Luminor

INTERIM REPORT

FOR Q2 2019

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

LUMINOR BANK AS, Estonia

CONTENTS

CEO COMMENT

The second quarter of 2019 saw Luminor nearing full implementation of the new operating model. By simplifying our structure and our decision-making process, consolidating our IT, and strengthening our controls, we have become a more efficient organisation.

We gain continuous support from the strong macro conditions and stable operating environment that the Baltic states are enjoying right now, and from the concentrated and regionally harmonising banking market. The Baltic states today are among the most dynamic economies of the European Union, offering exceptionally exciting financial opportunities that are at the same time backed by the security of the euro area.

In the second quarter, the Luminor retail banking team sped up the transformation of the customer service model and opened customer service centres operating under a new concept. The efficiency of the pan-Baltic model has also been demonstrated by successful common marketing campaigns and improved management of sales channels, which has helped us to achieve growth of 13% in the deposit portfolio over the same period of last year.

The Luminor corporate banking team has meanwhile overseen the growth of the deposit portfolio of corporate clients for the third quarter in a row, as deposit volumes were 11% larger in the second quarter than in the same period of 2018.

The focus of the wealth management team on growing the business and increasing customer satisfaction has increased the pension assets under management in the Baltics by 11% and assets under management by 25% from what they were in the second quarter of last year.

We have also put in motion the transfer of customer data and services in Latvia and Lithuania to the unified Luminor system, with the first customers having been successfully moved to the unified systems. Our digital team is working hard to develop the new Luminor digital channels and prepare our current channels for the process of transferring customer data.

Luminor is continuously committed to preventing money laundering and terrorist financing through the prevention, detection, and reporting of unusual activities, and we have developed and implemented a robust financial crime risk management framework to fulfil this commitment.

In September 2018, Blackstone, one of the world’s leading investment funds, signed an agreement to acquire a majority stake in Luminor. The process of gaining regulatory approval from the European Central Bank and locally is progressing well and it is expected that this transaction will be closed during the second half of 2019.

Luminor has also widened its investor base further, issuing its second public senior unsecured bond of 300 million euros in June, taking yet another important step towards becoming a self-funded, independent pan-Baltic bank. The bond issue attracted 75 individual investors from across Europe, of which more than 80% were non-Baltic accounts. The scale of the investors’ interest proves that Luminor’s financial profile is strong and that Luminor as a credit institution is viewed across a broad European investor universe as a solid and emerging investment case.

Luminor is well on track with its transformation programme that will see it grow into a leading independent Baltic financial service provider that is a partner to companies and to financially active people with an entrepreneurial mind-set.

Erkki Raasuke
CEO

MANAGEMENT REPORT

Overview

Luminor (Luminor Bank AS) 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.

Luminor is the third-largest provider of financial services in the Baltics, with approximately 1 million clients, 2566 employees, and market share of 16.4% in deposits and 20.2% in lending as at the end of the second quarter of 2019. Total shareholders' equity amounts to EUR 1.6 billion and Luminor is capitalised with a CET1 ratio of 18%. Luminor's vision is to become the best financial ecosystem for its customers.

An agreement was signed on 13 September 2018 between DNB Bank ASA and Nordea Bank AB and the US-based private equity firm Blackstone to sell a majority stake in Luminor. As part of the transaction, Blackstone will acquire a 60% majority stake in the bank. Nordea and DNB will retain equal 20% equity stakes in Luminor and will continue to support the bank with long-term funding, expertise, and ongoing representation on the Supervisory Council. Additionally, Blackstone has entered into an agreement with Nordea to purchase their remaining 20% stake over the coming years. Closing of the transaction is subject to the approval of the European Central Bank and local supervisory authorities and is expected to occur in the second half of 2019.

Luminor offers a wide range of products and services to its customers through all possible channels, digital and physical, with 38 customer service centres and four meet-up points in Latvia, Lithuania and Estonia combined. Luminor owns 373 ATMs throughout the Baltic states, and additionally provides services through 100 ATMs in partnership with other financial services providers.

30 June 2019				
	Estonia	***Latvia***	***Lithuania***	**Total**
No of customers	*~140 000*	*~235 000*	*~600 000*	~970 000
Market shares				
Lending	*14.9%*	*24.8%*	*22.4%*	*20.2%*
Deposits	*10.0%*	*16.9%*	*21.1%*	*16.4%*
No of client service centers, including meet- up points	*9*	*11*	*22*	*42*

Luminor has 26 direct 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), Intractus UAB (Lithuania), Uus-Sadama 11 OÜ (Estonia), Promano Estonia OÜ (Estonia), Baltic ipasums SIA (Latvia), Skanstes 12 SIA (Latvia), Luminor Finance SIA (Latvia), Realm SIA (Latvia), Trioleta 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 Kindlustusmaakler OÜ (Estonia); and Luminor Liising AS (Estonia), Luminor Līzings SIA (Latvia), Luminor Līzings Latvija SIA (Latvia), and Luminor Lizingas UAB (Lithuania) provide leasing services.

In July 2019 the merger of Luminor Liising AS and Luminor Kindlustusmaakler OÜ was started and expected to be completed in August 2019.

On 13 September 2018, Moody's assigned Luminor long and short-term, foreign and local currency deposit ratings of Baa1/Prime-2.

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

Macroeconomic overview

The prolonged tensions in global trade and the related geopolitical risk factors, along with the rising threat of protectionism and vulnerabilities in emerging markets, are causing headwinds for advanced and emerging markets alike. This has left a notable mark on the protracted soft patch in the global manufacturing sector and continues to depress economic sentiment. Manufacturing confidence in particular has been affected the most, with weakness expected to extend into the second half of the year.

The Baltic states, together with some CEE peers like Slovakia, are today among the most dynamic economies of the EU. During the last two years the economies of the euro area, including those of the Baltic states, have enjoyed a strong and broadly based recovery reflected in above-trend growth and tightening labour markets. The average yearly growth rate for 2017-18 exceeded 4% in Estonia and Latvia, and was a robust 3.8% in Lithuania, while the average growth in GDP in the euro area was close to 2%.

Growth is set to start moderating gradually, albeit from a high level, but labour markets will still be firm and tight even as European economies go through the current soft patch in the global trade cycle. Growth in GDP in the euro area decelerated noticeably last autumn to only 1.2% year on year and 0.2% over the quarter in the fourth quarter of 2018, as industry and trade made a weaker contribution. However, the euro area economies managed to resist any further moderation in momentum in the spring with growth in the first quarter slightly exceeding expectations at 1.2% over the year and 0.4% over the quarter. Against this softer external backdrop the Baltic states have so far resisted the disruptions to global trade and sustained their strong and broadly based economic momentum in the first quarter, benefiting not least from investments and exports. Estonia posted yearly growth of 4.6% in the first quarter, Latvia of 3.2%, and Lithuania of 3.8%, meaning they remained among the fastest growing economies in the euro area.

The external sector will weigh on growth in the open Baltic economies and it is likely that export revenues will taper until there is a recovery in global trade and confidence. We expect only a gradual moderation of growth given the continued support from strong labour markets and healthy domestic demand, which remain the key engines of growth.

Despite slightly weaker confidence in industry, exports have so far predominantly resisted the weakness in external markets and expanded at a healthy pace, especially in Estonia and Lithuania. Latvia continues to exceed expectations with strong performance in investment, which benefits from EU structural funds and the appetite of industry for investments to enhance productivity. This could partly help to offset the headwinds from slower growth in key trading partners, including the euro area and the Nordic countries. Overall, growth in the Baltic states will continue to be supported by rising wages, fading inflationary pressures and further, albeit slower, gains in employment.

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 management bodies were appointed.

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

Luminor continued to roll out the new operating model during the second 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 some 200 employees during the second quarter of 2019.

PRODUCT AND DIGITAL DEVELOPMENT

In the second quarter Luminor started transfering customer data and services to the unified Luminor system in Latvia and Lithuania. The first customers have been moved successfully to the unified systems, and this work will continue until the end of the 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 the customers.

It was announced that Luminor will disable access to digital channels using code cards from 10 September. Customers are encouraged to use modern digital authorisation tools instead and are offered help in starting to use them.

THE RETAIL BANKING SEGMENT

The Retail Banking team carried out a solid transformation in its distribution channels in the second quarter and improved efficiency in related areas. Ten locations in the customer service network were closed, and two others were transformed into meet-up points. Luminor continued to roll out its new customer service model and opened new concept customer service centres in Riga and Tallinn. At the end of the second quarter, Luminor was able to serve its customers in a total of 42 locations across the Baltics.

Cashless solutions were introduced in customer centres for Lithuania and Estonia during the reporting period, as the process of automating cash handling was implemented in Lithuania, and it is planned that the solution will be expanded to Estonia during the next quarter. The centralisation of consumer lending was completed during the period, so the bank now has a unified approach to consumer lending products, their terms and conditions, and lending procedures for its customers in all the Baltic states.

By running pan-Baltic sales and marketing campaigns and improving management of sales channels, the retail banking team has succeeded in growing the deposit portfolio by 13% from the same quarter of last year. The new lending volumes for retail customers remained stable during the quarter.

The migration of the first pilot group of customers to the unified bank platform has been completed in Latvia and Lithuania. The change from code cards to other authorisation tools has been rolled out and at the end of the second quarter, 45% of internet bank sign-in sessions were ensured by Smart-ID authorisation. Increasing the use of this tool remains the top priority, as it is one of the fundamental factors for successful sales through remote channels in the rest of 2019.

THE CORPORATE BANKING SEGMENT

In the second quarter of 2019 the Corporate Banking team continued to focus on increasing the profitability of our corporate lending portfolio. This led to a reduction of 10% in outstanding loan volumes from the second quarter of 2018. The growth of the deposit portfolio of corporate clients maintained its pace for the third quarter in a row, and deposit volumes were 11% larger in the second quarter of 2019 than in the same quarter of 2018.

Loan loss provisions increased to EUR 11.6m in the second quarter as the outlook worsened for Latvia's subsidised energy sector and because of additional provisions in the Estonian NPL book. The macro environment continues to be very supportive.

The new operating model and the latest developments in the banking market were presented to corporate clients at a series of corporate banking events across all the Baltic states.

THE WEALTH MANAGEMENT SEGMENT

The main focus in Wealth Management in the second 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.

In the second half of May, functional managers were selected and appointed for the Asset Management & Pension team. The orderly transfer of responsibilities will be orchestrated by the end of the third quarter with the reappointment of memberships of local management boards of pension companies and in consultation with local supervising authorities.

The pension assets under management in the Baltics reached EUR 1.32 billion in the second quarter of 2019, up 11% on the same quarter of 2018. Luminor had 292 thousand second pillar and 62 thousand third pillar pension customers at the end of the quarter.

Private Banking focuses 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 focused on attracting new customers from the market. Collaboration and information-sharing with Luminor's other business segments helped to deliver the results. In the second quarter of 2019, there was 25% more in assets under management than in the same quarter of 2018.

CORPORATE SOCIAL RESPONSIBILITY

Luminor aims to become the financial partner in the Baltics for the local way of living and doing business. An important part of achieving this is to take account of corporate governance, social conditions and the environment in all the bank's activities.

We stand for sustainability, diversity and equal rights. Luminor is not party to any infringement of human or labour rights, corruption, environmental harm or other actions that could be regarded as unethical.

We are accountable to society and the environment and we expect the same from our partners, having included our Rules of Social Responsibility as part of all our Cooperation Agreements.

ANTI-MONEY LAUNDERING EFFORTS

Luminor does not tolerate money laundering, financing of terrorism or any other financial crimes. Luminor has developed and implemented a robust financial crime risk management framework to prevent, detect, manage and report financial crime risk effectively. 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.

Luminor complies with all applicable legislation on anti-money laundering, combating terrorist financing and sanctions. In addition, Luminor follows and implements 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 improves its processes to combat financial crime in a constantly changing environment.

Luminor primarily serves residents of Estonia, Latvia and Lithuania, and customers with a strong personal or business connection to the Baltic states. As such, Luminor's risk appetite statements reflect the need for full transparency of the background of Luminor customers, the availability of KYC data, and the economic rationale for the activities of customers.

The Supervisory Council of Luminor approved the AML/CFT Standards, Sanctions Standards and Risk Appetite Statements that define:

- Absolute limitations, where Luminor will not under any conditions establish a relationship with the customer;
- Conditional risk limitations subject to authorised approval, where Luminor will only establish and retain a relationship with the customer if it is reviewed and approved by the designated Customer Risk Committee.

Over 140 professionals in Luminor's Compliance Division and Customer Data Quality Middle Office maintain and ensure a robust compliance framework and processes throughout the organisation. More than 15 professionals are internationally certified AML specialists (CAMS), Certified Fraud Examiners (CFE), Certified Internal Auditors (CIA) and certified Compliance Officers.

More than 80 internal training and awareness-raising events were organised in the first half of 2019.

EVENTS AFTER 30 JUNE 2019

The Shareholders' Meeting of Luminor Bank AS accepted the requests of Nadine Faruque and Ari Kaperi to resign from the bank's Supervisory Council. The resignation of Ari Kaperi is effective as of 1 July 2019 and the resignation of Nadine Faruque is effective as of 11 July 2019 (see Note 17).

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

Financial Results

After completing its cross-border merger at the beginning of the year, Luminor continues its operations in all the Baltic states through the Estonian registered bank Luminor Bank AS, and its branches in Latvia and Lithuania. Luminor has entered the next phase of its transformation and changed its operating model starting from 1 March. By consolidating its technological platforms, right-sizing the business, simplifying the product and service portfolio and increasing efficiency, the bank aims to accelerate the transformation to building and executing areas of superior customer experience. As a consequence of this process, the financial results of Luminor are affected by the exceptional and restructuring costs of investing in technology and reducing team sizes.

In the second quarter net profit reached EUR 6.7 million and was EUR 36.9 million lower than in the same period of 2018. Net interest income declined by 0.4%, while net loans declined by 6.5% as a result of planned activities that aim to ensure fair and rational pricing of risk, and to improve profitability. The change in financing volumes has also affected net fee and commission income, which was 3.5% lower than in the second quarter of last year.

Total operating expenses in the second quarter were EUR 68.7 million and were EUR 14.4 million higher than in the same quarter of last year. Like in the first quarter, operating expenses were mainly driven by transformation costs and net impairment on loans to customers. Exceptional expenses were EUR 0.9 million higher than in the first quarter and reached EUR 18.1 million, the major part of which were IT expenses, accounting for 85%, followed by staff expenses with 5% and other transformation costs with 10%. Impairment of loans to customers and other assets during the second quarter reached EUR 12.3 million as a result of changed assumptions used in the quarterly loan assessment process. Impairment was driven by large exposures in the legacy portfolio, while the credit quality of new lending remains good and is facilitated by the current macroeconomic outlook.

The funding position continued to improve during the second quarter. The loan-to-deposit ratio improved to 117.1% from 142.7% a year ago. The improved funding gap was supported by a reduction in loans of EUR 769 million and an increase in deposits of EUR 1.1 billion over the past 12 months. Average equity at the end of second quarter stood at EUR 1.7 billion and was at a similar level to where it was a year ago.

Key figures and ratios of Luminor*

T EUR	Q2	Q1	Q2	January-June		Full year
	2019	2019	2018	2019	2018	2018**
Net profit	6 711	26 367	43 561	33 078	76 968	124 949
Average equity	1 718 147	1 810 069	1 722 566	1 706 289	1 728 986	1 757 148
Return on equity (ROE), %	1.6	5.9	10.1	3.9	9.0	7.1
Average assets	14 081 334	14 725 789	14 575 234	14 663 715	14 826 337	15 201 023
Return on assets (ROA), %	0.2	0.7	1.2	0.5	1.0	0.8
Net interest income	63 280	65 980	63 510	127 094	128 100	259 733
Average interest earning assets	13 723 711	14 374 728	14 210 239	14 313 703	14 462 550	14 844 146
Net interest margin (NIM), %	1.8	1.9	1.8	1.8	1.8	1.7
Cost / Income ratio (C/I), %	77.0	77.2	58.9	77.7	60.7	62.3
Credit impairment ratio, %***	0.33	-0.26	-0.30	0.03	-0.14	-0.06
Loans to customers	10 979 181	11 282 787	11 748 371	10 979 181	11 748 371	11 472 138
Deposits from customers	9 374 812	9 391 341	8 231 554	9 374 812	8 231 554	9 069 885
Loans / Deposits ratio, %	117.1	120.1	142.7	117.1	142.7	126.4
CET1 ratio, %	17.99	20.02	17.6	17.99	17.6	18.0
NPL ratio (gross), %	4.3	4.6	6.1	4.3	6.1	5.3
Net interest income / Loans, %	2.3	2.4	2.2	2.3	2.2	2.3

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

Loans to customers at the end of second quarter totalled EUR 11.0 billion. Loans to individual customers constitute 53% of this while loans to business customers make up 45% of the total Luminor credit portfolio, and the composition has not changed significantly from the results of last year. Luminor's share of the lending market in the Baltics was 20.2% and was down from 22.0% a year ago.

Lending			30 June 2019		
T EUR	**Individual customers**	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	5 794 416	4 955 740	192 025	37 000	10 979 181
Estonia	*1 399 856*	*1 472 315*	*79 495*	32 386	2 984 052
Latvia	*1 691 885*	*1 512 234*	*4 618*	3 943	3 212 680
Lithuania	*2 702 675*	*1 971 191*	*107 912*	671	4 782 449

Deposits			30 June 2019		
T EUR	**Individual customers**	**Business customers**	**Public sector**	**Financial institutions**	**Total**
Total	3 794 092	3 668 473	1 558 603	353 644	9 374 812
Estonia	*515 106*	*761 777*	*335 358*	*250 230*	*1 862 471*
Latvia	*1 263 971*	*1 184 085*	*183 413*	*74 881*	*2 706 350*
Lithuania	*2 015 015*	*1 722 611*	*1 039 832*	*28 533*	*4 805 991*

Lending		30 June 2018			
T EUR	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	5 915 857	5 504 604	277 785	50 125	11 748 371
Estonia	*1 440 946*	*1 724 952*	*102 478*	*31 510*	*3 299 886*
Latvia	*1 789 849*	*1 512 890*	*5 939*	*5 702*	*3 314 380*
Lithuania	*2 685 062*	*2 266 762*	*169 368*	*12 913*	*5 134 105*

Deposits		30 June 2018			
T EUR	Individual customers	Business customers	Public sector	Financial institutions	Total
Total	3 399 815	3 410 378	1 142 903	278 458	8 231 554
Estonia	*504 388*	*821 963*	*231 189*	*141 135*	*1 698 675*
Latvia	*1 157 247*	*1 176 073*	*254 563*	*105 588*	*2 693 471*
Lithuania	*1 738 180*	*1 412 342*	*657 151*	*31 735*	*3 839 408*

Deposits from customers at the end of the second quarter totalled EUR 9.4 billion. Deposits from individual customers constitute 40% of total Luminor deposits, deposits from business customers 39%, and deposits from public sector 17%. There have been no significant changes in the composition from the results of a year ago. Luminor's share of the deposits market in the Baltics was 16.4% and has increased gradually from 15.1% a year ago.

ASSET QUALITY FOR Q2 2019

In the second quarter of 2019 the quality of Luminor's loan portfolio did not change significantly.

The volume of impaired loans decreased by EUR 49.1 million during the second quarter of 2019 and the share of impaired loans in the total loan portfolio dropped by 0.3 pp to 4.3%. This reduction came from write-offs, repayments, and loans returning to performing.

The allowances for on-balance sheet exposures amounted to EUR 174.7 million or 1.6% of the total loan portfolio, which was up EUR 1.5 million on the previous quarter. The effect comes from a decrease of EUR 2.0 million in allowances for performing (Stage 1 and Stage 2) loans and an increase of EUR 3.5 million in allowances for impaired (Stage 3) loans, which is mainly impacted by one customer in Estonia. The level of allowances on the impaired loans was 28.4% at the end of second quarter of 2019, which was 3.3 pp higher than in the previous quarter because of a reduction in the impaired loans portfolio.

Asset quality of Luminor as at 30 June 2019

	30 June 2019			
T EUR*	Total	*Estonia*	*Latvia*	*Lithuania*
Financial institutions				
Stage 1				
Gross carrying amount	30 249	28 125	1 668	456
Allowances	-105	-103	-2	0
Carrying amount	**30 144**	**28 022**	**1 666**	**456**
Stage 2				
Gross carrying amount	6 958	4 434	2 309	215
Allowances	-103	-71	-31	-1
Carrying amount	**6 855**	**4 363**	**2 278**	**214**
Stage 3				
Gross carrying amount	1	0	1	0
Allowances	-1	0	-1	0
Carrying amount	**0**	**0**	**0**	**0**
Total carrying amount for financial institutions	**36 993**	**32 385**	**3 938**	**670**
Public sector				
Stage 1				
Gross carrying amount	191 371	79 678	4 552	107 141
Allowances	-204	-200	0	-4
Carrying amount	**191 167**	**79 478**	**4 552**	**107 137**
Stage 2				
Gross carrying amount	852	17	66	769
Allowances	-5	0	0	-5
Carrying amount	**847**	**17**	**66**	**764**
Stage 3				
Gross carrying amount	11	0	0	11
Allowances	0	0	0	0
Carrying amount	**11**	**0**	**0**	**11**
Total carrying amount for public sector	**192 025**	**79 495**	**4 618**	**107 912**
Individual customers				
Stage 1				
Gross carrying amount	5 258 513	1 336 633	1 498 953	2 422 927
Allowances	-6 471	-2 409	-2 006	-2 056
Carrying amount	**5 252 042**	**1 334 224**	**1 496 947**	**2 420 871**
Stage 2				
Gross carrying amount	407 400	52 683	145 050	209 667
Allowances	-19 386	-2 420	-10 218	-6 748
Carrying amount	**388 014**	**50 263**	**134 832**	**202 919**

Stage 3				
Gross carrying amount	215 740	17 424	98 412	99 904
Allowances	-61 381	-2 055	-38 306	-21 020
Carrying amount	**154 359**	**15 369**	**60 106**	**78 884**
Total carrying amount for individual customers	**5 794 415**	**1 399 856**	**1 691 885**	**2 702 674**
Business customers				
Stage 1				
Gross carrying amount	3 643 367	978 377	1 273 517	1 391 473
Allowances	-6 176	-2 832	-1 548	-1 796
Carrying amount	**3 637 191**	**975 545**	**1 271 969**	**1 389 677**
Stage 2				
Gross carrying amount	1 139 273	447 828	168 493	522 952
Allowances	-7 313	-3 765	-1 377	-2 171
Carrying amount	**1 131 960**	**444 063**	**167 116**	**520 781**
Stage 3				
Gross carrying amount	260 102	85 304	103 930	70 868
Allowances	-73 511	-32 596	-30 782	-10 133
Carrying amount	**186 591**	**52 708**	**73 148**	**60 735**
Total carrying amount for business customers	**4 955 742**	**1 472 316**	**1 512 233**	**1 971 193**
Totals				
Gross carrying amount Stage 1	9 123 500	2 422 813	2 778 690	3 921 997
Gross carrying amount Stage 2	1 554 483	504 962	315 918	733 603
Gross carrying amount Stage 3	475 854	102 728	202 343	170 783
Total Gross carrying amount	**11 153 837**	**3 030 503**	**3 296 951**	**4 826 383**
Allowances Stage 1	-12 956	-5 544	-3 556	-3 856
Allowances Stage 2	-26 807	-6 256	-11 626	-8 925
Allowances Stage 3	-134 893	-34 651	-69 089	-31 153
Total allowances	**-174 656**	**-46 451**	**-84 271**	**-43 934**
Total carrying amount	**10 979 181**	**2 984 052**	**3 212 680**	**4 782 449**
Gross Stage 3 loans vs Gross loans (NPL ratio), %	4.27	3.39	6.14	3.54
Allowances Stage 3 vs Gross Stage 3 loans (Stage 3 impairmen ratio), %	28.35	33.73	34.14	18.24
Allowances vs Gross loans (Impairment ratio), %	1.57	1.53	2.56	0.91

* excluding Loans to Credit Institutions

Table above contains POCI contracts in stage 3 in amount EUR 64 340 thousand (EE- EUR 55 thousand, LT- EUR 53 938 thousand, LV- EUR 10 347 thousand)

Explanations:

Gross Stage 3 Loans vs Gross Loans (NPL ratio) % = Gross Stage 3 Loans / Gross 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 June 2019 is disclosed in the table below using the risk scale as set in the 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 June 2019, T EUR	Stage 1	Stage 2	Stage 3	Total
Low risk	5 225 271	267 372	0	5 492 643
Moderate risk	3 742 616	781 056	0	4 523 672
High risk	155 613	506 055	0	661 668
Default	0	0	475 854	475 854
Gross	**9 123 500**	**1 554 483**	**475 854**	**11 153 837**
Allowance for impairment	-12 956	-26 807	-134 893	**-174 656**
Net	**9 110 544**	**1 527 676**	**340 961**	**10 979 181**

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 June 2019	%
Financial intermediation	117 968	1.1%
Agriculture, hunting, forestry, fishing	653 334	5.9%
Manufacturing	666 607	6.1%
Electricity, gas, water supply	198 943	1.8%
Construction	276 895	2.5%
Wholesale and retail trade	1 017 732	9.3%
Transport, storage, communication	502 088	4.6%
Real estate activities	1 152 300	10.5%
Public sector	195 406	1.8%
Other industries	635 187	5.8%
Private individuals*	5 562 721	50.6%
Total	**10 979 181**	**100.0%**

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

Information about collaterals of loans

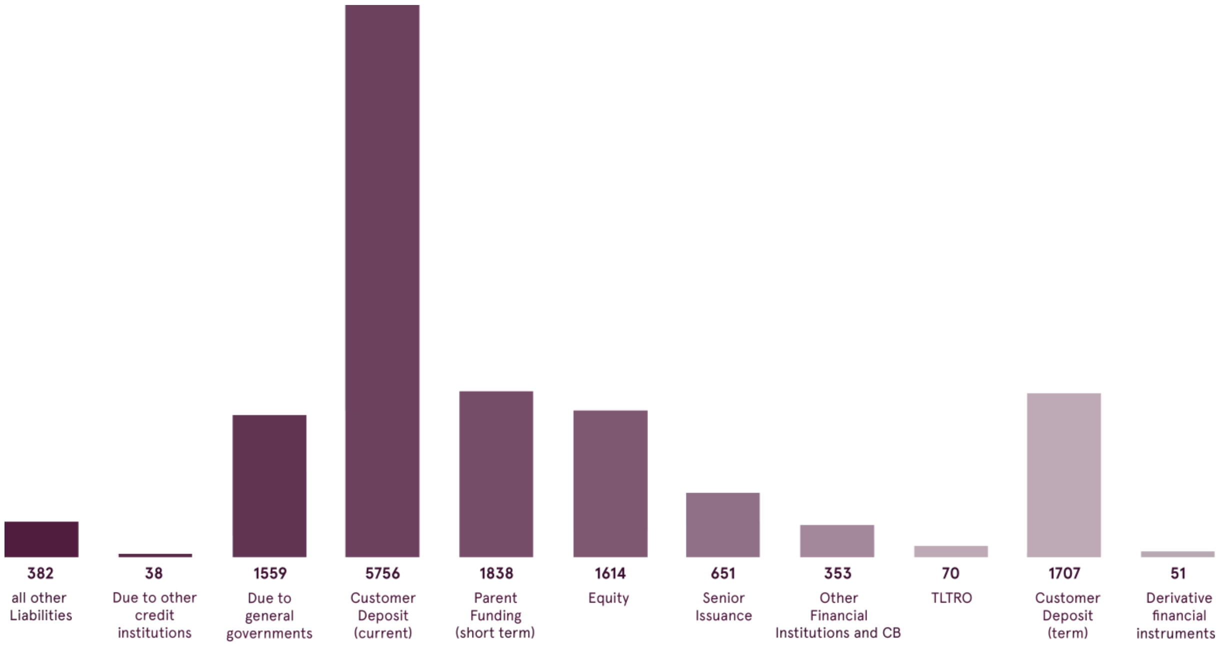
The amount of credit-impaired loans is reported together with the value of related collateral held as security in the tables below. Credit-impaired loans are most often secured by real estate and movable assets. The value for such collateral is equal to its market value, and not its liquidation value,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

30 June 2019 Credit-impaired loans	Gross	of which initial impairment	Allowance for impairment	Net	Fair value of collateral
Business customers	259 937	-27 063	-73 458	186 479	201 799
Individual customers	215 917	-1 838	-61 435	154 482	179 777
Total	**475 854**	**-28 901**	**-134 893**	**340 961**	**381 576**

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 make up EUR 9.3 billion or 66.9% *of total liabilities and shareholders' equity* at the end of the second quarter of 2019. The fundingbase is predominantly EUR-denominated.

In addition to the deposits, Luminor also has outstanding debt securities and funding from parent banks constituting a substantional part of the funding base. On 11 June 2019, Luminor Bank AS issued three-year and four-month public senior unsecured preferred bonds worth EUR 300 million under the European Medium Term Note (EMTN) Programme. The bonds are listed on the Euronext Stock Exchange. Appetite from investors was very strong, generating orders in excess of EUR 600 million that enabled Luminor to issue bonds worth EUR 300 million at a spread over mid-swap of 167 bps, tightening pricing by 13 bps from initial pricing indications. Given the low euro interest rates, the final coupon rate of the bonds was fixed at 1.375% and the yield ended at 1.42%. More than 80% of orders, worth nearly EUR 500 million, originated from outside the Baltics. As at Q2 2019 the bonds outstanding under the EMTN programme amount to a total of EUR 650 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 is assigned a rating of Baa2 by Moody's.



As at the end of the second quarter of 2019, funding from parents amounted to EUR 1,838 million and was provided by the two parent banks in the form of a syndicate, where each parent bank provides 50%. Long-term funding is committed for 6 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 utilised, there is also a committed unused credit line of EUR 2,366 million in place. EUR 300 million of parent funding was amortised in June after the senior unsecured issuance under the European Medium Term Note (EMTN) Programme.

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 has been no changes to Luminor's ratings.

LIQUIDITY

Luminor uses different metrics to measure liquidity risk. One metric used is the LCR (Liquidity Coverage Ratio). The LCR for Luminor was 132.5% as at the end of the second 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 second quarter of 2019, Luminor's NSFR was 127.4%.

(percentage)	Q2 2019	Q1 2019	Q4 2018*	Q3 2018*	Q2 2018*
LCR	132.5%	131.2%	189%	130.4%	131.1%
NSFR**	127.4%	122.0%	114.0%	106.4%	114.0%

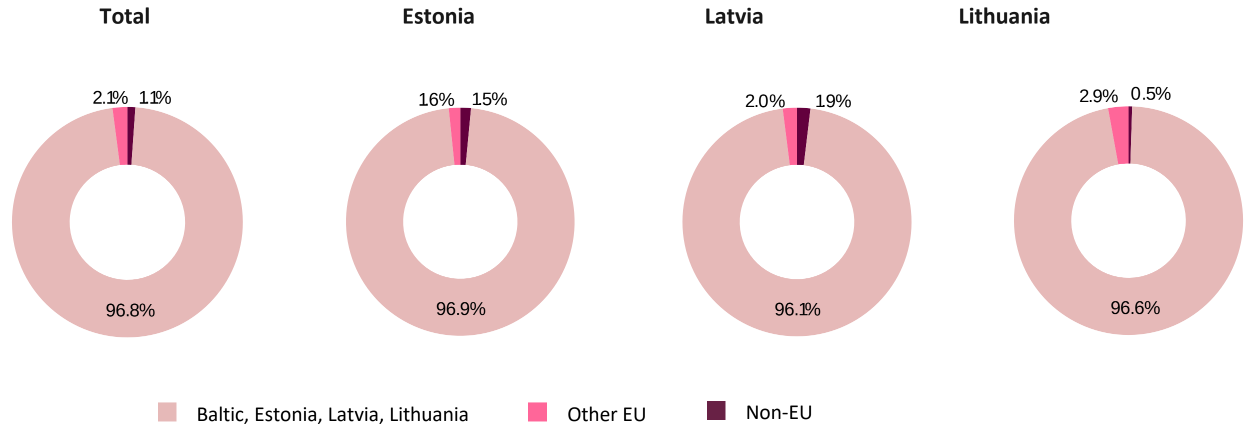
* Luminor Group AB consolidated figures

**mortgages that would qualify for 35% or lower risk weight are calculated with an 85% RSF factor, and a 65% factor has been used since 01.01.2019.

Deposit structure

Deposits from customers are predominantly from residents of the Baltics. In total, 98.9% of all deposits from households and non-financial corporations are from EU residents.

Deposits split by residency per country:



CAPITAL

Luminor's shareholders made a decision on 28 May 2019 to carry out a bonus share issue, followed by a reduction of share capital. The bonus share issue was based on the bank's interim balance sheet as of January 2, 2019 and involved 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 was reduced by the same amount. Pay-out to the shareholder is subject to the expiry of a statutory waiting period of at least three months.

Luminor continues to have a strong capitalization that is sufficient to ensure the financial stability of the Group and supply the capital needed to deliver the business strategy. The Total Capital Ratio of Luminor was 18.0% as at the end of the second quarter of 2019 (following the capital reduction), 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 second quarter of 2019, the Leverage Ratio, calculated using CRR, was 10.6%, and it was 12.0% at the end of the first 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	Q2 2019	Q1 2019	Q4 2018*	Q3 2018*	Q2 2018*
Capital adequacy	17.99%	20.02%	18.04%	17.25%	17.58%
Leverage Ratio	10.59%	12.00%	10.38%	10.68%	10.84%
CET 1 Ratio	17.99%	20.02%	18.04%	17.25%	17.58%
T1 Capital Ratio	17.99%	20.02%	18.04%	17.25%	17.58%
Total Capital Ratio	17.99%	20.02%	18.04%	17.25%	17.58%

* Luminor Group AB consolidated figures

Own funds requirements

T EUR	30 June 2019	31 December 2018*
TOTAL RISK EXPOSURE AMOUNT	8 668 797	9 206 164
1. RISK-WEIGHTED EXPOSURE AMOUNTS FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	7 886 939	8 449 588
1.1 Standardised approach (SA)	7 886 939	8 449 588
1.1.1 SA exposure classes excluding securitisation positions	7 886 939	8 449 588
Central governments or central banks	0	9
Regional governments or local authorities	14 796	12 270
Public sector entities	6 631	3 983
Institutions	61 529	73 973
Corporations	4 020 766	4 490 837
Retail	1 537 920	1 352 161
Secured by mortgages on immovable property	1 558 314	1 593 688
Exposures in default	366 098	589 516
Items associated with particularly high risk	162 605	54 733
Equity	16 573	13 828
Other items	141 707	264 589
TOTAL RISK EXPOSURE AMOUNT FOR POSITION, FOREIGN EXCHANGE AND COMMODITIES RISKS	105 712	48 050
TOTAL RISK EXPOSURE AMOUNT FOR OPERATIONAL RISK (OpR)	661 118	691 897
TOTAL RISK EXPOSURE AMOUNT FOR CREDIT VALUATION ADJUSTMENT	15 026	16 629

* Luminor Group AB consolidated figures

Statement of the Management Board

The interim report of Luminor Bank AS for Q2 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 second 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, 15 August 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 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Interest income calculated using the effective interest method	4	121 585	115 781	62 044	56 619
Other similar income	4	30 268	30 784	15 259	16 205
Interest and similar expense	4	-24 759	-18 465	-14 023	-9 314
Net interest income		**127 094**	**128 100**	**63 280**	**63 510**
Fee and commission income	5	52 788	53 988	27 529	27 741
Fee and commission expense	5	-13 688	-12 607	-7 143	-6 612
Net fee and commission income		**39 100**	**41 381**	**20 386**	**21 129**
Net gain on financial assets and liabilities designated at fair value through profit/loss		916	-234	556	44
Net gain on financial assets and liabilities held for trading		7 014	11 144	37	8 761
Net gain from operations with foreign currency		4 971	2 502	5 206	-1 970
Dividend income		58	51	29	30
Other operating income		2 342	2 242	-271	678
Net other operating income		**15 301**	**15 705**	**5 557**	**7 543**
Net total operating income		**181 495**	**185 186**	**89 223**	**92 182**
Salaries and other personnel expenses	6	-61 372	-56 755	-25 689	-28 081
Other administrative expenses	7	-63 175	-47 195	-34 773	-21 042
Depreciation and impairment of property, plant and equipment and intangible assets		-6 855	-3 931	-3 284	-1 936
Other operating expenses	8	-8 578	-4 379	-4 025	-3 200
Total operating expenses		**-139 980**	**-112 260**	**-67 771**	**-54 259**
Share of profit from an associate		485	393	271	201
Net impairment (-)/ reversal on loans to customers	12	-3 215	7 621	-10 491	8 363
Other non-operating expenses		-2 292	-803	-2 750	-630
Profit before tax		**36 493**	**80 137**	**8 482**	**45 857**
Tax expense		-3 415	-3 169	-1 771	-2 296
Profit for the period		**33 078**	**76 968**	**6 711**	**43 561**
Items that will be reclassified to profit or loss					
Changes in the fair value of debt assets at fair value through other comprehensive income		8	517	0	517
Total items that will be reclassified to profit or loss		**8**	**517**	**0**	**517**

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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	2 031	0	1 902	-165
Total items that will not be reclassified to profit or loss	**2 031**	**0**	**1 902**	**-165**
Other comprehensive income	2 039	517	1 902	352
Total comprehensive income	**35 117**	**77 485**	**8 613**	**43 913**
Profit attributable to:				
Equity holders of the Bank	33 078	76 968	6 711	43 561
Total comprehensive income attributable to:				
Equity holders of the Bank	35 117	77 485	8 613	43 913

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

T EUR	Notes	30.06.2019	31.12.2018
Assets			
Cash and balances with central banks	9	2 485 346	3 293 090
Due from other credit institutions	10	150 727	185 346
Loans to customers	12	10 979 181	11 472 138
Financial assets held for trading	19	5 834	1 006
Financial assets at fair value through profit or loss	19	163 163	143 758
Derivative financial instruments	11, 19	53 318	46 664
Financial assets at fair value through other comprehensive income	19	11 703	8 872
Investments in associates		6 730	6 256
Intangible assets		7 699	7 414
Property, plant and equipment	1	58 056	16 383
Investment properties	13	10 186	23 970
Current tax assets		1	886
Deferred tax assets		910	908
Other assets		55 599	75 957
Non-current assets and disposal groups held for sale		30 806	25 522
Total assets		**14 019 259**	**15 308 170**
Liabilities			
Loans and deposits from credit institutions	14	1 945 912	3 939 396
Deposits from customers	15	9 374 812	9 069 885
Debt securities issued	16	651 204	351 235
Derivative financial instruments	11, 19	50 968	42 457
Tax liabilities		3 405	8 850
Lease liabilities	1	44 961	0
Other financial liabilities	17	259 401	27 914
Other liabilities		67 208	64 308
Provisions		7 022	5 914
Total liabilities		**12 404 893**	**13 509 959**
Shareholders' equity			
Issued capital		34 912	34 912
Share premium		1 412 243	1 628 274
Retained earnings		160 998	128 931
Other reserves		6 213	6 094
Total shareholders' equity attributable to the shareholders of the Bank		**1 614 366**	**1 798 211**
Total liabilities and shareholders' equity		**14 019 259**	**15 308 170**

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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	76 968	**76 968**
Other comprehensive income	0	0	517	0	**517**
Total comprehensive income	**0**	**0**	**517**	**0**	**517**
Transfer to mandatory reserve	0	0	3 925	-3 925	**0**
Total equity at 30 June 2018	**34 912**	**1 628 274**	**8 940**	**80 937**	**1 753 063**
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	0	33 078	**33 078**
Other comprehensive income	0	0	2 039	-417	**1 622**
Total comprehensive income for the period	**0**	**0**	**2 039**	**32 661**	**34 700**
Other reserves	0	0	-1 920	1 920	**0**
Total equity at 30 June 2019	**34 912**	**1 412 243**	**6 213**	**160 998**	**1 614 366**

* Luminor's shareholders made a decision on 28 May 2019 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 is subject to pay-out to the shareholder after the expiry of a statutory waiting period of at least three months. The unpaid amount is recognised under Other financial liabilities (Note 17, 20).

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

T EUR	Notes	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018
Cash flows from operating activities			
Profit before tax		36 493	80 137
Adjustment for:			
-Net impairment (losses)/ reversal on loans to customers		3 215	-7 621
-Net impairment (losses)/ reversal on other assets, change in fair value of investment property and provisions		2 292	803
-Dividend income		-58	-51
-Loss/(Profit) from foreign currency revaluation		-4 971	-2 502
-Depreciation, amortization and impairment		6 855	3 931
-Interest Income		-151 853	-146 565
-Interest expenses		24 759	18 465
Cash flow from operations before changes in Operating Assets/Liabilities		**-83 268**	**-53 403**
Change in Operating Assets/Liabilities			
Increase (-) / decrease (+) of lending to customers		504 272	-113 355
Increase (-) / decrease (+) of other assets		-7 839	23 175
Increase (+) / decrease (-) of client deposits not qualified as cash equivalents		-1 690 159	-571 358
Increase (+) / decrease (-) of liabilities		27 551	11 303
Interest received		141 143	143 280
Interest paid		-22 404	-21 976
Income tax paid		-8 860	-3 169
Cash flow form operations		-1 056 296	-532 100
Cash flows from investing activities			
Acquisition of property and equipment and intangible assets		-2 742	-905
Acquisition of investment property		0	11 228
Proceeds from disposal of property and equipment and intangible assets		613	0
Proceeds from disposal of investment property	13	11 083	36
Dividend received		58	51
Other cash receipts related to investing activities		0	2 332
Cash flow from investing activities		9 012	12 742
Financing Activities			
Debt Securities Issued	15	298 809	106
Cashflows from Hedging activities		-1 683	0
Cash Flows from financing Activities		**297 126**	**106**

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Net increase/(decrease) in cash and cash equivalents		-833 426	-572 761
Cash and cash equivalents at the beginning of the period		**3 310 517**	**2 924 097**
Effects of currency translation on cash and cash equivalents		**4 971**	**2 502**
Net increase/(decrease) in cash and cash equivalents		-833 426	-572 761
Cash and cash equivalents at the end of the period		**2 482 062**	**2 353 838**
Cash and Cash equivalents comprises			
Cash on hand	9	172 918	182 188
Non-restricted current account with central bank	9	2 197 023	2 021 620
Due from other credit institutions on demand or with original maturity of three months or less	10	112 121	150 030
Total		**2 482 062**	**2 353 838**

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

On 2 January 2019 Luminor Bank AS (the Bank or the Group) 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.

As at 30 June 2019 Luminor Bank AS owned following subsidiaries (100%):

Registered country Republic of Estonia:

- Luminor Liising AS
- Luminor Pensions Estonia AS
- Luminor Kindlustusmaakler OÜ*
- Promano Est OÜ
- Uus-Sadama 11 OÜ

Registered country Republic of Latvia:

- Luminor Asset Management IPAS
- Luminor Finance SIA
- Luminor Latvijas atklātais pensiju fonds AS
- Luminor Līzings SIA
- Luminor Līzings Latvija SIA
- Promano Lat SIA
- Realm SIA
- Skanstes 12 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

*Please refer to Note 22.

As at 30 June 2019 Luminor Bank AS owned following associated companies (25%):

- ALD Automotive AS
- SIA ALD Automotive
- UAB ALD Automotive

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 02 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 do not prescribe 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 02 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 2 584 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 June 2019
Properties	0	30 529	42 178
Other assets	0	164	87
Total right-of-use assets	**0**	**30 693**	**42 265**
Property, plant and equipment	16 383	16 383	15 791
Total Property, plant and equipment	**16 383**	**47 076**	**58 056**

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 2 584 TEUR.

The Group recognised rent expense from short-term leases, leases of low-value assets and variable lease payments of totally 740 thousand Euros for the 6 months ended 30 June 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;

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Kuupäev/date 15. 08. 2019
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- 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 June 2019
Right-of-use assets	30 693	42 265
Lease liability	31 847	44 961

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.

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Kuupäev/date 15. 08. 2019
PricewaterhouseCoopers, Tallinn

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 no major changes in the risk management or in any risk management policies since year's end.

4. NET INTEREST INCOME

T EUR	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Interest income calculated using the effective interest method:				
Loans to customers	120 601	115 370	61 489	56 314
Deposits	984	411	555	305
Total interest income calculated using effective interest method	**121 585**	**115 781**	**62 044**	**56 619**
Other similar income:				
Finance Leases	28 802	28 858	14 129	14 789
Other	1 466	1 926	1 130	1 416
Total other similar income	**30 268**	**30 784**	**15 259**	**16 205**
Total interest income	**151 853**	**146 565**	**77 303**	**72 824**
Interest expense:				
Loans and deposits from credit institutions	-9 056	-9 055	-4 946	-4 714
Deposits from customers	-7 300	-4 408	-3 944	-2 069
Impact of hedging activities	785	0	735	0
Debt securities issued	-2 716	-106	-1 421	-53
Other	-6 472	-4 895	-4 447	-2 478
Total interest expense	**-24 759**	**-18 465**	**-14 023**	**-9 314**
Net interest income	**127 094**	**128 100**	**63 280**	**63 510**

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Initsiaalid/initials H. A.
Kuupäev/date 15. 08. 2019
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5. NET FEE AND COMMISSION INCOME

T EUR	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Securities	404	689	232	331
Clearing and settlement*	17 106	16 158	8 946	8 410
Asset management	3 408	4 170	1 748	2 158
Custody	503	2 419	274	1 216
Payment services*	13 391	13 248	6 852	6 626
Insurance commission	1 843	1 693	916	895
Loan commitments given	2 092	2 266	1 238	1 130
Financial guarantees given	2 333	2 380	1 102	1 105
Factoring	2 530	2 411	1 522	1 423
Other*	9 178	8 554	4 699	4 447
Total fee and commission income	**52 788**	**53 988**	**27 529**	**27 741**
Clearing and settlement*	-10 472	-10 087	-5 258	-2 037
Custody	-213	-179	-132	-79
Financial guarantees received	-121	-52	-112	-39
Other*	-2 882	-2 289	-1 641	-4 457
Fee and commission expense	**-13 688**	**-12 607**	**-7 143**	**-6 612**
Net fee and commission income	**39 100**	**41 381**	**20 386**	**21 129**

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

Net fee and commission income division by segments is following:

T EUR	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Corporate	14 377	15 573	7 689	8 290
Retail	21 838	22 437	11 190	11 037
Wealth Management	1 124	1 140	592	613
Unallocated	1 761	2 231	915	1 189
Net fee and commission income	**39 100**	**41 381**	**20 386**	**21 129**

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Initsiaalid/initials H. A.
Kuupäev/date 15.08.2019
PricewaterhouseCoopers, Tallinn

6. SALARIES AND OTHER PERSONNEL EXPENSES

T EUR	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Wages and salaries	47 265	40 068	19 743	19 461
Social security cost	8 363	12 506	3 520	6 320
Indirect personnel cost (recruitment, training)	5 744	4 181	2 426	2 298
Total	**61 372**	**56 755**	**25 689**	**28 081**

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 01 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 social security tax.

7. OTHER ADMINISTRATIVE EXPENSES

T EUR	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Office equipment and maintenance expenses	18 482	10 977	11 515	5 325
IT Development, Operations and other service expenses	23 225	12 636	14 065	5 341
Rent of premises	1 141	4 295	562	2 059
Maintenance expenses	2 979	2 406	1 435	1 147
Cash collection, consultancy and other services expenses	6 106	6 805	1 969	3 263
Regulatory and association fees	1 539	1 651	726	650
Transportation, post and communications expenses	1 515	1 861	705	892
Advertising and marketing expenses	1 317	1 227	740	510
Training and business trip expenses	1 545	1 082	812	658
Other expenses	5 326	4 255	2 244	1 197
Total	**63 175**	**47 195**	**34 773**	**21 042**

8. OTHER OPERATING EXPENSES

T EUR	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Taxes other than income tax and deductible VAT	1 806	1 885	921	1 493
Deductible VAT	1 542	166	790	138
Investment property maintenance	537	0	192	-166
Other insurance expenses (bank risk, etc.)	580	443	446	365
Other legal expenses (notarial services, issued documents of state institutions, etc.)	2 082	317	350	93
Other expenses	2 031	1 568	1 326	1 277
Total	**8 578**	**4 379**	**4 025**	**3 200**

9. CASH AND BALANCES WITH CENTRAL BANKS

T EUR	30.06.2019	31.12.2018
Cash on hand	172 918	178 440
Cash balances at central banks	2 312 428	3 095 653
Total	**2 485 346**	**3 274 093**
of which mandatory reserve requirement	115 405	109 027
Term deposits	0	18 997
Total cash and balances with central banks	**2 485 346**	**3 293 090**

10. DUE FROM OTHER CREDIT INSTITUTIONS

T EUR	30.06.2019	31.12.2018
Demand deposit	112 121	145 451
Loans	38 606	39 899
Total	**150 727**	**185 350**
Allowance	0	-4
Total	**150 727**	**185 346**

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Kuupäev/date 15. 08. 2019
PricewaterhouseCoopers, Tallinn

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 June 2019			
Derivatives held for trading			
Interest rate-related contracts	2 791 925	17 391	14 674
Currency-related contracts	991 869	30 956	31 653
Commodity-related contracts	38 778	4 971	4 641
Total	**3 822 572**	**53 318**	**50 968**
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 June 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 + 1.355% 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.

30.06.2019	Notional amount	Carrying Amount	Line item in the statement of financial position
Interest rate swap	650 000	5 921	Assets: Derivative financial instruments*

* Ineffectiveness was clearly immaterial during first half year 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	30.06.2019	31.12.2018
Financial institutions	**37 208**	**58 752**
Public sector	**192 234**	**216 020**
Business customers	**5 042 742**	**5 419 617**
-Loans	3 466 310	3 606 710
-Leasing	1 270 845	1 479 655
-Factoring	305 587	333 252
Individual customers	**5 881 653**	**5 968 157**
-Mortgage loans	4 846 390	4 930 373
-Leasing	571 450	551 676
-Consumer and card loans	143 353	146 996
-Other loans	320 460	339 112
Impairment allowances	**-174 656**	**-190 407**
Loans to customers total	**10 979 181**	**11 472 139**
Due from customers, registered in Estonia, Latvia, Lithuania	10 683 655	11 178 321
Due from customers, registered in EU (except Estonia, Latvia, Lithuania)	229 389	221 384
Due from customers, registered in other countries	66 137	72 433
Loans to customers total	**10 979 181**	**11 472 138**

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Kuupäev/date 15.08.2019
PricewaterhouseCoopers, Tallinn

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	TOTAL	Stage 1	Stage 2	Stage 3	POCI	TOTAL
At 1 January 2019	-14 690	-32 942	-151 928	9 153	**-190 407**	9 488 150	1 545 251	570 834	58 310	**11 662 545**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 to Stage 2)	2 094	-8 005	5 911	0	**0**	-780 670	924 149	-143 479	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1 927	5 343	-7 270	0	**0**	-78 582	-86 047	164 629	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-14 267	9 471	4 796	0	**0**	537 136	-468 756	-68 380	0	**0**
New originated or purchased	-4 880	0	0	0	**-4 880**	648 614	0	0	869	**649 483**
Derecognised and repaid during the period	1 572	881	10 920	947	**14 320**	-691 165	-378 122	-99 640	-8 230	**-1 177 157**
Changes in PDs/LGDs/EADs	15 204	-3 536	-27 614	3 291	**-12 655**					
Total movements with impact in credit loss allowance charge for period	**1 650**	**4 154**	**-13 257**	**4 238**	**-3 215**	**-364 667**	**-8 776**	**-146 870**	**-7 361**	**-527 674**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	18 966	0	**18 966**	0	0	18 966	0	**18 966**
At 30 June 2019	**-13 040**	**-28 788**	**-146 219**	**13 391**	**-174 656**	**9 123 483**	**1 536 475**	**442 930**	**50 949**	**11 153 837**

Explanations

Stage 1 (12 - months ECL)

Stage 2 (Lifetime ECL for SICR)

Stage 3(Lifetime ECL for Credit Impaired)

13. INVESTMENT PROPERTIES

T EUR	30.06.2019	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	-2 701	-3 722
Disposals (sale)	-11 083	-19 847
Carrying amount at the end of the period	**10 186**	**23 970**

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Kuupäev/date 15. 08. 2019
PricewaterhouseCoopers, Tallinn

14. LOANS AND DEPOSITS FROM CREDIT INSTITUTIONS

T EUR	30.06.2019	31.12.2018
Term deposits	1 919 845	3 917 244
Demand deposits	26 067	22 152
Total	**1 945 912**	**3 939 396**
Due to credit institutions, registered in Estonia, Latvia, Lithuania	102 326	228 624
Due to credit institutions, registered in EU (except Estonia, Latvia, Lithuania)	924 496	1 856 280
Due to credit institutions, registered in other countries	919 090	1 854 492
Total	**1 945 912**	**3 939 396**

T EUR	Division by remaining maturity			Interest rate	Base currency	Termination
	in 12 months	1-5 years	Total			
30.06.2019						
Ultimate owners of Luminor Bank AS	1 848 686	0	1 848 686	0-1%	EUR	2019-2020
Central banks	70 000	0	70 000	<0%	EUR	2020
Other credit institutions	27 293	0	27 293	0-1%	EUR	2019
Interest payable	-67	0	-67			
	1 945 912	**0**	**1 945 912**			
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**			

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Kuupäev/date 15. 08. 2019
PricewaterhouseCoopers, Tallinn

15. DEPOSITS FROM CUSTOMERS

T EUR	30.06.2019	31.12.2018
Term deposits	2 246 765	1 932 891
Demand deposits	7 128 047	7 136 994
Total	**9 374 812**	**9 069 885**
Due to customers by type of customers		
Due to corporate customers	4 022 122	4 235 028
Due to public sector customers	1 558 603	1 107 472
Due to individuals	3 794 087	3 727 385
Total	**9 374 812**	**9 069 885**
Due to customers, registered in Estonia, Latvia, Lithuania	9 076 935	8 693 043
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	194 363	213 232
Due to customers, registered in other countries	103 514	163 610
Total	**9 374 812**	**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. As of the end of June 2019 small portion of LUMINO 1 3/8 21/10/22 was held in the Trading Portfolio of Luminor.

T EUR	30.06.2019	31.12.2018
LUMINO 1 1/2 18/10/21		
Nominal amount	350 000	350 000
Fees at amortized costs	-1 633	-1 998
Accrued interest	3 682	1 079
Hedged item fair value changes	3 127	2 154
Carrying amount	**355 176**	**351 235**

T EUR	30.06.2019	31.12.2018
LUMINO 1 3/8 21/10/22		
Nominal amount	300 000	0
Intragroup transaction*	-2 924	0
Fees at amortized costs	-1 161	0
Accrued interest	113	0
Hedged item fair value changes	0	0
Carrying amount	**296 028**	**0**
Total Carrying amount	**651 204**	**351 235**

*Luminor Bank AS Lithuanian Branch purchased debt securities issued by Luminor Bank AS in amount of 2 924 thousand euros.

17. OTHER FINANCIAL LIABILITIES

T EUR	30.06.2019	31.12.2018
Pay-out to the shareholder	216 031	0
Transit accounts (incl.cards transactions)	33 293	22 953
Other	10 077	4 961
Total	**259 401**	**27 914**

18. PLEDGED ASSETS AND CONTINGENT LIABILITIES AND COMMITMENTS

T EUR	30.06.2019	31.12.2018
Pledged assets		
Loans granted to governmental institutions	80 616	132 138
Debt securities	26 859	110 982
Total	**107 475**	**243 120**
Contingent liabilities and commitments		
Loan commitments given	1 241 880	1 304 189
Financial guarantees given	91 217	265 707
Other commitments given (including letters of credit)	579 357	414 368
Total	**1 912 454**	**1 984 264**

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, credit risk and remaining maturities.

In assessing the fair value for financial assets, the management has performed a discounted cash flow analysis; up-to-date market 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 30.06.2019	Fair value 30.06.2019	Carrying amount 31.12.2018	Fair value 31.12.2018
Assets				
Financial assets at amortized cost				
Cash and Balances with Central banks	2 485 346	2 485 346	3 293 090	3 293 090
Due from other credit institutions	150 727	150 727	185 346	185 346
Loans to customers	10 979 181	10 990 807	11 472 138	11 484 286
Total financial assets	**13 615 254**	**13 615 254**	**14 950 574**	**14 962 722**
Liabilities				
Financial liabilities at amortized cost				
Loans and deposits from credit institutions	1 945 912	1 929 640	3 939 396	3 906 454
Deposits from customers	9 374 812	9 404 300	9 069 885	9 098 414
Debt securities issued	651 204	651 204	351 235	351 235
Other financial liabilities	259 401	259 401	27 914	27 914
Total financial liabilities	**12 231 329**	**12 231 329**	**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.

There were no movements of financial instruments between the levels during 01.01-30.06.2019.

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FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments as at 30 June 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	2 485 346	0	0	**2 485 346**
Due from other credit institutions	112 121	38 606	0	**150 727**
Loans to customers	0	0	10 979 181	**10 979 181**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	5 834	0	0	**5 834**
Financial assets at fair value through profit or loss				
Equity instruments	0	3 842	0	**3 842**
Debt securities	116 604	42 717	0	**159 321**
Derivative financial instruments				
Derivative financial instruments	0	53 318	0	**53 318**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	9 826	**9 826**
Debt securities	1 877	0	0	**1 877**
Total	**2 721 782**	**138 483**	**10 989 007**	**13 849 272**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	26 067	1 919 845	0	**1 945 912**
Deposits from customers	0	7 128 047	2 246 765	**9 374 812**
Debt securities issued	0	651 204	0	**651 204**
Other financial liabilities	0	0	259 401	259 401
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	50 968	**0**	**50 968**
Total	**26 067**	**9 750 064**	**2 506 166**	**12 282 297**

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	**185 346**
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	1 265	0	0	**1 265**
Shares	0	0	7 607	**7 607**
Total	**3 522 998**	**148 135**	**11 491 893**	**15 163 022**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	22 152	3 917 244	0	**3 939 396**
Deposits from customers	0	7 136 994	1 932 891	**9 069 885**
Debt securities issued	0	351 235	0	**351 235**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	42 457	0	**42 457**
Total	**22 152**	**11 447 930**	**1 932 891**	**13 402 973**

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

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Kuupäev/date 15.08.2019
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- 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 costs. Bonds are listed but liquidity and market conditions don’t 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 8 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 31.12.2018 and 30.06.2019 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 Board 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 Group AB and the ultimate owners DNB Bank ASA and Nordea Bank AB are considered as entities with joint control.

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

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Kuupäev/date 15.08.2019
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rates. There have been no doubtful debts due from related parties as well as allowances for doubtful debts as at 30 June 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 are as follows:

TRANSACTIONS WITH RELATED PARTIES

(T EUR)	01 January 2019 to 30 June 2019	01 January 2018 to 30 June 2018	Q2 2019	Q2 2018
Interest Income				
Entities with joint control	4 423	5 470	1 842	5 013
Interest Expenses				
Entities with joint control	-2 915	-5 003	-1 533	-2 465
Net commission and fee income				
Entities with joint control	-154	-26	-124	-24
Other expenses				
Parent company	-304	-1 544	-304	253
Entities with joint control	-7 207	4 299	-3 744	16 290
Total	**-6 157**	**3 196**	**-5 837**	**15 726**

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Kuupäev/date 15. 08. 2019
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(T EUR)	30.06.2019	31.12.2018
Loans to Credit Institutions		
Entities with joint control	38 505	172 634
Loans to Customers		
Key management personnel	368	*
Derivative instruments		
Entities with joint control	41 407	32 946
Other Assets		
Entities with joint control	101 188	567
Total Assets	**181 468**	**206 147**
Due to Credit Institutions		
Entities with joint control	1 846 828	3 714 129
Deposits from customers		
Key management personnel	495	*
Derivative instruments		
Entities with joint control	24 156	16 851
Other Liabilities		
Entities with joint control	3 126	2 447
Other Financial liabilities		
Parent company	216 031**	0
Total Liabilities	**2 585 120**	**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 Q2 2019 were 301 thousand EUR and for the period 1 January to 30 June 2019 was 686 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.

** The substance of this liability is described under the Statement of changes in equity and Note 17.

As at 30 June 2019 loans and advances with associate ALD Automotive amounted to 13 527 thousand EUR (31.12.2018: 13 401 thousand EUR), deposits – 781 thousand EUR (31.12.2018: 154 thousand EUR), interest income for Q2 2019 - 9 thousand EUR (Q2

2018: 9 thousand EUR) , interest income for period 1 January to 30 June 2019 was 18 thousand euros (1 January to 30 June 2018 was 18 thousand euros) and interest expenses for Q2 2019 - 0 thousand EUR (Q2 2018: 0 thousand EUR) , interest expenses for period 1 January to 30 June 2019 was 0 thousand euros (1 January to 30 June 2018 was 0 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 Group Executive Management. The Group Executive Management 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 & commission income for segment performance is also reported net of expenses and split is made between different product categories for segment reporting.

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 keys. 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 Unallocated 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). Comparative information was aligned in order to be in compliance with new segmentation principles.

OPERATING SEGMENTS

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 below the quantitative thresholds set in IFRS 8 which are not allocated to main business segments are included in Unallocated segment.

	Corporate Banking	Retail Banking	Wealth Management	Unallocated	Total
01 January 2019 to 30 June 2019					
The Group					
Net interest income	62 579	53 655	4 107	6 753	**127 094**
Net fees & commission income	14 377	21 838	1 124	1 761	**39 100**
Trading income	4 995	3 044	168	4 694	**12 901**
Other income	135	343	-1	1 923	**2 400**
Total income	**82 086**	**78 880**	**5 398**	**15 131**	**181 495**
Personnel costs, administrative costs and depreciation	-45 271	-83 754	-3 456	1 079	**-131 402**
Net impairment (losses/ reversal) on loans to customers	-11 147	6 480	108	1 344	**-3 215**
Other*	0	0	0	-10 385	**-10 385**
Profit before Tax	**25 668**	**1 606**	**2 050**	**7 169**	**36 493**

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Kuupäev/date 15. 08. 2019
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Estonia					
Net interest income	13 564	11 203	890	6 276	**31 933**
Net fees & commission income	3 497	2 843	210	279	**6 829**
Trading income	1 402	278	50	601	**2 331**
Other income	42	188	0	268	**498**
Total income	**18 505**	**14 512**	**1 150**	**7 424**	**41 591**
Personnel costs, administrative costs and depreciation	-11 672	-20 597	-1 009	-1 610	**-34 888**
Net impairment (losses/ reversal) on loans to customers	-14 471	207	51	852	**-13 361**
Other *	0	0	0	-1 033	**-1 033**
Profit before Tax	**-7 638**	**-5 878**	**192**	**5 633**	**-7 691**
Latvia					
Net interest income	20 739	19 705	2 497	-1 235	**41 706**
Net fees & commission income	3 912	6 487	628	197	**11 224**
Trading income	1 592	1 301	86	3 983	**6 962**
Other income	107	102	0	517	**726**
Total income	**26 350**	**27 595**	**3 211**	**3 462**	**60 618**
Personnel costs, administrative costs and depreciation	-14 097	-27 845	-1 719	-2 937	**-46 598**
Net impairment (losses/ reversal) on loans to customers	-5 591	2 700	55	88	**-2 748**
Other *	0	0	0	-1 469	**-1 469**
Profit before Tax	**6 662**	**2 450**	**1 547**	**-856**	**9 803**
Lithuania					
Net interest income	28 276	22 747	720	1 712	**53 455**
Net fees & commission income	6 968	12 508	286	1 285	**21 047**
Trading income	2 001	1 465	32	110	**3 608**
Other income	-14	53	-1	1 138	**1 176**
Total income	**37 231**	**36 773**	**1 037**	**4 245**	**79 286**
Personnel costs, administrative costs and depreciation	-19 502	-35 312	-728	5 626	**-49 916**
Net impairment (losses/ reversal) on loans to customers	8 915	3 573	2	404	**12 894**
Other *	0	0	0	-7 883	**-7 883**
Profit before Tax	**26 644**	**5 034**	**311**	**2 392**	**34 381**

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Kuupäev/date 15. 08. 2019
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Q2 2019					
The Group					
Net interest income	31 495	26 835	2 110	2 841	**63 280**
Net fees & commission income	7 689	11 190	592	915	**20 386**
Trading income	2 064	1 576	72	2 087	**5 799**
Other income	103	136	-1	-480	**-242**
Total income	**41 350**	**39 737**	**2 773**	**5 363**	**89 223**
Personnel costs, administrative costs and depreciation	-22 265	-41 222	-1 777	1 519	**-63 746**
Net impairment (losses/ reversal) on loans to customers	-11 621	51	70	1 009	**-10 491**
Other*	0	0	0	-6 504	**-6 504**
Profit before Tax	**7 465**	**-1 435**	**1 065**	**1 387**	**8 482**
Estonia					
Net interest income	6 520	5 624	444	3 037	**15 626**
Net fees & commission income	2 020	1 435	100	147	**3 702**
Trading income	497	141	10	135	**783**
Other income	63	47	0	-660	**-550**
Total income	**9 099**	**7 248**	**555**	**2 659**	**19 561**
Personnel costs, administrative costs and depreciation	-5 650	-10 632	-541	-299	**-17 121**
Net impairment (losses/ reversal) on loans to customers	-12 026	74	37	971	**-10 943**
Other*	0	0	0	-1 451	**-1 451**
Profit before Tax	**-8 576**	**-3 310**	**51**	**1 880**	**-9 954**
Latvia					
Net interest income	10 610	9 903	1 267	-492	**21 289**
Net fees & commission income	2 014	3 427	333	94	**5 868**
Trading income	928	685	43	1 776	**3 432**
Other income	46	44	0	-416	**-326**
Total income	**13 599**	**14 059**	**1 643**	**962**	**30 263**
Personnel costs, administrative costs and depreciation	-6 674	-13 791	-849	-992	**-22 306**
Net impairment (losses/ reversal) on loans to customers	-4 044	-323	32	-185	**-4 520**
Other*	0	0	0	-1 040	**-1 040**
Profit before Tax	**2 881**	**-55**	**827**	**-1 255**	**2 397**

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Lithuania					
Net interest income	14 364	11 307	398	296	**26 365**
Net fees & commission income	3 655	6 328	159	674	**10 816**
Trading income	639	750	19	176	**1 584**
Other income	-6	45	-1	596	**634**
Total income	**18 652**	**18 430**	**575**	**1 742**	**39 399**
Personnel costs, administrative costs and depreciation	-9 941	-16 800	-388	2 810	**-24 319**
Net impairment (losses/ reversal) on loans to customers	4 449	300	0	222	**4 972**
Other*	0	0	0	-4 013	**-4 013**
Profit before Tax	**13 160**	**1 930**	**187**	**761**	**16 039**

30.06.2019					
The Group					
Assets					
Loans and receivables	4 902 682	5 535 757	87 527	453 215	**10 979 181**
Liabilities					
Deposits from customers	4 732 469	3 705 360	931 174	5 809	**9 374 812**
Estonia					
Assets					
Loans and receivables	1 310 400	1 314 837	35 217	323 600	**2 984 054**
Liabilities					
Deposits from customers	974 604	589 078	296 484	2 300	**1 862 466**
Latvia					
Assets					
Loans and receivables	1 423 891	1 719 836	38 918	30 034	**3 212 679**
Liabilities					
Deposits from customers	1 178 165	1 115 965	410 970	1 254	**2 706 354**
Lithuania					
Assets					
Loans and receivables	2 168 391	2 501 084	13 392	99 581	**4 782 448**

Liabilities					
Deposits from customers	2 579 700	2 000 317	223 720	2 255	**4 805 992**

	Corporate Banking	Retail Banking	Wealth Management	Unallocated	Total
01 January 2018 to 30 June 2018					
The Group					
Net interest income	65 726	50 952	3 057	8 365	**128 100**
Net fees & commission income	15 573	22 437	1 140	2 231	**41 381**
Trading income	5 130	2 922	186	5 174	**13 412**
Other income	440	579	1	1 273	**2 293**
Total income	**86 868**	**76 890**	**4 384**	**17 043**	**185 186**
Personnel costs, administrative costs and depreciation	-33 423	-64 204	-2 551	-7 703	**-107 881**
Net impairment (losses/ reversal) on loans to customers	9 542	16	5	-1 941	**7 621**
Other*	0	0	0	-4 789	**-4 789**
Profit before Tax	**62 987**	**12 702**	**1 838**	**2 610**	**80 137**
Estonia					
Net interest income	15 255	11 513	912	7 977	**35 657**
Net fees & commission income	3 527	3 679	269	204	**7 679**
Trading income	1 140	365	62	185	**1 752**
Other income	124	61	0	436	**621**
Total income	**20 046**	**15 618**	**1 244**	**8 801**	**45 709**
Personnel costs, administrative costs and depreciation	-8 758	-15 610	-781	-4 828	**-29 977**
Net impairment (losses/ reversal) on loans to customers	3 784	2 070	13	-1 754	**4 112**
Other*	0	0	0	270	**270**
Profit before Tax	**15 072**	**2 078**	**475**	**2 489**	**20 114**
Latvia					
Net interest income	21 155	18 163	1 817	-1 251	**39 885**
Net fees & commission income	5 080	6 732	624	142	**12 578**
Trading income	2 197	1 078	105	4 461	**7 841**
Other income	187	231	1	299	**718**
Total income	**28 619**	**26 204**	**2 548**	**3 651**	**61 022**
Personnel costs, administrative costs and depreciation	-10 417	-20 403	-1 379	-3 980	**-36 178**

Net impairment (losses/ reversal) on loans to customers	5 350	-2 252	-7	-527	**2 564**
Other*	0	0	0	522	**522**
Profit before Tax	**23 551**	**3 549**	**1 162**	**-333**	**27 930**
Lithuania					
Net interest income	29 316	21 275	328	1 639	**52 558**
Net fees & commission income	6 966	12 027	246	1 885	**21 124**
Trading income	1 793	1 479	18	529	**3 819**
Other income	129	287	0	539	**954**
Total income	**38 203**	**35 068**	**593**	**4 590**	**78 455**
Personnel costs, administrative costs and depreciation	-14 248	-28 191	-391	1 104	**-41 726**
Net impairment (losses/ reversal) on loans to customers	409	198	-2	340	**945**
Other*	0	0	0	-5 581	**-5 581**
Profit before Tax	**24 364**	**7 075**	**200**	**453**	**32 093**
Q2 2018					
The Group					
Net interest income	32 852	25 513	1 503	3 642	**63 510**
Net fees & commission income	8 290	11 037	613	1 189	**21 129**
Trading income	2 711	1 534	124	2 465	**6 835**
Other income	227	441	1	39	**708**
Total income	**44 080**	**38 525**	**2 241**	**7 336**	**92 182**
Personnel costs, administrative costs and depreciation	-16 764	-31 899	-1 221	-1 175	**-51 059**
Net impairment (losses/ reversal) on loans to customers	13 727	-261	7	-5 111	**8 363**
Other*	0	0	0	-3 629	**-3 629**
Profit before Tax	**41 044**	**6 365**	**1 027**	**-2 578**	**45 857**
Estonia					
Net interest income	7 597	5 730	401	3 580	**17 307**
Net fees & commission income	1 790	1 851	120	211	**3 971**
Trading income	674	156	45	159	**1 034**
Other income	85	52	0	304	**441**
Total income	**10 146**	**7 788**	**565**	**4 254**	**22 753**
Personnel costs, administrative costs and depreciation	-4 794	-8 214	-419	-2 099	**-15 526**

Net impairment (losses/ reversal) on loans to customers	7 448	2 193	13	-4 324	**5 331**
Other*	0	0	0	-799	**-799**
Profit before Tax	**12 800**	**1 767**	**159**	**-2 968**	**11 759**
Latvia					
Net interest income	10 476	9 004	921	-391	**20 010**
Net fees & commission income	2 682	3 149	360	-52	**6 139**
Trading income	1 064	600	71	2 167	**3 902**
Other income	71	103	1	-448	**-273**
Total income	**14 293**	**12 857**	**1 353**	**1 276**	**29 778**
Personnel costs, administrative costs and depreciation	-5 254	-9 902	-639	-268	**-16 063**
Net impairment (losses/ reversal) on loans to customers	6 023	-819	-2	-1 211	**3 991**
Other*	0	0	0	-141	**-141**
Profit before Tax	**15 062**	**2 136**	**712**	**-345**	**17 565**
Lithuania					
Net interest income	14 780	10 779	181	454	**26 193**
Net fees & commission income	3 818	6 038	133	1 030	**11 019**
Trading income	973	778	9	139	**1 899**
Other income	71	286	0	183	**540**
Total income	**19 642**	**17 881**	**322**	**1 806**	**39 651**
Personnel costs, administrative costs and depreciation	-6 716	-13 783	-163	1 193	**-19 470**
Net impairment (losses/ reversal) on loans to customers	255	-1 635	-4	424	**-959**
Other*	0	0	0	-2 689	**-2 689**
Profit before Tax	**13 181**	**2 463**	**156**	**734**	**16 533**
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**

Estonia					
Assets					
Loans and receivables	1 470 319	1 330 701	34 358	377 418	**3 212 796**
Liabilities					
Deposits from customers	912 249	548 631	262 456	1 208	**1 724 544**
Latvia					
Assets					
Loans and receivables	1 456 562	1 736 823	44 403	55 643	**3 293 431**
Liabilities					
Deposits from customers	1 402 848	1 010 628	397 386	1 204	**2 812 066**
Lithuania					
Assets					
Loans and receivables	2 343 476	2 514 036	14 040	94 360	**4 965 911**
Liabilities					
Deposits from customers	2 389 544	2 000 447	141 750	1 534	**4 533 275**

*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

The Shareholders' Meeting of Luminor Bank AS has accepted the requests of Nadine Faruque and Ari Kaperi for resignation from the Bank's Supervisory Council. The resignation of Ari Kaperi is effective as of July 1, 2019 and the resignation of Nadine Faruque is effective as of July 11, 2019.

On July 3, 2019 Luminor Bank AS closed the sale-leaseback transaction of Luminor Head Office building in Riga, Latvia as subsidiary Skanstes 12 SIA was sold.

In July 2019 the merger of Luminor Liising AS and Luminor Kindlustusmaakler OÜ was started and expected to be completed in August 2019.

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Kuupäev/date 15. 08. 2019
PricewaterhouseCoopers, Tallinn

CONTACT DETAILS

Luminor Bank AS

Location and address	Liivalaia 45
	10145 Tallinn
	Estonia
Registered country	Republic of Estonia
Main activity:	Credit institution
Commercial Register code	11315936
Telephone	+372 628 3300
Fax	+372 628 3201
Nordea SWIFT/BIC	NDEAEE2X
DNB SWIFT/BIC	RIKOEE22
Website	www.luminor.ee
E-mail	info@luminor.ee
Balance sheet date	30 June 2019
Reporting period	01.01.2019 – 30.06.2019
Reporting currency	Euro

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholder of Luminor Bank AS

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Luminor Bank AS (the Company) and its subsidiaries (together – the Group) as at 30 June 2019 and the related condensed consolidated statement of profit or loss and other comprehensive income for the three-month and six-month periods then ended, and condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and the related explanatory notes. Management Board is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (ISRE) (Estonia) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's certificate no.325

15 August 2019

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