Luminor
Annual Report
2022

AT A GLANCE

OUR YEAR IN BRIEF

- Operating income grew 18% and expenses fell 11%, leading to an improved cost income ratio of 59.5%
- Net profits improved as interest rates increased, and we generated a higher RoE of 8.0%
- Strong growth in both loans to individuals and companies (9%), and in deposits (6%)
- Credit quality remains healthy, with non-performing loans falling to 1.2% of gross loans – our lowest ever level
- No direct and marginal indirect exposure to Russia, Belarus, and Ukraine
- Strong capitalisation with CET1 ratio of 19.4%, and 9.6% leverage ratio

FINANCIAL PERFORMANCE

€m	2021	2022
Total operating income	330.7	391.8
Total administration expenses	-262.8	-233.3
Profit before credit loss allowances and tax	**67.9**	**158.5**
Credit loss allowances	14.5	-16.1
Tax expense	-7.7	-17.7
Profit for the period	**74.7**	**124.7**
Return on equity, %	4.6	8.0

VOLUMES & KEY RATIOS

€m	31 Dec 2021	31 Dec 2022
Loans to customers	9,946.7	10,874.7
Deposits from customers	10,305.4	10,947.9
Equity	1,548.8	1,583.4
Common Equity Tier 1 ratio, including result for the period, %	21.5	19.4
Liquidity coverage ratio, %	137.3	138.8

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

Cover and inside photographs: Our principal offices in Estonia, Latvia, and Lithuania.

CHIEF EXECUTIVE'S STATEMENT

2022 was overshadowed by the human and geopolitical impact of the invasion of Ukraine. Through the year the economic climate worsened and the Baltic countries recorded the highest rates of inflation in the eurozone. Inevitably, heightened uncertainly led to reduction in demand for new loans towards year end. We focused on supporting our customers – individuals and companies resident in the Baltic countries – as well as our staff, as we adapted our strategy of doing more business with more customers, more efficiently, and building our unique culture. We grew business volumes, improved our performance, and advanced our risk management, compliance and anti-financial crime effectiveness.

We financed 2.8 billion EUR of new lending including mortgages for nearly 9,000 homes. We increased net Loans to customers by 9.3%, which included growth of 14.3% in lending to companies, Deposits from customers increased by 6.2%, and we retained our position as the leading underwriter of corporate bonds for Baltic issuers.

Further, we took several steps to realise our ESG ambitions and received from Sustainalytics a 'Low Risk' ESG risk rating, the best of its kind among major banks in the Baltic region. We acquired 99% of Maksekeskus, the leading Baltic e-commerce payment service provider, which strengthened our presence in the fast-growing e-commerce payments market, broadened our product base, and supported our digital evolution. We worked as well on improving our IT, and will continue to invest to increase IT scalability and performance.

We generated a net profit of 124.7 million EUR in the year, as compared to 74.7 million EUR in 2021. This growth was driven by an improvement in net interest income, as interest rates increased after years of extraordinary low rates and limited profitability for deposits, and a reduction in expenses. We incurred credit loss allowances as compared to a net reversal in 2021. Our cost to income ratio improved by twenty percentage points to 59.5% and we generated a return on equity of 8.0%, up from 4.6% in the previous year.

We paid a dividend of 90.0 million EUR and maintained our capital strength. At year end our Common Equity, Tier 1 and Total Capital Ratios, including net profit for the period, were 19.4%. All our capital is composed of equity. We are reviewing our capital levels and structure to align with our plans and outlook, and improve the efficiency of our capital structure. We have no direct exposure to companies domiciled in Russia, Belarus or Ukraine, and next to no exposure to residents of these countries. Our credit quality remains robust with non-performing loans accounting for just 1.2% of gross lending at 31 December, our lowest ever level. I was delighted Moody's recognised our progress when they affirmed Luminor Bank's A3 bank deposit and Baa1 senior unsecured debt ratings and changed the outlook on their ratings to positive.

We enhanced our governance with the appointment of three new members to our Supervisory Council and, after year end, strengthened our Management Board with the recruitment of Ian Penny to the new role of Chief Operating Officer, which combines the responsibilities of Chief Technology Officer and Chief Operations Officer. Ilja Sovetov, Chief Technology Officer, stepped down from the Board in January 2023 with my thanks and warm wishes for the future. Nordea sold their remaining 11.6% shareholding in Luminor Holding, our parent company, to a consortium led by private equity funds managed by Blackstone. The consortium now owns 80.05% of Luminor Holding. Following the sale, Jørgen Andersen, Nordea's representative, stepped down from the Supervisory Council.

The outlook for the Baltic region is strong, and we approach 2023 with confidence, despite uncertainty about future economic growth and elevated rates of inflation. This is because our strategy is clear; Luminor is here to improve the financial health of our customers and our home countries, and to support their growth. I look forward to sharing our progress against our six focus areas – which we detail on the following pages – in the year ahead.

Peter Bosek

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.

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 have adopted the euro. GDP per head has 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, beyond the region, are other EU members, the United States, and the United Kingdom. Trade with Russia is limited.

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

The Baltic banking market is competitive but profitable. We are the third largest bank with a market share of 17% in lending. We compete against two Swedish banks which operate across the region, together with a smaller sized, local bank in each country. Lending balances in the region have grown in recent years, 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 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 three-quarters of our assets, well-funded 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 are committed to improve the financial health of our home countries and to support their growth. To realise our ambition of being the independent Baltic banking champion, we are focusing on six areas:

i) building our bank around our customers;
ii) being the preferred bank for retail mortgages and asset management;
iii) being the favoured bank for growing Baltic companies;
iv) raising our efficiency; elevating our IT platform to market level resilience and capability;
v) becoming a team who executes with an ownership mindset;
vi) maintaining our financial strength, prudent risk management and culture, and fulfil our wider obligations to the societies we serve.

Customers are at the heart of our future state. Banking products are generic; it is personalised, accessible, and relevant customer service which will differentiate us. We are seen as a human bank; advisory and servicing are important to customers and are our key strengths. We will realise this strength fully and become the bank with the best personal customer experience.

Our Retail Banking business will blend technology with a human touch to build relations with our customers - delivering a seamless, consistent, and distinctive service across our channels, offering products relevant to our customers' individual needs by people who know their clients. Our customers will value our advice and knowledge. This will be our competitive advantage.

We will be the favoured bank for growing Baltic companies, offering the products our customers need, relevant to their size and ambition. For large corporate customers, our unique proposition of empowered relationship managers taking fast, dependable, and sustainable credit decisions, supported by enhanced capital markets capabilities, will 'deliver Luminor' at speed. We will offer automated lending for smaller enterprises, enabling better, quicker credit decisions at lower cost.

Over time our cost-to-income ratio will be in line with market. Our products, processes, and systems will be simpler. We will raise our efficiency by improving and automating processes. We will elevate our IT platform to market level resilience and capability and lower our technology diversity.

We will recruit people to Luminor and retain them by offering clear career paths allied to purposeful training, in a performance driven environment. We will enhance leadership capabilities and improve our performance culture. Our compliance capabilities and risk culture will bring us a competitive advantage.

We will not be successful in a world that fails. To contribute to sustainable development, we have prioritised three of the United Nations' Sustainable development goals: #8, sustained, inclusive, and sustainable growth; #13, climate action, and; #16, peaceful and inclusive societies. We have set objectives for creating positive impacts on the environment and the societies we serve and have committed to carbon neutrality by 2050. We will support our customers as they adopt ESG best practice.

We are young and have much to do but we start from a favourable position. We are the only local bank of scale across the Baltic countries, and we only focus on the Baltic countries. We have the size and the strength to meet our customers' needs, with the knowledge and the flexibility of a local bank. This is our home.

CONTENTS

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 condition 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 Performance

Summary income statement, €m	2021	2022
Net interest and similar income	239.2	300.8
Net fee and commission income	78.5	80.3
Net other operating income	13.0	10.7
Total operating income	**330.7**	**391.8**
Total administration expenses	-262.8	-233.3
Profit before credit loss allowances and tax	**67.9**	**158.5**
Credit loss allowances	14.5	-16.1
Profit before tax	**82.4**	**142.4**
Tax expense	-7.7	-17.7
Profit for the period	**74.7**	**124.7**
Cost / income ratio, %	79.5	59.5

We generated a net profit for 2022 of 124.7 million EUR (2021: 74.7 million EUR), an increase of 50.0 million EUR, or 66.9%, as we increased operating income by 61.1 million EUR, or 18.5%, and lowered operating expenses by 29.5 million EUR, or 11.2%. Credit loss allowances were 16.1 million EUR, as compared to a net reversal of 14.5 million EUR in 2021.

Net interest and similar income increased by 61.6 million EUR to 300.8 million EUR as interest rates increased after years of extraordinary low rates and limited profitability for deposits. Interest income improved by 23.1% to 328.0 million EUR due to growth in Loans to customers (9.3% increase year-on-year) as well as higher reference interest rates while interest expense remained unchanged as the growing cost of wholesale funding was offset by lower excess liquidity.

Net fee and commission income increased by 1.8 million EUR, or 2.3%. Greater customer activity led to good growth in net income from credit products, daily banking, and trade finance, though was offset in part from a fall in net income from insurance, and pensions in the latter part of the year. Net other operating income decreased by 2.3 million EUR as cash contributions to resolution funds and deposit guarantee schemes increased by 5.3 million EUR to 15.9 million EUR.

Total administration expenses fell 29.5 million EUR, a decrease of 11.2%. Salaries and other personnel expense increased by 9.6 million EUR, or 9.5%, as we raised salaries and increased headcount. These higher expenses were more than offset, however, by lower IT costs and consulting expenses as we completed several projects in 2021. Despite the decline in expenditure, we continued to make significant investments into IT operations, credit risk analytics and business development. Our cost-to-income ratio improved significantly to 59.5% from 79.5% in 2021.

We recorded credit loss allowances of 16.1 million EUR this year as compared to 14.5 million EUR reversal last year. We increased allowances due to updated macroeconomic scenarios and revised Stage 1 and Stage 2 model parameters. Reversals were driven by the release in full of a management overlay which adjusted the standard ECL model output for potential credit losses related to COVID-19, as concerns about the impact of COVID-19 on credit quality receded. We had introduced the overlay in the fourth quarter of 2020, and at 31 December 2021 it totalled 11.9 million EUR. Reversals were aided by repayments and exits from non-performing exposures. Further details can be found in the 'Asset Quality' section, below. Tax expense increased by 10.0 million EUR as profit before tax increased.

Given our higher income and improved efficiency, in 2022 we generated a return on equity of 8.0% as compared to 4.6% in 2021.


Luminor
Luminor
Luminor

Retail Banking

Financial performance, €m	2021	2022
Net interest and similar income	110.2	134.2
Net fee and commission income	52.8	53.0
Net other operating income	7.5	7.1
Total operating income	**170.5**	**194.3**
Total administration expenses	-170.3	-146.1
Profit before credit loss allowances and tax	**0.2**	**48.2**
Credit loss allowances	11.4	1.2
Profit before tax	**11.6**	**49.4**
Cost/ income ratio, %	99.9	75.2

Balances, €m	31 Dec 2021	31 Dec 22
Loans to customers	5,389.8	5,667.1
Deposits from customers	6,066.3	6,066.2

Retail Banking serves individuals and small businesses. In line with our strategy, Retail Banking focused on three principal areas in 2022:

1. to grow business volumes,
2. to develop digital solutions, and
3. to improve customer experience.

Lending balances grew year on year though demand for new lending fell over the year as high inflation and rising interest rates impacted customer sentiment. Deposit balances were unchanged.

Volumes of new sales in mortgage lending which doubled in 2021 versus 2020, were 6% lower in 2022 than 2021. We maintained our share of new mortgage lending at the same level as the year before. In consumer lending new sales volumes increased by 21% versus the prior year. Growth in volumes were supported by the introduction of specialised energy efficiency loans for solar panels and heat pump heating systems, part of a wider initiative launched in 2021 to direct more funding towards sustainable projects.

We continued to improve customer experience and enhance our offering. We launched contactless functionality for ATMs, introduced SEPA instant payments in Lithuania, and instant incoming payments in Estonia. More than 63,000 customers have started to use ApplePay and GooglePay. We also launched a new offering for our card users with the Safety+ service, which lets our customers protect their card if it is stolen, lost or used for fraudulent payments. The service is already used by close to 200,000 of our card users.

Our focus on customer experience and on developing our offering allowed us to grow our active customer base by three percentage points in 2022. The increase in customer activity was reflected in rises of 13% in the number of card transactions and 20% in transaction turnover volumes.

More than 60% of our new customers chose to join us through remote onboarding. In Latvia, we trialled enhanced functionality of our remote onboarding capabilities, adding a photo recognition application to our established on-boarding solution. If this pilot proves a success, we will extend the functionality to Estonia and Lithuania. New customers continue to rate our products and services highly, especially the onboarding process and our customer advice service.


Luminor

Corporate Banking

Financial performance, €m	2021	2022
Net interest and similar income	125.8	177.8
Net fee and commission income	25.3	26.3
Net other operating income	11.8	16.9
Total operating income	**162.9**	**221.0**
Total administration expenses	-89.9	-81.0
Profit before credit loss allowances and tax	**73.0**	**140.0**
Credit loss allowances	2.5	-16.7
Profit before tax	**75.5**	**123.3**
Cost/ income ratio, %	55.2	36.7

Balances, €m	31 Dec 2021	31 Dec 2022
Loans to customers	4.556.4	5,205.9
Deposits from customers	4,196.8	4,788.2

Corporate Banking serves business customers with a dedicated relationship manager and all leasing customers who do not have a bank relationship. In line with our strategy, Corporate Banking focused on three principal areas in 2022:

1. to grow lending,
2. to extend its market footprint, and
3. to lead the development of the Baltic capital markets.

We saw good demand for credit facilities from large and SME customers alike, principally for working capital, especially in the agricultural sector, as prices rose, and supply chains became less reliable. There was also higher demand for funding investments, notably for production facilities, across a range of economic sectors. We saw good growth of transport leasing and we dominated the market for leasing agricultural machinery. Leases of passenger cars were, however, affected by supply chains interruptions which delayed deliveries.

Demand for new loans fell towards the end of the year as customers slowed or suspended new investments given the economic uncertainty caused by the rise in interest rates, high inflation in the region, and elevated geopolitical risks arising from the invasion of Ukraine. We continued to see increased demand for investment in renewable energy with a large part of the new loans being used to build solar and wind parks.

We were the leading underwriter of corporate bonds for Baltic issuers, with a 34% share of the market. We raised 1.4 billion EUR across 11 transactions for our customers despite higher rates and increased risk premiums being demanded by investors. Notably we lead managed new issues for a government-guaranteed fund to support businesses in Lithuania, a green bond from a state-owned utility company, and a liability management exercise for a sub-investment grade issuer. We also underwrote new securities for two local financial institutions.

Deposit balances grew by 591.4 million EUR, or 14.1%, driven by inflows from public sector customers,

We are here to support our customers grow sustainably and ensure that they consider climate risk and contribute to climate expectations. To aid this process, we launched a series of climate seminars for our corporate customers. The seminars focused on the upcoming ESG reporting requirements, climate targets and the EU taxonomy, and the climate impact of the agricultural sector. We also started a series of podcasts targeted at SMEs and released the first two podcasts “Entrepreneurs in a turbulent world; what help can the bank offer?” and “Long term planning for business”.

Financial condition

Summary balance sheet, €m	31 Dec 2021	31 Dec 2022
Cash and balances with central banks	2,494.2	2,178.1
Debt securities	608.2	1,289.8
Loans to customers	9,946.7	10,874.7
Other assets	267.7	414.1
Total assets	**13,316.8**	**14,756.7**
Deposits from customers	10,305.4	10,947.9
Debt securities issued	1,163.6	1,813.9
Other liabilities	299.0	411.5
Equity	1,548.8	1,583.4
Total liabilities and equity	**13,316.8**	**14,756.7**

Loans to customers grew 9.3% in the year while Deposits from customers increased by 6.2% and the total balance sheet grew 10.8%. At year end, Loans to customers accounted for almost three quarters of Total assets.

Loans to customers increased by 928.0 million EUR as we grew lending to individuals and companies. In line with our strategy, we grew mortgage lending by 5.8%, or 276.3 million EUR, and all other lending to individuals by 4.3% or 35.6 million EUR. Loans to businesses increased by 14.7% with year-on-year growth in lending to all sectors except wholesale and retail. Debt securities increased by 681.6 million EUR, as we increased our investments, primarily in high quality government securities. Conversely Cash and central bank balances fell by 316.1 million EUR. High-quality government and covered bonds, which are eligible as collateral for the ECB, account for most of our liquidity portfolio.

Deposits from customers increased by 642.5 million EUR. Deposits from individuals remained largely unchanged while deposits from companies, notably from the public sector, grew 11.6%. Debt securities issued increased by 650.3 million EUR, or 55.9%, over the year. We sold a 500 million EUR, 5-year covered bond in the second quarter to support our increased customer lending. In the third quarter we issued a 300 million EUR callable, senior preferred bond which counts towards our MREL requirement. These increases were offset in part as we repaid the outstanding balance of a debt security which matured in the fourth quarter. At the end of 2022 our MREL-eligible securities totalled 30.10% of Total Risk Exposure Amounts and 14.96% of our leverage exposure, as compared to an effective minimum at year end of 27.37% and 5.91% respectively.

Equity increased by 34.6 million EUR as the net profit of 124.7 million EUR we generated in the period was offset by payment of a 90.0 million EUR dividend in September.

Moody’s Investors Service changed the outlook of our ratings to positive from neutral, and affirmed Luminor’s A3 bank deposit and Baa1 senior unsecured debt ratings. The credit agency explained this decision by noting our robust capitalisation, successful reduction of non-performing loans, and improving profitability, together with the broad lending portfolio across customer types and countries, and our local deposit base.

We sold a 3-year, 300 million EUR senior preferred debt issue on 16 January 2023. The security, which we have the right to redeem 1-year prior to maturity, supports our strategy, strengthens further our MREL base, and enhances our liability structure.

Capital and liquidity

Capital, €m	31 Dec 2021	31 Dec 2022
Including net profit		
Shareholders' Equity	1,548.8	1,583.4
Regulatory adjustments	-43.9	-94.8
Prudential filters	-0.4	-0.6
Common Equity Tier 1	**1,504.5**	**1,488.0**
Credit risk exposure amounts	6,307.2	6,944.3
Operational risk exposure amounts	648.8	675.2
Other risk exposure amounts	31.7	43.0
Total risk exposure amounts	**6,987.7**	**7,662.5**
Common Equity Tier 1 ratio, %	21.5	19.4
Leverage ratio, %	10.8	9.6
Excluding interim profits[1]		
Common Equity Tier 1	1,429.8	1,407.7
Common Equity Tier 1 ratio, %	20.5	18.4
Leverage ratio, %	10.3	9.1

1. 31 December 2021 excludes all profit retained in 2021; 31 December 2022 excludes third and fourth quarter 2022 retained profit.

We are strongly capitalised with own funds of 19.4% composed entirely of Common Equity Tier 1 (CET1) capital. Our capital ratios reduced by just over two percentage points as we lowered own funds while Risk Exposure Amounts (REA) increased. The reduction in CET1 was driven by payment of a 90 million EUR dividend and recognition of goodwill on the acquisition of Maksekeskus AS. REA, which we measure on a standardised basis, increased as we grew Loans to customers. Our leverage ratio decreased to 9.6% during the year as our own funds decreased and total assets increased.

Our capital ratios remain well above our minimum capital requirements set by our regulators, which require us to have a CET1 ratio exceeding 10.69%, a Tier 1 ratio above 12.60% and a Total Capital ratio greater than 15.15%. These include a Pillar 2 additional own funds requirement of 2.2%. We will be subject to a countercyclical buffer of 1% of our risk exposures in Lithuania from October 2023 and additional 0.5% in Estonia from December 2023. We estimate these new buffers will add 58 basis points to our minimum CET1, Tier 1 and Total capital requirements, taking them to 11.27%, 13.18% and 15.73% respectively. Our target is to manage our capital at a level 150-300 bps above the minimum regulatory requirements. This target includes Pillar 2 guidance and management buffers. We continue to assess the value of issuing Tier 2 capital to improve the efficiency of our capital structure.

Liquidity, %	31 Dec 2021	31 Dec 2022
Liquidity Coverage Ratio	137.3	138.8
Net Stable Funding Ratio	140.8	130.5

We manage our liquidity risk prudently and use a range of measures, one of which is the Liquidity Coverage Ratio (LCR). Our LCR increased marginally during the year to 138.8%, driven by the increase in our deposit base, as compared to a minimum regulatory requirement of 100%. The liquidity buffer is composed of cash and liquid central bank eligible securities.

Long-term liquidity risk is measured by the Net Stable Funding Ratio (NSFR). On 31 December 2022 our NSFR was 130.5% compared to 140.8% at the end of the last year, and a minimum regulatory requirement of 100%. The decrease of the ratio during the year was mainly driven by growth In Loans to customers.

Asset Quality

Loans to customers, €m	31 Dec 2021	31 Dec 2022
Stage 1	8,452.0	9,205.0
Stage 2	1,411.0	1,637.7
Stage 3	185.6	133.4
Gross carrying amount[1]	**10,048.6**	**10,976.1**
Credit loss allowance	-101.9	-101.4
Net carrying amount	**9,946.7**	**10,874.7**
Non-performing loans ratio, %	1.8	1.2

1. Stages 2 and 3 include POCI loans

The quality of our loan portfolio remains good and stable.

Our exposure to Russia, Belarus and Ukraine is insignificant. We have no direct exposure to companies domiciled in these countries nor investments in the region. Our exposure to residents of Russia, Belarus and Ukraine is 0.01% of our total gross lending and consists mostly of mortgage loans which are secured against residential real estate in the Baltic countries. Our counterparty credit risk exposure is also insignificant. The number of our corporate customers with ownership links to the affected region is limited, sales markets for most customers are diversified, and the risks related to the material sourcing and location of production units and operations are mitigated in most cases. A systematic assessment we completed following the outbreak of the war identified no systemic risk.

Stage 2 exposures increased by a net 226.6 million EUR driven by customers placed on watch list due to higher geopolitical risks or high inflation, or exposures for which energy costs are significant and with increased probability of default. The increase was offset partly by exposures moving from Stage 2 to Stage 1 due to rating upgrades, and removal of customers from watch list due to exposures modified due to COVID-19 reaching the end of 2 years' probation period.

Stage 3 loans decreased by 52.2 million EUR after a focused effort in this area. The outflow of non-performing loans was around 1.6 times higher than the inflow, and this left the volume of non-performing loans at its lowest ever level. The key drivers for this decrease were repayments, collection activities including sales of collaterals, sales of claim rights, write-offs of the amounts remaining after collection activities and cures resulting from the end of probation periods.

Of the 101.4 million EUR total allowances for expected credit losses on the balance sheet at the end of the year, 43.3 million EUR were for Stage 3 exposures. The net carrying amount of Stage 3 loans was 90.1 million EUR against which we held collateral with a fair value of 117.3 million EUR.

Details of the Credit loss allowance for the year of 16.1 million EUR can be found in the 'Financial performance' section, above.

Additional information

ECONOMIC ENVIRONMENT

Macroeconomic data	Public Debt /GDP	Economic growth (GDP)[1]		Inflation (CPI)[1]		Unemployment rate		Wage growth[1]	
%	22Q3	21	22Q3	21	22	21	22Q3	21	22Q3
Estonia	15.8	8.0	-2.3	4.5	19.4	6.2	5.5	6.9	8.2
Latvia	39.9	4.1	-0.4	3.2	17.1	7.6	6.9	11.8	6.2
Lithuania	37.3	6.0	2.4	4.6	18.9	7.1	5.7	10.5	12.6

1. Year-on-year change

The year 2022 brought several challenges for the Baltic economies. The deterioration of economic sentiment had already started in the second half of 2021 and continued throughout 2022 with some stabilization at the end of the year. Economic growth rates during the 12-months to the third quarter 2022 varied between the three countries from -2.3% for Estonia to +2.4% for Lithuania. Below trend growth rates and inter country variations in growth reflect the different pace of economic recovery from the impact of COVID-19 in 2021, macroeconomic policies implemented in response to energy price increases, and to the Russian invasion of Ukraine. Exports remained strong in all Baltic countries with strong foreign demand. Industrial production increased, especially in the beginning of 2022.

Household income continued to grow in nominal terms. Employment rates increased and unemployment rates decreased by 0.5 to 1 percentage points and are very close to historic low levels. Wage growth was strong in nominal terms in all the Baltic states, above 6.2% in Latvia, 8.2% in Estonia and 12.6% in Lithuania during the 12-months to the third quarter of 2022. Real wages, however, fell as prices increased more than nominal wages which, in turn supported demand for labour. Retail trade sales were strong in the beginning of the year. As prices increased and were expected to increase even further in a low interest rate environment, households and firms were trying to anticipate price increases with early purchases.

Commodity price increases left a strong stamp on local inflation rates as energy and food play a bigger role in the baskets of consumer goods compared to the average of the euro area. Price levels in Estonia were 19.4% higher in 2022 than 2021, Latvia saw a 17.1% increase, and Lithuania 18.9%. The speed of price increase slowed considerably at the end of 2022 due to decreasing energy prices and monetary tightening. Euro area monetary policy tightened, and money market interest rates increased strongly during the second half of the 2022 having been very low for many years. This change of interest rates and monetary policy reduced domestic demand further as households with floating interest rate debt saw their monthly payments increase.

Real estate markets in all Baltic states saw strong demand in the first half of the year. Compared to the third quarter of 2021 residential real estate prices at the third quarter 2022 were 24.2% higher in Estonia, 13.7% higher in Latvia, and 19.3% higher in Lithuania. Some stabilization in the market took place in the second half of the year as prices stopped increasing and market turnover normalized from previous high levels.

Our ECL allowances reflect the prevailing economic environment.

BUSINESS DEVELOPMENTS

There were unforeseen geopolitical challenges for the Baltic region following Russia's invasion of Ukraine. We moved quickly to assist Ukrainians who arrived in the region and welcomed a number as colleagues. We made opening of accounts for Ukrainians who now live the in the Baltic countries easy and simple. In addition, we made donation to three Baltic-based organisations who assisted refuges. We applied imposed sanctions diligently, strengthened our systems to ensure security of funds, tested rigorously our risk framework, and collaborated with local and international regulators.

We took several steps to realise our ESG ambitions and received from Sustainalytics a 'Low Risk' ESG risk rating, the best of its kind among major banks in the Baltic region. We acquired 99% of Maksekeskus, the leading Baltic e-commerce payment service provider, which strengthened our presence in the fast-growing e-commerce payments market, broadened our product base, and supported our digital evolution. We worked as well on improving our IT, and will continue to invest to increase IT scalability and performance.

We have advanced our customer offerings by investing in developing and rolling out additional functionalities and products. We are working closely with IT systems' provider Kyndryl to strengthen our security and regulatory compliance processes. Our priority is to put even more robust cybersecurity measures and fraud management systems in place to protect our customers. This will remain a constant area of focus for us as we act to keep pace with the evolving risks we face.

In September, a consortium led by private equity funds managed by Blackstone acquired Nordea's remaining 11.6% shareholding in Luminor Holding, our parent company. As a consequence, the consortium now owns 80.05% of Luminor Holding.

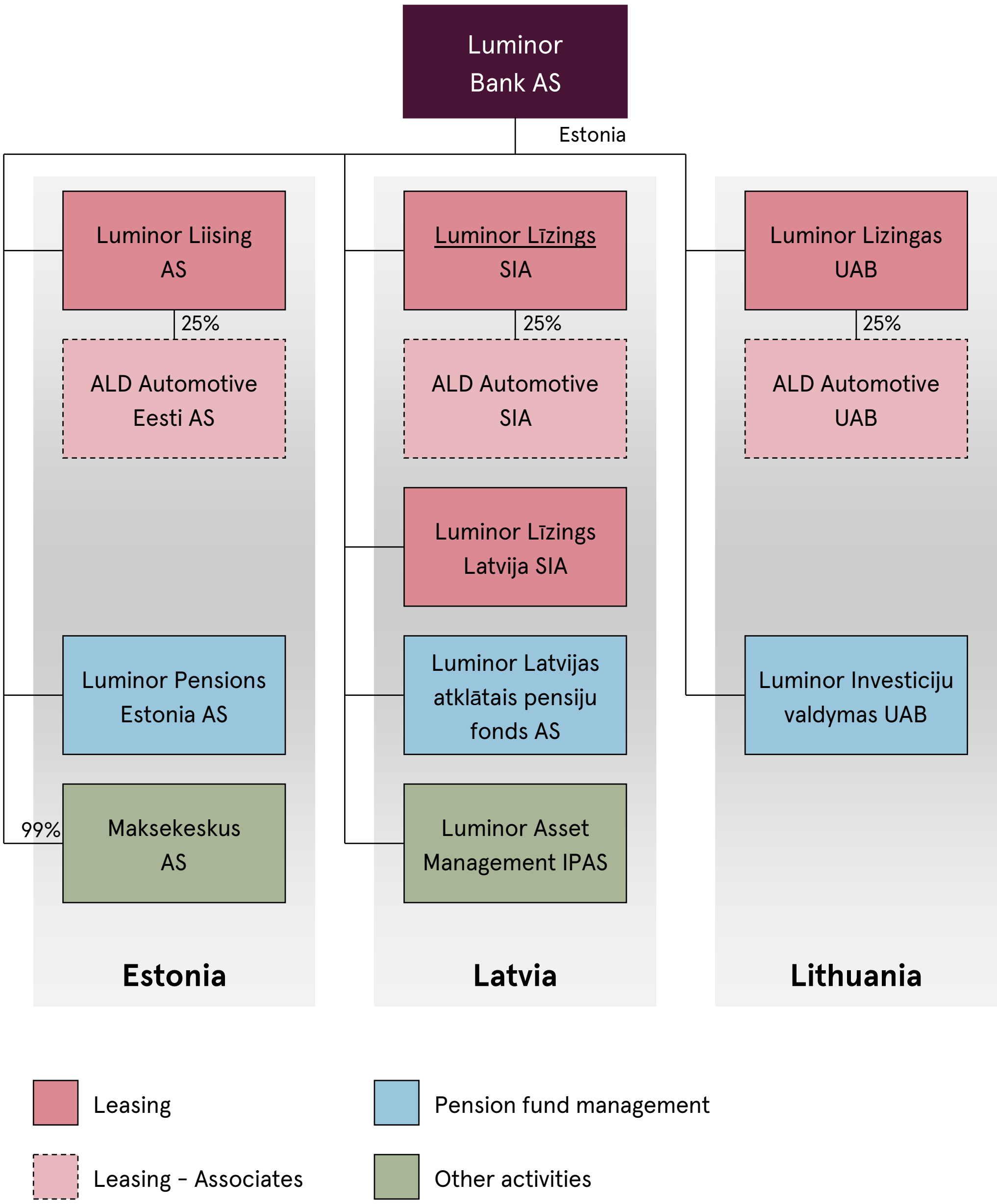
We enhanced our governance with the appointment of Ottar Ertzeid, formerly Group Chief Financial Officer at DNB and DNB Bank, Elanor Rose ('Elly') Hardwick, formerly Chief Digital Officer at UBS Group, and Andreas Treichl, formerly Chief Executive of Erste Group, to our Supervisory Council. Jorgen Andersen stepped down from the Supervisory Council, following the sale of Nordea's remaining shareholding in Luminor Holding. Effective 3 February 2023, Nadim Diaa El Din El Gabbani stepped down from the Supervisory Council.

We strengthened our management team with the recruitment of Ian Penny to the new role of Chief Operating Officer (COO), which combines the responsibilities of Chief Technology Officer and Chief Operations Officer. Ian, who joined Luminor and the Management Board on 16 January 2023, leads the Technology division and for Business Operations within it. The COO is accountable for IT delivery, digital channels and core banking, and processing and development of business operations. His appointment is subject to regulatory approval. Ilja Sovetov who lead the technological carve out of our systems from our former parents, stepped down as Chief Technology Officer and from the Board on 15 January 2023.

In line with our strategy, in the year ahead we will continue to focus on six areas: building our bank around our customers; being the preferred bank for retail mortgages and asset management; being the favoured bank for growing Baltic companies; raising our efficiency, and elevating our IT platform to market level resilience and capability; becoming a team who executes with an ownership mindset; and maintaining our financial strength, prudent risk management and culture, and fulfilling our wider obligations to the societies we serve.

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, offer e-commerce payments and asset management. 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 liquidated in 2022 and those under liquidation. We have omitted such subsidiaries from the structure chart below.



Environmental, Social, and Governance (ESG)

We aim to foster transition to a low carbon and bio-diverse economy and to enhance social wellbeing through our business activities. We advanced our ESG governance, set further specific targets and key performance indicators, built our capabilities and monitored our greenhouse gas emissions. We committed to align our activities with Paris Agreement.

To strengthen our ESG governance we updated our Sustainability Policy. We continued implementation of the ECB's Guide on climate-related and environmental risks including development of climate and environmental risk related disclosure standard, and carried out a materiality assessment of these risks. As a result, we assessed the impact of these risks on our business and customers and defined mitigation measures for high impact areas. To fulfil our disclosure obligations and enhance risk management, we systemised ESG related data acquisition and collection processes.

Our second business ESG materiality assessment revealed eight areas considered material for us: customer privacy and data security, ethical corporate behavior, climate change and Greenhouse gas emissions, customer practices, employee diversity and inclusion, responsible investing and financing, employee health and safety, and business model resilience.

Environmental and climate risk management in our activities

Greenhouse gas emissions, excluding financed emissions, tCO_2e	**2021**	**2022**
Scope 1	51	45
Scope 2	2,155	1,296
Scope 3	1,054	1,607
Total	**3,260**	**2,948**

We reduced our net emissions by 10% compared to the previous year, principally as we switched to renewable energy sources for our main locations and lowered energy consumption by 19%. Within the overall reduction, emission from commuting and travel increased with the ending of COVID-19 restrictions.

For more efficient management of climate and environmental risks that we are exposed to, we refined our ESG Risk Assessment Procedure, and we updated the Industry ESG Risk Management Procedure by enhancing a bespoke lending framework for industries that are exposed to significant ESG risks. To facilitate transition to a greener economy, we enhanced our Real Estate Financing Guidelines to provide differentiated financing terms depending on a property's energy efficiency level. We have calculated our initial internal science-based targets for CO_2 emission reduction for the sectors where the emissions are high. We have developed a methodology and mock up tool for high emission segments to track and monitor customer level emissions and understand the impact of individual customer emissions and their reduction plans on our total portfolio reduction pathway.

To foster qualitative disclosure and adherence to responsible climate related practices, we launched a series of seminars to address various aspects of climate impact relevant to our customers such as assessing the climate impact on and of companies and greenhouse gas accounting, the EU taxonomy, sustainability reporting trends and climate risk in agricultural sector. In 2022, we continued to finance lower carbon energy projects and steer more funding towards projects that contribute to the EU objectives of climate neutrality by 2050. We issued over 94 million EUR loans for renewable energy projects and over 166 million EUR loans for various real estate projects where the energy efficiency certification (EPC) class was A or higher.

In our investment business, we established Sustainable Investment Guidelines, which define the main principles for investment decision making, integration of the sustainability-related risks and consideration of the principal adverse impacts thereof. In addition, to ensure due identification of client's sustainability preferences, we initiated advancements to the suitability assessment process and undertook update of the framework for discretionary portfolio management.

To streamline the main principles for investment decision making and to ensure we implemented the regulatory requirements of sustainability-related risks, our asset management companies designed and approved Sustainable Investment Due Diligence Procedure. Furthermore, to foster transparency over the social and environmental characteristics promoted by the Luminor Sustainable Future Index pension funds, we developed and published on the website respective pre-contractual disclosures.

Human resources

Diversity & Inclusion

We have a diverse workforce and are committed to principles of diversity and inclusion. We foster an environment that tolerates differences and eliminates psychological harm, verbal, mental and physical harassment, and discrimination. Our internal processes incorporate the requirements of legislation and best market practices. This is supported by our code of conduct, equality, non-discrimination and diversity policy, remuneration policy, base salary management standard, guidelines on mental health and wellbeing at work, and our recruitment and development practices. We inform our managers about diversity and equality in each performance management process cycle and while conducting salary reviews. We conduct annually equal pay reviews to identify and close potential gaps in terms of gender-neutral pay. In 2022 our leaders participated in a training program of 4 modules "How to Enable People Performance" which paid attention to diversity and equality in team management and evaluations.

Health and Safety

Employee health, safety and wellbeing are of paramount importance. We aim to meet the International Labour Organization Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration). We have implemented an occupational health and safety management system, a regulatory requirement in all the three Baltic countries. Each year selected employees are trained by the certified occupational health trainers to observe, report and solve issues related to workplace safety. We have health and safety policies in place in all three Baltic countries in local languages that comply with local regulations.

Wellbeing

In 2022, we initiated the development of Mental Health and Wellbeing at Work Standard. This standard sets out the process for protecting and promoting mental health and wellbeing at work, assessing and managing psychosocial risk factors, and supporting people who are experiencing mental health challenges or have experienced psychological abuse at work. In 2022, we continued to raise wellbeing awareness and increase wellbeing among our employees. In 2022, we implemented the concept of Workation to enable our employees to work abroad for up to 3 months. In our most recent Pulse survey, our employee Net Promoter score increased year on year to +49, versus our 2022 target of +20.

Human rights

We respect and promote fundamental human rights. Our activities respect the rights contained in the United Nations' Global Compact, and the Guiding Principles on Business and Human Rights, the OECD Guidelines for multinational enterprises, the ILO's MNE declaration, including the Declaration on Fundamental Principles and Rights at Work and the Core Conventions.

In our Sustainability Policy, we have an exclusion list of companies and individuals with whom we do not do business. We will not provide services to customers if we have identified that they contribute or are responsible for systematic violations of human rights or individual rights in wars or conflict situations, violations of basic labour rights or corruption, and other particularly critical violations of basic ethical norms. In 2022, we enhanced our Code of Conduct and improved our ESG due diligence about human rights. We are determined to engage with civil society organisations to increase awareness and share knowledge and best practices in relation to modern slavery and other human rights, social and environmental issues.

Anticorruption efforts

We aspire to the highest standards of ethical and professional conduct, and to conduct our activities with integrity and in compliance with the law and internal policies. Accordingly, we have established a Sustainability Policy, Code of Conduct, Conflict of Interest Management Policy and Anti-Financial Crime and Sanctions Policy. We are opposed to and are committed to inhibiting corruption in all our activities. We expect our suppliers to apply the same principles of responsible business conduct as we do, which we define in our Code of Responsible Business Conduct for Third Parties.

We require all employees to follow the spirit of our Code of Conduct, which we updated in 2022, which outlines the general principles for how we do business. We have mandatory trainings for all employees on business integrity, conflicts of interest, anti-financial crime, gifts, and events. We have set up a gifts and events registry and we have practical principles in place to receive notifications from law enforcement agencies if a suspicion arises that any employee is guilty of corruption. We have integrated tax related fraud as part of our exclusion list in our Sustainability Policy.

PREVENTING FINANCIAL CRIME

We do not tolerate financial crime. We have low appetite for risk and a conservative business model. We operate only in the Baltic countries, and we target our products and services at residents of the Baltic countries, or individuals and companies with a strong connection to the Baltic countries. We work closely with regulatory and supervisory authorities and use this work to enhance our systems and processes. We follow international guidelines, recommendations and standards issued by regulators, international bodies, local banking associations, and financial intelligence units.

In 2022 we continued to improve our processes and routines to keep them aligned with our risk appetite and business model. We invested in our anti-money laundering (AML) capabilities, sanctions compliance, and anti-fraud framework and technology, while promoting ethical behaviour and building our risk culture. We established a separate Group Sanctions Compliance Unit, and local AML Compliance Units in each Baltic country. These changes helped us to respond effectively to the rapidly changing sanctions environment.

We continued to improve our internal processes to make our AML work even more effective. We enhanced our AML monitoring by introducing enhanced adverse media screening, and new online and post monitoring scenarios so that we can mitigate existing and newly emerging risks more effectively. We improved our anti-fraud framework and technology. We implemented a new online tool for monitoring fraud in Estonia and successfully deployed a new anti-fraud solution in Latvia. We are also in the process of implementing a pan-Baltic anti-fraud solution for non-card payments that will replace the current solutions in all three Baltic countries.

We are committed to the protection of human rights, and to countering the financing of terrorism and the proliferation of weapons of mass destruction. We comply with the sanctions imposed by Estonia, Latvia, and Lithuania, and with binding sanctions from the United Nations and the European Union. We also apply 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 Sweden and Norway. We added capacity to meet our obligations under the new sanctions regimes and maintained close contact with stakeholders, and we report possible breaches of sanctions and other possible violations to the regulatory authorities.

We work continuously to improve our rules and models to ensure that our fraud prevention efforts are effective. During the year, we made ongoing efforts to raise awareness among customers and the public about different types of fraud and how to prevent it, with a special focus on more vulnerable groups such as schoolchildren and to elderly customers. A separate podcast was produced for businesses on what companies can do to avoid falling victim to fraud.

Educational articles, press releases and interviews were published in the media throughout the year giving practical advice on fraud prevention alongside information published on the Luminor website and social media channels. We also worked closely with the local banking associations in our efforts to raise public awareness about fraud. We joined in a special campaign initiated by the banking association in Lithuania that aimed to teach people how to spot a fraudster. The results of the campaign showed that people became more aware of different types of fraud. We remain committed to continuing these efforts to protect our customers and maintain the integrity of our financial system.

Alongside ongoing training on a range of topics concerning risk and compliance, numerous internal communication and engagement initiatives were launched to promote discussions and common understanding around risk culture further. A series of short videos were produced as part of the informative material for workshops on risk topics, in which our leaders discussed what good risk culture means to them and what key behaviours are needed for us to achieve a good risk culture.

We continued to issue monthly financial crime intelligence summaries to cover new and developing trends in financial crime. A new initiative is the Fraud Newsletter to all employees that was launched in 2022. The newsletter aims to raise the overall awareness of all our employees about the situation with external fraud at the Baltic level and to familiarise them with the most common types of fraud and emerging trends.

CORPORATE GOVERNANCE REPORT

Corporate Governance structure

We have a two-tier governance structure with a non-executive Supervisory Council (Council) overseeing a Management Board (Board) whose members have executive responsibilities. Members of the Council cannot be members of the Board. We refer to the Council and Board collectively as 'management bodies.' Our governance principles, which follow EBA Guidelines on Internal Governance (EBA/GL/2021/05) and the Corporate Governance Code of the Estonian Financial Supervision Authority, define lines of responsibility, risk and conflict of interest management processes, control mechanisms and remuneration policies. We updated our Governance Policy in 2022.

The General Meeting of Shareholders is our highest oversight body. We have one class of registered common shares. Each share grants one vote at the General Meeting. 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. Subject to a two-thirds majority of shareholders present, the General Meeting can amend our Articles of Association and change the share capital. Ordinary General Meetings must be held annually. In 2022, we held 7 General Meetings.

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. Our Conflict of Interest Management Policy was 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 possible conflicts of interest are considered when selecting new members to the management bodies and key function holders.

The principle of our gifts and events reporting procedure is that employees do not accept or offer gifts regardless of their value or participate in events if doing so can be considered inappropriate, may be ethically questionable, may affect the recipient in performing their duties or create reputational risk for us. The procedure provides specific examples to support employees in making decisions on the appropriateness of gifts and events and handling various 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 the organization, 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 build and maintain a workforce of various cultures, including individuals from diverse backgrounds. Employees are supported and encouraged to develop their full potential and utilize their unique talents.

To support diversity, we have established an Equality, Non-discrimination and Diversity Policy. We also have processes for applying the principle of equal pay for equal work through pre-defined salary ranges for various positions in recruitment and salary reviews. The policy applies when we select, elect, or re-elect members of the management bodies. By 2024 we plan that 40% of the Council members will be female, as compared to 30% at 31 December 2022.

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 are all responsible for encouraging anyone who feel they have been subject to discrimination to raise their concerns through the raise your concern process established in Raising Your Concern Procedure 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 Luminor's 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 Luminor assesses 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
Are individuals who represent a critical business or support function who have a significant influence over the direction of Luminor, according to their mandates. The key function holders are members of the Board and, if not a Board member, the Head of Retail Banking, Head of Corporate Banking, Branch managers, Chief Compliance Officer, Chief Finance Officer, Chief Risk Officer, Chief Technology Officer, and the five respective Heads of Credit Advisory and Restructuring, Group Communication, Internal Audit, Legal, and People and Culture.

Selection Criteria to the managing bodies
Only people who have the necessary professional experience and possess the appropriate character may be members of our management bodies. We do not discriminate 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 the Governance policy, and the Suitability and Succession Planning Policy and procedure. Appointments to management bodies are approved by the ECB.

We have policies to address sudden or unexpected absences or resignations from the management bodies. To preserve continuity of decision-making we seek to limit the number of members changing simultaneously. 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 supports the CEO through the recruitment process. Board members are removed by the Council.

Auditors

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

Supervisory Council

The Council represents shareholders' interests. It supervises the Board, takes strategic decisions, and oversees the risk culture. The Council has five to fifteen members elected by the General Meeting, whose term of office is five years, and must meet at least quarterly. Members are assessed prior to election in accordance with legislation and internal procedures. 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. In 2022, the Council held 50 meetings. At 31 December 2022, the Council members were:

Name	Joined	Committee membership	Status
Nils Melngailis, Chair	2 January 2019	Nomination (Chair)	Independent
Maria Elena Cappello	1 July 2020	Remuneration (Chair), Nomination, Transformation	Independent
Ottar Ertzeid	1 January 2022	Audit, Remuneration, Risk	DNB
Mathias Patrick Laurent Favetto	26 August 2020	Audit, Risk, Transformation	Blackstone
Nadim Diaa El Din El Gabbani[1]	30 September 2019	Nomination, Remuneration, Risk	Blackstone
Elanor Rose ('Elly') Hardwick	1 April 2022	Audit, Nomination, Transformation	Independent
Michael Richard Jackson	2 January 2019	Transformation (Chair), Remuneration, Risk	Independent
Bjørn Erik Naess	2 January 2019	Audit (Chair), Nomination, Remuneration	DNB
Elizabeth Jane Nelson	1 December 2020	Risk (Chair), Transformation	Independent
Andreas Treichl	1 September 2022	-	Independent

1. Recalled effective 3 February 2023

Committees of the Council are required by law, or in the case of the Transformation Committee, to provide specialist insights. 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.

Committee	Principal responsibilities	Meetings in 2022
Audit	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.	11
Nomination	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 Group companies; and monitor the effectiveness of Suitability and Succession Planning Policy and review its design and implementation.	11
Remuneration	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; approve proposals for variable remuneration pool collectively for all employees and individually for members of management boards and heads of compliance, internal audit and risk functions	11
Risk	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.	23
Transformation	To review and challenge priorities and progress in technology related strategic projects; supervise development and implementation of technology strategy; monitor, review and challenge technology direction and priorities; supervise technology service development; and oversee the technology supplier selection process.	9

Management Board

The Board is the Bank's executive body. It directs day-to-day activities, oversees risk management and internal control, and implements the strategies and general principles approved by the Council. The Board reviews proposals and explanations presented to it, takes sound decisions and reports appropriately to the Council. The Board has three to ten members whose term of office is five years, and must meet at least monthly. Members are assessed before their appointment in accordance with legislation and internal procedures. In 2022 the Board held 89 meetings.

The Council appoints a Chair from the members of the Board. The Chair, or two Board members, legally represent the Bank. Areas of responsibility are divided between the members to suit their skills, expertise and responsibilities. Consistent with our Governance Policy, at 31 December 2022, the Board members were:

Name	Appointed	Title	Notes
Peter Bosek, Chair	1 January 2021	Chief Executive Officer	
Georg Jürgen Kaltenbrunner	1 November 2019	Chief Risk Officer	
Mari Mõis	1 August 2021	Chief Compliance Officer	Recalled effective 14 March 2022, reappointed effective 11 September 2022[1]
Andrius Načajus	12 November 2018	Head of Corporate Banking	Reappointed effective 13 November 2021
Palle Nordahl	1 May 2021	Chief Financial Officer	
Ilja Sovetov	2 September 2019	Chief Technology Officer	Recalled effective 15 January 2023
Kerli Vares	2 January 2019	Head of Retail Banking	Reappointed effective 3 January 2022

1. On maternity leave from 14 March to 11 September 2022

Board committees were established in 2022, either as required by statute or to provide specialist insights. Regulations for each committee ensure the allocation of duties between and within the committees. Members are appointed by the Board from employees who are subject-specific experts. Each committee has its own Regulations, and meets at least monthly or quarterly. The active committees of the Board are:

Committee	Principal responsibilities	Meetings in 2022
Change advisory	To review IT change requests; advise change managers and owner on approval to implement IT change requests; and provide recommendations regarding the implementation of IT changes and their deployment	12
Credit	To ensure our credit activity is of a high quality, by taking credit decisions about specific transactions including, approval of assumptions of loan loss provisions of non-performing exposures	53
Customer risk	To oversee AML/CFT compliance related customer risk; to decide on cases where highest risk factors are implied, or other cases where evaluation by the members is required	216
Financial institutions risk	To decide or make recommendations in cases of possible higher ML/TF and/or Sanctions risk; or where differences of opinions exist; or where interpretations of Risk Appetite is needed	7
Investment products governance	To approve investment products' target markets and periodic dales reports; review order execution quality; and approve the strategy for the use of accepted and retained inducements, and define the minimum level of proportionality between the retained inducements and the benefits enhancing the quality of services	5

On 5 January 2023, we established a Conduct risk committee, to analyse conduct related matters and decide on cases, and other irregularities, which may be detrimental to our interests and reputation.

Internal Control Framework

Our comprehensive internal control framework comprises monitoring, reporting, and follow-up processes covering all business lines and internal units, outsourced activities and distribution channels, and management bodies. We have a conservative risk profile and will only assume risks we are able to assess, manage and monitor. We do not offer products which entail a material risk of contributing to unethical conduct, infringement of human or labour rights, corruption or serious environmental harm.

The control framework aims to ensure effective and efficient operations, adequate risk management, compliance with external and internal requirements, as well as sound accounting procedures and reliable reporting of information. To mitigate financial reporting risk we have segregated duties, and applied IT general controls, entity-level and process-level controls, and preventive and detective controls.

Our framework is organised across three lines. The first line consists of all business and supporting divisions, who are responsible for managing their risks according to our policies, procedures, and controls. The second line is a control function, comprising Compliance and Risk divisions, which verifies that the first line is operating in line its risk policies, procedures and control, and is independent of the divisions whose activities they are responsible for monitoring and controlling. The Internal Audit division serves as the third line and provides independent assessments of the risk management and controls in the first and second lines. The Head and the staff of Internal Audit are appointed by the Council.

The Compliance division identifies, assesses, controls, monitors and reports on compliance risks, including, compliance with our internal framework and all applicable laws and regulations. It performs assurance, advisory and awareness raising activities and is led by the Chief Compliance Officer who is responsible for compliance risk, reports to the Board and has direct access to the Council.

The Risk division defines risk policies and the risk management framework, ensures that effective risk management processes are in place, and is involved in all material risk management decisions. The Risk division is led by the Chief Risk Officer, who is responsible for providing comprehensive information on material risks to the Board and has direct access to the Council. See also Note 2, 'General Risk Management policies', below.

The Internal Audit division provides reliable, independent and objective assurance to the management bodies about the effectiveness of our governance, risk management and internal control processes. Its activities are based on an annual risk-based Audit Plan, as approved by the Council, and conducted in accordance with The Institute of Internal Auditors' International Professional Practices Framework. Internal Audit has full, free and unrestricted access to all functions, records, property, premises, agents and personnel, to fulfil its responsibilities.

Each quarter the internal control functions report to management bodies major risks and any deficiencies identified together with an impact assessment and remediation plans. The Council follows up on the findings in a timely manner and requires remedial actions to be taken. In addition to the regular reports, the management bodies consistently communicate directly with the Chief Compliance and Chief Risk Officers.

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 follow our internal regulations, except Maksekeskus AS, which follows policies when relevant and/or obliged by law. 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. The Board (with approval of the Council) assigns separate Board members and/or Key Function Holders responsible for overseeing the subsidiary. Dividend payments are governed by internal procedures.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

€m	Notes	2021	2022
Interest income calculated using the effective interest method	3	223.5	270.6
Other similar income	3	42.9	57.4
Interest and similar expense	3	–27.2	–27.2
Net interest and similar income		**239.2**	**300.8**
Fee and commission income	4	102.1	110.3
Fee and commission expense	4	–23.6	–30.0
Net fee and commission income		**78.5**	**80.3**
Net gain (–loss) from financial instruments at fair value	5	28.8	17.7
Net gain (–loss) from foreign currency operations		–7.9	6.7
Other operating expense – net	6	–9.7	–15.3
Share of profit from associates	12	1.8	1.6
Net other operating income		**13.0**	**10.7**
Total operating income		**330.7**	**391.8**
Salaries and other personnel expenses	7	–101.0	–110.6
Other administrative expenses	8	–149.7	–112.7
Depreciation and amortization	13,14	–12.1	–10.0
Total administration expenses		**–262.8**	**–233.3**
Profit before credit loss allowances and tax		**67.9**	**158.5**
Credit loss allowances	11	14.5	–16.1
Profit before tax		**82.4**	**142.4**
Tax expense	21	–7.7	–17.7
Profit for the period		**74.7**	**124.7**
Total comprehensive income		**74.7**	**124.7**

The notes on pages 30 to 75 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

€m	Notes	31 Dec 2021	31 Dec 2022
Assets			
Cash and balances with central banks	9	2,494.2	2,178.1
Due from other credit institutions		64.4	123.4
Debt securities	10	608.2	1,289.8
Loans to customers	11	9,946.7	10,874.7
Derivatives	20	75.5	121.6
Equity instruments		3.2	2.5
Investments in associates	12	6.4	5.7
Intangible assets	13	10.0	62.8
Tangible assets	14	47.0	30.2
Current tax assets		2.6	0.0
Deferred tax assets	21	8.7	12.5
Other assets	15	49.9	55.4
Total		**13,316.8**	**14,756.7**
Liabilities			
Loans and deposits from credit institutions		83.8	36.6
Deposits from customers	16	10,305.4	10,947.9
Debt securities issued	17	1,163.6	1,813.9
Derivatives	20	70.3	194.1
Tax liabilities		0.5	10.0
Lease liabilities	14	43.4	30.0
Other liabilities	18	91.9	118.8
Provisions	19	9.1	22.0
Total		**11,768.0**	**13,173.3**
Shareholder’s equity			
Share capital		34.9	34.9
Share premium		1,412.2	1,412.2
Retained earnings		97.9	132.7
Other reserves		3.8	3.6
Total		**1,548.8**	**1,583.4**
Total liabilities and shareholder’s equity		**13,316.8**	**14,756.7**

The notes on pages 30 to 75 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

€m	Share capital	Share premium	Retained earnings	Other reserves	Total Equity
Balance as at 31 December 2020	**34.9**	**1,412.2**	**215.1**	**3.0**	**1,665.2**
Profit for the period	–	–	74.7	–	**74.7**
Total comprehensive income	**–**	**–**	**74.7**	**–**	**74.7**
Transfer to statutory reserve capital	–	–	−0.8	0.8	**-**
Dividends	–	–	−191.0	–	**−191.0**
Other	–	–	−0.1	–	**−0.1**
Balance as at 31 December 2021	**34.9**	**1,412.2**	**97.9**	**3.8**	**1,548.8**
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**

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 2022 and 2021, Luminor’s share capital consisted of 12,000,00 authorised registered ordinary shares with a nominal value of €10 each, of which 3,491,223 were issued and fully paid.

The notes on pages 30 to 75 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

€m	Notes	2021	2022
Profit before tax		82.4	142.4
Adjustment:			
Credit loss allowance		-14.8	16.1
Depreciation and amortisation	13,14	12.1	10.0
Other items		-2.2	-1.5
Interest and similar income	3	-266.4	-328.0
Interest and similar expense	3	27.2	27.2
Change in operating assets/liabilities:			
Increase (-) / decrease (+) of lending to customers		-509.1	-924.6
Increase (-) / decrease (+) of debt securities		-323.9	-676.2
Increase (-) / decrease (+) of other assets		5.4	-90.1
Increase (+) / decrease (-) of deposits from customers		-1,478.5	593.1
Increase (+) / decrease (-) of other liabilities		31.2	74.8
Interest received		276.5	309.8
Interest paid		-27.8	-17.6
Income tax paid		-8.8	-9.4
Cash flow from operating activities		**-2,196.7**	**-874.0**
Payment for acquisition of subsidiaries, net of cash acquired	29	0.0	-48.1
Acquisition of tangible assets and intangible assets	13, 14	-8.0	-6.1
Proceeds from disposal of tangible assets		0.3	0.1
Proceeds from disposal of investment property		0.5	0.0
Dividend received	12	0.7	2.3
Cash flows from investing activities		**-6.5**	**-51.8**
Debt securities issued	17	299.3	796.9
Debt securities matured	17	-100.8	-71.8
Debt securities repurchased	17	-235.5	0.0
Payments of principal on leases		-6.3	-5.6
Dividends paid		-191.0	-90.0
Cash flows from financing activities		**-234.3**	**629.5**
Net increase or decrease in cash and cash equivalents		**-2,437.5**	**-296.3**
Cash and cash equivalents at the beginning of the period		4,884.7	2,447.2
Effects of currency translation on cash and cash equivalents		0.0	0.1
Net increase or decrease in cash and cash equivalents		-2,437.5	-296.3
Cash and cash equivalents at the end of the period		**2,447.2**	**2,151.0**
Cash and cash equivalents			
Cash on hand	9	136.1	127.4
Non-restricted current account with central banks	9	2,249.3	1,938.1
Due from other credit institutions within three months		61.8	85.5
Total		**2,447.2**	**2,151.0**

The notes on pages 30 to 75 are an integral part of the consolidated 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 pan-Baltic credit institution headquartered in Tallinn owned by Luminor Holding AS. Luminor Holding AS, which is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc, is owned by a consortium led by private equity funds managed by Blackstone (80.05%) and DNB Bank ASA (19.95%). These consolidated financial statements for the year ended 31 December 2022, which have been prepared on a going concern basis, have been approved for issue by the Management Board and the Supervisory Council and are subject to approval by the shareholders on 21 February 2023.

Basis of presentation

The Consolidated financial statements (the Statements) of Luminor are prepared in accordance with International Financial Reporting Standards (the Standards) as issued by the International Accounting Standards Board and endorsed by the European Union.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 amortized cost with adjustments for hedging gain or loss. In the primary financial statements of Luminor as a separate entity which are disclosed in these consolidated financial statements (Note 31), 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 2022 or later periods. Standards, that became effective from 1 January 2022, did not have any material impact on Luminor. Amendments to Standards which will become effective for annual periods beginning on or after 1 January 2023, but not yet endorsed by the EU include amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies; IFRS 17; IAS 8 and IAS 12. Luminor estimates that the potential or actual impact of applying these changes is not material except the amendment to IAS 1 regarding accounting policies which was early adopted by Luminor 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 expose Luminor primarily to credit risk of the applicant as majority of them issued under limit or guarantee limit agreement which is a debt instrument. Majority of the contracts require the customers who apply for a guarantee to collateralise their obligations to indemnify the Luminor as the issuer and there are no scenarios with commercial substance where the Luminor would have to pay significant additional amounts to the holders of such guarantees. Accordingly, Luminor accounts for these contracts as loan commitments in accordance with IFRS 9.

Change in presentation

To improve readability, the content and structure of the Statements of profit or loss and other comprehensive income were reviewed during 2022. Certain positions related to Net gain (-loss) from financial instruments at fair value, Other operating expense - net, Credit loss allowances for the year ended 31 December 2021 have been presented as shown below:

Consolidated statement of profit or loss and other comprehensive income €m	2021		
	As reported previously	Change	As restated
Net gain (-loss) from derivatives	23.4	-23.4	0.0
Net other financial income	5.4	-5.4	0.0
Net gain (-loss) from financial instruments at fair value	0.0	28.8	28.8
Net other operating income	1.6	-1.6	0.0
Net other operating expenses	-11.3	-11.3	0.0
Other operating expense- net	0.0	9.7	-9.7
Credit loss allowance, excluding off-balance sheet commitments	13.1	-13.1	0.0
Credit loss allowance on off-balance sheet commitments	1.7	-1.7	0.0
Other non-operating expenses	-0.3	0.3	0.0
Credit loss allowances	0.0	-14.5	14.5

Unconsolidated statement of profit or loss and other comprehensive income €m	2021		
	As reported previously	Change	As restated
Net gain (-loss) from derivatives	23.4	-23.4	0.0
Net other financial income	5.4	-5.4	0.0
Net gain (-loss) from financial instruments at fair value	0.0	28.8	28.8
Net other operating income	6.4	-6.4	0.0
Net other operating expenses	-10.8	10.8	0.0
Other operating expense- net	0.0	4.4	-4.4
Credit loss allowance, excluding off-balance sheet commitments	11.0	-11.0	0.0
Credit loss allowance on off-balance sheet commitments	1.8	-1.8	0.0
Other non-operating expenses	1.8	1.8	0.0
Credit loss allowances	0.0	-12.8	12.8

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 includes 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

Tangible assets are recorded at cost minus accumulated depreciation and impairment losses. Equipment is depreciated between 20 and 33% per annum, and property at 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 five thousand 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 annually. For 2022, 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

Luminor applies hedge accounting according to IFRS 9 Financial instruments. Luminor enters into interest rate swaps to hedge its issued debt securities 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 income statement. Interest income and expense from financial instruments (hedged item) are presented as "Net interest income". The changes in the fair value of the hedged item 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.

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.

In Latvia, corporate income tax is charged upon distribution of profits or conditionally distributed profit at the rate of 20% of the gross amount. Corporate income tax on distributed profit is recognized when the shareholders of Luminor decide on profit distribution. Corporate income tax is recognised as expenses in the profit and loss calculation in the reporting period when the dividends or conditional dividends are calculated, whereas for other objects of conditionally distributed profit – at the moment when the expenses occurred within the reporting period. In Lithuania the standard corporate income tax rate is 15%. For profits of credit institutions in excess of 2 million EUR for financial years 2020-2023 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.

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 ECL amount calculated in accordance with IFRS 9.

Measurement of Operating segments performance

Luminor's Management Board, its CODM, monitors separately the operating results of its 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 (including internal funds transfer pricing) 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 excluding accrued interest and credit impairments. Credit loss allowances on loans to customers are monitored for each of the segments.

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. Financial instruments are fair valued thus:

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 23, '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
Due from other credit institutions	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	Carrying amount
Debt securities issued	Market data

Impairment of financial instruments

Financial assets measured at amortised cost, including factoring receivables, and at fair value through other comprehensive income, together with contingent liabilities, are subject to the IFRS 9 impairment requirements. Luminor applies a forward-looking expected credit loss (ECL) approach. At each reporting date any adjustment in the amount of expected credit losses is recognized in profit or loss as an impairment gain or loss. Allowances for expected credit losses are calculated thus:

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

For each stage, interest income is calculated using the effective interest rate method. For purchased or originated credit-impaired assets (POCI), loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses regardless of the changes in credit risk during the lifetime of financial assets, and interest is calculated using the credit-adjusted effective interest rate method.

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 (See Note 2, 'General Risk Management Policies', below for significant increase in credit risk description)
- identification of unlikeliness to pay criteria and assignment of loans to Stage 3
- classification of forbearance and watch list
- assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL, including the various formulas and the choice of inputs
- the modelling and calculation of key parameters of the ECL models, including probability of default (PD), loss given default (LGD), and exposure at default (EAD) (See Note 2, 'General Risk Management Policies', below for default definition)
- 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.

Macroeconomic scenarios and their weights were re-considered in the first and fourth quarters of 2022 to reflect, mainly, possible consequences of the invasion of Ukraine and COVID-19. 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. The management overlay adjustment for exposures modified due to COVID-19 introduced in the fourth quarter of 2020 was released fully in the fourth quarter of 2022.

The applied ECL model was enhanced during the first quarter of 2022 to reflect the effects of the invasion of Ukraine. New collective significant increase in credit risk (SICR) indicators were incorporated into the ECL model due to measures taken by governments and companies, such as sanctions and closure of operations. Consequently, an additional collective impairment was established. Implementation of the new SICR indicators had an impact on staging of credit exposures by increasing the amount of exposures classified as stage 2, as well as by increasing the total amount of impairment due to reclassification of exposures from stage 1 to stage 2. Consideration of the new SICR indicators was based on the assessment of the impact of geopolitical risk (e.g., historically significant transactions with Russia, Belarus or Ukraine), inflationary risk, including sustained energy price increase, on customers, and identification of customers with energy intensive operations. This approach remained unchanged at the end of 2022. See also Note 2, 'General risk management policies', and Note '11 Loans to customers', 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 and assessed, monitored and controlled. Luminor's Risk Division is an independent function responsible 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 our maximum exposure to credit risk.

The principles of Luminor's credit risk management are outlined in Luminor's Credit Policy, Credit Strategies for Private Individuals, Legal Entities, and Financial Institutions. Application of 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 risk models are used in credit pricing, loan portfolio quality monitoring, and risk reporting as well as economic capital (risk-adjusted capital (RAC) calculations. RAC is used for decision-making with respect to strategic capital allocation, capital planning, and stress testing. When a loan is granted to a large business customer a risk-adjusted return on risk-adjusted capital (RAROC) is calculated, measured at both an individual loan and customer level. The same principles of RAC-based pricing as well as RAROC-based profitability assessment are also extended to the other segments of the loan portfolio through standardized pricing tools or rules.

In December 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. For other exposures their risk mitigation capacity is assessed.

Due from banks and other credit institutions
Counterparty risk of banks and financial institutions is managed by establishing limits for investment grade counterparties and then by monitoring those counterparties. If an investment grade counterparty does not exist, the best available counterparties 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 risk classifications from credit rating agencies. If an external rating for a counterparty is unavailable, Luminor will derive its own internal rating derived from macroeconomic factors and the counterparty's own solvency and liquidity, together with a qualitative overlay. All limits of counterparties and countries are reviewed at least once a year. All counterparties and countries are monitored on a quarterly basis.

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 FVOCI 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 clients.

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 (35%) and construction (10%). Luminor limits exposures to the 10 largest customer groups to 100% of its total equity, and has a single name concentration limit (excluding state and municipality risk) of 150 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 counterparty credit risk represents the potential cost to replace derivative contracts if counterparties fail to meet their obligations. Luminor assesses counterparties to control the level of credit risk taken. Counterparty credit risk is managed primarily through limits, use of collateral and valuation of exposures. Derivative financial instruments are recognized initially and subsequently carried at their fair value. They are revalued at least monthly. Fair values are obtained from quoted market prices discounting cash flows as appropriate, as well as from third parties. For OTC derivatives, additional fair value adjustments are introduced to reflect counterparty's credit risk. Margining agreements are established with the customers. Credit limits are

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

Credit-related commitments
Commitments are generally collateralised either by the funds in 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, as described in Note 1, 'Material accounting policy information', above.

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 are identified after initial recognition of the financial instrument and were 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 indicators caused by the invasion of Ukraine (See Note 1, 'Material accounting policy information', above.)

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 the corporate segment, while modelling customers of retail segment also includes annual change of residential real estate prices.

The probability weights for scenarios were adjusted in the first quarter of 2022 with the baseline scenario moving to 50% from 60%, the optimistic scenario to 20% from 10%, and the pessimistic scenario unchanged at 30%. Macroeconomic scenarios and their weights were re-considered in the first and fourth quarters of 2022 to reflect, mainly, possible consequences of the invasion of Ukraine and COVID-19.

Forecasts under different scenarios:

Economic data, %	**2020a**	**Scenarios**											
31 December 2021		**Optimistic**				**Baseline**				**Pessimistic**			
		21f	**22f**	**23f**	**24f**	**21f**	**22f**	**23f**	**24f**	**21f**	**22f**	**23f**	**24f**
Real GDP[1]													
Estonia	-3.0	9.2	5.9	5.0	3.0	9.2	4.6	3.7	3.5	9.2	-2.0	3.0	4.0
Latvia	-3.6	5.2	7.8	5.3	3.5	5.5	5.5	4.5	3.6	5.1	-2.0	4.0	5.0
Lithuania	-0.9	4.5	5.7	4.7	3.5	4.5	4.1	3.7	3.0	4.4	-1.0	3.0	5.0
Unemployment rate													
Estonia	6.8	6.6	5.2	4.4	3.9	6.6	5.7	4.9	4.6	7.0	9.0	8.0	6.0
Latvia	8.1	7.6	5.8	4.7	4.5	7.6	6.5	5.6	5.2	7.9	10.0	9.0	7.0
Lithuania	8.6	7.5	6.3	5.4	5.1	7.5	6.8	6.2	5.9	7.9	10.0	9.0	7.0
Residential Real Estate price[1]													
Estonia	4.8	14.2	12.8	8.8	4.7	14.2	8.3	6.8	5.4	14.2	-10.0	5.0	7.0
Latvia	2.2	7.0	11.2	11.6	8.3	6.6	7.8	7.7	5.7	5.8	-7.0	6.0	7.0
Lithuania	9.4	18.0	10.0	6.0	4.0	18.0	7.0	5.0	3.0	18.0	-15.0	6.0	7.0

Economic data, %	**2021a**	**Scenarios**											
31 December 2022		**Optimistic**				**Baseline**				**Pessimistic**			
		22f	**23f**	**24f**	**25f**	**22f**	**23f**	**24f**	**25f**	**22f**	**23f**	**24f**	**25f**
Real GDP[1]													
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[1]													
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

1. Annual change

A management overlay, to adjust the standard ECL model output for potential credit losses related to COVID-19, was introduced in the fourth quarter of 2020, and at 31 December 2021 totalled 11.9 million EUR. The overlay was released completely in the fourth quarter of 2022 as concerns about the impact of COVID-19 on credit quality receded. Exposures modified due to COVID-19 are back on repayment schedule, have been monitored regularly, and standard Significant Increase in Credit Risk (SICR) triggers are reflecting increased credit risk adequately.

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 is analysed in three ways, as shown in the tables below. In these tables, increases in ECL (positive amounts) represent higher impairment allowances that would be recognised

ECL sensitivity analysis, €m	31 Dec 21		31 Dec 22	
	Lower	Higher	Lower	Higher
Effect of change in SICR thresholds[1]				
Estonia	0.04	-0.07	0.10	-0.08
Latvia	0.43	-0.20	0.95	-0.38
Lithuania	0.25	-0.26	1.31	-1.12
Luminor	0.72	-0.53	2.36	-1.58
Effect of change in scenario probabilities[2]				
Estonia	-0.04	0.04	-0.03	0.03
Latvia	-0.09	0.13	-0.10	0.10
Lithuania	-0.18	0.18	-0.29	0.28
Luminor	-0.31	0.35	-0.41	0.40
Effect of change in LGD values of Stage 1 and 2 exposures[3]				
Estonia	-0.93	1.02	-0.84	0.85
Latvia	-1.58	1.63	-1.92	1.94
Lithuania	-2.00	2.53	-3.64	3.66
Luminor	-4.51	5.18	-6.39	6.45

1. Impact on ECL if SICR relative thresholds were increased or decreased by 20% and absolute thresholds increased or decreased by 12bps
2. Impact on ECL if pessimistic scenario weight was increased or decreased by 2bp and optimistic scenario weight was decreased or increased by 2bp
3. Impact on ECL if Loss given default values at exposure level increased or decreased relatively by 10%

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 if the regulatory reporting definition is met. Therefore, as a result of modification, the loan would be classified as Stage 2 if the forborne (restructured) performing status is assigned (or Stage 3 if the forborne non-performing status is assigned) and/or the loan would be classified as Stage 2 if the change in PD is considered significant. In case of substantial modification resulting in derecognition of the asset and the origination of a new asset, the newly recognised asset is classified as 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 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 2022 and still subject to enforcement activity was 1.5 million EUR (31 December 2021: 9.8 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 (private 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. See also Notes 11, 'Loans to customers' and 28, 'Maximum exposure to credit risk', below.

OPERATIONAL RISK

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

Operational risk management is governed by the Operational Risk Management standards and other relevant operational risk management framework documents which establishes 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 and Compliance Division which identify 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

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 managed through daily hedging activities, and all derivative deals with customers are hedged with back-to-back transactions.

Luminor monitors interest rate risk sensitivity, separately, in banking and trading books. Interest rate risk in the banking book is measured in terms of stressed EVE (Economic Value of Equity) and NII (Net Interest Income). Interest rate risk in the trading book is measured in terms of Basis Point Value (BPV), i.e., the change in net cash flows given a one basis point (0.01%) parallel shift in the market interest rates for different currencies: EUR, USD, and sum of all other currencies. Credit spread risk arises only from debt securities valued at FVTPL/FVTOCI in the banking book bond portfolio and exposures in the trading debt portfolio.

Sensitivity to interest rate risk in banking book, €m	2021	2022
Stressed Net interest income (Parallel up +200bp)	43.4	24.1
Stressed Economic value of equity (Parallel up +200bp)	-28.7	0.0
Stressed Net interest income (Parallel down -200bp[1])	-4.1	-24.9
Stressed Economic value of equity (Parallel down -200bp[1])	118.3	9.9

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

Trading book interest rate risk sensitivity is immaterial given insignificant volumes of instruments in the trading book.

Luminor 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 both intraday and overnight limits. Luminor applies a value-at-risk (VaR) model to estimate a possible loss due to changes in FX rates. A reasonable change in FX rates would have no material impact on consolidated statement of profit or loss. Luminor has approved separate limits for the United States Dollar (USD), sum of other currencies, max of other currencies and total currencies.

Exposure to FX risk, €m	2021	2022
US Dollars	0.1	-0.2
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[1]	**0.5**	**0.3**

1. The higher absolute value between sum of positive exposures and sum of negative exposures of all foreign currency open positions.

LIQUIDITY RISK

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 62.1 million EUR towards three countries out of which 15.9 million EUR were utilized.

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 10.69% of CET1, 12.60% of Tier 1 and 15.15% of Total Capital as at 31 December 2022 (31 December 2021: 10.1, 12.0, and 14.5% respectively). Capital consists entirely of Shareholder's equity. 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. Luminor complied with external capital requirements during the current and preceding reporting periods.

3. NET INTEREST AND SIMILAR INCOME

€m	2021	2022
Loans and advances to customers at amortised cost	215.9	264.5
Deposits with other banks	0.4	0.9
Negative interest on financial liabilities	7.2	5.2
Interest income calculated using effective interest method	**223.5**	**270.6**
Finance leases	42.0	47.4
Other interest	0.9	10.0
Other similar income	**42.9**	**57.4**
Interest and similar income	**266.4**	**328.0**
Loans and deposits from credit institutions[1]	-15.1	-7.4
Deposits from customers	-1.3	-4.7
Debt securities issued	-7.5	-15.5
Gain (-loss) on hedging activities	-1.2	1.1
Other[2]	-2.1	-0.7
Interest and similar expense	**-27.2**	**-27.2**
Net interest and similar income	**239.2**	**300.8**
1. Of which interest paid on cash balances at central banks	-14.7	-0.9

2. In 2021, Other included 1.2 million EUR interest paid on former parent funding loan commitment

4. NET FEE AND COMMISSION INCOME

€m	2021			2022		
	Income	Expense	Net	Income	Expense	Net
Cards	34.2	-17.2	**17.0**	38.6	-21.5	**17.1**
Credit products	4.9	-0.6	**4.3**	7.3	-2.5	**4.8**
Daily banking plans	16.0	0.0	**16.0**	17.6	0.0	**17.6**
Deposit products and cash management	16.8	-2.9	**13.9**	16.5	-2.9	**13.6**
Insurance	3.9	0.0	**3.9**	3.5	-0.1	**3.4**
Investments	5.1	-1.4	**3.7**	5.0	-1.3	**3.7**
Pensions	11.5	-1.3	**10.2**	8.9	-0.8	**8.1**
Trade finance	8.9	0.0	**8.9**	9.8	0.0	**9.8**
Other	0.8	-0.2	**0.6**	3.1	-0.9	**2.2**
Total	**102.1**	**-23.6**	**78.5**	**110.3**	**-30.0**	**80.3**

Fee and commission income by recognition type	2021			2022		
€m	Over time	Point in time	Total	Over time	Point in time	Total
Cards	9.3	24.9	**34.2**	10.9	27.7	**38.6**
Credit products	1.6	3.3	**4.9**	1.2	6.1	**7.3**
Daily banking plans	16.0	0.0	**16.0**	17.6	0.0	**17.6**
Deposit products and cash management	3.0	13.8	**16.8**	4.1	12.4	**16.5**
Insurance	0.0	3.9	**3.9**	0.0	3.5	**3.5**
Investments	2.1	3.0	**5.1**	2.1	2.9	**5.0**
Pensions	11.5	0.0	**11.5**	8.9	0.0	**8.9**
Trade finance	8.1	0.8	**8.9**	9.0	0.8	**9.8**
Other	0.0	0.8	**0.8**	0.1	3.0	**3.1**
Total	**51.6**	**50.5**	**102.1**	**53.9**	**56.4**	**110.3**

5. NET GAIN (-LOSS) FROM FINANCIAL INSTRUMENTS AT FAIR VALUE

€m	2021	2022
Net gain from derivatives	23.4	30.5
Net gain on financial assets and liabilities held for trading	7.0	7.7
Net gain (-loss) on financial assets and liabilities at fair value through profit or loss	0.3	-0.1
Net loss on debt securities designated at fair value through profit or loss[1]	-1.9	-20.4
Total	**28.8**	**17.7**

1. Negative impact due to increases in interest rates which lowered the prices of debt securities held.

6. OTHER OPERATING EXPENSE- NET

€m	2021	2022
Other income	1.6	0.6
Other operating income	**1.6**	**0.6**
Cash contributions to resolution funds and deposit guarantee schemes	-10.6	-15.9
Other expenses	-0.7	0.0
Other operating expense	**-11.3**	**-15.9**
Total	**-9.7**	**-15.3**

7. SALARIES AND OTHER PERSONNEL EXPENSES

€m	2021	2022
Wages and salaries	-81.7	-87.8
Social security contributions	-14.1	-14.9
Indirect personnel expenses (recruitment, training)	-4.9	-7.6
Contribution to pension funds	-0.3	-0.3
Total	**-101.0**	**-110.6**

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 ADMINISTRATIVE EXPENSES

€m	2021	2022
Information Technology related	-96.8	-71.3
Consulting and professional services	-24.8	-12.7
Advertising and marketing	-6.5	-7.6
Real estate	-3.7	-3.7
Taxes and duties	-3.8	-2.6
Other (includes collection, information, postal, transportation and other services	-14.1	-14.8
Total	**-149.7**	**-112.7**

9. CASH AND BALANCES WITH CENTRAL BANKS

€m	31 Dec 2021	31 Dec 2022
Cash on hand	136.1	127.4
Balances with central banks	2,358.1	2,050.7
Total	**2,494.2**	**2,178.1**
of which mandatory reserve requirement	108.8	112.6

10. DEBT SECURITIES

€m	Governments	Credit institutions	Financial institutions	Corporates	Total
31 December 2021					
Amortised cost[1]	242.7	37.4	0.0	45.4	**325.5**
FVTPL (designated)[2]	242.1	23.7	0.0	0.0	**265.8**
FVTPL (mandatorily)	1.4	5.2	7.9	1.0	**15.5**
FVTOCI	1.4	0.0	0.0	0.0	**1.4**
Total	**487.6**	**66.3**	**7.9**	**46.4**	**608.2**
31 December 2022					
Amortised cost[1]	881.9	60.7	0.0	108.0	**1,050.6**
FVTPL (designated)[2]	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**

1. In 2022 Luminor increased its investments in debt securities recognised at amortised cost (purchase of 725.1 million EUR). 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 2022 amounted to 1.0 million EUR (2021: 0.3 million EUR).
2. Part of debt securities portfolio was designated to FVTPL because of accounting mismatch. Luminor buys derivatives (interest rate swaps) to economically hedge the interest rate risk of debt securities affecting the fair value. Derivatives are accounted for in trading portfolio with the fair value changes through profit or loss, so to avoid or significantly reduce accounting mismatch, debt securities are designated at FVTPL. For those debt securities maximum credit risk equals carrying amount. Part of the change in fair value that is attributable to credit risk component is immaterial. Credit risk level of those securities is low (all rated AAA to A by Fitch, Standard & Poor's).

11. LOANS TO CUSTOMERS

€m	31 Dec 2021	31 Dec 2022
Individuals	5,640.0	5,951.9
Businesses	3,922.9	4,498.0
Financial institutions	199.5	222.2
Public sector	184.3	202.6
Total	**9,946.7**	**10,874.7**
of which loans pledged as security for covered bonds (see also Note 17, 'Debt securities issued', below)	549.1	1,925.0
By country of customer registration		
Estonia, Latvia, and Lithuania	9,671.9	10,685.3
Rest of the European Union	178.5	158.9
Other	96.3	30.5
Total	**9,946.7**	**10,874.7**

Loans to customers by Stage and class

€m	Gross carrying amount				Credit loss allowance				Total
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
31 December 2021									
Mortgages	4,415.4	364.8	53.4	**4,833.6**	-8.2	-8.2	-14.0	**-30.4**	**4,803.2**
Leasing	421.4	30.8	2.7	**454.9**	-0.7	-0.7	-0.6	**-2.0**	**452.9**
Consumer loans, cards	102.3	5.3	0.7	**108.3**	-0.5	-0.5	-0.2	**-1.2**	**107.1**
Other	214.3	55.2	13.8	**283.3**	-1.0	-1.4	-4.1	**-6.5**	**276.8**
Individuals	**5,153.4**	**456.1**	**70.6**	**5,680.1**	**-10.4**	**-10.8**	**-18.9**	**-40.1**	**5,640.0**
Loans	1,981.7	759.5	95.9	**2,837.1**	-3.1	-12.8	-31.6	**-47.5**	**2,789.6**
Leasing	704.4	168.4	16.9	**889.7**	-1.8	-5.1	-4.8	**-11.7**	**878.0**
Factoring	237.1	18.1	1.8	**257.0**	-0.7	-0.1	-0.9	**-1.7**	**255.3**
Businesses	**2,923.2**	**946.0**	**114.6**	**3,983.8**	**-5.6**	**-18.0**	**-37.3**	**-60.9**	**3,922.9**
Financial institutions	191.0	8.9	0.3	**200.2**	-0.2	-0.2	-0.3	**-0.7**	**199.5**
Public sector	184.4	0.0	0.1	**184.5**	-0.1	0.0	-0.1	**-0.2**	**184.3**
Total	**8,452.0**	**1,411.0**	**185.6**	**10,048.6**	**-16.3**	**-29.0**	**-56.6**	**-101.9**	**9,946.7**
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**

Loans to businesses by sector

€m	Gross carrying amount				Credit loss allowances				Total
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
31 December 2021									
Real estate activities	805.3	338.3	35.4	**1,179.0**	-1.2	-7.6	-2.4	**-11.2**	**1,167.8**
Wholesale and retail	589.5	170.3	6.4	**766.2**	-1.2	-2.1	-2.1	**-5.4**	**760.8**
Manufacturing	380.1	120.0	8.8	**508.9**	-0.7	-1.8	-3.0	**-5.5**	**503.4**
Transport and storage	248.5	48.4	8.8	**305.7**	-0.6	-1.0	-4.3	**-5.9**	**299.8**
Agriculture, forestry, and fishing	243.1	51.5	5.5	**300.1**	-0.7	-0.9	-1.8	**-3.4**	**296.7**
Construction	173.6	33.3	15.5	**222.4**	-0.5	-0.4	-7.2	**-8.1**	**214.3**
Administrative & support services	111.5	73.8	10.2	**195.5**	-0.2	-2.7	-5.1	**-8.0**	**187.5**
Professional, scientific, technical	107.0	18.0	0.4	**125.4**	-0.1	-0.2	-0.2	**-0.5**	**124.9**
Electricity, gas, steam, & aircon	69.5	8.1	2.8	**80.4**	-0.1	-0.2	-1.7	**-2.0**	**78.4**
Other	195.1	84.4	20.7	**300.2**	-0.3	-1.1	-9.5	**-10.9**	**289.3**
Total	**2,923.2**	**946.1**	**114.5**	**3,983.8**	**-5.6**	**-18.0**	**-37.3**	**-60.9**	**3,922.9**
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 and storage	212.4	108.9	0.8	**322.1**	-1.0	-1.3	-0.3	**-2.6**	**319.5**
Agriculture, forestry, and 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**

Investments in finance leases, €m	Up to 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	Total
31 December 2021							
Gross investments	473.9	390.3	252.6	169.3	135.1	9.2	**1,430.4**
Unearned future finance income	-28.1	-20.5	-12.2	-6.7	-2.9	-0.3	**-70.7**
Net investments	**445.8**	**369.8**	**240.4**	**162.6**	**132.2**	**8.9**	**1,359.7**
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**
Net investments	**455.8**	**377.5**	**281.7**	**227.3**	**147.4**	**14.8**	**1,504.5**

Loans to customers by risk category, €m	31 Dec 2021				31 Dec 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Individuals								
Mortgages								
Low risk	4,125.0	190.9	0.0	**4,315.9**	4,558.3	59.9	0.0	**4,618.2**
Moderate risk	233.0	40.7	0.0	**273.7**	238.1	39.9	0.0	**278.0**
High risk	57.4	133.2	0.0	**190.6**	46.2	132.9	0.0	**179.1**
Default	0.0	0.0	53.4	**53.4**	0.0	0.0	33.2	**33.2**
Gross carrying amount	**4,415.4**	**364.8**	**53.4**	**4,833.6**	**4,842.6**	**232.7**	**33.2**	**5,108.5**
Leasing								
Low risk	261.0	2.8	0.0	**263.8**	265.4	0.3	0.0	**265.7**
Moderate risk	116.4	11.5	0.0	**127.9**	145.4	21.9	0.0	**167.3**
High risk	44.0	16.5	0.0	**60.5**	34.3	11.0	0.0	**45.3**
Default	0.0	0.0	2.7	**2.7**	0.0	0.0	1.5	**1.5**
Gross carrying amount	**421.4**	**30.8**	**2.7**	**454.9**	**445.1**	**33.2**	**1.5**	**479.8**
Consumer loans, cards								
Low risk	52.8	0.5	0.0	**53.3**	69.3	1.6	0.0	**70.9**
Moderate risk	44.2	1.0	0.0	**45.2**	37.6	4.1	0.0	**41.7**
High risk	5.3	3.8	0.0	**9.1**	3.9	3.9	0.0	**7.8**
Default	0.0	0.0	0.7	**0.7**	0.0	0.0	0.6	**0.6**
Gross carrying amount	**102.3**	**5.3**	**0.7**	**108.3**	**110.8**	**9.6**	**0.6**	**121.0**
Other								
Low risk	115.7	7.5	0.0	**123.2**	126.9	2.9	0.0	**129.8**
Moderate risk	88.4	19.9	0.0	**108.3**	82.7	34.6	0.0	**117.3**
High risk	10.2	27.8	0.0	**38.0**	4.3	19.7	0.0	**24.0**
Default	0.0	0.0	13.8	**13.8**	0.0	0.0	11.4	**11.4**
Gross carrying amount	**214.3**	**55.2**	**13.8**	**283.3**	**213.9**	**57.2**	**11.4**	**282.5**
Businesses								
Loans								
Low risk	806.6	80.4	0.0	**887.0**	1,171.9	241.2	0.0	**1,413.1**
Moderate risk	1,164.1	564.3	0.0	**1,728.4**	1,007.8	620.1	0.2	**1,628.1**
High risk	11.0	114.8	0.0	**125.8**	4.8	162.5	0.0	**167.3**
Default	0.0	0.0	95.9	**95.9**	0.0	0.0	72.5	**72.5**
Gross carrying amount	**1,981.7**	**759.5**	**95.9**	**2,837.1**	**2,184.5**	**1,023.8**	**72.7**	**3,281.0**
Leasing								
Low risk	148.3	18.8	0.0	**167.1**	212.1	10.8	0.0	**222.9**
Moderate risk	524.8	99.5	0.0	**624.3**	590.0	143.9	0.0	**733.9**
High risk	31.3	50.1	0.0	**81.4**	14.1	33.7	0.0	**47.8**
Default	0.0	0.0	16.9	**16.9**	0.0	0.0	9.1	**9.1**
Gross carrying amount	**704.4**	**168.4**	**16.9**	**889.7**	**816.2**	**188.4**	**9.1**	**1,013.7**
Factoring								
Low risk	70.9	4.6	0.0	**75.5**	164.4	9.6	0.0	**174.0**
Moderate risk	166.0	12.0	0.0	**178.0**	59.5	21.0	0.0	**80.5**
High risk	0.2	1.5	0.0	**1.7**	0.4	4.4	0.0	**4.8**
Default	0.0	0.0	1.8	**1.8**	0.0	0.0	4.7	**4.7**
Gross carrying amount	**237.1**	**18.1**	**1.8**	**257.0**	**224.3**	**35.0**	**4.7**	**264.0**

Loans to customers by risk category, €m	31 Dec 2021				31 Dec 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial institutions								
Low risk	189.2	5.3	0.0	**194.5**	129.4	52.9	0.0	**182.3**
Moderate risk	1.6	3.5	0.0	**5.1**	35.5	4.9	0.0	**40.4**
High risk	0.2	0.1	0.0	**0.3**	0.0	0.0	0.0	**0.0**
Default	0.0	0.0	0.3	**0.3**	0.0	0.0	0.1	**0.1**
Gross carrying amount	**191.0**	**8.9**	**0.3**	**200.2**	**164.9**	**57.8**	**0.1**	**222.8**
Public sector								
Low risk	180.1	0.0	0.0	**180.1**	202.6	0.0	0.0	**202.6**
Moderate risk	4.3	0.0	0.0	**4.3**	0.1	0.0	0.0	**0.1**
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	**184.4**	**0.0**	**0.1**	**184.5**	**202.7**	**0.0**	**0.1**	**202.8**
Total								
Low risk	5,949.6	310.8	0.0	**6,260.4**	6,900.3	379.2	0.0	**7,279.5**
Moderate risk	2,342.8	752.4	0.0	**3,095.2**	2,196.7	890.4	0.2	**3,087.3**
High risk	159.6	347.8	0.0	**507.4**	108.0	368.1	0.0	**476.1**
Default	0.0	0.0	185.6	**185.6**	0.0	0.0	133.2	**133.2**
Gross carrying amount	**8,452.0**	**1,411.0**	**185.6**	**10,048.6**	**9,205.0**	**1,637.7**	**133.4**	**10,976.1**
of which POCI	0.0	33.6	5.1	**38.7**	0.0	13.8	3.0	**16.8**

Movement in Loans to customers and credit loss allowances

The following three tables disclose annual changes in the Gross carrying amount and credit loss allowances for Loans to customers, and the two largest sub portfolios, Mortgages advanced to individuals, and Loans to businesses. (Movements in other classes of loans are immaterial.) Luminor assesses Stages only at the reporting date and transfers between the Stages reflect this.

Movement in Loans to customers and allowances

€m	2021				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount								
Opening balance	**7,958.3**	**1,303.9**	**305.5**	**9,567.7**	**8,452.0**	**1,411.0**	**185.6**	**10,048.6**
Transfers to Stage 1	232.3	-222.2	-10.1	**0.0**	476.3	-475.0	-1.3	**0.0**
Transfers to Stage 2	-723.2	782.3	-59.1	**0.0**	-1,075.7	1,114.9	-39.2	**0.0**
Transfers to Stage 3	-20.5	-56.8	77.3	**0.0**	-83.8	-31.5	115.3	**0.0**
Originated or purchased	1,987.7	0.0	0.0	**1,987.7**	2,938.7	0.0	0.0	**2,938.7**
Derecognised and repaid	-982.6	-396.2	-105.8	**-1,484.6**	-1,502.5	-381.7	-117.1	**-2,001.3**
Movement	**493.7**	**107.1**	**-97.7**	**503.1**	**753.0**	**226.7**	**-42.3**	**937.4**
Write-offs	0.0	0.0	-22.2	**-22.2**	0.0	0.0	-9.9	**-9.9**
Closing balance	**8,452.0**	**1,411.0**	**185.6**	**10,048.6**	**9,205.0**	**1,637.7**	**133.4**	**10,976.1**
of which POCI	0.0	33.6	5.1	**38.7**	0.0	13.8	3.0	**16.8**
Credit loss allowances								
Opening balance	**-21.3**	**-23.3**	**-92.3**	**-136.9**	**-16.3**	**-29.0**	**-56.6**	**-101.9**
Transfers to Stage 1	-7.7	6.5	1.2	**0.0**	-10.8	10.5	0.3	**0.0**
Transfers to Stage 2	3.2	-12.2	9.0	**0.0**	4.7	-9.4	4.7	**0.0**
Transfers to Stage 3	0.7	1.3	-2.0	**0.0**	5.7	1.7	-7.4	**0.0**
Originated or purchased	-8.5	0.0	0.0	**-8.5**	-16.4	0.0	0.0	**-16.4**
Derecognised and repaid	2.7	4.0	9.7	**16.4**	1.1	3.8	3.1	**8.0**
Change in ECL assumptions, Stages & other	2.1	-1.9	-4.4	**-4.2**	4.9	-20.5	2.7	**-12.9**
Management overlay	12.5	-3.4	0.0	**9.1**	0.0	11.9	0.0	**11.9**
Movement	**5.0**	**-5.7**	**13.5**	**12.8**	**-10.8**	**-2.0**	**3.4**	**-9.4**
Write-offs	0.0	0.0	22.2	**22.2**	0.0	0.0	9.9	**9.9**
Closing balance	**-16.3**	**-29.0**	**-56.6**	**-101.9**	**-27.1**	**-31.0**	**-43.3**	**-101.4**
of which POCI	0.0	-0.4	-1.1	**-1.5**	0.0	-0.1	-0.4	**-0.5**

Credit loss allowances, €m	**2021**	**2022**
Credit loss allowances	12.8	-9.4
Credit loss allowances on Contingent liabilities (see Note 22, ‘Contingent liabilities’, below)	1.7	-6.7
Total	**14.5**	**-16.1**

Movement in Mortgages and allowances

€m	2021				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount								
Opening balance	**4,313.7**	**175.3**	**125.2**	**4,614.2**	**4,415.4**	**364.8**	**53.4**	**4,833.6**
Transfers to Stage 1	69.7	-62.4	-7.3	**0.0**	183.1	-182.6	-0.5	**0.0**
Transfers to Stage 2	-243.4	285.7	-42.3	**0.0**	-88.2	101.5	-13.3	**0.0**
Transfers to Stage 3	-5.4	-5.0	10.4	**0.0**	-2.7	-9.1	11.8	**0.0**
Originated or purchased	663.4	0.0	0.0	**663.4**	817.5	0.0	0.0	**817.5**
Derecognised and repaid	-382.6	-28.8	-29.5	**-440.9**	-482.5	-41.9	-15.3	**-539.7**
Movement	**101.7**	**189.5**	**-68.7**	**222.5**	**427.2**	**-132.1**	**-17.3**	**277.8**
Write-offs	0.0	0.0	-3.1	**-3.1**	0.0	0.0	-2.9	**-2.9**
Closing balance	**4,415.4**	**364.8**	**53.4**	**4,833.6**	**4,842.6**	**232.7**	**33.2**	**5,108.5**
of which POCI	0.0	4.8	1.4	**6.2**	0.0	4.2	0.8	**5.0**
Credit loss allowances								
Opening balance	**-5.4**	**-10.9**	**-27.9**	**-44.2**	**-8.2**	**-8.2**	**-14.0**	**-30.4**
Transfers to Stage 1	-4.6	3.9	0.7	**0.0**	-2.8	2.8	0.0	**0.0**
Transfers to Stage 2	0.5	-7.4	6.9	**0.0**	0.6	-3.3	2.7	**0.0**
Transfers to Stage 3	0.1	0.4	-0.5	**0.0**	0.4	0.6	-1.0	**0.0**
Originated or purchased	-0.9	0.0	0.0	**-0.9**	-0.9	0.0	0.0	**-0.9**
Derecognised and repaid	0.4	0.9	3.5	**4.8**	0.3	0.5	1.2	**2.0**
Change in ECL assumptions, Stages & other	-1.5	2.8	0.2	**1.5**	0.2	-3.0	0.2	**-2.6**
Management overlay	3.2	2.1	0.0	**5.3**	0.0	0.0	0.0	**0.0**
Movement	**-2.8**	**2.7**	**10.8**	**10.7**	**-2.2**	**-2.4**	**3.1**	**-1.5**
Write-offs	0.0	0.0	3.1	**3.1**	0.0	0.0	2.9	**2.9**
Closing balance	**-8.2**	**-8.2**	**-14.0**	**-30.4**	**-10.4**	**-10.6**	**-8.0**	**-29.0**
of which POCI	0.0	0.0	-0.2	**-0.2**	0.0	0.0	-0.1	**-0.1**

Movement in loans to Businesses and allowances

€m	2021				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount								
Opening balance	**1,868.5**	**825.6**	**129.0**	**2,823.1**	**1,981.7**	**759.5**	**95.9**	**2,837.1**
Transfers to Stage 1	75.1	-75.0	-0.1	**0.0**	219.9	-219.9	0.0	**0.0**
Transfers to Stage 2	-257.4	263.3	-5.9	**0.0**	-668.8	687.3	-18.5	**0.0**
Transfers to Stage 3	-3.6	-33.2	36.8	**0.0**	-15.7	-18.5	34.2	**0.0**
Originated or purchased	430.2	0.0	0.0	**430.2**	1,014.2	0.0	0.0	**1,014.2**
Derecognised and repaid	-131.1	-221.2	-45.9	**-398.2**	-346.8	-184.6	-33.4	**-564.8**
Movement	**113.2**	**-66.1**	**-15.1**	**32.0**	**202.8**	**264.3**	**-17.7**	**449.4**
Write-offs	0.0	0.0	-18.0	**-18.0**	0.0	0.0	-5.5	**-5.5**
Closing balance	**1,981.7**	**759.5**	**95.9**	**2,837.1**	**2,184.5**	**1,023.8**	**72.7**	**3,281.0**
of which POCI	0.0	27.2	2.2	**29.4**	0.0	8.2	1.7	**9.9**
Credit loss allowances								
Opening balance	**-6.4**	**-6.0**	**-49.3**	**-61.7**	**-3.1**	**-12.8**	**-31.6**	**-47.5**
Transfers to Stage 1	-0.7	0.7	0.0	**0.0**	-5.3	5.3	0.0	**0.0**
Transfers to Stage 2	1.0	-1.3	0.3	**0.0**	1.9	-2.5	0.6	**0.0**
Transfers to Stage 3	0.1	0.3	-0.4	**0.0**	4.0	1.1	-5.1	**0.0**
Originated or purchased	-2.5	0.0	0.0	**-2.5**	-8.5	0.0	0.0	**-8.5**
Derecognised and repaid	1.0	1.8	3.9	**6.7**	0.3	1.3	0.4	**2.0**
Change in ECL assumptions, Stages & other	1.4	-3.2	-4.1	**-5.9**	2.4	-14.5	5.8	**-6.3**
Management overlay	3.0	-5.1	0.0	**-2.1**	0.0	8.4	0.0	**8.4**
Movement	**3.3**	**-6.8**	**-0.3**	**-3.8**	**-5.2**	**-0.9**	**1.7**	**-4.4**
Write-offs	0.0	0.0	18.0	**18.0**	0.0	0.0	5.5	**5.5**
Closing balance	**-3.1**	**-12.8**	**-31.6**	**-47.5**	**-8.3**	**-13.7**	**-24.4**	**-46.4**
Of which POCI	0.0	-0.4	-0.3	**-0.7**	0.0	-0.1	-0.1	**-0.2**

Loans to customers by collateral

€m	Unsecured	Secured loans, by collateral type				Total
		Residential Real estate	Other Real estate	Other security	Total secured	
31 December 2021						
Mortgages	34.6	4,757.5	41.0	0.5	**4,799.0**	**4,833.6**
Leasing	37.7	0.0	0.0	417.2	**417.2**	**454.9**
Consumer loans, cards	98.0	0.5	0.1	9.7	**10.3**	**108.3**
Other	22.8	139.6	90.7	30.2	**260.5**	**283.3**
Individuals	**193.1**	**4,897.6**	**131.8**	**457.6**	**5,487.0**	**5,680.1**
Loans	390.6	86.8	2,062.2	297.5	**2,446.5**	**2,837.1**
Leasing	129.0	0.0	0.5	760.2	**760.7**	**889.7**
Factoring	257.0	0.0	0.0	0.0	**0.0**	**257.0**
Businesses	**776.6**	**86.8**	**2,062.7**	**1,057.7**	**3,207.2**	**3,983.8**
Financial institutions	13.7	0.0	183.4	3.1	**186.5**	**200.2**
Public sector	172.7	0.0	4.4	7.4	**11.8**	**184.5**
Total	**1,156.1**	**4,984.4**	**2,382.3**	**1,525.8**	**8,892.5**	**10,048.6**
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**

Stage 3 Loans to customers by level of collateral value

€m	31 Dec 2021			31 Dec 2022		
	Individuals	Businesses	Total	Individuals	Businesses	Total
Under collateralised loans	17.9	42.5	**60.4**	7.6	25.3	**32.9**
Over collateralised loans	52.7	72.5	**125.2**	39.1	61.4	**100.5**
Gross carrying amount	**70.6**	**115.0**	**185.6**	**46.7**	**86.7**	**133.4**
Credit loss allowance	-18.9	-37.7	**-56.6**	-11.7	-31.6	**-43.3**
Net carrying amount	**51.7**	**77.3**	**129.0**	**35.0**	**55.1**	**90.1**
Collateral fair value						
Under collateralised loans	10.8	19.7	**30.5**	4.6	12.6	17.2
Over collateralised loans	52.8	71.5	**124.3**	39.0	61.1	100.1
Total	**63.6**	**91.2**	**154.8**	**43.6**	**73.7**	**117.3**

12. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

Investments in Associates, €m	2021	2022
Opening balance	5.3	6.4
Share of profit for the year	1.8	1.6
Dividends	–0.7	–2.3
Closing balance	**6.4**	**5.7**

Associates, €m	31 Dec 2021				31 Dec 2022			
	Equity	Profit for the year[1]	Share of capital (%)	Book value	Equity	Profit for the year[1]	Share of capital (%)	Book value
ALD Automotive Eesti AS, Estonia	7.9	0.5	25.0	1.7	7.0	0.3	25.0	1.6
SIA ALD Automotive, Latvia	10.8	0.6	25.0	2.3	9.0	0.6	25.0	1.7
SIA Kredītinformācijas Birojs, Latvia	0.6	0.0	19.8	0.1	0.6	0.0	19.8	0.1
UAB ALD Automotive, Lithuania	8.7	0.7	25.0	2.3	12.2	0.7	25.0	2.3
Total		**1.8**		**6.4**		**1.6**		**5.7**

1. Luminor share of the associates' profit

Subsidiaries	Activity	Domicile	31 Dec 2021	31 Dec 2022
Luminor Liising AS	Leasing, factoring	Estonia	100%	100%
Luminor Līzings SIA	Leasing, factoring	Latvia	100%	100%
Luminor Līzings Latvija SIA	Leasing, factoring	Latvia	100%	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 Investiciju Valdymas UAB	Pension fund management	Lithuania	100%	100%
Maksekeskus AS[1]	E-commerce payments	Estonia	0%	99%
Luminor Asset Management IPAS	Asset management	Latvia	100%	100%

1. See also Note 29, 'Business combination', below

Subsidiaries under liquidation at 31 December 2022				
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%

Subsidiaries liquidated in 2022				
Salvus 3 SIA	Buying and selling of own real estate	Latvia	100%	0%
Salvus 4 SIA	Buying and selling of own real estate	Latvia	100%	0%
Industrius UAB	Buying and selling of own real estate	Lithuania	100%	0%
PROMANO LIT UAB	Buying and selling of own real estate	Lithuania	100%	0%

13. INTANGIBLE ASSETS

€m	2021			2022		
	Goodwill	Other	Total	Goodwill[1]	Other	Total
Accumulated cost						
Opening balance	0.4	32.8	**33.2**	0.4	39.0	**39.4**
Acquisition of subsidiary[1]	0.0	0.0	**0.0**	48.4	1.3	**49.7**
Other additions[2]	0.0	6.7	**6.7**	0.0	5.8	**5.8**
Disposals	0.0	-0.5	**-0.5**	0.0	-0.1	**-0.1**
Closing balance	**0.4**	**39.0**	**39.4**	**48.8**	**46.0**	**94.8**
Accumulated amortisation and impairment						
Opening balance	0.0	-26.5	**-26.5**	0.0	-29.4	**-29.4**
Amortisation	0.0	-3.1	**-3.1**	0.0	-2.4	**-2.4**
Disposals	0.0	0.5	**0.5**	0.0	0.1	**0.1**
Impairment for the year	0.0	-0.3	**-0.3**	0.0	-0.3	**-0.3**
Closing balance	**0.0**	**-29.4**	**-29.4**	**0.0**	**-32.0**	**-32.0**
Carrying amount	**0.4**	**9.6**	**10.0**	**48.8**	**14.0**	**62.8**

1. See also Note 29, 'Business combination', below

2. In 2022 4.8 million EUR of development costs were capitalized (2021: 0.6 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
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%
EBITDA growth rate 6-10 years	Declining annual EBITDA growth	Average 10%
Long-run growth rate	ECB forecast Q4 2022	2.2%
Pre-tax discount rate	Conservative and prudent estimate considering WACC	11.1%

The impairment test concluded in 2022 did not indicate any need for goodwill impairment. Sensitivity analysis performed on key variables demonstrated resilience of enterprise value in response to modelled changes. Reasonable changes in the key assumptions would not result in goodwill impairment.

14. TANGIBLE ASSETS

€m	2021				2022			
	Property	Equip-ment	Right-of-use assets	Total	Property	Equip-ment	Right-of-use assets	Total
Accumulated cost								
Opening balance	1.2	28.3	58.8	**88.3**	0.9	16.4	56.8	**74.1**
Additions	0.0	1.1	0.2	**1.3**	0.0	0.3	0.5	**0.8**
Disposals	-0.3	-13.0	-2.2	**-15.5**	0.0	-0.8	-10.7	**-11.5**
Closing balance	**0.9**	**16.4**	**56.8**	**74.1**	**0.9**	**15.9**	**46.6**	**63.4**
Accumulated depreciation								
Opening balance	-0.4	-19.1	-12.2	**-31.7**	-0.2	-10.6	-16.3	**-27.1**
Depreciation	0.0	-3.5	-5.5	**-9.0**	0.0	-2.6	-5.0	**-7.6**
Disposals	0.2	12.0	1.4	**13.6**	0.0	0.6	0.9	**1.5**
Closing balance	**-0.2**	**-10.6**	**-16.3**	**-27.1**	**-0.2**	**-12.6**	**-20.4**	**-33.2**
Carrying amount	**0.7**	**5.8**	**40.5**	**47.0**	**0.7**	**3.3**	**26.2**	**30.2**

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	2021	2022
Opening balance	49.7	43.4
New leases	0.1	0.2
Lease modifications	-0.4	-8.1
Termination of agreements	-0.8	-0.1
Interest	1.0	0.6
Payments	-6.2	-6.0
Closing balance	**43.4**	**30.0**

The maturity profile of lease liabilities is disclosed in Note 24, 'Maturity of financial assets and liabilities', below

15. OTHER ASSETS

€m	31 Dec 2021	31 Dec 2022
Payments in transit[1]	15.3	25.5
Financial assets	**15.3**	**25.5**
Advance payments	15.5	10.5
Accrued income	6.3	5.4
Value Added Tax recoverable and other taxes	2.1	4.3
Account receivables	6.2	4.2
Repossessed assets	1.8	1.5
Other	2.6	4.0
Non-financial assets	**34.5**	**29.9**
Total	**49.8**	**55.4**

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

16. DEPOSITS FROM CUSTOMERS

€m		31 Dec 2021	31 Dec 2022
Individuals		4,788.6	4,791.6
Businesses		4,044.8	3,937.3
Financial institutions		246.9	271.7
Public sector		1,225.1	1,947.3
Total		**10,305.4**	**10,947.9**
of which	Demand deposits	9,416.9	9,614.0
	Term deposits	888.5	1,333.9
By country of registration			
Estonia, Latvia, and Lithuania		10,075.9	10,736.6
Rest of the European Union		80.6	165.4
Other		148.9	45.9
Total		**10,305.4**	**10,947.9**

17. DEBT SECURITIES ISSUED

€m	First call date	Maturity date	Notes	31 Dec 2021	31 Dec 2022
€500m, 0.01%		Mar 2025	Hedge accounted	494.6	459.3
€500m, 1.688%		Jun 2027	Hedge accounted. Issued May 2022	0.0	467.3
Covered bonds				**494.6**	**926.6**
€300m, 1.375%		Oct 2022	€228.5m repurchased Sep 2021	71.8	0.0
€300m, 5%	Aug 2023	Aug 2024	Hedge accounted. Issued Aug 2022	0.0	300.4
€300m 0.792%	Dec 2023	Dec 2024	Hedge accounted	298.3	290.0
€300m, 0.539%	Sep 2025	Sep 2026	Hedge accounted	298.9	296.9
Senior bonds				**669.0**	**887.3**
Total				**1,163.6**	**1,813.9**

Movement in the carrying amount of Debt securities issued, €m	2021	2022
Opening balance	1,201.2	1,163.6
Cash flow debt securities issued	299.3	796.9
Debt securities matured	–99.2	–71.8
Debt securities repurchased	–228.5	0.0
Interest accrued	7.5	15.5
Interest paid	–7.9	–8.1
Amortization of transaction costs, discounts	0.0	–1.3
Hedge effect [1]	–8.8	–80.9
Closing balance	**1,163.6**	**1,813.9**

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

18. OTHER LIABILITIES

€m	31 Dec 2021	31 Dec 2022
Payments in transit	27.8	43.2
Other	1.2	4.3
Financial liabilities	**29.0**	**47.5**
Accrued liabilities	46.9	53.9
Received prepayments	3.6	3.2
Value Added Tax	1.7	2.9
Other tax liabilities	1.4	2.0
Other	9.3	9.3
Non-financial liabilities	**62.9**	**71.3**
Total	**91.9**	**118.8**

19. PROVISIONS

Provisions	2021			2022		
€m	Contingent liabilities[1]	Legal & Other	Total	Contingent liabilities[1]	Legal & Other	Total
Opening balance	**6.7**	**2.6**	**9.3**	**5.1**	**4.0**	**9.1**
Arising during the year	13.6	3.2	**16.8**	9.9	8.5	**18.4**
Other movements	-15.2	-1.8	**-17.0**	-3.2	-2.3	**-5.5**
Movement	**-1.6**	**1.4**	**-0.2**	**6.7**	**6.2**	**12.9**
Closing balance	**5.1**	**4.0**	**9.1**	**11.8**	**10.2**	**22.0**

1. See also Note 22, ‘Contingent liabilities’, below

Legal provisions at 31 December 2022 were 0.2 million EUR (31 December 2021: 0.4 million EUR). Luminor believes that any legal proceedings pending and for which provisions have not been created as at 31 December 2022 will not result in material losses.

20. DERIVATIVES

Fair value, €m	31 Dec 2021			31 Dec 2022		
	Notional amounts	Assets	Liabilities	Notional amounts	Assets	Liabilities
Interest rate-related	2,023.7	7.6	10.0	2,820.3	48.8	114.1
Currency-related	1,351.3	22.8	15.5	1,202.2	11.9	20.3
Commodity-related	170.1	45.1	44.8	230.6	60.9	59.7
Total	**3,545.1**	**75.5**	**70.3**	**4,253.1**	**121.6**	**194.1**

Fair value hedges

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. To assess hedge effectiveness, Luminor uses the hypothetical derivative method and compares 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. There was no material ineffectiveness identified in 2022 and 2021.

Hedged item[1]/ receiving coupon	Effective date	Maturity date	Paying coupon	Notional amount	
				31 Dec 2021	31 Dec 2022
0.01% covered bond	Mar 2020	Mar 2025	6m Euribor +0.289%	500.0	500.0
1.688% covered bond	May 2022	Jun 2027	3m Euribor +0.3395%	0.0	500.0
5% senior bond	Aug 2022	Aug 2023	3m Euribor +3.725%	0.0	300.0
0.792% senior bond	Dec 2020	Dec 2023	6m Euribor +1.2888%	300.0	300.0
0.539% senior bond	Oct 2022	Sep 2025	3m Euribor -2.323%	0.0	300.0
Total				**800.0**	**1,900.0**
Carrying amount, net				-3.5	-84.4

1. See also Note 17, 'Debt securities issued', above

21. INCOME TAX

€m	31 Dec 2021	31 Dec 2022
Income tax for the year		
Current tax for the year	-6.8	-20.3
Adjustment of current tax for previous years	-0.2	-1.2
Deferred tax movement	-0.7	3.8
Total	**-7.7**	**-17.7**
Profit before tax	82.4	142.4
Tax at the applicable tax rate	-9.1	-15.9
Effect of non-deductible expenses/non-taxable income	2.3	-0.6
Adjustment of current tax for previous years	-0.9	-1.2
Total income tax for the year	**-7.7**	**-17.7**
Effective tax rate	9%	12%
Deferred tax assets		
Opening balance	9.4	8.7
Other deferred tax temporary changes	-2.0	3.6
Tax loss carry forwards	1.3	0.2
Closing balance	**8.7**	**12.5**

Given retained earnings and regulatory requirements, Luminor had the capacity at 31 December 2022, to pay dividends of 132.7 million EUR (31 December 2021: 97.0 million EUR). The corresponding income tax payable on these distributions would be 22.1 million EUR (31 December 2021: 16.0 million EUR).

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.

22. CONTINGENT LIABILITIES

€m	31 Dec 2021	31 Dec 2022
Undrawn loan commitments	1,230.1	1,528.4
Financial guarantees	498.9	496.3
Performance guarantees	190.5	255.9
Total	**1,919.5**	**2,280.6**

By stage and risk category, €m	31 Dec 2021				31 Dec 2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Low risk	721.5	37.6	0.0	**759.1**	908.6	256.9	0.1	**1,165.6**
Moderate risk	891.1	219.0	0.0	**1,110.1**	681.7	311.6	1.0	**994.3**
High risk	14.7	22.3	0.0	**37.0**	23.7	73.6	0.0	**97.3**
Default	0.0	0.0	13.3	**13.3**	1.1	0.0	22.3	**23.4**
Total	**1,627.3**	**278.9**	**13.3**	**1,919.5**	**1,615.1**	**642.1**	**23.4**	**2,280.6**
Provisions[1]	−2.0	−2.3	−0.8	−5.1	−4.1	−2.0	−5.7	**−11.8**
Net total	**1,625.3**	**276.6**	**12.5**	**1,914.4**	**1,611.0**	**640.1**	**17.7**	**2,268.8**

Movement in provisions, €m	2021				2022			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance	**−3.6**	**−2.5**	**−0.6**	**−6.7**	**−2.0**	**−2.3**	**−0.8**	**−5.1**
Arising during the year	−13.6	0.0	0.0	**−13.6**	−9.9	0.0	0.0	**−9.9**
Derecognition and other movements[2]	15.2	0.2	−0.2	**15.2**	7.8	0.3	−4.9	**3.2**
Movement	**1.6**	**0.2**	**−0.2**	**1.6**	**−2.1**	**0.3**	**−4.9**	**−6.7**
Closing balance	**−2.0**	**−2.3**	**−0.8**	**−5.1**	**−4.1**	**−2.0**	**−5.7**	**−11.8**

1. See also Note 19, 'Provisions', above

2. Mostly movements consisted of stage changes, derecognition, and from revisions to the ECL measurement model assumptions

23. MAXIMUM EXPOSURE TO CREDIT RISK

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 Due from other financial institutions 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.

Maximum exposure to credit risk, €m		Notes	31 Dec 2021	31 Dec 2022
Cash and balances with central banks	Subject to ECL assessment	9	2,494.2	2,178.1
Due from other credit institutions	Subject to ECL assessment		64.4	123.4
Debt securities	Subject to ECL assessment	10	326.9	1,053.3
Debt securities	Not subject to ECL assessment	10	281.3	236.5
Loans to customers	Subject to ECL assessment	11	9,946.7	10,874.7
Derivatives	Not subject to ECL assessment	20	75.5	121.6
On balance sheet assets			**13,189.0**	**14,587.6**
Contingent liabilities	Subject to ECL assessment	22	1,919.5	2,280.6
Total			**15,108.5**	**16,868.2**

24. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

€m	Accounting method	Fair Value				Carrying amount
		Level 1	Level 2	Level 3	Total	
31 December 2021						
Cash and balances with central banks	Amortised cost	136.1	2,358.1	0.0	**2,494.2**	**2,494.2**
Due from other credit institutions	Amortised cost	0.0	64.4	0.0	**64.4**	**64.4**
Debt securities	Amortised cost	314.4	6.9	0.0	**321.3**	**325.5**
Debt securities	FVTPL (designated)	265.8	0.0	0.0	**265.8**	**265.8**
Debt securities	FVTPL (mandatorily)	2.3	6.3	6.9	**15.5**	**15.5**
Debt securities	FVTOCI	0.0	1.4	0.0	**1.4**	**1.4**
Loans to customers	Amortised cost	0.0	0.0	9,740.6	**9,740.6**	**9,946.7**
Derivatives	FVTPL (mandatorily)	0.0	74.9	0.6	**75.5**	**75.5**
Equity instruments	FVTPL (mandatorily)	0.0	2.7	0.0	**2.7**	**2.7**
Equity instruments	FVTOCI	0.0	0.0	0.5	**0.5**	**0.5**
Other	Amortised cost	0.0	15.3	0.0	**15.3**	**15.3**
Total assets		**718.6**	**2,530.0**	**9,748.6**	**12,997.2**	**13,207.5**
Loans and deposits from credit institutions	Amortised cost	0.0	83.8	0.0	**83.8**	**83.8**
Deposits from customers	Amortised cost	0.0	9,416.9	888.5	**10,305.4**	**10,305.4**
Debt securities issued	Amortised cost	0.0	1,106.4	0.0	**1,106.4**	**1,163.6**
Derivatives	FVTPL (mandatorily)	0.0	70.3	0.0	**70.3**	**70.3**
Other	Amortised cost	0.0	29.0	0.0	**29.0**	**29.0**
Total liabilities		**0.0**	**10,706.4**	**888.5**	**11,594.9**	**11,652.1**
31 December 2022						
Cash and balances with central banks	Amortised cost	127.4	2,050.7	0.0	**2,178.1**	**2,178.1**
Due from other credit institutions	Amortised cost	0.0	123.4	0.0	**123.4**	**123.4**
Debt securities	Amortised cost	943.4	9.7	0.0	**953.1**	**1,050.6**
Debt securities	FVTPL (designated)	200.0	0.0	0.0	**200.0**	**200.0**
Debt securities	FVTPL (mandatorily)	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	Amortised cost	0.0	0.0	11,149.4	**11,149.4**	**10,874.7**
Derivatives	FVTPL (mandatorily)	0.0	118.5	3.1	**121.6**	**121.6**
Equity instruments	FVTPL (mandatorily)	0.0	2.0	0.0	**2.0**	**2.0**
Equity instruments	FVTOCI	0.0	0.0	0.5	**0.5**	**0.5**
Other	Amortised cost	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	Amortised cost	0.0	36.6	0.0	**36.6**	**36.6**
Deposits from customers	Amortised cost	0.0	9,614.0	1,333.9	**10,947.9**	**10,947.9**
Debt securities issued	Amortised cost	0.0	1,772.5	0.0	**1,772.5**	**1,813.9**
Derivatives	FVTPL (mandatorily)	0.0	194.1	0.0	**194.1**	**194.1**
Other	Amortised cost	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**

Change in debt securities recorded in Level 3, €m	2021	2022
Opening balance	6.2	6.9
Disposals	0.0	-4.0
Unrealised gains on assets held at the end of the reporting period	0.7	0.6
Closing balance	**6.9**	**3.5**

25. MATURITY OF FINANCIAL ASSETS AND LIABILITIES

Carrying amount, €m	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
31 December 2021						
Cash and balances with central banks	2,494.2	0.0	0.0	0.0	0.0	**2,494.2**
Due from other credit institutions	61.8	0.0	0.0	2.6	0.0	**64.4**
Debt securities	11.6	35.1	5.4	330.4	225.7	**608.2**
Loans to customers	242.1	371.4	1,634.4	4,053.9	3,644.9	**9,946.7**
Derivatives	11.8	12.7	34.4	15.5	1.1	**75.5**
Equity instruments	0.0	0.0	0.0	0.0	3.2	**3.2**
Other	15.3	0.0	0.0	0.0	0.0	**15.3**
Total financial assets	**2,836.8**	**419.2**	**1,674.2**	**4,402.4**	**3,874.9**	**13,207.5**
Total financial liabilities	9,941.5	207.1	355.0	1,166.3	25.6	11,695.5
Net financial assets (-liabilities)	**-7,104.7**	**212.1**	**1,319.2**	**3,236.1**	**3,849.3**	**1,512.0**
Contingent liabilities	1,919.5	0.0	0.0	0.0	0.0	**1,919.5**
Liquidity gap	**-9,024.2**	**212.1**	**1,319.2**	**3,236.1**	**3,849.3**	**-407.5**
31 December 2022						
Cash and balances with central banks	2,178.1	0.0	0.0	0.0	0.0	**2,178.1**
Due from other credit institutions	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**

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.

See also Note 2 'General risk management policies, above

Contracted undiscounted cash flows, Liabilities, €m	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Subtotal	Discount effect	Carrying amount
31 December 2021								
Loans and deposits from credit institutions	83.8	0.0	0.0	0.0	0.0	**83.8**	0.0	**83.8**
Deposits from customers	9,818.0	195.5	248.3	37.0	6.6	**10,305.4**	0.0	**10,305.4**
Debt securities issued	0.0	0.0	75.9	1,106.9	0.0	**1,182.8**	–19.2	**1,163.6**
Derivatives (see also table below)	10.2	10.5	30.4	14.9	1.1	**67.1**	3.2	**70.3**
Lease liabilities	0.5	1.0	4.4	21.2	19.0	**46.1**	–2.7	**43.4**
Other	37.5	0.0	0.0	0.0	0.0	**37.5**	–8.5	**29.0**
Contingent liabilities	1,919.5	0.0	0.0	0.0	0.0	**1,919.5**	0.0	**1,919.5**
Total	**11,869.5**	**207.0**	**359.0**	**1,180.0**	**26.7**	**13,642.2**	**–27.2**	**13,615.0**
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 financial liabilities	**12,400.5**	**458.8**	**1,158.6**	**1,813.0**	**17.7**	**15,848.6**	**–498.0**	**15,350.6**

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

26. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are presented below.

€m	Gross amounts	Offset	Net amount	Netting agreements	Cash collateral	Net amount of exposure
31 December 2021						
Loans to customers	549.1	0.0	549.1	-494.6	0.0	**54.5**
Derivatives	75.5	0.0	75.5	-1.4	-62.0	**12.1**
Total assets	**624.6**	**0.0**	**624.6**	**-496.0**	**-62.0**	**66.6**
Debt securities issued	494.6	0.0	494.6	-494.6	0.0	**0.0**
Derivatives	70.3	0.0	70.3	-1.4	0.0	**68.9**
Total liabilities	**564.9**	**0.0**	**564.9**	**-494.6**	**0.0**	**68.9**
31 December 2022						
Loans to customers	1,925.0	0.0	1,925.0	-767.7	0.0	**1,157.3**
Derivatives	121.6	0.0	121.6	-0.5	-10.9	**110.2**
Total assets	**2,046.6**	**0.0**	**2,046.6**	**-768.2**	**-10.9**	**1,267.5**
Debt securities issued	767.7	0.0	767.7	-767.7	0.0	0.0
Derivatives	194.1	0.0	194.1	-0.5	-35.4	**158.2**
Total liabilities	**961.8**	**0.0**	**961.8**	**-768.2**	**-35.4**	**158.2**

Amounts shown under 'Netting agreements' and 'Cash collateral', above, are subject to master netting and similar arrangements not set off in the Balance sheet. Cash collateral pledged (shown under assets) and cash collateral received (shown under liabilities) are included in 'Due from other credit institutions' and 'Loans and deposits from credit institutions', and relate to derivatives positions.

27. SEGMENT REPORTING

€m	2021				2022			
	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Net interest and similar income	110.2	125.8	3.2	**239.2**	134.2	177.8	-11.2	**300.8**
Net fee and commission income	52.8	25.3	0.4	**78.5**	53.0	26.3	1.0	**80.3**
Net other financial income	7.2	9.7	4.0	**20.9**	6.9	14.8	2.7	**24.4**
Other income	0.3	2.1	-10.3	**-7.9**	0.2	2.1	-16.0	**-13.7**
Total operating income	**170.5**	**162.9**	**-2.7**	**330.7**	**194.3**	**221.0**	**-23.5**	**391.8**
Total administration expenses	-170.3	-89.9	-2.6	**-262.8**	-146.1	-81.0	-6.2	**-233.3**
Credit loss allowance	11.4	2.5	0.6	**14.5**	1.2	-16.7	-0.6	**-16.1**
Profit (-loss) before tax	**11.6**	**75.5**	**-4.7**	**82.4**	**49.4**	**123.3**	**-30.3**	**142.4**

Fee and commission income	2021				2022			
€m	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Cards	29.1	5.1	0.0	**34.2**	32.8	6.1	-0.3	**38.6**
Credit products	0.5	4.2	0.2	**4.9**	0.4	6.9	0.0	**7.3**
Daily banking plans	15.3	0.3	0.4	**16.0**	17.1	0.4	0.1	**17.6**
Deposit products and cash management	8.5	8.1	0.2	**16.8**	8.8	7.5	0.2	**16.5**
Insurance	3.0	0.9	0.0	**3.9**	3.0	0.5	0.0	**3.5**
Investments	2.8	1.6	0.7	**5.1**	2.1	1.6	1.3	**5.0**
Pensions	11.3	0.2	0.0	**11.5**	8.7	0.2	0.0	**8.9**
Trade finance	0.1	8.8	0.0	**8.9**	0.1	9.6	0.1	**9.8**
Other	0.5	0.3	0.0	**0.8**	0.4	0.4	2.3	**3.1**
Total	**71.1**	**29.5**	**1.5**	**102.1**	**73.4**	**33.2**	**3.7**	**110.3**

Customer balances	31 Dec 2021				31 Dec 2022			
€m	Retail	Corporate	Other	Total	Retail	Corporate	Other	Total
Loans to customers	5,389.8	4,556.4	0.5	**9,946.7**	5,667.1	5,205.9	1.7	**10,874.7**
Deposits from customers	6,066.3	4,196.8	42.3	**10,305.4**	6,066.2	4,788.2	93.5	**10,947.9**

28. RELATED PARTIES

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 2021. On 1 September, 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, below, include transactions with Nordea up to the date of the share sale. Dividends paid to Luminor Holding in 2022 were 90.0 million EUR (2021: 191.0 million EUR).

Entities with significant influence

€m	2021	2022
Interest income	0.0	0.1
Interest expense	-7.9	-50.4
Net fee and commission income	-0.2	-0.2
Net gain (-loss) from financial instruments at fair value	27.0	73.5
Other administration expenses	-4.0	0.0
Other income and expenses	0.4	-0.1
Total	**15.3**	**22.9**

€m	31 Dec 2021	31 Dec 2022
Due from other credit institutions	11.5	2.2
Derivatives	54.8	28.3
Other	0.3	1.4
Total assets	**66.6**	**31.9**
Loans and deposits from credit institutions	63.1	4.0
Derivatives	21.2	30.8
Total liabilities	**84.3**	**34.8**

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

Key management personnel

Members of the Management Board and other key management personnel are entitled 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.

€m	2021	2022
Payments of fixed and variable remuneration	-2.7	-1.6

€m	31 Dec 2021	31 Dec 2022
Loans to customers	0.1	0.1
Deposits from customers	0.9	1.5

Associated companies

ALD Automotive (3 entities), €m	31 Dec 2021	31 Dec 2022
Loans to customers	5.9	13.5
Deposits from customers	0.5	0.3

29. BUSINESS COMBINATION

On 1 July 2022, we acquired control of Maksekeskus AS (MKK) when we purchased 99% of its issued share capital for a cash consideration of 53.4 million EUR. We incurred acquisition-related costs of 0.3 million EUR in legal fees and due diligence costs which are included in 'Other administrative expenses'. The goodwill, which is recognized as part of business combination, is attributable mainly to the business potential of MKK including expected synergies from consolidation into Luminor, notably accelerating the roll out of MKK in Latvia and Lithuania through Luminor's network and customer base. None of the goodwill recognised is deductible for tax purposes.

Revenue and profit contribution

The acquired business contributed fee and commission income of 2.2 million EUR and net profit of 0.2 million EUR to the bank for the period from 1 July to 31 December 2022. If the acquisition had occurred on 1 January 2022, consolidated pro-forma fee and commission income and profit for the period ended 31 December 2022 would have been 112.5 million EUR and 124.9 million EUR respectively. These amounts have been calculated using the results of Maksekeskus and adjusting them for differences in the accounting policies between Luminor and Maksekeskus.

Recognised fair values of assets acquired, and liabilities assumed, at the date of acquisition, €m	Fair value
Due from other credit institutions	5.3
Intangible assets	1.3
Other assets	0.2
Other liabilities	-1.7
Total	**5.1**

Goodwill arising from the acquisition, €m	Fair value
Consideration transferred	53.4
Non-controlling interest, based on proportionate interest in the recognized net assets (1%)	0.1
Fair value of identified net assets	-5.1
Total	**48.4**

30. COUNTRY REPORTING

Disclosure 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.

€m	2021					2022				
	Sales revenue[1]	Profit before tax[2]	Elimin-ations	Income tax	Number of employees (FTE)	Sales revenue	Profit before Tax[2]	Elimin-ations	Income tax	Number of employees (FTE)
Estonia	81.6	-1.6	-71.4	-1.3	549	92.0	5.6	-57.8	0.0	557
Latvia	116.6	36.4	28.2	0.0	802	131.3	55.6	20.0	0.4	845
Lithuania	170.3	47.6	43.2	9.0	911	215.0	81.2	37.8	17.3	950
Total	**368.5**	**82.4**	**0.0**	**7.7**	**2,262**	**438.3**	**142.4**	**0.0**	**17.7**	**2,352**

1. Sales revenue defined as sum of Interest and similar income and fee and commission income after intragroup eliminations
2. Intragroup dividend income excluded.

€m	2021		31 Dec 2021		2022		31 Dec 2022	
	Interest & similar income	Fee & commission income	Loans to customers	Deposits from customers	Interest & similar income	Fee & commission income	Loans to customers	Deposits from customers
Estonia	65.8	15.8	2,345.9	1,350.5	75.2	16.8	2,459.4	1,409.7
Latvia	85.0	31.6	2,895.0	2,912.7	98.8	32.5	2,970.6	3,051.7
Lithuania	115.6	54.7	4,705.8	6,042.2	154.0	61.0	5,444.7	6,486.5
Total	**266.4**	**102.1**	**9,946.7**	**10,305.4**	**328.0**	**110.3**	**10,874.7**	**10,947.9**

31. PRIMARY 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 AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

€m	2021	2022
Interest income calculated using the effective interest method	238.0	241.0
Other similar income	0.9	57.4
Interest and similar expense	-27.1	-27.3
Net interest and similar income	**211.8**	**271.1**
Fee and commission income	87.3	92.1
Fee and commission expense	-21.7	-25.8
Net fee and commission income	**65.6**	**66.3**
Net gain (-loss) from financial instruments at fair value	28.4	18.1
Net gain (-loss) from foreign currency operations	-7.9	6.8
Other operating expense – net	-4.4	-4.6
Dividends received	6.5	13.4
Net other operating income	**22.6**	**33.7**
Total operating income	**300.0**	**371.1**
Salaries and other personnel expenses	-96.4	-105.1
Other administrative expenses	-146.8	-110.1
Depreciation and amortization	-11.4	-9.4
Total administration expenses	**-254.6**	**-224.6**
Profit before credit loss allowances and tax	**45.4**	**146.5**
Credit loss allowances	14.6	-13.5
Profit before tax	**60.0**	**133.0**
Tax expense	-6.7	-16.0
Profit for the period	**53.3**	**117.0**
Total comprehensive income	**53.3**	**117.0**

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

€m	31 Dec 2021	31 Dec 2022
Assets		
Cash and balances with central banks	2,494.2	2,178.1
Due from other credit institutions	64.4	119.1
Debt securities	608.2	1,289.8
Loans to customers	9,827.0	10,799.5
Derivatives	75.5	121.6
Equity instruments	0.5	0.5
Investments in subsidiaries	226.8	251.1
Intangible assets	8.4	11.2
Tangible assets	45.3	29.0
Current tax assets	2.6	0.0
Deferred tax assets	8.7	12.4
Other assets	38.9	45.2
Total	**13,400.5**	**14,857.5**
Liabilities		
Loans and deposits from credit institutions	83.8	36.6
Deposits from customers	10,442.6	11,114.8
Debt securities issued	1,163.6	1,813.9
Derivatives	70.3	194.1
Tax liabilities	0.0	9.6
Lease liabilities	43.4	29.1
Other liabilities	79.8	102.7
Provisions	8.9	21.8
Total	**11,892.4**	**13,322.6**
Shareholder’s equity		
Share capital	34.9	34.9
Share premium	1,412.2	1,412.2
Retained earnings	57.2	84.2
Other reserves	3.8	3.6
Total	**1,508.1**	**1,534.9**
Total liabilities and shareholder’s equity	**13,400.5**	**14,857.5**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

€m	Share capital	Share premium	Retained earnings	Other reserves	Total equity
Balance as at 31 December 2020	**34.9**	**1,412.2**	**195.7**	**3.0**	**1,645.8**
Profit for the period	–	–	53.3	–	**53.3**
Total comprehensive income	**–**	**–**	**53.3**	**–**	**53.3**
Transfer to statutory reserve capital	–	–	−0.8	0.8	**–**
Dividends	–	–	−191.0	–	**−191.0**
Balance as at 31 December 2021	**34.9**	**1,412.2**	**57.2**	**3.8**	**1,508.1**
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**

€m	31 Dec 2021	31 Dec 2022
Equity capital of the parent undertaking	1,508.1	1,534.9
Value of subsidiaries in the unconsolidated statement of financial position of the parent	−226.8	−251.1
Value of subsidiaries under equity method	265.9	298.8
Total	**1,547.2**	**1,582.6**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

€m	2021	2022
Profit before tax	60.0	133.0
Adjustment:		
Credit loss allowance	-12.8	13.5
Depreciation and amortisation	11.4	9.4
Other items	-1.8	-0.1
Interest and similar income	-238.9	-298.4
Interest and similar expenses	27.1	27.3
Dividend income	-6.5	-13.4
Write-off of investments in subsidiaries	35.8	29.1
Change in operating assets/liabilities:		
Increase (-) / decrease (+) of lending to customers	-522.1	-967.3
Increase (-) / decrease (+) of debt securities	-323.9	-676.2
Increase (-) / decrease (+) of other assets	12.8	-91.8
Increase (+) / decrease (-) of deposits from customers	-1,483.3	622.8
Increase (+) / decrease (-) of other liabilities	25.9	71.5
Interest received	249.0	281.0
Interest paid	-27.4	-17.5
Income tax paid	-8.3	-7.5
Cash flow from operating activities	**-2,203.0**	**-884.6**
Payment for acquisition of subsidiaries	0.0	-53.4
Acquisition of tangible and intangible assets	-7.1	-5.7
Proceeds from disposal of tangible assets	0.3	0.1
Dividend received	6.5	13.4
Cash flows from investing activities	**-0.3**	**-45.6**
Debt securities issued	299.3	796.9
Debt securities matured	-100.8	-71.8
Debt securities repurchased	-235.5	0.0
Payments of principal on leases	-6.2	-5.5
Dividends paid	-191.0	-90.0
Cash flows from financing activities	**-234.2**	**629.6**
Net increase or decrease in cash and cash equivalents	**-2,437.5**	**-300.6**
Cash and cash equivalents at the beginning of the period	4,884.7	2,447.2
Effects of currency translation on cash and cash equivalents	0.0	0.1
Net increase or decrease in cash and cash equivalents	-2,437.5	-300.6
Cash and cash equivalents at the end of the period	**2,447.2**	**2,146.7**
Cash and cash equivalents		
Cash on hand	136.1	127.4
Non-restricted current account with central banks	2,249.3	1,938.1
Due from other credit institutions within three months	61.8	81.2
Total	**2,447.2**	**2,146.7**

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 2022, 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 21 February 2023.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of changes in equity for the year ended 31 December 2022;
- the consolidated statement of cash flows for the year ended 31 December 2022; and
- the notes to the consolidated financial statements, which include 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

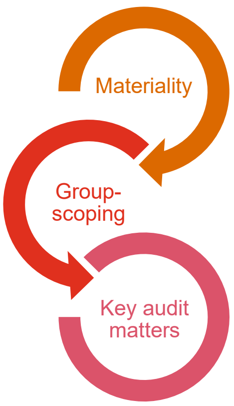
We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance 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 2022 to 31 December 2022 are disclosed in the Management report.

Our audit approach

Overview



- Overall group audit materiality is EUR 15.8 million, which represents 1% of consolidated total equity as at 31 December 2022.
- A full scope audit was performed by PwC Estonia or, under our instructions, by other PwC network firms for Group entities covering substantially all of the Group's consolidated assets and revenues. Selected audit procedures were performed on remaining balances to ensure we obtained sufficient appropriate audit evidence to express an opinion on the Group's financial statements as a whole.
- Key audit matter relates to impairment of loans to customers.

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

Materiality

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

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

Overall Group audit materiality	EUR 15.8 million
How we determined it	1% of consolidated total equity as at 31 December 2022
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.

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

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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>

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 2022 the net carrying amount of loans to customers amounted to EUR 10,875 million and related credit loss allowance amounted to EUR 101 million. In 2022 the Group recognised credit loss allowance on loans to customers in the amount of EUR 16.1 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.

</td><td>

We assessed whether the Group's accounting policies and methodology applied for the calculation of impairment of loans to customers are in compliance with IFRS 9.

We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including:

- IT general controls over relevant systems;
- IT application controls over exposure balances and overdue information;
- automated application of staging;
- automated calculations of ECL for stages 1, 2 and 3;
- review and approval of customer credit rating grades;
- review and update of collateral values;
- regular customer reviews;
- review and approval of loan loss calculations for individual material exposures (stage 3).

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

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

</td></tr>
</table>

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: At a glance, Chief executive's statement, We are Luminor, Management report, Glossary and Luminor Bank AS 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.

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

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 five 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

21 February 2023
Tallinn, Estonia

PROFIT ALLOCATION PROPOSAL

Management Board distribution proposal, €m	
Balance of retained earnings at 31 December 2021	97.9
Net profit for the period ended 31 December 2022	124.7
Dividends paid in the period ended 31 December 2022	-90.0
Other items	0.1
Balance of retained earnings at 31 December 2022	**132.7**
To be paid as dividends	0.0
Balance of retained earnings	**132.7**

SIGNATURES OF THE MANAGEMENT BOARD

The Management Board of Luminor Bank AS has approved the Management Report and Annual Report for the year 2022. 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 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.

21 February 2023

Peter Bosek
Chair

Georg Jürgen Kaltenbrunner

Mari Mõis

Andrius Načajus

Palle Nordahl

Ian Penny

Kerli Vares

GLOSSARY

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

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

FVTOCI
Fair Value through Other Comprehensive Income

FVTPL
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

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

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

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

LUMINOR BANK AS INFORMATION

Country of registration
Republic of Estonia

Commercial register code
11315936

Main activity
Credit institution

Telephone
+372 628 3300

E-mail
info@luminor.ee

SWIFT/BIC
RIKOEE22

Balance sheet date
31 December 2022

Reporting period
1 January to 31 December 2022

Reporting currency
euro

Contacts

For media:
Ivi Heldna
ivi.heldna@luminorgroup.com
+372 5231 192

For investors:
Nick Turnor
nick.turnor@luminorgroup.com
+372 5306 7820

Photo credits. Images on page 8 and 10 courtesy of Adomas Svirskas, Enterprise Data Architect, Luminor

Luminor

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