INTERIM REPORT

Q3 2019

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

LUMINOR BANK AS, Estonia

CONTENTS

CEO COMMENT

The highlight of the third quarter of 2019 was the completion of the acquisition of a 60% majority stake in Luminor by a consortium led by private equity funds managed by Blackstone. The transaction, worth 1 billion euros, represents one of the largest investments in the Baltic history.

Nordea Bank Abp and DNB Bank ASA each retain a 20% equity stake in Luminor and will continue to support the bank with long-term funding, expertise and on-going representation on the Supervisory Council. Blackstone has agreed with Nordea Bank Abp that it will purchase Nordea Bank Abp's remaining 20% stake over the coming years.

Blackstone is one of the world's leading investment firms and is an ideal partner for Luminor as we undertake one of the most extensive corporate transformations in the Baltics. Blackstone's proven track record in transformations, strong financial standing and network of global talent will support Luminor as it grows as the largest local independent bank.

In the third quarter, Luminor continued to implement the new operating model to become a more efficient, more resilient and more resolvable organisation. We also progressed further with the separation from the payment infrastructure and information systems of the parent banks. We finalised the first phase of migration in Latvia and Lithuania, resulting in the successful transfer of nearly 24% of our active legacy Nordea customers.

Thanks to multiple pan-Baltic sales campaigns and improving management of sales channels, the Retail Banking team succeeded in sustaining lending sales volumes and growing the deposit portfolio.

At the same time, the Corporate Banking team also succeeded in growing deposit portfolio and continued to focus on increasing the profitability of our corporate lending portfolio by reducing the portfolio of non-performing loans and transferring services for micro enterprises to the retail banking.

Overall, the deposit portfolio grew by 16.7% in the third quarter compared to the same period last year.

The pension assets under management in the Baltics reached 1.39 billion euros in the third quarter of 2019, which was 13% more than in the same quarter of last year.

We continue our efforts in averting money laundering and terrorist financing through the prevention, detection, and reporting of unusual activities. At Luminor we are continuously investing in our systems, internal training and awareness raising activities in this area, and we are improving our processes for combating financial crime in a constantly changing environment.

The Baltics continue to benefit from a strong macroeconomic climate and a stable operating environment, and the region is among the most economically dynamic in the European Union. Luminor is on track with its transformation and financial plans to grow as a bank dedicated to supporting the sustainable growth of the Baltic region by providing long-term commitment to businesses and individuals.

Erkki Raasuke

CEO

MANAGEMENT REPORT

Overview

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

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

Luminor is the third-largest provider of financial services in the Baltics, with approximately 1 million clients, 2500 employees, and market share of 16.8% in deposits and 19.5% in lending as at the end of the third quarter of 2019. Total shareholders’ equity amounts to EUR 1.6 billion and Luminor is capitalised with a CET1 ratio of 18.7%. Luminor’s vision is to become the best financial ecosystem for its customers.

Luminor offers a wide range of products and services to its customers through all possible channels, digital and physical, with 36 customer service centres, including four meet-up points, in total in Latvia, Lithuania and Estonia. Luminor owns 319 ATMs throughout the Baltic states, and additionally provides services through 100 ATMs in partnership with other financial services providers.

30 September 2019				
	Estonia	***Latvia***	***Lithuania***	**Total**
No of customers	*~136 000*	*~235 000*	*~584 000*	~955 000
Market shares				
Lending	*14.3%*	*24.4%*	*21.1%*	19.5%
Deposits	*10.7%*	*17.3%*	*21.5%*	16.8%
No of client service centers, including meet- up points	*8*	*11*	*17*	36

At the end of third quarter Luminor had 25 subsidiaries in the Baltics: Luminor Asset Management IPAS (Latvia), Luminor Latvijas atklātais pensiju fonds AS (Latvia), UAB Luminor Investiciju valdymas (Lithuania), and Luminor Pensions Estonia AS (Estonia) manage pension assets; Recurso UAB (Lithuania), Promano Lit UAB (Lithuania), Industrius UAB (Lithuania), Gėlužės projektai UAB (Latvia), Intractus UAB (Lithuania), Uus-Sadama 11 OÜ (Estonia), Promano Estonia OÜ (Estonia), Luminor Finance SIA (Latvia), Realm SIA (Latvia), Trioleta SIA (Latvia), Baltic ipasums SIA (Latvia), Promano Lat SIA (Latvia), Salvus SIA (Latvia), Salvus 2 SIA (Latvia), Salvus 3 SIA (Latvia), Salvus 4 SIA (Latvia), and Salvus 6 SIA (Latvia) are asset management companies; Luminor Liising AS (Estonia), Luminor Līzings SIA (Latvia), Luminor Līzings Latvija SIA (Latvia), and Luminor Lizingas UAB (Lithuania) provide leasing services.

On 3 July 2019, Luminor sold its subsidiary property holding company SIA Skanstes 12 (Latvia) to the investment company Colonna.

On 2 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 11 September 2019 Luminor Kindlustusmaakler OÜ was merged with Luminor Liising AS.

On 30 September 2019, the Shareholders’ Meeting of Luminor Bank AS appointed Nadim El Gabbani, Johan Lilliehöök and Jerome Mourgue D'Algue as new members of the bank’s Supervisory Council, effective the same day.

Macroeconomic overview

Global trade and rising trade barriers are the predominant risks this year, causing heightened financial and economic volatility. Global manufacturing clearly remains in the epicentre of an economic slowdown, while the consumer is holding strong. Services continue to outperform manufacturing as there has still been only limited spillover from the weakness in manufacturing to the more strongly performing services sector, which benefits from growth led by domestic demand. The consumer is still showing no signs of retreat in advanced countries including the Baltic states, and labour markets there actually continue to be tight, though there are early signs of moderation ahead.

The Baltic states, along with Ireland and some CEEC peers like Poland, are today one of the most dynamic economic areas of the EU. The average growth rate for 2017-18 exceeded 5% in Estonia, with robust yearly growth of 4.7% in Latvia and a bold expansion of 3.8% over the year in Lithuania. During the four quarters from the third quarter of 2018 to the second quarter of 2019, GDP growth averaged 1.4% over the year in the euro area at the same time that broad-based, though slowing, yearly growth reached 4.6% in Estonia, 4.1% in Latvia and 3.7% in Lithuania.

Faced with the external headwinds, growth has started to moderate gradually, albeit from a high level, while labour markets still remain firm and tight as European economies pass through the current soft patch in the global trade cycle. The key export markets for the Baltics continue on a path of moderate growth, as the euro area, the key destination for Baltic exports, is benefiting from tighter labour markets and support from domestic demand, including new stimulus packages. Euro-area growth is expected to pick up marginally in the years ahead from the current ca 1.2% over the year pace as the global growth environment and global trade is expected to gradually recover.

Euro area GDP decelerated noticeably last autumn to only 1.2% year on year and 0.3% over the quarter in the fourth quarter of 2018, with industry and trade making a softer contribution. Growth remained at 1.2% over the year in the second quarter of 2019, with the economies that are more open to global trade, including Germany, seeing growth rates fall. Against this external backdrop of weakening growth the Baltic countries have so far largely managed to resist disruptions to trade, and they sustained softer but still quite broadly based economic momentum in the second quarter, benefiting most notably from investment, consumption and healthy residential construction. Growth over the year in the second quarter was 3.8% in Estonia, 2.9% in Latvia and 3.9% in Lithuania, and it remained on a gently moderating path. The balance of risks remains tilted to the downside with risks of a spillover from external markets bringing softness to industry and export orders.

The shift from de-synchronised growth to a synchronised moderation of growth is proceeding as expected, and the key risks for the open Baltic economies emanate from the trade frictions that are hitting advanced countries. A slowdown in global trade remains the root cause of the weaker outlook for growth and the emerging downside risks for the euro area including the Baltic economies.

We expect the moderation of growth to be only gradual given the continued support from strong labour markets and healthy domestic demand, which remain the key engines of growth.

Activities

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

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

Luminor continued to roll out the new operating model during the third quarter by simplifying its structure and decision-making process, unifying and executing IT consolidation, strengthening its controls, and becoming more efficient, more resilient and more resolvable. These developments meant the Luminor team was reduced by 69 employees during the third quarter of 2019.

In the third quarter, Luminor continued to cut itself free from the payment infrastructure and information systems of its parent banks. In July Luminor became independent of SEPA payment flows from the Nordea systems, by routing the payments through the Luminor payment hub that had been established during the reporting period. The first phase of migrating the legacy Nordea customer base to the Luminor information systems was finalised in Latvia and Lithuania, resulting in the successful transfer of some 24% of active customers. The bank has finished separating its leasing, factoring and pension information systems from the Nordea systems.

On 11 September Luminor disabled access to Luminor digital channels using code cards, which encouraged Lithuanian and Latvian clients to use other means of authentication. Around 500 thousand code-card users were transferred to other authentication tools. By the end of September, 50% of Luminor internet bank users in Lithuania and Latvia were using Smart-ID as an authentication tool for accessing the internet bank.

PRODUCT AND DIGITAL DEVELOPMENT

In the third quarter Luminor continued to transfer customer data and services to the unified Luminor system in Latvia and Lithuania. The process of moving customers to the unified systems is going according to the plan and will be finalised in Latvia, Lithuania and Estonia next year. The digital team continued their efforts in developing the new Luminor digital channels and preparing our current channels for the process of transferring customer data. The main purpose of this process is to offer similar functionality to those customers who are transferred, and to secure smooth and uninterrupted services for them.

THE RETAIL BANKING SEGMENT

The Retail Banking team continued consolidating distribution channels and improving efficiency in related areas. Six locations in the customer service network were closed and two centres were transformed into meet-up points. At the end of the third quarter, Luminor was serving its customers in a total of 36 locations across the Baltics.

The cashless concept was introduced in customer service centres across all the Baltic states, and the project was completed in the third quarter in Estonia. All Luminor’s customer service centres are now cashless and serve customers using alternative tools through payment cards and ATMs.

Multiple Pan-Baltic sales campaigns were launched in consumer and mortgage lending to stabilise new lending volumes following legislative changes on advertising of loans. Through these campaigns and improved management of sales channels, the retail banking team has succeeded in sustaining sales volumes in lending and in growing the deposit portfolio compared to the same period last year.

THE CORPORATE BANKING SEGMENT

In the third quarter of 2019 the Corporate Banking team continued to focus on increasing the profitability of our corporate lending portfolio, reducing the portfolio of non-performing loans,and transferring services for micro enterprises to Retail Banking team. The team also succeeded in increasing their deposit portfolio during the quarter.

Loan loss provisions increased in the third quarter because of additional provisions in the Estonian non-performing loans book and new non-performing loans in the Latvian renewable energy sector. The macro environment continues to be very supportive.

THE WEALTH MANAGEMENT SEGMENT

The main focus in Wealth Management in the third quarter was on growing the business, ensuring high customer satisfaction and executing changes in the Pan-Baltic operating model. Collaboration with other business segments supported both growth and customer satisfaction.

By mid-October all the major Management Board level re-appointments had been carried out for pension entities. Approvals had also been received from the local financial supervisory authorities. To facilitate an orderly transition, multiple workshops have been held to map functional responsibilities and conflicts of interest, as in the quality and risk analysis (QRA) framework.

The pension assets under management in the Baltics reached EUR 1.39 billion in the third quarter of 2019, increasing by 13% from the same quarter of 2018. Luminor had 298 thousand second pillar and 62 thousand third pillar pension customers at the end of the quarter. Total assets under management have grown solidly as financial markets have performed well and the external sales channel for pension products in Estonia has been successful.

Private Banking focused on growing the assets under management and ensuring a high level of customer satisfaction by helping affluent and high net worth individuals and their families to grow, manage and preserve their wealth. During the quarter the Private Banking team also focused on attracting new customers from the market.

CORPORATE SOCIAL RESPONSIBILITY

Luminor aims to become the financial partner in the Baltics for the local way of living and doing business. 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.

In the third quarter of 2019, Luminor started a comprehensive review of its corporate social responsibility policies, procedures and principles with the aim of having a more focused and lasting impact in this area.

In addition to this, efforts were made to promote financial and digital literacy and support entrepreneurship, and this included lectures in Luminor customer service centres, work with state agencies to promote and develop cyber security, and a radio programme on financial literacy.

ANTI-MONEY LAUNDERING EFFORTS

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

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

During the first three quarters of 2019, more than 100 compliance related training sessions and awareness-raising events were carried out.

EVENTS AFTER 30 SEPTEMBER 2019

On 10 October, the Supervisory Council appointed Georg Kaltenbrunner as a member of the bank's Management Board and the new Chief Risk Officer. As of 1 November Georg Kaltenbrunner will take over the position from Hannu Saksala.

On 10 October, 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 effective as of the same day.

Financial Results

Luminor's financial results of the third quarter continued to be affected by exceptional and restructuring costs with the focus on accelerating the transformation and building areas of superior customer experience, such as consolidating technological platforms, right-sizing the business, simplifying the product and service portfolio, and increasing efficiency.

Net profit in the third quarter was EUR 16.9 million, which was EUR 26.3 million lower than in the same quarter of 2018. The loan portfolio declined by 9.2%, while the net interest income-to-loans ratio increased from 2.2% to 2.3% following moves to improve profitability by ensuring fair and rational pricing of risk.

Total operating expenses in the third quarter were EUR 71.4 million, which is EUR 17.3 million higher than last year as a result of the transformation costs incurred and net impairment on loans to customers. Exceptional costs in the third quarter were EUR 22.2 million, of which 80% were IT expenses, followed by 12% in other transformation costs, and 8% in staff expenses. Exceptional costs were EUR 4.1 million higher than in the previous quarter, and EUR 2.3 million of this went on IT expenses for technology developments. Impairment of loans to customers and other assets during the third quarter was EUR 7.3 million, which was EUR 6 million less than in the second quarter. This result was mainly affected by a review of several large exposures in the legacy portfolio, while the quality of the overall credit portfolio remains good. Moreover, the non-performing loans ("NPL") ratio has decreased from 5.7% to 4.3% over the past 12 months.

The loan-to-deposit ratio at the end of third quarter stood at 108.4%, down from 139.4% a year ago. The decline in the funding gap was driven by an increase of EUR 1.4 billion in deposits and a decrease of EUR 1.1 billion in loans.

Key figures and ratios of Luminor*

T EUR	Q3	Q2	Q3	January-September		Full year
	2019	2019	2018	2019	2018	2018**
Net profit	16 887	6 711	43 146	49 965	120 114	124 949
Average equity	1 624 589	1 718 147	1 766 439	1 716 511	1 751 695	1 757 148
Return on equity (ROE), %	4.1	1.6	9.7	3.9	9.2	7.1
Average assets	13 905 118	14 081 334	14 637 665	14 549 574	14 905 355	15 201 023
Return on assets (ROA), %	0.5	0.2	1.2	0.5	1.1	0.8
Net interest income	62 104	63 280	66 034	189 198	194 134	259 733
Average interest earning assets	13 579 747	13 723 711	14 245 136	14 230 763	14 514 836	14 844 146
Net interest margin (NIM), %	1.8	1.8	1.8	1.8	1.8	1.7
Cost / Income ratio (C/I), %	73.5	76.0	56.1	75.9	59.1	62.3
Credit impairment ratio, %***	0.33	0.37	-0.16	0.15	-0.14	-0.06
Loans to customers	10 760 156	10 979 181	11 853 592	10 760 156	11 853 592	11 472 138
Deposits from customers	9 923 439	9 374 812	8 505 854	9 923 439	8 505 854	9 069 885
Loans / Deposits ratio, %	108.4	117.1	139.4	108.4	139.4	126.4
CET1 ratio, %	18.7	18.0	17.3	18.7	17.3	18.0
NPL ratio (gross), %	4.3	4.3	5.7	4.3	5.7	5.3
Net interest income / Loans, %	2.3	2.3	2.2	2.4	2.2	2.3

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

**Luminor Group AB full year consolidated figures

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

Explanations

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

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

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

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

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

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

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

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

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

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

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

LENDING AND DEPOSITS

The lending portfolio continued to shrink and at the end of third quarter it totalled EUR 10.8 billion. The composition has changed slightly as the share of loans to individual customers increased from 50% to 53% and loans to business customers declined from 48% to 45% at the Baltic level. Luminor's share of the lending market in the Baltics has decreased from 22.4% to 19.5% over the past 12 months.

Lending			30 September 2019		
T EUR	**Individual customers**	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	5 727 500	4 824 192	180 926	27 538	10 760 156
Estonia	*1 372 097*	*1 407 710*	*74 912*	*22 555*	*2 877 274*
Latvia	*1 658 522*	*1 513 924*	*4 544*	*4 372*	*3 181 362*
Lithuania	*2 696 881*	*1 902 558*	*101 470*	*611*	*4 701 520*

Deposits			30 September 2019		
T EUR	**Individual customers**	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	3 812 681	3 971 973	1 667 960	470 825	9 923 439
Estonia	*513 215*	*867 477*	*365 218*	*352 410*	*2 098 320*
Latvia	*1 227 611*	*1 236 952*	*211 799*	*77 603*	*2 753 965*
Lithuania	*2 071 855*	*1 867 544*	*1 090 943*	*40 812*	*5 071 154*

Lending			30 September 2018		
T EUR	**Individual customers**	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	5 909 445	5 658 279	237 773	48 095	11 853 592
Estonia	*1 436 779*	*1 717 515*	*99 664*	*29 002*	*3 282 960*
Latvia	*1 775 342*	*1 579 139*	*5 467*	*5 610*	*3 365 558*
Lithuania	*2 697 324*	*2 361 625*	*132 642*	*13 483*	*5 205 074*

Deposits		30 September 2018			
T EUR	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	3 462 086	3 434 135	1 300 945	308 688	8 505 854
Estonia	*497 264*	*823 381*	*299 324*	*156 650*	*1 776 619*
Latvia	*1 167 569*	*1 132 142*	*252 332*	*123 972*	*2 676 015*
Lithuania	*1 797 253*	*1 478 612*	*749 289*	*28 066*	*4 053 220*

Deposits from customers stood at EUR 9.9 billion at the end of third quarter. Like with loans, the composition has changed slightly during the past 12 months as the share of individual customers deposits has decreased from 41% to 38% while the share of public sector deposits has increased from 15% to 17% and that of other financial institutions has increased from 4% to 5% at the Baltic level. Luminor's share of the deposits market in the Baltics continued to increase and reached 16.8%, from 16.1% a year ago.

ASSET QUALITY FOR Q3 2019

The quality of Luminor's loan portfolio did not change significantly in the third quarter of 2019.

The share of impaired loans in the total loan portfolio was 4.3% at the end of the third quarter of 2019, and the share of impaired mortgage loans to all mortgage loans was 3.4% as at the end of the quarter. Luminor continues to focus on reducing the problematic part of the loan portfolio.

The allowances for on-balance sheet exposures amounted to 1.8% of the total loan portfolio at the end of the third quarter of 2019. The ratio of on-balance allowances to impaired loans stood at 33.2%, which was up 4.8 pp on the previous quarter, partly because of a reduction in the portfolio of impaired loans. The allowances for the total mortgage loan portfolio were 1.3%, while the level of allowances for impaired mortgage loans alone was 26.4% at the end of the third quarter of 2019.

Asset quality of Luminor as at 30 September 2019

	30 September 2019			
T EUR*	Total	*Estonia*	*Latvia*	*Lithuania*
Financial institutions				
Stage 1				
Gross carrying amount	13 338	11 875	1 081	382
Allowances	-99	-97	-2	0
Carrying amount	**13 239**	**11 778**	**1 079**	**382**
Stage 2				
Gross carrying amount	13 555	11 109	2 215	231
Allowances	-362	-334	-27	-1
Carrying amount	**13 193**	**10 775**	**2 188**	**230**
Stage 3				
Gross carrying amount	1 111	0	1 111	0
Allowances	-5		-5	
Carrying amount	**1 106**	**0**	**1 106**	**0**
Total carrying amount for financial institutions	**27 538**	**22 553**	**4 373**	**612**
Public sector				
Stage 1				

Gross carrying amount	179 982	74 889	4 482	100 611
Allowances	-13	-10	0	-3
Carrying amount	**179 969**	**74 879**	**4 482**	**100 608**
Stage 2				
Gross carrying amount	959	33	62	864
Allowances	-2	0	0	-2
Carrying amount	**957**	**33**	**62**	**862**
Stage 3				
Gross carrying amount	0	0	0	0
Allowances	0	0	0	0
Carrying amount	**0**	**0**	**0**	**0**
Total carrying amount for public sector	**180 926**	**74 912**	**4 544**	**101 470**
Individual customers				
Stage 1				
Gross carrying amount	5 187 006	1 301 211	1 481 682	2 404 113
Allowances	-6 023	-1 963	-2 041	-2 019
Carrying amount	**5 180 983**	**1 299 248**	**1 479 641**	**2 402 094**
Stage 2				
Gross carrying amount	418 081	57 951	131 660	228 470
Allowances	-19 064	-2 423	-9 254	-7 387
Carrying amount	**399 017**	**55 528**	**122 406**	**221 083**
Stage 3				
Gross carrying amount	206 034	19 507	90 253	96 274
Allowances	-58 534	-2 188	-33 777	-22 569
Carrying amount	**147 500**	**17 319**	**56 476**	**73 705**
Total carrying amount for individual customers	**5 727 500**	**1 372 095**	**1 658 523**	**2 696 882**
Of which mortgage loans				
Stage 1				
Gross carrying amount	4 327 297	1 020 686	1 298 456	2 008 155
Allowances	-3 188	-890	-1 370	-928
Carrying amount	**4 324 109**	**1 019 796**	**1 297 086**	**2 007 227**
Stage 2				
Gross carrying amount	271 885	38 146	106 100	127 639
Allowances	-16 830	-2 066	-8 652	-6 112
Carrying amount	**255 055**	**36 080**	**97 448**	**121 527**
Stage 3				
Gross carrying amount	159 573	14 832	81 213	63 528
Allowances	-42 055	-837	-30 603	-10 615
Carrying amount	**117 518**	**13 995**	**50 610**	**52 913**
Total carrying amount for mortgage loans	**4 696 682**	**1 069 871**	**1 445 144**	**2 181 667**

Business customers				
Stage 1				
Gross carrying amount	3 562 114	938 295	1 235 444	1 388 375
Allowances	-5 919	-2 611	-1 305	-2 003
Carrying amount	**3 556 195**	**935 684**	**1 234 139**	**1 386 372**
Stage 2				
Gross carrying amount	1 111 914	425 841	205 951	480 122
Allowances	-10 376	-4 435	-1 673	-4 268
Carrying amount	**1 101 538**	**421 406**	**204 278**	**475 854**
Stage 3				
Gross carrying amount	264 274	90 061	113 956	60 257
Allowances	-97 815	-39 441	-38 450	-19 924
Carrying amount	**166 459**	**50 620**	**75 506**	**40 333**
Total carrying amount for business customers	**4 824 192**	**1 407 710**	**1 513 923**	**1 902 559**
Totals				
Gross carrying amount Stage 1	8 942 440	2 326 270	2 722 689	3 893 481
Gross carrying amount Stage 2	1 544 509	494 934	339 888	709 687
Gross carrying amount Stage 3	471 419	109 568	205 320	156 531
Total Gross carrying amount	**10 958 368**	**2 930 772**	**3 267 897**	**4 759 699**
Allowances Stage 1	-12 054	-4 681	-3 348	-4 025
Allowances Stage 2	-29 804	-7 192	-10 954	-11 658
Allowances Stage 3	-156 354	-41 629	-72 232	-42 493
Total allowances	**-198 212**	**-53 502**	**-86 534**	**-58 176**
Total carrying amount	**10 760 156**	**2 877 270**	**3 181 363**	**4 701 523**
Gross Stage 3 loans vs Gross loans (NPL ratio), %	4.30	3.74	6.28	3.29
Gross Stage 3 mortgage loans vs Gross mortgage loans (NPL ratio for mortgage loans), %	3.35	1.38	5.47	2.89
Allowances Stage 3 vs Gross Stage 3 loans (Stage 3 impairmen ratio), %	33.17	37.99	35.18	27.15
Allowances vs Gross loans (Impairment ratio), %	1.81	1.83	2.65	1.22

* Excluding Loans to Credit Institutions

Table above contains POCI contracts in stage 3 in amount EUR 69 070 thousand.

Explanations:

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

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

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

Impairment ratio % = Total Allowances / Total Gross Loans

The credit quality of loans as at 30 September 2019 is disclosed in the table below using the risk scale as set in the Luminor Credit Manual: the probability of default for low risk rating grades (1 to 4) is in the range of 0.00% to 0.75%, for moderate risk rating grades (5 to 7) it ranges from 0.75% to 3.00%, and for high risk rating grades (from 8 to 10) it is from 3.00% to 40.00%.

Loans to customers, 30 September 2019, T EUR	Stage 1	Stage 2	Stage 3	Total
Low risk	5 152 016	297 390	0	5 449 406
Moderate risk	3 650 134	699 741	0	4 349 875
High risk	140 290	547 378	0	687 668
Default	0	0	471 419	471 419
Gross	**8 942 440**	**1 544 509**	**471 419**	**10 958 368**
Allowance for impairment	-12 054	-29 804	-156 354	**-198 212**
Net	**8 930 386**	**1 514 705**	**315 065**	**10 760 156**

Economic sectors

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

T EUR	Amount 30 September 2019	%
Private individuals*	5 461 814	50.8%
Real estate activities	1 192 105	11.1%
Wholesale and retail trade	1 031 893	9.6%
Other industries	688 786	6.4%
Agriculture, hunting, forestry, fishing	632 582	5.9%
Manufacturing	629 705	5.8%
Transport, storage, communication	463 685	4.3%
Construction	226 751	2.1%
Electricity, gas, water supply	208 634	1.9%
Public sector	148 590	1.4%
Financial intermediation	75 611	0.7%
Total	**10 760 156**	**100.0%**

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

Information about collaterals of loans

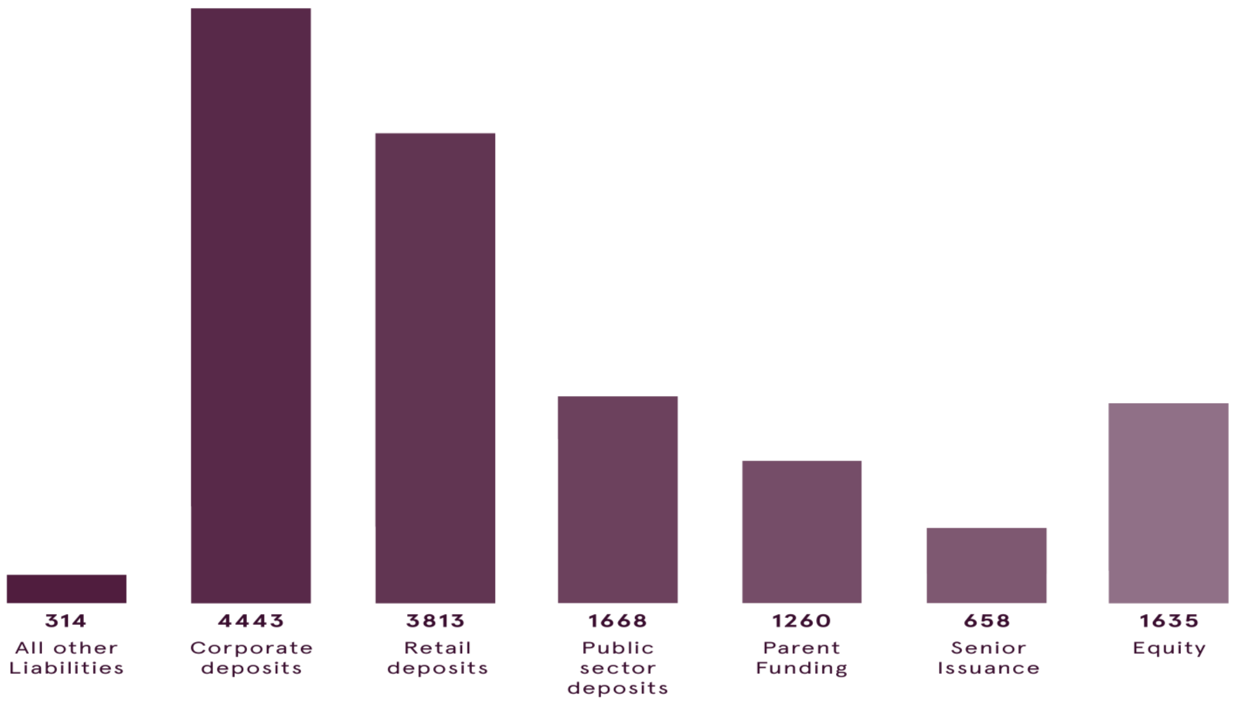
The amount of credit-impaired loans is reported together with the value of related collateral held as security in the tables below. Credit-impaired loans are most often secured by real estate and movable assets. The value for such collateral is equal to its market value, and not its liquidation value,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

30 September 2019 Credit-impaired loans	Gross	of which initial impairment	Allowance for impairment	Net	Fair value of collateral
Business customers	265 210	-13 143	-97 768	167 442	212 935
Individual customers	206 209	-1 016	-58 586	147 623	169 939
Total	471 419	-14 159	-156 354	315 065	382 874

FUNDING

Luminor has a stable funding base with strong funding and liquidity ratios. Deposits from customers are the main source of funding for Luminor and made up EUR 9.9 billion or 72.0% of total liabilities and shareholders' equity at the end of the third quarter of 2019, having been EUR 9.3 billion or 66.9% at the end of the second quarter. The funding base is predominantly EUR-denominated.

In addition to deposits, Luminor also has outstanding debt securities and funding from parent banks (i.e. funding from DNB Bank ASA and Nordea Bank Abp) that together constitute a substantial part of the funding base. At the end of the third quarter of 2019 the value of the bonds outstanding under the EMTN programme totalled EUR 658 million, with the transaction of 11 June 2019 building on the inaugural transaction of EUR 350 million from October 2018. The Senior Unsecured Medium-Term Note Program has been assigned a rating of Baa2 by Moody's.



At the end of the third quarter of 2019, funding from parents amounted to EUR 1,260 million and was provided by DNB Bank ASA and Nordea Bank Abp in the form of a syndicate, where each syndicate partner provides 50%. Long-term funding is committed for six years (4+2) starting from 1 October 2017, when Luminor was established. Short-term funding is in the form of revolving credit of 364 days. In addition to the outstanding funding already utilised, there is also a committed unused credit line of EUR 2,944 million in place.

Following the changes in the ownership of Luminor, a new facility agreement has come into force from the fourth quarter of 2019. The total amount committed to the facility under the new agreement (used and un-used combined) initially had a total commitment of EUR 4,204 million, but which was reducted to EUR 2,837 million at closing of the Blackstone transaction. The facility amount is committed for five years from 1 October 2019 and it can be drawn with maturities of one, two or three years. In addition, the new facility is partly secured, as Luminor has assigned a total of EUR 1,995 million of mortgage loans as collateral to the new facility. The pledge on the mortgage loans is applicable 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 declined to EUR 1,577 million from the fourth quarter of 2019.

Rating

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

LIQUIDITY

Luminor uses different metrics to measure liquidity risk. One metric used is the LCR (Liquidity Coverage Ratio). The LCR for Luminor was 144.8% as at the end of the third quarter by the CRR LCR definition. The liquidity buffer is composed of highly liquid central bank eligible securities and cash. Long-term liquidity risk is measured as the Net Stable Funding Ratio (NSFR). As at the end of third quarter of 2019, Luminor's NSFR was 118.0%. NSFR decreased by 9.4% versus quarter two (Q2 2019: 127.4%) due to mortgages pledged for parent funding (see funding section for more information).

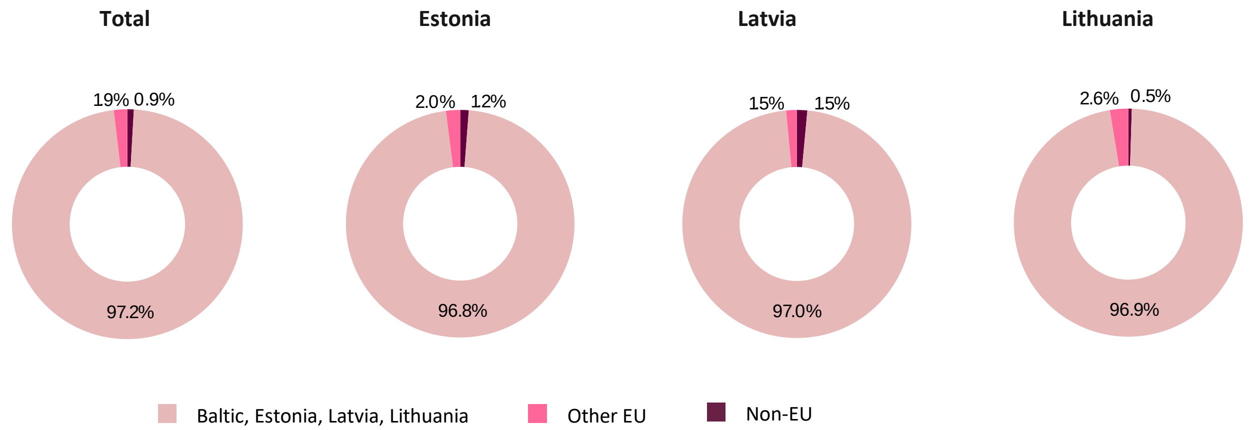
(percentage)	Q3 2019	Q2 2019	Q1 2019	Q4 2018*	Q3 2018*
LCR	144.8%	132.5%	131.2%	189%	130.4%
NSFR	118.0%	127.4%	122.0%	114.0%	106.4%

* Luminor Group AB consolidated figures

Deposit structure

Deposits from customers are predominantly from residents of the Baltics. In total, 99.1% of all deposits from households and non-financial corporations are from EU residents.

Deposits split by residency per country:



CAPITAL

Luminor continues to have strong capitalisation that is sufficient to ensure the financial stability and supply the capital needed to deliver the business strategy. The Total Capital Ratio of Luminor was 18.7% as at the end of the third quarter of 2019, which is comfortably above the internal target of 17.0%.

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

At the end of the third quarter of 2019, the Leverage Ratio, calculated using CRR, was 10.9%, compared to 10.6% at the end of the second quarter of 2019. The Leverage Ratio is calculated as the bank's total Tier 1 own funds divided by its total risk exposure measure, including the risk positions on assets and off balance sheet liabilities.

Capital ratios

Position	Q3 2019	Q2 2019	Q1 2019	Q4 2018*	Q3 2018*
Capital adequacy	18.73%	17.99%	20.02%	18.04%	17.25%
Leverage Ratio	10.89%	10.59%	12.00%	10.38%	10.68%
CET 1 Ratio	18.73%	17.99%	20.02%	18.04%	17.25%
T1 Capital Ratio	18.73%	17.99%	20.02%	18.04%	17.25%
Total Capital Ratio	18.73%	17.99%	20.02%	18.04%	17.25%

* Luminor Group AB consolidated figures

Own funds requirements

T EUR	30 September 2019	31 December 2018*
TOTAL RISK EXPOSURE AMOUNT	8 412 881	9 206 164
1. RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	7 710 446	8 449 588
1.1 Standardised approach (SA)	7 710 446	8 449 588
1.1.1 SA exposure classes excluding securitisation positions	7 710 446	8 449 588
Central governments or central banks	0	9
Regional governments or local authorities	13 977	12 270
Public sector entities	6 223	3 983
Institutions	76 908	73 973
Corporations	3 934 398	4 490 837
Retail	1 463 925	1 352 161
Secured by mortgages on immovable property	1 545 955	1 593 688
Exposures in default	365 231	589 516
Items associated with particularly high risk	153 011	54 733
Equity	17 927	13 828
Other items	132 891	264 589
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	22 036	48 050
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	661 118	691 897
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	19 281	16 629

* Luminor Group AB consolidated figures

Statement of the Management Board

The interim report of Luminor Bank AS for Q3 2019 consists of the following parts and reports:

- Management Report;
- Condensed Consolidated Interim Financial Statements.

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

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

Erkki Raasuke

Chairman of the Board

Tallinn, 12 November 2019

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

T EUR	Notes	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Interest income calculated using the effective interest method	4	183 062	175 604	61 477	59 823
Other similar income	4	44 804	46 436	14 536	15 652
Interest and similar expense	4	-38 668	-27 906	-13 909	-9 441
Net interest income		**189 198**	**194 134**	**62 104**	**66 034**
Fee and commission income	5	79 925	81 821	27 137	27 833
Fee and commission expense	5	-21 303	-19 106	-7 615	-6 499
Net fee and commission income		**58 622**	**62 715**	**19 522**	**21 334**
Net gain on financial assets and liabilities designated at fair value through profit/loss		1 211	-281	295	-47
Net gain on financial assets and liabilities held for trading		17 750	17 032	10 736	5 888
Net gain from operations with foreign currency		-10	5 405	-4 981	2 903
Dividend income		58	62	0	11
Other operating income		11 794	2 586	9 452	344
Net other operating income		**30 803**	**24 804**	**15 502**	**9 099**
Net total operating income		**278 623**	**281 653**	**97 128**	**96 467**
Salaries and other personnel expenses	6	-87 166	-83 154	-25 794	-26 399
Other administrative expenses	7	-102 488	-69 243	-39 313	-22 048
Depreciation and impairment of property, plant and equipment and intangible assets		-10 051	-5 870	-3 196	-1 939
Other operating expenses	8	-11 709	-8 083	-3 131	-3 704
Total operating expenses		**-211 414**	**-166 350**	**-71 434**	**-54 090**
Share of profit from an associate		735	584	250	191
Net impairment (-)/ reversal on loans to customers	12	-12 273	12 455	-9 058	4 834
Other non-operating expenses		-499	-1 828	1 793	-1 025
Profit before tax		**55 172**	**126 514**	**18 679**	**46 377**
Tax expense		-5 207	-6 400	-1 792	-3 231
Profit for the period		**49 965**	**120 114**	**16 887**	**43 146**
Items that will be reclassified to profit or loss					
Changes in the fair value of debt assets at fair value through other comprehensive income		11	-3	0	0

Total items that will be reclassified to profit or loss	**11**	**-3**	**0**	**0**
Items that will not be reclassified to profit or loss				
Changes in the fair value of equity assets at fair value through other comprehensive income	2 422	804	2 293	284
Total items that will not be reclassified to profit or loss	**2 422**	**804**	**2 293**	**284**
Other comprehensive income	**2 433**	**801**	**2 293**	**284**
Total comprehensive income	**52 398**	**120 915**	**19 180**	**43 430**
Profit attributable to:				
Equity holders of the Bank	49 965	120 114	16 887	43 146
Total comprehensive income attributable to:				
Equity holders of the Bank	52 398	120 915	19 180	43 430

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T EUR	Notes	30.09.2019	31.12.2018
Assets			
Cash and balances with central banks	9	2 399 684	3 293 090
Due from other credit institutions	10	174 939	185 346
Loans to customers	12	10 760 156	11 472 138
Financial assets held for trading	19	12 589	1 006
Financial assets at fair value through profit or loss	19	197 029	143 758
Derivative financial instruments	11, 19	74 312	46 664
Financial assets at fair value through other comprehensive income	19	12 300	8 872
Investments in associates		7 501	6 256
Intangible assets		7 912	7 414
Property, plant and equipment	1	71 313	16 383
Investment properties	13	7 357	23 970
Current tax assets		8	886
Deferred tax assets		910	908
Other assets		63 656	75 957
Non-current assets and disposal groups held for sale		1 311	25 522
Total assets		**13 790 977**	**15 308 170**
Liabilities			
Loans and deposits from credit institutions	14	1 330 506	3 939 396
Deposits from customers	15	9 923 439	9 069 885
Debt securities issued	16	658 393	351 235
Derivative financial instruments	11, 19	58 277	42 457
Tax liabilities		3 532	8 850
Lease liabilities	1	58 710	0
Other financial liabilities	17	49 167	27 914
Other liabilities		68 600	64 308
Provisions		5 542	5 914
Total liabilities		**12 156 166**	**13 509 959**
Shareholders' equity			
Issued capital		34 912	34 912
Share premium		1 412 243	1 628 274
Retained earnings		180 776	128 931
Other reserves		6 880	6 094
Total shareholders' equity attributable to the shareholders of the Bank		**1 634 811**	**1 798 211**
Total liabilities and shareholders' equity		**13 790 977**	**15 308 170**

Luminor

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

T EUR	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Restated equity as at 1 January 2018 (Note1 Accounting for the merger)	**34 912**	**1 628 274**	**4 498**	**7 894**	**1 675 578**
Profit (loss) for the period	0	0	0	120 114	**120 114**
Other comprehensive income	0	0	-3	0	**-3**
Total comprehensive income	**0**	**0**	**-3**	**0**	**-3**
Transfer to mandatory reserve	0	0	3 925	-3 925	**0**
Total equity at 30 September 2018	**34 912**	**1 628 274**	**8 420**	**124 083**	**1 795 689**
Total equity at 31 December 2018	**34 912**	**1 628 274**	**6 094**	**128 931**	**1 798 211**
Application of IFRS 16 (Note 1)	0	0	0	-2 514	**-2 514**
Restated equity as at 1 January 2019	**34 912**	**1 628 274**	**6 094**	**126 417**	**1 795 697**
Increase in share capital*	216 031	-216 031	0	0	**0**
Decrease of share capital*	-216 031	0	0	0	**-216 031**
Profit (loss) for the period	0	0		49 965	**49 965**
Other comprehensive income	0	0	2 433	0	**2 433**
Total comprehensive income for the period	**0**	**0**	**2 433**	**49 965**	**52 398**
Other reserves	0	0	-1 647	1 647	**0**
Other	0	0	0	2 747	**2 747**
Total equity at 30 September 2019	**34 912**	**1 412 243**	**6 880**	**180 776**	**1 634 811**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

T EUR	Notes	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018
Cash flows from operating activities			
Profit before tax		55 172	126 514
Adjustment for:			
-Net impairment (losses)/ reversal on loans to customers		12 273	-12 455
-Net impairment (losses)/ reversal on other assets, change in fair value of investment property and provisions		499	1 828
-Dividend income		-58	-62
-Loss/(Profit) from foreign currency revaluation		10	-5 405
-Depreciation, amortization and impairment		10 051	5 870
-Interest Income		-227 866	-222 040
-Interest expenses		38 668	27 906
Cash flow from operations before changes in Operating Assets/Liabilities		**-111 251**	**-77 844**
Change in Operating Assets/Liabilities			
Increase (-) / decrease (+) of lending to customers		737 433	-212 056
Increase (-) / decrease (+) of other assets		-50 948	10 104
Increase (+) / decrease (-) of client deposits not qualified as cash equivalents		-1 757 951	-472 515
Increase (+) / decrease (-) of liabilities		46 339	24 196
Interest received		228 949	208 137
Interest paid		-35 586	-30 950
Income tax paid		-5 207	-6 400
Cash flow form operations		**-836 971**	**-479 484**
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-5 757	-4 845
Acquisition of investment property		0	-140
Proceeds from disposal of property and equipment and intangible assets		1 985	15 406
Proceeds from disposal of investment property	13	14 902	1 858
Dividend received		58	62
Other cash receipts related to investing activities		0	4 083
Cash flows from investing activities		**11 188**	**16 424**
Financing activities			
Debt Securities Issued	16	298 809	0
Cashflows from Hedging activities		-2 953	0

Pay out to the Shareholder		-216 031	0
Cash Flows from financing activities		**79 825**	**0**
Net increase/(decrease) in cash and cash equivalents		**-857 209**	**-540 904**
Cash and cash equivalents at the beginning of the period		3 310 517	3 088 299
Effects of currency translation on cash and cash equivalents		-10	5 405
Net increase/(decrease) in cash and cash equivalents		-857 209	-540 904
Cash and cash equivalents at the end of the period		**2 453 298**	**2 552 800**
Cash and Cash equivalents comprises			
Cash on hand	9	119 844	179 930
Non-restricted current account with central bank	9	2 165 891	2 180 296
Due from other credit institutions on demand or with original maturity of three months or less	10	167 563	192 574
Total		**2 453 298**	**2 552 800**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

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

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

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

As at 30 September 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 Est OÜ
- Uus-Sadama 11 OÜ (under liquidation)

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 ipasums 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 30 September 2019 Luminor Bank AS had ownership in the following associated companies (25%):

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

BASIS OF PREPARATION

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

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

ACCOUNTING FOR THE MERGER

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

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

CHANGES IN ACCOUNTING POLICIES

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

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

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

Adjustments recognised on adoption of IFRS 16

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

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

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

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

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

T EUR	31 December 2018	1 January 2019	30 September 2019
Properties	0	30 529	57 221
Other assets	0	164	56
Total right-of-use assets	**0**	**30 693**	**57 277**
Property, plant and equipment	16 383	16 383	14 036
Total Property, plant and equipment	**16 383**	**47 076**	**71 313**

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

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

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

The Group recognised rent expense from short-term leases, leases of low-value assets and variable lease payments of totally 1 009 thousand Euros for the 9 months ended 30 September 2019.

Practical expedients applied

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

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

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

The Group leases various offices and other assets (IT equipment and cars). Rental contracts are typically made for fixed periods of 4 to15 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

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

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

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

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

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

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

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

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

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

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

To determine incremental borrowing rate we have considered:

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

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

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

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

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

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

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

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

(a) the amount of the initial measurement of the lease liability at the present value of the lease payments that are not paid at that date;

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

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

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

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

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

(b) adjusted for any remeasurement of the lease liability carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture below 5 000 EUR.

Extension and termination options

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

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

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

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

T EUR	1 January 2019	30 September 2019
Right-of-use assets	30 693	57 277
Lease liability	33 207	58 710

Change in total right-of use assets and lease liability is primarily caused by prolonging one existing lease contract, without increasing or decreasing the scope of the lease.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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

IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include (no major changes comparing to the model applied in calculating the year-end balances) :

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

Please refer to Note 12.

3. GENERAL RISK MANAGEMENT POLICIES

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

There have been only minor changes in the risk management and in the risk management policies since the end of the year.

4. NET INTEREST INCOME

T EUR	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Interest income calculated using the effective interest method:				
Loans to customers	181 437	175 104	60 836	59 734
Deposits	1 625	500	641	89
Total interest income calculated using effective interest method	**183 062**	**175 604**	**61 477**	**59 823**
Other similar income:				
Finance Leases	42 817	43 954	14 015	15 096
Other	1 987	2 482	521	556
Total other similar income	**44 804**	**46 436**	**14 536**	**15 652**
Total interest income	**227 866**	**222 040**	**76 013**	**75 475**
Interest expense:				
Loans and deposits from credit institutions	-13 545	-12 576	-4 489	-3 521
Deposits from customers	-11 487	-7 758	-4 187	-3 350
Impact of hedging activities	1 084	0	299	0
Debt securities issued	-5 079	-160	-2 363	-54
Other	-9 641	-7 412	-3 169	-2 516
Total interest expense	**-38 668**	**-27 906**	**-13 909**	**-9 441**
Net interest income	**189 198**	**194 134**	**62 104**	**66 034**

5. NET FEE AND COMMISSION INCOME

T EUR	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Securities	562	930	158	241
Clearing and settlement*	26 433	24 897	9 327	8 739
Asset management	5 256	5 767	1 848	1 597
Custody	762	874	259	277
Payment services*	19 533	20 322	6 142	7 074
Collective Investments commission	0	2 772	0	950
Insurance commission	2 677	3 122	834	1 429
Loan commitments given	3 090	3 412	998	1 146
Financial guarantees given	3 685	3 639	1 352	1 259
Factoring	3 549	3 711	1 019	1 300
Other*	14 378	12 375	5 200	3 821
Total fee and commission income	**79 925**	**81 821**	**27 137**	**27 833**
Clearing and settlement*	-17 207	-15 790	-6 735	-5 703
Custody	-259	-259	-46	-80
Financial guarantees received	-165	-65	-44	-13
Other*	-3 672	-2 992	-790	-703
Fee and commission expense	**-21 303**	**-19 106**	**-7 615**	**-6 499**
Net fee and commission income	**58 622**	**62 715**	**19 522**	**21 334**

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

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

T EUR	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Corporate	21 259	23 758	6 884	8 184
Retail	33 260	33 908	11 409	11 470
Wealth Management	1 620	1 732	509	592
Other	2 483	3 317	720	1 088
Net fee and commission income	**58 622**	**62 715**	**19 522**	**21 334**

6. SALARIES AND OTHER PERSONNEL EXPENSES

T EUR	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Wages and salaries	67 307	59 422	20 042	19 354
Social security cost	11 730	18 123	3 367	5 617
Indirect personnel cost (recruitment, training)	8 129	5 609	2 385	1 428
Total	**87 166**	**83 154**	**25 794**	**26 399**

Wages and salaries increased due to organizational changes that took place in the beginning of 2019.

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

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

7. OTHER ADMINISTRATIVE EXPENSES

T EUR	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Office equipment and maintenance expenses	29 669	16 550	11 187	5 573
IT Development, Operations and other service expenses	40 054	19 661	16 829	7 025
Rent of premises	1 254	6 170	113	1 875
Maintenance expenses	4 677	3 562	1 698	1 156
Cash collection, consultancy and other services expenses	8 758	8 251	2 652	1 446
Regulatory and association fees	3 427	2 513	1 888	862
Transportation, post and communications expenses	2 585	2 836	1 070	975
Advertising and marketing expenses	2 082	1 485	765	258
Training and business trip expenses	2 200	1 674	655	592
Other expenses	7 782	6 541	2 456	2 286
Total	**102 488**	**69 243**	**39 313**	**22 048**

8. OTHER OPERATING EXPENSES

T EUR	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Taxes other than income tax and deductible VAT	2 888	3 157	1 082	1 272
Deductible VAT	2 172	1 245	630	1 079
Investment property maintenance	173	0	-364	0
Other insurance expenses (bank risk, etc.)	738	701	158	258
Other legal expenses (notarial services, issued documents of state institutions, etc.)	2 883	398	801	81
Other expenses	2 855	2 582	824	1 014
Total	**11 709**	**8 083**	**3 131**	**3 704**

9. CASH AND BALANCES WITH CENTRAL BANKS

T EUR	30.09.2019	31.12.2018
Cash on hand	119 844	178 440
Cash balances at central banks	2 279 840	3 095 653
Total	**2 399 684**	**3 274 093**
of which mandatory reserve requirement	113 949	109 027
Term deposits	0	18 997
Total cash and balances with central banks	**2 399 684**	**3 293 090**

10. DUE FROM OTHER CREDIT INSTITUTIONS

T EUR	30.09.2019	31.12.2018
Demand deposit	167 563	145 451
Loans	7 382	39 899
Total	**174 945**	**185 350**
Allowance	-6	-4
Total	**174 939**	**185 346**

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

T EUR	Notional amounts	Fair values	
		Positive market value	Negative market value
As at 30 September 2019			
Derivatives held for trading			
Interest rate-related contracts	2 812 809	21 687	16 177
Currency-related contracts	1 108 089	52 046	40 958
Commodity-related contracts	22 557	579	1 142
Total	**3 943 455**	**74 312**	**58 277**
As at 31 December 2018			
Derivatives held for trading			
Interest rate-related contracts	3 020 308	11 204	9 425
Currency-related contracts	1 027 717	31 493	29 374
Commodity-related contracts	50 849	3 967	3 658
Total	**4 098 874**	**46 664**	**42 457**

HEDGING ACTIVITIES

Fair value hedge

At 30 September 2019 the Group had total three interest rate swap agreements in place, two of them with a notional amounts of EUR 200 million and EUR 150 million, whereby the Group receives a fixed rate of interest of 1.50% and pays floating interest at 6 months EURIBOR + 1.478% and 3 months EURIBOR + 1.526% and EUR 300 million, whereby the Group receives a fixed rate of interest of 1.375% and pays floating interest at 3 months EURIBOR + 1.732% on the notional amount respectively. The swaps are being used to hedge the exposure to changes in the fair value of its fixed rate senior unsecured bonds. Trade date for EUR 200 million and EUR 150 million interest swap agreements is 10 October 2018, effective date is 18 October 2018 and maturity date is 18 October 2021. For EUR 300 million interest swap agreement trade date is 11 June 2019, effective date is 21 June 2019 and maturity date 21 October 2022.

There is an economic relationship between the hedged item and the hedging instruments as the terms of the interest rate swaps match the terms of the fixed rate 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.

30.09.2019	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	650 000	8 929	Assets: Derivative financial instruments*

* Ineffectiveness was clearly immaterial for the period 01 January 2019 to 30 September 2019

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

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

12. LOANS TO CUSTOMERS

T EUR	30.09.2019	31.12.2018
Financial institutions	**28 003**	**58 752**
Public sector	**180 942**	**216 019**
Business customers	**4 938 302**	**5 419 617**
-Loans	3 455 448	3 606 710
-Leasing	1 195 522	1 479 655
-Factoring	287 332	333 252
Individual customers	**5 811 121**	**5 968 157**
-Mortgage loans	4 758 758	4 930 373
-Leasing	557 987	551 676
-Consumer and card loans	141 514	146 996
-Other loans	352 862	339 112
Impairment allowances	**-198 212**	**-190 407**
Loans to customers total	**10 760 156**	**11 472 138**

Due from customers, registered in Estonia, Latvia, Lithuania	10 474 770	11 178 321
Due from customers, registered in EU (except Estonia, Latvia, Lithuania)	220 538	221 384
Due from customers, registered in other countries	64 848	72 433
Loans to customers total	**10 760 156**	**11 472 138**

	Credit loss allowance					Gross carrying amount				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	**TOTAL**
At 31 Decemeber 2018	**-14 690**	**-32 942**	**-151 928**	**9 153**	**-190 407**	**9 488 150**	**1 545 251**	**570 834**	**58 310**	**11 662 545**
Reclassification	0	0	0	-14 175	**-14 175**	0	0	0	14 175	**14 175**
At 1 January 2019	**-14 690**	**-32 942**	**-151 928**	**-5 022**	**-204 582**	**9 488 150**	**1 545 251**	**570 834**	**72 485**	**11 676 720**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and Stage 3 to Stage 2)	8 253	-10 309	2 056	0	**0**	-470 419	516 042	-45 623	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	5 644	9 985	-15 629	0	**0**	-33 431	-53 271	86 702	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-842	667	175	0	**0**	216 780	-197 332	-19 448	0	**0**
New originated or purchased	-2 629	0	0	-310	**-2 939**	845 272	0	0	6 321	**851 593**
Derecognised and repaid during the period	1 779	1 514	7 204	1 182	**11 679**	-1 096 533	-308 231	-132 429	-6 727	**-1 543 920**
Changes in PDs/LGDs/EADs	-9 572	1 443	-14 025	1 141	**-21 013**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	**2 633**	**3 300**	-20 219	**2 013**	**-12 273**	**-538 331**	**-42 792**	**-110 798**	**-406**	**-692 327**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	18 643	0	**18 643**	0	0	18 643	0	**18 643**
At 30 September 2019	**-12 057**	**-29 642**	**-153 504**	**-3 009**	**-198 212**	**8 949 819**	**1 502 459**	**441 393**	**72 079**	**10 65 750**

*Including Loans to Credit Institutions, please refer also to Note 10

Explanations

Stage 1 (12 - months ECL)

Stage 2 (Lifetime ECL for SICR)

Stage 3(Lifetime ECL for Credit Impaired)

13. INVESTMENT PROPERTIES

T EUR	30.09.2019	31.12.2018
As at 1 January	23 970	51 283
Acquisitions	0	216
Assets classified as held for sale	0	-3 960
Net result from adjustments of fair value	-1 711	-3 722
Disposals (sale)	-14 902	-19 847
Carrying amount at the end of the period	**7 357**	**23 970**

14. LOANS AND DEPOSITS FROM CREDIT INSTITUTIONS

T EUR	30.09.2019	31.12.2018
Term deposits	1 305 471	3 917 244
Demand deposits	25 035	22 152
Total	**1 330 506**	**3 939 396**
Due to credit institutions, registered in Estonia, Latvia, Lithuania	66 044	228 624
Due to credit institutions, registered in EU (except Estonia, Latvia, Lithuania)	634 414	1 856 280
Due to credit institutions, registered in other countries	630 048	1 854 492
Total	**1 330 506**	**3 939 396**

T EUR	Division by remaining maturity			Interest rate	Base currency	Termination
	in 12 months	1-5 years	Total			
30.09.2019						
Ultimate owners of Luminor Bank AS	1 276 084	0	1 276 084	0 - +1%	EUR	2019-2020
Central banks	45 000	0	45 000	< 0%	EUR	2020
Other credit institutions	9 558	0	9 558	-1% - +1%	EUR	2019-2020
Interest payable	-136	0	-136			
	1 330 506	**0**	**1 330 506**			
31.12.2018						
Ultimate owners of Luminor Bank AS	2 758 280	957 000	3 715 280	0 - +1%	EUR	2019-2021
Central banks	0	199 500	199 500	<0%	EUR	2020
Other credit institutions	23 863	0	23 863	0 - +1,3%	EUR	2019
Interest payable	200	553	753			
	2 782 343	**1 157 053**	**3 939 396**			

15. DEPOSITS FROM CUSTOMERS

T EUR	30.09.2019	31.12.2018
Term deposits	2 368 401	1 932 891
Demand deposits	7 555 038	7 136 994
Total	**9 923 439**	**9 069 885**
Due to customers by type of customers		
Due to corporate customers	4 442 798	4 235 028
Due to public sector customers	1 667 960	1 107 472
Due to individuals	3 812 681	3 727 385
Total	**9 923 439**	**9 069 885**
Due to customers, registered in Estonia, Latvia, Lithuania	9 646 449	8 693 043
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	187 873	213 232
Due to customers, registered in other countries	89 117	163 610
Total	**9 923 439**	**9 069 885**

16. DEBT SECURITIES ISSUED

LUMINO 1 1/2 18/10/21

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

LUMINO 1 3/8 21/10/22

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

T EUR	30.09.2019	31.12.2018
LUMINO 1 1/2 18/10/21		
Nominal amount	350 000	350 000
Fees at amortized costs	-1 450	-1 998
Accrued interest	5 005	1 079
Hedged item fair value changes	3 374	2 154
Carrying amount	**356 929**	**351 235**

T EUR	30.09.2019	31.12.2018
LUMINO 1 3/8 21/10/22		
Nominal amount	300 000	0
Fees at amortized costs	-1 072	0
Accrued interest	1 153	0
Hedged item fair value changes	1 383	0
Carrying amount	**301 464**	**0**
Total Carrying amount	**658 393**	**351 235**

17. OTHER FINANCIAL LIABILITIES

T EUR	30.09.2019	31.12.2018
Transit accounts (incl.cards transactions)	45 357	22 953
Other	3 810	4 961
Total	**49 167**	**27 914**

18. PLEDGED ASSETS AND CONTINGENT LIABILITIES AND COMMITMENTS

T EUR	30.09.2019	31.12.2018
Pledged assets		
Encumbranced loans*	2 071 268	132 138
Debt securities	26 859	110 982
Total	**2 098 127**	**243 120**
Contingent liabilities and commitments		
Loan commitments given	1 185 707	1 304 189
Financial guarantees given	88 934	265 707
Other commitments given (including letters of credit)	559 323	414 368
Total	**1 833 964**	**1 984 264**

*Due to the changes in the ownership of Luminor, a new Facility agreement is applicable since Q4 2019. New facility is partly secured, Luminor has assigned a total of EUR 1,995 million of mortgage loans as collateral to the new facility. The pledge on mortgage loans is applicable since 25 September 2019.

19. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of the major part of the Group's assets and liabilities is a reasonable approximation of their fair value. Where the fair values of financial assets and 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 inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values. For the purposes of current financial statements mentioned techniques were not used extensively as no such financial assets and financial liabilities exist on the statement of financial position of the Group.

The fair value of loans to customers, customer deposits, amounts due from credit institutions and amounts due to credit institutions and other financial assets and liabilities' obligations under finance leases is estimated by discounting future cash flows using the rates currently available for debt on similar terms and remaining maturities.

In assessing the fair value for financial assets, the management has performed a discounted cash flow analysis; up-to-date information at the assessment moment is being used for assessing cash flows. For loans where base interest rates are pegged to floating market interest rates, the Group has considered the difference between the average interest margin of issued loans and the average interest margin for newly issued loans. Given that for part of the loan portfolio this margin has been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to the fair value.

The fair value of financial liabilities at amortized cost such as Loans and deposits from credit institutions and Deposits from customers, which are not on demand, have been estimated based on the discounted cash flow model using interest rates for similar products as at year end. The fair value of those financial liabilities that are on demand or have a floating interest rate has been estimated to be approximately equal to it's carrying amount.

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTIZED COST

T EUR	Carrying amount 30.09.2019	Fair value 30.09.2019	Carrying amount 31.12.2018	Fair value 31.12.2018
Assets				
Financial assets at amortized cost				
Cash and Balances with Central banks	2 399 684	2 399 684	3 293 090	3 293 090
Due from other credit institutions	174 939	174 939	185 346	185 346
Loans to customers	10 760 156	10 771 550	11 472 138	11 484 286
Total financial assets	**13 334 779**	**13 346 173**	**14 950 574**	**14 962 722**
Liabilities				
Financial liabilities at amortized cost				
Loans and deposits from credit institutions	1 330 506	1 319 380	3 939 396	3 906 454
Deposits from customers	9 923 439	9 954 653	9 069 885	9 098 414
Debt securities issued	658 393	658 393	351 235	351 235
Lease liabilities	58 710	58 710	0	0
Other financial liabilities	49 167	49 167	27 914	27 914
Total financial liabilities	**12 020 215**	**12 040 303**	**13 388 430**	**13 384 017**

The next table below summarizes the fair value measurement hierarchy of the Group's financial assets and liabilities. Financial instruments are distributed by 3 levels of the fair value:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 — Valuation techniques for which the lowest level input is significant to the fair value measurement is directly or indirectly observable.
- Level 3 — Valuation techniques for which the lowest level input is significant to the fair value measurement is unobservable.

The fair value of all Group's contracted derivatives is defined as level 2. These are interest rate swaps and other derivatives and in all cases pricing is based on market observable inputs.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments as at 30 September 2019 was as follows:

Fair value measurement using (T EUR)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and Balances with Central banks	2 399 684	0	0	**2 399 684**
Due from other credit institutions	167 563	7 382	0	**174 945**
Loans to customers	0	0	10 771 550	**10 771 550**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	0	12 589	0	**12 589**
Financial assets at fair value through profit or loss				
Equity instruments	0	3 933	0	**3 933**
Debt securities	152 605	40 491	0	**193 096**
Derivative financial instruments				
Derivative financial instruments	0	74 312	0	**74 312**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	10 425	**10 425**
Debt securities	1 875	0	0	**1 875**
Total	**2 721 727**	**138 707**	**10 781 975**	**13 642 409**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	24 826	1 294 554	0	**1 319 380**
Deposits from customers	0	7 578 802	2 375 851	**9 954 653**
Debt securities issued	0	658 393	0	**658 393**
Lease liabilities	0	0	58 710	**58 710**
Other financial liabilities	45 357	0	3 810	**49 167**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	58 277	0	**58 277**
Total	**70 183**	**9 590 026**	**2 438 371**	**12 098 580**

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

Fair value measurement using (T EUR)	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash and Balances with Central banks	3 293 090	0	0	**3 293 090**
Due from other credit institutions	145 451	39 899	0	**185 350**
Loans to customers	0	0	11 484 286	**11 484 286**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	0	1 006	0	**1 006**
Financial assets at fair value through profit or loss				
Debt securities	83 192	60 566	0	**143 758**
Derivative financial instruments				
Derivative financial instruments	0	46 664	0	**46 664**
Financial assets at fair value through other comprehensive income				
Debt securities	0	0	7 607	**7 607**
Shares	1 265	0	0	**1 265**
Total	**3 522 998**	**148 135**	**11 491 893**	**15 163 026**
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	42 457	0	**42 457**
Total	**44 920**	**11 437 622**	**1 943 932**	**13 426 474**

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

- Cash and cash balances with central banks – very liquid and short-term, so the fair value equals to their carrying amount as the assets can be realized at same price in an orderly transaction
- Due from other credit institutions – very liquid and short-term, so the fair value equals to their carrying amount as the assets

can be realized at same price in an orderly transaction

- Derivative financial instruments - fair value for this kind of instruments is calculated using discounted cash flow method through which net present value (NPV) is obtained. Independently sourced market parameters – mainly zero coupon yield curves with different characteristics – are used to get discount factors. To some derivatives hedge accounting rules are applicable.
- Financial assets 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. Investments into pension fund units have quoted prices from the market, however the market is inactive and therefore these are classified as level 2 investments. Information about the NAV of pension funds is made publicly available by the funds on a daily basis; investments of the managed funds subject for NAV accounting are all categorized as Level 1 Instruments.
- Loans to customers – Fair value has been estimated by discounting estimated future cash flows using the market interest rates prevailing at each year-end. Loans are issued on market conditions; For loans, where base interest rates are pegged to floating market interest rates, the Group has considered difference between average interest margin of issued loans and average interest margin for newly issued loans. Given that for part of the loan portfolio this margin has been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.
- Loans and deposits from credit institutions- pricing is under market conditions; fair value of deposits do not differ from the carrying value.
- Deposits from customers- pricing of the deposits is under market conditions, the fair value of deposits has been determined using the future cashflows, fair value of deposits do not differ from the carrying value.
- Debt securities issued - initially recognized at fair value less transaction costs and are subsequently carried at amortized cost. Bonds are listed but liquidity and market conditions do not allow using market price as reliable input. Management has determined the fair value by discounting the future cash flows, using the market interest yield curve. Additional info in Note 11 where impact from hedge accounting is explained.
- Financial assets at fair value through other comprehensive income - The significant unobservable inputs used in the fair value measurement of shares on level 3 (Visa Inc. and Swift shares) are as follows: conversion rate, trading price, liquidity discount. The management believes that reasonably possible changes to other unobservable inputs would not result in a significant change in the estimated fair value. Change in fair value of level 3 instruments between 31 December 2018 and 30 September 2019 is due to revaluation.

The fair value measurement for liabilities is based on the calculation using non observable inputs thus the same categorization as for assets should be applied.

20. RELATED PARTIES

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

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

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

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. There have been no doubtful debts due from related parties as well as allowances for doubtful debts as at 30 September 2019 and 31 December 2018.

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

TRANSACTIONS WITH RELATED PARTIES

(T EUR)	01 January 2019 to 30 September 2019	01 January 2018 to 30 September 2018	Q3 2019	Q3 2018
Interest Income				
Ultimate owners	5 785	9 399	1 362	3 929
Interest Expenses				
Ultimate owners	-4 408	-6 862	-1 493	-1 859
Net commission and fee income				
Ultimate owners	19	-9	173	17
Other expenses				
Parent company	0	-2 543	0	-999
Ultimate owners	-7 561	4 158	-354	-141
Total	**-6 165**	**4 143**	**-312**	**947**

(T EUR)	30.09.2019	31.12.2018
Loans to Credit Institutions		
Ultimate owners	7 312	172 634
Loans to Customers		
Key management personnel	389	*
Derivative instruments		
Ultimate owners	63 102	32 946
Other Assets		
Ultimate owners	157 071	567
Total Assets	**227 874**	**206 147**
Due to Credit Institutions		
Ultimate owners	1 269 160	3 714 129
Deposits from customers		
Key management personnel	1 977	*
Derivative instruments		
Ultimate owners	18 476	16 851
Other Liabilities		
Ultimate owners	3 289	2 447
Total Liabilities	**1 292 901**	**3 733 427**

* Due to merger that took place on 02.01.2019 comparative information as at 31.12.2018 does not give fair overview as the structure of management has changed.

Payments to the key management personnel in Q3 2019 were 352 thousand EUR and for the period 1 January to 30 September 2019 were 1 038 thousand euros. Due to merger that took place on 02.01.2019 comparative information does not give a fair overview as the structure of management has changed.

As at 30 September 2019 loans and advances with associates ALD Automotive (3 entities) amounted to 14 655 thousand EUR (31.12.2018: 13 401 thousand EUR), deposits – 703 thousand EUR (31.12.2018: 154 thousand EUR), interest income for Q3 2019 - 7 thousand EUR (Q3 2018: 10 thousand EUR), interest income for period 1 January to 30 September 2019 was 25 thousand euros (1 January to 30 September 2018 was 28 thousand euros) and interest expenses for Q3 2019 - 0 thousand EUR (Q3 2018: 2 thousand EUR) , interest expenses for period 1 January to 30 September 2019 was 0 thousand euros (1 January to 30 September 2018 was 2 thousand euros).

21. SEGMENT REPORTING

MEASUREMENT OF OPERATING SEGMENTS PERFORMANCE

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM) as required by IFRS 8. In the Bank, the CODM has been defined as Management Board. The Management Board monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit before tax and is measured consistently with profit before tax in the consolidated financial statements. Interest income is reported net of expenses after internal funds transfer pricing, as management primarily relies on net interest revenue across product categories as a performance measure. Fees and commission income for segment performance is also reported net of expenses and split is made between different product categories for segment reporting.

Financial results are presented for the three main operating segments: Corporate Banking, Retail Banking and Wealth Management. Operating segments are reported in a manner consistent with the internal reporting provided to the CODM. Corporate Banking segment services business customers that have a dedicated relationship manager. Retail Banking segment services business customers without a dedicated relationship manager and private individuals not belonging to Wealth Management segment. Wealth Management services wealthy private individuals and holding companies associated with those individuals. Results of other operating segments are included in Other segment.

Segment results consist of income and expenses associated directly to the customers belonging under respective segments (including internal funds transfer pricing result between operating segments and Unallocated segment) and income and expenses not booked on customer level, which are allocated between the operating segments using internally agreed allocation mechanisms. Only assets and liabilities relating to customers who belong to the operating segments are reported under the respective segments, all other balance sheet items are reported under Other segment.

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

	Corporate Banking	Retail Banking	Wealth Management	Other	Total
01 January 2019 to 30 September 2019					
The Group					
Net interest income	92 534	80 365	5 919	10 380	**189 198**
Net fees & commission income	21 259	33 260	1 620	2 483	**58 622**
Trading income	7 873	4 720	268	6 090	**18 951**
Other income	244	746	-1	10 863	**11 852**
Total income	**121 910**	**119 091**	**7 806**	**29 816**	**278 623**
Personnel costs, administrative costs and depreciation	-67 315	-127 489	-5 436	535	**-199 705**
Net impairment (losses/ reversal) on loans to customers	-21 832	9 612	96	-149	**-12 273**
Other*	0	0	0	-11 473	**-11 473**
Profit before Tax	**32 763**	**1 214**	**2 466**	**18 729**	**55 172**
Q3 2019					
The Group					
Net interest income	29 871	26 776	1 826	3 631	**62 104**
Net fees & commission income	6 884	11 409	509	720	**19 522**
Trading income	2 877	1 676	101	1 396	**6 050**

Other income	109	402	0	8 941	**9 452**
Total income	**39 741**	**40 263**	**2 436**	**14 688**	**97 128**
Personnel costs, administrative costs and depreciation	-22 056	-43 756	-1 981	-510	**-68 303**
Net impairment (losses/ reversal) on loans to customers	-10 685	3 131	-12	-1 492	**-9 058**
Other*	0	0	0	-1 088	**-1 088**
Profit before Tax	**7 000**	**-362**	**443**	**11 598**	**18 679**
30.09.2019					
The Group					
Assets					
Loans and receivables	4 684 753	5 554 638	84 031	436 734	**10 760 156**
Liabilities					
Deposits from customers	5 038 587	3 910 717	960 780	13 355	**9 923 439**

	Corporate Banking	Retail Banking	Wealth Management	Other	Total
01 January 2018 to 30 September 2018					
The Group					
Net interest income	99 290	77 705	4 655	12 484	**194 134**
Net fees & commission income	23 758	33 908	1 732	3 317	**62 715**
Trading income	8 803	4 490	339	8 524	**22 156**
Other income	597	893	1	1 157	**2 648**
Total income	**132 448**	**116 996**	**6 727**	**25 482**	**281 653**
Personnel costs, administrative costs and depreciation	-49 233	-93 886	-3 793	-11 355	**-158 267**
Net impairment (losses/ reversal) on loans to customers	8 857	4 731	-46	-1 087	**12 455**
Other*	0	0	0	-9 327	**-9 327**
Profit before Tax	**92 072**	**27 841**	**2 888**	**3 713**	**126 514**
Q3 2018					
The Group					
Net interest income	33 564	26 753	1 598	4 119	**66 034**
Net fees & commission income	8 184	11 470	592	1 088	**21 334**
Trading income	3 674	1 568	154	3 348	**8 744**
Other income	158	314	0	-117	**355**
Total income	**45 580**	**40 105**	**2 344**	**8 438**	**96 467**

Personnel costs, administrative costs and depreciation	-15 810	-29 682	-1 242	-3 652	**-50 386**
Net impairment (losses/ reversal) on loans to customers	-685	4 715	-51	855	**4 834**
Other*	0	0	0	-4 538	**-4 538**
Profit before Tax	**29 085**	**15 138**	**1 051**	**1 103**	**46 377**

31.12.2018					
The Group					
Assets					
Loans and receivables	5 270 357	5 581 559	92 801	527 421	**11 472 138**
Liabilities					
Deposits from customers	4 704 640	3 559 706	801 593	3 946	**9 069 885**

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

22. EVENTS AFTER THE END OF REPORTING PERIOD

On 10 October, the Supervisory Council appointed Georg Kaltenbrunner as a member of the bank's Management Board and the new Chief Risk Officer. As of 1 November Georg Kaltenbrunner will take over the position from Hannu Saksala.

On 10 October, 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 effective as of the same day.

CONTACT DETAILS

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Balance sheet date	30 September 2019
Reporting period	01.01.2019 – 30.09.2019
Reporting currency	Euro