	Total
Under collateralised loans	7.6	25.3	**32.9**	1.6	6.9	**8.5**
Over collateralised loans	39.1	61.4	**100.5**	75.0	118.7	**193.7**
Gross carrying amount	**46.7**	**86.7**	**133.4**	**76.6**	**125.6**	**202.2**
Credit loss allowances	−11.7	−31.6	**−43.3**	−18.2	−37.3	**−55.5**
Total	**35.0**	**55.1**	**90.1**	**58.4**	**88.3**	**146.7**
Collateral fair value						
Under collateralised loans	4.6	12.6	**17.2**	1.6	6.4	**8.0**
Over collateralised loans	39.0	61.1	**100.1**	70.4	108.4	**178.8**
Total	**43.6**	**73.7**	**117.3**	**72.0**	**114.8**	**186.8**

12. Investments in associates and subsidiaries

Investments in associates, €m	2022	2023
Opening balance	6.4	5.7
Luminor share of profit for the year	1.6	1.6
Dividends	−2.3	−1.8
Closing balance	**5.7**	**5.5**

Associates, €m	31 Dec 2022				31 Dec 2023			
	Equity	Profit for the year (a)	Share of capital (%)	Book value	Equity	Profit for the year (a)	Share of capital (%)	Book value
ALD Automotive Eesti AS, Estonia	7.0	0.3	25	1.6	6.0	0.4	25	1.5
SIA ALD Automotive, Latvia	9.0	0.6	25	1.7	8.3	0.4	25	1.5
SIA Kredītinformācijas Birojs, Latvia	0.6	0.0	19.8	0.1	1.0	0.0	19.8	0.1
UAB ALD Automotive, Lithuania	9.1	0.7	25	2.3	9.2	0.8	25	2.4
Total		**1.6**		**5.7**		**1.6**		**5.5**

a. Luminor share of the associates profit

Subsidiary	Activity	Domicile	31 Dec 2022	31 Dec 2023
Luminor Liising AS	Leasing, factoring	Estonia	100%	100%
Luminor Līzings SIA	Leasing, factoring	Latvia	100%	100%
Luminor Līzings Latvija SIA (a)	Leasing, factoring	Latvia	100%	-
Luminor Lizingas UAB	Leasing, factoring	Lithuania	100%	100%
Luminor Pensions Estonia AS	Pension fund management	Estonia	100%	100%
Luminor Latvijas atklātais pensiju fonds AS	Pension fund management	Latvia	100%	100%
Luminor Asset Management IPAS	Pension fund management	Latvia	100%	100%
Luminor Investiciju Valdymas UAB	Pension fund management	Lithuania	100%	100%
Maksekeskus AS (b)	E-commerce payments	Estonia	99.0%	99.8%
Subsidiaries being liquidated				
Promano Lat SIA	Buying and selling of own real estate	Latvia	100%	100%
Salvus SIA	Buying and selling of own real estate	Latvia	100%	100%
Intractus UAB	Buying and selling of own real estate	Lithuania	100%	100%

a. In 2023 Luminor Līzings Latvija SIA was merged with Luminor Līzings SIA

b. See also Note 13, ‘Intangible assets’, below

13. Intangible assets

€m	2022			2023		
	Goodwill	Other	Total	Goodwill	Other	Total
Accumulated cost						
Opening balance	0.4	39.0	**39.4**	48.8	46.0	**94.8**
Acquisition of subsidiary (a)	48.4	1.3	**49.7**	0.3	–	**0.3**
Other additions	–	5.8	**5.8**	–	7.4	**7.4**
Disposals (b)	–	-0.1	**-0.1**	–	-4.2	**-4.2**
Closing balance	**48.8**	**46.0**	**94.8**	**49.1**	**49.2**	**98.3**
Accumulated amortisation and impairment						
Opening balance	–	-29.4	**-29.4**	–	-32.0	**-32.0**
Amortisation	–	-2.4	**-2.4**	–	-4.7	**-4.7**
Disposals	–	0.1	**0.1**	–	0.6	**0.6**
Impairment	–	-0.3	**-0.3**	-6.2	–	**-6.2**
Closing balance	**–**	**-32.0**	**-32.0**	**-6.2**	**-36.1**	**-42.3**
Carrying amount	**48.8**	**14.0**	**62.8**	**42.9**	**13.1**	**56.0**
of which development costs capitalised			4.8			7.4

a. See also Note 12, 'Investments in associates and subsidiaries', above.
b. Disposals under category 'Other' in 2023 include derecognition of capitalised software costs of 3.6 million EUR.

The goodwill, which is recognized as part of business combination, is attributable mainly to the business potential of Maksekeskus AS. To determine the value-in-use of the Maksekeskus the following assumptions were used:

Assumption	Approach used to determine values	Values 2022	Values 2023
Revenue growth rate 1-5 years	Annual growth rate over the five-year forecast period, by countries and methods; based on past performance and management's expectations of market development	around 16%	average 22%
EBITDA growth rate 6-10 years	Declining annual EBITDA growth	average 10%	average 10%
Long-term growth rate	ECB forecast 2022-2025	2.2%	2.2%
Pre-tax discount rate	Conservative and prudent estimate considering WACC	11.1%	11.1%

In 2022, we acquired control of Maksekeskus AS when we purchased 99% of its issued share capital for a cash consideration of 53.4 million EUR, including cash balances of 5.3 million EUR. In 2023, we purchased a further 0.8% of its issued share capital for a cash consideration of 0.3 million EUR.

The goodwill, which is recognized as part of this business combination, was tested for impairment. Assumptions used in the impairment testing for 2023 were based on the financial plan considering latest forecasts and approved budgets. The assessments are based on the external market growth expectations and internal market share forecasts. The discount rate has been reviewed but remains unchanged. The goodwill impairment test concluded in 2023 resulted in impairment charges of 6.2 million EUR. The impairment test in 2022 did not reveal any impairment loss.

The recoverable amount of Maksekeskus is sensitive to changes in cash flow projections, discount rates and growth rates. Thus, change by 1 percentage point in the long-term growth rate would have impact of approximately 4 million EUR, change by 1 percentage point in the revenue growth rate would have impact of approximately 5 million EUR (reduction of these rates would result in additional impairment and vice versa), and change by 1 percentage point in the pre-tax discount rate would have impact of approximately 6 million EUR (increase of this rate would result in additional impairment and vice versa).

14. Tangible assets

€m	2022				2023			
	Property	Equip-ment	Right-of-use assets	Total	Property	Equip-ment	Right-of-use assets	Total
Accumulated cost								
Opening balance	0.9	16.4	56.8	**74.1**	0.9	15.9	46.6	**63.4**
Additions	0.0	0.3	0.5	**0.8**	-	3.0	1.9	**4.9**
Disposals	0.0	-0.8	-10.7	**-11.5**	-	-0.8	-2.4	**-3.2**
Closing balance	**0.9**	**15.9**	**46.6**	**63.4**	**0.9**	**18.1**	**46.1**	**65.1**
Accumulated depreciation								
Opening balance	-0.2	-10.6	-16.3	**-27.1**	-0.2	-12.6	-20.4	**-33.2**
Depreciation	0.0	-2.6	-5.0	**-7.6**	0.0	-1.6	-4.9	**-6.5**
Disposals	0.0	0.6	0.9	**1.5**	-	0.8	0.8	**1.6**
Closing balance	**-0.2**	**-12.6**	**-20.4**	**-33.2**	**-0.2**	**-13.4**	**-24.5**	**-38.1**
Carrying amount	**0.7**	**3.3**	**26.2**	**30.2**	**0.7**	**4.7**	**21.6**	**27.0**

Most of the Right of Use assets relate to lease arrangements for head offices in Estonia, Latvia and Lithuania. 9.8 million EUR reported Right-of-use asset disposals in 2022 were due to lease contract remeasurement or modification

Lease liabilities, €m	**2022**	**2023**
Opening balance	43.4	30.0
New leases	0.2	1.8
Lease modifications	-8.1	0.1
Termination of agreements	-0.1	-1.6
Interest	0.6	0.6
Payments	-6.0	-6.1
Closing balance	**30.0**	**24.8**

For Lease liabilities maturity structure refer to Note 25, ‘Maturity of financial instruments’, below

15. Other assets

€m	31 Dec 2022	31 Dec 2023
Payments in transit (a)	25.5	31.5
Financial assets	**25.5**	**31.5**
Advance payments	10.5	10.8
Accrued income	5.4	5.0
Value Added Tax recoverable and other taxes	4.3	6.8
Account receivables	4.2	4.1
Repossessed assets	1.5	0.2
Other	4.0	5.0
Non-financial assets	**29.9**	**31.9**
Total	**55.4**	**63.4**

a. The major part of Payments in transit relate to card transactions and payments, that were mostly settled after year end

16. Deposits from customers

€m	31 Dec 2022	31 Dec 2023
Individuals	4,791.6	4,742.7
Businesses	3,937.3	4,205.7
Financial institutions	271.7	249.6
Public sector	1,947.3	2,089.2
Total	**10,947.9**	**11,287.2**
of which Demand deposits (a)	9,614.0	8,493.4
Term deposits	1,333.9	2,793.8
By country of registration		
Estonia, Latvia, and Lithuania	10,736.6	11,131.1
Rest of the European Union	165.4	76.8
Other	45.9	79.3
Total	**10,947.9**	**11,287.2**

a. See also Note 20, ‘Derivatives’, below

17. Debt securities issued

€m	First call date	Maturity date	Additional information	31 Dec 2022	31 Dec 2023
€500m, 0.01%		Mar 2025		459.3	475.3
€500m, 1.688%		Jun 2027		467.3	486.5
Covered bonds				**926.6**	**961.8**
€300m, 5%	Aug 2023	Aug 2024	Jun 2023 €154.8m repurchased. Called Aug 2023	300.4	–
€300m 0.792%	Dec 2023	Dec 2024	Mar 2023 €83m repurchased. Called Dec 2023	290.0	–
€300m, 7.25%	Jan 2025	Jan 2026	Issued Jan 2023	–	319.9
€300m, 0.539%	Sep 2025	Sep 2026		296.9	300.5
€300m, 7.75%	Jun 2026	Jun 2027	Issued Jun 2023	–	316.5
Senior bonds				**887.3**	**936.9**
Total				**1,813.9**	**1,898.7**
Of which accumulated fair value changes of hedged items				−94.7	−38.4

All debt securities issued are hedge accounted. See also Note 20, ‘Derivatives’, below

Movement in Debt securities issued

€m	2022	2023
Opening balance	1,163.6	1,813.9
Cash flow debt securities issued	796.9	598.5
Debt securities redeemed or matured	−71.8	−600.0
Interest accrued	17.5	55.5
Interest paid	−10.1	−26.0
Amortization of transaction costs, discounts	−1.3	0.6
Hedge effect	−80.9	56.2
Closing balance	**1,813.9**	**1,898.7**

18. Other liabilities

€m	31 Dec 2022	31 Dec 2023
Payments in transit	43.2	64.3
Other	4.3	2.4
Financial liabilities	**47.5**	**66.7**
Accrued liabilities	53.9	49.1
Received prepayments	3.2	2.1
Value Added Tax	2.9	2.6
Other tax liabilities	2.0	3.7
Other	9.3	10.3
Non-financial liabilities	**71.3**	**67.8**
Total	**118.8**	**134.5**

19. Provisions

€m	2022			2023		
	Contingent liabilities	Legal and Other	Total	Contingent liabilities	Legal and Other	Total
Opening balance	**5.1**	**4.0**	**9.1**	**11.8**	**10.2**	**22.0**
Arising during the year	9.9	8.5	**18.4**	8.6	1.6	**10.2**
Other movements (a)	-3.2	-2.3	**-5.5**	1.0	-5.2	**-4.2**
Movement	**6.7**	**6.2**	**12.9**	**9.6**	**-3.6**	**6.0**
Closing balance	**11.8**	**10.2**	**22.0**	**21.4**	**6.6**	**28.0**
of which legal provisions		0.2			0.1	

a. Other movements consisted mostly of stage changes, derecognition, and from revisions to the ECL measurement model assumptions.

Luminor believes that any legal proceedings pending and for which provisions have not been created will not result in material losses. See also Note 22, 'Contingent liabilities', below

20. Derivatives

€m	31 Dec 2022			31 Dec 2023		
	Notional	Assets	Liabilities	Notional	Assets	Liabilities
Interest rate-related	3,120.3	48.8	114.1	3,861.2	78.7	56.2
Currency-related	1,202.2	11.9	20.3	1,012.1	9.2	13.5
Commodity-related	230.6	60.9	59.7	67.6	4.3	4.0
Total	**4,553.1**	**121.6**	**194.1**	**4,940.9**	**92.2**	**73.7**

Luminor applies hedge accounting to fair value hedges of Debt securities issued and, from January 2023, part of Deposits from customers. 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 debt security issued. Luminor has established a hedge ratio of 1:1 for the hedging relationships, as the underlying risk of the interest rate swaps is identical to the hedged risk.

There is an economic relationship between the hedged item and the hedging instruments for part of Deposits from customers - Luminor aims to hedge interest rate risk stemming from the change in fair value of non-maturing deposits. Fair value hedge essentially decreases duration of hedged portfolio of non-maturity deposits – as fixed rate is received, and floating rate is paid – making it less sensitive towards volatility in

financial markets. Deposit hedges are part of the Bank's interest rate risk management framework. Luminor has applied judgement that apart of Deposits from customers qualify for hedge accounting under EU carve-out version of IAS 39 although these deposits are due on demand and under regular IFRS requirements their FV cannot be less than the nominal amount, whereas portfolio hedging effect is recognised corresponding to the change in FV of designated customer deposits discounted at market interest rates over expected timing of their maturity.

To assess the hedge effectiveness of Deposits from customers portfolio part, Luminor uses the prospective (regression analysis) and retrospective tests 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. The effectiveness measurement is made on a cumulative basis. Ineffectiveness was clearly immaterial as at 31 December 2023. To assess the hedge effectiveness of Debt securities issued, 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 2022 and 2023.

Fair value hedges

Hedged items and hedging instruments	**31 Dec 2022**			**31 Dec 2023**		
€m	**Notional**	**Assets**	**Liabilities**	**Notional**	**Assets**	**Liabilities**
Deposits from customers	–	–	–	875.0	18.1	0.0
Debt securities issued	1,900.0	0.2	84.6	1,900.0	32.0	40.5

See also Note 16, 'Deposits from customers' and Note 17, 'Debt securities issued', respectively, above

Summary of hedging instruments (interest rate swaps) and related hedged items, nominal amount, €m

Hedging instruments and receiving coupon	**Effective date**	**Maturity date**	**Paying coupon**	**31 Dec 2022**	**31 Dec 2023**
3.845%	Jun 2023	Jun 2024	3m EURIBOR	–	100.0
3.796%	Jun 2023	Sep 2024	3m EURIBOR	–	100.0
3.75%	Jun 2023	Dec 2024	3m EURIBOR	–	100.0
3.145%	Jan 2023	Jun 2025	3m EURIBOR	–	300.0
3.562%	Mar 2023	Jun 2026	6m EURIBOR	–	200.0
3.258%	Jun 2023	Dec 2027	6m EURIBOR	–	75.0
Demand deposits (according to NMD model)				**–**	**875.0**
€500m, 0.01%	Mar 2020	Mar 2025	6m EURIBOR +0.289%	500.0	500.0
€500m, 1.688%	May 2022	Jun 2027	3m EURIBOR +0.3395%	500.0	500.0
Covered bonds				**1,000.0**	**1,000.0**
€300m, 5%	Aug 2022	Aug 2023	3m EURIBOR +3.725%	300.0	**-**
€300m 0.792%	Dec 2020	Dec 2023	6m EURIBOR +1.2888%	300.0	**-**
€300m, 7.25%	Jan 2023	Jan 2025	3m EURIBOR +3.9455%	–	300.0
€300m, 0.539%	Oct 2022	Sep 2025	3m EURIBOR -2.323%	300.0	300.0
€300m, 7.75%	Jun 2023	Jun 2026	6m EURIBOR +4.40%	–	300.0
Senior bonds				**900.0**	**900.0**

Hedge ineffectiveness for fair value hedges	**31 Dec 2022**			**31 Dec 2023**		
€m	**Changes in FV of hedging instruments**	**Changes in value of hedged items**	**Recognised in the Income Statement**	**Changes in FV of hedging instruments**	**Changes in value of hedged items**	**Recognised in the Income Statement**
Deposits from customers	0.0	0.0	**0.0**	7.1	-6.9	**0.2**
Debt securities issued	-86.0	86.0	**0.0**	48.5	-53.3	**-4.8**
Total	**-86.0**	**86.0**	**0.0**	**55.6**	**-60.2**	**-4.6**

21. Income tax

€m	31 Dec 2022	31 Dec 2023
Current tax for the year	-20.3	-26.1
Latvian corporate income tax	0.0	-15.8
Lithuanian Bank Tax	0.0	-30.1
Adjustment of current tax for previous years	-1.2	-2.9
Deferred tax movement	3.8	-3.6
Total	**-17.7**	**-78.5**
Profit before tax	142.4	273.2
Tax at the applicable tax rate	-15.9	-47.1
Lithuanian Bank Tax	0.0	-30.1
Effect of non-deductible expenses	-2.6	-2.8
Effect of non-taxable income	2.0	2.1
Other adjustments	0.0	2.3
Adjustment of current tax for previous years	-1.2	-2.9
Total	**-17.7**	**-78.5**
Effective tax rate	12%	29%
Deferred tax assets		
Opening balance	8.7	12.5
Tax loss carry forwards	0.2	-1.7
Other deferred tax temporary changes	3.6	-1.9
Closing balance	**12.5**	**8.9**
Tax liabilities		
Latvian corporate income tax	-	15.8
Lithuanian Bank Tax	-	9.3
Other corporate income tax	10.0	10.8
Total	**10.0**	**35.9**

The applicable tax rates and Lithuanian bank tax calculation methodology is described in Note 1, 'Material accounting policy information', above. Deferred tax asset was recognised for accrued tax losses. Based on a forecast by Luminor, sufficient taxable profit will be available against which the deferred tax asset will be utilised.

Latvian corporate income tax (CIT)

Effective 1 January 2024, the Government of Latvia enacted amendments to the Latvian Corporate income tax law. The amendments introduced annual mandatory CIT prepayment for credit institutions and consumer crediting service providers, at a rate of 20% on prior year after-tax profit. The first CIT payment is to be made in 2024 based on 2023 profit. CIT payments will be reduced by the amount of CIT paid on profits already distributed in the tax year. Accruals for mandatory prepayment of CIT were created in 2023.

Lithuanian bank tax

Effective 16 May 2023, the Government of Lithuania enacted a temporary tax on selected income of banks earned within their jurisdiction ('Law on Temporary Solidarity Contribution'). The tax is levied at a rate of 60% on the amount of net interest income generated in each of 2023 and 2024, from loans to customers advanced before 31 December 2022, that exceeds by more than 50% the average net interest income of the preceding four financial years. The tax will remain in force until 17 June 2025.

22. Contingent liabilities

€m	31 Dec 2022	31 Dec 2023
Undrawn loan commitments	1,528.4	1,081.1
Performance guarantees	256.1	320.9
Financial guarantees	3.7	4.2
Other	492.4	649.6
Total	**2,280.6**	**2,055.8**

By stage and risk category

€m	31 Dec 2022				31 Dec 2023			
	1	2	3	Total	1	2	3	Total
Low risk	908.6	256.9	0.1	**1,165.6**	633.3	68.7	0.0	**702.0**
Moderate risk	681.7	311.6	1.0	**994.3**	924.0	229.6	0.0	**1,153.6**
High risk	23.7	73.6	0.0	**97.3**	19.3	140.8	0.0	**160.1**
Default	1.1	0.0	22.3	**23.4**	0.0	0.0	40.1	**40.1**
Total	**1,615.1**	**642.1**	**23.4**	**2,280.6**	**1,576.6**	**439.1**	**40.1**	**2,055.8**
Provisions	-4.1	-2.0	-5.7	**-11.8**	-1.8	-1.9	-17.7	**-21.4**
Total net of provisions	**1,611.0**	**640.1**	**17.7**	**2,268.8**	**1,574.8**	**437.2**	**22.4**	**2,034.4**

Movement by stage in provisions

€m	2022				2023			
	1	2	3	Total	1	2	3	Total
Opening balance	**-2.0**	**-2.3**	**-0.8**	**-5.1**	**-4.1**	**-2.0**	**-5.7**	**-11.8**
Arising during the year	-9.9	0.0	0.0	**-9.9**	-8.6	0.0	0.0	**-8.6**
Derecognition and other movements	7.8	0.3	-4.9	**3.2**	10.9	0.1	-12.0	**-1.0**
Movement	**-2.1**	**0.3**	**-4.9**	**-6.7**	**2.3**	**0.1**	**-12.0**	**-9.6**
Closing balance	**-4.1**	**-2.0**	**-5.7**	**-11.8**	**-1.8**	**-1.9**	**-17.7**	**-21.4**

The increase in Stage 3, and also provisions, was driven principally by the reclassification of one exposure. Derecognition and other movements consisted mostly of stage changes, derecognition, and from revisions to the ECL measurement model assumptions. See also Note 19, 'Provisions', above

23. Maximum exposure to credit risk

€m	Additional information	Notes	31 Dec 2022	31 Dec 2023
Cash and balances with central banks	Subject to ECL assessment	9	2,178.1	3,184.9
Balances with banks	Subject to ECL assessment		123.4	56.2
Debt securities	Subject to ECL assessment	10	1,053.3	1,298.0
Debt securities	Not subject to ECL assessment	10	236.5	193.8
Loans to customers	Subject to ECL assessment	11	10,874.7	10,502.6
Derivatives	Not subject to ECL assessment	20	121.6	92.2
On balance sheet assets			**14,587.6**	**15,327.7**
Contingent liabilities	Subject to ECL assessment	22	2,280.6	2,055.8
Total			**16,868.2**	**17,383.5**

The maximum exposure to credit risk for on balance sheet assets is the net amounts of financial assets, and for contingent liabilities is the amount of the commitment, before any credit risk mitigation. Cash and balances with central banks and Balances with banks have low credit risk, with immaterial expected credit losses, and so are classified as 'Stage 1' assets. See also Note 2 'General risk management policies', above.

24. Fair value of financial instruments

€m	IFRS 9 measurement	Fair value				Carrying amount
		Level 1	Level 2	Level 3	Total	
31 December 2022						
Cash and balances with central banks	AC	127.4	2,050.7	0.0	**2,178.1**	2,178.1
Balances with banks	AC	0.0	123.4	0.0	**123.4**	123.4
Debt securities	AC	943.4	9.7	0.0	**953.1**	1,050.6
Debt securities	FVTPLD	200.0	0.0	0.0	**200.0**	200.0
Debt securities	FVTPLM	32.0	1.0	3.5	**36.5**	36.5
Debt securities	FVTOCI	0.0	2.7	0.0	**2.7**	2.7
Loans to customers	AC	0.0	0.0	11,149.4	**11,149.4**	10,874.7
Derivatives	FVTPLM	0.0	118.5	3.1	**121.6**	121.6
Equity instruments	FVTPLM	0.0	2.0	0.0	**2.0**	2.0
Equity instruments	FVTOCI	0.0	0.0	0.5	**0.5**	0.5
Other	AC	0.0	25.5	0.0	**25.5**	25.5
Total assets		**1,302.8**	**2,333.5**	**11,156.5**	**14,792.8**	**14,615.6**
Loans and deposits from credit institutions	AC	0.0	36.6	0.0	**36.6**	36.6
Deposits from customers	AC	0.0	9,614.0	1,333.9	**10,947.9**	10,947.9
Debt securities issued	AC	0.0	1,772.5	0.0	**1,772.5**	1,813.9
Derivatives	FVTPLM	0.0	194.1	0.0	**194.1**	194.1
Other	AC	0.0	47.5	0.0	**47.5**	47.5
Total liabilities		**0.0**	**11,664.7**	**1,333.9**	**12,998.6**	**13,040.0**
31 December 2023						
Cash and balances with central banks	AC	105.4	3,079.5	0.0	**3,184.9**	3,184.9
Balances with banks	AC	0.0	56.2	0.0	**56.2**	56.2
Debt securities	AC	1,212.8	9.7	11.3	**1,233.8**	1,295.3
Debt securities	FVTPLD	175.4	0.0	0.0	**175.4**	175.4
Debt securities	FVTPLM	13.4	0.5	4.5	**18.4**	18.4
Debt securities	FVTOCI	0.0	2.7	0.0	**2.7**	2.7
Loans to customers	AC	0.0	0.0	10,692.4	**10,692.4**	10,502.6
Derivatives	FVTPLM	0.0	90.5	1.7	**92.2**	92.2
Equity instruments	FVTPLM	0.0	2.4	0.0	**2.4**	2.4
Equity instruments	FVTOCI	0.0	0.0	0.5	**0.5**	0.5
Other	AC	0.0	31.5	0.0	**31.5**	31.5
Total assets		**1,507.0**	**3,273.0**	**10,710.4**	**15,490.4**	**15,362.1**
Loans and deposits from credit institutions	AC	0.0	224.3	0.0	**224.3**	224.3
Deposits from customers	AC	0.0	8,493.4	2,788.3	**11,281.7**	11,287.2
Debt securities issued	AC	0,0	1,856.6	0.0	**1,856.6**	1,898.7
Derivatives	FVTPLM	0.0	73.7	0.0	**73.7**	73.7
Other	AC	0.0	66.7	0.0	**66.7**	66.7
Total liabilities		**0.0**	**10,714.7**	**2,788.3**	**13,503.0**	**13,550.6**

Change in debt securities recorded in Level 3

€m	2022	2023
Opening balance	6.9	3.5
Disposals	-4.0	0.0
Transfer to Level 3	0.0	11.1
Unrealised gains on assets held at the end of the reporting period	0.6	1.2
Closing balance	**3.5**	**15.8**

25. Maturity of financial instruments

€m	Month 1	Months 2-3	Months 4-12	Years 2-5	>5 years	Total
31 December 2022						
Cash and balances with central banks	2,178.1	0.0	0.0	0.0	0.0	**2,178.1**
Balances with banks	120.9	0.0	0.0	2.5	0.0	**123.4**
Debt securities	3.7	32.4	40.2	732.9	480.6	**1,289.8**
Loans to customers	408.1	362.3	1,656.7	4,371.9	4,075.7	**10,874.7**
Derivatives	8.7	12.5	49.2	39.7	11.5	**121.6**
Equity instruments	2.5	0.0	0.0	0.0	0.0	**2.5**
Other	25.5	0.0	0.0	0.0	0.0	**25.5**
Total financial assets	**2,747.5**	**407.2**	**1,746.1**	**5,147.0**	**4,567.8**	**14,615.6**
Total financial liabilities	10,115.1	442.8	1,095.8	1,398.8	17.5	**13,070.0**
Net financial assets (-liabilities)	**-7,367.6**	**-35.6**	**650.3**	**3,748.2**	**4,550.3**	**1,545.6**
Contingent liabilities	2,280.6	0.0	0.0	0.0	0.0	**2,280.6**
Liquidity gap	**-9,648.2**	**-35.6**	**650.3**	**3,748.2**	**4,550.3**	**-735.0**
31 December 2023						
Cash and balances with central banks	3,184.9	0.0	0.0	0.0	0.0	**3,184.9**
Balances with banks	56.2	0.0	0.0	0.0	0.0	**56.2**
Debt securities	12.6	17.9	182.1	907.5	371.7	**1,491.8**
Loans to customers	334.9	357.6	1,403.5	4,207.8	4,198.8	**10,502.6**
Derivatives	3.3	3.2	12.8	66.2	6.7	**92.2**
Equity instruments	2.9	0.0	0.0	0.0	0.0	**2.9**
Other	31.5	0.0	0.0	0.0	0.0	**31.5**
Total financial assets	**3,626.3**	**378.7**	**1,598.4**	**5,181.5**	**4,577.2**	**15,362.1**
Total financial liabilities	9,232.5	688.6	1,516.8	2,125.5	12.0	**13,575.4**
Net financial assets (-liabilities)	**-5,606.2**	**-309.9**	**81.6**	**3,056.0**	**4,565.2**	**1,786.7**
Contingent liabilities	2,055.8	0.0	0.0	0.0	0.0	**2,055.8**
Liquidity gap	**-7,662.0**	**-309.9**	**81.6**	**3,056.0**	**4,565.2**	**-269.1**

On-balances – are carrying amounts, contingent liabilities – are nominal commitments. The liquidity gap up to 1-month is driven by demand deposits. These deposits have been stable historically. The liquidity gap up to 3-months is driven by short term deposits. These deposits are short term placed demand deposits which have been stable historically. See also Note 2 ‘General risk management policies, above

Liabilities

€m	Contracted undiscounted cash flows						Discount effect	Carrying amount
	Month 1	Months 2–3	Months 4–12	Years 2–5	>5 years	Total		
31 December 2022								
Loans and deposits from credit institutions	36.2	0.0	0.5	0.0	0.0	**36.7**	-0.1	**36.6**
Deposits from customers	10,025.0	444.6	466.4	54.3	5.1	**10,995.4**	-47.5	**10,947.9**
Debt securities issued	0.0	0.1	628.6	1,637.2	0.0	**2,265.9**	-452.0	**1,813.9**
Derivatives (see also table below)	10.7	13.1	58.7	102.9	5.4	**190.8**	3.3	**194.1**
Lease liabilities	0.5	1.0	4.4	18.6	7.2	**31.7**	-1.7	**30.0**
Other	47.5	0.0	0.0	0.0	0.0	**47.5**	0.0	**47.5**
Contingent liabilities	2,280.6	0.0	0.0	0.0	0.0	**2,280.6**	0.0	**2,280.6**
Total	**12,400.5**	**458.8**	**1,158.6**	**1,813.0**	**17.7**	**15,848.6**	**-498.0**	**15,350.6**
31 December 2023								
Loans and deposits from credit institutions	108.2	1.8	4.4	135.0	0.0	**249.4**	-25.1	**224.3**
Deposits from customers	9,033.1	681.8	1,517.2	92.2	5.4	**11,329.7**	-42.5	**11,287.2**
Debt securities issued	22.7	0.1	38.8	2,035.1	0.0	**2,096.7**	-198.0	**1,898.7**
Derivatives (see also table below)	6.4	10.5	3.2	48.2	3.2	**71.5**	2.2	**73.7**
Lease liabilities	0.5	1.0	4.5	16.8	4.0	**26.8**	-2.0	**24.8**
Other	66.7	0.0	0.0	0.0	0.0	**66.7**	0.0	**66.7**
Contingent liabilities	2,055.8	0.0	0.0	0.0	0.0	**2,055.8**	0.0	**2,055.8**
Total	**11,293.4**	**695.2**	**1,568.1**	**2,327.3**	**12.6**	**15,896.6**	**-265.4**	**15,631.2**

of which Derivatives

€m	Month 1	Months 2–3	Months 4–12	Years 2–5	>5 years	Total
31 December 2022						
Inflow	-222.6	-126.2	-143.7	-164.3	0.0	**-656.8**
Outflow	226.8	130.9	147.9	168.2	0.0	**673.8**
Gross settled derivatives	**4.2**	**4.7**	**4.2**	**3.9**	**0.0**	**17.0**
Net settled derivatives	6.5	8.4	54.5	99.0	5.4	**173.8**
Total	**10.7**	**13.1**	**58.7**	**102.9**	**5.4**	**190.8**
31 December 2023						
Inflow	-239.8	-107.3	-215.3	-0.2	0.0	**-562.6**
Outflow	244.2	109.5	220.0	0.1	0.0	**573.8**
Gross settled derivatives	**4.4**	**2.2**	**4.7**	**-0.1**	**0.0**	**11.2**
Net settled derivatives	2.0	8.3	-1.5	48.3	3.2	**60.3**
Total	**6.4**	**10.5**	**3.2**	**48.2**	**3.2**	**71.5**

26. Offsetting financial instruments

€m	Gross amounts	Offset	Net amounts	Netting	Cash collateral	Net exposure
31 December 2022						
Loans to customers	1,925.0	0.0	**1,925.0**	−926.6	0.0	**998.4**
Derivatives	121.6	0.0	**121.6**	−0.5	−10.9	**110.2**
Total assets	**2,046.6**	**0.0**	**2,046.6**	**−927.1**	**−10.9**	**1,108.6**
Debt securities issued	926.6	0.0	**926.6**	−926.6	0.0	**0.0**
Derivatives	194.1	0.0	**194.1**	−0.5	−35.4	**158.2**
Total liabilities	**1,120.7**	**0.0**	**1,120.7**	**−927.1**	**−35.4**	**158.2**
31 December 2023						
Loans to customers	1,050.0	0.0	**1,050.0**	−961.8	0.0	**88.2**
Derivatives	92.2	0.0	**92.2**	−0.1	−75.1	**17.0**
Total assets	**1,142.2**	**0.0**	**1,142.2**	**−961.9**	**−75.1**	**105.2**
Debt securities issued	961.8	0.0	**961.8**	−961.8	0.0	**0.0**
Derivatives	73.7	0.0	**73.7**	−0.1	−8.6	**65.0**
Total liabilities	**1,035.5**	**0.0**	**1,035.5**	**−961.9**	**-8.6**	**65.0**

Amounts shown under 'Netting' and 'Cash collateral' are subject to master netting and similar arrangements not set off in the Statement of Financial Position. Cash collateral pledged (shown under assets) and cash collateral received (shown under liabilities) are included in 'Balances with banks' and 'Loans and deposits from credit institutions', and relate to derivatives positions.

27. Customer segments

€m	2022				2023			
	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Net interest and similar income	134.2	177.8	-11.2	**300.8**	280.4	247.7	13.9	**542.0**
Net fee and commission income	53.0	26.3	1.0	**80.3**	54.7	30.6	-0.7	**84.6**
Net other operating income	7.1	16.9	-13.3	**10.7**	6.0	15.6	-2.0	**19.6**
Total operating income	**194.3**	**221.0**	**-23.5**	**391.8**	**341.1**	**293.9**	**11.2**	**646.2**
Total administration expenses (a)	-146.1	-81.0	-6.2	**-233.3**	-205.2	-125.2	-9.5	**-339.9**
Profit before credit losses and tax	**48.2**	**140.0**	**-29.7**	**158.5**	**135.9**	**168.7**	**1.7**	**306.3**
Expected credit losses	1.2	-16.7	-0.6	**-16.1**	-12.5	-21.2	0.6	**-33.1**
Profit (-loss) before tax	**49.4**	**123.3**	**-30.3**	**142.4**	**123.4**	**147.5**	**2.3**	**273.2**
of which Fee and commission income								
Cards	32.8	6.1	-0.3	**38.6**	31.2	12.3	0.0	**43.5**
Credit products	0.4	6.9	0.0	**7.3**	0.5	6.1	0.1	**6.7**
Daily banking plans	17.1	0.4	0.1	**17.6**	18.9	0.5	0.0	**19.4**
Deposit products and cash management	8.8	7.5	0.2	**16.5**	7.4	6.7	0.2	**14.3**
Insurance	3.0	0.5	0.0	**3.5**	3.1	0.7	0.0	**3.8**
Investments	2.1	1.6	1.3	**5.0**	2.7	2.3	0.7	**5.7**
Pensions	8.7	0.2	0.0	**8.9**	8.9	0.0	0.0	**8.9**
Trade finance	0.1	9.6	0.1	**9.8**	0.1	10.9	0.4	**11.4**
Other	0.4	0.4	2.3	**3.1**	0.4	0.6	0.1	**1.1**
Total	**73.4**	**33.2**	**3.7**	**110.3**	**73.2**	**40.1**	**1.5**	**114.8**

Customer balances

€m	31 Dec 2022				31 Dec 2023			
	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Loans to customers	5,667.1	5,205.9	1.7	**10,874.7**	5,700.1	4,799.2	3.3	**10,502.6**
Deposits from customers	6,066.2	4,788.2	93.5	**10,947.9**	5,916.7	5,286.2	84.3	**11,287.2**

a. In 2023 Customer segment "Other" of Total administration expenses includes 6.2 million EUR of Impairment losses and 3.2 million EUR of Net loss on derecognition of non-financial assets

28. Related parties

€m	2022			2023		
	Significant influence	Key personnel	ALD Automotive	Significant influence	Key personnel	ALD Automotive
Net interest income	-50.3	0.0	0.0	-0.1	0.0	0.3
Net fee and commission income	-0.2	0.0	0.0	-0.1	0.0	0.0
Net gain from financial instruments at fair value	73.5	0.0	0.0	-7.4	0.0	0.0
Personnel expenses	0.0	-1.6	0.0	0.0	-1.6	0.0
Other administration expenses	0.0	0.0	0.0	-0.7	0.0	0.0
Other income and expenses	-0.1	0.0	0.0	-0.1	0.0	0.0
Total	**22.9**	**-1.6**	**0.0**	**-8.4**	**-1.6**	**0.3**

€m	31 Dec 2022			31 Dec 2023		
	Significant influence	Key personnel	ALD Automotive	Significant influence	Key personnel	ALD Automotive
Assets						
Balances with banks	2.2	0.0	0.0	1.2	0.0	0.0
Loans to customers	0.0	0.1	13.5	0.0	0.1	11.9
Derivatives	28.3	0.0	0.0	17.5	0.0	0.0
Other	1.4	0.0	0.0	0.0	0.0	0.0
Total	**31.9**	**0.1**	**13.5**	**18.7**	**0.1**	**11.9**
Liabilities						
Loans and deposits from credit institutions	4.0	0.0	0.0	18.9	0.0	0.0
Deposits from customers	0.0	1.5	0.3	0.0	0.7	0.7
Derivatives	30.8	0.0	0.0	1.6	0.0	0.0
Provisions	0.0	0.0	0.0	0.0	0.2	0.0
Total	**34.8**	**1.5**	**0.3**	**20.5**	**0.9**	**0.7**

We enter banking transactions with related parties in the normal course of business. There have been no debts classified as Stage 3 due from related parties as at 31 December 2022 and 31 December 2023. No dividends were paid to Luminor Holding in 2023 (2022: 90.0 million EUR). Related parties are:

Significant influence
DNB Bank is the only entity with significant influence in 2023. The changes in profit or loss items and balance sheet positions are largely driven by derivatives and related cash collateral positions with respective parties. On 1 September 2022, Nordea sold their remaining shareholding in Luminor Holding and from that date are no longer treated as a related party. The income statement and balance sheet entries, above, include transactions with Nordea up to the date of the share sale.

Key management personnel
Members of the Management Board and other key management personnel are entitled to a maximum of 12-months of non-compete restrictions in case of employment termination. Besides risk-adjusted performance based variable remuneration, no other short or long term benefits are applied.

Associated companies
ALD Automotive comprise three entities, one in each of Estonia, Latvia, and Lithuania.

29. Country information

€m	2022				2023			
	Estonia	Latvia	Lithuania	Total	Estonia	Latvia	Lithuania	Total
Interest and similar income	75.2	98.8	154.0	**328.0**	168.8	209.2	362.2	**740.2**
Fee & commission income	16.8	32.5	61.0	**110.3**	18.2	34.1	62.5	**114.8**
Sales revenue (a)	**92.0**	**131.3**	**215.0**	**438.3**	**187.0**	**243.3**	**424.7**	**855.0**
Profit before tax (b)	5.6	55.6	81.2	**142.4**	13.2	83.7	176.3	**273.2**
Eliminations	-57.8	20.0	37.8	**0.0**	-154.2	49.7	104.5	**0.0**
Income tax	0.0	0.4	17.3	**17.7**	1.7	15.9	60.9	**78.5**
Number of employees (Full Time Equivalent)	557	845	950	**2,352**	580	908	1,003	**2,491**

Customer balances, €m	31 Dec 2022				31 Dec 2023			
	Estonia	Latvia	Lithuania	Total	Estonia	Latvia	Lithuania	Total
Loans to customers	2,459.4	2,970.6	5,444.7	**10,874.7**	2,391.1	2,863.2	5,248.3	**10,502.6**
Deposits from customers	1,409.7	3,051.7	6,486.5	**10,947.9**	1,237.0	3,043.8	7,006.4	**11,287.2**

b. Sum of Interest and similar income and fee and commission income after intragroup eliminations

c. Excludes intragroup dividend income

The disclosure above is required by Article 89 of the EU Capital Requirements Directive IV (CRD IV) as implemented by the Estonian Credit Institutions Act § 92. No state support was received.

30. Subsequent events

Effective 1 January 2024, the Government of Latvia enacted a temporary tax on credit providers amounting to 2% of their mortgage loan portfolio as at 31 October 2023, as an amendment to the Latvian 'Consumer Rights Protection Law'. The tax, which is payable quarterly, will remain in force for one year and we estimate the cost to us in 2024 will be 27.7 million EUR. We made the first payment in January 2024 in the amount of 6.9 million EUR.

31. Financial statements of Luminor Bank as a separate entity

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

STATEMENT OF PROFIT OR LOSS

€m	2022	2023
Interest income calculated using the effective interest method	297.0	715.5
Other similar income	1.4	0.9
Interest and similar expense	-27.3	-198.6
Net interest and similar income	**271.1**	**517.8**
Fee and commission income	92.1	95.8
Fee and commission expense	-25.8	-26.1
Net fee and commission income	**66.3**	**69.7**
Net gain from financial instruments at fair value	18.1	15.9
Net gain from foreign currency operations	6.8	18.6
Other operating expense - net	-4.6	-5.5
Dividends received	13.4	9.1
Net other operating income	**33.7**	**38.1**
Total operating income	**371.1**	**625.6**
Personnel expenses	-105.1	-124.4
Other administration expenses	-110.1	-185.1
Depreciation, amortisation and impairment	-9.4	-16.0
Losses on derecognition of non-financial assets - net	-	-3.2
Total administration expenses	**-224.6**	**-328.7**
Profit before credit losses and tax	**146.5**	**296.9**
Expected credit losses	-13.5	-30.4
Profit before tax	**133.0**	**266.5**
Latvian corporate income tax	-	-15.4
Lithuanian bank tax	-	-30.1
Other corporate income tax	-16.0	-31.6
Total income tax	**-16.0**	**-77.1**
Profit for the period	**117.0**	**189.4**
Total comprehensive income	**117.0**	**189.4**

STATEMENT OF FINANCIAL POSITION

€m	31 Dec 2022	31 Dec 2023
Assets		
Cash and balances with central banks	2,178.1	3,184.9
Balances with banks	119.1	55.1
Debt securities	1,289.8	1,491.8
Loans to customers	10,799.5	10,432.2
Derivatives	121.6	92.2
Equity instruments	0.5	0.5
Investments in subsidiaries	251.1	245.4
Intangible assets	11.2	9.4
Tangible assets	29.0	26.0
Deferred tax assets	12.4	8.9
Other assets	45.2	56.6
Total	**14,857.5**	**15,603.0**
Liabilities		
Loans and deposits from credit institutions	36.6	224.3
Deposits from customers	11,114.8	11,464.5
Fair value of changes of hedge items in hedges of interest rate	0.0	6.9
Debt securities issued	1,813.9	1,898.7
Derivatives	194.1	73.7
Tax liabilities	9.6	35.6
Lease liabilities	29.1	24.7
Other liabilities	102.7	122.5
Provisions	21.8	27.9
Total	**13,322.6**	**13,878.8**
Shareholder's equity		
Share capital	34.9	34.9
Share premium	1,412.2	1,412.2
Retained earnings	84.2	273.6
Other reserves	3.6	3.5
Total	**1,534.9**	**1,724.2**
Total liabilities and shareholder's equity	**14,857.5**	**15,603.0**

STATEMENT OF CHANGES IN EQUITY

€m	Share capital	Share premium	Retained earnings	Other reserves	Total
Balance as at 31 December 2021	**34.9**	**1,412.2**	**57.2**	**3.8**	**1,508.1**
Profit for the period	–	–	117.0	–	**117.0**
Total comprehensive income	**–**	**–**	**117.0**	**–**	**117.0**
Other	–	–	–	-0.2	**-0.2**
Dividends	–	–	-90.0	–	**-90.0**
Balance as at 31 December 2022	**34.9**	**1,412.2**	**84.2**	**3.6**	**1,534.9**
Balance as at 31 December 2022	**34.9**	**1,412.2**	**84.2**	**3.6**	**1,534.9**
Profit for the period	–	–	189.4	–	**189.4**
Total comprehensive income	**–**	**–**	**189.4**	**–**	**189.4**
Other	–	–	–	-0.1	**-0.1**
Dividends	–	–	–	–	**-**
Balance as at 31 December 2023	**34.9**	**1,412.2**	**273.6**	**3.5**	**1,724.2**

€m	31 Dec 2022	31 Dec 2023
Equity capital of the parent undertaking	1,534.9	1,724.2
Value of subsidiaries in the unconsolidated statement of financial position of the parent	-251.1	-245.4
Value of subsidiaries under equity method	298.8	299.0
Total	**1,582.6**	**1,777.8**

STATEMENT OF CASH FLOWS

€m	2022	2023
Profit before tax	133.0	266.5
Adjustments:		
Expected credit losses	13.5	30.4
Depreciation and amortisation	9.4	16.0
Derecognition of non-financial assets	0.0	3.2
Other items	-0.1	-0.1
Interest and similar income	-298.4	-716.4
Interest and similar expenses	27.3	198.6
Dividend income	-13.4	-9.1
Write-off of investments in subsidiaries	29.1	0.0
Change in operating assets/liabilities:		
Increase (-) / decrease (+) of lending to customers	-967.3	359.3
Increase (-) / decrease (+) of debt securities	-676.2	-200.5
Increase (-) / decrease (+) of other assets	-91.8	80.7
Increase (+) / decrease (-) of deposits from customers	622.8	320.5
Increase (+) / decrease (-) of other liabilities	71.5	142.9
Interest received	281.0	665.5
Interest paid	-17.5	-136.6
Income tax paid	-7.5	-47.6
Cash flows from operating activities	**-884.6**	**973.3**
Payment for acquisition of subsidiaries	-53.4	-0.3
Acquisition of tangible and intangible assets	-5.7	-6.6
Proceeds from disposal of tangible assets	0.1	0.1
Dividend received	13.4	9.1
Cash flows from investing activities	**-45.6**	**2.3**
Debt securities issued	796.9	598.5
Debt securities redeemed or matured	-71.8	-600.0
Payments of principal on leases	-5.5	-5.5
Dividends paid	-90.0	0.0
Cash flows from financing activities	**629.6**	**-7.0**
Net increase (+) or decrease (-) in cash and cash equivalents	**-300.6**	**968.6**
Cash and cash equivalents at the beginning of the period	2,447.2	2,146.7
Effects of currency translation on cash and cash equivalents	0.1	0.1
Net increase or decrease in cash and cash equivalents	-300.6	968.6
Cash and cash equivalents at the end of the period	**2,146.7**	**3,115.4**
Cash and cash equivalents		
Cash on hand	127.4	105.4
Balances with central banks less mandatory reserve requirement	1,938.1	2,963.7
Balances with banks due within three months less cash collateral (a)	81.2	46.3
Total	**2,146.7**	**3,115.4**
a. Balances with banks cash collateral amounts	35.4	8.6

INDEPENDENT AUDITOR´S REPORT

To the Shareholder of Luminor Bank AS

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Luminor Bank AS (the "Bank") and its subsidiaries (together – the "Group") as at 31 December 2023, and the Group´s consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 20 February 2024.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss for the year ended 31 December 2023;
- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of changes in equity for the year ended 31 December 2023;
- the consolidated statement of cash flows for the year ended 31 December 2023; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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

The non-audit services that we have provided to the Bank and its parent and subsidiaries in the period from 1 January 2023 to 31 December 2023 are disclosed in the Note 8 to the consolidated financial statements.

OUR AUDIT APPROACH

Overview

- Overall group audit materiality is EUR 17.7 million, which represents 1% of consolidated total equity as at 31 December 2023.
- A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms for Group entities covering substantially all of the Group's consolidated assets and revenues. Selected audit procedures were performed on remaining balances to ensure we obtained sufficient appropriate audit evidence to express an opinion on the Group's financial statements as a whole.
- Key audit matter relates to impairment of loans to customers.

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

Materiality

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

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

Overall Group audit materiality	EUR 17.7 million
How we determined it	1% of consolidated total equity as at 31 December 2023
Rationale for the materiality benchmark applied	We have applied this benchmark, as total equity is, in our view, one of the principal considerations when assessing the Group's performance and a key performance indicator for Management and Supervisory Board, as well as the regulatory authorities. We chose 1% which is consistent with quantitative materiality thresholds used for this benchmark.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans to customers (refer to Note 1 "Material accounting policy information", Note 2 "General risk management policies" and Note 11 "Loans to customers" for further details). As at 31 December 2023 the net carrying amount of loans to customers amounted to EUR 10,502.6 million and related credit loss allowance amounted to EUR 122.1 million. In 2023 the Group recognised credit loss allowance on loans to customers in the amount of EUR 33.1 million. We focused on this area because application of IFRS 9 "Financial instruments" 3-stage expected credit loss (ECL) model requires management to use complex models with subjective inputs to assess the timing and the amount of expected credit losses. Key areas requiring significant management judgements and modelling include: • evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3; • assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL; • the modelling and calculation of key parameters of ECL model, including 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; and • estimating ECL under base case and risk case scenarios for Stage 3 individual assessments and assigning probabilities to those scenarios.	We assessed whether the Group's accounting policies and methodology applied for the calculation of impairment of loans to customers are in compliance with IFRS 9. We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including: • IT general controls over relevant systems; • IT application controls over exposure balances and overdue information; • automated application of staging of loans (including applying the criteria for determining significant increase in credit risk and definition of default), • automated calculations of ECL for stages 1, 2 and 3 collective; • review and approval of customer credit rating grades; • review and update of collateral values and correctness of the respective information in the loan systems which serve as an input into the ECL model; • existence of approved customer analysis before loan disbursement; • review and approval of ECL calculations for individual material exposures (stage 3). On a sample basis, we performed detailed testing over: • the completeness and accuracy of data used in the ECL calculation system; • the compliance of key inputs used in ECL calculation system with IFRS 9 methodology; • the existence of valid collateral contracts; • the accuracy of LGD calculation which serves as an input into the ECL model; and • the completeness of loans subject to stage 3 assessment and related ECL calculations. We have assessed the reasonableness of key assumptions made by management, which serve as critical inputs in the ECL model, such as weights of different scenarios, point in time PD and LGD estimates, key forecasts of macroeconomic information and multipliers used for different scenarios.

How we tailored our Group audit scope

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

The Group comprises a number of entities operating in Estonia, Latvia and Lithuania, including branches of the Bank in Latvia and Lithuania (see further information on the Group structure in Note 12 to the consolidated financial statements). Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope considering the relative significance of each entity to the Group and the overall coverage obtained over each material line item in the

consolidated financial statements. A full scope audit was performed by PwC Estonia, or under our instructions, by other PwC network firms for entities covering substantially all revenues and assets.

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

REPORTING ON OTHER INFORMATION INCLUDING THE MANAGEMENT REPORT

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

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

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

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

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

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

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

RESPONSIBILITIES OF THE MANAGEMENT BOARD AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment and period of our audit engagement

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

AS PricewaterhouseCoopers

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

Oksana Popova
Auditor’s certificate no.633

20 February 2024
Tallinn, Estonia

AS PricewaterhouseCoopers
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PROFIT ALLOCATION PROPOSAL

€m	2022	2023
Opening balance of retained earnings	97.9	132.7
Net profit for the period	124.7	194.7
Dividends paid in the period	-90.0	-
Other	0.1	0.1
Closing balance of retained earnings	**132.7**	**327.5**
Proposed dividends	-	-
Closing balance of retained earnings after payment of proposed dividends	**132.7**	**327.5**

SIGNATURES OF THE MANAGEMENT BOARD

The Management Board of Luminor Bank AS has approved the Management Report and Annual Report for the year 2023. The Annual Report consists of the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statement, profit allocation proposal and independent auditor's report. The Supervisory Council of Luminor Bank AS has reviewed the Annual Report and has approved it for submission to the General Meeting of Shareholders.

20 February 2024

Peter Bosek
Chair

Ossi Leikola

Diego Biondo

Mari Mõis

Palle Nordahl

Kerli Vares

ADDITIONAL INFORMATION

Glossary and abbreviations

AC
Amortised cost

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

Companies
Businesses, Financial institutions, and Public sector

Corporate Banking
Corporate Banking serves business customers with a dedicated relationship manager and all leasing customers who do not have a bank relationship

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

FVTOCI
Fair Value through Other Comprehensive Income

FVTPLD
Designated at Fair Value through Profit or Loss

FVTPLM
Measured mandatorily as Fair Value through Profit or Loss

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

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

NIM – Net interest margin
Net interest and similar income as a percentage of average interest earning assets – the average of opening and closing balances of Cash and balances with central banks, Cash balances with banks, Debt securities, and Loans to customers

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

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

Retail Banking
Retail Banking serves individuals and small businesses

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

POCI loans
Loans which were credit impaired when purchased or originated

Information about Luminor Bank

Country of registration	Commercial register code	Main activity
Republic of Estonia	11315936	Credit institution
Telephone	**E-mail**	**SWIFT/BIC**
+372 628 3300	info@luminor.ee	RIKOEE22
Balance sheet date	**Reporting period**	**Reporting currency**
31 December 2023	1 January to 31 December 2023	euro

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Financial Calendar 2024

Date	Report
2 May 2024	Interim report 1Q 2024
8 August 2024	Interim report 2Q 2024
31 October 2024	Interim report 3Q 2024
30 January 2025	Interim report 4Q 2024
20 February 2025	Annual report 2024

Cover and inside photograph: Still images from our campaign with which we launched our 'Phone Point of Sale' product. This product, introduced in September 2023, enables merchants to collect payments simply via an Android smartphone application, rather than large and inconvenient point of sale terminals.

Designed and produced by Luminor Bank AS

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