ANNUAL REPORT 2019

LUMINOR BANK AS

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

CONTENTS

GENERAL INFORMATION AND CONTACTS

LUMINOR BANK AS

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Main activity:	Credit institution
Auditor:	AS PricewaterhouseCoopers
Reporting period:	01.01.2019 – 31.12.2019

CEO STATEMENT

Luminor is a bank born from the merger of the Baltic operations of two of Northern Europe's largest financial institutions, Nordea and DNB. This heritage combined with our local expertise uniquely positions us to become the preferred financial partner for individuals, households and businesses in the Baltic region. Being pan-Baltic gives us the size and the strength to make a real difference, while still being a local bank that makes its decisions locally.

An important milestone towards establishing Luminor as a strong, independent, local bank was reached in 2019 with the completion of the acquisition of a majority stake in the bank by a consortium led by funds managed by Blackstone. The investment represents one of the largest investments in Baltic history. Nordea and DNB have each retained a 20% equity stake in Luminor and will continue to support the bank with long-term funding, expertise and on-going representation in the Supervisory Council. Blackstone has agreed with Nordea to purchase their remaining stake over the coming years.

Blackstone, one of the world's leading investment firms, is an ideal partner for Luminor as we undertake one of the most extensive corporate transformations in the Baltics. Their demonstrable track record in transformations, their strong financial standing, and their network of global talent will support Luminor in growing to be the largest local independent bank; a bank dedicated to support sustainable growth in the Baltic region by providing long-term commitment to businesses and individuals.

Luminor is transforming itself in three stages. The first stage brought stabilisation after the initial merger by building a new organisation, beginning the technology consolidation, and restructuring the legal set-up of the bank. The second stage focuses on simplifying the organisation and improving profitability and our funding position, while the third stage is about growth and building a new generation bank.

Throughout the year we continued our work on streamlining our decision-making process, strengthening our controls, improving our operational efficiency. and ensuring adequate pricing of risk for our lending portfolio. We have also, improved our asset quality, separated our IT infrastructure from DNB and Nordea and have strengthened our funding position. I am pleased with our progress in all of these areas and as a result we have become a more efficient and flexible organisation.

It is a further testament to the team that we managed to deliver strong financial results despite a very heavy operational transformation agenda, significant investments and one-off costs related to the transformation, and a reduction in our net loans as a result of our focus on closing the funding gap and review of lending portfolios.

We have significantly improved our funding position. We reduced our loan-to-deposit ratio during the year from 127% to 100% on the back of a successful focus on growing our deposit base and the optimization of our lending assets. Another important contribution towards reaching a fully independent funding structure and further widening our investor base was the issue of our second public senior unsecured bond in the amount of 300 million euros. The issue attracted investors from across Europe, with over 80% of them being non-Baltic accounts. The scale of the investors' interest is a further confirmation that we are moving in the right direction.

At the end of 2019, the European Central Bank granted a licence to Luminor to issue covered bonds. Luminor is the first bank in the Baltic countries to receive such a licence, and this marks another important milestone in the development of the Baltic financial markets. In March 2020 Luminor issued the first covered bonds from the Baltic region, in the size of 500 million EUR and at a spread over mid swap of 25 bps, with the final yield of -0.18%.

We also saw the results of our focus on asset quality, with a reduction of our non performing portfolio by 37% over the year, which now represents 3.8% of total loan portfolio as compared to 5.3% for the same period in 2018.

The year included very intense work by the entire team on initiatives related to the carve-out of certain information systems and payment infrastructure from DNB and Nordea, as well as the establishment of an independent correspondent banking network. The bank has finalised the carve-out of the leasing, factoring and pension information systems from the Nordea systems and has set up independent payment systems and correspondence banking. We also finalised the first phase of migration in Latvia and Lithuania, resulting in the successful transfer of some third of our active Latvian customers and nearly quarter of Lithuanian customers. Our digital team has made significant progress in developing new Luminor digital channels and in preparing the current channels for the process of transferring customer data. This year we are determined to complete the final stage of the carve-outand will continue investing in new functionality to become a more user-friendly bank.

We continue to move ahead with ongoing initiatives to simplify our portfolio of products and services, so that we can make the bank more accessible to all customers. We are launching a major initiative to upgrade online services across our three home markets, for both households and corporate customers. We have launched the Luminor Investor platform in Lithuania and Latvia, which is tailored for investors with different levels of experience.

We made good progress in the Retail segment with the transformation of the customer service model, and we opened customer service centres operating under a new concept. The efficiency of the pan-Baltic model has also been demonstrated by successful common marketing campaigns, improved management of sales channels and an increased volume of deposits. We see large opportunities to grow in this segment.

In the Corporate Banking area we have repriced legacy portfolios and reduced the portfolio of non-performing loans, and are now prepared for a return to growth in lending. Corporate Banking also succeeded in maintaining stable growth in the deposit portfolio.

The Wealth Management segment concentrated on growing the business and on customer satisfaction. The pension assets under management increased by 20% in 2019, while the assets under management of our Private Banking customers grew by 19%.

Luminor is continuously committed to preventing money laundering and terrorist financing. Fighting financial crime will remain one of our key priorities. We focus on continuous improvement of proficiency in monitoring and detecting cases of attempted money laundering or suspicions of it. In order to adapt in a constantly changing environment, we continued to invest in the systems and processes that we have developed to prevent, detect, manage and report potential financial crime risk. We held numerous training events to that end in 2019 and also implemented a common monitoring and screening solution in all the Baltic states, to which additional developments will be delivered during 2020.

In 2020 we will continue working towards our ambition to making the lives of our customers easier and gaining their trust in developing long-term relationships. Completing a smooth customer migration is a key requirement for that, therefore, it will be one of our top priorities during the next year. We will work to improve our commercial footprint through increased new business origination and continue to focus on improving the funding and capital efficiency, and profitability.

We continue to monitor the development of COVID-19 closely, with a clear focus on the health and well-being of our colleagues and customers. There is considerable near-term uncertainty about the impact of COVID-19 on the global economy, international trade, and financial markets. Yet, while to date, the effect on the group has been immaterial due to the relatively limited impact to our home markets, business continuity plans are in place and we continue to monitor developments on a day-to-day basis. In recent weeks, the group has also implemented preventative measures to minimise potential risk to colleagues, as well as business disruption, in the event that COVID-19 becomes more widespread across the region.

I am pleased to conclude, Luminor is well on track with its transformation programme. We are now ready to embark on the third phase of our journey, a stage of growth.

I want to thank our customers and partners, and the entire Luminor team, for taking this journey with us.

Erkki Raasuke, CEO

MANAGEMENT REPORT

GENERAL INFORMATION

Luminor Bank AS (Luminor) was established on 1 October 2017 by the merger of the operations in the Baltic states of DNB Bank ASA (Commercial Register no. 984 851 006, DNB) and Nordea Bank Abp (Commercial Register no. 2858394-9, Nordea) to create a new-generation financial service provider for local businesses and financially active people.

On 30 September 2019 it was announced that the transaction signed on 13 September 2018 between DNB Bank ASA, Nordea Bank AB and US-based private equity firm Blackstone had been concluded and as a result a consortium led by private equity funds managed by Blackstone acquired a 60.1% majority stake in the bank. The bank's initial owners Nordea and DNB each retained a 19.95% equity stake in Luminor, but an arrangement has been made by the consortium and Nordea for the purchase of Nordea's remaining stake over the coming years.

Luminor is the third-largest provider of financial services in the Baltics, with approximately 0.9 million clients, 2 489 employees, and market share of 16.6% in deposits and 18.7% in lending as at the end of 2019. Total shareholders' equity amounts to 1.6 billion EUR and Luminor is capitalised with a CET1 ratio of 19.7%. Luminor's core business is to serve entrepreneurial people in the baltics with a primary focus on local companies and financially active people.

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

31 December 2019				
	Estonia	*Latvia*	*Lithuania*	**Total**
Number of customers	*~134 000*	*~229 000*	*~577 000*	~940 000
Market shares				
Lending	*13.9%*	*23.0%*	*20.3%*	18.7%
Deposits	*9.9%*	*17.5%*	*21.2%*	16.6%
Number of client service centres, including meet- up points	*8*	*10*	*16*	34
Number of employees	*577*	*887*	*1 025*	2 489

MACROECONOMIC OVERVIEW

Global growth. The dominant macro theme in 2019 and the main risk to growth was the marked slowdown in global trade and rising trade tensions, which quite clearly caused a synchronised moderation and heightened economic volatility across both advanced and emerging markets. Global manufacturing and trade remained in the epicentre of the economic slowdown, as expected, while consumers stayed resilient with support from demand for labour and growth in wages. Services continued to outperform manufacturing, though there was still some limited spill-over to the more strongly performing services sector, which benefits from domestic demand leading growth. The consumer still holds strong in advanced countries including the Baltics and the labour markets actually remain tight, though demand is expected to expand at a somewhat slower pace as the subdued momentum in industry weighs on the near-term economic outlook.

Risks came from the trade tensions between the US and China, and also from the danger of a hard Brexit, adjustments in global value chains, and softening in the outlook for emerging markets, including China, India and Brazil. Among the advanced countries, growth moderated most in economies that had a larger share of global trade and of capital goods manufacturing, which includes the automotive sector, where difficulties were caused by both the cyclical weakness from the slump in demand and the structural transformation from fossil fuels to electric. The outlook is for trade to remain sluggish and the recovery in the global economy to be muted, with selective sentiment indicators pointing to an early stabilisation in global manufacturing from the end of the year.

Growth moderated in the key export markets for the Baltics, including the euro area and the Nordic countries, and the outlook for growth was subdued. Growth in the euro area, the key destination for Baltic exports, decelerated noticeably, with GDP growing only by around 1.2% year on year, and 0.2% quarter on quarter in the second and third quarters of 2019, reflecting a drag from industry and trade. The risk of a hard Brexit added to the economic uncertainty in the UK and in related EU economies. Despite the significant drag from manufacturing, euro area economies avoided a technical recession, though the economies that are more open to global trade, including Germany, went through a soft patch.

The Baltic countries have expanded robustly, outpacing the euro area average by a solid margin, with annual real GDP growth averaging 5% in Estonia and around 4% in Latvia and Lithuania since 2017. The average in the euro area meanwhile was 2%. Given the external headwinds and the slower expansion in key export markets, growth has started to weaken gradually, albeit from high levels, but labour markets are still firm and tight. The economies are integrated, so all the European economies will go through the current cyclical softness in trade to different degrees, and will face headwinds for export demand.

The Baltic countries have so far surprisingly resisted disruptions to trade to a large degree and sustained softer, but still broadly based, momentum in their economies in the third quarter, benefiting mainly from consumption and investments, but also from exports.

Estonia's economic growth decelerated from a robust yearly 4.8% in 2018 to a yearly 4.3% in the first three quarters of 2019. In Latvia, the recovery has continued on the back of resilient domestic demand, and expanding construction and retail activities. However, growth slowed down to 2.5% during the first three quarters of 2019 from 3.5% over the year in 2018. Several pan-Baltic factors like the weather, low timber and coal prices, and an increased focus on reputational risks to the financial sector affected Latvia more because of its export structure. Growth in Lithuania during the first three quarters of 2019 averaged 3.9%, exceeding the forecasts of 2.8% and the 3.6% growth observed in 2018. Notably softer growth in trading partners and the recession in euro area manufacturing are expected to weigh on export revenues and the outlook for growth for the open economies. A positive point is that the key export market, the euro area, is headed for a slow and steady economic recovery with trade risks less pronounced than before after the first phase of the trade deal between the US and China.

Estonia's GDP growth of 4% was broadly based in the third quarter, and benefited to a substantial degree from the pivotal economic branch of ICT (Information and Telecommunication Services), from science and technology, and from the exporting manufacturing sector. Value added in manufacturing has continued to grow at a decent single-digit pace, though weaker export orders point to a subdued outlook in the near term. As expected, consumption continues to be supported by strong labour markets with wages rising by 7.9% a year and the unemployment rate holding below 5% in the first three quarters of last year. Stable growth in mortgage volumes reflects a continued appetite among consumers for residential space, while growth in construction has levelled out, though from high base. A recent positive development has been that inflation in Estonia has finally turned downwards towards the 2% mark, from 3.4% year on year in 2018, largely in response to energy prices and a cut in excise taxes on alcoholic beverages from the middle of last year.

Latvia's performance in 2019 is a story of contrasts. The combination of drought and large hydropower capacity brought a decline of 4.6% over the year in the energy, mining and utility sector in the first three quarters. The lingering effects of tighter AML controls led financial services to shrink by 6%. Value added from transport declined by 2.4% as the flow of raw material cargos from east to west softened. The modest overall growth of 3% in manufacturing hides sharp contrasts. Engineering industries like metals, machinery and electronics grew by some 8% in 2019, which was a great performance given the prevailing global conditions. In contrast, timber processing declined by 1%. Like in neighbouring countries, the economy has been boosted by strong growth in white collar services. Exports of business services grew by a bold 31% in the first three quarters, with software growing by 12%. Like in the other Baltic states, growth in private consumption was quite strong at 3.6% in the three quarters, and it is expected to grow faster than GDP in 2020 as well, since the labour market will remain tight in Greater Riga, where two thirds of the economy is. The economy grew by 2.2% in 2019, but growth is expected to slow by roughly a percentage point in 2020 before staging a strong recovery in 2021.

Lithuania's economic expansion is not only strong, but also well balanced, with private consumption, investments and exports, which are the key components of growth, all contributing positively. Exports gave the biggest positive surprise, growing by as much as 11% during the first three quarters of 2019 over the same period of 2018, despite increasing international trade tensions, uncertainty about Brexit and dismal growth in exports to Russia and other emerging economies. Export growth has been boosted by new investments in manufacturing by both foreign and domestic capital, and by the rapid expansion of services exports. It is worth noting that exports of high value-added services have doubled over the past three years and growth is forecast to remain in double-digit territory in 2020 as well.

The overall positive outlook for the Baltic countries reflects a gradual moderation from the earlier exceptionally robust growth coupled with lower inflationary pressures. Tensions between the US and China have recently eased, with the tariffs that were due to take effect on 15 December 2019 avoided, and the phase-one trade deal further reducing uncertainty about trade. The key risks for the open Baltic economies stem from trade frictions hitting developed countries. Geopolitical risks remain a potential impediment to the global economy, with uncertainty emanating from tensions in parts of the Middle East and Asia, including Iran, Syria and North-Korea. We expect only a gradual moderation of growth in the Baltic region given the continued support from strong labour markets and healthy domestic demand, which remain the key engine of growth. A better outlook for global trade, diminishing uncertainty about trade and a stimulatory monetary policy should support the euro area, including the Baltic economies. Investments in infrastructure and technology, partly financed by EU structural funds, offer interesting new opportunities for the rapidly converging Baltic economies.

OVERVIEW OF THE COMPANY

ACTIVITIES

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

The deposits and financial instruments of the depositors and customers using the investment services of Luminor Bank AS Latvian branch and Luminor Bank AS Lithuanian branch are guaranteed by the deposit guarantee and investor protection scheme established and operated by the Estonian Guarantee Fund.

In the beginning of 2019 Luminor started on the next phase of transformation, in which the bank transformed its operating model by simplifying its structure and decision-making process, unifying and executing IT consolidation, strengthening its controls, and becoming more efficient and more resolvable. As a result of the transformation developments the Luminor team decreased by around 500 employees in 2019.

In 2019, Luminor took a major step on the transformation journey with the carve-outs of several important systems from Nordea and DNB. In the first half of the year, Luminor's internal collaboration tools such as the intranet, email accounts and Skype for Business started to run on our own platform. The successful carve-out of SEPA payments from the Nordea systems was executed in early summer and once it was finalised by DNB in November, Luminor became independent in SEPA payment flows in 2019. All of the SEPA payments are now transferred through the Luminor Payment Hub and the Latvian Central Bank.

Luminor established its own correspondent banking network in 2019 and became independent of the international payments and systems and correspondent banks previously run by DNB, and is in progress to complete the carve-out from the legacy Nordea bank systems by end of 2020.

The first phase of migrating the customers from Nordea systems to the unified Luminor systems was completed in Latvia and Lithuania, resulting in the successful transfer of approximately 30% of all the migrating customers in Latvia and 24% in Lithuania.

The bank has finished carving out its leasing, factoring and pension information systems from the Nordea systems.

OPERATING PRINCIPLES

Luminor is a modern broad-based retail and corporate pan-Baltic bank that is committed to supporting the further development of the Baltic region through financing and other banking services, by making banking simpler and more accessible, and by engaging in the overall development of the Baltic societies.

Luminor's operating model supports regional scale, business development and efficiency, together with high local relevance and customer proximity.

Luminor wants to make a difference and have a voice in society, to shape the economic environment with the future in mind. Combining global knowledge with local expertise, we want to be the best partner in financial matters for our customers. We will do that by being accessible, fast and predictable.

At Luminor we believe that growth and development start with being curious. We believe that strength lies in collaboration, and this is how we operate, both within our own organisation and with our customers and partners. We also believe that being focused is the key to achievement and excellence. Our focus is on our customers and our home region.

Being pan-Baltic gives us the size and the strength to make a greater impact, while still being a local bank.

Luminor has a strong and capable team that is committed to achieving our strategic objectives. We are dedicated to supporting sustainable growth in the Baltic region by providing a long-term commitment to businesses and individuals.

RISK MANAGEMENT AND INTERNAL CONTROL

Luminor has implemented a robust risk management framework and internal control system. The aim of Luminor's risk management is to achieve an optimal balance between the risk of losses and the earnings potential in a medium- and long-term perspective and Luminor in general follows the principles of precaution, conservatism and prudence.

Luminor's risk management framework includes policies, procedures, risk limits and risk controls ensuring adequate, timely and continuous identification, assessment, measurement, monitoring, mitigation and reporting of all material risks. Detailed information about risk assessment and management is given in the Section "General Risk Management Policies" of this report.

The strict risk management principles were adhered to during the reporting period. Furthermore, Luminor's risk management processes are continuously being improved to reflect new regulatory requirements as well as evolving market practices.

Luminor's internal control system is a combination of organisational measures, actions, processes and mechanisms that ensure effective and efficient operations and prudent conduct of business, compliance with laws, regulations and supervisory requirements, the adequate identification, measurement, and mitigation of risks, and the reliability and timely submission of financial and non-financial information.

Luminor is directly supervised by the European Central Bank (the ECB).

Compliance with key prudential requirements as at 31 December 2019:

Ratio	Requirement	Luminor Bank AS with subsidiaries
Liquidity (LCR ratio)	>100.0%	150.0%
Capital adequacy ratio (Total capital ratio)	>15.3%	19.7%
Largest exposure to one borrower (% of eligible capital)	<25.0%	8.6%

Compliance with prudential requirements as at 31 December 2018:

Ratio	Requirement**	Luminor Group*
Liquidity (LCR ratio)		189.0%
Capital adequacy ratio (Total capital ratio)		18.0%
Largest exposure to one borrower (% of eligible capital)		6.9%

* Luminor Group AB full year consolidated figures

** as at 31 December 2018 regulatory requirements were applicable only on stand-alone banks level in each country, no common Luminor Group requirements were applicable

IMPORTANT EVENTS IN THE FINANCIAL YEAR

In February 2019 Luminor Bank AS sold its subsidiary real estate brokerage company Luminor būstas UAB (Lithuania) to Resolution Holding (real estate brokerage company).

In May 2019 Jonas Filip Eriksson was appointed as a Chief Financial Officer and a member of the Management Board of Luminor Bank AS by the Supervisory Council of Luminor Bank AS.

On 11 June 2019 Luminor Bank AS issued three-year and four-month public senior unsecured preferred bonds worth 300 million EUR under the European Medium Term Note (EMTN) Programme. The bonds outstanding under the EMTN programme now total 650 million EUR, with this transaction building on the inaugural transaction of 350 million EUR from October 2018.

In July 2019 Luminor Bank AS sold its subsidiary property holding company SIA Skanstes 12 (Latvia) to the investment company Colonna.

The merger of Luminor Liising AS and Luminor Kindlustusmaakler OÜ was completed in the second half of 2019.

In September 2019 Ilja Sovetov was appointed as a member of the Management Board of Luminor Bank AS by the Supervisory Council of Luminor Bank AS.

On 30 September 2019 the transaction between Nordea, DNB and the consortium led by private equity funds managed by an affiliate of Blackstone was closed.

In September 2019 the Shareholders' Meeting of Luminor Bank AS appointed Nadim Diaa El Din El Gabbani, Johan Pedersson Lilliehöök and Jerome Mourgue D'Algue as new members of the bank's Supervisory Council.

In October 2019 Indrek Heinloo and Marilin Pikaro were appointed as members of the Management Board of Luminor Bank AS by the Supervisory Council of Luminor Bank AS. The Supervisory Council of Luminor Bank AS appointed Georg Jürgen Kaltenbrunner as a member of the bank's Management Board and the new Chief Risk Officer as of 11 November 2019 and recalled previous Chief Risk Officer Hannu Saksala.

In December 2019 Luminor Bank AS' subsidiary company Uus-Sadama 11 OÜ (Estonia) was liquidated.

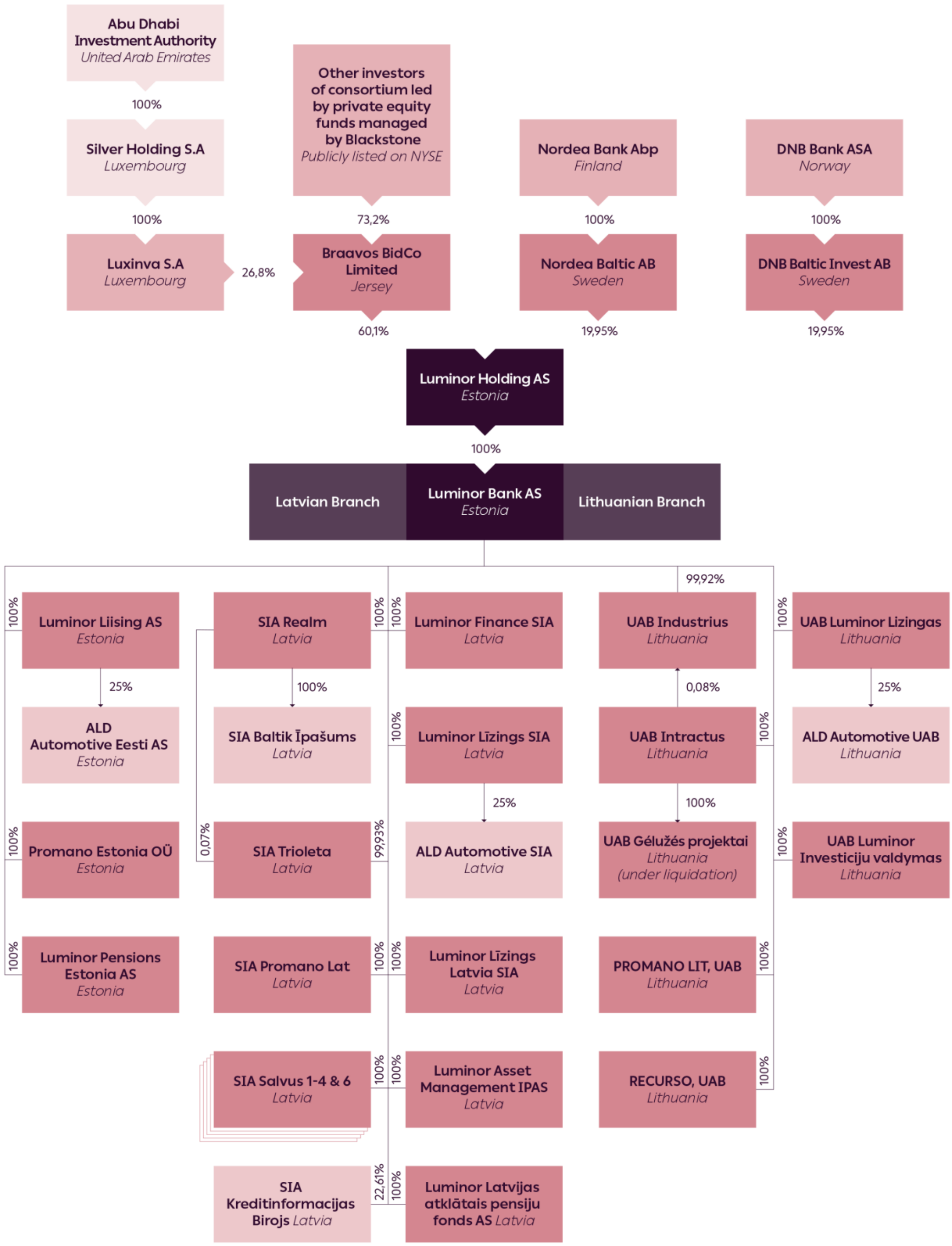
In December 2019 the ECB issued a licence to Luminor to issue covered bonds. Luminor is the first bank in the Baltic countries to receive such a licence.

STRUCTURE OF THE ORGANISATION AS AT 31 DECEMBER 2019

Luminor with its branches in Latvia and Lithuania is owned by the Estonian company Luminor Holding AS. Luminor has 24 subsidiaries in the Baltics, including pension fund management companies, leasing companies and special purpose entities that own repossessed assets.

After the transaction between DNB, Nordea and the US-based private equity firm Blackstone had been concluded on 30 September 2019, a consortium led by private equity funds managed by affiliates of Blackstone through a new incorporated entity Braavos BidCo Limited acquired a 60.1% majority stake in Luminor Holding AS, while Nordea through a Swedish subsidiary Nordea Baltic AB retained 19.95%, and DNB through a Swedish subsidiary DNB Baltic Invest AB retained 19.95% ownership in Luminor Holding AS. The immediate parent of Luminor Bank AS is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc.

Ownership and organisational structure of Luminor Bank AS



PRODUCT AND DIGITAL DEVELOPMENT

Luminor's goal is to become the home bank for its target customers. Smooth end-to-end customer service together with modern digital channels is essential for offering everyday banking. Luminor's goal is to become the financial aggregator for its customers and the single point of contact for all of their financial needs.

In 2019 Luminor started migrating its customers from the two-bank systems to a single platform with the aim to simplify the services and customer offer afterwards.

Finally, the bank continued to prepare for the digitalisation and simplification of the services by further working on new digital platform devoted to developing new digital channels. The integrated platform for all future digital activities will eventually lead to better communication with customers and a simplified process for using services and products. The platform will create a basis for integrating all the digital services we currently provide. This solution will help to better serve customer needs and excel our service.

THE RETAIL BANKING SEGMENT

Luminor's brand value lies in its close relationship with its customers and in providing professional services. By the end of 2019, Luminor had around 862 000 retail clients.

The Retail Banking management model was adjusted during the year to support it in delivering excellence in customer experience and in meeting our customers' needs. In January Luminor announced the transformation of its network of customer service centres as part of the bank's strategic initiative. During this transformation some customer service centres were consolidated at single locations, the customer service model was revised, the bank's digital service offer was strengthened, and customers were introduced to cashless platforms and payment systems.

During this transformation a new concept for customer service centres and a new form of service location, the meet-up point, were introduced. The overall number of physical customer service locations was reduced by 17. At the end of the year, the bank was serving its customers in a total of 34 locations, with 26 customer service centres and eight meet-up points.

Cashless solutions were introduced in customer centres in Lithuania and Estonia during the reporting period as part of the process of automating cash handling. All Luminor's customer service centres became cashless during the year and currently serve customers using alternative tools through payment cards and ATMs.

The centralisation of consumer lending was completed during the year, so the bank now has a unified approach to consumer lending products, their terms and conditions, and lending procedures for its customers in all the Baltic states. Decision-making for mortgage loans was centralised across the Baltic states as well to ensure that decisions could be made quicker, and that quality in decision-making is aligned.

By running pan-Baltic sales and marketing campaigns and improving the management of sales channels, Retail Banking team succeeded in growing the deposit portfolio by 17.6% from 2018.

THE CORPORATE BANKING SEGMENT

The Luminor Corporate Banking segment handles medium-sized enterprises focused primarily on local markets and larger corporate clients that operate globally. Tailored financial products and services allow our customers to operate their businesses efficiently and grow.

By the end of 2019, Luminor had around 13 000 corporate clients. The generally positive economic environment in the Baltic states supported the growth of 8% in the deposit portfolio of corporate clients.

Corporate Banking customers were consolidated in 2019 into a pan-Baltic Corporate Banking division. As a part of this change, smaller business customers are now served by the Retail Banking division. This change allowed Corporate Banking to become more efficient and improve the service quality for our largest corporate customers.

The team put a lot of emphasis in 2019 on improving the profitability of our lending relations and growing the deposit book. The focus was also on the quality of customer service and on improving relations with customers by keeping close direct contact with customers and presenting news and developments in a series of customer events.

THE WEALTH MANAGEMENT SEGMENT

Luminor Private Banking customer activities are centred around daily banking for customers, and growing their savings and investment portfolios.

We help high net worth individuals and their families to grow, manage and preserve their wealth and reach their goals.

By the end of 2019, Luminor had around 3 800 Private Banking customers. Over the year, the Luminor Private Banking customer segment recorded an increase in assets under management and reached 1.42 billion EUR, which was 19% more than in 2018.

After launching a new Private Banking brand the team focused on increased visibility and awareness in the market with the aim of attracting more customers to use the Luminor Private Banking service.

The focus on ensuring high levels of customer satisfaction brought about successful results and a positive trend in satisfaction.

The VISA Infinite card, designed with added value features for Private Banking customers, was launched in Latvia. The launch in Lithuania and Estonia will follow in 2020.

Luminor provides second pillar, third pillar and employer pension fund management services to its customers through its subsidiaries in all three Baltic countries.

In 2019 the Pension team focused on promoting employer pensions, raising general awareness about the ageing of the population, longer retirement, and ways for pension schemes to support future well-being. Various awareness-raising activities were organised to support this aim, such as meetings with stakeholders and the media, live broadcasts, and seminars and events for customers.

In 2019 pension reform took place in Lithuania, so the team worked intensively to prepare for it. Preparation work was also done for the pension reform in Estonia that is expected in 2020.

By the end of 2019, pension assets under management had reached 1.45 billion EUR, which was 20% more than in 2018. By the end of 2019 Luminor had around 357 000 customers in pension accumulation schemes.

CORPORATE SOCIAL RESPONSIBILITY

Luminor wants to shape the economic environment with the future in mind and to contribute to our home region. We are dedicated to supporting sustainable growth in the Baltic region by providing long-term commitment to businesses and individuals, and corporate social responsibility is an inseparable part of that.

Luminor is committed to follow the environmental, social and governance (ESG) principles in its activities. This commitment is reflected in the Corporate Social Responsibility Policy adopted by the Supervisory Council, as well as different relevant procedures and guidelines we act by. Luminor stands for sustainability, diversity and equal rights. Luminor does not tolerate any infringement of human or labour rights, corruption, environmental harm or other actions that could be regarded as unethical. We are continuously reviewing our ESG policies, procedures and guidelines.

We are accountable to society and the environment and we expect the same from our partners. We have adopted the Code of Conduct for Third Parties and to support us in sustainable procurement, from 2019, the Rules of Social Responsibility are annexed to our vendor agreements.

Luminor is committed to caring for the wellbeing of its employees. Last year, special attention was paid to workplace safety, surveying employees' job and environment-related satisfaction, as well as promoting work and life balance through a four-level integrated Manage Your Energy programme.

Luminor stands against corruption and bribery and is committed to being transparent in its activities and communication. Efforts were continued in 2019 to raise awareness - several relevant trainings and review processes were carried out among Luminor employees to support that commitment.

It is important for Luminor to have a voice in our community and contribute to discussions that have impact. In 2019, a lot of attention was paid to pension and retirement topics and we contributed to ongoing discussions in the society through different surveys, seminars and events with the aim of raising general awareness on preparing for the future. A survey was also carried out in all three Baltic countries to determine how small and medium size enterprises are regarding and preparing for Brexit.

To contribute to the society, we continued efforts last year to promote financial and digital literacy and support sustainable business and local entrepreneurship. A range of financial literacy classes and talks were given by Luminor employees to school children, and lectures on saving and on pensions were delivered to university students. Initiatives to promote digital literacy and cyber security were supported, including co-operation with state agencies to promote and develop cyber security.

Luminor organised a series of seminars for its customers to support an entrepreneurial attitude and share best practices in building and maintaining a successful career or business, for instance, how to maintain a good work and life balance to ensure a sustainable career. Best local entrepreneurs were acknowledged with the Luminor Development Leap Award in Estonia, accompanied by consulting opportunity from Luminor's top managers in a field of choice of the winner.

Supporting education to foster entrepreneurship is an integral part of our corporate social responsibility efforts. In 2019, Luminor sold 28 works of art at an auction, the proceeds of which were donated to create an interdisciplinary computer science course, the Baltic IT Leadership Bachelor Program, launched by Riga Technical University and the University of Latvia in cooperation with the State University of New York at Buffalo, USA. The programme is run by the Riga Business School of Riga Technical University and gives 22 young people a chance to start their studies on the new course.

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

ANTI-FINANCIAL CRIME RELATED MATTERS

Luminor is continuously committed to preventing and detecting money laundering and financial crime, reviewing its AML practices regularly and investing in the necessary human and technological capabilities in this area. We constantly work towards having a better understanding of our customers and their transactions, and to manage and report potential financial crime risk. As it is subject to a range of legal requirements, Luminor acts in full transparency and in collaboration with all the relevant supervisory and regulatory authorities. Luminor predominantly serves residents of Estonia, Latvia and Lithuania, and customers with a strong personal or business connection to the Baltic states.

During 2019 Luminor enhanced further its financial crime risk management framework to prevent, detect, manage and report potential financial crime risk, thereby supporting its conservative approach towards money laundering and financial crime. The framework consists of financial crime detection technology, policies and procedures, risk assessments, training and awareness-raising and ongoing monitoring of new and developing financial crime risks. In addition, Luminor follows international guidelines, recommendations and standards issued by the regulatory and supervisory authorities, relevant international bodies, local banking associations and financial intelligence units in each Baltic state.

Luminor continuously invests in its systems and processes to adapt in a constantly changing environment. In 2019 Luminor introduced a common monitoring and screening solution in all three Baltic states with additional developments to be delivered during 2020.

During 2019 Luminor continued raising awareness within the organisation of compliance. Over the year, 172 awareness-raising events were held on 41 topics for a total of 16 834 participants. The focus was on anti-money laundering (AML) and counter terrorism financing (CFT) and the prevention of financial crime. Six e-learning modules were launched covering topics like customer identification, sanctions, transaction monitoring and principles of business conduct in Luminor. AML roadshow activities across our Customer Service centres that started in 2019 and will continue in 2020 cover further education and awarenedd across AML/Know-Your-Customer (KYC), suspicious activity reporting, physical security and fraud prevention. Finally, multiple training events and e-learning courses were launched on handling inside information, preventing market abuse, and personal transactions in financial instruments.

SIGNIFICANT EVENTS AFTER 31 DECEMBER 2019

On 13 January 2020 Moody's Investors Service assigned a provisional (P) Aa1 long-term rating to the mortgage covered bonds to be issued by Luminor Bank AS under the Estonian Covered Bonds Act. The credit analysis prepared by Moody's considered, among other things, the credit quality of the assets backing the covered bonds, the Estonian legal framework providing for regulation and supervision of the Luminor Bank AS, as well as the cover pool exposure to market risk and the level of over-collateralisation.

On 4 March 2020 Luminor Bank AS issued its inaugural five-year covered bonds worth 500 million EUR under the European Medium Term Note (EMTN) and Covered Bond Programme. The bonds are listed on the Irish Stock Exchange.

There is considerable near-term uncertainty about the impact of COVID-19 on the global economy, international trade and financial markets. Yet, while to date, the effect on the group has been immaterial due to the relatively limited impact to Luminor home markets, business continuity plans are in place and Luminor continues to monitor developments on a day-to-day basis. In recent time, the group has also implemented preventative measures to minimise potential risk to employees and customers, as well as business disruption, in the event that COVID-19 becomes more widespread across the region. In light of that the Supervisory Council deems it prudent not to propose distributing a dividend until there is more visibility on the economic and financial outlook.

FINANCIAL RESULTS

KEY FIGURES AND RATIOS

thousand EUR / %	31 December 2019	31 December 2018
Net profit	53 997	123 447
Average equity	1 714 685	1 755 672
Return on equity (ROE), %	3.1	7.0
Average assets	14 522 261	15 199 943
Return on assets (ROA), %	0.4	0.8
Net interest income	244 167	259 409
Average interest earning assets	14 192 831	14 844 146
Net interest margin (NIM) %	1.7	1.7
Cost / Income ratio, %	77.6	63.0
Credit impairment ratio, %*	0.22	-0.05
Loans to customers	10 222 547	11 472 138
Deposits from customers	10 235 443	9 069 885
Loans / Deposits ratio, %	99.9	126.5
CET1 ratio, %	19.7	18.0**
NPL ratio (gross), %	3.8	5.3**
Net interest income / Loans, %	2.4	2.3

*If loan recoveries prevail, the ratio is negative
** Luminor Group AB full year consolidated figures

Explanations

Average equity (attributable to the owners of Luminor Bank AS) = (Equity at current year end + Equity at previous year end) / 2

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

Average assets = (Assets of current year end + Assets of previous year end) / 2

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

Average interest earning assets = (Average interest earning assets at current year end + Average interest earning assets at previous year end) / 2

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

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

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

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

CET 1 ratio = Common Equity Tier 1 capital / Risk-weighted assets

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

In 2019 Luminor entered the next phase of its transformation and changed its operating model with the aim of accelerating the transformation and building areas of superior customer experience. The focus has been on consolidating technological platforms, right-sizing the business, simplifying the product and service portfolio, increasing efficiency, and improving the funding structure. As a consequence, the financial results are affected by associated exceptional and restructuring costs.

Net interest income in 2019 declined by 6% while loans to customers declined by 11% from the previous year. The rise of 3% in interest income is explained by planned work to ensure fair pricing of risk and improve profitability, while the rise of 48% in interest expenses is associated with the continuing effort to become independently funded. Changes in financing volumes and lower results for asset management affected net fee and commission income, which was down 8% on 2018.

Total operating expenses were 289.8 million EUR in 2019, which is 22% higher than a year ago, leading to a rise in the cost-to-income ratio from 63.0% to 77.6%. The result is mainly affected by the transformation costs incurred, which were 76.7 million EUR in 2019 having been 26.0 million EUR in 2018. The major part of exceptional costs were IT expenses, which provided 75% of them, followed by staff expenses with 10% and other transformation costs with 15%. The underlying business performance remained stable in 2019, which is reflected in the cost-to-income ratio without transformation costs of 57.1%, compared to 56.1% a year before.

Net profit in 2019 was 54 million EUR, which was 69.5 million EUR less than in 2018. Impairment of loans to customers and other assets during 2019 was 24 million EUR, which was 30.3 million EUR higher than in the previous year. The result for 2018 included recoveries of loans from customers, while the 2019 result was mainly affected by a review of several large exposures in the legacy portfolio, while the quality of the overall credit portfolio remains stable.

Luminor significantly improved its funding position with the loan-to-deposit ratio falling from 126.5% in 2018 to 99.9% in 2019. The decrease in the funding gap was supported by an increase of 1.2 billion EUR in deposits and a decrease of 1.2 billion EUR in loans over the previous year.

LOAN PORTOLIO

Loans to customers at the end of 2019 totalled 10.2 billion EUR, having been 11.5 billion EUR a year earlier as a result of our focus on more appropriate risk adjusted pricing of old and new portfolios, and a desire to improve our funding position. Loans to individual customers comprised 55% of the credit portfolio of Luminor and loans to business customers 43%. Luminor’s share of the lending market in the Baltics has decreased from 21.5% to 18.7% over the past 12 months.

DEPOSITS AND SAVINGS

Deposits from customers at the end of 2019 totalled 10.2 billion EUR, having been 9.1 billion EUR a year earlier. Deposits from business customers comprised 41% of the deposit portfolio of Luminor, followed by 39% from individual customers and 16% from the public sector. Luminor’s share of the deposits market in the Baltics continued to increase and reached 16.6%, up from 16.4% a year before.

ASSET QUALITY

Luminor determines the acceptable risk criteria that apply in credit decision-making and it monitors credit quality parameters on a regular basis to ensure that credit activity is carried out within the set quality requirements. Luminor does not compromise the quality of credit for the sake of market share or to take speedier credit decisions.

In 2019, the focus was kept on sound credit quality and on managing the problematic part of the credit portfolio. The positive trend in the quality of the portfolio is supported by the lower level of non-performing loans. The amount of impaired or non-performing loans (NPL) decreased by 230 million EUR during the year and the share of impaired loans in the total loan portfolio, the NPL ratio, decreased by 1.5 percentage points to 3.8% at the end of 2019, from 5.3% in 2018. Despite the reduction in the value of impaired loans, the level of allowances for impaired loans stayed almost unchanged, and this increased the Stage 3 impairment ratio to 36.7% from 23.2% in 2018. The impairment ratio for the total credit portfolio did not change significantly during the year and was 1.8% at the end of 2019, having been 1.6% in 2018.

FUNDING

One of the main objectives for Luminor is to create a self-sustaining combined banking group. A key requirement for achieving this is to gradually replace the parent funding that is provided in equal parts by DNB and Nordea with other forms of funding such as deposits and wholesale funding from third parties.

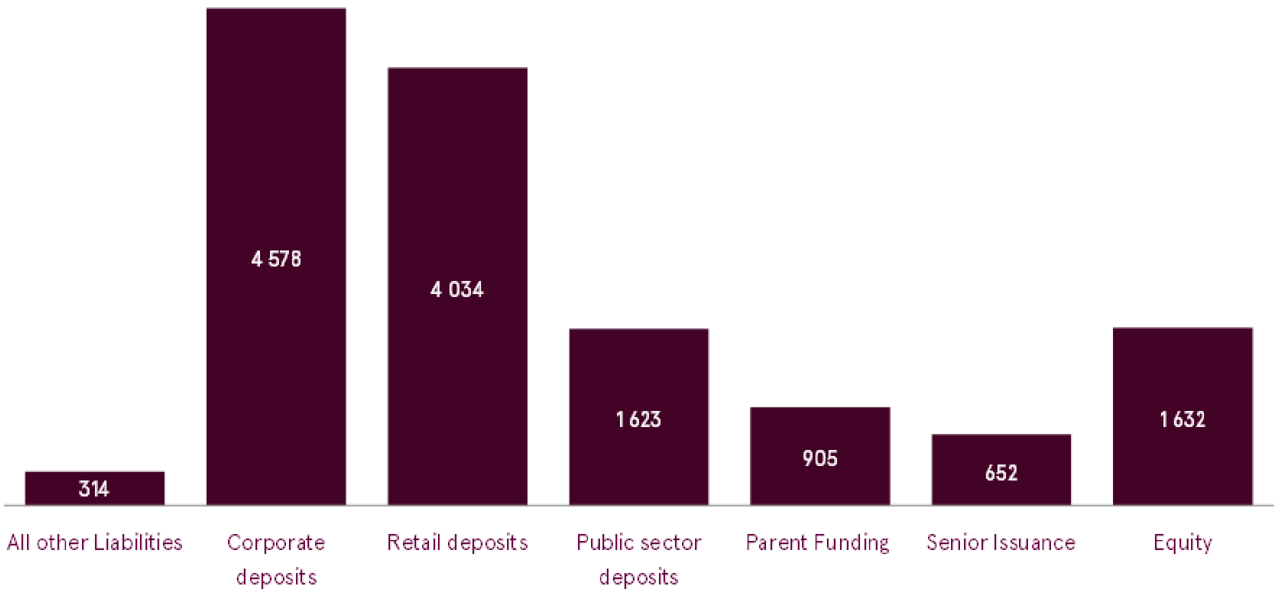
Luminor has achieved tangible results in getting closer to being a self-funded banking group. A year on year comparison shows that Luminor was able to grow its deposits from customers by 1 165 million EUR to 10 235 million EUR, from 9 070 million EUR as at 31 December 2018. As at the end of the fourth quarter of 2019 the value of the bonds outstanding under the EMTN program totalled

652 million EUR, with the transaction of 11 June 2019 building on the inaugural transaction of 350 million EUR from October 2018. The senior unsecured bonds issued under the EMTN program have been assigned a rating of Baa2 by Moody's.

Luminor has also fulfilled the requirements for an inaugural issue of covered bonds. On 19 December, the ECB issued a licence to Luminor to issue covered bonds. On 13 January 2020, Moody's assigned a provisional (P) Aa1 long-term rating to the mortgage covered bonds to be issued by Luminor under the Estonian Covered Bonds Act.

In addition to deposits from customers and wholesale funding, Luminor has outstanding debt facility lines with former parent companies DNB and Nordea. At the end of the fourth quarter of 2019, funding from the former parents amounted to 905 million EUR and was provided in the form of a syndicate, where each syndicate partner provides 50%. Following the changes in the ownership of Luminor in September 2019 from the Blackstone transaction, a new facility agreement came into force from the fourth quarter of 2019. The total amount committed to the facility under the new agreement, used and un-used combined, was reduced to 2 837 million EUR from 4 604 million EUR as at 31 December 2018. The amount of the facility is committed for five years (three years with ability to extend up to two years at Luminor option) from 1 October 2019 and it can be drawn with maturities of one, two or three years.

In addition, the new facility is partly secured, as Luminor has assigned mortgage loans with a carrying value of 1 929 million EUR as collateral to the new facility. The collateral as at 31 December 2018 was 0 EUR and the pledge on the mortgage loans applies only from 25 September 2019. The reduction in the overall limit of the new facility agreement with DNB and Nordea means that the total committed but unused credit line was 1 932 million EUR as at the end of the fourth quarter of 2019, up from 896 million EUR as at 31 December 2018.



LIQUIDITY

Luminor's structural liquidity risk is conservative and well-balanced, and is appropriately adopted to the current economic and regulatory environment. Luminor uses a range of metrics to measure liquidity risk. One metric used is the Liquidity Coverage Ratio (LCR). The LCR for Luminor was 150% as at the end of the fourth quarter by the Capital Requirements Regulation (CRR) definition of the LCR, down from 189% as at 31 December 2018. The liquidity buffer is composed of highly liquid central bank eligible securities and cash. Long-term liquidity risk is measured as the Net Stable Funding Ratio (NSFR). As at the end of fourth quarter of 2019, Luminor's NSFR was 123%, while on 31 December 2018 it was 114%.

CAPITAL

The capitalisation of Luminor is sufficient to ensure financial stability and provide the capital needed to deliver the business strategy. As at 31 December 2019 the total consolidated Capital Ratio of Luminor Bank AS was 19.7% (18% as at 31 December 2018 on the consolidated level of Luminor Group AB), which is comfortably above the internal target of 17%.

As at 31 December 2019 the own funds of Luminor were 1 572 million EUR and on 31 December 2018 they were 1 661 million EUR, and they were comprised fully of Common Equity Tier 1 (CET1) capital. On 28 May 2019, Luminor Group AB, as the former sole shareholder of Luminor Bank AS, passed a decision to approve Luminor Bank AS carrying out a capital reduction by converting 216 million EUR of its share premium to share capital by a bonus share issue, followed by a reduction in share capital of the same amount to effect the distribution. As at the end of 2019, the capital reduction transaction had been completed and the own funds reflect the capital available after the capital reduction.

In its Capital Adequacy calculations Luminor uses the standardised method to calculate risk weighted exposure amounts for Credit and Market risk. Risk weighted exposure amounts for operational risk are calculated using the Basic Indicator Approach method.

As at 31 December 2019, the Leverage Ratio, calculated in accordance with the CRR, was 10.9%; it was 10.4% on 31 December 2018. The leverage ratio is calculated as total Tier 1 own funds divided by the total risk exposure measure, including the risk position on assets and off-balance-sheet liabilities.

Capital Ratios

Position	31 December 2019	31 December 2018*
CET 1 Ratio	19.66%	18.04%
T1 Capital Ratio	19.66%	18.04%
Total Capital Ratio	19.66%	18.04%

* Luminor Group AB full year consolidated figures

Risk Exposure

thousand EUR	31 December 2019	31 December 2018*
TOTAL RISK EXPOSURE AMOUNT	**7 969 099**	**9 206 164**
1. RISK-WEIGHTED EXPOSURE AMOUNTS FOR COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	7 252 440	8 449 588
1.1 Standardised approach (SA)	7 252 440	8 449 588
1.1.1 SA exposure classes excluding securitisation positions	7 252 440	8 449 588
Central governments or central banks	0	9
Regional governments or local authorities	13 445	12 270
Public sector entities	674	3 983
Institutions	54 281	73 973
Corporations	3 742 611	4 490 837
Retail	1 347 232	1 352 161
Secured by mortgages on immovable property	1 532 931	1 593 688
Exposures in default	292 472	589 516
Items associated with particularly high risk	134 498	54 733
Equity	5 778	13 828
Other items	128 517	264 589
Total risk exposure amount for position, foreign exchange and commodities risks	**19 232**	**48 050**
Total risk exposure amount for operational risk (OpR)	**679 644**	**691 897**
Total risk exposure amount for credit valuation adjustment	**17 784**	**16 629**

* Luminor Group AB full year consolidated figures

PRIORITIES FOR 2020

Luminor's core business is to serve entrepreneurial people in the Baltics with a primary focus on local companies and financially active people.

We want to create a bank that we ourselves would want to be customers of. A bank for curious, active and forward-looking people, who are passionate about their community and want to build a better tomorrow. A bank that is based on service leadership, and entrepreneurship.

Luminor's priorities for 2020 are to:

- Complete the customer migration
- Further improve the customer experience
- Continue to work with focused efficiency
- Foster new business origination to drive profitable growth within Luminor's risk appetite.
- Improve funding and capital efficiency.

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report is prepared in accordance with the requirements of the Estonian Accounting Act and the EBA Guidelines on internal governance (the EBA Guidelines)[1].

Luminor has made a commitment to adhere to the principles of sound corporate governance in order to preserve and develop its values and the sustainability of its operations on an on-going basis. The internal governance principles provide clarity for decision-making processes and for defining responsibilities and they establish the framework for internal control and for risk management. Corporate governance rules help to ensure that Luminor's operations are run in an efficient and profitable manner and in the best interests of its customers, shareholders, employees and all other internal and external stakeholders.

In deciding the corporate governance principles, Luminor started from its vision and its strong focus on the Baltic market, as corporate governance must support our operating model of achieving regional scale, business development and efficiency, while maintaining high local relevance and customer intimacy.

Luminor is continuously seeking to improve its efficiency and sustainability, and so the principles for the internal governance and management of Luminor are regularly reviewed and updated. In 2019 Luminor reviewed its corporate governance rules, and updated Corporate Governance Policy was adopted by the Supervisory Council of Luminor Bank AS. The updates to Luminor's corporate governance rules were driven by the following factors:

- an internal corporate restructuring, which involved the cross-border merger of Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania) into Luminor Bank AS (Estonia) in January 2019;
- the introduction of a new operating model in March 2019; and
- Luminor's new ownership structure following the completion of the Blackstone transaction in September 2019.

GROUP LEGAL STRUCTURE

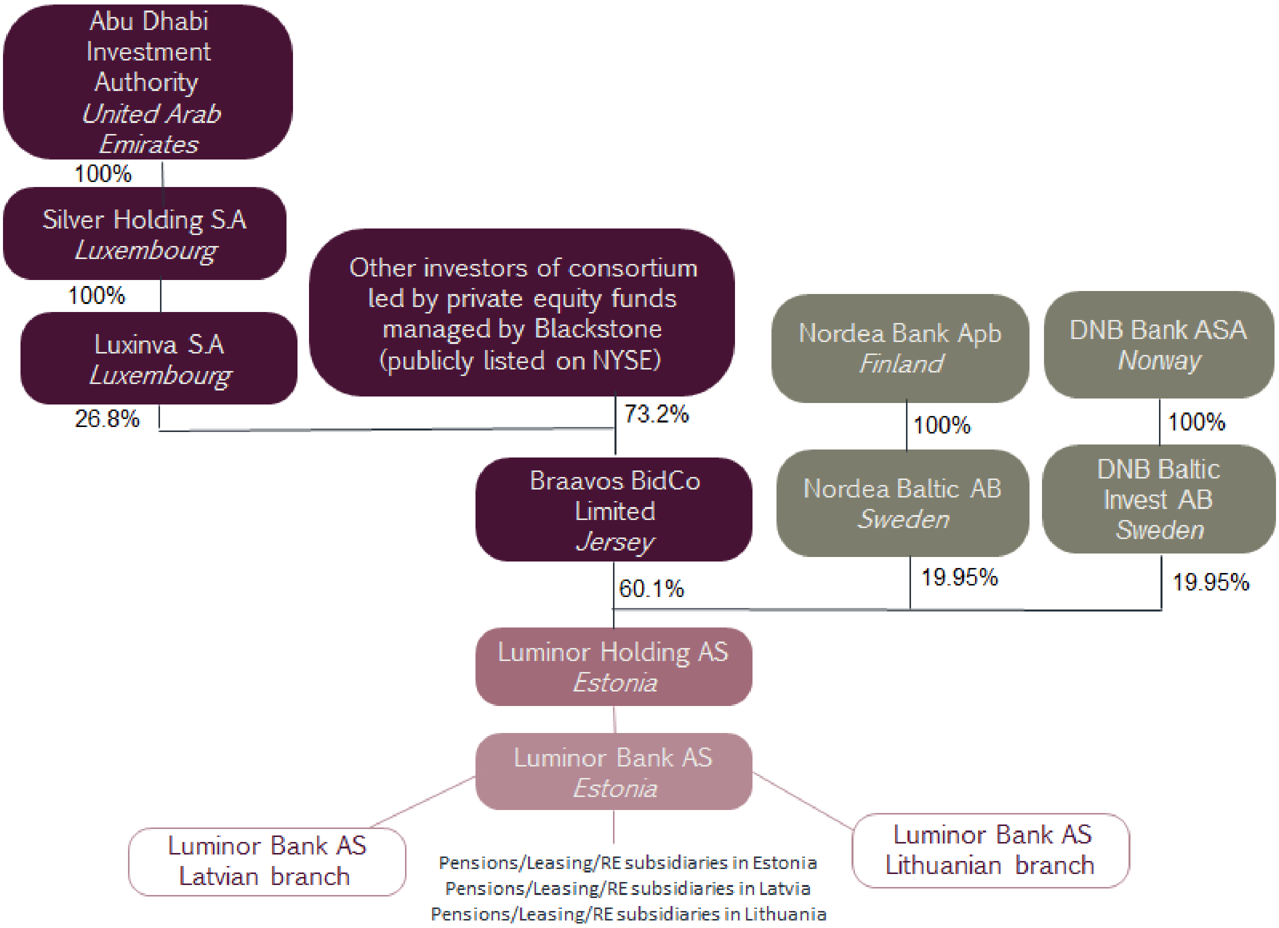
Luminor's operations in the Baltic countries are structured under Luminor Holding AS, a financial holding company incorporated in Estonia, which is the sole shareholder of Luminor Bank AS.

Luminor Bank AS has one class of shares (registered common shares), which were all owned by one shareholder in 2019, first by Luminor Group AB until 23 September 2019, when a newly established financial holding company Luminor Holding AS acquired all the shares. Each share has a nominal value of 10 EUR and grants one vote at the General Meeting, and each shareholder has the right to participate in the General Meeting and the distribution of profits.

It is the exclusive preserve of the General Meeting to amend the Articles of Association of Luminor Bank AS, and doing so requires a majority of two thirds of the votes represented at the General Meeting.

[1] Final Report on Guidelines on Internal Governance, European Banking Authority, EBA/GL/2017/11. Available at: https://eba.europa.eu/documents/10180/1972987/Final+Guidelines+on+Internal+Governance+%28EBA-GL-2017-11%29.pdf/eb859955-614a-4afb-bdcd-aaa664994889.

Luminor owns several subsidiaries in Estonia, Latvia and Lithuania, including pension fund management companies, leasing companies and special purpose entities that own repossessed assets. The general legal structure at the end of 2019 was as follows:



On 13 September 2018, DNB, Nordea, Luminor Group AB and a consortium led by funds managed by affiliates of Blackstone signed a Share Sale and Purchase Agreement to acquire 60.1% of the shares in Luminor. The acquisition of the majority shareholding was completed on 30 September 2019. The immediate parent of Luminor Bank AS is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc.

MANAGEMENT STRUCTURE

Luminor's management structure

Luminor's Articles of Association state that the management functions of Luminor are carried out by three management bodies, which are the General Meeting of Shareholders, the Supervisory Council and the Management Board. The activities of the Supervisory Council are supported by various committees.

The General Meeting of Shareholders is Luminor's highest decision-making body where shareholders can exercise their rights that come with Luminor's shares. General Meetings are held at least once a year. In 2019, one General Meeting was held by Luminor as the Annual General Meeting took place on 19 March 2019.

As required by Estonian Credit Institutions Act, Luminor Bank AS has a two-tier or dual board governance structure, where

- the supervisory (non-executive) functions are carried out by the Supervisory Council and
- the management (executive) functions are carried out by the Management Board.

Members of the Management Board cannot simultaneously be members of the Supervisory Council. However, Members of the Management Board may at the invitation of the Supervisory Council attend or observe the meetings held by the Supervisory Council or a committee established by the Supervisory Council.

Only people who have the necessary expertise, skills, experience, education and professional qualifications and an impeccable business reputation may be elected or appointed as members of the Management Board or the Supervisory Council.

When electing or appointing managers, Luminor Bank AS is committed to ensure that the composition of the management bodies is adequately diverse and in compliance with the principles of diversity of the bank. To encourage independent opinions and critical challenges, the members of the management bodies of the bank of different age, gender, geographical provenance and educational and professional background are seeked so they may present a variety of views and experiences. Areas of responsibility are divided between the members of the Management Board to suit their skills and expertise and the responsibilities they have, and this is set out in the mandates that are approved by the Supervisory Council.

Luminor has succession planning procedures that ensure that all necessary plans and procedures are in place to deal with any sudden or unexpected absences or departures of members of the management body. Succession planning also means the continuity of decision-making is guaranteed and it prevents too many members of the Management Board having to be replaced simultaneously.

Specialised committees of the Supervisory Council support it in specific areas. Committees have been established for all the cases where Luminor has a legal or regulatory duty to establish one. The management bodies of Luminor also establish committees when required by law or when doing so increases efficiency and allows a deeper focus on specific areas, or is otherwise necessary or desirable to help the management bodies carry out their responsibilities effectively.

Luminor ensures the clear allocation and distribution of duties and tasks between the committees through internal committee regulations. Each committee has a documented mandate from the management body responsible for it that covers the scope of its responsibilities, and it has appropriate working procedures established for it.

Luminor's corporate governance rules state that other types of structured meeting groups and forums can be established in addition to committees in the organisation by members of the Management Board or key function holders. The members of the Management Board may, for example, establish additional discussion and information forums within their areas of responsibility and grant the forum a mandate at their own discretion. Decisions taken by such forums are in fact made by the person chairing them based on the individual decision making power delegated to that person by the mandates approved by the Supervisory Council.

Delegating to committees or other forums does not in any way release the management bodies of Luminor from collectively fulfilling their duties and responsibilities.

The decisions of all the management bodies, committees and forums of Luminor must be properly documented and saved.

Below is a more detailed description of Luminor's management bodies and the committees supporting them.

Supervisory Council

The main responsibilities of the Supervisory Council are to represent the shareholders' interests, supervise the activities of the Management Board and the operations of Luminor, and take decisions on strategic issues. The Supervisory Council of Luminor supervises the activities of Luminor and its Management Board in managing the bank. Members of the Supervisory Council supervise that activities of the bank, the Management Board and employees comply with legislation and the internal rules, and with any other rules set by the managing bodies of Luminor, and they supervise the compliance of the Management Board in identifying and monitoring risks and in controlling the extent of risks. In addition to the foregoing core functions, the functions of the Supervisory Council could be summarised as:

- approving strategy and business plans;
- ensuring the effectiveness of Luminor's governance framework;
- monitoring and overseeing the risk culture of Luminor and the code of conduct;
- monitoring the implementation of an appropriate internal control framework and financial reporting;
- monitoring through the Audit Committee the implementation of the internal audit plan.

The Supervisory Council is elected by the General Meeting. All the members of the Supervisory Council must be assessed before they can be elected to the position and approved by the bank. The ECB also assesses the Supervisory Council members using Fit and Proper requirements.

According to the Articles of Association of Luminor Bank AS, the Supervisory Council has five to fifteen members, whose term of office is five years. Luminor has its registered office in the European Economic Area, and for it to comply with the good practices set for credit institutions there, a sufficient number of the members elected to the Supervisory Council must be independent from Luminor and its executive management so as to 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.

The members of the Supervisory Council must elect from among themselves a chair for the Supervisory Council. The chair coordinates the work of the Supervisory Council, and contributes to the efficient flow of information within the Supervisory Council and with other management bodies and committees. The chair is also responsible for the effective overall functioning of the Supervisory Council. The chair encourages and promotes open and critical discussions, ensures that dissenting views can be expressed and discussed within the decision-making process, and ensures that decisions by the Supervisory Council are taken on a sound and well-informed basis. On 4 January 2019, Nils Melngailis was appointed as the chair of the Supervisory Council.

On 29 September 2019 new Members were elected to the Supervisory Council, and they were Johan Pedersson Lilliehöök, Jerome Mourgue d'Algue and Nadim Diaa El Din El Gabbani. Former members Nadine Faruque and Ari Kaperi resigned from their positions, taking effect from July 2019. The following table gives the date that each member of the Supervisory Council was appointed to it:

Name	Supervisory Council member since	Position
Nils Melngailis	2 January 2019	Chair
Bjørn Erik Naess	2 January 2019	Member
Jørgen Christian Andersen	2 January 2019	Member
Michael Richard Jackson	2 January 2019	Member
Trygve Young	2 January 2019	Member
Johan Pedersson Lilliehöök	30 September 2019	Member
Jerome Mourgue d'Algue	30 September 2019	Member
Nadim Diaa El Din El Gabbani	30 September 2019	Member

Meetings of the Supervisory Council are held whenever necessary, but at least quarterly. In 2019, the Supervisory Council held 34 meetings, including per capsulam meetings.

The Supervisory Council carries out annual self-assessments, as described and detailed in Luminor's internal documents. If deemed necessary, the Supervisory Council may engage an external party to carry out an independent assessment. In 2019, the Supervisory Council's self-assessment was conducted with the involvement of Executive Search Baltic OÜ (Amrop) as an external consultant.

Management Board

The Management Board is the executive body of Luminor, and its main functions are outlined in the Articles of Association. The main responsibilities of the Management Board are to direct the day-to-day activities of Luminor following the strategies and general principles approved by the Supervisory Council. The Management Board is ultimately responsible for providing financial services in accordance with the law, following the strategies approved by the Supervisory Council, and analysing regularly together with the Supervisory Council how those strategies are followed and whether they are appropriate. The Management Board is expected to review critically and challenge the propositions, explanations and information presented to it and take decisions on a sound and well-informed basis. The Management Board comprehensively reports to the Supervisory Council and regularly informs it about the points assessed for any given situation and about any risks and developments that affect or may affect the bank.

According to the Articles of Association, the Management Board has three to ten members whose term of office is five years. The members of the Management Board are appointed and recalled by the Supervisory Council. All Management Board members must be assessed by the Nomination Committee and approved by the Supervisory Council and the ECB. The chair of the Management Board is appointed by the Supervisory Council from among the members of the Management Board.

The Management Board has at least the following members:

- Chair of the Management Board (Chief Executive Officer (CEO)), who has overall responsibility for managing the bank and the entire group;
- Chief Financial Officer (CFO), who has the overall responsibility for managing financial resources, financial planning and financial reporting;
- Head of the Risk Management Function (Chief Risk Officer (CRO)), who is responsible for ensuring that material risks in the Group are identified, assessed, monitored, tested and independently reported to the management bodies of Luminor, and that the business is advised on for appropriate risk mitigation and management.

Christian Wallentin resigned from the Management Board with effect from 31 January 2019. Jonas Filip Eriksson joined the Management Board in May 2019. From September to November 2019, Ilja Sovetov, Georg Jürgen Kaltenbrunner, Marilin Pikaro and Indrek Heinloo were appointed as new Members of the Management Board by the Supervisory Council, and Hannu Saksala resigned. The following table gives the date each member of the Management Board was appointed to the Management Board:

Name	Management Board member since	Position
Erkki Raasuke	2 January 2019	Chair
Kristina Siimar	2 January 2019	Member
Kerli Gabrilovica	2 January 2019	Member
Andrius Načajus	12 November 2018	Member
Jonas Filip Eriksson	1 May 2019	Member
Ilja Sovetov	2 September 2019	Member
Marilin Pikaro	10 October 2019	Member
Indrek Heinloo	10 October 2019	Member
Georg Jürgen Kaltenbrunner	1 November 2019	Member

Meetings of the Management Board are held at least monthly. In 2019, the Management Board held 55 meetings, including per capsulam meetings.

Supervisory Council Committees

Following the principles described above, the Supervisory Council has established the following committees that were operating in 2019:

- Audit Committee
- Risk Committee
- Nomination Committee
- Remuneration Committee.

The revised internal governance rules allow the Supervisory Council to establish a Strategic Operations Committee in addition to these committees, though it did not do so in 2019.

For the committees of the Supervisory Council, the Supervisory Council sets, approves and oversees the arrangements that ensure the internal functioning of the committees, detailing the appropriate information flow, including the documentation of recommendations and conclusions, and the reporting lines between each committee and the Supervisory Council, the authorities and other parties.

These committees and their authorisations are governed by the internal regulations.

Audit Committee

The role of the Audit Committee is to assist the Supervisory Council in fulfilling its responsibility for monitoring, analysing and overseeing that Luminor and its subsidiaries have sound internal quality control, and internal audit and risk management systems for financial reporting in place, and that financial reporting is reliable and objective, and sound accounting policies and budgeting processes are in place. The Audit Committee also monitors the effectiveness of the statutory audit, meaning the independence and objectivity of Luminor’s external auditor. On 29 May 2018, the Supervisory Council selected AS PricewaterhouseCoopers as the statutory auditor for the years 2018 and 2019.

The Audit Committee consists of at least three members, who are selected from amongst the members of the Supervisory Council. At least one member of the Audit Committee must have more than three years of experience in accounting or auditing. In 2019, the members of the Audit Committee were Bjørn Erik Naess (chair), Jørgen Christian Andersen, Michael Jackson, Jerome Mourgue d’Algue and Johan Pedersson Lilliehöök.

Meetings of the Audit Committee are held at least once per quarter. In 2019, the Audit Committee held 17 meetings, including per capsulam meetings.

Risk Committee

The responsibilities of the Risk Committee are to:

- advise and support the Supervisory Council in monitoring and setting the risk strategy and appetite;
- oversee an effective form of optimal capital structure, risk management and control;
- provide recommendations on how to optimise Luminor’s asset and liability structure with regard to acceptable risk and return;
- oversee the alignment between all the financial products and services offered by Luminor and Luminor’s business model, and the risk strategy and risk appetite of Luminor;
- assess the risks associated with the existing and new financial products and services offered by Luminor, and examine the alignment with the prices assigned and profits gained from those products and services;
- review, analyse and assess how Luminor’s risk profile would react to external and internal events in normal and stressed situations.

The Risk Committee consists of at least three members selected from amongst the members of the Supervisory Council. Members of the Risk Committee must have sufficient experience and knowledge of risk management and control practices, and specifically of the risk strategy of Luminor and of supervising its implementation. In 2019, the members of the Risk Committee were Trygve Young (chair), Michael Jackson, Nadim Diaa El Din El Gabbani and Johan Pedersson Lilliehöök. In 2019, the Risk Committee held 8 meetings, including per capsulam meetings.

Nomination Committee

The main responsibilities of the Nomination Committee are to identify and nominate for approval by the Supervisory Council the best candidates for the Management Board and other key function holders; oversee succession planning and talent management processes; and assess the structure, performance, knowledge, skills and experience of the Management Board collectively and of its members individually.

The Nomination Committee consists of at least three members selected from amongst the Supervisory Council members, who should have appropriate knowledge, skills and expertise for the selection process and for assessing suitability requirements. In 2019, the members of the Nomination Committee were Nils Melngailis (chair), Bjørn Erik Naess, Jørgen Christian Andersen and Nadim Diaa El Din El Gabbani.

Meetings of the Nomination Committee are held at least annually. At the end of 2019, the Nomination Committee held 10 meetings, including per capsulam meetings.

Remuneration Committee

The main responsibilities of the Remuneration Committee of the Supervisory Council are to verify that remuneration systems in Luminor generally conform to effective risk management and are designed to reduce the chance of excessive risk-taking.

To that end, the Remuneration Committee’s tasks are to:

- review the policies and practices of remuneration and variable remuneration;
- oversee the variable remuneration for the senior officers responsible for internal control functions;
- make recommendations to the Supervisory Council for the design of the remuneration package; and
- prepare the decisions to be taken by the management bodies about variable remuneration.

The Remuneration Committee consists of at least three members selected from amongst the Supervisory Council members. In 2019, the members of the Remuneration Committee were Jørgen Christian Andersen (chair), Bjørn Erik Naess and Nadim Diaa El Din El Gabbani.

Meetings of the Remuneration Committee are held at least annually. In 2019, the Remuneration Committee held 7 meetings.

The Internal Control Framework and Functions

Luminor develops and maintains a strong risk culture with focus on risk control and compliance within the organisation and a robust and comprehensive internal control framework. The internal control framework covers the entire Luminor Group, including all activities of all business lines and internal units, including internal control functions, outsourced activities and distribution channels. Risk management in Luminor is based on a model of three lines of defence and is organised in such a way that any possible conflicts of interest would be avoided. All business units and supporting functions constitute the first line of defence, the Compliance function and the Risk Management function constitute the second line of defence, and the Internal Audit function constitutes the third line of defence.

To ensure independence between the first line of defence and the control functions, the Chief Risk Officer and Chief Compliance Officer are appointed and recalled by the Chair of the Management Board with the approval of the Supervisory Council. The third line of defence, the Chief Audit Executive and Internal Audit staff, is appointed and recalled from office by the Supervisory Council.

Internal control functions regularly submit written reports to the Supervisory Council and the Management Board, on a quarterly basis at a minimum, covering major risks and deficiencies they have identified in accordance with the regulatory requirements and professional standards. For each new deficiency identified, these reports contain the relevant risks involved, an impact assessment, recommendations and corrective measures to be taken. The Supervisory Council follows up on the findings in a timely and effective manner and requires adequate remedial actions to be taken. The Chief Risk Officer and Chief Compliance Officer report to the Management Board of the Bank, and have direct access to the Supervisory Council via the Supervisory Council committees and directly. In addition to the regular reports, the management bodies of Luminor consistently communicate directly with the Chief Risk Officer on key risk issues.

Risk Management Function

The Risk Management function is the central, independent risk management unit in the group. This function defines risk policies and the risk management framework, plays a key role in ensuring that Luminor has effective risk management processes in place, is actively involved in all material risk management decisions and is authorized to assess breaches of risk appetite or limits independently, and to report these to the relevant management body. The function is headed and managed by the Chief Risk Officer, who has the overall responsibility for managing the Risk Management function in Luminor, reports to the Management Board of the Bank and has direct access to the Supervisory Council. Appropriate procedures have been laid down at Luminor to aid the Chief Risk Officer in challenging the decisions taken by the management bodies.

Compliance Function

The Compliance function is responsible for independently identifying, assessing, monitoring and reporting on compliance risks, and on compliance with the internal framework and all applicable laws, rules, regulations and standards. The Compliance function carries out its activities in accordance with the periodic plan.

The Compliance function is headed and managed by the Chief Compliance Officer, who has overall responsibility for the control of compliance risks in Luminor, reports to the Management Board of the Bank and has direct access to the Supervisory Council. The operation of the Compliance function and responsibility for it are regulated in Luminor's Compliance Policy.

Internal Audit Function

Internal Audit is a function that is independent from the executive management of the Luminor, as it is set up and supervised by the Supervisory Council and constitutes the third line of defence. All activities and entities of Luminor, including outsourced activities, fall within the scope of the Internal Audit. The Internal Audit provides reliable, independent and objective assurance to the Supervisory Council and the Management Board about the effectiveness of Luminor's governance, risk management and internal control processes within the first and second lines of defence. The Internal Audit presents audit findings and reports to the relevant responsible line management, the Management Board and the Supervisory Council through its Audit Committee and Risk Commitee. The Internal Audit promotes a sound control culture within Luminor.

The Internal Audit function carries out its activities based on its annual risk based Audit Plan, which is developed independently of the Management Board and other Luminor staff. The Audit Plan is approved by the Supervisory Council.

The Internal Audit function is committed to adhere to International Auditing Standards.

Internal Auditors have no direct operational responsibility or authority over any of the activities audited.

The Head of Internal Audit has overall ultimate responsibility for the Internal Audit in Luminor. The Head of Internal Audit and members of staff of the Internal Audit are appointed to and removed from office by a resolution of the Supervisory Council.

The Internal Audit has full, free and unrestricted access to all functions, records, property, premises, agents and personnel, including providers of services supplementary to activities of Luminor and all documents and information that the Internal Audit considers it needs to be able to fulfil its responsibilities.

Management of Branches

In 2019, an internal corporate restructuring was carried out in Luminor. The restructuring took effect on 2 January 2019, when a cross-border merger of Luminor Bank AS (Estonia), Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania) was completed. By the merger, all the assets and liabilities, including the rights and obligations, of Luminor's Latvian and Lithuanian legal entities were transferred to Luminor Bank AS (Estonia) and simultaneously assigned back to Luminor's newly established branches in Latvia and Lithuania. The main objectives of the merger were to optimise and harmonise the legal structure and corporate governance of the legal entities in the Baltics, save costs on administration, management and intra-group transactions, create unified internal bodies and control procedures in order to increase the efficiency of business activities, and to ensure better protection of the interests of business partners and customers. Combined operations are expected to increase the scale and cost efficiency of Luminor.

The role of the branches of Luminor in Latvia and Lithuania is to provide financial services under the authorisation of Luminor and as notified to the authorities in Estonia, Latvia and Lithuania.

For the purpose of their activities, the branches are able to enter into agreements and undertake obligations on behalf of Luminor and to acquire other rights and assume other duties, provided that those duties do not contradict the law, or the resolutions or directives of the Supervisory Council and the Management Board.

The daily activities of the branches are managed by the Branch Manager. The Branch Managers and their deputies are appointed by the Supervisory Council. The Management Board acts as a supervisory body for the branch and the Branch Manager. The business plans, financial results and performance of the Branch are reviewed and approved by the Management Board.

Management of Subsidiaries

Although the majority of the products and services are offered by Luminor and its branches in Latvia and Lithuania, Luminor also has dedicated subsidiaries that are leasing, pension fund management and distressed assets companies. Under the internal corporate restructuring in 2019, Luminor Bank AS in Estonia became a direct shareholder of all of Luminor's subsidiary companies in Latvia and Lithuania.

Luminor's structure is designed following the rule that the structure of Luminor should not impede the ability of the management bodies to oversee and manage effectively the risks Luminor faces nor the ability of the authorities to supervise Luminor effectively. Luminor does not set up opaque or unnecessarily complex structures that have no clear economic rationale or legal purpose.

Furthermore, Luminor's management bodies must ensure that Luminor as a whole complies with all supervisory reporting requirements on an individual, sub-consolidated and consolidated basis, and that Luminor is able to produce all necessary information on its structure in a timely manner. Management bodies must further ensure that all Luminor's subsidiaries receive enough information to get a clear perception of the general objectives, strategies and risk profile of Luminor and of how that subsidiary is embedded in Luminor's structure and operational functioning.

The management bodies of each subsidiary depend on the laws that apply to that subsidiary and its role. The Chief Executive Officer or the Management Board of a subsidiary is responsible for executing the decisions taken by the management bodies of the shareholder of the subsidiary. The management bodies of subsidiaries report to the Management Board of the shareholder of the subsidiary on matters related to implementing business plans and adhering to the income and expense budgets of the subsidiary.

In 2019, the following Luminor subsidiaries were liquidated, merged with another Luminor entity or acquired by a third party: Uus-Sadama 11 OÜ, Luminor Kindlustusmaakler OÜ, SIA Skanstes 12 and UAB Luminor būstas.

DIVERSITY POLICY

From its inception, Luminor has made a commitment to building a diverse team and encouraging independent opinions and critical challenges. Luminor has in place an Equality, Non-discrimination and Diversity Policy statement that defines the principles Luminor follows:

- creating an environment in which individual differences and the contributions of all team members are recognised and valued, and which promotes dignity and respect for every employee;
- promoting equality in the workplace, as this facilitates collaboration and helps create business value for customers, stakeholders, employees and society; this includes applying equal selection criteria and conditions for recruitment, setting equal salary ranges for equal work, and similar;
- not tolerating any discrimination and taking measures to protect employees from any form of intimidation, bullying, scapegoating, victimisation, harassment or sexual harassment in the workplace that is based on discrimination;
- encouraging anyone who feels they have been subject to discrimination to raise their concerns so that corrective measures can be applied.

Luminor's People and Culture Division set process for evaluating and enhancing diversity aspects such as gender diversity, representation of different geographic areas, and diversity of skills when recruiting managers and employees. To apply the principle of equal pay for equal work, pre-defined salary ranges for various positions are used in recruitment and salary reviews.

CORPORATE VALUES AND CODE OF CONDUCT

One of the key elements of compliance at Luminor is a strong corporate and risk culture. It is essential for Luminor that members of the management bodies and staff understand and follow Luminor's values and ethical standards and the principles of compliance and risk management. Luminor has had a Code of Conduct in place since 2018, describing values and expected behaviour:

- Professional: Maintaining a commitment to the highest standards of personal conduct, business integrity and customer service.
- Straightforward: Keeping things simple and unpretentious, doing what we say we will do, speaking honestly and clearly.
- Optimistic: Seeing the good in people, holding true to our purpose and believing that better is always possible.
- Curious: Always asking why so that we can learn more about our aspirations, motivations and frustrations.

- Collaborative: Actively breaking down organisational silos and helping each other deliver great results.

In 2019 the Code of Conduct was amended to integrate Anti-Bribery and Anti-Corruption policies into it, to support Luminor and its employees in their efforts to prevent bribery and corruption.

Luminor aspires to the highest standards of ethical and professional conduct and requires all its employees to read and follow the spirit of the Code of Conduct.

CONFLICT OF INTEREST MANAGEMENT

Luminor has developed and applies internal rules to identify, prevent and manage Conflicts of Interest in all its business activities, through all its structural units, functional areas and business processes. In 2019, a revised Conflicts of Interest Management Policy was adopted. In the Conflicts of Interest Management Policy, Luminor makes a commitment to act always in a fair and professional manner and make every effort to identify, prevent and manage Conflicts of Interest affecting customers, employees, business partners and other stakeholders to ensure that all stakeholders are treated fairly. The updated Conflicts of Interest Management Policy includes a non-exhaustive list of situations where conflicts of interest arise or might arise, and how they are to be managed. Each employee of Luminor must recognise and prevent any cases of conflicts of interests, and must also report them.

All employees are expected to abide by the rules set out in the Conflicts of Interest Management Policy. Further, all employees are regularly obliged to report their economic interests by filling in a Declaration of External Engagements.

On top of this, Luminor has in place a Gifts and Events Reporting Procedure, which describes the principles of behaviour to be maintained when giving and receiving gifts and events. The main principle is that employees do not accept or offer gifts or events, regardless of their value, if doing so can be considered inappropriate or may be ethically questionable, or may affect the recipient in performing their duties, or may create a reputational risk for Luminor Bank AS. The procedure provides specific examples to support employees in making decisions on the appropriateness of gifts and events and handling various situations.

AUDITORS

Luminor Bank AS has been audited by AS PricewaterhouseCoopers since 2018. Ago Vilu is the Lead partner for the audit. Luminor Bank AS complies with the auditor rotation requirement.

In addition to the statutory audit, the auditor of the Luminor Bank AS provided additional services required by regulations of Estonia, Latvia and Lithuania and other assurance services that are permitted under the Auditors Activities Act of the Republic of Estonia.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

thousand EUR	Notes	2019	2018
Interest income calculated using the effective interest method	6	244 765	236 169
Other similar income	6	56 912	62 031
Interest and similar expense	6	-57 510	-38 791
Net interest income	6	**244 167**	**259 409**
Fee and commission income	7	105 827	109 578
Fee and commission expense	7	-28 441	-25 817
Net fee and commission income	7	**77 386**	**83 761**
Net gain on financial assets and liabilities designated at fair value through profit/loss		852	-659
Net gain on debt securities at fair value through profit or loss		5 315	0
Net gain on financial assets and liabilities held for trading		5 683	5 048
Net gain from financial derivatives		10 736	10 403
Net gain from operations with foreign currency		11 344	14 238
Dividend income		90	89
Other operating income	11	17 749	4 531
Net other operating income		**51 769**	**33 650**
Salaries and other personnel expenses	8	-111 296	-111 292
Other administrative expenses	9	-147 460	-103 844
Depreciation and impairment of property, plant and equipment and intangible assets	20, 21	-13 177	-8 760
Other operating expenses	10	-17 889	-13 372
Total operating expenses		**-289 822**	**-237 268**
Share of profit from an associate	19	1 066	860
Net impairment (-)/ reversal on loans to customers	15	-24 015	6 313
Other non-operating expenses		-1 289	-7 134
Profit before tax		**59 262**	**139 591**
Tax expense	26	-5 265	-16 144
Profit for the period		**53 997**	**123 447**
Items that will be reclassified to profit or loss			
Changes in the fair value of debt securities at fair value through other comprehensive income		0	-4

Total items that will be reclassified to profit or loss		**0**	**-4**
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity securities at fair value through other comprehensive income		-55	1 515
Income tax recorded directly in other comprehensive income	26	0	85
Total items that will not be reclassified to profit or loss		**-55**	**1 600**
Total other comprehensive income		**-55**	**1 596**
Total comprehensive income		**53 942**	**125 043**

The accounting policies and notes on pages 35 to 143 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019

thousand EUR	Notes	31 December 2019	31 December 2018
Assets			
Cash and balances with central banks	12	2 924 019	3 293 090
Due from other credit institutions	13	141 645	185 346
Loans to customers	15	10 222 547	11 472 138
Financial assets held for trading	32	3 021	1 006
Financial assets at fair value through profit or loss	16, 32	227 896	143 758
Derivative financial instruments	14	59 217	44 352
Financial assets at fair value through other comprehensive income	32	140	8 872
Investments in associates	19	5 639	6 256
Intangible assets	20	8 199	7 414
Property, plant and equipment and right-of-use assets	21	67 472	16 383
Investment properties	22	2 427	23 970
Current tax assets		0	886
Deferred tax assets	26	3 031	908
Other assets	17	73 340	76 132
Non-current assets and disposal groups held for sale	18	71	25 347
Total assets		**13 738 664**	**15 305 858**
Liabilities			
Loans and deposits from credit institutions	23	980 692	3 939 396
Deposits from customers	24	10 235 443	9 069 885
Debt securities issued	25	651 716	351 235
Derivative financial instruments	14	58 304	41 255
Tax liabilities		3 845	8 850
Lease liabilities	21	57 051	0
Other financial liabilities	27	45 303	27 914
Other liabilities	28	69 793	64 308
Provisions	29	4 248	5 914
Total liabilities		**12 106 395**	**13 508 757**
Shareholders' equity			
Issued capital	30	34 912	34 912
Share premium	30	1 412 243	1 628 274
Retained earnings		183 916	129 455
Other reserves		1 198	4 460
Total shareholders' equity attributable to the shareholders of the Bank		**1 632 269**	**1 797 101**
Total liabilities and shareholders' equity		**13 738 664**	**15 305 858**

The accounting policies and notes on pages 35 to 143 are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

thousand EUR	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Restated equity as at 1 January 2018 (Note 1 Accounting for the merger)	**34 912**	**1 628 274**	**4 125**	**4 747**	**1 672 058**
Profit (loss) for the period	0	0	0	123 447	**123 447**
Other comprehensive income	0	0	1 596	0	**1 596**
Total comprehensive income for the period	**0**	**0**	**1 596**	**123 447**	**125 043**
Transfer to mandatory reserve	0	0	373	-373	**0**
Movement in other reserves	0	0	-1 634	1 634	**0**
Total equity as at 31 December 2018	**34 912**	**1 628 274**	**4 460**	**129 455**	**1 797 101**
Total equity as at 31 December 2018	**34 912**	**1 628 274**	**4 460**	**129 455**	**1 797 101**
Application of IFRS 16 (Note 3)	0	0	0	-2 514	**-2 514**
Restated equity as at 1 January 2019	**34 912**	**1 628 274**	**4 460**	**126 941**	**1 794 587**
Profit (loss) for the period	0	0	0	53 997	**53 997**
Other comprehensive income	0	0	-55	0	**-55**
Total comprehensive income for the period	**0**	**0**	**-55**	**53 997**	**53 942**
From OCI reserve to retained earnings	0	0	-3 194	3 194	**0**
Increase in share capital*	216 031	-216 031	0	0	**0**
Decrease of share capital*	-216 031	0	0	0	**-216 031**
Transfer to mandatory reserve	0	0	274	-274	**0**
Other	0	0	-287	58	**-229**
Total equity as at 31 December 2019	**34 912**	**1 412 243**	**1 198**	**183 916**	**1 632 269**

*see Note 30 Issued capital

The accounting policies and notes on pages 35 to 143 are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019

thousand EUR	Notes	2019	2018
Cash flows from operating activities			
Profit before tax		59 262	139 591
Adjustment for:			
-Net impairment (losses)/ reversal on loans to customers	15	24 015	-6 313
-Dividend income		-90	-89
-Share of profit from an associate	19	-1 066	-860
-Impairment of associates	19	20	70
-Loss/(Profit) from foreign currency revaluation		-428	232
-Depreciation, amortization and impairment		13 177	8 760
-Profit/loss from sale of property and equipment	11	-624	220
-Profit/loss from sale of Investment Property	11	-959	-702
-Profit from sale of subsidiaries and associates	11	-8 962	0
-Adjustment of Fair Value of Investment Property	22	1 653	3 722
-Other Adjustments		1 289	7 464
-Interest Income	6	-301 677	-298 200
-Interest expenses	6	57 510	38 791
Cash flow from operations before changes in Operating Assets/Liabilities		**-156 880**	**-107 314**
Change in Operating Assets/Liabilities			
Increase (-) / decrease (+) of lending to customers	15	1 258 980	158 053
Increase (-) / decrease (+) of other assets	17	-56 491	215 715
Increase (+) / decrease (-) of client deposits		-1 796 273	-610 328
Increase (+) / decrease (-) of liabilities	27, 28	47 313	10 349
Interest received		314 015	306 471
Interest paid		-61 775	-36 085
Income tax paid	26	-11 507	-14 167
Cash flow form operations		**-305 738**	**30 008**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	20, 21	-9 385	-8 938
Acquisition of investment property		0	-204
Proceeds from disposal of property and equipment and intangible assets		5 160	1 424
Proceeds from disposal of investment property		30 138	23 059
Dividend received		1 754	89
Cash flows from investing activities		**27 667**	**15 430**
Financing activities			

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Debt Securities Issued	25	298 809	284 326
Cashflows from Hedging activities		8	0
Payments of principal on leases	21	-5 965	0
Pay out to the Shareholder	30	-216 031	0
Cash Flows from financing activities		**76 821**	**284 326**
Net increase/(decrease) in cash and cash equivalents		**-358 130**	**222 450**
Cash and cash equivalents at the beginning of the period	12, 13	3 310 517	3 088 299
Effects of currency translation on cash and cash equivalents		428	-232
Net increase/(decrease) in cash and cash equivalents		-358 130	222 450
Cash and cash equivalents at the end of the period	**12, 13**	**2 952 815**	**3 310 517**
Cash and Cash equivalents comprises			
Cash on hand	12	140 518	178 440
Non-restricted current account with central bank	12	2 670 701	2 986 626
Due from other credit institutions on demand or with original maturity of three months or less	13	141 596	145 451
Total		**2 952 815**	**3 310 517**

The accounting policies and notes on pages 35 to 143 are an integral part of the consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

Luminor Bank AS (the Bank or the Group) is a local credit institution whose parent company is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. Other shareholders of Luminor Holding AS - Nordea Bank Abp and DNB BANK ASA - are considered to be the entities with significant influence over the Group. The Luminor Bank's registered legal address is Liivalaia 45, 10145, Tallinn, Estonian Republic.

New company Luminor Holding AS established on the 14 May 2019 is the new parent company of Luminor Bank AS since 23 September 2019. Until 23 September 2019 the parent company was Luminor Group AB.

On 2 January 2019 Luminor Bank AS has completed its cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank, Luminor Bank AS, and its branches in Latvia and Lithuania. See description of the accounting treatment under "Accounting for the merger" below.

On 30 September 2019 a consortium led by private equity funds managed by Blackstone acquired a 60.1% majority stake in the Luminor Holding AS, the owner of Luminor Bank AS. Luminor Bank AS previous owners, Nordea Bank Abp ("Nordea") and DNB BANK ASA ("DNB"), each retained a 19.95% equity stake in the Bank.

In the current annual report, "Bank" (or Luminor Bank AS) refers to Luminor Bank AS. "Group" refers to the consolidated financial statements of Luminor Bank AS and its subsidiaries.

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

Registered country Republic of Estonia:

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

Registered country Republic of Latvia:

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

Registered country Republic of Lithuania:

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

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

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

These consolidated financial statements for the year ended 31 December 2019 have been approved for issue by the Management Board and are subject to approval by the shareholders on 31 March 2020. Shareholders have the right not to approve the consolidated financial statements prepared by the Management Board and demand the preparation of new consolidated financial statements. Neither the Bank's shareholders nor others have the power to amend the financial statements after issue.

BASIS OF PRESENTATION

The financial statements of the Bank and consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by European Union (hereinafter – IFRS). The consolidated financial statements are prepared under the historical cost convention, except for financial instruments measured at fair value through profit or loss (“FVTPL”) and at fair value through other comprehensive income (“FVOCI”).

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 16 effective from 1 January 2019, these policies have been consistently applied to all the periods presented, unless otherwise stated.

When the presentation or classification of items in the consolidated financial statements is amended, comparative amounts for the previous period are also reclassified, if not referred differently in the specific accounting principle.

The Bank’s functional currency and reporting currency is EUR and, unless otherwise stated, all amounts are reported in thousands of EUR.

Certain new IFRS standards, amendments and interpretations to existing standards have been published by the time of compiling these financial statements that are mandatory for the Banks’s accounting periods beginning after 1 January 2020 or later periods. The overview of these standards and the Bank’s management estimate of the potential impact of applying the new standards and interpretations are given in Note 3.

In separate financial statements of the Bank and its subsidiaries are carried at cost less impairment while other policies are the same as consolidated.

ACCOUNTING FOR THE MERGER

On 2 January 2019 Luminor completed its cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank and its branches in Latvia and Lithuania. After the completion of the merger, all assets, rights and liabilities of Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania) were transferred to Luminor Bank AS in Estonia. The bank continued the same activities in Latvia and Lithuania through its locally established branches.

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

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

BASIS FOR CONSOLIDATION

Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has the power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than the majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group, and are deconsolidated from the date on which control ceases.

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

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree. Non-controlling interests that are not present ownership interests are measured at fair value.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss after management reassesses whether it identified all assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt are deducted from its carrying amount and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Bank and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

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

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

REPORTING CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in EUR, which is the Bank's and its subsidiaries' functional and presentation currency.

All monetary assets and liabilities denominated in foreign currencies are translated into EUR at the official rate of the ECB prevailing at the reporting period end. Gains and losses arising from this translation are included in the income statement for the period. Non-monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined.

Transactions denominated in foreign currency are recorded at the rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are charged to the income statement at the time of settlement using the exchange rate ruling at that date.

INCOME AND EXPENSE RECOGNITION

Interest income and expense

Interest income and expense are recorded for all debt instruments on an accrual basis using the effective interest method (EIR method). This method defers, as part of interest income or expense, all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees integral to the effective interest rate include origination fees received or paid by the Bank relating to the creation or acquisition of a financial asset or issuance of a financial liability, for example fees for evaluating creditworthiness, evaluating and recording guarantees or collateral, negotiating the terms of the instrument and processing transaction documents. Commitment fees received by the Group to originate loans at market interest rates are integral to the effective interest rate if it is probable that the Group will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination. The Group does not designate loan commitments as financial liabilities at fair value through profit and loss (FVTPL).

For financial assets that are originated or purchased credit-impaired, the effective interest rate is the rate that discounts the expected cash flows (including the initial expected credit losses) to the fair value on initial recognition (normally represented by the purchase price). As a result, the effective interest is credit-adjusted.

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

Fee and commission income

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

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

Fee and commission expense

Fee and commission expense are recognised after the service have been received and when liability has been inccured.

Operating income

Operating income is recognised on the basis of accrual.

Operating expenses

Operating expenses are recognised on the basis of accrual.

Dividend income

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

FOREIGN CURRENCY TRANSLATION

Transactions denominated in foreign currencies are recorded in EUR at the actual rates of exchange set forth by the ECB at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into EUR at the rate of exchange prevailing at the end of the period. Any gain or loss resulting from a change in rates of exchange subsequent to the date of the transaction is included in the statement of comprehensive income as a profit or loss from operations with foreign currency.

The principal rates of exchange (EUR to 1 foreign currency unit) set by the ECB and used in the preparation of the Group's and the Bank's balance sheets were as follows:

	NOK	USD
As at 31 December 2019	9.8638	1.1234
As at 31 December 2018	9.9483	1.1450

CORPORATE INCOME TAX

Estonia

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to taxation on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

Starting from 1 April 2018, the quarterly accounting profits of credit institutions are subject to corporate income tax at the rate of 14%. The tax is payable by the 10th day of the third month of the following quarter. Once the profits are distributed, an additional income tax of up to 6% is further payable, which adds up to the total tax rate of up to 20%. The rate of the additional tax depends on the regularity of the dividend payments. If no dividends are paid, the advance tax payments are not refunded. Corporate income tax payable on the quarterly profits is recognised as a current income tax expense. Deferred tax asset (and deferred tax income) on quarterly losses is recognised only if it is probable that future taxable profits will be available during 19 subsequent quarters to utilise those losses.

Lithuania

In accordance with the Lithuanian Law on Corporate Income Tax, the current income tax rate is 15 % on taxable income on profits earned in 2019 and 2018. According to December 2019 changes in the Law, current income tax rate for 2020 profits of credit institutions in excess of 3 million EUR is set at 20%. Expenses related with taxation charges and included in these financial statements are based on calculations made by the management in accordance with the Lithuanian tax legislation.

Latvia

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

Corporate tax on distributed profit will be recognized when the shareholders of the Bank and the Group make a decision about profit distribution.

The Bank and the Group calculate and pay corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the profit or loss statement in the year for which it is assessed. Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item “Corporate income tax for the reporting year” and disclosed by the components in the notes to the financial statements.

DEFERRED TAX

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

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

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

Tax losses can be carried forward for indefinite period. The losses from disposal of securities can only be used to offset the profit earned from sale of securities. The losses from disposal of securities can be carried forward for 5 consecutive years. Starting with 1 January 2014 tax losses carried forward can be used to reduce the taxable income.

Deferred tax related to fair value re-measurement of financial assets classified as at fair value through other comprehensive income which are charged or credited to other comprehensive income, is also credited or charged to other comprehensive income and its subsequent movements follow recognition of gains or losses on disposals.

OTHER TAXES

Other taxes are included in other expenses in the income statement.

CASH AND BALANCES WITH CENTRAL BANKS

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

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

FINANCIAL INSTRUMENTS

Classification and measurement

Financial instruments at FVTPL are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets. After the initial recognition, an ECL (expected credit loss) allowance is recognised for financial assets measured at AC (amortised cost).

The subsequent measurement of financial assets depends on the classification performed by the Group at initial recognition.

At initial recognition, financial assets can be classified into one of the following categories:

- Financial assets measured at fair value through profit or loss;
- Financial assets measured at fair value through other comprehensive income (OCI);
- Financial assets at amortised cost.

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

On initial recognition, financial liabilities are classified into one of the following categories:

- Financial liabilities measured at amortised cost, or
- Financial liabilities measured at fair value through profit or loss.

Financial liability is classified as measured at fair value through profit or loss if:

- It meets the definition of held for trading, or
- It is designated upon initial recognition to the fair value through profit or loss measurement option.

All other financial liabilities are classified as measured at amortised cost.

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

Trading securities

Trading securities are securities that were acquired either for generating a profit from short-term fluctuations in price or dealer's margin or are securities included in a portfolio in which a pattern of short-term profit taking exists.

Trading securities are classified as financial assets measured at fair value through profit or loss.

Trading securities are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income or expenses. Dividends received are included in dividend income.

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

Derivative financial instruments

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

Securities for liquidity management

Securities which were acquired for liquidity management purposes and are within held to collect and sell business model are initially recognised at fair value, which is based on quoted bid prices. All related realised and unrealised gains and losses are included in net gain (loss) on transactions with securities. Dividends received are included in dividend income
FVTPL option was ellected for those securities because it leads to significant reduction or elimination of accounting mismatch.

Financial assets measured at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include financial assets that are invested in equity shares and debt securities. Those assets are intended to be held for an indefinite period of time and are initially recognised at fair value based on quoted bid prices or amounts derived from discounted cash flow models. Unrealised gains and losses arising from changes in the fair value of those financial assets are recognised in other comprehensive income (OCI). When the financial asset is derecognised the cumulative gain or loss previously recognised in OCI is not reclasified to profit or loss.

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

Repurchase and reverse repurchase agreements

The securities sold under agreements to repurchase at a specified future date are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group.

The securities purchased under agreements to resell at a specified future date are not recognised in the statement of financial position. Reverse repurchase agreements are classified as loans and receivables to other banks or customers, and are accounted for using the amortised cost method. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Financial assets measured at amortised cost

Loans to customers

Loans to customers are classified as financial assets measured at amortised cost, provided that the following criteria are met:

- they are held within the business model, the aim of which is achieved by collecting contractual cash flows ("Held to collect" business model);
- their contractual cash flows represent solely payments of principal and interest on outstanding principal;
- the Group does not designate them on initial recognition to the fair value through profit or loss measurement option.

Loans to customers meeting the aforementioned criteria are measured at amortised cost and are subject to the IFRS 9 impairment model.

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

Financial liabilities measured at amortised cost

Loans, deposits and bonds issued

All financial liabilities (loans, deposits, bonds issued) are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs. After the initial recognition, the interest-bearing loans, deposits and bonds issued by the Group are recognised at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as net interest income in the statement of profit and loss.

Impairment of financial instruments

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

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

For financial instruments, which are in scope of impairment model, loss allowances for expected credit losses are calculated in the following way:

- Financial instruments with no significant increase in credit risk since the initial recognition (or financial instruments which are considered to have low credit risk) – loss allowances for expected credit losses are calculated at an amount equal to 12-month expected credit losses;
- Non-credit-impaired financial instruments with significant increase in credit risk since the initial recognition – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses;
- Credit-impaired financial instruments – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses;

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- 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.

The Group assesses at each reporting date whether the credit risk on a financial instrument has increased significantly since initial recognition by analysing the change in the risk of a default occurring over the expected life of the financial instrument. To make that assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information, available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include past due more than 90 days event or identification of unlikely to pay criteria. For a more detailed information see Section "General Risk Management Policies" of this report.

Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses are the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

For a financial asset that is credit-impaired at the reporting date the Group measures the expected credit losses as the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows that the Group expects to receive (i.e. all cash shortfalls), discounted at the original effective interest rate (or the credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. The cash flows that are considered include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Financial guarantees and loan commitments are also within the scope of the expected credit loss model. For loan commitments, the Group considers changes in the credit risk of the loan to which a loan commitment relates. For financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

For forward-looking information on financial instruments impairment see also note 2 Significant accounting estimates and judgments.

Offsetting

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

Hedge Accounting

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

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

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

The Group applies the fair value hedge. Fair value hedge is hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment.

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

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest (EIR) method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Fair value of financial instruments

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

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

The principal or the most advantageous market must be accessible to the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interests.

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. When the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is used in establishing fair values.

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

Derecognition of financial assets and liabilities

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

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

When the Group has transferred the rights to receive cash flows from an asset or has entered into a pass-through arrangement and have neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the

Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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

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

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

Restructured loans

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

Collateral repossessed

The Bank's policy is to avoid takeover of assets and use this option only in exceptional cases. In the case of repossessed assets it has to be firstly determined whether it is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold within 12 months are recognized at the lower of its carrying amount and fair value minus cost to sell at the repossession date.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

LEASES — WHEN THE GROUP IS A LESSOR

Accounting for leases by the Group as a lessor from 1 January 2019

Operating leases

Lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's use of the asset.

Finance leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. The Group shall recognise assets held under a finance lease in its statement of financial position and present them as a receivable at an amount equal to the net investment in the lease. The lease payments included in the measurement of the net investment in the lease comprise the following payments for the right to use the underlying asset during the lease term that are not received at the commencement date:

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

(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;

(c) any residual value guarantees provided to the lessor by the lessee, a party related to the lessee or a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee;

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

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

The Group shall recognise finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor's net investment in the lease.

Accounting for leases by the Group as a lessor prior to 1 January 2019

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset and the arrangement conveys a right to use the asset.

Finance leases

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Operating leases

Leases where the Group does not transfer substantially all the risk and benefits of ownership of the asset are classified as operating leases. Contingent rents are recognised as revenue in the period in which they are earned. Rental income is recognised on a straight-line basis over the lease term.

LEASES — WHEN THE GROUP IS A LESSEE

Accounting for leases by the Group as a lessee from 1 January 2019

The Group leases various offices and other assets (IT equipment and cars). From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:
(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable;
(b) variable lease payment that are based on an index or a rate;
(c) amounts expected to be payable by the lessee under residual value guarantees;
(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

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

The cost of the right-of-use asset comprises:
(a) the amount of the initial measurement of the lease liability at the present value of the lease payments that are not paid at that date;
(b) any lease payments made at or before the commencement date, less any lease incentives received;
(c) any initial direct costs incurred by the lessee; and
(d) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

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

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. In determining the lease term, management of the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

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

Accounting for leases by the Group as a lessee prior to 1 January 2019

Operating leases

Lease payments are recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's use of the asset.

FACTORING RECEIVABLES

Valuation of factoring receivables follows the same concept as described above under financial assets. Impairment indicators for factoring receivables are the same as for loans to customers.

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

Factoring receivables are measured at amortised cost, which is the amount measured at initial recognition minus principal repayments. Contract fees are recognised in interest income over the term of underlying contract. This method yields a result approximating the one obtained on applying the effective interest rate method. Allowance for doubtful receivables is presented on the respective line of the statement of financial position at negative value and are accounted for similarly as loans to customers.

PROPERTY, PLANT AND EQUIPMENT

Property and plant and equipment are recorded at cost minus accumulated depreciation and impairment losses, if any.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Depreciation is provided using the straight-line method to expense the cost of each asset to their residual value over the estimated useful life of the asset. The following depreciation rates are applied:

Category	Annual Rate
Equipment	20%
Network and computer equipment	25-33%
Furniture	16-33%
Vehicles	15-20%

Maintenance and repair costs are charged to the statement of comprehensive income as incurred. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of the reporting period.

Leasehold improvements are capitalised and depreciated over the shorter of their useful life and remaining lease contract period on a straight-line basis.

INTANGIBLE ASSETS

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite (the Group had no intangible assets with indefinite useful life as at 31 December 2019 and 31 December 2018). Intangible assets with finite lives are amortised using the straight–line method over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end in order to reflect the pattern of consumption of such asset. The amortization period is equal to the contract period, which in 3-5 years in average.

INVESTMENT PROPERTY

Investment properties are properties (land and/ or building) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for administrative purposes; or
- sale in the ordinary course of business.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the statement of comprehensive income in the period in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the statement of comprehensive income in the period of de-recognition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

PROVISIONS

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

The provisions for employee vacation pay are calculated for the Group's personnel based on each employees' total number of vacation days earned but not used and average salary including social security expense.

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

In the ordinary course of business, the Group has been involved with off-balance sheet financial instruments consisting of commitments to extend loans to customers, financial guarantees and commercial letters of credit. Such financial instruments are recorded in the statement of financial position when they are funded or related fees are incurred or received.

The Group measures issued financial guarantees initially at their fair value, which is normally evidenced by the amount of fees received. This fee amount is then amortised on a straight-line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) expected credit loss.

The Group issues commitments to provide loans. These commitments are irrevocable or revocable only in response to a material adverse change. Such commitments are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the commitment.

Documentary and commercial letters of credit represent written undertakings by the Bank and the Group on behalf of a customer authorising a third party to draw drafts on the Bank and the Group up to a stipulated amount under specific terms and conditions.

Performance guarantees are contracts that provide compensation if another party fails to perform a contractual obligation. Such contracts transfer non-financial performance risk in addition to credit risk. Performance guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the contract.

RELATED PARTIES

Parties are considered related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Board and the Management Board, key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The immediate parent of Luminor Bank AS is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. BCP VII is treated to be both the ultimate parent and ultimate controlling entity of Luminor Bank AS. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions are carried out on commercial terms and at market rates.

The Group has defined that a person or a close member of that person's family is related to a reporting entity if that person:

A person or a close member of that person's family is related to a reporting entity if that person:
(i) has control or joint control of the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:
(a) that person's children and spouse or domestic partner;
(b) children of that person's spouse or domestic partner; and
(c) dependants of that person or that person's spouse or domestic partner.
For more information about related parties please see Note 33.

EVENTS AFTER THE REPORTING PERIOD

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

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

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

The Group recognizes the credit losses in accordance with IFRS 9. The Standard applies a forward-looking expected credit loss (ECL) approach. The Group is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The assets to test for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition or which are classified as low credit risk (credit rating indicating investment grade). The allowances for stage 1 assets are based on the expected credit losses associated with the probability of default in the next twelve months (12-month expected credit loss). Stage 2 includes assets where there has been a significant increase in credit risk. The allowances for stage 2 assets are based on the expected credit losses associated with the probability of default over the life of the asset (lifetime expected credit losses). Stage 3 includes credit-impaired (defaulted) assets, and the allowances reflect the lifetime expected credit losses. Material assets in stage 3 are tested for impairment on an individual basis, while for immaterial stage 3 assets a collective assessment is performed. Loss allowances based on lifetime expected credit losses are calculated also for additional category - purchased or originated credit-impaired assets (POCI) - regardless of the changes in credit risk during the lifetime of an instrument.

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

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

For a more detailed information on an impairment of financial assets refer to Note 1 Significant Accounting Policies, Note 5 General Risk Management Policies and Note 15 Loans to customers.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For the fair value of financial assets and liabilities refer to Note 32.

3. ADOPTION OF NEW AND/OR CHANGED IFRS AND INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE (IFRIC) INTERPRETATIONS

The following new or revised standards and interpretations became effective for the Group from 1 January 2019:

IFRS 16 "LEASES" (ISSUED ON 13 JANUARY 2016 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019).

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

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

Adjustments recognised on adoption of IFRS 16

The Group decided that it will apply the standard using the modified retrospective method and has not restated comparatives for the 2018 reporting period. The Group recognized a right of use asset of 30 693 thousand EUR against a corresponding lease liability in the amount of 33 207 thousand EUR and the impact to the equity as at 1 January 2019 amounts to 2 514 thousand EUR, decreasing its balance. Net impact on equity was caused by the fact that the Group decided to recognise the right-of-use assets at the date of initial application, measuring them at their carrying amount as if the standard had been applied since the commencement date, but discounted using the incremental borrowing rate at the date of initial application.

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

thousand EUR	
Operating lease commitments disclosed as at 31 December 2018	**36 656**
Weighted average incremental borrowing rate as at 1 January 2019	2,45%
Discounted operating lease commitments as at 1 January 2019	**31 847**
Less	
Commitments relating short-term leases	158
Add	
Adjustment as a result of a different treatment of extension and termination options	1 518
Total lease liability recognized as at 1 January 2019	**33 207**
Of which are:	
Current lease liabilities	4 201
Non-current lease liabilities	29 006
Total	**33 207**

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

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

thousand EUR	31 December 2018	1 January 2019	31 December 2019
Properties	0	30 529	54 330
Other assets	0	164	52
Total right-of-use assets	**0**	**30 693**	**54 382**

The change in accounting policy affected the following items in the balance sheet as at 1 January 2019 (thousand EUR):

- property, plant and equipment – increase by 30 693 thousand EUR
- lease liabilities – increase by 33 207 thousand EUR

The net impact on retained earnings as at 1 January 2019 was a decrease of 2 514 thousand EUR.

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

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The Bank recognised deferred tax on initial application of IFRS 16 on net difference between recognised right to use the assets and lease liability.

Practical expedients applied

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

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

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

4. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later, and which the Group has not early-adopted.

AMENDMENTS TO THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING (ISSUED ON 29 MARCH 2018 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020).

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Group is currently assessing the impact of the amendments on its financial statements.

DEFINITION OF MATERIALITY – AMENDMENTS TO IAS 1 AND IAS 8 (ISSUED ON 31 OCTOBER 2018 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The Group is currently assessing the impact of the amendments on its financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

IFRS 17 "INSURANCE CONTRACTS" (ISSUED ON 18 MAY 2017 AND EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021).

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements.

5. GENERAL RISK MANAGEMENT POLICIES

MAIN GOALS

The aim of risk management at Luminor Group is to achieve an optimal balance between the risk of losses and the earnings potential in a medium- and long-term perspective.

The risk management function of the Group is organised in order to ensure efficient and effective risk management and full implementation of the principles and requirements outlined in Luminor's Risk Policy and Strategy.

The risk management principles are the following:

- Risk Accountability: every area in the Group is accountable for the risks arising from their activities;
- Risk Identification, Assessment, Decision Making, Management and Reporting: all material exposures must be identified, assessed, managed and reported in a timely and accurate manner;
- The Group shall have a conservative overall risk profile and only assume risk which Luminor is able to identify, assess, and manage;
- The Group is committed not to offer products or services or perform other acts which entail a risk of contributing to unethical conduct, infringement of human or labour rights, corruption or serious environmental harm.

The Group maintains a Recovery Plan following the Bank Recovery and Resolution Directive adopted by the European Parliament. The plan serves as one of Luminor's key risk management tools and ensures procedures for restoration of the Group's solvency following situations of severe stress without any involvement by or support from the authorities or taxpayers.

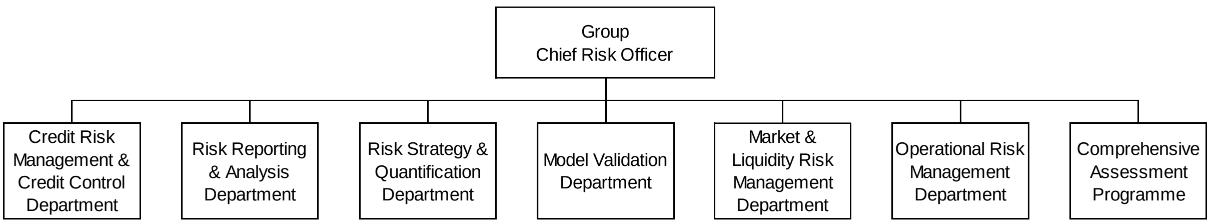
In 2020, Luminor will participate in the Comprehensive Assessment, which is part of the planned supervisory activities. The purpose of the assessment is to evaluate the Group's asset and capital adequacy after the cross-border merger in 2019 and to provide a transparent basis for further direct supervision by the ECB. The assessment consists of two components, where the Asset Quality Review is focused on assessing the quality of assets at a reference date (31 December 2019) and the Stress Test evaluates the capital adequacy under the scenarios of macroeconomic and financial shocks.

Luminor's risk appetite in general is low.

The Group analyses, evaluates, accepts and manages the risks or combinations of risks to which it is exposed to. The most important types of risk the Group is exposed to are credit risk, market risk, liquidity risk, operational risk, reputational risk, and compliance and AML risk. Concentration risk is assessed as part of credit risk, other types of concentration risk were assessed to be less material for the Group. Market risk includes foreign exchange risk and interest rate risk. Operational risk covers also business continuity and IT stability risks.

The risk management in the Group is organised in such a way that any possible conflicts of interest are avoided.

Organisational Structure of the Risk Management function:



The control function for credit risk is split under the responsibility of the Credit Risk Management & Credit Control Department, Risk Reporting & Analysis Department, Risk Strategy & Quantification Department and Model Validation Department. The control over operational risk management within the Group and information security lies under the responsibility of the Operational Risk Management Department. The Market & Liquidity Risk Management Department is responsible for market risk and liquidity risk control. The Risk division is part of the second line of defence and the organisational units within the Risk division report directly to the Group Chief Risk Officer (CRO).

Risk management processes and the effectiveness of internal control are assessed by the Internal Audit function (third line of defence).

The internal control framework – as a system of organisational measures, actions and internal procedures – ensures the effective and efficient operations and prudent conduct of business, compliance with laws and regulations, the adequate and continuous identification, measurement, monitoring, management and mitigation of risks as well as the reliability of financial and non-financial information and submission thereof in a timely manner. The Management Board is responsible for developing and maintaining an effective internal control system in the Group.

The Management Board and/or Supervisory Council approve the most important policies and strategies comprising the Group's risk management framework.

The Risk Committee advises the Supervisory Council on the institution's overall current and future risk appetite and strategy, and assists the Supervisory Council in overseeing the implementation of the risk strategy. It also analyses the asset and liability structure and makes proposals on the optimal capital structure. The Risk Committee considers and makes proposals to the Supervisory Council on the main risk-related processes and risk reports.

The Credit Committee is a decision-making body regarding individual credit cases and contributes to the development of a sound and uniform credit culture in the Group. The Credit Committee provides recommendations regarding important credit regulations.

CREDIT RISK

Credit risk means the risk for the Group to incur losses due to customers' failure to fulfil their financial obligations towards the Group. Credit exposures arise principally in lending activities. Credit risk also arises from the off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit.

The key elements of credit risk management are Luminor Group Credit Policy, Credit Strategy for Legal Entities and Credit Strategy for Private Individuals. Practical aspects of the application of the principles set out in these documents, and decision-making processes are regulated by the Credit Manual for Legal Entities and Credit Manual for Private Individuals.

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

Credit decisions are made by Credit Committees and authorised individuals according to defined powers to act, which are risk adjusted. The decision of the Credit Committee to grant a loan must be unanimous. Powers to act for individuals are personal and based on competence level. The four-eyes principle is followed. Final approval of credits above a certain level is done together with the independent credit officers. In cases of small credit card limits/consumer credits, one pair of eyes may be replaced by the rating.

The regular reports are prepared and presented to the Group's management bodies to follow the level and developments of the assumed credit risk.

Credit risk measurement

(a) Loans to customers

The credit risk is managed by carrying out a thorough analysis of the customer before issuing credit and by the monitoring thereof after credit disbursement.

Risk models are essential elements of the credit process and tools for the management of the Group's credit risk. The Group measures credit risk using rating models that estimate probability of default (PD) as well as loss given default (LGD) and exposure at default (EAD) parameters. These risk models are constantly improved based on historical credit-risk-related data and reliability tests.

Rating models, which estimate probability of default (PD) and risk grade, are used to estimate default risk of the counterparty, determine compliance of customers and exposures with the Luminor Group Credit Policy, determine the correct decision-making level and set requirements for the frequency of the follow-up within the regular monitoring process. The assessment is made by using the customer segment/product specific rating models, which are used for homogeneous groups of customers:

- large corporates,
- corporates,
- small and medium-sized enterprises (SMEs),
- microbusinesses (e.g. small single ownership companies),
- real estate projects of legal entities,
- individual customers.

All credits granted to customers are classified by risk using these rating models every time a commitment is renewed or, unless otherwise decided, at least once a year.

Loans to private individuals are assessed based on credit standards and/or application scorings when a decision is made. After the loans are granted, they are monitored by periodical evaluation of the customer's status using behavioural scorings.

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

Whenever large business customers are provided with loans, in addition, a risk-adjusted profitability for the Group is assessed at both an individual loan and customer level, i.e. a risk-adjusted return on risk-adjusted capital (RAROC) is measured. 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 the standardised pricing tools or rules. The risk-based credit pricing tools for all customer/product segments are monitored regularly and updated, if needed.

In 2019, the Group focused on the further improvement of its impairment quantification approach under IFRS 9, which heavily relies on outputs from internal risk models adjusted to fit IFRS 9 purposes.

The Group considers competence building of its employees as a prerequisite for creating a sound credit culture within the organisation. Therefore, it puts a special emphasis on the internal training of its employees involved in credit activities on credit analysis, usage of rating models, understanding of risk parameters, and risk-based pricing principles.

The Group's internal rating scale for performing customers and the indicative mapping of external ratings are provided below:

Rating grade	PD range	Standard & Poor's / Fitch	Moody's	Investment / speculative grade	Risk level
1.a	0.01 – 0.02 %	AAA – A+	Aaa – Aa1	Investment grade	Low risk
1.b	0.02 – 0.04 %	AA – AA-	Aa2 – Aa3		
1.c	0.04 – 0.06 %	A+	A1		
1.d	0.06 – 0.08 %	A	A2		
1.e	0.08 – 0.10 %	A-	A3		
2.a	0.10 – 0.18 %	BBB+	Baa1		
2.b	0.18 – 0.25 %	BBB	Baa2		
3	0.25 – 0.50 %	BBB-	Baa3		
4	0.50 – 0.75 %	BB+	Ba1	Speculative grade	
5	0.75 – 1.25 %	BB	Ba2		Moderate risk
6	1.25 – 2.00 %				
7	2.00 – 3.00 %	BB-	Ba3		
8	3.00 – 5.00 %	B+	B1		High risk
9	5.00 – 8.00 %	B	B2		
10.a	8.00 – 40.00 %	B-	B3		
10.b		CCC+	Caa1		
10.c		CCC and lower	Caa2 and lower		
10.d					

(b) Due from banks and other credit institutions

The counterparty risk of banks and financial institutions is managed by selecting high quality counterparties before establishing the limits and by subsequent monitoring. The Group's portfolio shall be dominated by investment grade counterparties or counterparties with high importance in countries with a speculative risk grade. Counterparties not rated by any of the major rating agencies are handled as exceptions.

In Luminor a separate dedicated Financial Institutions unit acts as a single core competence center and ensures holistic overview of the Group's exposure on counterparties and countries. The unit among other things is centrally responsible for:

- analysing the counterparties and countries, preparing the limit proposals and rating recommendations;
- maintaining a high quality counterparty portfolio including review of bank and country limits on an annual basis;
- following-up and monitoring of the portfolio including any early warning indicators.

All counterparties and countries with valid limits are risk classified. In case the external rating for a counterparty is not available a conservative expert judgment serves a basis for the Group internal rating, which reflects the counterparty's credit strength, derived from the macroeconomic factors and counterparty's own solvency and liquidity factors, together with its qualitative non-financial adjustments. The internal risk grade and probability of default (PD) of banks and countries is based on the available risk classifications from rating agencies Moody's, Standard & Poor's and Fitch (see Section "Loans to customers" of this report above).

All limits of counterparties and countries are reviewed at least once a year with the purpose to assess the counterparty's creditworthiness, review the risk grade as well as the available limits and their utilization over the last 12 months. Externally non-rated counterparties always have an individual assessment.

All externally rated counterparties and countries are monitored on a quarterly basis with the focus on the rating actions taken by external credit rating agencies. Externally non-rated banks are monitored with the emphasis on an evaluation of the ownership changes, financial standings and any other relevant information and signals that may affect the bank's credit standing. Early warning signal monitoring that could potentially indicate a material change in the credit risk of counterparties is an important part of the regular monitoring of the counterparties.

(c) Debt securities

Debt securities exposure of the Group at the end of year 2019 is 223.8 million EUR compared to 141.7 million EUR at the end of 2018. The credit risk arising from these securities is considered as immaterial. Most of these debt securities are issued by the governments of Lithuania and Latvia. The remaining part consists of international bonds guaranteed by France, Belgium and Luxembourg governments which are treated as level 1 assets in the LCR (Liquidity Coverage Ratio) calculation, and a minor part of Lithuanian and Estonian corporate bonds. The average weighted duration of the total portfolio is about 3.1 years compared to 1.4 year at the end of 2018. Debt securities investments are performed in accordance with the limits set by the Luminor Management Board and Supervisory Council. Limit utilization is monitored on daily basis.

Risk limit control and mitigation policies

(a) Concentration risk

The Group manages, limits and controls the concentration of credit risk – in particular, to individual counterparties and groups of associated counterparties as well as to economic sectors.

The Group's portfolio of the products bearing credit risk derived from lending to groups of connected borrowers and single borrowers is well diversified. The absolute legal lending limit according to Capital Requirements Regulation is <25% of eligible capital. Luminor's general internal position is that exposures on a single borrower or group of connected borrowers should be <10% of eligible capital (large exposures threshold), however exceptions are allowed for the least risky borrowers.

	Eligible capital, million EUR	Large exposures threshold, million EUR	Legal lending limit, million EUR
Group	1 572	157.2	393.0

The concentration risk of lending to economic sectors is regarded as being material and is closely monitored and controlled. Complimentary to the regulatory requirements to limit the large exposures to a single borrower or a group of connected borrowers, the Group implements limits to economic sectors. At the end of the year 2019 and at the end of the year 2018, the loan portfolio of the Group was well diversified by economic sectors and none of the set limits were breached.

Industry sector	Limit Q4 2019* (% of lending to legal entities)	Actual Q4 2019*
Real Estate sector limit,	30%	22.3%
incl. Real Estate sector limit for projects under development	10%	2.6%
Construction sector limit	10%	5.4%
Retail trade	20%	3.5%
Wholesale trade	20%	15.9%
Food processing	20%	2.3%
Timber & metal processing	20%	5.2%
Other manufacturing	20%	4.6%
Any other industry	20%	<10%

* Same limits applied during the whole reporting period and were never breached.

The geographical concentration risk is not considered as being material in the Group's business since the principle of focusing on domestic (Estonian, Latvian, Lithuanian) customers is followed.

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The Group's activity regarding risk concentrations is defined in the Credit Strategy for Legal Entities.

(b) Collateral

The sustainable debt servicing capacity is the key element in the lending process, which should not be replaced by the pledged collateral measure.

The Group mitigates credit risk through collateral. Types of collateral considered by the Group as the most acceptable for securing loans to customers are the following:

- Mortgages (mainly residential properties, commercial real estate);
- Business assets (equipment, inventory, transport vehicles);
- Guarantees;
- Property rights over financial instruments (debt securities, equities, cash).

When deciding on the type of collateral the maturity of the loans is taken into account. Long-term financing and lending to business customers are generally secured. Long-term loans preferably should be covered by long-term property. More information on collaterals, value assessments of collaterals and the periodical review of collateral values is provided in the Section "Information about collaterals of loans" of this report.

Revolving facilities and consumer loans to private individuals are usually unsecured. Debt securities, treasury and other eligible bills are generally unsecured. To minimise the credit loss the Group may seek additional collateral from a counterparty in case of worsening impairment indicators.

For finance lease receivables the lessor remains the owner of the leased object. Therefore, in case of customer default the lessor is able to gain control.

Valuation of collaterals

Fair value: Statistical revaluation (indexing) of Residential Real Estate collaterals is performed quarterly in Estonia and annually in Latvia and Lithuania and covers houses, apartments and residential land plots, pledged against all types of credit products of private individuals.

All assets that are pledged to or leased from Luminor (excluding deposits, funds in Luminor, securities and obligations issued by the state/municipalities) must be evaluated at least once a year. Exceptions can be approved by ultimate decision making authority including a reason for the exception.

(c) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, interest rate swaps and options, commodity swaps are initially recognized and subsequently carried at their fair value. They are revalued at least monthly. Fair values are obtained from quoted market prices discounting cash flows as appropriate, as well as from third parties. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

The Group's counterparty credit risk represents the potential cost to replace derivative contracts if counterparties fail to perform their obligation. The Group assesses counterparties in order to control the level of credit risk taken. The counterparty credit risk is managed primarily through limitation of exposures to each counterparty, regular valuation of exposures and collateralization of exposures.

(d) Credit-related commitments

Other credit-related commitments assumed by the Group include guarantees, letters of documentary credit and commitments to grant a credit, which expose the Group to the same credit risk as the loans do. The key aim of these instruments is to ensure that funds are available to a customer as required. The aforementioned commitments are collateralised either by the funds in the Bank's account, by material assets (real estate being the preference) or by other collaterals such as third party guarantees. With respect to the credit risk arising from commitments to extend credit, the Group is exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon a customer's ability to repay the loans already granted.

Impairment policies

The Group recognises the credit losses in accordance with the requirements of IFRS 9. The Standard applies a forward-looking expected credit loss (ECL) approach.

(a) General ECL assessment principles

The three stages model is followed:

- Stage 1 – part of the portfolio for which no significant deterioration in credit quality has occurred since initial recognition (or the exposure is of low credit risk), and the financial instrument is not considered credit-impaired;
- Stage 2 – part of the portfolio for which significant deterioration in credit quality has occurred since initial recognition, evidenced by the SICR – significant increase in credit risk – indicator, and the financial instrument is not considered credit-impaired;
- Stage 3 – the credit-impaired part of the portfolio. Luminor equates default and credit-impairment definitions so that all defaulted exposures are treated as credit-impaired and all credit-impaired exposures are treated as defaulted. This approach is based on the fact that the default definition used by the Group covers all events indicated by IFRS 9 as possible evidence that a financial instrument is credit-impaired, and all of these events are considered by the Group as having a detrimental impact on the estimated future cash flows from the instrument.

An additional category is Purchased or Originated Credit Impaired ("POCI") financial assets – financial assets that were purchased or originated as credit-impaired. POCI assets are subject to unchanging classification, i.e. a financial asset once classified as POCI remains in this group until derecognised. The POCI classification is determined at the financial instrument level.

The Group applies low credit risk exemption to the following classes of exposures:

- central governments,
- central bank,
- regional governments,
- local authorities and
- institutions.

The counterparty must fulfil the condition of having a credit rating indicating investment grade (see Section "Loans to customers" of this report above).

For Stage 1 financial assets loss allowances equal 12-month ECL, while for Stage 2 and Stage 3 financial instruments lifetime ECL is calculated.

For POCI financial assets, ECL is estimated with a lifetime horizon until maturity. The loss expected at initial recognition is referred to as initial impairment. At subsequent periods, only the cumulative changes in the lifetime expected credit losses since initial recognition are recognised.

(b) Default definition

The Group identifies default when either or both of the following default indicators have taken place:

- The customer is past due more than 90 days on any (no materiality threshold applied) overdue amount to the Group;
- The customer is considered unlikely to pay its credit obligations to the Group.

For exposure to banks, the default is recognised when payments are overdue by more than 7 days.

For the purpose of the unlikeliness to pay identification, elements taken as indications of unlikeliness to pay include the following:

- Distressed restructuring of credit obligation (forbearance triggering a non-performing status in accordance with FINREP instruction requirements);
- 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;
- Disappearance of an active market for a financial asset because of financial difficulties of the customer;
- Credit fraud;
- External rating indicating default;
- Major financial problems of the customer (present or expected), i.e. significant financial difficulties.

The default is recognised at the customer level.

Return to non-defaulted status is possible no earlier than after 3 months when all default triggers cease to be met. During those 3 months of the probation period, timely payments by the customer must be ensured. The exemption from the general rule of probation is the distressed restructuring where 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. This approach is consistent with FINREP instruction requirements for the cure of forborne non-performing exposures.

(c) Significant increase in credit risk

Generally the financial asset is treated as facing a significant increase in credit risk if at least one of the following SICR indicators is identified after initial recognition of the financial instrument and was not present as of its origination:

- Significant increase of lifetime PD – 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 – risk grade 9 or 10 as at the reporting date,
- >30 days past due – more than 30 days past due as at the reporting date,
- Forborne performing – forborne performing status as at the reporting date (forbearance not triggering non-performing status) in accordance with FINREP instruction reporting requirements,
- Watch list – watch list status as at the reporting date.

In 2019 the Group switched to usage of lifetime PDs instead of previously applied simplified approach when point in time (PIT) forward looking 12-month PDs were used for SICR identification; this assessment provides more unbiased results.

All of the SICR indicators are recognised at the financial instrument level in order to track changes in credit risk since the initial recognition date for a particular financial instrument, even though some of them refer to the customer's characteristics.

(d) 12-month and lifetime expected credit losses

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

The expected loss is calculated as the probability weighted average of losses expected in different macroeconomic scenarios. The expected loss in the concrete macroeconomic scenario is calculated as the multiple of point-in-time probability of default (PIT PD), point-in-time loss given default (PIT LGD), exposure at default (EAD) and cumulative prepayment rate and is discounted using a discount rate:

- Macroeconomic scenario-based PIT PD is the probability that the performing exposure defaults during a particular time period provided that it has survived until the beginning of this period. The PIT PD approach is applicable for all financial instruments for which the internal rating models are available.
- Macroeconomic scenario-based PIT LGD is the expected percentage share of an exposure that would be irretrievably lost if the default event occurs. For the evaluation of PIT LGD curves, a PD-dependent model is used, in which the LGD estimates are dependent on projected point-in-time PDs.
- EAD is the exposure at default parameter, which represents the total exposure under a specific facility upon default. For instalment products (i.e. products with contractual repayment schedules), the EAD term structure is shaped by contractual amortisation. For revolving products (e.g. credit lines, credit cards or overdrafts), the limit utilisation approach is used for the purpose of EAD term structure estimation. For standard off-balance exposures (guarantees and letters of credit), the credit conversion factors are determined to account for expected off-balance exposure withdrawals applicable for the default date.
- Cumulative prepayment rate describes the cumulative likelihood that the exposure would be fully prepaid (i.e. closed before its contractual maturity) in the periods up to the end of the analysed period. The application of the cumulative prepayment

rate is limited in the scope of these portfolios, for which the prepayments are not captured by the PD model.

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

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

Estimation of PD and LGD curves take into account forward looking macroeconomic information. Methodology of estimation of these risk parameters includes modelling of the relationship between risk parameters and macroeconomic variables. Forecasts of macroeconomic variables under different scenarios for 3 upcoming years together with scenario probabilities are prepared by Luminor macroeconomists. Three macroeconomic scenarios are considered: baseline/realistic, optimistic, and pessimistic scenario (with the highest probability weight for the baseline/realistic scenario). Macroeconomic scenarios that are prepared for the estimation of expected losses are consistent with scenarios which are used in for credit risk stress testing.

Three macroeconomic variables - annual change in real GDP, unemployment rate and annual change of residential real estate price - are included in the modelling for the Private individuals segment and two of them – annual change in real GDP together with unemployment rate – are used for modelling in the case of the Legal entities segment. Separate forecasts of macroeconomic variables are prerared for Estonia, Latvia and Lithuania. Forecasts of macroeconomic variables are prepared and applied for branches, not dependent on the residence of the customer. The following tables show the parameters that were used for macroeconomic modelling on 31 December 2019 and 31 December 2018. For 2019 the forecasts of macroeconomic variables were provided by Luminor macroeconomists at the end of 2019Q3 with projections and assumptions over three years. Starting from the fourth year it is assumed that risk parameters (PD and LGD) converge to their long term average levels.

2019

Estonia

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2020Q3	2021Q3	2022Q3	2020Q3	2021Q3	2022Q3	2020Q3	2021Q3	2022Q3
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	4.2	3.5	3.2	2.7	2.3	2.1	-3.1	-1.1	2.0
Unemployment rate, %	5.0	4.9	4.8	5.7	6.1	6.2	11.0	10.7	10.0
Annual change of residential real estate price, %	9.0	7.2	5.8	4.1	3.2	3.1	-16.5	-8.6	1.4

Latvia

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2020Q3	2021Q3	2022Q3	2020Q3	2021Q3	2022Q3	2020Q3	2021Q3	2022Q3
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	3.4	4.1	4.7	1.9	3.0	4.2	-3.0	-0.6	3.2
Unemployment rate, %	5.7	5.2	4.7	6.2	5.9	5.4	9.4	10.3	9.6
Annual change of residential real estate price, %	7.0	8.0	8.0	4.0	5.0	6.0	-7.0	-4.0	-1.0

Lithuania

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2020Q3	2021Q3	2022Q3	2020Q3	2021Q3	2022Q3	2020Q3	2021Q3	2022Q3
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	4.2	3.8	4.0	2.8	2.4	2.5	-2.0	-1.6	1.0
Unemployment rate, %	6.2	5.8	5.5	6.5	6.7	6.8	8.8	10.2	9.5
Annual change of residential real estate price, %	9.0	6.0	6.0	5	3	3	-8.0	-2.0	4.0

2018

Estonia

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	4.7	4.1	3.5	3.2	2.7	2.5	-1.5	-0.7	2.3
Unemployment rate, %	5.5	5.5	5.4	6.3	6.5	6.7	9.4	10.1	11.0
Annual change of residential real estate price, %	8.7	7.0	6.0	5.5	4,3	3,0	-11.0	-5.0	0.0

Latvia

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	4.8	4.2	4.2	3.6	3.2	3.0	-0.8	-0.9	2.1
Unemployment rate, %	6.3	5.8	5.5	6.7	6.3	6.1	8.4	9.8	10.0
Annual change of residential real estate price, %	8.0	8.0	7.0	6.0	5.0	5.0	-7.0	-4.0	1.0

Lithuania

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
Probability for scenario, %	20%			70%			10%		
Annual change in real GDP, %	4.5	4.0	4.0	3.0	2.5	2.5	-1.0	-0.5	1.5
Unemployment rate, %	5.8	5.4	5.0	6.2	5.9	5.9	8.5	9.5	9.0
Annual change of residential real estate price, %	7.0	6.0	5.0	4.0	3.0	2.0	-8.0	0.0	2.0

A regular follow-up is ensured for all material exposures. The regularity and deepness of the assessment is based on the risk level and size of the exposure. The aim of the follow-up is 1) to identify the worsening of the situation and start early actions to improve the Group's position and 2) to identify the occurrence of Unlikely to Pay criteria. Credit-impaired large exposures that are above materiality thresholds and with a loss event are reviewed every quarter or more frequently when individual circumstances require this. The valuation is updated when there are significant changes in cash flows, otherwise it is performed at least once a year.

For Stage 3 exposures (or defaulted POCI assets), which are classified as material, the Group evaluates the impairment amount on an individual basis (individual assessment) under the discounted cash flows (DCF) method, where both future cash flows from the customer's operations and cash flows from collateral are taken into account. As a rule two scenarios – base case and risk case – with certain probability weights are used. For exceptional cases one scenario can be used. The circumstances in which only one scenario may be acceptable could be a workout case.

For Stage 3 exposures (or defaulted POCI assets), which are classified as immaterial, the Group evaluates the impairment amount on a collective basis (collective assessment). Impairment is calculated by applying the pool rate for the unsecured part. Different pool rates are applied for three homogeneous pools distinguished by the Group:

- mortgage loans and private credits to private individuals,
- consumer loans and other loans to private individuals (including leasing),
- loans to legal entities.

In 2019 the Group amended its internal approach towards the unsecured part calculation for impairment purposes, introducing a capping of collateral value to the exposure amount, eliminating situations when overcollateralized loans have an entirely secured part and result in zero impairment. For more information see Section "Information about collaterals of loans" of this report.

(e) Sensitivity analysis

Estonia:

The following table shows the impact on the 31 December 2019 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual absolute threshold applied	Actual relative threshold applied	Change in absolute threshold	Change in relative threshold	Lower thresholds	Higher thresholds
2.5	0.006	-/+ 20%	-/+ 12bps	1 432	-48

Current lifetime PDs in Estonian Stage 1 portfolio are on average higher than initial lifetime PDs, thus lower thresholds would result in bigger portion of Stage 2 financial instruments and higher ECL amount.

The following table shows the impact on the 31 December 2019 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
0.1	0.3	-/+ 200bps	+/- 200bps	-2	8

Latvia:

The following table shows the impact on the 31 December 2019 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual absolute threshold applied	Actual relative threshold applied	Change in absolute threshold	Change in relative threshold	Lower thresholds	Higher thresholds
2.5	0.006	-/+ 20%	-/+ 12bps	76	-22

The following table shows the impact on the 31 December 2019 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
0.1	0.3	-/+ 200bps	+/- 200bps	-67	66

Lithuania:

The following table shows the impact on the 31 December 2019 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual absolute threshold applied	Actual relative threshold applied	Change in absolute threshold	Change in relative threshold	Lower thresholds	Higher thresholds
2.5	0.006	-/+ 20%	-/+ 12bps	271	-188

The following table shows the impact on the 31 December 2019 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
0.1	0.3	-/+ 200bps	+/- 200bps	-5	9

Luminor Group:

The following table shows the impact on the 31 December 2019 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual absolute threshold applied	Actual relative threshold applied	Change in absolute threshold	Change in relative threshold	Lower thresholds	Higher thresholds
2.5	0.006	-/+ 20%	-/+ 12bps	1779	-258

The following table shows the impact on the 31 December 2019 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
0.1	0.3	-/+ 200bps	+/- 200bps	-74	83

(f) Risk assessment on modified financial assets

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

(g) Write-off policy

The Group writes off financial assets, in whole or in part, which are considered as being non-collectible. Generally, the indication that financial assets are non-collectible is the situation when all collaterals (except guarantees of private individuals) are sold. However, the write-off fact does not limit the Group's recovery measures towards a particular customer. The outstanding contractual amount on financial assets that were written off during the year ended 31 December 2019 and are still subject to enforcement activity was 23 008 thousand EUR (43 766 thousand EUR in 2018).

(h) Maximum exposure to credit risk before collateral held or other credit enhancements

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

thousand EUR	Notes	Group 2019	Group 2018
Credit risk exposures relating to on–balance sheet assets subject to impairment are as follows :		**13 473 895**	**15 155 160**
Cash and balances with central banks	12	2 924 019	3 293 090
Due from banks and other credit institutions	13	141 654	185 350
Loans to customers		**10 408 222**	**11 676 720**
Financial Institutions	15	29 378	48 369
Public Sector	15	174 732	219 615
Business customers	**15**	**4 523 201**	**5 346 840**
Loans		3 156 365	3 604 547
Leasing		1 088 325	1 409 012
Factoring		278 511	333 281
Individual customers	**15**	**5 680 911**	**6 061 896**
Mortgage loans		4 689 319	4 930 872
Leasing		533 611	622 393
Consumer and card loans		132 862	147 012
Other loans		325 119	361 619
Credit risk exposures relating to off–balance sheet items subject to impairment are as follows:		**1 788 816**	**1 984 264**
Financial guarantees	31	110 655	265 707
Loan commitments and other credit related liabilities	31	1 678 161	1 718 557
Total credit risk exposure – financial instruments subject to impairment		**15 262 711**	**17 139 424**

thousand EUR	Notes	Group 2019	Group 2018
Credit risk exposures relating to on–balance sheet assets not subject to impairment are as follows:			
Financial assets held for trading:	**32**	**3 021**	**1 006**
Debt securities		3 021	1 006
Financial assets at fair value through profit or loss:	**16, 32**	**223 863**	**139 402**
Debt securities		223 863	139 402
Derivative financial instruments	**14, 32**	**59 217**	**44 352**
Financial assets at fair value through other comprehensive income:		**0**	**1 265**
Debt securities		0	1 265
Total credit risk exposures not subject to impairment		**286 101**	**186 025**
Total credit risk exposure		**15 577 925**	**17 337 343**

The table above represents credit risk exposure as at 31 December 2019 and 2018, without taking into account any credit risk mitigation techniques. On-balance sheet assets are reported above based on the net carrying amount as they appear in the statement of financial position.

Gross amount and credit loss allowance amount for loans and leases as at 31 December 2019 are disclosed in the table below:

Group 31 December 2019 thousand EUR	Note	Gross	of which Initial Impairment of POCI	Allowance for impairment	Net
Due from banks and other credit institutions	**13**	**141 654**	**0**	**-9**	**141 645**
Financial institutions	**15**	**29 378**	**-2**	**-123**	**29 255**
Public sector	**15**	**174 732**	**0**	**-17**	**174 715**
Business customers	**15**	**4 523 201**	**-15 838**	**-111 037**	**4 412 164**
Loans		3 156 365	-15 339	-95 544	3 060 821
Factoring		278 511	0	-1 691	276 820
Leasing		1 088 325	-499	-13 802	1 074 523
Individual customers	**15**	**5 680 911**	**-2 448**	**-74 498**	**5 606 413**
Mortgage loans		4 689 319	-1 241	-56 080	4 633 239
Consumer and card loans		132 862	-18	-1 452	131 410
Other loans		325 119	-1 162	-11 938	313 181
Leasing		533 611	-27	-5 028	528 583
Total		**10 549 876**	**-18 288**	**-185 684**	**10 364 192**

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Group 31 December 2018 thousand EUR	Note	Gross	of which Initial Impairment of POCI	Allowance for impairment	Net
Due from banks and other credit institutions	**13**	**185 350**	**0**	**-4**	**185 346**
Financial institutions	**15**	**48 369**	**-2 252**	**-2 046**	**46 323**
Public sector		**219 615**	**0**	**-18**	**219 597**
Business customers	**15**	**5 346 840**	**-28 575**	**-103 059**	**5 243 781**
Loans		3 604 547	-27 481	-84 999	3 519 548
Factoring		333 281	-608	-4 698	328 583
Leasing		1 409 012	-486	-13 362	1 395 650
Individual customers	**15**	**6 061 896**	**-3 355**	**-99 459**	**5 962 437**
Mortgage loans		4 930 872	-1 491	-72 130	4 858 742
Consumer and card loans		147 012	-39	-3 209	143 803
Other loans		361 619	-1 776	-20 616	341 003
Leasing		622 393	-49	-3 504	618 889
Total		**11 862 070**	**-34 182**	**-204 586**	**11 657 484**

The credit quality of loans to customers as at 31 December 2019 and 31 December 2018 is disclosed in the tables below according to the risk scale (see Section "Loans to customers" of this report).

Group 31 December 2019

Due from banks and other credit institutions

Group thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	141 642	0	0	0	**141 642**
Moderate risk	9	0	0	0	**9**
High risk	0	0	0	0	**0**
Default	0	0	3	0	**3**
Gross	**141 651**	**0**	**3**	**0**	**141 654**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-7	0	-2	0	**-9**
Net	**141 644**	**0**	**1**	**0**	**141 645**

Loans to financial institutions

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	19 638	0	0	0	**19 638**
Moderate risk	5 438	2 464	0	0	**7 902**
High risk	1 342	380	0	0	**1 722**
Default	0	0	110	6	**116**
Gross	**26 418**	**2 844**	**110**	**6**	**29 378**
Of which initial impairment	0	0	0	-2	**-2**
Less: allowance for impairment	-82	-37	-3	-1	**-123**
Net	**26 336**	**2 807**	**107**	**5**	**29 255**

Loans to public sector

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	171 532	0	0	37	**171 569**
Moderate risk	2 743	0	0	9	**2 752**
High risk	33	0	0	0	**33**
Default	0	0	378	0	**378**
Gross	**174 308**	**0**	**378**	**46**	**174 732**
Of which initial impairment	0	0	0	**0**	**0**
Less: allowance for impairment	-17	0	0	0	**-17**
Net	**174 291**	**0**	**378**	**46**	**174 715**

Loans and leases to business customers

Loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	838 488	9 359	0	0	**847 847**
Moderate risk	1 673 024	202 993	0	1 172	**1 877 189**
High risk	44 586	163 303	0	33 104	**240 993**
Default	0	0	175 419	14 917	**190 336**
Gross	**2 556 098**	**375 655**	**175 419**	**49 193**	**3 156 365**
Of which initial impairment	0	0	0	-15 339	**-15 339**
Less: allowance for impairment	-4 521	-3 750	-85 290	-1 983	**-95 544**
Net	**2 551 577**	**371 905**	**90 129**	**47 210**	**3 060 821**

Factoring thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	59 144	0	0	0	**59 144**
Moderate risk	180 315	25 150	0	0	**205 465**
High risk	3 508	8 141	0	0	**11 649**
Default	0	0	2 253	0	**2 253**
Gross	**242 967**	**33 291**	**2 253**	**0**	**278 511**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-304	-151	-1 236	0	**-1 691**
Net	**242 663**	**33 140**	**1 017**	**0**	**276 820**

Leasing thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	144 090	296	0	180	**144 566**
Moderate risk	720 094	30 091	0	297	**750 482**
High risk	79 866	87 517	0	445	**167 828**
Default	0	0	24 287	1 162	**25 449**
Gross	**944 050**	**117 904**	**24 287**	**2 084**	**1 088 325**
Of which initial impairment	0	0	0	-499	**-499**
Less: allowance for impairment	-3 120	-3 274	-7 290	-118	**-13 802**
Net	**940 930**	**114 630**	**16 997**	**1 966**	**1 074 523**

Loans and leases to individual customers

Mortgage loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	3 794 095	30 293	0	2 540	**3 826 928**
Moderate risk	506 834	38 999	0	1 535	**547 368**
High risk	39 087	138 152	0	485	**177 724**
Default	0	0	132 642	4 657	**137 299**
Gross	**4 340 016**	**207 444**	**132 642**	**9 217**	**4 689 319**
Of which initial impairment	0	0	0	-1 241	**-1 241**
Less: allowance for impairment	-4 050	-15 800	-35 206	-1 024	**-56 080**
Net	**4 335 966**	**191 644**	**97 436**	**8 193**	**4 633 239**

Consumer and card loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	32 998	75	0	18	**33 091**
Moderate risk	63 675	5 254	0	8	**68 937**
High risk	25 359	2 616	0	10	**27 985**
Default	0	0	2 736	113	**2 849**
Gross	**122 032**	**7 945**	**2 736**	**149**	**132 862**
Of which initial impairment	0	0	0	-18	**-18**
Less: allowance for impairment	-474	-141	-760	-77	**-1 452**
Net	**121 558**	**7 804**	**1 976**	**72**	**131 410**

Other loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	109 750	3 716	0	570	**114 036**
Moderate risk	114 506	24 897	0	327	**139 730**
High risk	9 269	36 011	0	418	**45 698**
Default	0	0	21 845	3 810	**25 655**
Gross	**233 525**	**64 624**	**21 845**	**5 125**	**325 119**
Of which initial impairment	0	0	0	-1 162	**-1 162**
Less: allowance for impairment	-788	-2 085	-7 930	-1 135	**-11 938**
Net	**232 737**	**62 539**	**13 915**	**3 990**	**313 181**

Leasing thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	19 810	1 548	0	0	**21 358**
Moderate risk	467 944	25 608	0	73	**493 625**
High risk	3 894	9 242	0	0	**13 136**
Default	0	0	5 273	219	**5 492**
Gross	**491 648**	**36 398**	**5 273**	**292**	**533 611**
Of which initial impairment	0	0	0	-27	**-27**
Less: allowance for impairment	-3 116	-658	-1 203	-51	**-5 028**
Net	**488 532**	**35 740**	**4 070**	**241**	**528 583**

Group 31 December 2018

Due from banks and other credit institutions

Group thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	142 858	0	0	0	**142 858**
Moderate risk	42 482	0	0	0	**42 482**
High risk	0	0	0	0	**0**
Default	0	0	10	0	**10**
Gross	**185 340**	**0**	**10**	**0**	**185 350**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-4	0	0	0	**-4**
Net	**185 336**	**0**	**10**	**0**	**185 346**

Loans to financial institutions

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	943	414	0	0	**1 357**
Moderate risk	39 712	1 459	0	0	**41 171**
High risk	760	2 904	0	0	**3 664**
Default	0	0	2	2 175	**2 177**
Gross	**41 415**	**4 777**	**2**	**2 175**	**48 369**
Of which initial impairment	0	0	0	-2 252	**-2 252**
Less: allowance for impairment	-896	-53	0	-1 097	**-2 046**
Net	**40 519**	**4 724**	**2**	**1 078**	**46 323**

Loans to public sector

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	217 109	324	0	40	**217 473**
Moderate risk	1 690	383	0	0	**2 073**
High risk	51	18	0	0	**69**
Default	0	0	0	0	**0**
Gross	**218 850**	**725**	**0**	**40**	**219 615**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-15	-3	0	0	**-18**
Net	**218 835**	**722**	**0**	**40**	**219 597**

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Loans and leases to business customers

Loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	1 138 136	230 692	0	1	**1 368 829**
Moderate risk	1 298 065	401 463	0	1 459	**1 700 987**
High risk	39 702	150 763	0	2 248	**192 713**
Default	0	0	295 326	46 692	**342 018**
Gross	**2 475 903**	**782 918**	**295 326**	**50 400**	**3 604 547**
Of which initial impairment	0	0	0	-27 481	**-27 481**
Less: allowance for impairment	-3 608	-6 021	-74 509	-861	**-84 999**
Net	**2 472 295**	**776 897**	**220 817**	**49 539**	**3 519 548**

Factoring thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	103 326	3 674	0	0	**107 000**
Moderate risk	193 476	5 499	0	0	**198 975**
High risk	13 353	8 291	0	0	**21 644**
Default	0	0	5 307	355	**5 662**
Gross	**310 155**	**17 464**	**5 307**	**355**	**333 281**
Of which initial impairment	0	0	0	-608	**-608**
Less: allowance for impairment	-889	-90	-3 702	-17	**-4 698**
Net	**309 266**	**17 374**	**1 605**	**338**	**328 583**

Leasing thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	161 689	38 496	0	40	**200 225**
Moderate risk	810 240	149 258	0	85	**959 583**
High risk	78 167	130 718	0	475	**209 360**
Default	0	0	38 361	1 483	**39 844**
Gross	**1 050 096**	**318 472**	**38 361**	**2 083**	**1 409 012**
Of which initial impairment	0	0	0	-486	**-486**
Less: allowance for impairment	-2 271	-4 544	-6 410	-137	**-13 362**
Net	**1 047 825**	**313 928**	**31 951**	**1 946**	**1 395 650**

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Loans and leases to individual customers

Mortgage loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	3 843 881	30 807	0	2 460	**3 877 148**
Moderate risk	577 947	99 152	0	849	**677 948**
High risk	23 682	176 137	0	855	**200 674**
Default	0	0	169 616	5 486	**175 102**
Gross	**4 445 510**	**306 096**	**169 616**	**9 650**	**4 930 872**
Of which initial impairment	0	0	0	-1 491	**-1 491**
Less: allowance for impairment	-3 969	-20 217	-46 787	-1 157	**-72 130**
Net	**4 441 541**	**285 879**	**122 829**	**8 493**	**4 858 742**

Consumer and card loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	34 027	1 259	0	16	**35 302**
Moderate risk	74 624	10 337	0	12	**84 973**
High risk	21 074	2 441	0	5	**23 520**
Default	0	0	3 198	19	**3 217**
Gross	**129 725**	**14 037**	**3 198**	**52**	**147 012**
Of which initial impairment	0	0	0	-39	**-39**
Less: allowance for impairment	-682	-245	-2 276	-6	**-3 209**
Net	**129 043**	**13 792**	**922**	**46**	**143 803**

Other loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	120 453	4 942	0	459	**125 854**
Moderate risk	113 836	40 744	0	747	**155 327**
High risk	8 743	16 370	0	422	**25 535**
Default	0	0	48 970	5 933	**54 903**
Gross	**243 032**	**62 056**	**48 970**	**7 561**	**361 619**
Of which initial impairment	0	0	0	-1 776	**-1 776**
Less: allowance for impairment	-558	-1 407	-16 978	-1 673	**-20 616**
Net	**242 474**	**60 649**	**31 992**	**5 888**	**341 003**

Leasing thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	83 863	4 140	0	0	**88 003**
Moderate risk	485 226	29 717	0	39	**514 982**
High risk	4 375	4 849	0	3	**9 227**
Default	0	0	10 054	127	**10 181**
Gross	**573 464**	**38 706**	**10 054**	**169**	**622 393**
Of which initial impairment	0	0	0	-49	**-49**
Less: allowance for impairment	-1 802	-362	-1 266	-74	**-3 504**
Net	**571 662**	**38 344**	**8 788**	**95**	**618 889**

i) Information about credit loss allowances

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

For additional information see Note 15.

Group 2019

Loans to customers total (thousand EUR)

	Credit loss allowance					Gross carrying amount				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
As at 31 December 2018	**-14 690**	**-32 942**	**-151 928**	**-5 022**	**-204 582**	**9 488 150**	**1 545 251**	**570 834**	**72 485**	**11 676 720**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2	1 722	-5 939	4 217	0	0	-439 370	494 957	-55 587	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	421	3 442	-3 863	0	0	-43 599	-66 901	110 500	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-17 483	11 915	5 568	0	0	742 783	-700 897	-41 886	0	0
New originated or purchased	-3 424	0	0	0	-3 424	1 022 179	0	0	12 437	1 034 616
Derecognised and repaid during the period	2 762	2 882	20 338	1 317	27 299	-1 639 081	-426 305	-177 620	-17 186	-2 260 192
Changes to ECL model assumptions and effect from changes in Stages	14 220	-5 254	-54 548	-2 308	-47 890	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	-1 782	7 046	-28 288	-991	-24 015	-357 088	-699 146	-164 593	-4 749	-1 225 576
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	41 298	1 624	42 922	0	0	-41 298	-1 624	-42 922
As at 31 December 2019	**-16 472**	**-25 896**	**-138 918**	**-4 389**	**-185 675**	**9 131 062**	**846 105**	**364 943**	**66 112**	**10 408 222**

Explanations
Stage 1 (12 - months ECL)
Stage 2 (Lifetime ECL for SICR)
Stage 3 (Lifetime ECL for Credit Impaired)
POCI (Lifetime ECL for Purchased or Originated Credit Impaired)

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Financial Institutions (thousand EUR)

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-896**	**-53**	**0**	**-1 097**	**-2 046**	**41 415**	**4 777**	**2**	**2 175**	**48 369**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	2	-2	0	0	0	-653	653	0	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	0	0	0	0	0	-165	0	165	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-9	9	0	0	0	760	-760	0	0	0
New originated or purchased	-1	0	0	0	-1	443	0	0	0	443
Derecognised and repaid during the period	811	2	0	1 092	1 905	-15 382	-1 826	-57	-2 169	-19 434
Changes to ECL model assumptions and effect from changes in Stages	11	7	-3	4	19	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	814	16	-3	1 096	1 923	-14 997	-1 933	108	-2 169	-18 991
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	0	0	0	0	0	0	0	0
As at 31 December 2019	**-82**	**-37**	**-3**	**-1**	**-123**	**26 418**	**2 844**	**110**	**6**	**29 378**

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Public sector (thousand EUR)

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-15**	**-3**	**0**	**0**	**-18**	**218 850**	**725**	**0**	**40**	**219 615**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	0	0	0	0	0	0	0	0	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	0	0	0	0	0	-540	0	540	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-3	3	0	0	0	644	-644	0	0	0
New originated or purchased	-1	0	0	0	-1	5 497	0	0	10	5 507
Derecognised and repaid during the period	0	0	0	0	0	-50 143	-81	-162	-4	-50 390
Changes to ECL model assumptions and effect from changes in Stages	2	0	0	0	2	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	-2	3	0	0	1	-44 542	-725	378	6	-44 883
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	0	0	0	0	0	0	0	0
As at 31 December 2019	**-17**	**0**	**0**	**0**	**-17**	**174 308**	**0**	**378**	**46**	**174 732**

Business customers (thousand EUR)

Loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-3 608**	**-6 021**	**-74 509**	**-861**	**-84 999**	**2 475 903**	**782 918**	**295 326**	**50 400**	**3 604 547**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	908	-1 313	405	0	0	-217 244	243 762	-26 518	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	129	387	-516	0	0	-12 976	-30 870	43 846	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-4 791	2 574	2 217	0	0	363 748	-350 343	-13 405	0	0
New originated or purchased	-1 933	0	0	0	-1 933	381 846	0	0	10 867	392 713
Derecognised and repaid during the period	840	1 301	11 085	46	13 272	-435 179	-269 812	-105 067	-11 498	-821 556
Changes to ECL model assumptions and effect from changes in Stages	3 934	-678	-42 735	-1 744	-41 223	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	-913	2 271	-29 544	-1 698	-29 884	80 195	-407 263	-101 144	-631	-428 843
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	18 763	576	19 339	0	0	-18 763	-576	-19 339
As at 31 December 2019	**-4 521**	**-3 750**	**-85 290**	**-1 983**	**-95 544**	**2 556 098**	**375 655**	**175 419**	**49 193**	**3 156 365**

Factoring	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-889**	**-90**	**-3 702**	**-17**	**-4 698**	**310 155**	**17 464**	**5 307**	**355**	**333 281**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	77	-77	0	0	0	-21 304	21 304	0	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1	4	-5	0	0	-519	-1 729	2 248	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-29	29	0	0	0	7 972	-7 917	-55	0	0
New originated or purchased	-7	0	0	0	-7	36 714	0	0	0	36 714
Derecognised and repaid during the period	189	19	324	0	532	-90 051	4 169	-2 509	-355	-88 746
Changes to ECL model assumptions and effect from changes in Stages	354	-36	-591	17	-256	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	585	-61	-272	17	269	-67 188	15 827	-316	-355	-52 032
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	2 738	0	2 738	0	0	-2 738	0	-2 738
As at 31 December 2019	**-304**	**-151**	**-1 236**	**0**	**-1 691**	**242 967**	**33 291**	**2 253**	**0**	**278 511**

Leasing	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-2 271**	**-4 544**	**-6 410**	**-137**	**-13 362**	**1 050 096**	**318 472**	**38 361**	**2 083**	**1 409 012**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	187	-476	289	0	0	-59 681	62 971	-3 290	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	40	108	-148	0	0	-8 360	-4 814	13 174	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-2 266	1 790	476	0	0	161 796	-155 621	-6 175	0	0
New originated or purchased	-225	0	0	0	-225	208 536	0	0	62	208 598
Derecognised and repaid during the period	359	512	2 533	90	3 494	-408 337	-103 104	-17 007	-56	-528 504
Changes to ECL model assumptions and effect from changes in Stages	1 056	-664	-4 806	-76	-4 490	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	-849	1 270	-1 656	14	-1 221	-106 046	-200 568	-13 298	6	-319 906
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	776	5	781	0	0	-776	-5	-781
As at 31 December 2019	**-3 120**	**-3 274**	**-7 290**	**-118**	**-13 802**	**944 050**	**117 904**	**24 287**	**2 084**	**1 088 325**

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Individual customers (thousand EUR)

Mortgage loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-3 969**	**-20 217**	**-46 787**	**-1 157**	**-72 130**	**4 445 510**	**306 096**	**169 616**	**9 650**	**4 930 872**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	327	-3 127	2 800	0	0	-75 611	96 391	-20 780	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	211	2 679	-2 890	0	0	-13 284	-24 297	37 581	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-9 028	6 850	2 178	0	0	158 332	-141 144	-17 188	0	0
New originated or purchased	-721	0	0	0	-721	213 210	0	0	793	214 003
Derecognised and repaid during the period	177	950	4 601	25	5 753	-388 141	-29 602	-26 388	-874	-445 005
Changes to ECL model assumptions and effect from changes in Stages	8 953	-2 935	-5 307	-244	467	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	-81	4 417	1 382	-219	5 499	-105 494	-98 652	-26 775	-81	-231 002
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	10 199	352	10 551	0	0	-10 199	-352	-10 551
As at 31 December 2019	**-4 050**	**-15 800**	**-35 206**	**-1 024**	**-56 080**	**4 340 016**	**207 444**	**132 642**	**9 217**	**4 689 319**

Consumer and card loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-682**	**-245**	**-2 276**	**-6**	**-3 209**	**129 725**	**14 037**	**3 198**	**52**	**147 017**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	46	-100	54	0	0	-7 490	7 664	-174	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	11	8	-19	0	0	-1 039	-279	1 318	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-325	137	188	0	0	9 800	-8 774	-1 026	0	0
New originated or purchased	-144	0	0	0	-144	35 958	0	0	125	36 083
Derecognised and repaid during the period	105	35	1 000	1	1 141	-44 922	-4 703	-102	-27	-49 754
Changes to ECL model assumptions and effect from changes in Stages	515	24	-185	-73	281	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	208	104	1 038	-72	1 278	-7 693	-6 092	16	98	-13 671
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	478	1	479	0	0	-478	-1	-479
As at 31 December 2019	**-474**	**-141**	**-760**	**-77**	**-1 452**	**122 032**	**7 945**	**2 736**	**149**	**132 862**

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Other loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-558**	**-1 407**	**-16 978**	**-1 673**	**-20 616**	**243 032**	**62 056**	**48 970**	**7 561**	**361 619**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	138	-489	351	0	0	-42 452	45 771	-3 319	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	22	248	-270	0	0	-3 915	-3 954	7 869	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-861	429	432	0	0	27 758	-24 727	-3 031	0	0
New originated or purchased	-311	0	0	0	-311	49 162	0	0	373	49 535
Derecognised and repaid during the period	58	55	698	20	831	-40 060	-14 522	-20 346	-2 119	-77 047
Changes to ECL model assumptions and effect from changes in Stages	724	-921	-461	-172	-830	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	-230	-678	750	-152	-310	-9 507	2 568	-18 827	-1 746	-27 512
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	8 298	690	8 988	0	0	-8 298	-690	-8 988
As at 31 December 2019	**-788**	**-2 085**	**-7 930**	**-1 135**	**-11 938**	**233 525**	**64 624**	**21 845**	**5 125**	**325 119**

Leasing	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 31 December 2018	**-1 802**	**-362**	**-1 266**	**-74**	**-3 504**	**573 464**	**38 706**	**10 054**	**169**	**622 393**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	37	-355	318	0	0	-14 935	16 441	-1 506	0	0
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	7	8	-15	0	0	-2 801	-958	3 759	0	0
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-171	94	77	0	0	11 973	-10 967	-1 006	0	0
New originated or purchased	-81	0	0	0	-81	90 813	0	0	207	91 020
Derecognised and repaid during the period	223	8	97	43	371	-166 866	-6 824	-5 982	-84	-179 756
Changes to ECL model assumptions and effect from changes in Stages	-1 329	-51	-460	-20	-1 860	0	0	0	0	0
Total movements with impact in credit loss allowance charge for period	-1 314	-296	17	23	-1 570	-81 816	-2 308	-4 735	123	-88 736
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	46	0	46	0	0	-46	0	-46
As at 31 December 2019	**-3 116**	**-658**	**-1 203**	**-51**	**-5 028**	**491 648**	**36 398**	**5 273**	**292**	**533 611**

j) Information about collaterals of loans

Upon the initial recognition of loans to customers, the fair value of collateral is based on the valuation techniques commonly used for the corresponding types of collateral. Market values (or purchase price, whichever is lower) are used for real estate and movable assets serving as collateral. The value of collateral should be reconsidered periodically. The frequency and conditions mostly depend on the performing/non-performing status and exposure size. The value of residential real estate is recalculated periodically by applying the indices.

The Group takes into account guarantees issued by the State and other parties issuing guarantees that are equivalent to the State guarantees. Guarantees and warranties issued by other parties (private individuals, legal entities), although they mitigate the risk, are considered immaterial and are not disclosed here.

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.

The most commonly used type of collateral is residential real estate comprising 53.5 % of the secured part of the Group's loan portfolio (2018: 49.8 %).

Group loans to customers (thousand EUR)

31 December 2019	Total	%
Unsecured loans	1 607 619	15%
Loans collateralized by:	**8 800 603**	**85%**
- residential real estate	4 709 001	45%
- other real estate	2 148 955	21%
- securities	66 620	1%
- guarantees	160 267	2%
- other assets	1 715 760	16%
Total	**10 408 222**	**100%**

31 December 2019	Financial institutions	%
Unsecured loans	5 579	19%
Loans collateralized by:	23 799	81%
- residential real estate	217	1%
- other real estate	669	2%
- securities	-	0%
- guarantees	-	0%
- other assets	22 913	78%
Total	**29 378**	**100%**

31 December 2019	Public sector	%
Unsecured loans	143 924	82%
Loans collateralized by:	30 808	18%
- residential real estate	-	0%
- other real estate	16 245	10%
- securities	-	0%
- guarantees	154	0%
- other assets	14 409	8%
Total	**174 732**	**100%**

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Business customers

31 December 2019	Loans	%	Factoring	%	Leasing	%
Unsecured loans	436 002	13%	251 927	91%	415 688	38%
Loans collateralized by:	2 720 363	87%	26 584	9%	672 637	62%
- residential real estate	90 197	3%	-	0%	-	0%
- other real estate	1 945 408	62%	-	0%	873	0%
- securities	66 109	2%	-	0%	-	0%
- guarantees	82 275	3%	198	0%	2 081	0%
- other assets	536 374	17%	26 386	9%	669 683	62%
Total	**3 156 365**	**100%**	**278 511**	**100%**	1 088 325	100%

Individual customers

31 December 2019	Mortgage loans	%	Consumer and card loans	%	Other loans	%	Leasing	%
Unsecured loans	69 490	1%	119 454	90%	36 055	11%	129 500	24%
Loans collateralized by:	4 619 829	99%	13 408	10%	289 064	89%	404 111	76%
- residential real estate	4 495 869	96%	889	1%	121 829	38%	-	0%
- other real estate	65 460	2%	118	0%	120 182	37%	-	0%
- securities	492	0%	3	0%	16	0%	-	0%
- guarantees	55 796	1%	12 382	9%	7 381	2%	-	0%
- other assets	2 212	0%	16	0%	39 656	12%	404 111	76%
Total	**4 689 319**	**100%**	**132 862**	**100%**	**325 119**	**100%**	**533 611**	**100%**

31 December 2018	Total	%
Unsecured loans	1 899 279	16%
Loans collateralized by:	**9 777 441**	**84%**
- residential real estate	4 873 314	42%
- other real estate	1 976 205	17%
- securities	1 334	0%
- guarantees	437 943	4%
- other assets	2 488 645	21%
Total	**11 676 720**	**100%**

31 December 2018	Financial institutions	%
Unsecured loans	4 716	10%
Loans collateralized by:	**43 653**	**90%**
- residential real estate	1 721	4%
- other real estate	13 168	27%
- securities	-	0%
- guarantees	685	1%
- other assets	28 080	58%
Total	**48 369**	**100%**

31 December 2018	Public sector	%
Unsecured loans	185 823	85%
Loans collateralized by:	**33 792**	**15%**
- residential real estate	-	0%
- other real estate	5 348	2%
- securities	-	0%
- guarantees	67	0%
- other assets	28 377	13%
Total	**219 615**	**100%**

Business customers

31 December 2018	Loans	%	Factoring	%	Leasing	%
Unsecured loans	779 332	22%	284 042	85%	303 368	22%
Loans collateralized by:	**2 825 215**	**78%**	**49 239**	**15%**	**1 105 644**	**78%**
- residential real estate	151 291	4%	-	0%	-	0%
- other real estate	1 784 895	50%	-	0%	1 256	0%
- securities	1 219	0%	-	0%	-	0%
- guarantees	222 754	6%	-	0%	66	0%
- other assets	665 056	18%	49 239	15%	1 104 322	78%
Total	**3 604 547**	**100%**	**333 281**	**100%**	**1 409 012**	**100%**

Individual customers

31 December 2018	Mortgage loans	%	Consumer and card loans	%	Other loans	%	Leasing	%
Unsecured loans	90 402	2%	145 425	99%	50 620	15%	55 551	9%
Loans collateralized by:	**4 840 470**	**98%**	**1 587**	**1%**	**310 999**	**85%**	**566 842**	**91%**
- residential real estate	4 605 316	93%	1 151	1%	113 835	31%	-	0%
- other real estate	47 503	1%	288	0%	123 747	34%	-	0%
- securities	115	0%	-	0%	-	0%	-	0%
- guarantees	187 518	4%	144	0%	26 709	7%	-	0%
- other assets	17	0%	4	0%	46 708	13%	566 842	91%
Total	**4 930 872**	**100%**	**147 012**	**100%**	**361 619**	**100%**	**622 393**	**100%**

The following table provides information on the carrying value of credit-impaired collectively assessed loans, for which the Group at the end of 2018 did not recognise any expected credit loss allowance because of significant excess of collateral value over the gross carrying value of these loans.

Group (thousand EUR)	31 December 2018
Business customers	**6 873**
Loans	4 224
Factoring	25
Leasing	2 624
Individual customers	**75 493**
Mortgage loans	65 019
Consumer and card loans	1 763
Other loans	8 041
Leasing	669
Total significantly over-collateralised loans and leases to customers	**82 365**

In 2019 the Group introduced a capping of collateral value to the exposure amount in the collective impairment assessment of credit-impaired loans so limiting the possibility of zero impairment due to over-collateralization.

For non-credit-impaired loans the calculation of ECL as - multiple of point-in-time probability of default (PIT PD), point-in-time loss given default (PIT LGD), exposure at default (EAD) and cumulative prepayment rate, weighted by scenarios - cannot technically result in zero expected credit loss allowance both for 2018 and 2019.

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

Credit-impaired loans (thousand EUR)

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

31 December 2018	Gross	*Of which initial impairment*	Allowances for impairment	Net	Fair value of collateral
Business customers	389 697	-30 643	-86 699	302 998	323 244
Individual customers	243 404	-2 572	-70 103	173 301	201 460
Total	**633 101**	**-33 215**	**-156 802**	**476 299**	**524 704**

* Under business customers are also disclosed exposures to public sector and financial institutions.

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

31 December 2019	Over-collateralised assets		Under-collateralised assets	
thousand EUR	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to business customers	109 685	394 495	108 848	43 206
Loans to individuals	112 227	256 855	59 067	33 413
Total	**221 912**	**651 350**	**167 915**	**76 619**
31 December 2018	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Loans to business customers	262 520	971 296	127 178	56 792
Loans to individuals	145 596	308 253	97 807	55 474
Total	**408 116**	**1 279 549**	**224 985**	**112 266**

The effect of collateral for all loans, whether impaired or not, is presented in the tables below.

31 December 2019	Over-collateralised assets		Under-collateralised assets	
thousand EUR	**Carrying value of the assets**	**Value of collateral**	**Carrying value of the assets**	**Value of collateral**
Loans to business customers	2 864 079	10 231 353	1 863 232	610 005
Loans to individuals	4 910 720	12 131 393	770 191	415 671
Total	**7 774 799**	**22 362 746**	**2 633 423**	**1 025 676**

31 December 2018	Carrying value of the assets	Value of collateral	Carrying value of the assets	Value of collateral
Loans to business customers	3 066 785	12 133 531	2 548 039	1 005 367
Loans to individuals	5 104 447	11 590 108	957 449	609 888
Total	**8 171 232**	**23 723 639**	**3 505 488**	**1 615 255**

MARKET RISK

The Group takes on low exposure to market risk, which is defined as the risk of losses in on- and off-balance sheet positions arising from adverse movements in market parameters such as currency exchange rates (currency risk), interest rates (interest rate risk), equity prices (equity risk) or commodity prices (commodity risk).

The most significant part of market risk for the Group is interest rate risk while significance of other risks is lower. Interest rate risk is assessed using the basis-point-value (BPV) method, which measures the impact on the value of net cash flows given a one basis point (0.01%) parallel shift in market interest rates. The BPV calculations are performed on a regular basis and submitted to the Group's Management.

A currency risk (hereinafter referred to as foreign exchange or FX risk) is evaluated by calculation of open foreign exchange positions. Both interest rate and foreign exchange risks are restricted by the limits determined by the Management Board and the Supervisory Council of Luminor Bank AS, and monitored on a regular basis by the Market and Liquidity Risk Management Department.

Market risk measurement approaches

The Group is mainly focused on interest rate risk and foreign exchange risk management.

Interest rate risk is assessed as the impact of a yield curve parallel shift on the present value of the gap between total assets and total liabilities. In general, assets have longer maturities than liabilities, which creates risks due to open interest rate positions. Therefore, interbank funding is attracted to decrease the discrepancy between long and short terms. In addition to this, interest rate swaps are used to achieve and maintain an acceptable level of interest rate risk.

FX risk is assessed as an open position between assets and liabilities for a respective currency. Open positions for all currencies in the Group are restricted by the limits set by the Management Board and the Supervisory Council of Luminor Bank AS, and monitored on a daily basis.

FOREIGN EXCHANGE (FX) RISK

The Group's main exposure is towards euro currency (EUR), while positions of other currencies are not significant. A conservative approach to FX risk is followed within the Group. It is measured as the nominal value of the open FX positions converted to EUR using the ECB rates. The Group has both intraday and overnight limits. Some technical deviations from the limits are allowed only for a short term when servicing customers. The Group has approved separate limits for the United States Dollar (USD), sum of other currencies, max of other currencies and total currencies.

The Group's exposure to FX risk (thousand EUR):

Currency	31 December 2019	31 December 2018
USD	97	232
Max of other currencies*	302	375
Sum of other currencies**	609	1 090
Total* **	**383**	**1 149**

*Max of other currencies – this represents the maximum absolute exposure of all foreign currencies other than USD.
**Sum of other currencies – this represents the sum of all foreign currency exposures in absolute terms excluding USD.
***Total – this represents the higher absolute value between sum of positive exposures and sum of negative exposures of all foreign currency open positions.

Sensitivity of foreign exchange risk

The sensitivity of FX risk is measured by stressing open FX positions using different multipliers. For USD this adverse parameter (5.4%) is developed using a value-at-risk (VaR) approach based on a 99 percent confidence level and 10 days holding period, where the horizon of data analyzed includes the latest financial crisis in 2008-2009 and at least 5 years of historical developments of FX rates. Whereas the multiplier for all other currencies is increased by additional 50% (8.1%) based on market practice.

Calculation of sensitivity of FX risk in the amount of 55 thousand EUR shows immaterial impact for the Group in 2019.

INTEREST RATE RISK

The main source of interest rate risk in the Group is the repricing risk – risk related to the timing mismatch in the maturity and repricing of assets and liabilities of on- and off-balance sheet positions. Pursuant to Luminor's Market Risk Policy, interest rate risk is limited in terms of Basis Point Value (BPV), i.e. the change in net cash flows (gaps) given a one basis point (0.01%) parallel shift in the market interest rates. Separate limits for banking and trading activities are approved by the Management Board and the Supervisory Council of Luminor Bank AS, as well as limits for different currencies: EUR, USD, NOK and sum of all other currencies. When calculating the total exposure the sums of BPV in each currency are aggregated irrespective if the total exposure in each individual currency is a short or long position, i.e. netting of positions between currencies is not allowed. The main part of the interest rate risk arises from the positions that are denominated in EUR. Using derivatives as hedges is a major part of interest risk management, please also refer to Note 1 and Note 14.

The risk from changes in interest rates increases for longer duration time buckets due to higher uncertainty of future rates. To limit risk exposure resulting from different time buckets, so-called gapping limits are determined for each of them. Limit established for each time bucket is defined as a percentage of the total BPV limit allocated to the relevant currency. All time buckets till one year period are limited to 100% of total BPV, 1-2 years gap is limited to 120% of total BPV, and all time buckets above 2 years are limited to 150% of total BPV.

The Group's BPV exposure by currencies for both trading and banking activities (thousand EUR):

Currency	31 December 2019	31 December 2018
EUR	(41 291)	(10 530)
USD	4 965	2 831
NOK	727	522
Other currencies	(65)	(98)

The Group's BPV exposure by currencies for fair value positions for both trading and banking activities (thousand EUR):

Currency	31 December 2019	31 December 2018
EUR	(54 090)	109 750
USD	(14 715)	(7 891)
NOK	(512)	(1 479)
Other currencies	829	645

Sensitivity to interest rate risk

Interest rate risk exposure cannot exceed BPV limits approved by the Management Board and the Supervisory Council of Luminor Bank AS. Assuming a 200 basis points parallel shift of the yield curve, sensitivity of interest rate risk shall be calculated multiplying total BPV exposure by interest rate change. The above mentioned shift of the yield curve creates the following impact on the Group's equity and profit / loss (thousand EUR):

	31 December 2019	31 December 2018
Equity	9 410	1 455
Profit / Loss	14 029	20 205

EQUITY AND COMMODITY RISK

The Group does not have any open position in commodity instruments, thus is not exposed to commodity price risk.

The Group does not engage in proprietary stock trading. However, the Group owns some shares on its balance sheet which are recognized as participation in the settlement systems rather than any kind of investment in shares. The total value of these shares has increased over the year due to a positive trend of underlying instruments, thus, in accordance to external audit recommendations, equity instruments have been reclassified as debt securities at fair value through profit/loss. In terms of stress test, a value-at-risk (VaR) model has been used with a 99% confidence level and 1 year holding period, whereas the horizon of data analyzed includes the latest financial crisis in 2008-2009 and consists of at least 5 years of historical developments of share prices. The resulting shock applied to the total value of shares produced an outcome of possible loss equal to 2.1 million EUR as at end of 2019.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Group is unable to meet its financial obligations in time, the risk of incurring losses due to the sudden decrease in financial resources (e.g. a financial crisis situation may result in a delay of incoming payments) or an increase in price of the new resources designed for refinancing. The consequence of liquidity risk may be failure to meet obligations to repay depositors and fulfil loan commitments. The Group 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) and internal liquidity limits.

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Group has developed a set of early warning indicators for a timely identification of liquidity crises, and business and funding contingency funding plans to manage the Group'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 Group operates in.Liquidity risk management process

Liquidity risk is managed across three Lines of Defence:

- The First Line of Defence comprises the Group's Treasury & ALM (TALM) and the Business Areas. TALM is responsible for the daily liquidity management and Funds Transfer Pricing (FTP). To ensure the funding in situations where Luminor is in urgent need of cash and the normal funding sources do not suffice, Luminor holds a liquidity buffer that consists of central bank cash and high quality securities that can be readily sold or used as collateral in funding operations.
- Market and Liquidity Risk Management Department is the Second Line of Defence and is responsible for providing independent oversight and control of liquidity risk and the First Line of Defence.
- The Internal Audit function is the Third Line of Defence, which is responsible for providing independent assurance over the First and Second Lines of Defence activities.

Liquidity risk management is divided into long-term (1 year) short-term (1 week to 3 months) risk management and intraday liquidity management. The aim of short-term liquidity management is to meet the daily need for funds to ensure compliance with the reserve and liquidity requirements set by the ECB, as well as compliance with internal liquidity limits. Short-term liquidity is maintained through the daily monitoring of the liquidity status and day-to-day funding and trading the appropriate financial instruments for liquidity purposes. Long-term liquidity risk management is supported by analysing the estimated future cash flows taking into account deposit and loan portfolio growth, as well as possible refinancing sources.

For the purpose of the liquidity risk assessment, the liquidity gap is analysed considering the maturity of cash flows. The liquidity risk is restricted by imposing internal limits on the liquidity gap. Utilisation of this limit is subject to regular monitoring and reporting to management bodies in the Group.

The liquidity gap is calculated by analysing the Group's net refinancing situation within one week, one month and three months applying a "business as usual" approach. Liquid assets and short-term liabilities are included in liquidity gap calculation for respective terms (1 week to 3 months).

The Liquidity Coverage Ratio is calculated as the ratio of a credit institution's liquidity buffer to its net liquidity outflows over a 30-calendar-day stress period and is expressed as a percentage. Since Lithuania, Latvia and Estonia are all members of the EU, the LCR is applicable to the Group as a Europe-wide requirement. The minimum limit of LCR is set at 100%, however the Group has a substantial buffer and maintains a higher ratio. The LCR is intended to promote the short-term resilience of the Group's liquidity risk profile and requires the holding of risk-free assets that may be easily liquidated to meet required payments for outflows net of inflows during a thirty-day crisis period without support from the central bank.

The liquidity risk analysis of the Group main balance sheet items per remaining maturity is as follows:

Carrying amount 31 December 2019 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Cash and deposits with central banks	2 924 019	0	0	0	0	2 924 019
Due from other credit institutions	141 589	37	0	19	0	141 645
Financial assets held for trading	0	2 181	16	725	99	3 021
Derivative financial instruments	28 839	901	4 864	24 220	393	59 217
Financial assets at fair value through other comprehensive income	0	0	0	0	140	140
Financial assets fair value through profit or loss	0	0	45 116	117 487	65 293	227 896
Loans to customers	224 540	194 932	1 224 106	3 726 435	4 852 534	10 222 547
Other financial assets	29 113	0	0	0	0	29 113
Total assets	**3 348 100**	**198 051**	**1 274 102**	**3 868 886**	**4 918 459**	**13 607 598**
Derivative financial instruments	28 377	793	3 098	24 279	1 757	58 304
Loans and deposits from credit institutions	30 244	0	950 448	0	0	980 692
Deposits from customers	8 739 645	545 949	868 407	76 475	4 967	10 235 443
Debt securities issued	0	0	0	651 716	0	651 716
Lease Liabilities	425	851	3 761	19 030	32 984	57 051
Other financial liabilities	45 303	0	0	0	0	45 303
Total liabilities	**8 843 994**	**547 593**	**1 825 714**	**771 500**	**39 708**	**12 028 509**
Shareholder's equity						
Net financial assets / (liabilities)	**-5 495 894**	**-349 542**	**-551 612**	**3 097 386**	**4 878 751**	**1 579 089**
Irrevocable and revocable off-balance sheet commitments	1 788 816	0	0	0	0	1 788 816
Liquidity gap arising from financial instruments	**-7 284 710**	**-349 542**	**-551 612**	**3 097 386**	**4 878 751**	**-209 727**

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Carrying amount 31 December 2018 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Cash and deposits with central banks	3 274 291	0	0	18 799	0	3 293 090
Due from other credit institutions	145 435	1 373	38 415	123	0	185 346
Financial assets held for trading	5	0	0	991	10	1 006
Derivative financial instruments	5 895	301	13 803	23 846	507	44 352
Financial assets at fair value through other comprehensive income	0	0	0	0	8 872	8 872
Financial assets fair value through profit or loss	0	28 588	21 978	88 802	4 390	143 758
Loans to customers	272 813	185 348	1 705 140	4 248 482	5 060 355	11 472 138
Other financial assets	11 894	0	0	0	0	11 894
Total assets	**3 710 333**	**215 610**	**1 779 336**	**4 381 043**	**5 074 134**	**15 160 456**
Derivative financial instruments	2 811	348	8 914	27 080	2 102	41 255
Loans and deposits from credit institutions	21 981	6 000	3 186 915	724 500	0	3 939 396
Deposits from customers	7 462 778	710 102	809 172	83 685	4 148	9 069 885
Debt securities issued	0	0	0	351 235	0	351 235
Other financial liabilities	27 914	0	0	0	0	27 914
Total liabilities	**7 515 484**	**716 450**	**4 005 001**	**1 186 500**	**6 250**	**13 429 685**
Shareholder's equity						
Net financial assets / (liabilities)	**-3 805 151**	**-500 840**	**-2 225 665**	**3 194 543**	**5 067 884**	**1 730 771**
Irrevocable and revocable off-balance sheet commitments	1 984 264	0	0	0	0	1 984 264
Liquidity gap arising from financial instruments	**-5 789 415**	**-500 840**	**-2 225 665**	**3 194 543**	**5 067 884**	**-253 493**

Disclosure of contractual undiscounted cash flows for liabilities as at 31 December 2019:

thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Derivative financial instruments	28 377	793	3 098	24 279	1 757	58 304
Loans and deposits from credit institutions	30 244	0	956 458	0	0	986 702
Deposits from customers	8 739 645	546 625	872 496	78 183	5 117	10 242 066
Debt securities issued	0	0	10 067	662 961		673 028
Lease Liabilities	546	1 091	4 804	23 523	38 346	68 310
Other financial liabilities	45 303	0	0	0	0	45 303
Total liabilities	**8 844 115**	**548 509**	**1 846 923**	**788 946**	**45 220**	**12 073 713**

Disclosure of contractual undiscounted cash flows for liabilities as at 31 December 2018:

thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Derivative financial instruments	2 811	348	8 914	27 080	2 102	**41 255**
Loans and deposits from credit institutions	25 046	6 095	2 670 950	1 245 115	0	**3 947 206**
Deposits from customers	7 446 681	711 886	826 061	85 365	5 497	**9 075 490**
Debt securities issued	0	0	5 250	360 500	0	**365 750**
Other Financial Liabillities	15 896	1 108	3 181	8 858	13	**29 056**
Total liabilities	**7 490 434**	**719 437**	**3 514 356**	**1 726 918**	**7 612**	**13 458 757**

The main funding source for Luminor are customer deposits. Since the creation of Luminor, the bank has been funded by former parent banks in the form of a syndicated loan. Taking into account Luminor's plan to become an independent self-financed financial institution, parent funding will be gradually substituted by other sources of funding – from clients' deposits to the funding received through capital markets.

Funding tranches maturing in 2020 will be paid back or prolonged according to the Term of Agreement and Luminor's funding needs. Terms and conditions of the Facilities Agreement – under which funding from former parents is provided – were modified due to the changes of ownership in 2019. Due to the changes the commitment is partly or fully collateralized.

The Net Stable Funding Ratio (NSFR) is defined as the amount of available stable funding relative to the amount of required stable funding over a one-year time horizon. The minimum requirement for NSFR is 100%, however the Group has a substantial buffer and maintains a higher ratio.

The Group has set the limits in place for various measures, including LCR, NSFR, liquidity gaps, and manages those within the set limits by ensuring the proper maturity structure of its assets and liabilities, for example, via issuing long dated debt.

Off-balance sheet items

The analysis of nominal off-balance sheet items by remaining maturity is as follows:

31 December 2019 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Loan commitments	1 134 434	0	0	0	0	1 134 434
Financial guarantees	110 655	0	0	0	0	110 655
Performance guarantees	74 647	0	0	0	0	74 647
Other commitments*	469 080	0	0	0	0	469 080
Total	**1 788 816**	**0**	**0**	**0**	**0**	**1 788 816**

* Other commitments given include different type of guarantees (warranty, payment and advance payment quarantees, etc)

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31 December 2018 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	TOTAL
Loan commitments	1 304 189	0	0	0	0	1 304 189
Financial guarantees	265 707	0	0	0	0	265 707
Performance guarantees	113 755	0	0	0	0	113 755
Other commitments*	300 613	0	0	0	0	300 613
Total	**1 984 264**	**0**	**0**	**0**	**0**	**1 984 264**

* Other commitments given include different type of guarantees (warranty, payment and advance payment quarantees, etc)

Liquidity buffer and collateral management

The Group has a contractual agreement for funding in place with shareholders DNB Bank ASA and Nordea Bank Abp. This strongly mitigates the likelihood of funding liquidity risk which may be caused by deposit run off, wholesale funding risk (roll over and new issuance), unexpected outflows from off-balance sheet obligations and legal risks (e.g. not being able to issue fudning due to legal restrictions). As the Group is moving towards more reliance on self-funding rather than on support from shareholders, other funding sources are being established or are already in place for diversifying the funding base.

The Group is taking part in the ECB's Eurosystem open market operations. In particular, the Group is a user of the ECB Targeted Long Term Refinancing Operations (TLTRO). In addition, a significant part of funding is attracted through retail and corporate deposits. Moreover, the Group has already issued 650 million EUR of its own senior debt securities and is considering to increase this amount in the future even more, which would further diversify the funding opportunities.

The main part of the liquidity buffer is held with the Central Bank Accounts where the Group held 2.7 billion EUR at the end of the year 2019. This buffer can be utilized at any time when the need arises.

Concentration of risks

Country risk is the risk that an occurrence within a country could have an adverse effect on the Group directly by impairing the value of the Group or indirectly through an obligor's ability to meet its obligations to the Group. Generally these occurrences relate to but are not limited to: sovereign events such as defaults or restructuring, political events such as contested elections, restrictions on currency movements, non–market currency convertibility, regional conflicts, economic contagion from other events such as sovereign default issues or regional turmoil, banking and currency crisis, and natural disasters.

The Bank establishes a country limit to each country. The total risk of all residents of a particular country (banks, legal entities, private individuals, authorities) may not exceed the country limit. The limits approved for different countries may depend on different circumstances including the internal and external ratings of that country.

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Geographic concentration of assets and liabilities

31 December 2019 thousand EUR	Cash balances*	Loans to customers	Other assets	TOTAL ASSETS	Due to to credit insti-tutions	Due to custo-mers	Debt securities issued	Other lia-bilities	TOTAL LIABILITIES
Lithuania	1 590 214	4 477 427	203 397	6 271 038	63 217	5 078 810	0	63 790	5 205 817
Latvia	973 542	2 795 864	110 376	3 879 782	2 484	2 821 581	0	96 662	2 920 727
Estonia	361 244	2 684 280	54 086	3 099 610	2 766	1 923 977	1 408	52 719	1 980 870
United Kingdom	4 349	14 347	270	18 966	0	7 734	650 308	794	658 836
Norway	5 356	6 630	40 676	52 662	453 272	2 185	0	9 777	465 234
Sweden	10 312	5 842	83	16 237	458 069	3 167	0	2 234	463 470
Ireland	0	4 463	4 593	9 056	0	146 004	0	3 582	149 586
Finland	72 218	16 572	7 801	96 591	884	21 802	0	7 937	30 623
Cyprus	0	40 674	0	40 674	0	67 119	0	2	67 121
Luxembourg	0	71 559	186	71 745	0	616	0	5	621
Other	48 429	104 889	28 985	182 303	0	162 448	0	1 042	163 490
TOTAL	**3 065 664**	**10 222 547**	**450 462**	**13 738 664**	**980 692**	**10 235 443**	**651 716**	**238 544**	**12 106 395**

* Cash, balances with central bank, loans and receivables to credit institutions

31 December 2018 thousand EUR	Cash balance*	Loans to customers	Other assets	TOTAL ASSETS	Due to to credit insti-tutions	Due to custo-mers	Debt secure-ties issued	Other lia-bilities	TOTAL LIA-BILITIES
Lithuania	1 512 343	4 913 986	131 467	6 557 796	191 489	4 426 544	0	42 800	4 660 833
Latvia	1 078 390	3 132 785	122 318	4 333 493	28 124	2 684 460	0	53 019	2 765 603
Estonia	703 065	3 124 243	37 582	3 864 890	9 200	1 591 475	0	36 585	1 637 260
Norway	74 636	6 516	25 738	106 890	1 854 379	3 379	0	9 367	1 867 125
Finland	93 210	16 709	3 709	113 628	1 231 851	112 302	0	4 758	1 348 911
Sweden	1 341	7 900	3 689	12 930	624 321	7 117	0	1 958	633 396
United Kingdom	1 287	15 672	253	17 212	0	9 767	351 235	54	361 056
Luxembourg	0	91 605	156	91 761	0	562	0	0	562
Cyprus	0	44 652	0	44 652	0	14 476	0	0	14 476
Ireland	0	4 848	0	4 848	0	1 169	0	0	1 169
Other	14 164	113 222	32 684	160 070	32	218 634	0	902	219 568
TOTAL	**3 478 436**	**11 472 138**	**357 596**	**15 308 170**	**3 939 396**	**9 069 885**	**351 235**	**149 443**	**13 509 959**

* Cash balances with central bank loans and receivables to credit institutions

Economic sectors

The following tables break down Loans to customers at their carrying amounts as categorised by the economic sectors of our counterparties.

Cash and loans to central bank, credit institutions, and customers

Group	31 December 2019	31 December 2018
Cash on Hand	**140 518**	**178 440**
Central Banks	**2 783 501**	**3 114 650**
Credit Instiutions	**141 645**	**185 346**
Financial Institutions	**29 255**	**46 323**
Public Sector	**174 715**	**219 597**
Individual Customer	**5 606 413**	**5 962 437**
Business Customers	**4 412 164**	**5 243 781**
Agriculture, forestry and fishing	337 080	361 850
Mining and quarrying	23 658	32 382
Manufacturing	571 675	803 641
Electricity, gas, steam and air conditioning supply	132 176	195 403
Water supply	31 948	41 522
Construction	197 785	299 981
Wholesale and retail trade	937 197	1 116 398
Transport and storage	394 660	511 259
Accommodation and food service activities	48 768	61 395
Information and communication	26 558	35 893
Real estate activities	1 132 767	1 085 704
Professional, scientific and technical activities	210 089	254 965
Administrative and support service activities	209 227	255 926
Public administration and defence, compulsory social security	5 358	7 362
Education	7 106	11 715
Human health services and social work activities	21 432	23 937
Arts, entertainment and recreation	13 607	16 136
Other services	111 073	198 312
TOTAL	**13 288 211**	**14 950 574**

OPERATIONAL RISK

Operational risk management in Luminor is governed by the Operational Risk Policy. Key principles are that operational risk should be low and risk management should ensure that the risk of unexpected losses is reduced. Each manager and process owner is responsible for the management of risks inherent to the activities and processes of their area of responsibility and for fostering a sound risk management culture. The Operational Risk Management Department is an independent internal control function within the second line of defence and covers operational risk management, information security and personal data protection.

Operational risk incidents in Luminor are reported and registered in the operational risk incident database and continuously monitored. The operational risk incident database is leveraged for Management Reporting, Business Impact Assessment, the annual Risk Control Self-Assessment and internal Stress Testing, which are all key elements of Lumior's operational risk management framework.

Information Security is an integral part of operational risk management. Information Security processes in Luminor are designed to protect information against accidental or malicious disclosure, modification or destruction and to meet the regulatory legislative and contractual requirements concerning information security. In line with the General Data Protection Regulation (GDPR), Luminor has established a Data Protection Officer function. All employees at all levels are constantly trained in information security and data protection to maintain awareness of the associated risks and necessary measures.

Luminor management is kept updated on the status of operational risk through periodic and ad hoc risk reporting, including the results of the annual Risk Control Self-Assessment and Stress Testing exercises, the key group-wide operational risks, relevant improvement measures and detailed qualitative assessments.

Luminor's insurance coverage is an additional important element of Luminor's operational risk management. Insurance contracts limit the financial consequences of undesirable incidents that occur in spite of established controls and other risk-mitigating measures. The insurance program additionally covers legal liabilities related to Luminor operations.

CAPITAL MANAGEMENT

The Bank's regulatory capital is included in Tier 1 capital which consists of the ordinary shares, share premium, mandatory reserve, retained earnings of the previous financial year, the audited profit of current financial year and less the intangible assets, revaluation profit of investment properties and current year losses, if any.

The capital is calculated and allocated for risk coverage following the regulations in the CRD IV and CRR of the European Union and the local Regulators legal acts. The Group's objectives in capital management are as follows:

- consistency with Luminor Group's long-term strategy (including meeting the risk appetite of the Group) and the Dividend policy;
- the ability to pursue the business objectives;
- fulfilment of both internal and external capitalisation targets (capital adequacy);
- sufficient and proper composition of capital that would withstand stressful events.

The capital adequacy assessment is performed on a quarterly basis in accordance with The Information guidelines in respect of the risk management and capital adequacy disclosure (Pillar 3) report.

The Group's regulatory capital consists fully of Tier / Common Equity Tier 1 (CET1) capital. Tier 1/Common Equity Tier 1 (CET 1) capital consists of the ordinary shares, share premium, retained earnings of the previous financial year, accumulated other comprehensive income, other reserves, value adjustments due to the requirements for prudent valuation and minus the intangible assets, deferred tax assets and other deductions.

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Quantitative information regarding the capital managed by the Group is presented below (in thousand EUR):

	31 December 2019	31 December 2018*
OWN FUNDS		
1. TIER 1 CAPITAL	1 566 637	1 660 621
1.1. COMMON EQUITY TIER 1 CAPITAL	1 566 637	1 660 621
1.1.1. Capital instruments eligible as CET1 Capital	1 447 155	1 655 099
Paid-up capital instruments	34 912	10 000
Share premium	1 412 243	1 645 099
1.1.2. Retained earnings	129 919	16 496
1.1.3. (-) Other intangible assets	-7 848	-7 063
1.1.4 Other reserves	938	0
1.1.5 Adjustments to CET1 due to prudential filters	-1 281	-1 065
1.1.6 CET1 capital elements or deductions - other	0	-913
1.1.7 Accumulated other comprehensive income	261	1 631
1.1.8 (-) Additional deductions of CET1 Capital due to Article 3 CRR	0	-2 305
1.1.9 (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	-2 155	-908
1.1.10 (-) Goodwill	-351	-351

*Luminor Group AB

According to the prudential requirements, the Pillar 2 requirement set by the ECB in the 2019 Joint Decision on Capital and the Systemic risk and Countercyclical risk buffer requirements set by the Latvian, Estonian and Lithuanian regulators, Luminor Group is required to hold capital exceeding 11.7% CET1 and 15.2% Total capital. Total capital and CET1 capital requirements consist of the following components:

	Total capital	CET1
Minimum Pillar 1 requirement	8.0 %	4.5 %
Pillar 2 requirement	2.0 %	2.0 %
O-SII (other systemically important institution) buffer	2.0 %	2.0 %
Capital conservation buffer	2.5 %	2.5 %
Systemic risk buffer*	0.2 %	0.2 %
Countercyclical buffer	0.5 %	0.5 %
Total regulatory requirement	15.2 %	11.7 %

* Estonian regulator has set a 1.0 %. Systemic risk buffer requirement that applies to Luminor's exposures in Estonia and translates to 0.2% from Luminor's total risk weighted exposure amount. Lithuanian regulator has set a 1.0% Countercyclical buffer requirement that applies to Luminor's exposures in Lithuania and forms 0.5% of Luminor's total risk weighted exposure amounts.

According to the Regulatory Requirements for Calculating the Minimum Capital Requirements, the Group shall provide own funds, which must at all times exceed or equal the sum of the capital requirements for:

- credit risk;
- market risk;
- operational risk.

In compliance with these regulations, the Group calculates the credit risk and market risk minimum capital requirements by using the Standardised approach. The Group does not apply any VaR or other internal models for the calculation of the market risk capital requirement and applies the Basic Indicators Approach for calculating the operational risk capital requirements.

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The risk-weighted assets are measured by means of risk weights classified according to the nature of each asset and counterparty, taking into account the collaterals and guarantees eligible for risk mitigation. A similar treatment with some adjustments is adopted for the off-balance sheet exposures.

The Group reviews and improves the risk identification and management policies and procedures according to changes in the Group's activities and financial situation at least once a year. Amendments and updates are mostly done during the annual internal capital adequacy assessment process when significant risks are to be reassessed or identified and assessed.

The Group complied with all externally imposed capital requirements during the reporting period.

GOING CONCERN

The Bank's and Group's management is fully convinced of a stable and balanced performance going forward and, based on that, prepared these financial statements on the going concern basis.

6. NET INTEREST INCOME

thousand EUR	2019	2018
Interest income calculated using the effective interest method:		
Loans and advances to customers at amortised cost	241 217	234 516
Deposits with other banks	3 548	1 653
Total interest income calculated using effective interest method	**244 765**	**236 169**
Other similar income		
Finance leases	56 045	58 926
Other interest	867	3 105
Total other similar income	**56 912**	**62 031**
Total interest income	**301 677**	**298 200**
Interest expense:		
Loans and deposits from credit institutions	-22 019	-17 497
Deposits from customers	-15 317	-10 797
Impact of hedging activities	1 221	-139
Debt securities issued	-8 381	-1 240
Other*	-13 014	-9 118
Total interest expense	**-57 510**	**-38 791**
Net interest income	**244 167**	**259 409**

* Mainly includes interest expenses to Regulators and interest on unused credit limits.

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7. NET FEE AND COMMISSION INCOME

thousand EUR	2019	2018
Securities	788	1 339
Clearing and settlement*	35 700	33 743
Asset management	7 043	7 795
Custody	1 108	1 160
Payment services*	25 188	26 944
Collective Investments commission	3 233	3 784
Insurance commission	3 517	4 109
Loan commitments given	4 142	4 638
Financial guarantees given	5 100	4 856
Factoring	4 473	4 857
Other*	15 535	16 353
Total fee and commission income	**105 827**	**109 578**
Clearing and settlement*	-23 593	-21 432
Custody	-373	-350
Financial guarantees received	-208	-80
Other*	-4 267	-3 955
Total fee and commission expense	**-28 441**	**-25 817**
Net fee and commission income	**77 386**	**83 761**

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

Other fee mainly includes penalty, termination, amendment fees and other service fees.

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

thousand EUR	2019	2018
Corporate Banking	28 187	31 825
Retail Banking	44 514	45 170
Wealth Management	2 111	2 350
Other	2 574	4 416
Net fee and commission income	**77 386**	**83 761**

8. PERSONNEL EXPENSES

thousand EUR	2019	2018
Wages and salaries	-88 434	-79 601
Social security cost	-14 588	-23 586
Indirect personnel cost (recruitment, training)	-7 954	-7 843
Contribution to pension funds	-320	-262
Total	**-111 296**	**-111 292**

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

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

9. OTHER ADMINISTRATIVE EXPENSES

thousand EUR	2019	2018
IT related expenses	-93 669	-54 552
Consulting and professional services	-21 283	-13 864
Advertising and marketing expenses	-4 263	-3 750
Real estate expenses	-8 991	-14 928
Taxes and membership fees	-4 335	-2 134
Travel Expenses	-1 708	-1 621
Other expenses*	-13 211	-12 995
Total	**-147 460**	**-103 844**

*Other expenses include mostly costs related to collection services, information services, postal, transport and other services.

Increase in other administrative expenses is mainly affected by the transformation costs incurred, which were 76.7 million EUR in 2019 having been 26.0 million EUR in 2018. The major part of exceptional costs were IT expenses, which provided 75% of them, followed by staff expenses with 10% and other transformation costs with 15%.

10. OTHER OPERATING EXPENSES

thousand EUR	2019	2018
Taxes other than income tax and deductible VAT	-5 730	-5 925
Non-deductible VAT	-4 070	-1 824
Investment property maintenance	-203	-1 180
Other insurance expenses (bank risk, etc.)	-894	-721
Other legal expenses (notarial services, issued documents of state institutions, etc.)	-3 456	-615
Other expenses	-3 536	-3 107
Total	**-17 889**	**-13 372**

11. OTHER OPERATING INCOME

thousand EUR	2019	2018
Profit/loss from sale of fixed asset	624	-220
Profit/loss from sale of Investment Property	959	702
Income from investment property rent	292	537
Profit from sale of subsidiaries and associates*	8 962	0
Recovery of previous period expenses	1 026	262
Other Operating income	5 886	3 250
Total	**17 749**	**4 531**

*On 1 February 2019, Luminor sold its subsidiary real estate brokerage company Luminor būstas UAB (Lithuania) to Resolution Holding. On 3 July 2019, Luminor sold its subsidiary property holding company SIA Skanstes 12 (Latvia) to the investment company Colonna.

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12. CASH AND BALANCES WITH CENTRAL BANKS

thousand EUR	31 December 2019	31 December 2018
Cash on hand	140 518	178 440
Cash balances at central banks	2 783 501	3 095 653
Total	**2 924 019**	**3 274 093**
of which mandatory reserve requirement	112 800	109 027
Term deposits	0	18 997
Total cash and balances with central banks	**2 924 019**	**3 293 090**

13. DUE FROM OTHER CREDIT INSTITUTIONS

thousand EUR	31 December 2019	31 December 2018
Demand deposit	141 596	145 451
Loans	58	39 899
Total	**141 654**	**185 350**
Allowance	-9	-4
Total	**141 645**	**185 346**

14. DERIVATIVE FINANCIAL INSTRUMENTS

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

thousand EUR	Notional amounts	Fair values	
		Assets	Liabilities
As at 31 December 2019			
Derivatives held for trading			
Interest rate-related contracts	2 958 510	11 599	11 254
Currency-related contracts	1 419 244	47 128	46 740
Commodity-related contracts	18 726	490	310
Total	**4 396 480**	**59 217**	**58 304**
As at 31 December 2018			
Derivatives held for trading			
Interest rate-related contracts	3 020 308	8 892	8 223
Currency-related contracts	1 027 717	31 493	29 374
Commodity-related contracts	50 849	3 967	3 658
Total	**4 098 874**	**44 352**	**41 255**

HEDGING ACTIVITIES

Fair value hedge

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

There is an economic relationship between the hedged item and the hedging instruments as the terms of the interest rate swaps match the terms of the fixed rate loan (i.e. notional amount, maturity, payment and reset dates). The Group has established a hedge ratio of 1:1 for the hedging relationships, as the underlying risk of the interest rate swaps is identical to the hedged risk component. To test hedge effectiveness, the Group uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk.

Hedge ineffectiveness can theoretically arise from:

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

31 December 2019	Notional amount thousand EUR	Carrying Amount thousand EUR	Line item in the statement of financial position
Interest rate swap	650 000	1 898	Assets: Derivative financial instruments*

* Ineffectiveness was clearly immaterial for the period 1 January 2019 to 31 December 2019

31 December 2018	Notional amount thousand EUR	Carrying Amount thousand EUR	Line item in the statement of financial position
Interest rate swap	350 000	1 128	Assets: Derivative financial instruments*

* Ineffectiveness was clearly immaterial during 2018 and 2019.

15. LOANS TO CUSTOMERS

thousand EUR	31 December 2019	31 December 2018
Financial Institutions	**29 378**	**48 369**
Public Sector	**174 732**	**219 615**
Business customers	**4 523 201**	**5 346 840**
-Loans	3 156 365	3 604 547
-Leasing	1 088 325	1 409 012
-Factoring	278 511	333 281
Individual customers	**5 680 911**	**6 061 896**
-Mortgage loans	4 689 319	4 930 872
-Leasing	533 611	622 393
-Consumer and card loans	132 862	147 012
-Other loans	325 119	361 619
Impairment allowances	**-185 675**	**-204 582**
Loans to customers total	**10 222 547**	**11 472 138**
Due from customers registered in Estonia, Latvia and Lithuania	9 957 570	11 178 321
Due from customers registered in the EU (except Estonia, Latvia, Lithuania)	200 921	221 384
Due from customers registered in other countries	64 056	72 433
Loans to customers total	**10 222 547**	**11 472 138**

Summary of changes in the credit loss allowance and gross carrying amounts for Loans to customers total (thousand EUR)

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
As at 1 January 2018	**-15 837**	**-37 291**	**-252 285**	**-16 529**	**-321 942**	**10 088 234**	**1 205 371**	**577 589**	**94 989**	**11 966 183**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	2 566	-6 290	3 724	0	**0**	-929 233	947 831	-18 598	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	354	5 998	-6 352	0	**0**	-215 462	-89 822	305 284	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-14 867	8 421	6 446	0	**0**	444 960	-412 932	-32 028	0	**0**
New originated or purchased	-4 707	0	0	0	**-4 707**	2 341 750	0	0	12 531	**2 354 281**
Derecognised and repaid during the period	1 110	2 139	8 740	459	**12 448**	-2 242 099	-105 197	-164 292	-21 109	**-2 532 697**
Changes to ECL measurement model assumptions and effect from changes in Stages	16 691	-5 919	-9 322	-2 878	**-1 428**					
Total movements with impact in credit loss allowance charge for period	1 147	4 349	3 236	-2 419	**6 313**	-600 084	339 880	90 366	-8 578	**-178 416**
Movements without impact on credit loss allowances for the period										
Write-offs			97 121	13 926	**111 047**			-97 121	-13 926	**-111 047**
As at 31 December 2018	**-14 690**	**-32 942**	**-151 928**	**-5 022**	**-204 582**	**9 488 150**	**1 545 251**	**570 834**	**72 485**	**11 676 720**

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As at 1 January 2019	**-14 690**	**-32 942**	**-151 928**	**-5 022**	**-204 582**	**9 488 150**	**1 545 251**	**570 834**	**72 485**	**11 676 720**
*Movements with impact on credit loss allowances for the period**										
Transfers:										
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	1 722	-5 939	4 217	0	**0**	-439 370	494 957	-55 587	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	421	3 442	-3 863	0	**0**	-43 599	-66 901	110 500	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-17 483	11 915	5 568	0	**0**	742 783	-700 897	-41 886	0	**0**
New originated or purchased	-3 424	0	0	0	**-3 424**	1 022 179	0	0	12 437	**1 034 616**
Derecognised and repaid during the period	2 762	2 882	20 338	1 317	**27 299**	-1 639 081	-426 305	-177 620	-17 186	**-2 260 192**
Changes to ECL measurement model assumptions and effect from changes in Stages	14 220	-5 254	-54 548	-2 308	**-47 890**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-1 782	7 046	-28 288	-991	**-24 015**	-357 088	-699 146	-164 593	-4 749	**-1 225 576**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	41 298	1 624	**42 922**	0	0	-41 298	-1 624	**-42 922**
As at 31 December 2019	**-16 472**	**-25 896**	**-138 918**	**-4 389**	**-185 675**	**9 131 062**	**846 105**	**364 943**	**66 112**	**10 408 222**

*More detailed info about year 2019 movements in Note 5

Explanations

Stage 1 (12 - months ECL)
Stage 2 (Lifetime ECL for SICR)
Stage 3(Lifetime ECL for Credit Impaired)

Gross and net investments on finance leases

thousand EUR	31 December 2019	31 December 2018
Gross investment	**1 742 505**	**2 176 829**
up to 1 year	577 459	650 582
Year 2	489 593	630 938
Year 3	348 935	449 673
Year 4	225 889	291 103
Year 5	80 959	104 332
over 5 years	19 670	50 201
Unearned future finance income on finance leases	**-73 548**	**-92 184**
up to 1 year	-23 565	-33 150
Year 2	-24 913	-29 180
Year 3	-14 658	-17 170
Year 4	-7 188	-8 420
Year 5	-2 366	-2 771
over 5 years	-858	-1 493
Net investment in finance leases	**1 668 957**	**2 084 645**
up to 1 year	553 894	617 432
Year 2	464 680	601 277
Year 3	334 277	432 541
Year 4	218 701	282 990
Year 5	78 593	101 697
over 5 years	18 812	48 708

Performing quantitative risk analysis of the exposures (disclosed in the general risk managment policies of the annual report) counterparties are devided in accordance to financial reporting (FINREP) principles. Total exposure amounts have remained unchanged.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

thousand EUR	Fair value 31 December 2019	Fair value 31 December 2018
Debt Securities		
General Goverments	195 989	116 326
Credit Institutions	15 023	23 076
Other financial corporations	12 851	0
Total debt securities	**223 863**	**139 402**
Own Pension funds Managed	4 033	4 356
Total financial assets at fair value through profit or loss	**227 896**	**143 758**

Debt securities held for liquidity purposes were designated to FVTPL (under fair value option) because of accounting mismatch (balance as at 31 December 2019: 211 012 thousand EUR, 31 December 2018: 139 402 thousand EUR). The Group buys derivatives (interest rate

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swaps) to economically hedge the risk of debt securities fair value. Derivatives are 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 fair value using the fair value option (FVO).

The credit risk exposure for debt instruments designated at FVTPL is 211 012 thousand EUR (31 December 2018: 139 402 thousand EUR). The change in the fair value during the year attributable to changes in credit risk is close to zero with respective cumulative changes of 271 thousand EUR (2018 -242 thousand EUR), which were determined by applying a method similar to the approach applied for measuring ECL.

17. OTHER ASSETS

thousand EUR	31 December 2019	31 December 2018
Taxes		
VAT recoverable	2 127	635
Other Taxes	377	0
	2 504	**635**
Accrued income and deferred expenses		
Receivables and accrued income	10 955	43 939
Prepaid expenses	17 415	11 057
	28 370	**54 996**
Other assets		
Reposessed assets*	2 845	5 210
Other	10 508	3 397
	13 353	**8 607**
Other financial assets		
Payments in transit	29 113	11 894
	29 113	**11 894**
Total other assets	**73 340**	**76 132**

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

18. NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

	Land plots				Buildings			
thousand EUR	Other Level 2	Other Level 3	Commercial Level 2	Residential Level 2	Commercial Level 3	Residential Level 3	Other Level 3	Total
Book value as at 1 January 2018	**0**	**391**	**0**	**269**	**3 216**	**40**	**50**	**3 966**
Reclassifications from investment property	23	3 168	0	127	168	524	0	**4 010**
Reclassifications from property plant and equipment	0	0	0	0	22 567	0	0	**22 567**
Reclassifications from/to other Level	2 176	-2 176	72	177	-72	-177	0	**0**
Disposals (sale)	-23	-1 382	0	-367	-3 110	-271	-50	**-5 203**
Net gains (loss) resulting from adjustment to fair value	0	-1	0	0	8	0	0	**7**
Book value as at 31 December 2018	**2 176**	**0**	**72**	**206**	**22 777**	**116**	**0**	**25 347**
Disposals (sale)	-2 120	0	-72	-177	-22 777	-116	0	**-25 262**
Net gains (loss) resulting from adjustment to fair value	0	0	0	-14	0	0	0	**-14**
Book value as at 31 December 2019	**56**	**0**	**0**	**15**	**0**	**0**	**0**	**71**

19. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

19.1 INVESTMENTS IN ASSOCIATES

thousand EUR	2019	2018
Carrying amount at beginning of year	6 256	6 110
Share of profit for the year	1 066	860
Dividends	-1 663	-408
Divestments	0	-236
Impairment	-20	-70
Carrying amount at end of year	**5 639**	**6 256**

2019	Domicile	No. of shares	% of share capital	% of voting power	Equity	Profit (loss) for the year*	Book value
UAB ALD Automotive	LT	51	25	25	9 320	415	1 766
ALD Automotive Eesti AS	EE	25 606	25	25	6 085	292	1 639
SIA ALD Automotive	LV	950	25	25	8 875	360	2 164
SIA Kredītinformācijas Birojs	LV	2 653	22,6	22,6	268	-33	70
							5 639

2018	Domicile	No. of shares	% of share capital	% of voting power	Equity	Profit (loss) for the year*	Book value
UAB ALD Automotive	LT	51	25	25	6 327	336	1 734
ALD Automotive Eesti AS	EE	25 606	25	25	5 523	209	1 509
SIA ALD Automotive	LV	950	25	25	12 754	332	2 923
SIA Kredītinformācijas Birojs	LV	2 653	22,6	22,6	836	-90	90
							6 256

19.2 INVESTMENTS IN SUBSIDIARIES

thousand EUR	Country	Portion 31 December 2019	Portion 31 December 2018
Luminor Kindlustusmaakler OÜ	Estonia	0%	100%
Luminor Liising AS	Estonia	100%	100%
Luminor Pensions Estonia AS	Estonia	100%	100%
Promano Est OÜ	Estonia	100%	100%
Uus-Sadama 11 OÜ	Estonia	0%	100%
Luminor Asset Management IPAS	Estonia	100%	100%
Luminor Finance SIA	Latvia	100%	100%
Luminor Latvijas atklātais pensiju fonds AS	Latvia	100%	100%
Luminor Līzings SIA	Latvia	100%	100%
Luminor Līzings Latvija SIA	Latvia	100%	100%
Promano Lat SIA	Latvia	100%	100%
Realm SIA	Latvia	100%	100%
Salvus SIA	Latvia	100%	100%
Salvus 2 SIA	Latvia	100%	100%
Salvus 3 SIA	Latvia	100%	100%
Salvus 4 SIA	Latvia	100%	100%
Salvus 6 SIA	Latvia	100%	100%
Trioleta SIA	Latvia	100%	100%
Baltic Īpašums SIA	Latvia	100%	100%
SIA Skanstes 12	Latvia	0%	100%
Luminor Investiciju Valdymas UAB	Lithuania	100%	100%
Luminor Lizingas UAB	Lithuania	100%	100%
Gėlužės projektai UAB	Lithuania	100%	100%
Industrius UAB	Lithuania	100%	100%
Intractus UAB	Lithuania	100%	100%
Promano Lit UAB	Lithuania	100%	100%
Recurso UAB	Lithuania	100%	100%
Luminor būstas UAB	Lithuania	0%	100%

On 1 February 2019, Luminor sold its subsidiary real estate brokerage company Luminor būstas UAB (Lithuania) to Resolution Holding. On 3 July 2019, Luminor sold its subsidiary property holding company SIA Skanstes 12 (Latvia) to the investment company Colonna.

Uus-Sadama 11 OÜ was liquidated in December 2019.

Luminor Liising AS was merged with Luminor Kindlustusmaakler OÜ in August 2019.

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20. INTANGIBLE ASSETS

thousand EUR	Goodwill	Other Intangible Assets	TOTAL
Accumulated costs as at 31 December 2017	**351**	**29 963**	**30 314**
Additions	0	3 956	3 956
Disposals	0	-4 589	-4 589
Accumulated costs as at 31 December 2018	**351**	**29 330**	**29 681**
Additions	0	3 666	3 666
Disposals	0	-798	-798
Accumulated costs as at 31 December 2019	**351**	**32 198**	**32 549**
Accumulated amortization and impairments as at 31 December 2017	**0**	**-21 057**	**-21 057**
Amortisation	0	-2 438	-2 438
Disposals	0	3 565	3 565
Impariment for the year	0	-2 337	-2 337
Accumulated amortization and impairments as at 31 December 2018	**0**	**-22 267**	**-22 267**
Amortisation	0	-2 159	-2 159
Disposals	0	76	76
Impariment for the year	0	0	0
Accumulated amortization and impairments as at 31 December 2019	**0**	**-24 350**	**-24 350**
Carrying Amount as at 31 December 2018	**351**	**7 063**	**7 414**
Carrying Amount as at 31 December 2019	**351**	**7 848**	**8 199**

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

thousand EUR	Property	Equipment	Right-of-use assets			
			Property	Other assets	Total right-of-use-assets	TOTAL
Accumulated costs as at 1 January 2018	**43 361**	**39 431**	**0**	**0**	**0**	**82 792**
Additions	548	4 445	0	0	0	4 993
Disposals	-1 480	-7 794	0	0	0	-9 274
Reclassification to held for sale	-28 448	0	0	0	0	-28 448
Accumulated cost as at 31 December 2018	**13 981**	**36 082**	**0**	**0**	**0**	**50 063**
Effect of adoption IFRS 16 as at 1 January 2019 (Note 3)	0	0	30 529	164	30 693	30 693
Accumulated cost as at 1 January 2019	**13 981**	**36 082**	**30 529**	**164**	**30 693**	**80 756**
Additions	297	5 412	31 390	1	31 391	37 100
Disposals	-10 094	-11 764	-1 968	-63	-2 031	-23 889
As at 31 December 2019	**4 184**	**29 730**	**59 951**	**102**	**60 053**	**93 967**
Accumulated depreciation and impairments as at 31 December 2017	-13 249	-29 061	0	0	0	-42 310
Depreciation	-1 350	-4 972	0	0	0	-6 322
Disposals	1 308	7 791	0	0	0	9 099
Impariment for the year	-8	-20	0	0	0	-28
Reclassification to held for sale	5 881	0	0	0	0	5 881
Accumulated depreciation and impairments as at 31 December 2018	-7 418	-26 262	0	0	0	-33 680
Depreciation	-642	-4 332	-5 989	-50	-6 039	-11 013
Disposals	6 834	10 996	368	0	368	18 198
As at 31 December 2019	**-1 226**	**-19 598**	**-5 621**	**-50**	**-5 671**	**-26 495**
Carrying Amount as at 31 December 2018	**6 563**	**9 820**	**0**	**0**	**0**	**16 383**
Carrying Amount as at 31 December 2019	**2 958**	**10 132**	**54 330**	**52**	**54 382**	**67 472**

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

thousand EUR	2019
As at 1 January 2019 – effect of adoption of IFRS 16 (Note 3)	**33 207**
Additions	31 037
Interest	-1 228
Payments	-5 965
As at 31 December 2019	**57 051**

The maturity analysis of lease liabilities are disclosed in Note 5 Liquidity risk.

22. INVESTMENT PROPERTIES

thousand EUR	31 December 2019	31 December 2018
Carrying amount at the beginning of the period	23 970	51 283
Acquisitions	105	216
Assets classified as held for sale	0	-3 960
Net result from adjustments of fair value	-1 653	-3 722
Disposals (sale)	-19 995	-19 847
Carrying amount at the end of the period	**2 427**	**23 970**

23. LOANS AND DEPOSITS FROM CREDIT INSTITUTIONS

thousand EUR	31 December 2019	31 December 2018
Term deposits	951 612	3 917 244
Demand deposits	29 080	22 152
Total	**980 692**	**3 939 396**

thousand EUR	31 December 2019	31 December 2018
Due to credit institutions, registered in Estonia, Latvia, Lithuania	68 467	228 624
Due to credit institutions, registered in EU (except Estonia, Latvia, Lithuania)	458 953	1 856 280
Due to credit institutions, registered in other countries	453 272	1 854 492
Total	**980 692**	**3 939 396**

	Division by remaining maturity			Interest rate	Base currency	Termination
thousand EUR	in 12 months	1-5 years	Total			
As at 31 December 2019						
Related parties	910 398	0	910 398	0-(+1,5%)	EUR	2020
Central banks	45 000	0	45 000	<0%	EUR	2020
Other credit institutions	23 975	0	23 975	-1%-(+2%)	EUR	2020
Interest payable	1 319	0	1 319			
	980 692	**0**	**980 692**			
As at 31 December 2018						
Related parties	2 758 280	957 000	3 715 280	0 - +1%	EUR	2019-2021
Central banks	0	199 500	199 500	<0%	EUR	2020
Other credit institutions	23 863	0	23 863	0 - +1,3%	EUR	2019
Interest payable	200	553	753			
	2 782 343	**1 157 053**	**3 939 396**			

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24. DEPOSITS FROM CUSTOMERS

thousand EUR	31 December 2019	31 December 2018
Term deposits	2 161 033	1 932 891
Demand deposits	8 074 410	7 136 994
	10 235 443	**9 069 885**
Due to customers by type of customers		
Due to corporate customers	4 578 084	4 235 028
Due to public sector customers	1 623 323	1 107 472
Due to individuals	4 034 036	3 727 385
	10 235 443	**9 069 885**
Due to customers, registered in Estonia, Latvia, Lithuania	9 825 534	8 693 043
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	326 379	213 232
Due to customers, registered in other countries	83 530	163 610
	10 235 443	**9 069 885**

25. DEBT SECURITIES ISSUED

LUMINO 1 1/2 18/10/21

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

LUMINO 1 3/8 21/10/22

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

thousand EUR	31 December 2019	31 December 2018
LUMINO 1 1/2 18/10/21		
Nominal amount	350 000	350 000
Intragroup transactions	-1 000	0
Fees at amortized costs	-1 269	-1 998
Accrued interest	1 079	1 079
Hedged item fair value changes	2 982	2 154
Carrying amount	**351 792**	**351 235**
LUMINO 1 3/8 21/10/22		
Nominal amount	300 000	0
Intragroup transactions	0	0
Fees at amortized costs	-982	0
Accrued interest	814	0
Hedged item fair value changes	92	0
Carrying amount	**299 924**	**0**
Total	**651 716**	**351 235**

26. INCOME TAX

thousand EUR	31 December 2019	31 December 2018
Current tax for the year	-7 287	-14 138
Adjustment of current tax for previous years	-99	-1 479
Deferred tax	2 078	-527
Reversal of deferred tax	43	0
Income tax for the year	**-5 265**	**-16 144**
Profit before tax*	59 262	139 591
Statutory tax rate 0%*	0	0
Impact of the tax imposed on the Parent Company's profit or loss*	2 162	0
Difference in overseas tax rates	-8 138	-21 961
Tax on dividends	481	7 005
Adjustment of current tax	2	-1 479
Effect of non-deductible expenses/non-taxable income/tax loss carry forward	228	291
Income tax for the year	**-5 265**	**--16 144**
Effective tax	9%	12%
Deferred tax recognised in the balance sheet		
Opening balance, deferred tax assets	**908**	**1 350**
Charged/ (credited) to other comprehensive income	-933	85
(Charged)/ credited in income statement	901	-527
Tax loss carry forwards	2 155	0
Closing balance, deferred tax assets	**3 031**	**908**

*In Estonia and Latvia , instead of profit, net dividends are subject to income tax. Starting from second quarter of 2018 credit institutions in Estonia are obliged to pay advance income tax of 14% on quarterly accounting profits. Advance income tax paid is non-refundable and thus recorded as income expense, but can be used to reduce income tax payable on future dividend distributions. In Lithuania tax rate 15% is applicable on taxable income on profits earned in 2019 and 2018. According to December 2019 changes in the Law, current income tax rate for 2020 profits of credit institutions in Lithuania in excess of 3 million EUR is set at 20%.

27. OTHER FINANCIAL LIABILITIES

thousand EUR	31 December 2019	31 December 2018
Payments in transit	41 865	22 953
Other	3 438	4 961
Total	**45 303**	**27 914**

28. OTHER LIABILITIES

thousand EUR	31 December 2019	31 December 2018
Accrued expenses		
Accrued expenses	32 178	14 856
Other accrued liabilities to employees	12 628	14 295
	44 806	**29 151**
Other liabilities		
Prepayments from leasing customers	1 627	2 725
Payables	16 831	15 118
Other liabilities	6 529	17 314
	24 987	**35 157**
Total other liabilities	**69 793**	**64 308**

29. PROVISIONS

The movement of provisions was as follows:

thousand EUR	Loan commitments and guarantees	Legal disputes	Restructuring	Other	Total
As at 31 December 2018	**4 561**	**93**	**1 116**	**144**	**5 914**
Arising during the year	895	0	4 562	240	**5 697**
Other movements*	-2 055	0	-5 128	-180	**-7 363**
As at 31 December 2019	**3 401**	**93**	**550**	**204**	**4 248**

Loan commitments and guarantees:

thousand EUR	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2018	**1 459**	**2 800**	**302**	**4 561**
Arising during the year	895	0	0	**895**
Other movements*	-802	-2 435	1 182	**-2 055**
As at 31 December 2019	**1 552**	**365**	**1 484**	**3 401**

*Loan commitments and guarantees ECL measurement model assumptions and effect from changes in Stages, derecognition and write-offs are included in other movements.

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The movement of provisions was as follows:

thousand EUR	Loan commitments and guarantees	Legal disputes	Restructuring	Other	Total
As at 1 January 2018	**4 790**	**123**	**1 000**	**266**	**6 179**
Arising during the year	2 087	0	1 138	10	3 235
Other movements*	-2 316	-30	-1 022	-132	-3 500
As at 31 December 2018	**4 561**	**93**	**1 116**	**144**	**5 914**

Loan commitments and guarantees:

thousand EUR	Stage 1	Stage 2	Stage 3	Total
As at 1 December 2018	**3 531**	**443**	**816**	**4 790**
Arising during the year	2 087	0	0	2 087
Other movements*	-4 159	2 357	-514	-2 316
As at 31 December 2018	**1 459**	**2 800**	**302**	**4 561**

*Loan commitments and guarantees ECL measurement model assumptions and effect from changes in Stages, derecognition and write-offs are included in other movements.

Credit quality of loan commitments and guarantees

31 December 2019

thousand EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	613 069	10 070	0	0	**623 139**
Moderate risk	1 027 203	73 069	0	14	**1 100 286**
High risk	18 351	22 277	0	0	**40 628**
Default	0	0	24 758	5	**24 763**
Off balance amount Total	**1 658 623**	**105 416**	**24 758**	**19**	**1 788 816**
Less: provisions	-1 552	-365	-1 484	0	**-3 401**
Net	**1 657 071**	**105 051**	**23 274**	**19**	**1 785 415**

31 December 2018

thousand EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	747 005	100 208	0	0	**847 213**
Moderate risk	886 510	201 012	0	0	**1 087 522**
High risk	18 901	20 478	0	0	**39 379**
Default	0	0	10 148	2	**10 150**
Off balance amount Total	**1 652 416**	**321 698**	**10 148**	**2**	**1 984 264**
Less: provisions	-1 459	-2 800	-302	0	**-4 561**
Net	**1 650 957**	**318 898**	**9 846**	**2**	**1 979 703**

30. ISSUED CAPITAL

thousand EUR	2019	2018
Share capital	34 912	34 912
Number of shares	3 491 223	3 491 223
Nominal value of share	10	10

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

As at 31 December 2018, 100% of Luminor Bank AS shares were acquired by Luminor Group AB registered in Sweden. All issued shares are authorised and fully paid.

31. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

thousand EUR	31 December 2019	31 December 2018
Pledged assets		
Loans*	1 999 895	132 138
Debt securities**	0	110 982
Total	**1 999 895**	**243 120**
Contingent liabilities		
Loan commitments given	1 134 434	1 304 189
Financial guarantees given	110 655	265 707
Performance guarantees	74 647	113 755
Other commitments given***	469 080	300 613
Total	**1 788 816**	**1 984 264**

*Pledged assets in amount of 1 928 900 thousand EUR that are pledged against the parent funding and 70 900 thousand EUR to Central Bank.
**Related to Latvian Central Bank deposits
*** Other commitments given include different type of guarantees (warranty, payment and advance payment quarantees, etc)

Tax authorities have the right to review the Group's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2018-2019. The Group's management estimates that in 2019 there are no such circumstances which may lead the tax authorities to impose significant additional taxes on the Group.

The retained earnings of the Group as at 31 December 2019 were 183 916 thousand EUR (31 December 2018: 129 455 thousand EUR). Distribution of retained earnings as dividends to the owners is subject to the income tax at the maximum rate of 20/80 on the amount paid out as net dividends. Therefore, taking into account regulatory requirements for Net Own funds and capital, from the retained earnings available at the reporting date, it is possible to pay out to the shareholders as dividends 147 133 thousand EUR and the corresponding income tax would amount to 36 783 thousand EUR. As at 31 December 2018, taking into account regulatory requirements for Net Own funds and capital the comparatives are 103 564 thousand EUR and corresponding income tax would amount to 25 891 thousand EUR. Please note the current calculation of income tax does not take into account prepaid advance income tax and also derived dividends which underlie participation exemption regime. More information in Note 5.

32. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of the major part of the Group's assets and liabilities is a reasonable approximation of their fair value. Where the fair values of financial assets and liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined in a way that unobservable inputs used to measure fair value would reflect the assumptions that market participants would use when pricing assets and liabilities, including assumptions about the risk. Where observable market data is not available, expert judgment is required to establish fair values. For the purposes of current financial statements, the above mentioned techniques related to unobservable inputs were not used as no such financial assets and liabilities exist on the statement of financial position of the Group.

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COSTS

thousand EUR	Carrying amount 31 December 2019	Fair value 31 December 2019	Carrying amount 31 December 2018	Fair value 31 December 2018
Assets				
Financial assets at amortised cost				
Cash and Balances with Central banks	2 924 019	2 924 019	3 293 090	3 293 090
Due from other credit institutions	141 645	141 645	185 346	185 346
Loans to customers	10 222 547	10 324 772	11 472 138	11 484 286
Total financial assets	**13 288 211**	**13 390 436**	**14 950 574**	**14 962 722**
Liabilities				
Financial liabilities at amortised cost				
Loans and deposits from credit institutions	980 692	980 692	3 939 396	3 906 454
Deposits from customers	10 235 443	10 235 443	9 069 885	9 098 414
Debt securities issued	651 716	653 967	351 235	351 235
Other financial liabilities	45 303	45 303	27 914	27 914
Total financial liabilities	**11 913 154**	**11 915 405**	**13 388 430**	**13 384 017**

The next table below summarises the fair value measurement hierarchy of the Bank's financial assets and liabilities. Financial instruments are distributed by 3 levels of the fair value:

- Level 1 — quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available.
- Level 2 — valuation techniques for which inputs other than quoted prices included within Level 1 are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for a substantial part of the term of the asset or liability.
- Level 3 — valuation techniques for which inputs are unobservable for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about the risk.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

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

Fair value measurement using thousand EUR	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and Balances with Central banks	2 924 019	0	0	**2 924 019**
Due from other credit institutions	141 587	58	0	**141 645**
Loans to customers	0	0	10 324 772	**10 324 772**
Other financial assets	0	0	29 113	**29 113**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	3 021	0	0	**3 021**
Financial assets at fair value through profit or loss				
Equity instruments	0	4 033	0	**4 033**
Debt securities				
General Goverments	195 989	0	0	**195 989**
Credit Institutions	15 023	0	0	**15 023**
Other financial corporations	0	0	12 851	**12 851**
Derivative financial instruments				
Derivative financial instruments	0	58 087	1 130	**59 217**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	**140**
Debt securities	0	0	0	**0**
Total	**3 279 639**	**62 178**	**10 368 006**	**13 709 823**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	29 080	951 612	0	**980 692**
Deposits from customers	0	8 074 410	2 161 033	**10 235 443**
Debt securities issued	0	651 716	0	**651 716**
Lease liabilities	0	0	57 051	**57 051**
Other financial liabilities	0	0	45 303	**45 303**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	56 042	2 262	**58 304**
Total	**29 080**	**9 733 780**	**2 265 649**	**12 028 509**

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

Fair value measurement using thousand EUR	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and Balances with Central banks	3 293 090	0	0	**3 293 090**
Due from other credit institutions	145 447	39 899	0	**185 346**
Loans to customers	0	0	11 484 286	**11 484 286**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	1 006	0	0	**1 006**
Financial assets at fair value through profit or loss				
Equity instruments	0	4 356	0	**4 356**
Debt securities				
General Goverments	116 326	0	0	**116 326**
Credit Institutions	23 076	0	0	**23 076**
Derivative financial instruments				
Derivative financial instruments	0	44 352	0	**44 352**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	7 607	**7 607**
Debt securities	1 265	0	0	**1 265**
Total	**3 580 210**	**88 607**	**11 491 893**	**15 160 710**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	21 967	3 884 487	0	**3 906 454**
Deposits from customers	0	7 159 443	1 938 971	**9 098 414**
Debt securities issued	0	351 235	0	**351 235**
Other financial liabilities	22 953	0	4 961	**27 914**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	41 255	0	**41 255**
Total	**44 920**	**11 436 420**	**1 943 932**	**13 425 272**

Change in financial instruments in level 3:

thousand EUR	Shares 2019	Shares 2018
Beginning balance	**7 607**	**5 830**
Additions	0	1 130
Unrealised gains/losses for assets held at the end of the reporting period	5 244	647
Closing balance	**12 851**	**7 607**

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

Non-trading financial assets mandatorily at fair value through profit or loss (Pension Funds) - The value date method is used in the acquisition of pension fund units managed by Luminor Pensions Estonia AS and they are initially recognised at acquisition cost, which is the fair value paid for them. Pension fund units are revalued according to the effective net asset value on the balance sheet date.The following methods and assumptions were used to estimate the fair values:

- Cash and cash balances with central banks – The fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction.
- Due from other credit institutions – The fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction. Due from other credit institutions are demand deposits.
- Loans to customers – Fair value has been estimated by discounting estimated future cash flows with the base curve used by the Bank (6m Euribor curve as average for all loans) as adjusted by credit riks factors. In 2018 Luminor had various different approaches to the fair value estimation (in the legacy organizations) and that Luminor has made an effort in 2019 to align the methodologies across the different geographies. The current approach is in accordance with Fair Value procedure. Same valuation technique is applied to all loan classes and accordingly all loan classes are classified under fair value level 3.
- Financial assets at fair value through profit or loss (debt securities):
    - For domestic debt instruments issued in the Baltic states, the quotes of local (Baltic) market makers shall be the priority source. Local market makers (usually banks) publish the trading offers in the form of prices, yields or equivalent figures. If there are more than one market maker locally, the average of bid prices shall be used taking the data from Bloomberg. If the debt instrument is issued outside the Baltic states, or there are no quotes available from local market makers on particular debt issue, or quotes of local market makers are clearly incorrect or artificial, the prices of particular debt securities shall be derived from liquid market data using sources like Bloomberg or similar.
- The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. The fair value of a liability is measured using the assumptions that market participants would use when pricing the liability, assuming that market participants act in their economic best interest.
- Financial assets at fair value through other comprehensive income (equities, debt securities):
    - The quotes of local (Baltic) market makers shall be the priority source for local equities. These are securities for which active market exists based on the turnover, meaning availability of quotes at which market participants transact in the local stock market. The quotes of foreign equities shall be taken from Bloomberg giving the priority to the primary market, and then to the country of issuer if the active market exists there. Otherwise, the market with the highest liquidity (turnover) shall be used as a source for pricing. If the quotes in primary data sources are clearly incorrect or artificial, the price of particular equity shall be derived from liquid market data using sources like Bloomberg or similar. Correctness of the quotes described above are the subject of expert judgment of the Market and Liquidity Risk Management Department member together with the Bank's Markets Department's dealer responsible for equity trading. For equities of non-listed companies for which active market does not exist, any available trusted public information on recent trades shall be used for the pricing of the equity. Alternatively, dividend discount model shall be used to determine the price of equity. Expert opinion based on other available related market data shall be used for pricing of equity if the previously described methods are not possible.
    - For domestic debt instruments issued in the Baltic states, the quotes of local (Baltic) market makers shall be the priority source. Local market makers (usually banks) publish the trading offers in the form of prices, yields or equivalent figures. If there are more than one market maker locally, the average of bid prices shall be used taking the data from Bloomberg. If the debt instrument is issued outside the Baltic states, or there are no quotes available from local market makers on particular debt issue, or quotes of local market makers are clearly incorrect or artificial, the prices of particular debt securities shall be derived from liquid market data using sources like Bloomberg or similar.
- The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for

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

- Derivative financial instruments – Market data from financial data vendors, electronic trading platforms or third-party valuation are used for valuation purposes. The derivatives represent non-complex products valued with generally accepted models. Valuation inputs are derived from the market data.
- Loans and deposits from credit institutions – The fair value of loans equals to their carrying value. Pricing of the loans from credit institutions is under market conditions. Expected cash flows of the liabilities from the banks are discounted with the same market rates as loans. Loans from credit institutions are long-term. Deposits from credit institutions are demand deposits. The fair value of deposits equals to their carrying value. Pricing of the deposits from credit institutions is under market conditions.
- Deposits from customers – The gross carrying amount of demand deposits as a fair value is applied as an approximation due to very short maturities. In 2018 Luminor had various different approaches to the fair value estimation (in the legacy organizations) and that Luminor has made an effort in 2019 to align the methodologies across the different geographies. The current approach is in accordance with Fair Value procedure.
- Debt securities issued – The debt securities issued by the Bank are initially recognized at fair value less transaction costs and are subsequently carried at amortized cost using effective interest rate (EIR) method. The fair value is calculated by discounting the future cash flows using the market interest rate yield curve.

There were two changes in fair value hierarchy treatment comparing year 2019 with the previous Annual Report. Methodology was unified for debt securities' treatment in Lithuania and Latvia meaning that all bonds are now listed as Level 1 instruments. Based on new procedure implemented in 2019 considering fair value hierarchy, the approaches have been aligned across Luminor that the situations mentioned above would not materialize and represent the right treatment of debt securities in terms of FV hierarchy. The second change involves separating part of derivatives – a certain portfolio of interest rate options – and placing them as Level 3 instruments due to existing uncertainties concerning third party valuation. No other movements between levels of fair value hierarchy have occurred during 2018 and 2019.

33. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties are defined as shareholders, members of the Supervisory Council and the Management Board as key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The immediate parent of Luminor Bank AS is Luminor Holding AS that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. BCP VII is treated to be both the ultimate parent and ultimate controlling entity of Luminor Bank AS. Other shareholders of Luminor Holding AS - Nordea Bank Abp and DNB BANK ASA - are considered to be the entities with significant influence over the Group. More information disclosed in Note 1.A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. There have been no doubtful debts due from related parties as well as allowances for doubtful debts as at 31 December 2019 and 31 December 2018.

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

TRANSACTIONS WITH RELATED PARTIES

thousand EUR	31 December 2019	31 December 2018
Interest Income		
Entities with significant influence over the entity	1 469	3 671
Interest Expenses		
Entities with significant influence over the entity	-5 609	-10 251
Net commission and fee income		
Entities with significant influence over the entity	-21	-10
Net gain from financial derivatives		
Entities with significant influence over the entity	4 267	13 453
Other administrative expenses		
Entities with significant influence over the entity	-8 851	-8 359
Other expenses		
Parent company	0	0
Entities with significant influence over the entity	833	908
Total	**-7 912**	**-588**
Loans to Credit Institutions		
Entities with significant influence over the entity	77 572	172 634
Loans to Customers		
Key management personnel	697	0*
Derivative instruments		
Entities with significant influence over the entity	46 519	32 946
Other Assets		
Entities with significant influence over the entity	199	567
Total Assets	**124 987**	**206 147**
Due to Credit Institutions		
Entities with significant influence over the entity	912 807	3 714 129
Deposits from customers		
Key management personnel	983	**0***
Derivative instruments		
Entities with significant influence over the entity	19 849	16 851
Other Liabilities		
Entities with significant influence over the entity	1 345	2 447
Total Liabilities	**934 984**	**3 733 427**

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

Payments to the key management personnel in the period 1 January to 31 December 2019 were 2 581 thousand EUR. Other long-term benefits: bonuses and deferred compensation not payable wholly within 12 months, totally amount to 635 thousand EUR. Due to merger that took place on 2 January 2019 comparative information does not give a fair overview as the structure of management has changed.

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

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

34. LITIGATIONS AND CLAIMS

In the ordinary course of business the Group has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals. The Management of the Bank believes that any legal proceedings pending as at 31 December 2018 will not result in material losses for the Group.

35. SEGMENT REPORTING

MEASUREMENT OF OPERATING SEGMENTS PERFORMANCE

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

Financial results are presented for the three main operating segments: Corporate Banking, Retail Banking and Wealth Management. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. Corporate Banking segment services business customers that have a dedicated relationship manager. Retail Banking segment services business customers without a dedicated relationship manager and private individuals not belonging to Wealth Management segment. Wealth Management services wealthy private individuals and holding companies associated with those individuals. Results of other operating segments are included in Other segment.

Segment results consist of income and expenses associated directly to the customers belonging under respective segments (including internal funds transfer pricing result between operating segments and Other segment) and income and expenses not booked on customer level, which are allocated between the operating segments using internally agreed allocation mechanisms. Only assets and liabilities relating to customers who belong to the operating segments are reported under the respective segments, all other balance sheet items are reported under Other segment.

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

thousand EUR	Corporate Banking	Retail Banking	Wealth Management	Other	Total
2019					
The Group					
Net interest income	122 583	107 593	7 626	6 365	244 167
Net fee and commission income	28 187	44 514	2 111	2 574	77 386
Trading income	10 961	6 084	343	16 572	33 960
Other income	331	1 037	0	16 471	17 839
Total income	**162 062**	**159 228**	**10 080**	**41 982**	**373 352**
Personnel costs, administrative costs and depreciation	-90 506	-173 208	-7 481	-738	-271 933
Net impairment (-)/ reversal on loans to customers	-31 226	8 906	-1	-1 694	-24 015
Other*	0	0	0	-18 112	-18 112
Profit before Tax	**40 330**	**-5 074**	**2 598**	**21 438**	**59 292**
31 December 2019					
The Group					
Assets					
Loans to customers	4 303 965	5 401 323	82 047	435 212	10 222 547
Liabilities					
Deposits from customers	5 094 953	4 185 510	945 223	9 757	10 235 443

thousand EUR	Corporate Banking	Retail Banking	Wealth Management	Other	Total
2018					
The Group					
Net interest income	132 000	104 214	6 524	16 671	259 409
Net fees & commission income	31 825	45 170	2 350	4 416	83 761
Trading income	11 780	6 143	464	10 643	29 030
Other income	831	1 131	1	2 657	4 620
Total income	**176 436**	**156 658**	**9 339**	**34 387**	**376 820**
Personnel costs, administrative costs and depreciation	-70 911	-135 431	-5 372	-12 182	-223 896
Net impairment (losses/ reversal) on loans to customers	3 149	4 369	-532	-673	6 313
Other*	0	0	0	-19 646	-19 646
Profit before Tax	**108 674**	**25 596**	**3 435**	**1 886**	**139 591**
31 December 2018					
The Group					
Assets					
Loans to customers	5 270 357	5 581 559	92 801	527 421	11 472 138
Liabilities					
Deposits from customers	4 704 640	3 559 706	801 593	3 946	9 069 885

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

36. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On 13 January 2020 Moody's Investors Service assigned a provisional (P) Aa1 long-term rating to the mortgage covered bonds to be issued by Luminor Bank AS under the Estonian Covered Bonds Act. The credit analysis prepared by Moody's considered, among other things, the credit quality of the assets backing the covered bonds, the Estonian legal framework providing for regulation and supervision of the Luminor Bank AS, as well as the cover pool exposure to market risk and the level of over-collateralisation.

On 4 March 2020 Luminor Bank AS issued its inaugural five-year covered bonds worth 500 million EUR under the European Medium Term Note (EMTN) and covered bond programme. The bonds are listed on the Irish Stock Exchange.

There is considerable near-term uncertainty about the impact of COVID-19 on the global economy, international trade and financial markets. Yet, while to date, the effect on the group has been immaterial due to the relatively limited impact to Luminor home markets, business continuity plans are in place and Luminor continues to monitor developments on a day-to-day basis. In recent time, the group has also implemented preventative measures to minimise potential risk to employees and customers, as well as business disruption, in the event that COVID-19 becomes more widespread across the region. In light of that the Supervisory Council deems it prudent not to propose distributing a dividend until there is more visibility on the economic and financial outlook.

37. UNCONSOLIDATED PRIMARY STATEMENTS OF LUMINOR BANK AS AS A SEPARATE ENTITY

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

37.1 STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 FOR LUMINOR BANK AS

thousand EUR	2019	2018
Interest income calculated using the effective interest method	266 592	255 889
Other similar income	5 479	8 283
Interest and similar expense	-57 413	-37 640
Net interest income	**214 658**	**226 532**
Fee and commission income	90 719	91 470
Fee and commission expense	-26 707	-24 476
Net fee and commission income	**64 012**	**66 994**
Net gain on financial assets and liabilities designated at fair value through profit/loss	271	-490
Net gain on debt securities at fair value through profit or loss	5 315	0
Net gain on financial assets and liabilities held for trading	5 683	5 048
Net gain from financial derivatives	10 736	6 269
Net gain from operations with foreign currency	11 351	9 394
Dividend income	6 404	36 166
Other operating income	15 690	6 150
Net other operating income	**55 450**	**62 537**
Salaries and other personnel expenses	-103 961	-102 449
Other administrative expenses	-142 168	-101 147
Depreciation and impairment of property, plant and equipment and intangible assets	-12 080	-7 934
Other operating expenses	-16 519	-11 746
Total operating expenses	**-274 728**	**-223 276**
Share of profit from an associate	0	3 456
Net impairment (-)/ reversal on loans to customers	-19 305	13 695
Other non-operating expenses	-407	-13 370
Profit before tax	**39 680**	**136 568**
Tax expense	-4 321	-4 995
Profit for the period	**35 359**	**131 573**

Items that will be reclassified to profit or loss		
Changes in the fair value of debt assets at fair value through other comprehensive income	0	-4
Total items that will be reclassified to profit or loss	**0**	**-4**

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Items that will not be reclassified to profit or loss		
Changes in the fair value of assets at fair value through other comprehensive income	-55	1 515
Income tax recorded directly in other comprehensive income	0	85
Total items that will not be reclassified to profit or loss	**-55**	**1 600**
Total other comprehensive income	**-55**	**1 596**
Total comprehensive income	**35 304**	**133 169**

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37.2 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 FOR LUMINOR BANK AS

thousand EUR	31 December 2019	31 December 2018
Assets		
Cash and balances with central banks	2 924 019	3 293 342
Due from other credit institutions	141 644	173 935
Loans to customers	9 997 431	11 292 673
Financial assets held for trading	3 021	1 006
Financial assets at fair value through profit or loss	223 863	139 403
Derivative financial instruments	59 217	44 352
Financial assets at fair value through other comprehensive income	140	7 609
Investments in subsidiaries and associates	261 050	264 251
Intangible assets	5 254	4 033
Property, plant and equipment and right-of-use assets	66 169	15 657
Investment properties	0	459
Current tax assets	0	560
Deferred tax assets	2 888	790
Other assets	73 358	86 828
Non-current assets and disposal groups held for sale	87	204
Total assets	**13 758 141**	**15 325 102**
Liabilities		
Loans and deposits from credit institutions	980 692	4 156 548
Deposits from customers	10 316 932	8 921 208
Debt securities issued	651 716	351 235
Derivative financial instruments	58 304	41 255
Tax liabilities	1 545	2 547
Lease liabilities	55 963	0
Other financial liabilities	42 481	28 734
Other liabilities	60 306	49 067
Provisions	4 669	5 984
Total liabilities	**12 172 608**	**13 556 578**
Shareholders' Equity		
Issued capital	34 912	34 912
Share premium	1 412 243	1 628 274
Retained earnings	137 181	101 161
Other reserves	1 198	4 177
Total shareholders’ equity attributable to the shareholders of the Bank	**1 585 534**	**1 768 524**
Total liabilities and shareholders’ equity	**13 758 142**	**15 325 102**

37.3 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019 FOR LUMINOR BANK AS

Attributable to equity holders of the bank

thousand EUR	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Restated equity as at 1 January 2018*	**34 912**	**1 628 274**	**2 208**	**-30 039**	**1 635 355**
Profit (loss) for the period	0	0	0	131 573	131 573
Other comprehensive income	0	0	1 596	0	1 596
Total comprehensive income for the period	**0**	**0**	**1 596**	**131 573**	**133 169**
Other reserves	0	0	373	-373	0
Total equity as at 31 December 2018	**34 912**	**1 628 274**	**4 177**	**101 161**	**1 768 524**
Application of IFRS 16	0	0	0	-2 263	-2 263
Restated equity as at 1 January 2019	**34 912**	**1 628 274**	**4 177**	**98 898**	**1 766 261**
Profit (loss) for the period	0	0	0	35 359	35 359
Other comprehensive income	0	0	-55	0	-55
Total comprehensive income for the period	**0**	**0**	**-55**	**35 359**	**35 304**
From OCI reserve to retained earnings	0	0	-3 194	3 194	0
Increase in share capital**	216 031	-216 031	0	0	0
Decrease of share capital**	-216 031	0	0	0	-216 031
Other	0	0	-4	4	0
Other reserves	0	0	274	-274	0
Total equity as at 31 December 2019	**34 912**	**1 412 243**	**1 198**	**137 181**	**1 585 534**

thousand EUR	31 December 2019	31 December 2018
Unconsolidated equity capital of the parent undertaking	1 585 534	1 768 524
Value of subsidiaries in the unconsolidated statement of financial position of the parent (minus)	-260 980	-262 640
Value of subsidaries under equity method	307 715	291 217
TOTAL	**1 632 269**	**1 797 101**

*See Note 1 Significant accounting policies
**see Note 30 Issued capital

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37.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018 FOR LUMINOR BANK AS

thousand EUR	2019	2018
Cash flows from operating activities		
Profit before tax	39 680	136 568
Adjustment for:		
-Net impairment (losses)/ reversal on loans to customers	19 305	-13 695
-Dividend income	-6 404	-36 166
-Loss/(Profit) from foreign currency revaluation	-428	232
-Profit/loss from impairment of associates and subsidiaries	3 201	-146
-Depreciation, amortization and impairment	12 080	7 934
-Other Adjustments	407	13 370
-Interest Income	-272 071	-264 172
-Interest expenses	57 413	37 640
Cash flow from operations before changes in Operating Assets/Liabilities	**-146 817**	**-118 435**
Change in Operating Assets/Liabilities		
Increase (-) / decrease (+) of lending to customers	1 310 996	226 335
Increase (-) / decrease (+) of other assets	-67 006	2 905
Increase (+) / decrease (-) of client deposits	-1 781 377	-50 812
Increase (+) / decrease (-) of liabilities	40 180	9 267
Interest received	276 870	173 974
Interest paid	-55 135	-4 496
Income tax paid	-6 861	-7 056
Cash flow form operations	**-282 333**	**350 117**
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	-5 690	-7 489
Acquisition of investment property	-105	-3
Proceeds from disposal of property and equipment and intangible assets	4 637	1 474
Proceeds from disposal of investment property	0	1 022
Dividend received	6 404	11 445
Cash flows from investing activities	**5 246**	**6 449**
Financing activities		
Debt Securities Issued	298 809	284 326
Cashflows from Hedging activities	8	0
Payments of principal on leases	-5 842	0
Pay out to the Shareholder	-216 031	0

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Cash Flows from financing activities	**76 944**	**284 326**
Net increase/(decrease) in cash and cash equivalents	**-346 959**	**522 457**
Cash and cash equivalents at the beginning of the period	3 299 339	2 777 114
Effects of currency translation on cash and cash equivalents	428	-232
Net increase/(decrease) in cash and cash equivalents	-346 959	522 457
Cash and cash equivalents at the end of the period	**2 952 807**	**3 299 339**
Cash and Cash equivalents comprises		
Cash on hand	140 518	178 711
Non-restricted current account with central bank	2 670 701	2 986 606
Due from other credit institutions on demand or with original maturity of three months or less	141 588	134 021
Total	**2 952 807**	**3 299 339**

Independent auditor's report

To the Shareholder of Luminor Bank AS

(Translation of the Estonian original)*

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 2019, and its consolidated financial performance and its 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 9 March 2020.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2019;
- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of changes in equity for the year ended 31 December 2019;
- the consolidated statement of cash flows for the year ended 31 December 2019; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

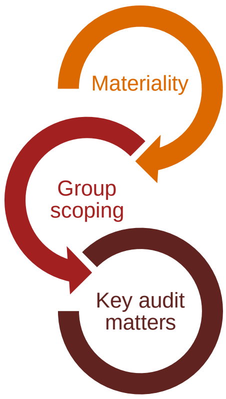
Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group 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 Group in 2019 are disclosed in the management report.

Our audit approach

Overview



Overall materiality for the Group audit is EUR 6.77 million, which represents 5% of consolidated profit before income tax, adjusted for significant infrequently occurring items.

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 6.77 million
How we determined it	5% of consolidated profit before income tax, adjusted for significant infrequently occurring items.
Rationale for the materiality benchmark applied	We have applied this benchmark, as profit before tax 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. Adjustments to profit before tax were deemed necessary due to significant one-off transformation-related costs incurred in 2019 that are not representative to the Group's regular operating activities.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Impairment of loans to customers (refer to Note 1 "Significant accounting policies", Note 2 "Significant accounting estimates and judgments", Note 5 "General risk management policies" and Note 15 "Loans to customers" for further details). As at 31 December 2019 the net carrying amount of loans to customers amounted to EUR 10,223 million and related impairment allowance amounted to EUR 186 million. In 2019 the Group recognised net impairment on loans to customers in the amount of EUR 24 million. We focused on this area because management uses complex models with subjective inputs to assess the timing and the amount of expected credit losses (ECL). Key areas requiring significant management judgements and modelling include: • evaluating the criteria for assessment of significant increase in credit risk and allocation of loans to stage 1, 2 or 3; • assessing accounting interpretations and modelling assumptions used to build the models that calculate ECL;	We assessed whether the Group's accounting policies and methodology applied for the calculation of impairment of loans to customers are in compliance with IFRS 9. We assessed the design and operating effectiveness of key controls over ECL data and respective calculations, including: • IT general controls over relevant systems; • IT application controls over exposure balances and overdue information; • Automated application of staging; • Automated calculations of ECL for stages 1 and 2; • Automated calculations of ECL for stage 3 immaterial exposure that are evaluated on collective basis; • review and approval of customer credit rating grades; • review and update of collateral values; • regular customer reviews; • review and approval of loan loss calculations for individual material exposures (stage 3).

- the modelling and calculation of key parameters of ECL model, including probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- determining the macro-economic indicators and incorporating forward-looking information into the ECL model;
- estimating the above-mentioned indicators for reliable future period and for three different scenarios (baseline, optimistic and pessimistic) and assigning probabilities to those scenarios; and
- estimating ECL under base case and risk case scenarios for Stage 3 individual assessments and assigning probabilities to those scenarios.

We 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 estimate, key forecasts of macroeconomic information and multipliers used for different scenarios.

How we tailored our Group audit scope

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

The Group comprises a number of entities operating in Estonia, Latvia and Lithuania (see further information on the Group structure in Note 2 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.

Other information

The Management Board is responsible for the other information contained in the annual report. The other information comprises the annual report, including General information and contacts, the CEO Statement and the Management report (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 and we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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 two 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

9 March 2020

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

PROFIT ALLOCATION PROPOSAL

In accordance with the audited financial results, the Management Board recommends to the annual shareholders' meeting that the Luminor 2019 net profit of 53 997 thousand EUR and retained earnings from previous financial periods of 129 919 thousand EUR, totalling to 183 916 thousand EUR, to be distributed as shown below:

Net profit for the period ended 31 December 2019	53 997 thousand EUR
Retained earnings from previous periods	129 919 thousand EUR
Total retained earnings	183 916 thousand EUR
To mandatory reserve	1 768 thousand EUR
Balance of undistributed profit	182 148 thousand EUR

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2019

The Company's Management Board has approved the Management Report and Annual Accounts for the year 2019.

The Annual Report as compiled by the Management Board consists of the Management Report, Annual Accounts, Profit allocation proposal and Auditor's Report. The Company's Supervisory Board has reviewed the Annual Report and has approved it for submission to the General Meeting of Shareholders.

09 March 2020

Erkki Raasuke
Chairman of the Management Board

Jonas Filip Eriksson
Member of the Management Board

Kerli Gabrilovica
Member of the Management Board

Andrius Načajus
Member of the Management Board

Georg Jürgen Kaltenbrunner
Member of the Management Board

Marilin Pikaro
Member of the Management Board

Indrek Heinloo
Member of the Management Board

Kristina Siimar
Member of the Management Board

Ilja Sovetov
Member of the Management Board