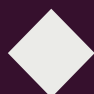
Luminor

ANNUAL REPORT 2020

LUMINOR HOLDING AS

CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2020



CONTENTS

CEO STATEMENT 3
MANAGEMENT REPORT 4
General information 4
Macroeconomic overview 4
Overview of the Group 5
Financial review 13
Corporate governance report 19
Auditors 21
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 22
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020 22
Consolidated statement of financial position as at 31 December 2020 23
Consolidated statement of changes in equity for the year ended 31 December 2020 24
Consolidated statement of cash flows for the year ended 31 December 2020 25
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 27
1. Significant accounting policies 27
2. Significant accounting estimates and judgments 42
3. Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations 43
4. New accounting pronouncements 44
5. General risk management policies 45
6. Net interest and similar income 102
7. Net fee and commission income 103
8. Personnel expenses 104
9. Other administrative expenses 104
10. Other operating income 104
11. Cash and balances with central banks 105
12. Due from other credit institutions 105
13. Derivative financial instruments 105
14. Loans to Customers 107
15. Financial assets at fair value through profit or loss 108
16. Other assets 109
17. Investments in associates and subsidiaries 109
18. Intangible assets 111
19. Property plant and equipment and right-of-use-assets 112
20. Investment properties 113
21. Loans and deposits from credit institutions 113
22. Deposits from customers 114
23. Debt securities issued 115
24. Income tax 117
25. Other financial liabilities 117
26. Other liabilities 118
27. Provisions 118
28. Issued capital 119
29. Contingent assets and liabilities and commitments 120
30. Offsetting Financial Assets and Financial Liabilities 120
31. Fair value of financial assets and liabilities 121
32. Related parties 125
33. Litigations and claims 127
34. Significant events after reporting period 127
35. Primary statements of Luminor Holding AS as a separate entity 128
INDEPENDENT AUDITOR'S REPORT 131
PROFIT ALLOCATION PROPOSAL 134
SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2020 135
CONTACT DETAILS 136

CEO STATEMENT

Luminor made considerable progress in 2020 and reached several strategic milestones. Notably we achieved two of the major strategic initiatives laid out when Luminor was created in 2017 and made continued progress with a third. First, we became fully self-funded for the first time, as we repaid the last of the loans provided by our former parent banks. Second, we became fully operationally independent by completing our technology carve-out. And third, we continued to manage down our portfolio of non-performing loans.

Our strategic progress was made despite the challenges of COVID-19 on our customers, staff, and the societies we serve. The economic impact of the pandemic was mitigated by the deft action of policy makers; real GDP contracted in the Baltics, but by less than the EU average. When needed we supported our customers by providing grace periods from principal repayments and utilised government guarantees for the benefit of our customers. We applied a raft of measures to make certain our staff and customers were safe. The Baltic economies have proven resilient through 2020 and are well equipped to face the future.

These successes are a tribute to the leadership of Erkki Raasuke, Chief Executive of Luminor Bank, who was the driving force behind the first two stages of our transformation. Erkki stepped down from the Bank at the end of the year and was succeeded as Chief Executive by Peter Bosek with effect from 1 January 2021. During the year we appointed three new members to the Supervisory Council, Maria Elena Cappello, Mathias Patrick Laurent Favetto and Elizabeth Jane Nelson, while Johan Pedersson Lilliehöök resigned from the Council.

Peter has identified the following priorities in addition to supporting our customers through the pandemic and its impact. We are going to put all our efforts into increasing further our customer satisfaction and offering our customers a great experience when banking with us. We will work hard on our digital advancement and offering. And we will foster the ensuing business growth with a focus on home loans and SME segment. We will also continue to invest and improve our efficiency. What will not change, however, is our strong financial standing and prudent risk management, our commitment to preventing financial crime and our unique position as a pan-Baltic bank. Luminor will continue to be a trusted banking partner for individuals and businesses throughout our home markets of Estonia, Latvia, and Lithuania.

Mari Mõis

MANAGEMENT REPORT

GENERAL INFORMATION

Luminor Holding AS was established on 14 May 2019. It is the parent company of Luminor Bank AS, and its only business activity is to hold the shares of the Bank. In this report, Luminor Holding AS together with Luminor Bank AS and its subsidiaries are referred to as the Group or Luminor Group, and Luminor Bank AS with its subsidiaries is referred to as the Bank or Luminor. On 30 September 2019 it was announced that the transaction signed on 13 September 2018 between DNB Bank ASA, Nordea Bank AB and US-based private equity firm Blackstone had been concluded and as a result a consortium led by private equity funds managed by Blackstone acquired a 60.1% majority stake in the Luminor Holding AS. The Group's initial owners Nordea and DNB each retained a 19.95% equity stake in Luminor Holding AS, but an arrangement has been made by the consortium and Nordea for the purchase of Nordea's remaining stake over the coming years.

Luminor is the third-largest provider of financial services in the Baltics, with some 900 000 clients, 2 378 employees, and market share of 16.1% in deposits and 17.2% in lending as at the end of December 2020. Luminor has total shareholders' equity of 1.7 billion EUR and a Common Equity Tier I (CET1) ratio of 22.4%. Luminor's core business is serving entrepreneurial people in the Baltics with a primary focus on local companies and the financially active people.

Luminor offers a wide range of products and services to its customers through all possible channels, digital and physical, with 29 customer service centres in total, of which seven are meet-up points. Luminor owns 363 ATMs throughout the Baltic countries, and additionally provides services through 100 ATMs in partnership with other financial services providers.

31 December 2020				
	Estonia	***Latvia***	***Lithuania***	**Total**
Number of customers	*~128 000*	*~218 000*	*~544 000*	~891 000
Market shares				
Lending	*11.7%*	*22.1%*	*19.7%*	17.2%*
Deposits	*8.6%*	*16.0%*	*21.7%*	16.1%
Number of client service centres, including meet- up points	*8*	*9*	*12*	29
Number of employees	*594*	*823*	*961*	2 378

*Market shares in the table above are based on regulatory reporting data and exclude other financial institutions

MACROECONOMIC OVERVIEW

The unexpected emergence of the coronavirus pandemic dominated 2020.

The open economies of the Baltic states were affected by the COVID-19 crisis. Growth contracted in the key export markets in the first half of the year, including the euro area and Nordic countries, with large parts of the economy severely hit with COVID-19 related lockdowns in Europe. This led to both a halt of cross-border trade and strained large parts of business activity, especially the services industry. Initially there were not just disruptions to global value chains, but even impediments to the movement of goods within the single market. This exaggerated the downturn in the economically highly integrated and open economies of Baltic countries.

Yet the Baltic countries were less impacted by COVID-19 than other parts of euro area. The labor markets and business sector benefited from fiscal support including job-retention schemes, which highlighted the importance of demand management to smooth the negative effects of the global crisis. At the height of COVID-19 lockdowns, in the second quarter of 2020, real GDP contracted by 5.4% over the year in Estonia, 8.6% in Latvia and 4.6% in Lithuania, as compared to an average fall of 14.7% in the euro area.

The Baltic economies rebounded in the third quarter along with other euro area peers with the lifting of COVID-19 restrictions. The GDP rates in Estonia, Latvia and Lithuania were off just 2.7%, 2.6% and 1.6% respectively from a year before in the third quarter. The recovery was led by the consumer, but exports and investments also staged noticeable comebacks. The contraction in annual growth for the year 2020 was among the softest reaching 2.9% in Estonia, 3.6% in Latvia and 1.3% in Lithuania compared to -6.8% for euro area on average.

Despite the economic uncertainty and reduced tourist flows, by June the volume of retail trade exceeded its level of the previous year. The retail trade continued strongly into the year-end reflecting resilience of the consumer. Recovery in demand has been supported by stronger balance sheets ahead of the pandemic with accumulated savings and modest consumer leverage. In addition,

paycheck support programs and social transfers have supported incomes during the lockdowns. There were no external imbalances to correct as the Baltic states have run substantial external surpluses and close to balance budget positions in the past decade.

There is still a long way to go before a broad-based recovery is achieved, with the second wave of COVID-19 bringing along new lockdowns across Europe, including the Baltic states. These renewed lockdowns are expected to result in another decline in activity in the fourth quarter. However, the setbacks to the Baltic region and other euro area economies have been more limited as compared to the full lockdown and the global contraction in trade in the spring.

There is pent-up demand in the Baltic states, where savings grew strongly. Despite the near-term setback from the resurgence of the coronavirus, the development of vaccines has given greater confidence to the assumption that the health crisis will be resolved gradually throughout 2021 and into 2022, which in turn will enable economies to return to normal.

An improving outlook for global trade, diminishing coronavirus uncertainty coupled with stimulatory monetary and fiscal policies should support the euro area, including the Baltic export dependent economies. Investments in infrastructure, green transition and digitalization, partly financed by the EU structural funds and the new Next Generation EU (NGEU) package, will drive the convergence of the middle-income Baltic economies.

OVERVIEW OF THE GROUP

BUSINESS DEVELOPMENT

Having completed its cross-border merger in 2019, Luminor continued its transformation in 2020. Further continued efforts were made towards strengthening the bank's funding position, improving capital efficiency and ensuring a fair and rational pricing of risk.

We achieved a fully independent funding structure and paid back the part of the credit line from DNB and Nordea that had previously been used, while retaining the credit line as a stand-by facility. In March, Luminor issued the first covered bond from the Baltic region, for 500 million EUR, which matures in 2025. In December, Luminor sold a 300 million EUR, four-year bond issue and repurchased 250.7 million EUR of an existing bond that matures in 2021.

Further adjustments were made in the operational structure to help make the organisation more efficient and prepare for the next stage of our development.

Luminor also completed the full technology carve-out from our former parent banks and established our own network of correspondent banks, gaining independence in international payments. All our customers were migrated to the Luminor information systems by the end of the year. Since the end of November, our operating technology platforms are fully independent of the systems of either DNB or Nordea.

OPERATING PRINCIPLES

Luminor is a retail and corporate bank that was created for the Baltics. We want to improve the financial health of our home region to match its dynamism and innovation. Our mission is to finance the ideas and improve the lives of Baltic people and their businesses, providing a customer-tailored advice, seamless service, and a human banking experience.

We build and grow our communities together with local people, companies, and organisations. We believe that the Baltic people should have better access to finance, have control over their financial journeys, and have support in making smart financing decisions.

Luminor aims to support sustainable growth of the Baltic region by providing long term commitment to businesses and individuals. We are committed to running our business in a responsible manner and to following the environmental, social and governance principles in our activities.

Being pan-Baltic gives us the size and the strength to make a greater impact, while still being a local bank. Luminor has a strong and capable team that is committed to achieving our strategic objectives. We are dedicated to supporting sustainable growth in the Baltic region by providing a long-term commitment to businesses and individuals. We seek to match scale with relevance, and efficiency with customer knowledge.

Combining global knowledge with local expertise, we aim to be the preferred partner in financial matters for the Baltic customers.

To realise our ambitions, we encourage our staff to be curious, work in a spirit of collaboration and be focused. These characteristics apply equally when engaging with our customers and partners as when working with colleagues.

THE IMPACT OF COVID-19 ON LUMINOR

The safety and well-being of Luminor employees and customers were our top priorities throughout the year as the virus spread.

The governments of the Baltic countries launched programmes to stimulate their economies to mitigate the harm caused by the pandemic. Luminor used the state guarantees on offer to the benefit of our customers, and our main partners in this were Kredex in

Estonia, Altum in Latvia and Invega in Lithuania, and the Estonian Rural Development Foundation and the Lithuanian Agricultural Credit Guarantee Fund.

To help our customers withstand the crisis, Luminor offered simplified grace periods to both private individuals and corporate customers. Most of the grace periods that were granted had expired by end of the year without any application for prolongation. At year end there were grace periods for corporate customers covering 0.7% of the corporate loan portfolio, and for private customers covering 1.0% of mortgage loans across the Baltic states.

At Luminor, we kept our customer service centres open and continued to offer banking services to our customers even under the difficult circumstances. We also took comprehensive measures to assure the safety of our employees and our customers. These measures included making maximum possible use of remote work, devoting extra attention to cleaning and making sure disinfectant was available in all our facilities and ATMs, providing protective equipment for all our employees, and limiting the number of customer visits to our customer service centres at any one time.

We also encouraged our customers to use digital services as much as possible, and we had more people advising customers at our call centres and extended the working hours of those call centres. The remote onboarding service, which already operated in Latvia, was extended to Lithuania and then Estonia. Online meetings, video meetings and a pre-booking system were introduced for Customer Service Centres to increase the share of services provided remotely. All new and reissued payment cards were sent to customers by post. We expanded our remote services to support pre-booking in our client service centres so that customers could get answers remotely to most of their questions.

RISK MANAGEMENT AND INTERNAL CONTROL

Luminor develops and maintains a culture that entails a strong focus on risk management and control, and the establishment and maintenance of a robust and comprehensive internal control framework. The aim of risk management at Luminor is to achieve an optimal balance between the risk of losses and the earnings potential in a medium- and long-term perspective. Luminor’s risk management framework includes policies, procedures, risk limits and risk controls ensuring adequate, timely and continuous identification, assessment, measurement, monitoring, mitigation and reporting of all material risks. Detailed information about risk management is provided in the Section “General Risk Management Policies” of this report.

Luminor’s risk management processes are continuously being improved to reflect new regulatory requirements as well as evolving market practices.

Luminor’s internal control framework covers all Luminor entities and is a combination of organisational measures, actions, processes and mechanisms that ensure effective and efficient operations and prudent conduct of business, sound change management, adequate identification, measurement, and mitigation of risks, reliability of financial and non-financial information reported both internally and externally, sound administrative and accounting procedures, and compliance with laws, regulations, supervisory requirements, and the institution’s internal policies, processes, rules and decisions.

Both Luminor Holding AS and Luminor Bank AS are directly supervised by the European Central Bank.

Compliance with key prudential requirements as at 31 December 2020:

Ratio	Requirement	Luminor Bank AS with subsidiaries
Liquidity (Liquidity Coverage ratio (LCR))	>100.0%	197.2%
Capital adequacy ratio (Total capital ratio)	>15.3%	22.4%
Largest exposure to one borrower (% of eligible capital)	<25.0%	6.6%

Compliance with prudential requirements as at 31 December 2019:

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

IMPORTANT EVENTS IN THE FINANCIAL YEAR

On 27 January, Auri Loog joined Luminor as the Head of Internal Audit Division. Auri is a Certified Internal Auditor with an experience in banking and auditing sectors. The former Head of Internal Audit, Jelena Gute, was appointed to lead Luminor’s Group Finance Department.

On 11 March, Luminor issued the first covered bond from the Baltic region, for 500 million EUR. The bond matures in 5-years and pays an annual coupon of 0.01%.

The Estonian Financial Supervision and Resolution Authority (FSA) published on 9 June its ruling on the misdemeanour proceedings against Luminor Pension Estonia AS. The FSA stated that the information published in 2019 in the Key Investor Information Documents by Luminor Pensions Estonia AS about the ongoing charges for managed pension funds was incomplete, and so it set a penalty of 170 thousand EUR. Luminor Pensions Estonia AS had already published the corrected information to its customers in February 2020.

The Shareholders Meeting of Luminor Bank AS appointed with effect from 1 July Maria Elena Cappello as a new member of the bank's Supervisory Council.

Johan Pedersson Lilliehöök resigned from the Supervisory Council of Luminor Bank AS, effective 1 August. Mathias Patrick Laurent Favetto was appointed to the Supervisory Council as the shareholder representative of Blackstone, effective 26 August.

Johan Pedersson Lilliehöök resigned from the Supervisory Council of Luminor Holding AS effective 25 August 2020. Mathias Patrick Laurent Favetto was appointed to the Supervisory Council of Luminor Holding AS as the shareholder representative of Blackstone, effective 25 August.

The Shareholders Meeting of Luminor Bank AS appointed with effect from 25 August 2020 Maria Elena Cappello as a new member of Luminor Holding AS Supervisory Council.

Indrek Heinloo resigned as the Head of the Programme Office and Member of the Management Board of Luminor Bank AS, effective 1 September. Following the near completion of Luminor's New Bank Programme, the Programme Office was merged with the Technology Division under its current management.

On 18 September, it was announced that Erkki Raasuke, Chief Executive Officer, would leave Luminor effective 1 January 2021, ahead of the next stage of Luminor's evolution. Luminor appointed Peter Bosek as Chief Executive Officer, and Chairman of the Management Board, effective 1 January 2021.

Effective 1 October the Wealth Management Division was merged with the Retail Banking Division under its current management.

Jonas Filip Eriksson resigned as Chief Financial Officer (CFO) and Member of the Management Board of Luminor Bank AS effective 9 October. Palle Nordahl will join Luminor and become CFO on 1 May 2021. Peter Bosek, Chairman of the Management Board, has responsibility for the bank's Finance function at the Management Board level, supported by Olof Sundblad, Head of Treasury and acting CFO during the interim period.

Elizabeth Jane Nelson joined the Supervisory Council of Luminor Bank AS and Luminor Holding AS, effective from 1 December.

On 3 December, Luminor sold a senior 300 million EUR bond issue. The bond matures in 2024 and can be redeemed at our option in 2023. The bond, issued under Luminor's Euro Medium Term Note (EMTN) and covered bond programme, is rated Baa2 by Moody's, and is listed on the Irish Stock Exchange. In addition, Luminor repurchased 250.7 million EUR of an existing bond that matures in 2021.

The Bank of Lithuania issued a decision on 21 December about fining Luminor Bank in the amount of 150 thousand EUR for real estate-related credit law violations. The fine was imposed by the decision of the Board of the Bank of Lithuania after a targeted inspection performed by the Financial Market Supervisory Authority, during which selected credit agreements were inspected. It was established that due to a technical error, the Lithuanian branch of Luminor subjected 89 customers to a higher penalty (0.2%) than the Law on Real Estate Credit (0.05%). As Luminor had already corrected the wrong practice and compensated the impacted 89 customers, no sanction was applied for this violation. The decision also states that in addition, Luminor did not always act in accordance with the law in cases where credit agreements were terminated by consumers due to improper performance or non-performance of obligations during the period from 1 July to 31 December 2019.

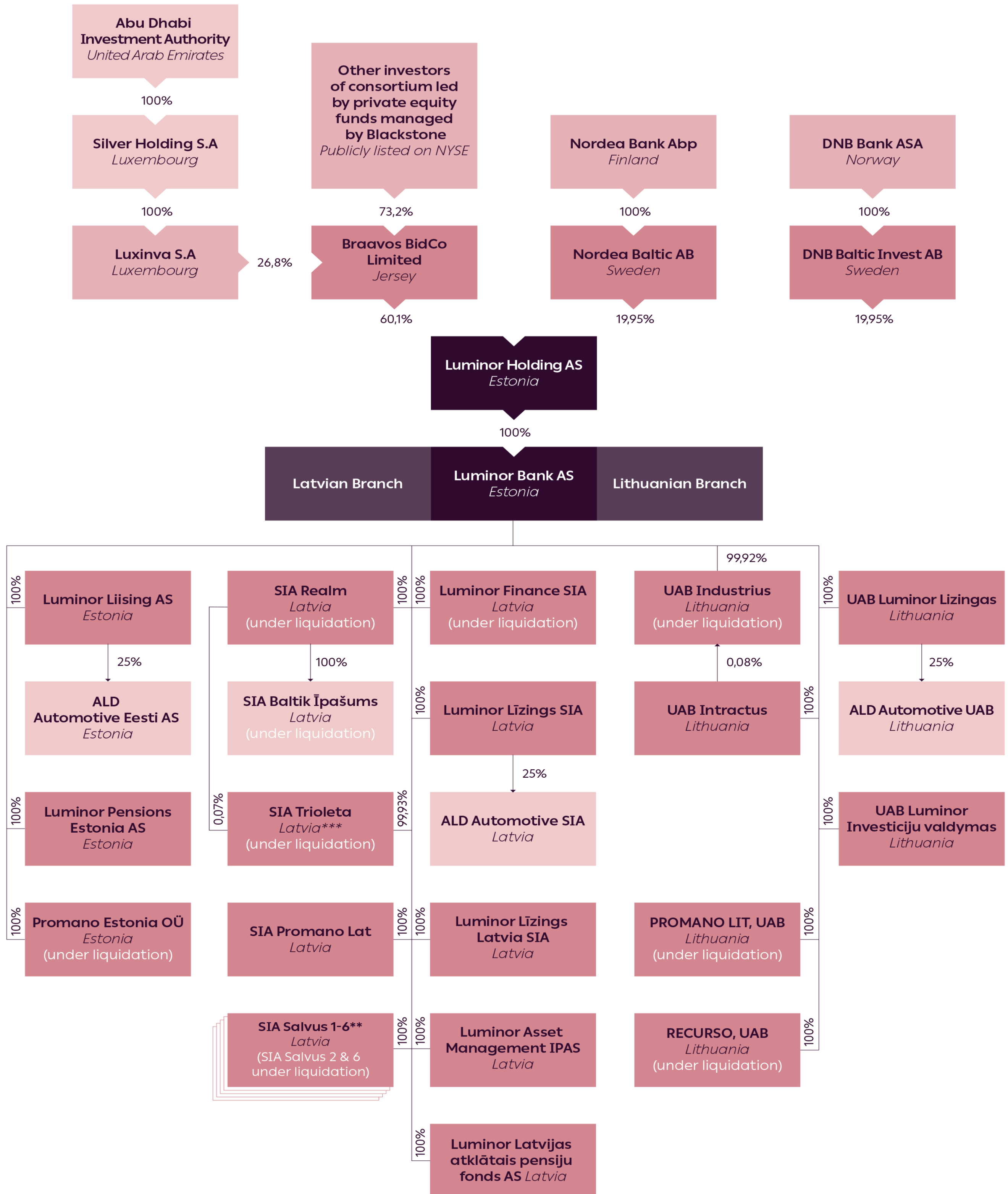
STRUCTURE OF THE ORGANISATION AS AT 31 DECEMBER 2020

Luminor Holding AS owns Luminor Bank AS. Both entities are registered in Estonia. Luminor Bank AS has 23 subsidiaries in the Baltics, including pension fund management companies, leasing companies and special purpose entities that own repossessed assets.

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

Luminor

Ownership and organisational structure of Luminor Holding AS



PRODUCT AND DIGITAL DEVELOPMENT

In 2020 we developed our remote services and strengthened our daily banking offering.

Remote customer onboarding was first launched in Latvia and extended to Lithuania and Estonia. By the end of the year four out of ten customers were onboarded remotely. We launched our e-Commerce Gateway for Mass Business customers in all three Baltic states. The e-Commerce Gateway provides card acquiring services for accepting VISA and Mastercard cards and uses the Open Banking application programming interfaces (APIs) of major banks to allow account-to-account payments to be acquired.

The Luminor Investor platform, which was launched at the end of 2019 in Latvia and Lithuania and at the beginning of 2020 in Estonia, had attracted 1 158 clients by the end of 2020, bringing 64 million EUR of assets under management. Luminor Investor helped to increase the volume of trading by 360 million EUR to 626 million EUR. We strengthened the platform during the year with new features including fully digital onboarding, instant account funding, and simplified sign-in.

Luminor also launched its Black Card in Latvia and Lithuania in 2020. The card was also launched in Estonia at the beginning of 2021. This credit card is an excellent value proposition for domestic and overseas use. We aim for it to become the target credit card for Luminor customers in all three countries. Our brand-new internet bank and digital channels, which feature user-friendly functionality, were launched in the fourth quarter for Luminor customers in Estonia.

THE RETAIL BANKING SEGMENT

We provide customer-tailored advice, a seamless service, and a human banking experience to our customers.

We made good progress to improve further our customer's experience and originate new business while we supported our customers through the pandemic and migrated to new systems. We adapted to changing customer needs by improving our advisory process, risk evaluation and offers and by year end increased our share of new mortgage lending.

We supported the migration of legacy Nordea customers in Latvia and Lithuania to our common banking platform, and all our customers in Estonia to a new banking platform and new digital channels. Several changes were introduced to help our customers, with an expanded Call Centre team and extensive communications, supported by Change Ambassadors.

Loan volumes were impacted by COVID-19 and resources being diverted to support customer migration, and so the gross lending portfolio stood at 5 252 million EUR at the end of 2020, down from 5 483 million EUR in 2019. Deposit volumes increased from 5 131 million EUR in 2019 to 5 781 million EUR in 2020.

Pension assets grew to 1.6 billion EUR, which was 10.1% more than a year earlier. By the end of the year, Luminor had some 284 000 second pillar pension customers and 63 700 third pillar pension customers. Despite challenging market conditions Luminor delivered a competitive performance to customers of its pension plans and funds.

In March 2020, pension law in Estonia was reformed. The revised law allows people who have accumulated assets in their second pillar pension to transfer those assets to a Pension Investment Account or to leave the second pillar entirely and withdraw their accumulated pension assets. The revised law also provides an opportunity for those who have not yet done so, to join the second pillar. Asset management companies, including Luminor's subsidiary, will feel the impact of the reform for the first time in September 2021, when the redemption of the second pillar units will take place on the basis of applications submitted by customers before 31 March 2021.

The focus of Private Banking switched from savings towards growing investment volumes in an environment of low margins. The Luminor Investor platform was the preferred solution and is gaining increasing interest from Private Banking customers.

THE CORPORATE BANKING SEGMENT

We worked decisively to help our customers cope with the impact of COVID-19 on their business, including granting grace periods for principal payments and assisting them in using the state guarantee programmes launched by the Baltic governments. We continue to offer tailored, predictable and rapid financial solutions which allow our customers to operate their businesses efficiently.

The repricing and optimisation of the portfolio reduced the share of non-performing loans, while loan volumes contracted because of COVID-19, and so the gross lending portfolio stood at 4 308 million EUR at the end of 2020, down from 4 926 million EUR in 2019. Deposit volumes increased from 5 095 million EUR in 2019 to 6 025 million EUR in 2020. This was driven by large increases in public sector deposits that came despite the introduction of negative rates for major accounts in the last quarter of the year.

In December, the European Investment Bank (EIB) and the European Investment Fund (EIF) issued a guarantee to Luminor to support additional lending to small and medium-sized enterprises and Mid-Caps in the Baltics and help mitigate the impacts of the COVID-19 pandemic. The guarantee structure can support at least 660 million EUR of additional loans and leases to SMEs and Mid-Caps in all three Baltic countries through a synthetic securitisation transaction between the Bank and the EIB Group with support from the Investment Plan for Europe. The scheme will be initiated in 2021. Luminor is the first bank in the Baltics to use such a facility.

CORPORATE SOCIAL RESPONSIBILITY

The effects of COVID-19 dominated life in the Baltics. We applied a raft of measures to make certain our staff and customers were safe and supported. Employees across Luminor received guidelines on how to stay healthy, and were trained in remote working, information security and maintaining a healthy work/life balance, as well as regular training on operational risks, workplace safety and leadership.

Community investment

In addition to direct support to customers during the pandemic, including loan moratoria and use of government support schemes, we also promoted e-commerce and cyber security. Through our community investment project, we and our partners help nine businesses and organisations build their ecommerce capability, we showed customers how to build online shops via online tutorials, and we offered our e-commerce payment product for free. We ensured the 50th season of the Latvian applied arts folk fair took place via the e-fair platform egadatirgus.lv.

We provided practical advice to customers via webinars about working remotely and leading teams, and about developments in credit markets and cyber security. We emphasised the importance of information security and data protection and warned about the potential for fraud. We continued to raise awareness about safe online shopping and improve financial literacy, and we provided tablet computers to support a ‘Save the Children’ initiative to assist in home schooling and remote studying.

In Estonia the best local entrepreneurs were recognized with the Luminor Development Leap Award. The first prize was a consultation with Luminor’s top managers in the field of the winner’s choice; a Luminor scholarship was granted to an Estonian student for doctoral studies at the University of Cambridge to research the early signs of Alzheimer’s disease; and we donated Christmas gifts to our community - to buy computers for families with many children to support distance learning, to help the victims of violence, and to back a volunteer line providing emotional aid to young people.

Responsible business

Luminor operates responsibly, sustainably and in a caring manner. We do not contribute to human or labour rights violations, corruption, or other unethical actions. We regard compliance with all laws and guidelines as the minimum standard to be achieved. We support the sustainable growth of the Baltics and recognise that climate change threatens our living and economic environment.

To fulfil our obligations to our community and the environment while ensuring our prosperity we agreed an Environmental, Social and Governance (ESG) strategy for the next three years. The strategy outlines our approach to ESG, actions we will take, and governance we will adopt.

We introduced an Environmental and Social (E&S) risk assessment for corporate clients. The assessment, which will take place annually, includes an industry risk assessment and in-depth assessment for higher-risk clients to check for environmental risk, governance and transparency, respect for human and labour rights, and the fight against corruption. We also participated in the European Commission’s comprehensive ESG integration study carried out among EU banks.

Reducing our environmental footprint and Sustainable Procurement

We recognise the influence that our activities and those of our suppliers have on society and the environment. We will reduce both our direct and indirect environmental impact.

We seek to reduce carbon emissions from our operations and use natural resources and energy thoughtfully and efficiently. We strive to eliminate and minimize waste and re-use or re-cycle as much as possible. Our Travel Standard sets forth the principle of considering environmental impact when planning our necessary business travel.

Our Code of Responsible Business Conduct for Third Parties outlines the principles we expect our suppliers to abide by, including ethical business practices, fair employment practices, as well as sustainable business practices and environmental management. The Rules of Social Responsibility are annexed to our vendor agreements.

Corporate values and Principles of Conduct

Luminor upholds the highest standards of ethical and professional conduct and promote a strong risk culture. We expect all our employees to follow our Principles of Conduct, which describes our values and expected behaviors. These Principles are integrated with our Anti-Bribery and Anti-Corruption policies in a comprehensive Compliance Policy and Compliance Standards.

To foster and promote ethical behavior, Luminor encourages employees to prevent and proactively detect any breaches of laws and other regulations and report them. We have implemented a 'Raising Your Concern' Procedure. Reported breaches are treated seriously and where relevant, identified risks are managed. Among others, this procedure covers whistle-blowing principles and describes internal alert framework employees can use.

Equal opportunities and a safe working environment

Luminor provides its employees with a safe and supportive working environment We value a diverse team and facilitate independent opinions and critical challenge. To guarantee a healthy and safe working environment, we ensure that work safety procedures are in place and training carried out for all employees. We use regular surveys of our employees' job and work environment related satisfaction and take the results into account in our planning and activities. We recognise the importance of work/life balance and promote that through different programmes and training. To enhance this balance and to advance our employees well-being, we established a Work Environment and Wellbeing Unit within the People & Culture division.

We implemented routines for evaluating and enhancing diversity upon recruitment and ensure application of the principle 'equal pay for equal work'. We encourage anyone who feels they have been subject to discrimination to raise their concerns so that corrective measures can be applied. By 2024 at least 40% of the members of our Supervisory Council will be female, and half of our Management Board, as compared to 20% and 43% today. We updated our Equality, Non-discrimination, and Diversity Policy to promote further equality and diversity in the workplace.

Each employee is given the opportunity to develop their expertise, attitudes, and skills. We paid special attention to promoting our digital library including e-courses dedicated to personal development.

Governance

We updated our governance policies and procedures, and responsibility for governance was transferred to the Chief Executive Officer. We aligned our Corporate Governance with our new risk policies and to support our new suitability assessment process.

EFFORTS TO PREVENT FINANCIAL CRIME

Luminor remains vigilant and committed to detecting and preventing financial crime, and we regularly review our anti-financial crime (AFC) practices and invest in the human and technological resources that are needed. We work tirelessly to better understand our customers and their transactions, and to manage and report any potential financial crime risk. Luminor predominantly serves residents of the Baltic countries, and customers who have a strong personal or business connection to these countries.

In 2020, Luminor further enhanced its financial crime risk management framework to prevent, detect, manage, and report any potential financial crimes. This was supported by our zero tolerance of money laundering and financial crime. The framework covers technology, policies, and procedures for preventing and detecting financial crime, risk assessments, training and awareness-raising, and ongoing monitoring of new and developing financial crime risks. As we are subject to a wide range of legal requirements, Luminor is transparent in all its activities and works closely with all the supervisory and regulatory authorities, using this experience as valuable input to enhance further our internal systems and processes. Luminor also follows international guidelines, recommendations and standards issued by the regulatory and supervisory authorities, international bodies and local banking associations, and the financial intelligence units in each Baltic state.

In 2020, Luminor transformed the Customer Data Quality Middle Office into the Customer Risk Management Department by segregating the duties between the first and second lines of defence, to streamline the anti-financial crime operational controls and align the sound risk management practices with the appropriate governance set-up.

Luminor continued to invest in systems and processes so we can adapt in a constantly changing environment. The bank is developing further its common monitoring and screening solution in all three Baltic states and has introduced several new scenarios during 2020 and has approved several further developments that will be delivered during 2021. The developments are directed to further enhance monitoring activities.

We also completed the implementation of our Anti Money Laundering (AML) Suite system for automated due diligence controls, transaction monitoring and screening for all its customers, exiting the solutions of its former parent banks.

Luminor considers that work to raise awareness is an important component of the financial crime risk management framework. In 2020, 99 training events related to AFC and corporate compliance were held, covering topics such as Customer Due Diligence, which was attended by 1 357 employees; the Enhanced Due Diligence process, attended by 1 476 employees; sanctions risk management, attended by 1 421 employees; transaction monitoring and suspicious activity reporting, attended by 1 359 employees; and others.

Luminor also contributed to general AML efforts by participating in a pilot programme, AML Bridge, which has been launched jointly by an AML start-up company, Salv, the leading banks in Estonia, and regulatory authorities including the Estonian Financial Supervision and Resolution Authority, Estonia's Financial Intelligence Unit and Estonia's Data Protection Inspectorate. The aim of this pilot is to confirm that the Privacy Enhancing Technology enables safe, secure data sharing within the bounds of regulatory and data privacy laws in the European Union, and to promote collaborative crime-fighting in the banking industry. The results of the pilot will be announced in spring 2021.

In Lithuania, Luminor helped establish the AML Competence Centre, a public-private partnership in AML to enhance cooperation between financial institutions and the authorities and improve information sharing between the private and public sectors. The Centre will: coordinate AML/Combating the Financing of Terrorism (CFT) measures and plan joint action; prepare guidelines and recommendations for market participants, arrange training in AML/CFT, initiate changes in regulation, and similar; and share information about specific criminal schemes, and identify the organisers of them.

Preventing money laundering and terrorist financing remains firmly in the focus of the bank's Management Board and Supervisory Council. Luminor continues its efforts in this field by accelerating our technological development, further enhancing our internal processes and strengthening our pan-Baltic alignment.

SIGNIFICANT EVENTS AFTER 31 DECEMBER 2020

On 1 January, Peter Bosek became Chief Executive Officer and Chairman of the Management Board of the Bank.

Marilin Pikaro announced her decision to resign as Head of the Compliance Division and Member of the Management Board of Luminor Bank AS effective 5 January. Mari Mõis, Luminor Head of the Legal Division, was appointed as Luminor's Chief Compliance Officer from 6 January.

On 19 January, Luminor Bank and IBM announced a new five-year agreement, effective 1 March. Under the agreement Luminor will migrate its IT infrastructure to IBM Cloud for Financial Services. IBM will support Luminor in accelerating its digital transformation and strengthening further its security and regulatory compliance processes. As part of the agreement, some 200 people from Luminor's Technology Division will be transferred to IBM. We expect the agreement will lead to a reduction of at least one fifth in the relevant costs we would otherwise incur.

The Supervisory Council of the Bank mandated the Luminor Head of Products and Offering with the responsibility of owning, leading, developing and coordinating the ESG topics in Luminor, effective 1 February.

On 2 February, Luminor announced the acquisition of part of Danske Bank's corporate portfolio worth approximately 35 million EUR. The portfolio consists of corporate customers of Danske Bank in Latvia and includes loan, leasing, and guarantee agreements. On 15 February, Luminor assumed from Nordea loans to two corporate customers in Latvia totaling approximately 54 million EUR.

On 16 February, Moody's Investor Service (Moody's) affirmed Luminor Bank's Baa2 long term debt rating and changed its outlook on its ratings to positive.

On 26 February, Luminor announced the appointment of Palle Nordahl as Chief Financial Officer and member of the Management Board, effective 1 May 2021.

Effective 1 March, Luminor Operations Department will be part of the Technology Division.

FINANCIAL REVIEW

SUMMARY STATEMENT OF PROFIT OR LOSS

thousand EUR	2020	2019
Net interest and similar income	226 930	254 152
Net fee and commission income	73 639	77 386
Net other operating income	27 757	41 784
Net Operating Income	**328 326**	**373 322**
Total operating expenses	**-275 432**	**-289 857**
Share of profit from an associate	972	1 066
Credit loss allowance	-17 641	-22 977
Other non-operating expenses	-536	-2 327
Profit before tax	**35 689**	**59 227**
Tax expense	-2 656	-5 265
Profit for the period	**33 033**	**53 962**

We continued our transformation and adjusted our operating model to build superior customer experience. Our focus has been to consolidate technological platforms, increase efficiency, and improve the funding structure. Therefore, our financial results are affected by associated exceptional and restructuring costs.

Net profit in 2020 was 33.0 million EUR, 20.9 million EUR less than 2019. A reduction in net operating income of 45.0 million EUR was partially offset by a 14.4 million EUR reduction in total operating expenses and 5.3 million EUR lower credit loss allowances.

Total operating income was 328.3 million EUR. Net interest income decreased by 27.2 million EUR to 226.9 million EUR, almost entirely driven by a reduction in interest income as the amount of loans fell, while interest expense was 0.7 million EUR lower than the year before. Net fee and commission income decreased by 3.7 million EUR as COVID-19 lowered transaction volumes notably in the second quarter, as we offboarded accounts of non-residents, and lending related commission income declined. Net other operating income was lower by 14.0 million EUR. A number of one-off items, such as recognition of the value of shares in VISA, part of the profit from the sale of the headquarters building in Riga and higher gains from trading due to higher USD Libor rates, were included in net other operating income in 2019. If these items are excluded from the comparison, net other operating income remained at a similar level.

Total operating expenses were 275.4 million EUR. Personnel expenses were 11.1 million EUR lower in 2020 due to lower variable pay and redundancy cost. Other administrative expenses reduced by 2.2 million EUR, driven by lower premises and travel costs. Exceptional costs were 102.6 million EUR, an increase of 10.7 million EUR compared to last year as we continued to transform and invest in regulatory compliance implementation and business re-design. In 2020 our definition of exceptional costs was expanded to cover full IT project cost as opposed to only the external part reported previously, and additionally post-transformation regulatory compliance implementation costs were included in the scope. To ensure comparability, 2019 exceptional costs were restated from 76.7 million EUR, as reported in 2019 annual report, to 91.8 million EUR.

Credit loss allowances in 2020 were 17.6 million EUR, as compared to 23.0 million EUR in 2019. A significant part of this reduction followed an exit from a major non-performing exposure because of which the previously recognised loan loss decreased by 4.5 million EUR. We assessed our loan portfolio conservatively in the first quarter, considering the expected severity of COVID-19 impact. During the remainder of the year, our portfolio showed resilience to the pandemic and no additional significant credit loss allowances were required. Higher provisions in 2019 were driven by the emergence of political risk in connection with the subsidised energy industry in Latvia, reassessment of the largest non-performing exposure and review of the non-performing portfolio. Non-performing loans reduced to 3.2% of the loan portfolio at the end of the year, lower than the 3.8% as of end of 2019. Last year we incurred Other non-operating expenses of 2.3 million EUR as we disposed of most of the real estate assets we had repossessed. This year Other non-operating expenses decreased by 1.8 million EUR to 0.5 million EUR. Tax expense decreased by a half to 2.6 million EUR, as profit before tax reduced.

KEY FIGURES AND RATIOS

thousand EUR / %	31 December 2020	31 December 2019
Net profit	33 033	53 962
Average equity	1 648 704	1 714 685
Return on equity (ROE), %	2.0	3.1
Average assets	14 331 363	14 522 261
Return on assets (ROA), %	0.2	0.4
Net interest and similar income	226 930	254 152
Average interest earning assets	14 026 400	14 192 831
Net interest margin (NIM) %	1.6	1.8
Cost / Income ratio, %	83.9	77.6
Credit impairment ratio, %*	0.15	0.22
Loans to customers	9 430 683	10 222 547
Deposits from customers	11 821 550	10 235 419
Loans / Deposits ratio, %	79.8	99.9
CET1 ratio, %	22.4	19.7
NPL ratio (gross), %	3.2	3.8
Net interest income / Loans, %	2.3	2.3

*If loan recoveries prevail, the ratio is negative.

Explanations

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

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

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

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

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

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

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

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

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

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

NPL (non-performing loan) ratio = Gross impaired loans (Stage 3 loans) / Gross loans * 100

Net interest income / Loans = Net interest income / Net loans, average * 100

The cost-to-income ratio during 2020 was 83.9%, as compared to 77.6% in 2019. Excluding exceptional costs, the respective ratios were 52.7% and 53.0%.

Our return on equity was 2.0% in 2020 and 3.1% in 2019. Excluding exceptional costs, the respective returns were 7.3% and 7.7%.

Total assets rose by 1 185 million EUR during the year. Customer deposits increased by 1 586 million EUR, or 15.5%, to 11 822 million EUR. Growth was led by deposits from customers in the public sector which grew by 66% and individual customer which grew by 11.8%. Debt securities in issue increased by 550 million EUR to 1 201 million EUR, offset partially by a reduction of 933 million EUR in loans and deposits from credit institutions.

Loans to customers decreased by 792 million EUR, or 7.7%, to 9 431 million EUR. Notably loans to business customers decreased by 14.6%. Cash and balances with central banks rose by 2.0 billion EUR to 4.9 billion EUR. The loans-to-deposits ratio reduced by 20.1 percentage points since the end of 2019 to 79.8%.

ASSET QUALITY

The quality of the loan portfolio continued to improve. The negative consequences of COVID-19 have been limited to date and have mostly impacted certain industries and customers, while others have so far almost not been affected.

The most severe impact was felt by industries like accommodation and food service activities, tourism, and aviation. Luminor's exposure towards these sectors is small at 0.7% of the total net lending to customers. A little under a third of the net exposure within these affected sectors is classified as Stage 3.

We have supported our customers through the pandemic, in particular, through loan modifications. The most common modifications requested were grace periods for principal payments. Grace periods for principal and interest payments were granted only under exceptional circumstances, and only for around 1% of all modifications. The outstanding balance of loans under modifications decreased to 77 million EUR at the end of the year.

The level of exposures overdue by more than 5 days in the portfolio with modifications after the end of the grace period is slightly higher, by 1 percentage point than it is in the portfolio without modifications (4.1% vs 3.1%). The level of exposures overdue more than 30 days is the same for the portfolio with modifications after the end of the grace period compared to the portfolio without modifications.

The aggregated volume of requests for modifications including grace periods stood at 1.1 billion EUR at the end of the year and covered 12% of the total loan portfolio. The total value of modifications approved reached almost 1.0 billion EUR at the end of the year. From the above mentioned received and approved modification requests, grace periods have already expired (are back on normal repayment schedules) for around 90% of the modified exposures, and this has not led to any noticeable changes in overdue loans within these exposures that were under modification measures. The inflow of modification requests had almost stopped already in the third quarter, the only exception were mortgage loans, where modification requests have somewhat resumed during the fourth quarter, but at much lower levels than during the first lockdown. The total amount of modification requests for mortgage loans reached 22 million EUR during the fourth quarter.

Some 65% of the requests for modifications came from business customers. The largest part of the requests from business customers for modifications came from industries like real estate activities, transportation and storage, wholesale and retail trade, and manufacturing.

Luminor's loan loss provisioning resulted in 17.6 million EUR loan losses during the year. The loan losses were driven by updated macroeconomic scenarios (changes in operating environment) and by an increase in the individual provisions (primarily driven by COVID-19). For a more detailed information, please, refer to the Note 5 General Risk Management Policies.

Non-performing loans totalled 305.4 million EUR. The share of non-performing loans (NPL ratio) was 3.2% at the end of the year, which is 0.6 percentage points lower than a year ago. Even though the COVID-19 driven inflow continued through the year, the outflow was significantly higher than the inflow, and this left the volume of non-performing loans at its historically lowest level ever in Luminor. The targets defined in Luminor's non-performing loans' strategy have been fulfilled – over a 3-year period, non-performing loans were decreased by more than 500 million EUR. The key drivers for the decrease in the non-performing portfolio were collection activities including sales of collaterals, sales of claim rights, and write-offs of the amounts remaining after collection activities. The NPL ratio for the mortgage loan portfolio was 2.7%, which represents a decrease of 0.2 percentage points compared to a year ago.

Total allowances for expected credit losses on the balance sheet were 136.9 million EUR at the end of the year, of which 92.3 million EUR were for Stage 3 exposures.

FUNDING

Luminor is funded predominantly by customer deposits. These are supplemented by debt securities. At the end of the year debt securities in issue were 1 201 million EUR, as compared to 652 million EUR a year earlier. During 2020 we issued a 500 million EUR covered bond, which matures in 2025 and a 300 million EUR, four-year senior bond. We also repurchased 250.7 million EUR of an existing senior bond that matures in 2021. We increased further the issuance capacity of our covered bonds programme as we added a portfolio of Latvian and Lithuanian mortgage loans to the cover pool. As a consequence, the cover pool consists of housing loans from all three Baltic states.

We have a committed funding facility provided by our former parent banks. The facility commits DNB and Nordea to provide one, two- or three-year loans for an initial period of three years from 1 October 2019. The facility can be extended at our option for an additional two years. During 2020 we reduced the borrowing limit of the facility from 2 837 million EUR to 300 million EUR. The drawings under the facility were reduced from 905 million EUR at 31 December 2019 to zero. We have assigned mortgage loans with a carrying value of 294.2 million EUR as security under the facility.

In April Luminor received its minimum own funds and eligible liabilities (MREL) requirement in a decision of the Single Resolution Board (the SRB) dated 20 December 2019 that was executed for Luminor by a decision of the Estonian Financial Supervision and Resolution Authority. The MREL decision sets the following MREL requirements:

- Luminor Holding AS shall comply with the MREL at the consolidated level of Luminor Bank AS of 17.28% of total liabilities and own funds at all times, and 11.97% of total liabilities and own funds shall be met with subordinated instruments;
- Luminor Holding AS shall have a transitional period until 30 June 2022 to comply with these requirements.

As at the end of the fourth quarter of 2020 the total MREL ratio stood at 14.9% at the consolidated level of Luminor Bank AS while 10.8% of total liabilities and own funds were subordinated instruments. The MREL requirements (set versus Total Liabilities and Own Funds) were set using data as of 31 March 2019. This means the decision (and thus the MREL requirement) does not consider any subsequent events which impact the capital requirements and thus also the MREL requirements.

Rating

On 13 September 2018 Moody's assigned Luminor long and short-term, foreign and local currency deposit ratings of Baa1/Prime-2, and senior unsecured rating of Baa2, with a stable outlook. Moody's ratings remained unchanged since they were first assigned.

On 11 March 2020, Moody's assigned a definitive Aa1 rating to the mortgage covered bonds issued by Luminor Bank AS under the Estonian Covered Bonds Act.

On 16 February 2021, Moody's affirmed Luminor's ratings and changed the outlook on its ratings from neutral to positive.

LIQUIDITY

Luminor's structural liquidity risk is conservative and well-balanced. It is based on metrics that measure liquidity risk and is appropriately adapted to the current economic and regulatory environment. Luminor uses a range of metrics to measure liquidity risk, one of which is the Liquidity Coverage Ratio (LCR).

The LCR for Luminor was 197% at the end of the year using the Capital Requirements Regulation (CRR) definition of the LCR, up from 150% as at 31 December 2019 driven by the increase in deposits. The liquidity buffer is composed of highly liquid central bank eligible securities and cash.

Long-term liquidity risk is measured as the Net Stable Funding Ratio (NSFR). As at the end of the year Luminor's NSFR was 159%, while at 31 December 2019 it was 123%. The improvement was driven by increased deposits which benefited Available Stable Funding (AFS) and by the decrease in the amount of Required Stable Funding (RSF). The RSF was lowered mainly by a reduction in the funding facility commitment which in turn lowered the amount of encumbered assets.

CAPITAL MANAGEMENT

Luminor Group has a clear aim of creating long-term value for its shareholders, partly through dividend pay-outs and partly by increasing the value of their shares in Luminor, while properly safeguarding the interests of other internal and external stakeholders in the public interest and on a sustainable basis. Achieving this needs Luminor to ensure that operations are effective, and optimum given their scope and risk profile and that they comply with minimum capital adequacy and regulatory buffer requirements.

Capital Policy

Our policy is to maintain a Total Capital ratio of at least 17.0%, a Tier-1 Capital ratio of 16.0% and a CET1 ratio of 16.0%. These targets mean Luminor will maintain a buffer above the regulatory capital requirements of 2.5% on Total Capital, 4.0% on Tier-1 Capital and 5.9% on CET1 Capital.

Capital requirements

Luminor uses the Standardised method in its Capital Adequacy calculations to calculate the Risk Exposure Amount (REA) for Credit and Market risk. The REA for operational risk is calculated using the Basic Indicator Approach method. From its total REA, Luminor needs to hold the applicable minimum and combined buffer requirements. The capital requirements are the minimum capital requirements, the Other Significant Institution (O-SII) requirement, the Pillar 2 requirement set by the European Central Bank (ECB) in the 2019 Joint Decision on Capital through the Supervisory Review and Evaluation Process (SREP), and the Systemic Risk Buffer and Countercyclical Risk Buffer requirements set by the supervisory authorities in the Baltic countries. Together they oblige Luminor to

hold capital exceeding 10.1% of CET1, 12.0% of Tier-1 and 14.5% of Total Capital as at 31 December 2020. In response to the COVID-19 outbreak, the Baltic states have left their systemic risk buffer and countercyclical buffer requirements at 0%. The buffers are expected to be reviewed once the economic difficulties caused by COVID-19 ease but given that it takes 12 months for the requirements to come into force, the buffer requirements will not rise before the first quarter of 2022.

On 15 December 2020, the ECB issued an updated dividend recommendation to banks. The recommendation asked banks to refrain from or limit dividends until 2021. The ECB expects dividends and share buy-backs to remain below 15% of the cumulative profit for 2019-20 and not to exceed 20bp of the CET1 ratio until the end of September 2021. Luminor has acknowledged this information and the General Meeting of Luminor Bank AS will take this into consideration when deciding on any dividends before the end of September 2021.

Own funds

As at the end of the fourth quarter of 2020, Luminor had 1 586 million EUR in own funds and they were fully composed of Common Equity Tier 1 (CET1) capital, meaning the Tier 1 and total capital ratios of Luminor stood at the same level as the CET1 ratio.

Capital Ratios of the Group

Luminor's Common Equity Tier 1 (CET1) ratio increased to 22.4% at the end of 2020, up from 19.7% at end 2019, above the internal target and the regulatory requirements. The leverage ratio, calculated in accordance with the CRR, fell to 10.2% at the end of 2020 from 10.9% at the end 2019. The fall was driven primarily by an increase in central bank assets that raised the leverage ratio exposure.

Position	31 December 2020	31 December 2019
Leverage Ratio	10.2%	10.9%
Common Equity Tier 1 Ratio	22.4%	19.7%
Tier 1 Capital Ratio	22.4%	19.7%
Total Capital Ratio	22.4%	19.7%

Risk Exposure of the Group

thousand EUR	31 December 2020	31 December 2019
TOTAL RISK EXPOSURE AMOUNT	**7 086 248**	**7 969 087**
RISK-WEIGHTED EXPOSURE AMOUNTS FOR COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	6 375 131	7 252 427
Standardised approach (SA)	6 375 131	7 252 427
SA exposure classes excluding securitisation positions	6 375 131	7 252 427
Central governments or central banks	0	0
Regional governments or local authorities	10 857	13 445
Public sector entities	2 001	674
Institutions	30 639	54 281
Corporations	3 128 074	3 742 611
Retail	1 144 543	1 347 232
Secured by mortgages on immovable property	1 519 926	1 532 931
Exposures in default	249 626	292 472
Items associated with particularly high risk	137 611	134 498
Covered bonds	2 409	0
Equity	5 432	5 778

Other items	144 013	128 505
Total risk exposure amount for position, foreign exchange and commodities risks	**18 350**	**19 232**
Total risk exposure amount for operational risk (OpR)	**673 565**	**679 644**
Total risk exposure amount for credit valuation adjustment	**19 202**	**17 784**

PRIORITIES FOR 2021

Luminor is dedicated to supporting sustainable growth in the Baltic region by providing a long-term commitment to local businesses and individuals.

Luminor's priorities for 2021 are to:

- Further improve our customer experience and increase customer satisfaction
- Accelerate digital advancement and offering
- Foster new business origination to drive profitable growth with focus on home loans and SMEs.
- Maintain our commitment to prudent risk management and preventing financial crime
- Invest and improve further our efficiency

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report is prepared in accordance with the requirements of the Estonian Accounting Act and the European Banking Authority's (EBA) Guidelines on internal governance (the EBA Guidelines).

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

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

Luminor is continuously seeking to improve its efficiency and sustainability, and so the principles for the internal governance and management of Luminor are regularly reviewed and updated. In 2020 Luminor reviewed its corporate governance rules, and updated Corporate Governance which was adopted by the Supervisory Council of Luminor Bank AS. The updates to Luminor's corporate governance rules were driven by the following factors:

- Organizational changes in Luminor Bank AS
- Necessity to align the reporting lines of different roles
- Establishment of new Supervisory Council committee and Management Board forums of the Bank.

GROUP LEGAL STRUCTURE

Luminor Holding AS is a financial holding company incorporated in Estonia, which is the sole shareholder of Luminor Bank AS.

Luminor Bank AS has one class of shares (registered common shares), which were all owned by one shareholder in 2020. Each share of Luminor Bank AS has a nominal value of 10 EUR and grants one vote at the General Meeting, and each shareholder has the right to participate in the General Meeting and the distribution of profits.

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

Luminor owns several subsidiaries in the Baltic countries, including pension fund management companies, leasing companies and special purpose entities that own repossessed assets. The general legal structure at the end of 2020 was presented in the Legal Structure section of the management report.

Acquisition of the majority shareholding by the Braavos Consortium in Luminor Holding AS was completed on 30 September 2019. The ultimate shareholders of Braavos belong to a consortium led by private equity funds advised by Blackstone and includes a co-investment by Luxinva S.A. (a wholly owned subsidiary of the Abu Dhabi Investment Authority). After completion of the transaction, Braavos acquired a 60.1% majority stake, owning 60.1% of the shares of Luminor Holding AS, which is the sole shareholder of Luminor Bank AS. DNB and Nordea retained a 19.95 % stake in Luminor Holding AS through separate holding companies DNB Baltic Invest AB and Nordea Baltic AB, which were established by a demerger of Luminor Bank AS previous sole shareholder, Luminor Group AB.

MANAGEMENT STRUCTURE

Luminor Holding AS management structure

Luminor Holding AS Articles of Association state that the management functions of Luminor Holding AS are carried out by three management bodies, which are the General Meeting of Shareholders, the Supervisory Council and the Management Board.

The General Meeting of Shareholders is Luminor Holding AS highest decision-making body where shareholders can exercise their rights that come with Luminor Holding AS shares. General Meetings are held at least once a year.

Luminor Holding AS has a two-tier or dual board governance structure, where

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

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

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

When electing or appointing managers, Luminor Holding AS is committed to ensure that the composition of the management bodies is adequately diverse and in compliance with the principles of diversity. To encourage independent opinions and critical challenges, the members of the management bodies of the bank of different age, gender, geographical provenance, and educational and professional background are sought so they may present a variety of views and experiences.

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

The decisions of all the management bodies of Luminor Holding AS must be properly documented and saved.

DIVERSITY POLICY

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

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

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

CORPORATE VALUES AND PRINCIPLES OF CONDUCT

One of the key elements of compliance at Luminor is a strong corporate and risk culture. It is essential for Luminor that members of the management bodies and staff understand and follow Luminor’s values and ethical standards and the principles of compliance and risk management. Luminor Compliance Standards describe values and expected behaviour:

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

Luminor actively takes measures to prevent any kind of bribery and corruption. Each employee in Luminor has the responsibility to identify, prevent and report bribery and corruption.

Luminor aspires to the highest standards of ethical and professional conduct and requires all its employees to read and abide by the Principles of Conduct set out in the Compliance Standards and by putting those principles into practice.

PRINCIPLES FOR MANAGING CONFLICT OF INTERESTS

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

All employees are expected to abide by the Principles for Managing Conflict of Interests set out in the Compliance Standards. Further, all employees are regularly obliged to report their economic interests by filling in a Declaration of External Engagements.

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

AUDITORS

Luminor Holding AS has been audited by AS PricewaterhouseCoopers since 2019. Ago Vilu is the Lead Partner for the audit. Luminor Holding AS complies with the auditor rotation requirement.

In addition to the statutory audit, the auditor provided additional services to the Group’s entities required by regulations in the Baltic countries and other assurance services that are permitted under the Auditors Activities Act of the Republic of Estonia.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

thousand EUR	Notes	2020	2019
Interest income calculated using the effective interest method	6	226 174	244 765
Other similar income	6	47 588	56 912
Interest and similar expense	1, 6	-46 832	-47 525
Net interest and similar income		**226 930**	**254 152**
Fee and commission income	7	95 872	105 827
Fee and commission expense	7	-22 233	-28 441
Net fee and commission income		**73 639**	**77 386**
Net gain (-loss) on financial assets and liabilities at fair value through profit/loss		36	852
Net gain (-loss) on debt securities designated at fair value through profit or loss		8 304	5 315
Net gain (-loss) on financial assets held for trading		4 839	5 683
Net gain (-loss) from financial derivatives		-9 560	10 736
Net gain (-loss) from operations with foreign currency		24 119	11 344
Other operating income	10	6 369	17 839
Other operating expenses	1	-6 350	-9 985
Net other operating income		**27 757**	**41 784**
Salaries and other personnel expenses	8	-100 200	-111 296
Other administrative expenses	1, 9	-163 136	-165 384
Depreciation and impairment of property, plant and equipment and intangible assets	18, 19	-12 096	-13 177
Total operating expenses		**-275 432**	**-289 857**
Share of profit from an associate	17	972	1 066
Credit loss allowance, excluding off-balance sheet commitments	5	-14 511	-24 015
Credit loss allowance on off-balance sheet commitments	1	-3 130	1 038
Other non-operating expenses	1	-536	-2 327
Profit before tax		**35 689**	**59 227**
Tax expense	24	-2 656	-5 265
Profit (-loss) for the period		**33 033**	**53 962**
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity securities at fair value through other comprehensive income		4	-55
Total items that will not be reclassified to profit or loss		**4**	**-55**
Total other comprehensive income		**4**	**-55**
Total comprehensive income		**33 037**	**53 907**

The accounting policies and notes on pages 27 to 130 are an integral part of the consolidated financial statements.

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Luminor

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

thousand EUR	Notes	31 December 2020	31 December 2019
Assets			
Cash and balances with central banks	11	4 926 520	2 924 019
Due from other credit institutions	12	103 559	141 645
Loans to customers	14	9 430 683	10 222 547
Financial assets held for trading	31	2 857	3 021
Financial assets at fair value through profit or loss	15, 31	284 149	227 896
Derivative financial instruments	13	43 407	59 217
Financial assets at fair value through other comprehensive income	31	140	140
Investments in associates	17	5 292	5 639
Intangible assets	18	6 667	8 199
Property, plant and equipment and right-of-use assets	19	56 647	67 472
Investment properties	20	625	2 427
Current tax assets		458	0
Deferred tax assets	24	9 353	3 031
Other assets	16	53 697	73 328
Non-current assets and disposal groups held for sale		20	71
Total assets		**14 924 074**	**13 738 652**
Liabilities			
Loans and deposits from credit institutions	21	47 311	980 692
Deposits from customers	22	11 821 550	10 235 419
Debt securities issued	23	1 201 232	651 716
Derivative financial instruments	13	50 583	58 304
Tax liabilities		384	3 845
Lease liabilities	19	49 672	57 051
Other financial liabilities	25	14 705	45 303
Other liabilities	26	64 230	69 814
Provisions	27	9 260	4 248
Total liabilities		**13 258 927**	**12 106 392**
Shareholders' equity			
Issued capital	28	25	25
Retained earnings		235 795	202 912
Other reserves		1 429 327	1 429 323
Total shareholders' equity attributable to the shareholders of the Bank		**1 665 147**	**1 632 260**
Total liabilities and shareholders' equity		**14 924 074**	**13 738 652**

The accounting policies and notes on pages 27 to 130 are an integral part of the consolidated financial statements.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020

thousand EUR	Share capital	Share premium	Other reserves	Retained earnings	Total equity
Total equity as at 1 January 2019	**34 912**	**1 628 274**	**4 460**	**126 941**	**1 794 587**
Profit (-loss) for the period	0	0	0	53 962	**53 962**
Other comprehensive income	0	0	-55	0	**-55**
Total comprehensive income for the period	**0**	**0**	**-55**	**53 962**	**53 907**
From OCI reserve to retained earnings	0	0	-3 194	3 194	**0**
Increase in share capital*	216 031	-216 031	0	0	**0**
Decrease of share capital*	-216 031	0	0	0	**-216 031**
Group reorganisation*	-34 887	-1 412 243	1 428 112	18 815	**-203**
Total equity as at 31 December 2019	**25**	**0**	**1 429 323**	**202 912**	**1 632 260**
Total equity as at 31 December 2019	**25**	**0**	**1 429 323**	**202 912**	**1 632 260**
Profit (-loss) for the period	0	0	0	33 033	**33 033**
Other comprehensive income	0	0	4	0	**4**
Total comprehensive income for the period	**0**	**0**	**4**	**33 033**	**33 037**
Transfer to mandatory reserve	0	0	0	0	**0**
Other	0	0	0	-150	**-150**
Total equity as at 31 December 2020	**25**	**0**	**1 429 327**	**235 795**	**1 665 147**

* On 28 May 2019 Luminor's shareholders decided to carry out a bonus share issue, followed by a reduction of share capital. The bonus share issue is based on the Bank's interim balance sheet as at 2 January 2019 and involves a partial conversion of share premium in the amount of 216 031 thousand EUR into share capital. Following the bonus issue, the share capital of the Bank has been reduced by the same amount and was paid out to the shareholder in September 2019.

The new holding company, Luminor Holding AS was incorporated in May 2019 with share capital of 25 thousand EUR. In September 2019 it became a parent company after 100% of shares of Luminor Bank were contributed to the legal reserve of Luminor Holding AS (1 429 062 thousand EUR) by its 100% parent company Luminor Group AB.

As the Group reorganisation was accounted for using the predecessor method, the consolidated financial statements of the Group represent a continuation of the Bank's consolidated financial statements. Therefore, up to the reorganisation, the equity structure of the Group represents the equity of the Bank, the consolidating entity until reorganisation (including the effects from pan-Baltic merger that took place on 2 January 2019); since reorganisation, the equity structure represents that of Luminor Holding AS, the new consolidating entity of the Group.

The accounting policies and notes on pages 27 to 130 are an integral part of the consolidated financial statements.

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

thousand EUR	Notes	2020	2019
Cash flows from operating activities			
Profit before tax		**35 689**	**59 227**
Adjustment for:			
-Credit loss allowance, excluding off-balance sheet commitments	5	14 511	24 015
-Credit loss allowance on off-balance sheet commitments		3 130	-1 038
-Dividend income		-64	-90
-Share of profit from an associate	17	-392	-1 046
-Loss/(profit) from foreign currency revaluation		-3 052	-428
-Depreciation, amortization and impairment	18, 19	12 096	13 177
-Profit from sale of subsidiaries and associates		0	-8 962
-Other adjustments		536	2 397
-Interest income	6	-273 762	-301 677
-Interest expenses	6	46 832	47 525
Cash flow from operations before changes in operating assets/liabilities		**-164 476**	**-166 900**
Change in operating assets/liabilities			
Increase (-)/decrease (+) of lending to customers	14	763 979	1 260 018
Increase (-)/decrease (+) of other assets	16	-50 649	-61 621
Increase (+)/decrease (-) of client deposits	1, 22	658 109	-1 796 297
Increase (+)/decrease (-) of liabilities	25, 26	-35 786	47 334
Total change in operating assets/liabilities		**1 335 653**	**-550 566**
Interest received		285 105	314 015
Interest paid		-54 835	-51 790
Income tax paid	24	-12 897	-11 507
Cash flow from operating activities		**1 388 550**	**-466 748**
Investing activities			
Acquisition of property, equipment and intangible assets	18, 19	-2 974	-9 385
Proceeds from disposal of property, equipment and intangible assets		3 545	5 160
Proceeds from disposal of investment property		1 492	30 138
Dividend received		796	1 754
Cash flows from investing activities		**2 859**	**27 667**
Financing activities			
Debt securities issued	23	802 750	298 809

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Debt securities buy-back	23	-254 912	0
Payments of principal on leases	19	-6 162	-5 957
Pay-out to the Shareholder		0	-216 031
Cash flows from financing activities		**541 676**	**76 821**
Net increase/(-decrease) in cash and cash equivalents		**1 933 085**	**-362 260**
Cash and cash equivalents at the beginning of the period	11, 12	2 948 685	3 310 517
Effects of currency translation on cash and cash equivalents		3 052	428
Net increase/(-decrease) in cash and cash equivalents		1 933 085	-362 260
Cash and cash equivalents at the end of the period		**4 884 822**	**2 948 685**
Cash and cash equivalents comprise			
Cash on hand	11	123 809	140 518
Non-restricted current account with central bank	11	4 690 457	2 670 701
Due from other credit institutions on demand or with original maturity of three months or less	12	70 556	137 466
Total		**4 884 822**	**2 948 685**

The accounting policies and notes on pages 27 to 130 are an integral part of the consolidated financial statements.

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Initials L.L. Date 15.04.2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

CORPORATE INFORMATION

Luminor Holding AS is an Estonian registered holding company. The ultimate parent company of Luminor Holding AS is Braavos Bidco Limited. Luminor Holding AS is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. Other shareholders of Luminor Holding AS - Nordea Bank Abp and DNB BANK ASA - are considered to be the entities with significant influence over Luminor Holding AS. Luminor Holding AS registered legal address is Liivalaia 45, 10145, Tallinn, Republic of Estonia.

Luminor Holding AS, established on 14 May 2019, is the parent company of Luminor Bank AS (100%) since 23 September 2019. Until 23 September 2019 the parent company of the Bank was Luminor Group AB.

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

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

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

As at 31 December 2020 Luminor Bank AS directly or indirectly owned majority in the following subsidiaries (100%):

Registered country Republic of Estonia:

- Luminor Liising AS
- Luminor Pensions Estonia AS
- Promano Estonia OÜ (under liquidation)

Registered country Republic of Latvia:

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

Registered country Republic of Lithuania:

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

As at 31 December 2020 Luminor Bank AS had ownership in the following associates:

- ALD Automotive AS (25%)
- ALD Automotive SIA (25%)
- ALD Automotive UAB (25%)
- SIA Kredītinformācijas Birojs (22,6%)

These consolidated financial statements for the year ended 31 December 2020 have been approved for issue by the Management Board and are subject to approval by the shareholders on 30 April 2020. Shareholders have the right not to approve the consolidated

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financial statements prepared by the Management Board and demand the preparation of new consolidated financial statements. Neither Luminor Holding AS shareholders nor others have the power to amend the financial statements after issue.

BASIS OF PRESENTATION

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

These consolidated financial statements include the results of the Group for the years ended 31 December 2020 and 31 December 2019.

In 2019, Luminor Group AB, the sole shareholder of the Bank performed a reorganisation whereby Luminor Group AB incorporated Luminor Holding AS in May 2019 and transferred their shares in the Bank to Luminor Holding AS as a non-monetary contribution in September 2019, increasing the legal reserve of Luminor Holding AS. This reorganisation was a transaction under common control and was accounted for under predecessor accounting method with retrospective effect. Therefore, these consolidated financial statements represent, in substance, a continuation of the Bank's consolidated financial statements, with the effect of reorganisation reflected in equity.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

The functional currency and reporting currency for Luminor Holding AS its subsidiary and subsidiaries and associates of Luminor Bank AS is EUR and, unless otherwise stated, all amounts are reported in thousands of EUR.

Certain new IFRS standards, amendments and interpretations to existing standards have been published by the time of compiling these financial statements that are mandatory for the Group's accounting periods beginning after 1 January 2021 or later periods. The overview of these standards and Luminor Holding AS management estimate of the potential impact of applying the new standards and interpretations are provided in the Note 3.

In separate financial statements of Luminor Holding AS the investment in its subsidiary is carried at cost less impairment and investments in associates are carried at equity method while other policies are the same as consolidated.

The IFRS Interpretation Committee agenda decision regarding deferred tax related to investments in subsidiaries and associates

Both Estonia and Latvia have replaced the traditional profit-based tax regimes with distribution-based tax regimes where corporate income tax is not payable on profit but rather on distribution of dividends. In accordance with IAS 12.52A and 57A, in distribution-based tax regimes no current or deferred tax liability is recognised in respect of undistributed profits until a liability to pay dividends is recognised. As a market practice in Estonia, this accounting policy has been applied consistently to all undistributed profits in the group, regardless of whether those profits accumulated in the parent or in the subsidiaries.

In June 2020, the IFRS Interpretation Committee made an agenda decision where it concluded that the principle set out in IAS 12.52A and 57A only applies to undistributed profits accumulated in the parent company and does not apply to undistributed profits accumulated in the subsidiaries. Instead, the principles described in IAS 12.39-40 should be followed in respect of undistributed profits in subsidiaries, stipulating that a deferred tax shall be recognized in respect of such accumulated profits, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Luminor Holding AS has assessed the impact of the IFRS Interpretation Committee agenda decision and concluded that, based on the intra-group dividend plans for the foreseeable future, no deferred tax liability should be recognized in respect of undistributed profits of Luminor Holding AS subsidiary as of 31 December 2020 (31 December 2019 and 1 January 2019: no impacts). Deferred tax liability in respect of undistributed profits of the Group's associates recognized in the amount of 580 thousand EUR.

Change in presentation

Content of the statement of profit or loss and other comprehensive income has been reviewed for the annual report. Based on the review results reclassifications have been made for better presentation of the financial information.

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Reclassification of consolidated statements

Reclassification has been made for the following consolidated statement of profit or loss and other comprehensive income items:

thousand EUR	1 January 2019 to 31 December 2019		
	As restated	Change	As previously reported
Interest and similar expense*	-47 525	+9 985	-57 510
Other operating expenses*	-9 985	-9 985	0
Other operating expenses**	0	+17 889	-17 889
Other administrative expenses**	-165 349	-17 889	-147 460
Other non-operating expenses	-2 327	-1 038	-1 289
Credit loss allowance on off-balance sheet commitments	1 038	+1 038	0

* Cash contributions to resolution funds and guarantee schemas.
** Reclassification of other operating expenses to other administrative expenses due to review results, which showed that by nature these expenses were administrative expenses rather than operating expenses (legal expenses and VAT taxes, for example).

Reclassification impacted the following consolidated statement of cashflows items:

thousand EUR	1 January 2019 to 31 December 2019		
	As restated	Change	As previously reported
Interest expenses*	47 525	-9 985	57 510
Interest paid	-51 790	+9 985	-61 775
Credit loss allowance on off-balance sheet commitments	-1 038	-1 038	0
Profit/-loss from sale of property and equipment	0	+624	-624
Profit/-loss from sale of investment property	0	+959	-959
Adjustment of fair value of investment property	0	-1 653	1 653
Other adjustments	2 397	+1 108	1 289
Increase (-)/decrease (+) of lending to customers	1 260 018	+1 038	1 258 980
Increase (-)/decrease (+) of other assets	-61 659	-5 168	-56 491
Net increase/(-decrease) in cash and cash equivalents	-362 260	-4 130	-358 130

*Cash contributions to resolution funds and guarantee schemas.

BASIS FOR CONSOLIDATION

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

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

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

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

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

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

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

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

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

REPORTING CURRENCY

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

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

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Initials L.L. Date 15.04.2021

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

INCOME AND EXPENSE RECOGNITION

Interest income and expense

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

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

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

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

Fee and commission income and expense

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

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

Fee and commission expense is recognised after the service has been received and when liability has been incurred.

Operating income and expense

Operating income and expense are recognised on the basis of accrual.

Dividend income

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

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

FOREIGN CURRENCY TRANSLATION

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

CORPORATE INCOME TAX

Estonia

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise (except for recognising a deferred tax liability for all taxable differences associated with investments in subsidiaries, associates and branches, unless it is probable that the temporary difference will not reverse in the foreseeable future). Instead of taxing the net profit, the distribution of retained earnings is subject to taxation on the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

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

Lithuania

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

Latvia

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

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

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

DEFERRED TAX

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

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

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

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

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

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

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

Deferred income tax liability from accumulated undistributed profits in the subsidiaries where distributable profit is taxable has to be recognized, unless it is probable that they will not be distributed to the parent in the foreseeable future.

Deferred income tax from Luminor share of associates retained earnings should be recognized, but accounting treatment differs from subsidiaries deferred income tax treatment. Deferred income tax is recognized as a deduction from the investment value.

CASH AND BALANCES WITH CENTRAL BANKS

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

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

FINANCIAL INSTRUMENTS

Classification and measurement

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

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

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

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

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

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

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

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

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

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

Trading securities

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

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

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

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

Derivative financial instruments

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

Securities for liquidity management

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

Financial assets measured at fair value through other comprehensive income

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

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

Financial assets measured at amortised cost

Loans to customers

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

- they are held within the business model, the aim of which is achieved by collecting contractual cash flows ("Held to collect"

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

business model);
- their contractual cash flows represent solely payments of principal and interest on outstanding principal;
- the Group does not designate them on initial recognition to the fair value through profit or loss measurement option.

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

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

Financial liabilities measured at amortised cost

Loans, deposits and bonds issued

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

Impairment of financial instruments

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

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

For financial instruments, which are in scope of impairment requirements, a forward-looking expected credit loss approach is applied and loss allowances for expected credit losses are calculated in the following way:

- for Stage 1 Financial instruments where there has been no significant increase in credit risk since the initial recognition (or financial instruments which are considered to have low credit risk) – loss allowances for expected credit losses are calculated at an amount equal to 12-month expected credit losses. Interest revenue is calculated on the instrument's gross carrying amount, using the effective interest rate method;
- for Stage 2 financial instruments where there has been a significant increase in credit risk since the initial recognition (but they are not classified as credit impaired) -– loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses. The calculation of interest revenue is the same as for Stage 1;
- for Stage 3 financial instruments which are treated as credit-impaired – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses. Interest revenue is calculated based on the instrument's amortised cost (that is, the gross carrying amount less the loss allowance);
- for additional category purchased or originated credit-impaired assets (POCI) – loss allowances for expected credit losses are calculated at an amount equal to lifetime expected credit losses regardless of the changes in credit risk during the lifetime of financial assets. For POCI portfolio, credit-adjusted effective interest rate applied.

At each reporting date any adjustment in expected credit losses amount is recognized in profit or loss as an impairment gain or loss.

For a more detailed information on an impairment of financial assets, refer also to the Note 2 Significant accounting estimates and judgments and Note 5 General Risk Management Policies, please.

Offsetting

Financial assets and financial liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

enforceable in all of the following circumstances: (i) in the normal course of business, (ii) the event of default and (iii) the event of insolvency or bankruptcy.

Hedge Accounting

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

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

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

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

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

For fair value hedges relating to items carried at amortised cost, any adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest (EIR) method. The EIR amortisation may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in profit or loss. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss.

Fair value of financial instruments

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

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

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

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

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

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

Derecognition of financial assets and liabilities

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

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

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

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

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

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

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

Restructured loans

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

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups, which may include both non-current and current assets, are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction, including loss of control of a subsidiary holding the assets, within twelve months after the end of the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

at a reasonable price; (d) the sale is expected within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

LEASES — WHEN THE GROUP IS A LESSOR

Finance leases

Finance lease transactions are lease transactions under which all significant risks and rights from using the assets are immediately transferred from the Group to the lessee. Legal ownership of assets is transferred to the customer at the end of the lease term. The receivables from the financial lease contract are recognized at net present value of the minimum lease payments, from which the payments of principal received have been deducted, plus unguaranteed residual value at the end of contract. Lease payments collected are allocated between repayment of principal and finance income.

Finance income is recognized over the rental period based on the pattern reflecting a constant periodic rate of return on the lessor's net investment in the financial lease. The lessor's direct expenses included in the lease contract fee and related to the contract are part of effective interest rate and are booked as decrease of income from lease over the period of lease contract. A lease receivable from a client is recognized in the statement of financial position as of the moment of delivering the assets being the subject of the contract to the client.

LEASES — WHEN THE GROUP IS A LESSEE

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

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

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

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

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

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

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

The cost of the right-of-use asset comprises:
(a) the amount of the initial measurement of the lease liability at the present value of the lease payments that are not paid at that date;
(b) any lease payments made at or before the commencement date, less any lease incentives received;

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

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

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

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

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

FACTORING RECEIVABLES

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

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

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

PROPERTY, PLANT AND EQUIPMENT

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

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

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

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

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

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

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

INTANGIBLE ASSETS

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

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

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised using the straight–line method over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end in order to reflect the pattern of consumption of such asset. The amortization period is equal to the contract period, which in 3-5 years in average.

INVESTMENT PROPERTY

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

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

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

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

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

PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

of the obligation can be made. The assessment of provisions requires the application of the management's judgment and estimates as to the probability of an outflow of resources, the probability of recovery of resources from corresponding sources including security or collateral or insurance arrangements, where appropriate, and the amounts and timings of such outflows and recoveries, if any.

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

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

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

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

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

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

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

RELATED PARTIES

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

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

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

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:
(a) that person's children and spouse or domestic partner;
(b) children of that person's spouse or domestic partner; and
(c) dependents of that person or that person's spouse or domestic partner.

For more information about related parties, refer to the Note 32, please.

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

EVENTS AFTER THE REPORTING PERIOD

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

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

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Group makes estimates and applies assumptions that affect the amounts recognised in the consolidated financial statements, and the carrying amounts of assets and liabilities. Estimates and judgements are continuously evaluated and are based on management's experience and expectations of future events.

IMPAIRMENT OF FINANCIAL INSTRUMENTS

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The following accounting judgements and estimates of ECL models are made when determining impairments of financial assets:

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

The ECL model applied was not changed compared to 2019. The inputs and parameters were reviewed and where necessary updated either as a) part of the regular process (i.e., parameters used for the stage 3 collective impairment calculation), b) due to the extraordinary COVID-19 situation (forecasts of macroeconomic parameters) or c) following regulatory requirements (changes in counting the number of days past due implementing the materiality thresholds for overdue amounts in line with Regulation (EU) 2018/171). Besides the updated parameters, a managerial overlay adjustment was applied in the fourth quarter of 2020 to adjust the standard ECL model output for the potential credit losses due to COVID-19 pandemic related uncertainties.

For a more detailed qualitative and quantitative information on the impairment of financial assets refer to the Note 1 Significant Accounting Policies, Note 5 General Risk Management Policies and Note 14 Loans to customers, please.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. For the fair value of financial assets and liabilities, refer to the Note 31, please.

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

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

The following new or revised standards and interpretations became effective for the Group as from 1 January 2020:

AMENDMENTS TO THE CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020).

The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting. Management has assessed that amendments to Conceptual Framework do not have impact on its financial statements.

DEFINITION OF A BUSINESS – AMENDMENTS TO IFRS 3 (issued on 22 October 2018 and effective for annual periods beginning on or after 1 January 2020).

The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early-stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets). Management has assessed that amendments to this standard do not have impact on its financial statements.

DEFINITION OF MATERIALITY – AMENDMENTS TO IAS 1 AND IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020).

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Management has assessed that amendments to these standards do not have impact on its financial statements.

INTEREST RATE BENCHMARK REFORM – AMENDMENTS TO IFRS 9, IAS 39 and IFRS 7 (issued on 26 September 2019 and effective for annual periods beginning on or after 1 January 2020).

The amendments were triggered by replacement of benchmark interest rates such as LIBOR and other inter-bank offered rates (´IBORs´). The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by the IBOR reform. Cash flow hedge accounting under both IFRS 9 and IAS 39 requires the future hedged cash flows to be ´highly probable´. Where these cash flows depend on an IBOR, the relief provided by the amendments requires an entity to assume that the interest rate on which the hedged cash flows are based does not change as a result of the reform. Both IAS 39 and IFRS 9 require a forward-looking prospective assessment in order to apply hedge accounting. While cash flows Under IBOR and IBOR replacement rates are currently expected to be broadly equivalent, which minimises any ineffectiveness, this might no longer be the case as the date of the reform gets closer. Under the amendments, an entity may assume that the interest rate benchmark on which the cash flows of the hedged item, hedging instrument or hedged risk are based, is not altered by IBOR reform. IBOR reform might also cause a hedge to fall outside the 80-125% range required by retrospective test Under IAS 39. IAS 39 has therefore been amended to provide an exception to the retrospective effectiveness test such that a hedge is not discontinues during the period of IBOR related uncertainty solely because the retrospective effectiveness falls outside this range. However, the other requirements for hedge accounting, including the prospective assessment, would still need to be met. In some hedges, the hedged item or hedged risk is a non-contractually specified IBOR risk component. In order for hedge accounting to be applied, both IFRS 9 and IAS 39 require the designated risk component to be separately identifiable and reliably measurable. Under the amendments, the risk component only needs to be separately identifiable at initial hedge designation and not on an ongoing basis. In the context of a macro hedge, where an entity frequently resets a hedging relationship, the relief applies from when a hedged item was initially designated within that hedging relationship. Any hedge ineffectiveness will continue to be recorded in profit or loss Under both IAS 39 and IFRS 9. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present. The amendments require entities to provide additional information to investors about their hedging relationships that are directly affected by these uncertainties, including the nominal amount of hedging instruments to which the

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Initials L.L. Date 15.04.2021

reliefs are applied, any significant assumptions or judgements made in applying the reliefs, and qualitative disclosures about how the entity is impacted by IBOR reform and is managing the transition process. Management has assessed that amendments to these standards do not have impact on its financial statements.

COVID-19-RELATED RENT CONCESSIONS - AMENDMENTS TO IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 January 2020).

The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. Management has assessed that amendments to this standard do not have impact on its financial statements.

4. NEW ACCOUNTING PRONOUNCEMENTS

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Group has not early adopted. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 "INSURANCE CONTRACTS" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023).

IFRS 17 replaces IFRS 4, which has given companies dispensation to carry on accounting for insurance contracts using existing practices. As a consequence, it was difficult for investors to compare and contrast the financial performance of otherwise similar insurance companies. The IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at:

- a risk-adjusted present value of the future cash flows (the fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset);
- an amount representing the unearned profit in the group of contracts (the contractual service margin).

Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately. The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements.

AMENDMENTS TO IFRS 17 AND AMENDMENT TO IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

The amendments include a number of clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard. The following amendments to IFRS 17 were made:

- Effective date: The effective date of IFRS 17 (incorporating the amendments) has been deferred by two years to annual reporting periods beginning on or after 1 January 2023; and the fixed expiry date of the temporary exemption from applying IFRS 9 in IFRS 4 has also been deferred to annual reporting periods beginning on or after 1 January 2023.
- Expected recovery of insurance acquisition cash flows: An entity is required to allocate part of the acquisition costs to related expected contract renewals, and to recognise those costs as an asset until the entity recognises the contract renewals. Entities are required to assess the recoverability of the asset at each reporting date, and to provide specific information about the asset in the notes to the financial statements.
- Contractual service margin attributable to investment services: Coverage units should be identified, considering the quantity of

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

benefits and expected period of both insurance coverage and investment services, for contracts under the variable fee approach and for other contracts with an 'investment-return service' under the general model. Costs related to investment activities should be included as cash flows within the boundary of an insurance contract, to the extent that the entity performs such activities to enhance benefits from insurance coverage for the policyholder.

- Reinsurance contracts held – recovery of losses: When an entity recognises a loss on initial recognition of an onerous group of underlying insurance contracts, or on addition of onerous underlying contracts to a group, an entity should adjust the contractual service margin of a related group of reinsurance contracts held and recognise a gain on the reinsurance contracts held. The amount of the loss recovered from a reinsurance contract held is determined by multiplying the loss recognised on underlying insurance contracts and the percentage of claims on underlying insurance contracts that the entity expects to recover from the reinsurance contract held. This requirement would apply only when the reinsurance contract held is recognised before or at the same time as the loss is recognised on the underlying insurance contracts.
- Other amendments: Other amendments include scope exclusions for some credit card (or similar) contracts, and some loan contracts; presentation of insurance contract assets and liabilities in the statement of financial position in portfolios instead of groups; applicability of the risk mitigation option when mitigating financial risks using reinsurance contracts held and non-derivative financial instruments at fair value through profit or loss; an accounting policy choice to change the estimates made in previous interim financial statements when applying IFRS 17; inclusion of income tax payments and receipts that are specifically chargeable to the policyholder under the terms of an insurance contract in the fulfilment cash flows; and selected transition reliefs and other minor amendments.

The Group expects to apply the standard to performance guarantees that it issues and is currently assessing the impact of the new standard on its financial statements.

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

5. GENERAL RISK MANAGEMENT POLICIES

Luminor Holding AS is the parent company of Luminor Bank AS, which is its only business activity. This section presents information about the General Risk Management Policies in the Bank as the only subsidiary of Luminor Holding AS.

MAIN GOALS

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

Luminor's Risk Management function as part of the second line of defence consists of the Risk Division and reports to the Bank's Chief Risk Officer (CRO). The Risk Division is an independent control and reporting function authorized to verify that Luminor's business and supporting divisions operate within the set risk appetite and risk strategy. The risk management principles are the following:

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

Luminor maintains a Recovery Plan in accordance with the respective EU legislation (the Bank Recovery and Resolution Directive). This plan serves as one of Luminor's key risk management tools and ensures procedures for restoration of the Bank's solvency following situations of severe stress without any involvement by or support from the authorities or taxpayers.

Luminor assesses its capital and liquidity adequacy on an ongoing basis.

Luminor ensures that all risks, including but not limited to credit, market, liquidity and operational risk, which could potentially affect Luminor's business model are identified and that all material risks are monitored and controlled.

The risk management at Luminor is organised in such a way that any possible conflicts of interest are avoided or escalated.

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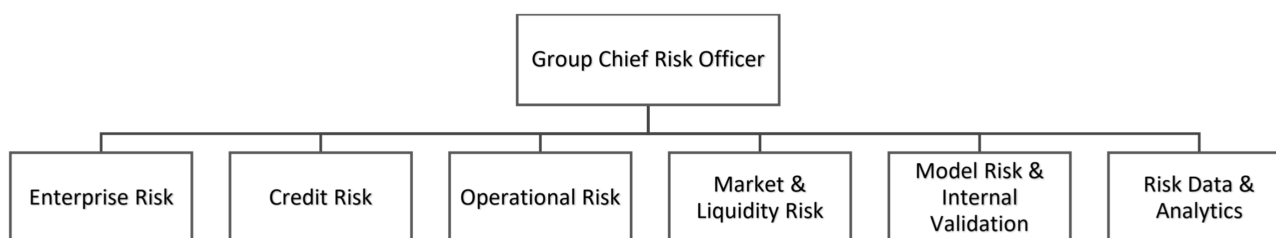
Organisational Structure of the Bank's Risk Management function:



The Enterprise Risk Department is a centralized centre of expertise and manages risk management tools and processes, which run across different risk types. The Credit Risk Department is responsible for credit risk control. The Operational Risk Department is responsible for operational risk control. The Market & Liquidity Risk Department is responsible for market risk and liquidity risk control. The Model Risk & Validation Department is responsible for model risk control and respective validation activities. The Risk Data & Analytics Department combines most of the activities related to data and modelling. The Risk Division, as a second line of defence function, and the organisational units within the Risk Division report directly to the Bank CRO.

The risk management framework is a subject to independent internal review performed by the third line of defence assurance function, the Internal Audit function.

The internal control framework covers the whole of Luminor, including the Management's responsibilities and tasks, and the activities of all business lines and internal units, including internal control functions, outsourced activities and distribution channels. The Management Board of the Bank is responsible for establishing and monitoring the adequacy and effectiveness of the internal control framework, processes and mechanisms, and for overseeing all business lines and internal units, including internal control functions.

The Supervisory Council of the Bank approves policies that apply to the Bank and sets out the overarching risk management principles for the most important aspects of Luminor's operations.

The Supervisory Council Risk Committee advises and supports the Supervisory Council of the Bank to monitor and set the risk strategy and appetite, oversee the implementation of risk management and control, as well as reviews, analyses and assesses how Luminor's risk profile would react to external and internal events in normal and stressed situations.

The Credit Committee is a collegial decision-making body. The Credit Committee is responsible to ensure that the credit activity of Luminor is of high quality, and to review key strategic documents related to the credit activity and provide recommendations to the Management Board of the Bank accordingly.

CREDIT RISK

Credit risk is defined as the risk for the Bank to incur significant losses due to the lack of customers' willingness or ability to meet their contractual obligations and repay loans. Credit exposures arise primarily in lending activities, including from off-balance sheet financial instruments, such as loan commitments, guarantees and letters of credit, and also from investment activities (e.g., debt securities).

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

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

Credit decisions are made by Credit Committees and by authorised individuals according to defined powers to act, which are risk adjusted. The decisions of the Credit Committee must be unanimous. Powers to act for individuals (Credit Officers and persons from Sales, Credit Advisory and Restructuring) are personal and based on the competence level.

Regular reports are prepared and presented to the Bank's management bodies to observe the portfolio composition, to follow the level and developments of the assumed credit risk and make corrective actions when needed to manage the credit risk on a portfolio level.

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

COVID-19

The unprecedent COVID-19 pandemic and the preventive measures imposed by most European countries had an adverse impact on the respective economies in the first half of 2020. In particular, the social- and economic constraints imposed by governments across Europe and also in the Baltic states implied a significant reduction of economic activity in the second quarter of 2020, including businesses being almost entirely shut down in certain sectors, and increasing unemployment as a consequence. Since Luminor is one of the largest banks in the Baltic region, many of Luminor's customers were directly or indirectly affected by this situation. In the third quarter of 2020 when the restrictions were gradually lifted, the operating environment improved. However, in the fourth quarter of 2020 the epidemiological situation worsened again leading to the reintroduction of some of the earlier lifted restrictions or introduction of new restrictions. There is still significant uncertainty about the economic impact of this second COVID-19 wave.

A key governmental support measure was the moratoria agreements introduced by the EBA and regulated by the EBA Guideline on legislative and non-legislative moratoria on loan repayments applied in the light of the COVID-19 pandemic (EBA/GL/2020/02). Luminor Bank AS in Estonia and its branches in Latvia and Lithuania has joined the industry-wide private moratoria initiatives in each country, which comply with the EBA/GL/2020/02. The moratoria are applicable for performing COVID-19 affected customers that experience temporary financial difficulties but had acceptable payment discipline during the 12 months leading up to the crisis. The terms of postponements are the following:

- for individual customers, a grace period on principal payments might be granted for up to 12 months for mortgage loans and for up to 6 months for consumer credits and leasing agreements;
- for business customers with an exposure below 5 million EUR, the period of payment postponement is up to 6 months for amortising products.

No other conditions shall be changed. The modifications under the moratoria are not classified as forbearance, and do not automatically indicate significant increase in credit risk, nor default status. However, the Bank's obligation to assess for unlikeliness to pay (which consequently triggers default status) remains in place. For the cases not meeting moratoria conditions, individual solutions are applied and individual assessments on the exposure classification are performed.

The moratoria were initially meant to be in force until 30 June 2020, then were prolonged until 30 September 2020. On 2 December 2020, the EBA announced the reactivation of EBA/GL/2020/02. Industry-wide moratoria were relaunched on 18 January 2021 in Lithuania, moratoria in Estonia and Latvia have not been prolonged. According to the relaunched moratoria the cumulative grace period cannot exceed 9 months for individual customers' mortgage loans and 6 months for individual customers' consumer credits and leasing agreements and business customers' loans.

Grace periods of COVID-19 affected and modified exposures have already ended during 2020 for most of these exposures (ca. 90%). The grace periods for the remaining 10 per cent of exposure (77 million EUR) will end during 2021. Modification gains/losses were immaterial during the current and comparative periods.

Luminor has been monitoring the spread of COVID-19 since early 2020 and has adjusted its risk management to the new operating environment. In order to be able to appropriately work with customers and manage COVID-19 related credit risks, the Bank prepared a dedicated COVID-19 Manual for Legal Entities and COVID-19 Manual for Private Individuals. Customers where deterioration of the credit quality was observed or predicted based on the changed operating environment were included into the Watch list in order to monitor them more thoroughly. A Weekly Early Warning Indicator tracker has been established to enable close monitoring of the changes in the portfolio. Luminor furthermore follows-up on the performance of customers after the end of grace periods, relative to the performance of customers without modifications. Luminor will continue to adjust its credit risk management as and if needed, based on internal portfolio's trends and overall market situation's development.

Credit risk measurement

(a) Loans to customers

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

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

Rating models, which estimate PD and risk grade, are used to estimate default risk of the counterparty, determine compliance of customers and exposures with the Luminor Group Credit Policy, determine the correct decision-making level and set requirements for the frequency of the follow-up within the regular monitoring process.

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

The assessment is made by using the customer segment/product specific rating models, which are used for homogeneous groups of customers:

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

All credits granted to customers are classified using these rating models every time a commitment is renewed or, unless otherwise decided, at least once a year. Loans to private individuals are assessed based on credit standards and/or application scorings when a decision is made. After the loans are granted, they are monitored by periodical evaluation of the customer's status using behavioural scorings.

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

Whenever large business customers are provided with loans, in addition, a risk-adjusted profitability for the Bank is assessed at both an individual loan and customer level, i.e. a risk-adjusted return on risk-adjusted capital (RAROC) is measured. The same principles of RAC-based pricing as well as RAROC-based profitability assessment are also extended to the other segments of the loan portfolio through the standardised pricing tools or rules. The risk-based credit pricing tools for all customer/product segments are monitored regularly and updated, if needed.

In 2020, the Bank focused on the further improvement of its impairment quantification approach under IFRS 9, which heavily relies on outputs from internal risk models adjusted to fit IFRS 9 purposes.

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

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

(b) Due from banks and other credit institutions

Balances due from banks and other credit institutions comprise nostro and custody cash account balances with Luminor correspondent banks. The counterparty risk of banks and financial institutions is managed by selecting high quality counterparties before establishing limits and by subsequent monitoring. The Bank's portfolio shall be dominated by investment grade counterparties or counterparties with high importance in countries with a speculative risk grade. Counterparties not rated by any of the major rating agencies are handled as exceptions.

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

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

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

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

All externally rated counterparties and countries are monitored on a quarterly basis with the focus on the rating actions taken by external credit rating agencies. Externally non-rated banks are monitored with the emphasis on an evaluation of the ownership changes, financial standings and any other relevant information and signals that may affect the bank's credit standing. Early warning

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

signal monitoring that could potentially indicate a material change in the credit risk of counterparties is an important part of the regular monitoring of the counterparties.

Since March 2020 a Financial Institutions Risk Forum is organized on a monthly basis to follow-up the latest COVID-19 and market developments and review if any changes/restrictions are needed for established credit limits towards banks and countries in current market circumstances.

At the end of year 2020 (the same as at the end of 2019) the Bank's portfolio consisted only of reputable investment grade correspondent banks. The funds on the Bank's nostro accounts with correspondent banks are well balanced and in line with the business volumes Luminor has with the particular correspondent bank.

(c) Debt securities

Debt securities exposure of the Bank at the end of the year 2020 was 281.2 million EUR compared to 223.8 million EUR at the end of 2019 Most of these debt securities are issued by the governments of Lithuania and Latvia. The other part consists of level 1 assets (using Liquidity Coverage Ratio terminology), including Estonian and Austrian sovereign bonds, and covered bonds issued by French companies. Lithuanian and Estonian corporate bonds within the trading debt portfolio form the remaining very small part. The average weighted duration of the total portfolio is about 4.0 years compared to 3.1 year at the end of 2019. The Bank also owns 6.2 million EUR VISA Class C preferred shares as at 31 December 2020 (as at 31 December 2019 it was 12.8 million EUR) which are classified as Investments in Debt securities. Debt securities investments are performed in accordance with the limits set by Luminor's Management Board and Supervisory Council. Limit utilization is monitored on a daily basis.

Risk limit control and mitigation policies

(a) Concentration risk

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

The Bank's portfolio of the products bearing credit risk derived from lending to groups of connected borrowers and single borrowers is well diversified. The absolute legal lending limit according to Capital Requirements Regulation is <25% of eligible capital. The Bank's internally set Risk Appetite limit is that the sum of exposures towards 10 largest customer groups should be <70% of the Bank's total equity. Additionally, a single name concentration limit (excluding state risk) states that there should be no more than 5 customer groups with an exposure above 100 million EUR (but less than 150 million EUR) in the Bank's portfolio. Thus, the largest exposures in Luminor are well below externally set legal lending limits. The Bank's exposures were within the above described internally set limits as at 31 December 2020.

The Bank	Eligible capital, million EUR	Legal lending limit, million EUR
31 December 2020	1 586	397.0
31 December 2019	1 572	393.0

The concentration risk of lending to economic sectors is regarded as being material and is closely monitored and controlled. Complimentary to the regulatory requirements to limit the large exposures to a single borrower or a group of connected borrowers, the Bank implements limits to economic sectors. At the end of the year 2020, the loan portfolio of the Bank was well diversified by economic sectors and none of the set limits were breached.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Industry sector	Limit at the end of 2020* (% of lending to legal entities)	Actual at the end of 2019*	Actual at the end of 2020*
Real Estate sector limit	30%	22.0%	29.3%
incl. Real Estate sector limit for projects under development	10%	2.6%	3.5%
Construction sector limit	10%	5.6%	5.8%
Retail trade	20%	4.0%	3.0%
Wholesale trade	20%	15.9%	15.0%
Food processing	20%	2.3%	1.8%
Timber & metal processing	20%	5.7%	5.6%
Other manufacturing	20%	4.5%	3.3%
Any other industry	20%	<10%**	<10%**

*Same limits applied during the whole reporting period and were never breached. All the limits for legal entities are from the total consolidated loan portfolio towards legal entities (EAD). Calculation approach for 31 December 2019 aligned in accordance with current year.
** Except Agriculture, forestry and fishing, which was 10.9% at the end of 2019 and 10.2% at the end of 2020.

The geographical concentration risk is not considered as material in the Bank's business since the principle of focusing on domestic (Baltic) customers is followed.

The Bank's activity regarding risk concentrations is defined in the Risk Appetite Framework and the Credit Strategy for Legal Entities.

(b) Collateral

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

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

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

When deciding on the type of collateral the maturity of the loans is taken into account. Long-term financing and lending to business customers are generally secured. Long-term loans should preferably be covered by long-term property.

Revolving facilities and consumer loans to individual customers are usually unsecured. Debt securities, treasury and other eligible bills are generally unsecured. To minimise the credit loss, the Bank may seek additional collateral from a counterparty in case of worsening credit quality.

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

Valuation of collaterals

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

The statistical revaluation by applying the indices is performed periodically for the Residential Real Estate collaterals - houses, apartments and residential land plots, pledged against all types of credit products of individual customers.

For leased assets after origination, the market value is adjusted by depreciation of the movable asset.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

(c) Derivative financial instruments

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

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

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

(d) Credit-related commitments

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

Impairment policies

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

(a) General ECL assessment principles

The three stages model is followed:

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

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

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

- Central governments;
- Central bank;
- Regional governments;
- Local authorities and
- Institutions.

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

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

(b) Default definition

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

- The customer is past due more than 90 days on any material overdue amount to the Bank;
- The customer is considered unlikely to pay its credit obligations to the Bank.

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

In line with regulatory requirements (Regulation (EU) 2018/171), the methodological change introducing materiality thresholds in regard to more than 90 days past due default indicator was implemented in the fourth quarter of 2020.

Counting of days past due on a customer level starts when the overdue amount on a customer level breaches the following materiality thresholds:

- For individual customers – more than 100 EUR and more than 1% of its credit obligations to the Bank;
- For business customers – more than 500 EUR and more than 1% of its credit obligations to the Bank.

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

- Major financial problems of the customer (present or expected), i.e., significant financial difficulties;
- Distressed restructuring of credit obligation (forbearance triggering a non-performing status);
- Recognition of specific credit risk adjustments resulting from a significant perceived decline in the credit quality of the exposure;
- The Bank sells the credit obligation at material credit-related economic loss;
- Bankruptcy of the customer or similar protection;
- Non-accrued status;
- Disappearance of an active market for a financial asset because of financial difficulties of the customer;
- Credit fraud;
- External rating indicating default.

The default is recognised at the customer level.

Return to non-defaulted status is possible no earlier than after 3 months when all default triggers cease to be met. During those 3 months of the probation period, timely payments by the customer must be ensured. The exemption from the general rule of probation is the distressed restructuring where at least 1 year needs to pass since the moment of extending restructuring measures and the moment when a customer is deemed to have an ability to comply with the post-restructuring conditions. This approach is consistent with FINREP instruction requirements for the cure of forborne non-performing exposures.

(c) Significant increase in credit risk

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

- Significant increase of lifetime PD – significant increase of lifetime PD since initial recognition until the reporting date (2.5 times and 0.6 p.p. jointly);
- Risk grade 9 or 10 – risk grade 9 or 10 as at the reporting date;
- >30 days past due – more than 30 days past due on any material overdue amount to the Bank as at the reporting date;
- Forborne performing – forborne performing status as at the reporting date (forbearance not triggering non-performing status);

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

- Watch list – watch list status as at the reporting date.

The cumulative lifetime PD (probability of default over the lifetime of a financial asset) conditional on macroeconomic scenarios is calculated as weighted sum of point-in-time (PIT) forward-looking PDs generated for every future year until maturity of financial instrument. In regard to more than 30 days past due on a financial instrument SICR - significant increase in credit risk - indicator, the same principles for counting days past due taking into account materiality thresholds are applied as for default identification. Counting of days past due on the financial instrument level starts when the overdue amount on the financial asset breaches the absolute and relative materiality thresholds which are the same as on customer level (100 EUR and 1% for individual customers or 500 EUR and 1% for business customers) in default recognition. In case of payment holidays, the counting of days past due is based on the modified payment schedule.

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

(d) 12-month and lifetime expected credit losses

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

The expected loss is calculated as the probability weighted average of losses expected in different macroeconomic scenarios. The expected loss in the concrete macroeconomic scenario is calculated as the multiple of PD, LGD, EAD and cumulative prepayment rate and is discounted using a discount rate.

Macroeconomic scenario-based PD is the probability that the performing exposure defaults during a particular time period provided that it has survived until the beginning of this period. Macroeconomic scenario-based LGD is the expected percentage share of an exposure that would be irretrievably lost if the default event occurs. EAD is the exposure at default parameter, which represents the total exposure under a specific facility upon default. Cumulative prepayment rate describes the cumulative likelihood that the exposure would be fully prepaid (i.e., closed before its contractual maturity) in the periods up to the end of the analysed period.

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

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

Estimation of PD and LGD curves takes into account forward looking macroeconomic information. Methodology of estimation of these risk parameters includes modelling of the relationship between risk parameters and macroeconomic variables. Forecasts of macroeconomic variables under different scenarios for 3 upcoming years prepared by Luminor's macroeconomists are used for macroeconomic modelling. Starting from the fourth year it is assumed that risk parameters (PD and LGD) converge to their long-term average levels. Three macroeconomic scenarios – optimistic, baseline/realistic and pessimistic – are considered. Luminor's macroeconomists also provide scenario probabilities, giving the highest probability weight for the baseline/realistic scenario.

Three macroeconomic variables - annual change in real GDP, unemployment rate and annual change of residential real estate price - are included in the modelling for the Private individuals' segment and two of them – annual change in real GDP together with unemployment rate – are used for modelling in the case of the Legal entities segment. Separate forecasts of macroeconomic variables with projections and assumptions over three years are prepared for each of the Baltic countries. Forecasts of macroeconomic variables are prepared and applied for branches, not dependent on the residence of the customer. The following tables show the parameters that were used for macroeconomic modelling on 31 December 2020 and 31 December 2019. In 2020 the forecasts of macroeconomic variables over three years were reviewed in the first and second quarters to reflect the outlook due to COVID-19 assuming not only the nearest downturn, but also the recovery period in the market after that. Regular IFRS 9 risk parameters' review was performed in the fourth quarter. The review of macroeconomic parameters and historically observed default frequency levels performed in the fourth quarter of 2020 indicated significant reversals of ECLs. Such a reversal of ECLs was not considered acceptable taking into account potential credit losses of comparable size from a) the relative lack of effective early indicators to predict credit quality developments in the current crisis, b) the escalation of the second wave of infections and new lockdown measures being applied, c) the moratoria effects (postponed defaults) which are not covered by the model, d) the actual observed default frequency indicator potentially being not representative for future default prediction due to recent government measures. Therefore, a

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Management overlay decision was taken to net any macro forecast related ECL relief from the stage 1 and stage 2. Further development of COVID-19 witnessed after the reporting period, namely the second wave of the pandemic, mutations of the virus, relatively slow vaccination, ongoing social and economic restrictions, supports cautious Management's decision taken.

2020

Estonia

Macroeconomic variables	Optimistic scenario				Baseline scenario (realistic)				Pessimistic scenario			
	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F
Probability for scenario, %	30%				60%				10%			
Annual change in real GDP, %	-3.0	4.6	5.6	3.5	-4.0	3.7	4.8	3.3	-4.3	1.1	4.3	4.1
Unemployment rate, %	7.4	7.0	5.4	4.5	8.0	8.0	5.9	5.0	8.2	9.6	7.1	5.6
Annual change of residential real estate price, %	5.7	4.1	6.7	6.2	4.5	2.2	5.0	5.8	4.1	-5.5	2.3	4.7

Latvia

Macroeconomic variables	Optimistic scenario				Baseline scenario (realistic)				Pessimistic scenario			
	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F
Probability for scenario, %	30%				60%				10%			
Annual change in real GDP, %	-4.2	4.5	6.4	4.2	-4.3	3.2	5.3	4.0	-4.4	-0.2	5.8	3.9
Unemployment rate, %	8.2	8.1	7.3	6.6	8.3	9.1	8.1	7.3	8.4	10.2	8.4	7.6
Annual change of residential real estate price, %	1.7	3.7	8.7	7.9	1.5	1.1	6.2	5.7	1.1	-5.6	3.3	6.0

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

Lithuania

Macroeconomic variables	Optimistic scenario				Baseline scenario (realistic)				Pessimistic scenario			
	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F	2020F	2021F	2022F	2023F
Probability for scenario, %	30%				60%				10%			
Annual change in real GDP, %	-1.5	4.5	5.7	3.8	-1.7	2.7	4.5	3.1	-1.8	-2.5	3.5	2.6
Unemployment rate, %	8.6	8.3	7.1	6.9	8.8	10.0	8.4	7.5	9.0	12.5	10.3	8.5
Annual change of residential real estate price, %	6.1	3.8	7.0	6.3	5.8	1.8	4.8	4.8	5.3	-4.0	2.0	4.8

2019

Estonia

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2020Q3F	2021Q3F	2022Q3F	2020Q3F	2021Q3F	2022Q3F	2020Q3F	2021Q3F	2022Q3F
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	4.2	3.5	3.2	2.7	2.3	2.1	-3.1	-1.1	2.0
Unemployment rate, %	5.0	4.9	4.8	5.7	6.1	6.2	11.0	10.7	10.0
Annual change of residential real estate price, %	9.0	7.2	5.8	4.1	3.2	3.1	-16.5	-8.6	1.4

Latvia

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2020Q3F	2021Q3F	2022Q3F	2020Q3F	2021Q3F	2022Q3F	2020Q3F	2021Q3F	2022Q3F
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	3.4	4.1	4.7	1.9	3.0	4.2	-3.0	-0.6	3.2
Unemployment rate, %	5.7	5.2	4.7	6.2	5.9	5.4	9.4	10.3	9.6
Annual change of residential real estate price, %	7.0	8.0	8.0	4.0	5.0	6.0	-7.0	-4.0	-1.0

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

Lithuania

Macroeconomic variables	Optimistic scenario			Baseline scenario (realistic)			Pessimistic scenario		
	2020Q3F	2021Q3F	2022Q3F	2020Q3F	2021Q3F	2022Q3F	2020Q3F	2021Q3F	2022Q3F
Probability for scenario, %	30%			60%			10%		
Annual change in real GDP, %	4.2	3.8	4.0	2.8	2.4	2.5	-2.0	-1.6	1.0
Unemployment rate, %	6.2	5.8	5.5	6.5	6.7	6.8	8.8	10.2	9.5
Annual change of residential real estate price, %	9.0	6.0	6.0	5	3	3	-8.0	-2.0	4.0

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

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

For Stage 3 exposures (or defaulted POCI assets), which are classified as immaterial, the Bank evaluates the impairment amount on a collective basis (collective assessment). Impairment is calculated by applying the pool rate for the unsecured part. The unsecured part for impairment purposes is calculated using the collateral value capped to the exposure amount and afterwards discounted, eliminating situations when overcollateralized loans have an entirely secured part and result in zero impairment. Different pool rates are applied for three homogeneous pools distinguished by the Bank:

- mortgage loans and private credits to individual customers;
- consumer loans and other loans to individual customers (including leasing);
- loans to business customers.

(e) Sensitivity analysis

Sensitivity analysis for expected credit losses is carried out along two dimensions:

- impact from the changes in SICR - significant increase in credit risk - thresholds for absolute and relative PD;
- influence of weights for pessimistic and optimistic macro scenarios.

In following tables, the results are illustrated both on country and group level.

Estonia:

The following table shows the impact on the 31 December 2020 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual relative threshold applied	Actual absolute threshold applied	Change in relative threshold	Change in absolute threshold	Lower thresholds	Higher thresholds
2.5	60bps	-/+ 20%	-/+ 12bps	201	-151

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

The following table shows the impact on the 31 December 2020 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
10%	30%	-/+ 200bps	+/- 200bps	-287	288

Latvia:

The following table shows the impact on the 31 December 2020 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual relative threshold applied	Actual absolute threshold applied	Change in relative threshold	Change in absolute threshold	Lower thresholds	Higher thresholds
2.5	60bps	-/+ 20%	-/+ 12bps	15	-3

The following table shows the impact on the 31 December 2020 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
10%	30%	-/+ 200bps	+/- 200bps	-60	60

Lithuania:

The following table shows the impact on the 31 December 2020 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual relative threshold applied	Actual absolute threshold applied	Change in relative threshold	Change in absolute threshold	Lower thresholds	Higher thresholds
2.5	60bps	-/+ 20%	-/+ 12bps	284	-82

The following table shows the impact on the 31 December 2020 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
10%	30%	-/+ 200bps	+/- 200bps	-229	230

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

The Bank:

The following table shows the impact on the 31 December 2020 ECL allowance of changing the PD thresholds for SICR. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Actual relative threshold applied	Actual absolute threshold applied	Change in relative threshold	Change in absolute threshold	Lower thresholds	Higher thresholds
2.5	60bps	-/+ 20%	-/+ 12bps	501	-237

The following table shows the impact on the 31 December 2020 ECL allowance of changing the pessimistic and optimistic scenario probabilities. Increases in ECL (positive amounts) represent higher impairment allowances that would be recognised.

ECL impact of (thousand EUR)

Pessimistic scenario probability applied	Optimistic scenario probability applied	Change in pessimistic scenario probability	Change in optimistic scenario probability	Lower pessimistic scenario probability	Higher pessimistic scenario probability
10%	30%	-/+ 200bps	+/- 200bps	-576	578

(f) Risk assessment on modified financial assets

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

A derogation from the general rule is legislative and non-legislative moratoria applied as response to the COVID-19 pandemic when the forborne status is not assigned as described in the Section “COVID-19” above.

(g) Write-off policy

The Bank writes off financial assets, in whole or in part, which are considered as being non-collectible. Generally, the indication that financial assets are non-collectible is the situation when all collaterals (except guarantees of private individuals) are sold. However, the write-off fact does not limit the Bank’s recovery measures towards a particular customer. The outstanding contractual amount on financial assets that were written off during the year ended 31 December 2020 and are still subject to enforcement activity was 15 246 thousand EUR (23 008 thousand EUR in 2019).

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

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

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

thousand EUR	Notes	31 December 2020	31 December 2019
Credit risk exposures relating to on–balance sheet assets subject to impairment are as follows:		**14 597 657**	**13 473 895**
Cash and balances with central banks	11	4 926 520	2 924 019
Due from banks and other credit institutions	12	103 575	141 654
Loans to customers		**9 567 562**	**10 408 222**
Financial Institutions	14	132 524	29 378
Public Sector	14	138 599	174 732
Business customers	**14**	**3 846 733**	**4 523 201**
Loans		2 822 951	3 156 365
Leasing		842 898	1 088 325
Factoring		180 884	278 511
Individual customers	**14**	**5 449 706**	**5 680 911**
Mortgage loans		4 614 261	4 689 319
Leasing		454 272	533 611
Consumer and card loans		106 307	132 862
Other loans		274 866	325 119
Credit risk exposures relating to off–balance sheet items subject to impairment are as follows:		**1 779 656**	**1 574 193**
Loan commitments given	29	1 199 076	973 491
Financial guarantees given	29	433 502	502 330
Performance guarantees	29	147 078	98 372
Total credit risk exposure – financial instruments subject to impairment		**16 377 313**	**15 048 088**

thousand EUR	Notes	31 December 2020	31 December 2019
Credit risk exposures relating to on–balance sheet assets not subject to impairment are as follows:			
Financial assets held for trading:	**31**	**2 857**	**3 021**
Debt securities		2 857	3 021
Financial assets at fair value through profit or loss:	**15, 31**	**281 467**	**223 863**
Debt securities		281 467	223 863
Derivative financial instruments	**13, 31**	**43 407**	**59 217**
Total credit risk exposures not subject to impairment		**327 731**	**286 101**
Total credit risk exposure		**16 705 044**	**15 334 189**

The table above represents credit risk exposure as at 31 December 2020 and 31 December 2019, without taking into account any credit risk mitigation techniques. On-balance sheet assets are reported above based on the net carrying amount as they appear in the statement of financial position.

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Gross amount and expected credit loss allowance amount for loans and leases as at 31 December 2020 and 31 December 2019 are disclosed in the tables below:

Group 31 December 2020 thousand EUR	**Notes**	**Gross**	***of which Initial Impairment of POCI***	**Allowance for impairment**	**Net**
Due from banks and other credit institutions	**12**	**103 575**	**0**	**-16**	**103 559**
Financial institutions	**14**	**132 524**	**0**	**-482**	**132 042**
Public sector	**14**	**138 599**	**0**	**-14**	**138 585**
Business customers	**14**	**3 846 733**	**-16 542**	**-78 119**	**3 768 614**
Loans		2 822 951	-16 031	-61 735	2 761 216
Factoring		180 884	0	-2 136	178 748
Leasing		842 898	-511	-14 248	828 650
Individual customers	**14**	**5 449 706**	**-2 076**	**-58 264**	**5 391 442**
Mortgage loans		4 614 261	-1 311	-44 192	4 570 069
Consumer and card loans		106 307	-9	-1 045	105 262
Other loans		274 866	-751	-8 935	265 931
Leasing		454 272	-5	-4 092	450 180
Total		**9 671 137**	**-18 618**	**-136 895**	**9 534 242**

Group 31 December 2019 thousand EUR	**Notes**	**Gross**	***of which Initial Impairment of POCI***	**Allowance for impairment**	**Net**
Due from banks and other credit institutions	**12**	**141 654**	**0**	**-9**	**141 645**
Financial institutions	**14**	**29 378**	**-2**	**-123**	**29 255**
Public sector	**14**	**174 732**	**0**	**-17**	**174 715**
Business customers	**14**	**4 523 201**	**-15 838**	**-111 037**	**4 412 164**
Loans		3 156 365	-15 339	-95 544	3 060 821
Factoring		278 511	0	-1 691	276 820
Leasing		1 088 325	-499	-13 802	1 074 523
Individual customers	**14**	**5 680 911**	**-2 448**	**-74 498**	**5 606 413**
Mortgage loans		4 689 319	-1 241	-56 080	4 633 239
Consumer and card loans		132 862	-18	-1 452	131 410
Other loans		325 119	-1 162	-11 938	313 181
Leasing		533 611	-27	-5 028	528 583
Total		**10 549 876**	**-18 288**	**-185 684**	**10 364 192**

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The credit quality of loans to customers as at 31 December 2020 and 31 December 2019 is disclosed in the tables below according to the risk scale (refer to the Section "Loans to customers" of this report, please).

Group 31 December 2020

Due from banks and other credit institutions

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	103 575	0	0	0	**103 575**
Moderate risk	0	0	0	0	**0**
High risk	0	0	0	0	**0**
Default	0	0	0	0	**0**
Gross	**103 575**	**0**	**0**	**0**	**103 575**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-16	0	0	0	**-16**
Net	**103 559**	**0**	**0**	**0**	**103 559**

Loans to financial institutions

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	121 166	0	0	0	**121 166**
Moderate risk	7 350	1 692	0	0	**9 042**
High risk	360	1 887	0	0	**2 247**
Default	0	0	64	5	**69**
Gross	**128 876**	**3 579**	**64**	**5**	**132 524**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-432	-50	0	0	**-482**
Net	**128 444**	**3 529**	**64**	**5**	**132 042**

Loans to public sector

thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	136 739	0	0	29	**136 768**
Moderate risk	1 724	0	0	8	**1 732**
High risk	99	0	0	0	**99**
Default	0	0	0	0	**0**
Gross	**138 562**	**0**	**0**	**37**	**138 599**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-14	0	0	0	**-14**
Net	**138 548**	**0**	**0**	**37**	**138 585**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Business customers

Loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	765 589	15 600	0	0	**781 189**
Moderate risk	1 070 162	629 446	0	11 465	**1 711 073**
High risk	32 479	147 996	0	21 209	**201 684**
Default	0	0	118 335	10 670	**129 005**
Gross	**1 868 230**	**793 042**	**118 335**	**43 344**	**2 822 951**
Of which initial impairment	0	0	0	-16 031	-16 031
Less: allowance for impairment	-6 532	-5 872	-47 042	-2 289	**-61 735**
Net	**1 861 698**	**787 170**	**71 293**	**41 055**	**2 761 216**

Factoring thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	45 057	0	0	0	**45 057**
Moderate risk	102 643	21 390	0	0	**124 033**
High risk	4 364	6 357	0	0	**10 721**
Default	0	0	1 073	0	**1 073**
Gross	**152 064**	**27 747**	**1 073**	**0**	**180 884**
Of which initial impairment	0	0	0	0	**0**
Less: allowance for impairment	-685	-495	-956	0	**-2 136**
Net	**151 379**	**27 252**	**117**	**0**	**178 748**

Leasing thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	119 459	7 921	0	135	**127 515**
Moderate risk	474 394	118 918	0	173	**593 485**
High risk	39 016	64 128	0	80	**103 224**
Default	0	0	17 512	1 162	**18 674**
Gross	**632 869**	**190 967**	**17 512**	**1 550**	**842 898**
Of which initial impairment	0	0	0	-511	**-511**
Less: allowance for impairment	-4 357	-3 817	-5 885	-189	**-14 248**
Net	**628 512**	**187 150**	**11 627**	**1 361**	**828 650**

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Individual customers

Mortgage loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	3 768 376	36 316	0	2 861	**3 807 553**
Moderate risk	506 186	48 078	0	620	**554 884**
High risk	39 232	87 112	0	329	**126 673**
Default	0	0	122 280	2 871	**125 151**
Gross	**4 313 794**	**171 506**	**122 280**	**6 681**	**4 614 261**
Of which initial impairment	0	0	0	-1 311	**-1 311**
Less: allowance for impairment	-5 319	-10 925	-27 685	-263	**-44 192**
Net	**4 308 475**	**160 581**	**94 595**	**6 418**	**4 570 069**

Consumer and card loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	27 350	231	0	11	**27 592**
Moderate risk	52 235	2 174	0	11	**54 420**
High risk	20 476	2 075	0	5	**22 556**
Default	0	0	1 700	39	**1 739**
Gross	**100 061**	**4 480**	**1 700**	**66**	**106 307**
Of which initial impairment	0	0	0	-9	**-9**
Less: allowance for impairment	-584	-99	-357	-5	**-1 045**
Net	**99 477**	**4 381**	**1 343**	**61**	**105 262**

Other loans thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	94 633	3 215	0	499	**98 347**
Moderate risk	96 045	29 149	0	233	**125 427**
High risk	5 931	19 588	0	54	**25 573**
Default	0	0	23 281	2 238	**25 519**
Gross	**196 609**	**51 952**	**23 281**	**3 024**	**274 866**
Of which initial impairment	0	0	0	-751	**-751**
Less: allowance for impairment	-996	-1 381	-6 006	-552	**-8 935**
Net	**195 613**	**50 571**	**17 275**	**2 472**	**265 931**

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Leasing thousand EUR	Stage 1 (12-months ECL)	Stage 2 (lifetime ECL for SICR)	Stage 3 (lifetime ECL for credit-impaired)	POCI	Total
Low risk	12 872	426	0	0	**13 298**
Moderate risk	410 068	17 396	0	50	**427 514**
High risk	4 153	5 144	0	7	**9 304**
Default	0	0	3 984	172	**4 156**
Gross	**427 093**	**22 966**	**3 984**	**229**	**454 272**
Of which initial impairment	0	0	0	-5	**-5**
Less: allowance for impairment	-2 322	-506	-1 143	-121	**-4 092**
Net	**424 771**	**22 460**	**2 841**	**108**	**450 180**

Group 31 December 2019

Due from banks and other credit institutions

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

Loans to financial institutions

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

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Initials L.L. Date 15.04.2021

Loans to public sector

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

Business customers

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

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

Individual customers

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

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

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

i) Information about credit loss allowances

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Group 2020

Loans to customers total (thousand EUR)

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-16 472**	**-25 896**	**-138 918**	**-4 389**	**-185 675**	**9 131 062**	**846 105**	**364 943**	**66 112**	**10 408 222**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	4 190	-7 033	2 843	0	**0**	-907 204	924 325	-17 121	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	2 366	3 487	-5 853	0	**0**	-62 838	-74 489	137 327	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-7 757	6 386	1 371	0	**0**	195 167	-180 960	-14 207	0	**0**
New originated or purchased*	-11 589	0	0	0	**-11 589**	1 504 711	0	0	250	**1 504 961**
Derecognised and repaid during the period*	3 408	4 014	11 327	163	**18 912**	-1 902 740	-248 742	-121 251	-9 582	**-2 282 315**
Changes to ECL model assumptions and effect from changes in Stages	17 181	4 330	-21 306	-961	**-756**	0	0	0	0	**0**
Management overlay adjustment	-12 568	-8 433	0	-76	**-21 077**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-4 769	2 751	-11 618	-874	**-14 510**	-1 172 904	420 134	-15 252	-9 332	**-777 354**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	61 462	1 844	**63 306**	0	0	-61 462	-1 844	**-63 306**
As at 31 December 2020	**-21 241**	**-23 145**	**-89 074**	**-3 419**	**-136 879**	**7 958 158**	**1 266 239**	**288 229**	**54 936**	**9 567 562**

* Includes intra-portfolio reclassifications

Explanations
Stage 1 (12 - months ECL)
Stage 2 (Lifetime ECL for SICR)
Stage 3 (Lifetime ECL for Credit Impaired)
POCI (Lifetime ECL for Purchased or Originated Credit Impaired)
As at 31 December 2020 out of total POCI loans credit loss allowances -181 thousand EUR is in Stage 2 and -3 238 thousand EUR is in Stage 3, gross carrying amount 37 769 thousand EUR is in Stage 2 and 17 157 thousand EUR in Stage 3.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Financial Institutions (thousand EUR)

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-82**	**-37**	**-3**	**-1**	**-123**	**26 418**	**2 844**	**110**	**6**	**29 378**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	20	-20	0	0	**0**	-2 532	2 532	0	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	0	0	0	0	**0**	-50	0	50	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-1	1	0	0	**0**	138	-138	0	0	**0**
New originated or purchased*	-410	0	0	0	**-410**	131 338	0	0	0	**131 338**
Derecognised and repaid during the period*	71	30	0	0	**101**	-26 436	-1 659	-96	-1	**-28 192**
Changes to ECL model assumptions and effect from changes in Stages	881	0	3	1	**885**	0	0	0	0	**0**
Management overlay adjustment	-911	-24	0	0	**-935**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-350	-13	3	1	**-359**	102 458	735	-46	-1	**103 146**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	0	0	**0**	0	0	0	0	**0**
As at 31 December 2020	**-432**	**-50**	**0**	**0**	**-482**	**128 876**	**3 579**	**64**	**5**	**132 524**

* Includes intra-portfolio reclassifications

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

Public sector (thousand EUR)

	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-17**	**0**	**0**	**0**	**-17**	**174 308**	**0**	**378**	**46**	**174 732**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	0	0	0	0	**0**	-17	17	0	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	5	0	-5	0	**0**	-6	0	6	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-5	0	5	0	**0**	401	-17	-384	0	**0**
New originated or purchased*	-13	0	0	0	**-13**	12 814	0	0	0	**12 814**
Derecognised and repaid during the period*	5	0	0	0	**5**	-48 938	0	0	-9	**-48 947**
Changes to ECL model assumptions and effect from changes in Stages	24	0	0	0	**24**	0	0	0	0	**0**
Management overlay adjustment	-13	0	0	0	**-13**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	3	0	0	0	**3**	-35 746	0	-378	-9	**-36 133**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	0	0	**0**	0	0	0	0	**0**
As at 31 December 2020	**-14**	**0**	**0**	**0**	**-14**	**138 562**	**0**	**0**	**37**	**138 599**

* Includes intra-portfolio reclassifications

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Business customers (thousand EUR)

Loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-4 521**	**-3 750**	**-85 290**	**-1 983**	**-95 544**	**2 556 098**	**375 655**	**175 419**	**49 193**	**3 156 365**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	1 439	-1 441	2	0	**0**	-574 495	574 549	-54	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	717	295	-1 012	0	**0**	-25 908	-31 695	57 603	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-445	402	43	0	**0**	45 302	-45 226	-76	0	**0**
New originated or purchased*	-3 496	0	0	0	**-3 496**	540 301	0	0	30	**540 331**
Derecognised and repaid during the period*	1 242	1 226	5 708	23	**8 199**	-673 068	-80 241	-67 445	-5 509	**-826 263**
Changes to ECL model assumptions and effect from changes in Stages	1 660	565	-13 605	-637	**-12 017**	0	0	0	0	**0**
Management overlay adjustment	-3 128	-3 169	0	-62	**-6 359**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-2 011	-2 122	-8 864	-676	**-13 673**	-687 868	417 387	-9 972	-5 479	**-285 932**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	47 112	370	**47 482**	0	0	-47 112	-370	**-47 482**
As at 31 December 2020	**-6 532**	**-5 872**	**-47 042**	**-2 289**	**-61 735**	**1 868 230**	**793 042**	**118 335**	**43 344**	**2 822 951**

* Includes intra-portfolio reclassifications

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Factoring	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-304**	**-151**	**-1 236**	**0**	**-1 691**	**242 967**	**33 291**	**2 253**	**0**	**278 511**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	79	-79	0	0	**0**	-42 791	42 791	0	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	1	38	-39	0	**0**	-259	-884	1 143	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-1	1	0	0	**0**	5 483	-5 483	0	0	**0**
New originated or purchased*	-105	0	0	0	**-105**	22 226	0	0	0	**22 226**
Derecognised and repaid during the period*	98	51	357	0	**506**	-75 562	-41 968	-2 156	0	**-119 686**
Changes to ECL model assumptions and effect from changes in Stages	-69	-10	-205	0	**-284**	0	0	0	0	**0**
Management overlay adjustment	-384	-345	0	0	**-729**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-381	-344	113	0	**-612**	-90 903	-5 544	-1 013	0	**-97 460**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	167	0	**167**	0	0	-167	0	**-167**
As at 31 December 2020	**-685**	**-495**	**-956**	**0**	**-2 136**	**152 064**	**27 747**	**1 073**	**0**	**180 884**

* Includes intra-portfolio reclassifications

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

Leasing	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-3 120**	**-3 274**	**-7 290**	**-118**	**-13 802**	**944 050**	**117 904**	**24 287**	**2 084**	**1 088 325**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	1 914	-2 394	480	0	**0**	-171 873	173 575	-1 702	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	486	104	-590	0	**0**	-10 346	-4 770	15 116	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-601	429	172	0	**0**	21 806	-21 122	-684	0	**0**
New originated or purchased*	-4 168	0	0	0	**-4 168**	276 312	0	0	0	**276 312**
Derecognised and repaid during the period*	908	643	1 490	6	**3 047**	-427 080	-74 620	-16 897	-429	**-519 026**
Changes to ECL model assumptions and effect from changes in Stages	3 275	2 352	-2 755	-181	**2 691**	0	0	0	0	**0**
Management overlay adjustment	-3 051	-1 677	0	-1	**-4 729**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-1 237	-543	-1 203	-176	**-3 159**	-311 181	73 063	-4 167	-429	**-242 714**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	2 608	105	**2 713**	0	0	-2 608	-105	**-2 713**
As at 31 December 2020	**-4 357**	**-3 817**	**-5 885**	**-189**	**-14 248**	**632 869**	**190 967**	**17 512**	**1 550**	**842 898**

* Includes intra-portfolio reclassifications

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Individual customers (thousand EUR)

Mortgage loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-4 050**	**-15 800**	**-35 206**	**-1 024**	**-56 080**	**4 340 016**	**207 444**	**132 642**	**9 217**	**4 689 319**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	403	-2 330	1 927	0	**0**	-72 011	85 448	-13 437	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	695	2 512	-3 207	0	**0**	-17 569	-25 496	43 065	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-5 725	4 870	855	0	**0**	93 821	-83 399	-10 422	0	**0**
New originated or purchased*	-1 556	0	0	0	**-1 556**	337 796	0	0	114	**337 910**
Derecognised and repaid during the period*	229	1 817	2 769	15	**4 830**	-368 259	-12 491	-22 192	-2 142	**-405 084**
Changes to ECL model assumptions and effect from changes in Stages	7 884	89	-2 199	247	**6 021**	0	0	0	0	**0**
Management overlay adjustment	-3 199	-2 083	0	-9	**-5 291**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-1 269	4 875	145	253	**4 004**	-26 222	-35 938	-2 986	-2 028	**-67 174**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	7 376	508	**7 884**	0	0	-7 376	-508	**-7 884**
As at 31 December 2020	**-5 319**	**-10 925**	**-27 685**	**-263**	**-44 192**	**4 313 794**	**171 506**	**122 280**	**6 681**	**4 614 261**

* Includes intra-portfolio reclassifications

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Consumer and card loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-474**	**-141**	**-760**	**-77**	**-1 452**	**122 032**	**7 945**	**2 736**	**149**	**132 862**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	23	-38	15	0	**0**	-3 882	3 940	-58	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	35	16	-51	0	**0**	-1 307	-439	1 746	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-176	61	115	0	**0**	4 643	-3 929	-714	0	**0**
New originated or purchased*	-227	0	0	0	**-227**	26 656	0	0	13	**26 669**
Derecognised and repaid during the period*	99	19	157	72	**347**	-48 081	-3 037	-871	-84	**-52 073**
Changes to ECL model assumptions and effect from changes in Stages	312	15	-972	-12	**-657**	0	0	0	0	**0**
Management overlay adjustment	-176	-31	0	0	**-207**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-110	42	-736	60	**-744**	-21 971	-3 465	103	-71	**-25 404**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	1 139	12	**1 151**	0	0	-1 139	-12	**-1 151**
As at 31 December 2020	**-584**	**-99**	**-357**	**-5**	**-1 045**	**100 061**	**4 480**	**1 700**	**66**	**106 307**

* Includes intra-portfolio reclassifications

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Other loans	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-788**	**-2 085**	**-7 930**	**-1 135**	**-11 938**	**233 525**	**64 624**	**21 845**	**5 125**	**325 119**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	168	-378	210	0	**0**	-26 422	27 680	-1 258	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	376	482	-858	0	**0**	-4 890	-9 334	14 224	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-567	494	73	0	**0**	14 222	-13 377	-845	0	**0**
New originated or purchased*	-665	0	0	0	**-665**	43 019	0	0	93	**43 112**
Derecognised and repaid during the period*	253	132	642	44	**1 071**	-62 845	-17 641	-7 727	-1 345	**-89 558**
Changes to ECL model assumptions and effect from changes in Stages	736	721	-1 101	-306	**50**	0	0	0	0	**0**
Management overlay adjustment	-509	-747	0	-4	**-1 260**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	-208	704	-1 034	-266	**-804**	-36 916	-12 672	4 394	-1 252	**-46 446**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	2 958	849	**3 807**	0	0	-2 958	-849	**-3 807**
As at 31 December 2020	**-996**	**-1 381**	**-6 006**	**-552**	**-8 935**	**196 609**	**51 952**	**23 281**	**3 024**	**274 866**

* Includes intra-portfolio reclassifications

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Leasing	Credit loss allowance					Gross carrying amount				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
As at 31 December 2019	**-3 116**	**-658**	**-1 203**	**-51**	**-5 028**	**491 648**	**36 398**	**5 273**	**292**	**533 611**
Movements with impact on credit loss allowances for the period										
Transfers:										
-to lifetime (from Stage 1 and stage 3 to Stage 2)	144	-353	209	0	**0**	-13 181	13 793	-612	0	**0**
-to credit-impaired (from Stage 1 and Stage 2 to Stage 3)	51	40	-91	0	**0**	-2 503	-1 871	4 374	0	**0**
-to 12-months ECL (from Stage 2 and Stage 3 to Stage 1)	-236	128	108	0	**0**	9 351	-8 269	-1 082	0	**0**
New originated or purchased*	-949	0	0	0	**-949**	114 249	0	0	0	**114 249**
Derecognised and repaid during the period*	503	96	204	3	**806**	-172 471	-17 085	-3 867	-63	**-193 486**
Changes to ECL model assumptions and effect from changes in Stages	2 478	598	-472	-73	**2 531**	0	0	0	0	**0**
Management overlay adjustment	-1 197	-357	0	0	**-1 554**	0	0	0	0	**0**
Total movements with impact in credit loss allowance charge for period	794	152	-42	-70	**834**	-64 555	-13 432	-1 187	-63	**-79 237**
Movements without impact on credit loss allowances for the period										
Write-offs	0	0	102	0	**102**	0	0	-102	0	**-102**
As at 31 December 2020	**-2 322**	**-506**	**-1 143**	**-121**	**-4 092**	**427 093**	**22 966**	**3 984**	**229**	**454 272**

* Includes intra-portfolio reclassification

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Group 2019

Loans to customers total (thousand EUR)

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

Explanations
Stage 1 (12 - months ECL)
Stage 2 (Lifetime ECL for SICR)
Stage 3 (Lifetime ECL for Credit Impaired)
POCI (Lifetime ECL for Purchased or Originated Credit Impaired)
As at 31 December 2019 out of total POCI loans credit loss allowances -390 thousand EUR is in Stage 2 and -3 999 thousand EUR is in Stage 3, gross carrying amount 41 228 thousand EUR is in Stage 2 and 24 884 thousand EUR in Stage 3.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Financial Institutions (thousand EUR)

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Public sector (thousand EUR)

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Business customers (thousand EUR)

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Individual customers (thousand EUR)

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

j) Information about collaterals of loans

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

If exposure is secured by several different types of collateral, priority in recognition of a collateral is based on its liquidity. Securities, cash and guarantees are treated as the types of collateral with the highest liquidity, followed by residential real estate and then other real estate. Movable assets like transport vehicles, equipment and other assets are treated as having the lowest liquidity.

The most commonly used type of collateral is residential real estate comprising 54.8 % of the secured part of the Bank's loan portfolio (53.5 % in 2019).

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Group loans to customers (thousand EUR)

31 December 2020	Total	%
Unsecured loans	857 623	9%
Loans collateralized by:	**8 709 939**	**91%**
- residential real estate	4 629 781	48%
- other real estate	2 116 336	22%
- securities	160 274	2%
- guarantees	211 110	2%
- other assets	1 592 438	17%
Total	**9 567 562**	**100%**

31 December 2020	Financial institutions	%
Unsecured loans	5 454	4%
Loans collateralized by:	**127 070**	**96%**
- residential real estate	156	0%
- other real estate	120 724	91%
- securities	1 622	1%
- guarantees	0	0%
- other assets	4 568	4%
Total	**132 524**	**100%**

31 December 2020	Public sector	%
Unsecured loans	121 854	88%
Loans collateralized by:	**16 745**	**12%**
- residential real estate	0	0%
- other real estate	4 788	3%
- securities	0	0%
- guarantees	238	0%
- other assets	11 719	9%
Total	**138 599**	**100%**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Luminor

Business customers

31 December 2020	Loans	%	Factoring	%	Leasing	%
Unsecured loans	245 397	9%	170 986	95%	105 633	13%
Loans collateralized by:	**2 577 554**	**91%**	**9 898**	**5%**	**737 265**	**87%**
- residential real estate	69 750	2%	0	0%	0	0%
- other real estate	1 834 897	65%	0	0%	762	0%
- securities	158 210	6%	0	0%	0	0%
- guarantees	127 685	5%	194	0%	4 760	1%
- other assets	387 012	13%	9 704	5%	731 743	86%
Total	**2 822 951**	**100%**	**180 884**	**100%**	**842 898**	**100%**

Individual customers

31 December 2020	Mortgage loans	%	Consumer and card loans	%	Other loans	%	Leasing	%
Unsecured loans	56 270	1%	94 326	89%	20 864	8%	36 839	8%
Loans collateralized by:	**4 557 991**	**99%**	**11 981**	**11%**	**254 002**	**92%**	**417 433**	**92%**
- residential real estate	4 443 289	97%	819	1%	115 767	42%	0	0%
- other real estate	53 762	1%	99	0%	101 304	37%	0	0%
- securities	420	0%	3	0%	19	0%	0	0%
- guarantees	59 426	1%	11 058	10%	7 749	3%	0	0%
- other assets	1 094	0%	2	0%	29 163	10%	417 433	92%
Total	**4 614 261**	**100%**	**106 307**	**100%**	**274 866**	**100%**	**454 272**	**100%**

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

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

Business customers

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Individual customers

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

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

Credit-impaired loans (thousand EUR)

31 December 2020	Gross	*Of which initial impairment*	Allowances for impairment	Net	Fair value of collateral
Business customers*	148 822	-1 283	-56 219	92 603	126 754
Individual customers	156 564	-1 569	-36 093	120 471	138 825
Total	**305 386**	**-2 852**	**-92 312**	**213 074**	**265 579**

31 December 2019	Gross	*Of which initial impairment*	Allowances for impairment	Net	Fair value of collateral
Business customers*	218 533	-809	-95 667	122 866	152 900
Individual customers	171 294	-1 838	-47 252	124 042	145 641
Total	**389 827**	**-2 647**	**-142 919**	**246 908**	**298 541**

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

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

31 December 2020	Over-collateralised assets		Under-collateralised assets	
thousand EUR	Gross carrying value of the assets	Value of collateral	Gross carrying value of the assets	Value of collateral
Loans to business customers	94 451	240 752	54 371	32 292
Loans to individuals	109 890	275 383	46 675	28 936
Total	**204 341**	**516 135**	**101 046**	**61 228**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

31 December 2019	Over-collateralised assets		Under-collateralised assets	
thousand EUR	Gross carrying value of the assets	Value of collateral	Gross carrying value of the assets	Value of collateral
Loans to business customers	109 685	394 495	108 848	43 206
Loans to individuals	112 227	256 855	59 067	33 413
Total	**221 912**	**651 350**	**167 915**	**76 619**

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

31 December 2020	Over-collateralised assets		Under-collateralised assets	
thousand EUR	Gross carrying value of the assets	Value of collateral	Gross carrying value of the assets	Value of collateral
Loans to business customers	2 990 855	9 823 840	1 127 150	476 665
Loans to individuals	4 864 438	12 788 500	585 267	376 749
Total	**7 855 293**	**22 612 340**	**1 712 417**	**853 414**

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

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events. Operational risk in Luminor includes the following sub-risks: Legal risk, Compliance risk, Fraud and Financial Crime risk, Conduct risk, Information and communications technology (ICT) risk, Information Security risk, Data Management and Protection risk, People risk, Third Party/Outsourcing risk, Change/Project risk, Process & Reporting risk and excludes Reputational risk and Business Model risk.

Operational risk management in Luminor is governed by the Operational Risk Policy and other relevant operational risk management framework documents. Each manager and process owner within the bank is responsible for the management of risks inherent in the activities and processes within their respective area. This includes fostering a sound risk culture in their respective reporting lines to ensure that employees understand the operations that are performed by them, the risks inherent in these, and the importance of controls they execute or oversee the execution of.

A key objective of the Operational Risk Department is to identify any deviations of Luminor's operational risk profile from the desired risk level that is stated in the Risk Appetite Framework, and to do so in a timely manner to ensure any deviations can be effectively managed without significant detriment to the bank, its customers or other stakeholders.

In response to the COVID-19 pandemic, Luminor operates a system of predefined controls in the form of COVID-19 response states. These response states allow management to quickly and effectively increase or decrease COVID-19 related restrictions and limitations in response to perceived threat and risk levels. The COVID-19 response states are designed as a baseline to manage the risk to Luminor and the bank's stakeholders and are country-based. Should there be a variation between the restrictions in the relevant COVID-19 response state and local governmental rules or advice, the more conservative of the two will prevail.

Luminor management is kept updated on the status of operational risk through periodic and ad hoc risk reporting.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

MARKET RISK

The Bank has a low-risk appetite for market risk, which is defined as the risk of losses from on- and off-balance sheet positions arising from adverse movements in market parameters such as interest rates, credit spreads, currency exchange rates, equity prices or commodity prices. Based on Luminor's internal risk self-assessment, the most significant parts of the market risk for the Bank are interest rate risk, credit spread risk and foreign exchange risk, which all stayed well within internal Risk Appetite Framework and lower level limits. The significance of other risks is lower, as the Bank does not have any open positions in equity instruments for trading, and all commodity deals with customers are hedged with back-to-back transactions.

INTEREST RATE AND CREDIT SPREAD RISK

The main source of interest rate risk in the Bank is the repricing risk – risk related to the timing mismatch in the maturity and repricing of assets and liabilities of on- and off-balance sheet positions. Pursuant to Luminor's Market Risk Policy, interest rate risk is limited in terms of Basis Point Value (BPV), i.e. the change in net cash flows given a one basis point up (0.01%) parallel shift in the market interest rates. Separate limits for banking and trading activities are approved by the Management Board and the Supervisory Council of Luminor Bank AS, as well as limits for different currencies: EUR, USD, NOK and sum of all other currencies. When calculating the total exposure, the sums of BPV in each currency are aggregated irrespective whether the total exposure in each individual currency is a short or long position, i.e. netting of positions between currencies is not allowed. The main part of the interest rate risk arises from the positions that are denominated in EUR. Using derivatives as hedges is a major part of interest risk management; refer also to the Note 1 and Note 13, please.

Credit spread risk for Luminor arises from debt securities in the liquidity bond portfolio and exposures in the trading debt portfolio. Credit spread risk has been within internal Risk Appetite Framework limits at the end of 2020.

Sensitivity to interest rate risk

The risk from changes in interest rates increases for longer duration time buckets due to higher uncertainty of future rates. To limit risk exposure resulting from different time buckets, gapping limits are determined for each of them. Limit established for each time bucket is defined as a percentage of the total BPV limit allocated to the relevant currency. When measuring sensitivity to interest rate risk the impact from the optionality (floors) in loan agreements is not currently considered. For deposits the Bank is using behavioral maturity.

Interest rate risk sensitivity in terms of BPV was within the internal lower level limits at the end of 2020.

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

Currency	31 December 2020	31 December 2019
EUR	(40 604)	(41 291)
USD	175	4 965
NOK	15	727
Other currencies	(822)	(65)

FOREIGN EXCHANGE (FX) RISK

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

Currency	31 December 2020	31 December 2019
USD	382	97
Max of other currencies*	92	302
Sum of other currencies**	298	609
Total* **	**638**	**383**

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

Sensitivity of foreign exchange risk

Luminor applies a value-at-risk (VaR) model for simulation of volatility parameters which are then applied to the actual open foreign exchange (FX) positions to estimate a possible loss due to changes in FX rates. The VaR model assumes a 99 percent confidence level, a 10-day holding period and is calibrated from a minimum of 5-year long time series, which includes periods of high market turbulence. Due to materiality, Luminor currently calculates VaR volatility parameters only for EUR/USD. For currencies other than USD, due to their immateriality, the resulting EUR/USD VaR volatility parameters are simply increased by 50%.

Calculation of sensitivity of FX risk in the amount of 45 thousand EUR shows an immaterial impact for the Bank at the end of 2020.

EQUITY AND COMMODITY RISK

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

The Bank does not engage in proprietary stock trading. However, the Bank owns some shares on its balance sheet which are recognized as participation in the settlement systems rather than any kind of investment in shares. The total value of these shares has increased over the year due to a positive trend of underlying instruments as such investments in shares are classified as Investments in Debt securities, measured at FVTPL. In terms of stress test, a value-at-risk (VaR) model was set considering the 99 percent confidence level for data series covering period 2008-2020. Fair value adjustment of 20% is applied additionally considering that the shares are of preferred class stock which is not freely tradeable. Finally, as the stock on Luminor's balance sheet is denominated in USD, foreign exchange volatility is also considered as described earlier. In severe adverse scenario, the resulting shock applied to the total value of shares produced an outcome of possible loss equal to 2.7 million EUR at end of 2020.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank is unable to meet its financial obligations in time, the risk of incurring losses due to a sudden decrease in financial resources (e.g. a financial crisis situation may result in a delay of incoming payments) or an increase in price of the new resources designed for refinancing. The consequence of liquidity risk may be failure to meet obligations to repay depositors and fulfil loan commitments. The Bank uses a range of liquidity metrics for measuring, monitoring and controlling liquidity risk including the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and internal liquidity limits.

Liquidity risk is managed in a manner to ensure a constant ability to settle contractual obligations. The Bank has developed a set of early warning indicators for a timely identification of liquidity crises, and business and funding contingency funding plans to manage the Bank's liquidity during market disruptions. The liquidity risk management strategy is reviewed at least annually or after any significant change in the internal or external environment the Bank operates in Liquidity risk management process.

Liquidity risk is managed across three lines of defence:

- The first line of defence comprises the Bank's Treasury & Asset Liability Management (TALM) department and the business areas. TALM is responsible for the daily liquidity management and funds transfer pricing (FTP). To ensure the funding in situations where Luminor is in urgent need of cash and the normal funding sources do not suffice, Luminor holds a liquidity buffer that consists of central bank cash and high-quality securities that can be readily sold or used as collateral in funding operations.
- The Market and Liquidity Risk department is the second line of defence and is responsible for providing independent oversight and control of liquidity risk and the first line of defence.
- The Internal Audit function is the third line of defence, which is responsible for providing independent assurance over the first and second lines of defence activities.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

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

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

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

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

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

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

Carrying amount 31 December 2020 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and deposits with central banks	4 926 520	0	0	0	0	**4 926 520**
Due from other credit institutions	80 951	5 835	4 364	12 403	6	**103 559**
Financial assets held for trading	24	73	20	1 465	1 275	**2 857**
Derivative financial instruments	19 669	3 800	3 969	15 936	33	**43 407**
Financial assets at fair value through other comprehensive income	0	0	0	0	140	**140**
Financial assets fair value through profit or loss	8 920	0	6 750	178 800	89 679	**284 149**
Loans to customers	270 190	340 489	1 658 847	3 781 867	3 379 290	**9 430 683**
Other financial assets	11 999	0	0	0	0	**11 999**
Total assets	**5 318 273**	**350 197**	**1 673 950**	**3 990 471**	**3 470 423**	**14 803 314**
Derivative financial instruments	20 515	6 790	6 874	16 365	39	**50 583**
Loans and deposits from credit institutions	17 311	0	0	30 000	0	**47 311**
Deposits from customers	11 101 283	214 000	451 185	48 964	6 118	**11 821 550**
Debt securities issued	0	40	101 144	1 100 048	0	**1 201 232**
of which: Covered Bond	0	40	0	501 985	0	**502 025**
Lease Liabilities	495	991	4 347	20 893	22 946	**49 672**
Other financial liabilities	14 705	0	0	0	0	**14 705**
Total liabilities	**11 154 309**	**221 821**	**563 550**	**1 216 270**	**29 103**	**13 185 053**
Shareholder's equity						
Net financial assets / (liabilities)	**-5 836 036**	**128 376**	**1 110 400**	**2 774 201**	**3 441 320**	**1 618 261**
Irrevocable and revocable off-balance sheet commitments	1 779 656	0	0	0	0	**1 779 656**
Liquidity gap arising from financial instruments	**-7 615 692**	**128 376**	**1 110 400**	**2 774 201**	**3 441 320**	**-161 395**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Carrying amount 31 December 2019 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and deposits with central banks	2 924 019	0	0	0	0	**2 924 019**
Due from other credit institutions	139 527	214	389	1 513	2	**141 645**
Financial assets held for trading	0	2 181	16	725	99	**3 021**
Derivative financial instruments	28 839	901	4 864	24 220	393	**59 217**
Financial assets at fair value through other comprehensive income	0	0	0	0	140	**140**
Financial assets fair value through profit or loss	0	0	45 116	117 487	65 293	**227 896**
Loans to customers*	339 420	396 790	1 955 895	4 063 073	3 467 369	**10 222 547**
Other financial assets	29 113	0	0	0	0	**29 113**
Total assets	**3 460 918**	**400 086**	**2 006 280**	**4 207 018**	**3 533 296**	**13 607 598**
Derivative financial instruments	28 377	793	3 098	24 279	1 757	**58 304**
Loans and deposits from credit institutions	30 244	0	950 448	0	0	**980 692**
Deposits from customers	8 739 621	545 949	868 407	76 475	4 967	**10 235 419**
Debt securities issued	0	0	0	651 716	0	**651 716**
Lease Liabilities	425	851	3 761	19 030	32 984	**57 051**
Other financial liabilities	45 303	0	0	0	0	**45 303**
Total liabilities	**8 843 970**	**547 593**	**1 825 714**	**771 500**	**39 708**	**12 028 485**
Shareholder's equity						
Net financial assets / (liabilities)	**-5 383 052**	**-147 507**	**180 566**	**3 435 518**	**3 493 588**	**1 579 113**
Irrevocable and revocable off-balance sheet commitments	1 788 816	0	0	0	0	**1 788 816**
Liquidity gap arising from financial instruments	**-7 171 868**	**-147 507**	**180 566**	**3 435 518**	**3 493 588**	**-209 703**

* Maturity breakdowns for loans to customers as at 31 December 2019 were restated as compared to the disclosures made in the Annual Report for the year ended 31 December 2019, being in compliance with the updated calculating methodology.

Disclosure of contractual undiscounted cash flows for liabilities as at 31 December 2020:

thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments	20 515	6 790	6 874	16 365	39	**50 583**
Loans and deposits from credit institutions	17 338	0	0	29 825	0	**47 163**
Deposits from customers	11 101 811	214 496	451 975	50 029	6 411	**11 824 722**
Debt securities issued	0	53	107 453	1 108 879	0	**1 216 385**
of which: Covered Bond	0	53	0	500 200	0	**500 253**
Lease Liabilities	605	1 208	5 278	24 572	25 170	**56 833**
Other financial liabilities	14 705	0	0	0	0	**14 705**
Total liabilities	**11 154 974**	**222 547**	**571 580**	**1 229 670**	**31 620**	**13 210 391**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivative financial instruments	28 377	793	3 098	24 279	1 757	**58 304**
Loans and deposits from credit institutions	30 244	0	956 458	0	0	**986 702**
Deposits from customers	8 739 621	546 625	872 496	78 183	5 117	**10 242 042**
Debt securities issued	0	0	10 067	662 961	0	**673 028**
Lease Liabilities	546	1 091	4 804	23 523	38 346	**68 310**
Other Financial Liabilities	45 303	0	0	0	0	**45 303**
Total liabilities	**8 844 091**	**548 509**	**1 846 923**	**788 946**	**45 220**	**12 073 689**

Off-balance sheet items

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

31 December 2020 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loan commitments	1 199 076	0	0	0	0	**1 199 076**
Financial guarantees	433 502	0	0	0	0	**433 502**
Performance guarantees	147 078	0	0	0	0	**147 078**
Total	**1 779 656**	**0**	**0**	**0**	**0**	**1 779 656**

31 December 2019 thousand EUR	On demand and less than 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Loan commitments	973 491	0	0	0	0	**973 491**
Financial guarantees	502 330	0	0	0	0	**502 330**
Performance guarantees*	98 372	0	0	0	0	**98 372**
Total	**1 574 193**	**0**	**0**	**0**	**0**	**1 574 193**

* Comparative figures were changed due to reclassification.

Liquidity buffer and collateral management

The main part of the liquidity buffer is held on Central Bank Accounts where the Bank held 4 803 million EUR at the end of December 2020. This buffer can be utilized at any time when the need arises. On top of the Central Bank Accounts, the buffer also includes the liquidity bond portfolio (excluding Markets' assets as per the internal definition of the liquidity buffer) of 275 million EUR consisting mainly of debt securities issued by Baltic governments.

The liquidity buffer is supported by the contractual agreement for funding with shareholders DNB Bank ASA and Nordea Bank Abp. Together with the capability to issue covered bonds, these strongly mitigate the likelihood of funding liquidity risk, which may be caused by a deposit run-off, wholesale funding risk (roll-over and new issuance), unexpected outflows from off-balance sheet obligations and legal risks (e.g. not being able to issue funding due to legal restrictions). This agreement introduces the requirement for collateral as the facility is collateralized with assets, primarily with mortgages.

The Bank is taking part in the ECB's Eurosystem open market operations. In particular, the Bank is a user of the ECB Targeted Long Term Refinancing Operations (TLTRO) which also requires collateral. Another source of encumbrance arises from issued Covered Bonds. Encumbrance arising from pledged assets is reported and monitored. The collateral is managed by monitoring the fulfilment of the requirements for each type of collateral.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Concentration of risks

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

Establishing country limits is required when the Bank acquires sovereign debt, takes risk backed by a country's government or when establishing credit limits towards foreign financial institutions. No country limits are set for exposures to the EU and OECD countries that are rated BBB (S&P, Fitch) or Baa2 (Moody's) or better, and to our home markets.

Geographic concentration of assets and liabilities

31 December 2020 thousand EUR	Cash balance*	Loans to customers	Other assets	Total assets	Due to credit institutions	Due to customers	Debt securities issued	Other liabilities	Total liabilities
Lithuania	3 327 053	4 157 296	192 394	**7 676 743**	37 083	6 913 638	0	47 006	**6 997 727**
Latvia	630 898	2 622 952	139 669	**3 393 519**	2 040	2 794 694	0	43 672	**2 840 406**
Estonia	968 754	2 407 913	63 135	**3 439 802**	3 144	1 905 707	0	45 125	**1 953 976**
United Kingdom	5 468	13 211	226	**18 905**	0	33 618	1 201 232	773	**1 235 623**
Finland	23 437	15 555	9 099	**48 091**	1	20 293	0	23 840	**44 134**
Luxembourg	0	79 412	175	**79 587**	0	442	0	1	**443**
Norway	18 933	5 530	9 690	**34 153**	59	2 082	0	18 890	**21 031**
Cyprus	0	32 195	0	**32 195**	0	22 250	0	1	**22 251**
Switzerland	0	34 755	11	**34 766**	0	7 068	0	0	**7 068**
Ireland	50	4 497	12 477	**17 024**	0	14 390	0	3 567	**17 957**
Other	55 486	57 367	36 436	**149 289**	4 984	107 368	0	5 959	**118 311**
Total	**5 030 079**	**9 430 683**	**463 312**	**14 924 074**	**47 311**	**11 821 550**	**1 201 232**	**188 834**	**13 258 927**

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

31 December 2019 thousand EUR	Cash balance*	Loans to customers	Other assets	Total assets	Due to credit institutions	Due to customers	Debt securities issued	Other liabilities	Total liabilities
Lithuania	1 590 214	4 477 427	203 397	**6 271 038**	63 217	5 078 810	0	63 790	**5 205 817**
Latvia	973 542	2 795 864	110 376	**3 879 782**	2 484	2 821 581	0	96 662	**2 920 727**
Estonia	361 244	2 684 280	54 074	**3 099 598**	2 766	1 923 953	1 408	52 740	**1 980 867**
United Kingdom	4 349	14 347	270	**18 966**	0	7 734	650 308	794	**658 836**
Norway	5 356	6 630	40 676	**52 662**	453 272	2 185	0	9 777	**465 234**
Sweden	10 312	5 842	83	**16 237**	458 069	3 167	0	2 234	**463 470**
Ireland	0	4 463	4 593	**9 056**	0	146 004	0	3 582	**149 586**
Finland	72 218	16 572	7 801	**96 591**	884	21 802	0	7 937	**30 623**
Cyprus	0	40 674	0	**40 674**	0	67 119	0	2	**67 121**
Luxembourg	0	71 559	186	**71 745**	0	616	0	5	**621**
Other	48 429	104 889	28 985	**182 303**	0	162 448	0	1 042	**163 490**
Total	**3 065 664**	**10 222 547**	**450 441**	**13 738 652**	**980 692**	**10 235 419**	**651 716**	**238 565**	**12 106 392**

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

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Economic sectors

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

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

The Bank	31 December 2020	31 December 2019
Cash on Hand	**123 809**	**140 518**
Central Banks	**4 802 711**	**2 783 501**
Credit Institutions	**103 559**	**141 645**
Financial Institutions	**132 042**	**29 255**
Public Sector	**138 585**	**174 715**
Individual Customers	**5 391 442**	**5 606 413**
Business Customers	**3 768 614**	**4 412 164**
Agriculture, forestry and fishing	272 289	337 080
Mining and quarrying	13 536	23 658
Manufacturing	456 166	571 675
Electricity, gas, steam and air conditioning supply	117 896	132 176
Water supply	27 489	31 948
Construction	151 621	197 785
Wholesale and retail trade	705 830	937 197
Transport and storage	308 261	394 660
Accommodation and food service activities	46 388	48 768
Information and communication	17 906	26 558
Real estate activities	1 161 620	1 132 767
Professional, scientific and technical activities	179 861	210 089
Administrative and support service activities	189 986	209 227
Public administration and defence, compulsory social security	91	5 358
Education	5 091	7 106
Human health services and social work activities	20 157	21 432
Arts, entertainment and recreation	11 398	13 607
Other services	83 028	111 073
Total	**14 460 762**	**13 288 211**

GOING CONCERN

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

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

6. NET INTEREST AND SIMILAR INCOME

thousand EUR	2020	2019
Interest income calculated using the effective interest method:		
Loans and advances to customers at amortised cost	225 482	241 217
Deposits with other banks	692	3 548
Total interest income calculated using effective interest method	**226 174**	**244 765**
Other similar income		
Finance leases	46 460	56 045
Other interest	1 128	867
Total other similar income	**47 588**	**56 912**
Total interest and similar income	**273 762**	**301 677**
Interest expense		
Loans and deposits from credit institutions*	-15 003	-14 760
Deposits from customers	-8 216	-15 317
Impact of hedging activities	-488	1 221
Debt securities issued	-9 800	-8 382
Other**	-13 325	-10 287
Total interest expense	**-46 832**	**-47 525**
Net interest and similar income	**226 930**	**254 152**

*Includes interest paid on cash balances at central bank for 2020 in the amount of 12 138 thousand EUR, for 2019 in the amount of 10 165 thousand EUR.
** Includes former parent funding off balance sheet loan commitment interest expense for 2020 in the amount of 10 581 thousand EUR, for 2019 in the amount of 3 441 thousand EUR (note 32).

Geographical split of revenues (by country of revenue generation)

thousand EUR	2020	2019
Estonia	69 478	80 064
Latvia	86 833	97 298
Lithuania	117 451	124 315
Total interest and similar income	**273 762**	**301 677**

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7. NET FEE AND COMMISSION INCOME

thousand EUR	2020			2019		
	Over time	Point in time	Total	Over time	Point in time	Total
Cards	8 892	23 549	**32 441**	11 080	28 391	**39 471**
Credit products	2 780	2 642	**5 422**	3 915	4 242	**8 157**
Daily banking plans	14 181	0	**14 181**	11 358	0	**11 358**
Deposit products and cash management	3 088	13 198	**16 286**	4 015	15 042	**19 057**
Insurance	0	4 194	**4 194**	0	3 573	**3 573**
Investments	1 686	2 207	**3 893**	2 110	911	**3 021**
Pensions	9 804	-48	**9 756**	9 933	23	**9 956**
Trade finance	7 427	860	**8 287**	7 602	746	**8 348**
Other net commission income	206	1 206	**1 412**	250	2 636	**2 886**
Total fee and commission income	**48 064**	**47 810**	**95 872**	**50 263**	**55 565**	**105 827**
Cards			**-17 204**			**-23 117**
Credit products			**-183**			**-1 360**
Deposit products and cash management			**-2 527**			**-2 332**
Investments			**-1 262**			**-807**
Pensions			**-573**			**-748**
Trade finance			**-20**			**-81**
Other net commission income			**-464**			**4**
Fee and commission expense			**-22 233**			**-28 441**
Net fee and commission income			**73 639**			**77 386**

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

thousand EUR	2020				2019			
	Corporate	Retail	Other	Total	Corporate	Retail	Other	Total
Cards	5 026	27 405	9	32 440	6 724	32 092	655	**39 471**
Credit products	4 588	947	-113	5 422	5 851	1 371	936	**8 158**
Daily banking plans	234	13 944	3	14 181	290	11 066	3	**11 359**
Deposit products and cash management	7 437	8 267	581	16 285	8 695	9 442	920	**19 057**
Insurance	1 154	2 870	169	4 193	1 466	1 272	835	**3 573**
Investments	1 054	1 859	980	3 893	1 053	1 536	431	**3 020**
Other net commission income	498	716	202	1 415	627	1 539	720	**2 886**
Pensions	48	9 708	0	9 756	8	9 948	0	**9 956**
Trade finance	8 036	146	105	8 287	8 192	137	18	**8 347**
Total fee and commission income	**28 075**	**65 862**	**1 936**	**95 872**	**32 906**	**68 403**	**4 518**	**105 827**

Geographical split of revenues (by country of revenue generation)

thousand EUR	2020	2019
Estonia	15 269	18 104
Latvia	28 931	32 128
Lithuania	51 672	55 595
Total fee and commission income	**95 872**	**105 827**

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Initials L.L. Date 15.04.2021

8. PERSONNEL EXPENSES

thousand EUR	2020	2019
Wages and salaries	-80 398	-88 434
Social security cost	-13 974	-14 588
Indirect personnel cost (recruitment, training)	-5 502	-7 954
Contribution to pension funds	-326	-320
Total	**-100 200**	**-111 296**

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

9. OTHER ADMINISTRATIVE EXPENSES

thousand EUR	2020	2019
IT related expenses	-106 421	-93 669
Consulting and professional services	-19 894	-24 739
Advertising and marketing expenses	-3 049	-4 263
Real estate expenses	-5 167	-9 194
Taxes and duties	-8 051	-14 135
Travel expenses	-526	-1 708
Other expenses*	-20 028	-17 676
Total	**-163 136**	**-165 384**

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

Decrease in other administrative expenses is mainly driven by the reduction in real estate, travel, marketing and other expenses. The decrease was significantly offset by increase in exceptional costs, which are part of IT and consulting expenses. Total exceptional costs were 102 558 thousand EUR for 2020, for 2019 91 814 thousand EUR. A major part of exceptional costs were IT expenses. Out of total exceptional costs, the part recognised under other administrative expenses was 89 559 thousand EUR for 2020 and 76 700 thousand EUR for 2019.

10. OTHER OPERATING INCOME

thousand EUR	2020	2019
Profit/-loss from sale of fixed asset	1 436	624
Profit/-loss from sale of investment property	54	959
Profit/-loss from investment property rent	-9	292
Profit/-loss from sale of subsidiaries and associates*	-500	8 962
Recovery of previous period expenses	290	1 026
Dividend income	64	90
Other operating income**	5 034	5 886
Total	**6 369**	**17 839**

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

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11. CASH AND BALANCES WITH CENTRAL BANKS

thousand EUR	31 December 2020	31 December 2019
Cash on hand	123 809	140 518
Cash balances at central banks	4 802 711	2 783 501
Total	**4 926 520**	**2 924 019**
of which mandatory reserve requirement	112 254	112 800

12. DUE FROM OTHER CREDIT INSTITUTIONS

thousand EUR	31 December 2020	31 December 2019
Demand deposit	70 556	137 466
Loans	39	58
Cash collateral*	32 980	4 130
Total	**103 575**	**141 654**
Allowance	-16	-9
Total	**103 559**	**141 645**

* Cash collateral in other credit institutions is held to cover negative value of Luminor derivative portfolio. Offsetting cash collateral with derivative cashflow is not allowed according to Estonian legislation. Financial instruments subject to offsetting, enforceable master netting and similar arrangements are additionally disclosed in Note 30.

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

thousand EUR	Notional amounts	Fair values	
		Assets	Liabilities
As at 31 December 2020			
Derivatives held for trading			
Interest rate-related contracts	2 879 408	13 083	11 451
Currency-related contracts	1 147 140	28 787	37 668
Commodity-related contracts	12 838	1 537	1 464
Total	**4 039 386**	**43 407**	**50 583**
As at 31 December 2019			
Derivatives held for trading			
Interest rate-related contracts	2 958 510	11 599	11 254
Currency-related contracts	1 419 244	47 128	46 740
Commodity-related contracts	18 726	490	310
Total	**4 396 480**	**59 217**	**58 304**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

HEDGING ACTIVITIES

Fair value hedge

As Luminor Holding AS is the parent company of Luminor Bank AS, which is its only business activity, then the section below describes the hedging activities of the Bank.

As at 31 December 2020 the Bank had in total two interest rate swap agreements in place that were linked to the issued senior bonds:

- 300 million EUR whereby the Bank receives a fixed rate of interest of 1.375% and pays floating interest at 3 months EURIBOR + 1.732% on the notional amount. For this interest swap agreement trade date is 11 June 2019, effective date is 21 June 2019 and maturity date 21 October 2022;
- 300 million EUR, whereby the Bank receives a fixed rate of interest of 0.792% and pays floating interest at 6 months EURIBOR + 1.2888% on the notional amount. For this interest swap agreement trade date is 25 November 2020, effective date is 03 December 2020 and maturity date is 03 December 2023.

As at 31 December 2020 the Bank had one interest rate swap agreement in place that was linked to the issued covered bonds:

- 500 million EUR whereby the Bank receives a fixed rate of interest of 0.01% and pays floating interest at 6 months EURIBOR + 0.289%. For this interest swap agreement trade date is 04 March 2020, effective date is 11 March 2020 and maturity date 11 March 2025.

Two previously outstanding interest rate swaps – 150mln EUR and 200mln EUR – were closed in December 2020 as part of the senior bonds buy-back.

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 Bank 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 Bank uses the hypothetical derivative method and compares the changes in the fair value of the hedging instrument against the changes in the fair value of the hedged item attributable to the hedged risk.

Hedge ineffectiveness can theoretically arise from:

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

31 December 2020	Notional amount thousand EUR	Carrying Amount thousand EUR	Line item in the statement of financial position
Interest rate swap	1 100 000	5 264	Assets: Derivative financial instruments*

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

* Ineffectiveness was clearly immaterial.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

14. LOANS TO CUSTOMERS

thousand EUR	31 December 2020	31 December 2019
Financial institutions	**132 524**	**29 378**
Public sector	**138 599**	**174 732**
Business customers	**3 846 733**	**4 523 201**
-Loans	2 822 951	3 156 365
-Leasing	842 898	1 088 325
-Factoring	180 884	278 511
Individual customers	**5 449 706**	**5 680 911**
-Mortgage loans	4 614 261	4 689 319
-Leasing	454 272	533 611
-Consumer and card loans	106 307	132 862
-Other loans	274 866	325 119
Impairment allowances	**-136 879**	**-185 675**
Loans to customers total	**9 430 683**	**10 222 547**
Due from customers registered in Estonia, Latvia and Lithuania	9 188 161	9 957 570
Due from customers registered in the EU (except Estonia, Latvia, Lithuania)	175 644	200 921
Due from customers registered in other countries	66 878	64 056
Loans to customers total	**9 430 683**	**10 222 547**

For summary of changes in the credit loss allowances and gross carrying amounts for loans to customers refer to Note 5.

pwc Initialled for identification purposes only
Initials L.L. Date 15.04.2021

Gross and net investments on finance leases

thousand EUR	31 December 2020	31 December 2019
Gross investment	**1 381 551**	**1 742 505**
up to 1 year	507 143	577 459
Year 2	391 433	489 593
Year 3	272 762	348 935
Year 4	128 970	225 889
Year 5	70 635	80 959
over 5 years	10 608	19 670
Unearned future finance income on finance leases	**-59 999**	**-73 548**
up to 1 year	-21 974	-23 565
Year 2	-19 667	-24 913
Year 3	-11 016	-14 658
Year 4	-5 057	-7 188
Year 5	-1 948	-2 366
over 5 years	-337	-858
Net investment in finance leases	**1 321 553**	**1 668 957**
up to 1 year	485 170	553 894
Year 2	371 766	464 680
Year 3	261 746	334 277
Year 4	123 913	218 701
Year 5	68 687	78 593
over 5 years	10 271	18 812

The counterparties are split according to financial reporting (FINREP) principles. Total exposure amounts have remained unchanged.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

thousand EUR	Fair value 31 December 2020	Fair value 31 December 2019
Debt securities		
General governments	251 143	195 989
Credit institutions	24 085	15 023
Other financial corporations	6 239	12 851
Total debt securities	**281 467**	**223 863**
Own pension funds managed	2 682	4 033
Total financial assets at fair value through profit or loss	**284 149**	**227 896**

Debt securities held for liquidity purposes were designated to fair value through profit or loss (FVTPL) because of accounting mismatch (balance as at 31 December 2020 was 275 228 thousand EUR, as at 31 December 2019 it was 211 012 thousand EUR). The Bank buys derivatives (interest rate swaps) to economically hedge the risk of debt securities fair value. Derivatives are in trading portfolio with the fair value changes through profit or loss, so to avoid or significantly reduce accounting mismatch, debt securities are designated at FVTPL.

The change in the fair value during the year with respective cumulative changes of 3 525 thousand EUR in 2020 (in 2019 it was 271 thousand EUR) attributable to changes in credit risk, were determined by applying a method similar to the approach applied for measuring ECL. The credit risk attributable to cumulative changes is close to zero.

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16. OTHER ASSETS

thousand EUR	31 December 2020	31 December 2019
Taxes		
VAT recoverable	589	2 127
Other taxes	137	377
	726	**2 504**
Accrued income and deferred expenses		
Receivables and accrued income	22 244	10 955
Prepaid expenses	10 620	17 415
	32 864	**28 370**
Other assets		
Repossessed assets*	1 647	2 845
Other**	6 461	10 496
	8 108	**13 341**
Other financial assets		
Payments in transit	11 999	29 113
	11 999	**29 113**
Total other assets	**53 697**	**73 328**

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

17. INVESTMENTS IN ASSOCIATES AND SUBSIDIARIES

17.1 INVESTMENTS IN ASSOCIATES OF LUMINOR BANK AS

thousand EUR	2020	2019
Carrying amount at beginning of year	5 639	6 256
Share of profit for the year	973	1 066
Dividends	-732	-1 663
Potential corporate income tax from future dividends (previous periods)	-580	0
Impairment	-7	-20
Carrying amount at end of year	**5 292**	**5 639**

2020	Domicile	Equity	Profit (loss) for the year*	% of share capital	Book value
UAB ALD Automotive	LT	7 288	505	25	1 822
ALD Automotive Eesti AS	EE	6 600	400	25	1 409
SIA ALD Automotive	LV	9 743	460	25	1 996
SIA Kredītinformācijas Birojs	LV	278	2	22,6	65
Total					**5 292**

* Luminor share of the associate profit.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

2019	Domicile	Equity	Profit (loss) for the year*	% of share capital	Book value
UAB ALD Automotive	LT	9 320	415	25	1 766
ALD Automotive Eesti AS	EE	6 085	292	25	1 639
SIA ALD Automotive	LV	8 875	360	25	2 164
SIA Kredītinformācijas Birojs	LV	268	-33	22,6	70
Total					**5 639**

* Luminor share of the associate profit.

17.2 INVESTMENTS IN SUBSIDIARIES OF LUMINOR HOLDING AS

thousand EUR	Country	Portion 31 December 2020	Portion 31 December 2019
Luminor Bank AS	Estonia	100%	100%

17.3 INVESTMENTS IN SUBSIDIARIES OF LUMINOR BANK AS

thousand EUR	Country	Portion 31 December 2020	Portion 31 December 2019
Luminor Liising AS	Estonia	100%	100%
Luminor Pensions Estonia AS	Estonia	100%	100%
Promano Est OÜ	Estonia	100%	100%
Luminor Asset Management IPAS	Latvia	100%	100%
Luminor Finance SIA	Latvia	100%	100%
Luminor Latvijas atklātais pensiju fonds AS	Latvia	100%	100%
Luminor Līzings SIA	Latvia	100%	100%
Luminor Līzings Latvija SIA	Latvia	100%	100%
Promano Lat SIA	Latvia	100%	100%
Realm SIA	Latvia	100%	100%
Salvus SIA	Latvia	100%	100%
Salvus 2 SIA	Latvia	100%	100%
Salvus 3 SIA	Latvia	100%	100%
Salvus 4 SIA	Latvia	100%	100%
Salvus 6 SIA	Latvia	100%	100%
Trioleta SIA*	Latvia	100%	100%
Baltic Īpašums SIA**	Latvia	100%	100%
Luminor Investiciju Valdymas UAB	Lithuania	100%	100%
Luminor Lizingas UAB	Lithuania	100%	100%
Gėlužės projektai UAB***	Lithuania	0%	100%
Industrius UAB	Lithuania	100%	100%
Intractus UAB	Lithuania	100%	100%
Promano Lit UAB	Lithuania	100%	100%
Recurso UAB	Lithuania	100%	100%

* 99.92826% of SIA "Trioleta" (under liquidation) share capital is owned by Luminor Bank AS; 0.07174 % is owned by SIA "Realm" (under liquidation).
** 100% of Baltik Īpašums SIA (under liquidation) is owned by SIA "Realm" (under liquidation).
*** Gėlužės projektai UAB was liquidated on 25 August 2020

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

18. INTANGIBLE ASSETS

thousand EUR	Goodwill	Other intangible assets	Total
Accumulated costs as at 31 December 2018	**351**	**29 330**	**29 681**
Additions	0	3 666	**3 666**
Disposals	0	-798	**-798**
Accumulated costs as at 31 December 2019	**351**	**32 198**	**32 549**
Additions	0	1 668	**1 668**
Disposals	0	-1 040	**-1 040**
Accumulated costs as at 31 December 2020	**351**	**32 826**	**33 177**
Accumulated amortization and impairments as at 31 December 2018	**0**	**-22 267**	**-22 267**
Amortisation	0	-2 159	**-2 159**
Disposals	0	76	**76**
Accumulated amortization and impairments as at 31 December 2019	**0**	**-24 350**	**-24 350**
Amortisation	0	-2 211	**-2 211**
Disposals	0	556	**556**
Impairment for the year*	0	-505	**-505**
Accumulated amortization and impairments as at 31 December 2020	**0**	**-26 510**	**-26 510**
Carrying amount as at 31 December 2019	**351**	**7 848**	**8 199**
Carrying amount as at 31 December 2020	**351**	**6 316**	**6 667**

*Impairment of assets due to Estonian Funded Pensions Act change

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

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

thousand EUR	Property	Equipment	Right-of-use assets		Total right-of-use-assets	Total
			Property	Other assets		
Accumulated cost as at 31 December 2018	**13 981**	**36 082**	**0**	**0**	**0**	**50 063**
Effect of adoption IFRS 16 as at 1 January 2019	0	0	30 529	164	30 693	**30 693**
Accumulated cost as at 1 January 2019	**13 981**	**36 082**	**30 529**	**164**	**30 693**	**80 756**
Additions	297	5 412	31 390	1	31 391	**37 100**
Disposals	-10 094	-11 764	-1 968	-63	-2 031	**-23 889**
Accumulated cost as at 31 December 2019	**4 184**	**29 730**	**59 951**	**102**	**60 053**	**93 967**
Additions	888	3 326	924	0	924	**5 138**
Disposals	-4 478	-4 814	-2 659	-75	-2 734	**-12 026**
Accumulated cost as at 31 December 2020	**594**	**28 242**	**58 216**	**27**	**58 243**	**87 079**
Accumulated depreciation and impairments as at 31 December 2018	**-7 418**	**-26 262**	**0**	**0**	**0**	**-33 680**
Depreciation	-642	-4 332	-5 989	-50	-6 039	**-11 013**
Disposals	6 834	10 996	368	0	368	**18 198**
Accumulated depreciation and impairments as at 31 December 2019	**-1 226**	**-19 598**	**-5 621**	**-50**	**-5 671**	**-26 495**
Depreciation	-48	-3 821	-6 010	-6	-6 016	**-9 885**
Disposals	1 547	4 314	58	29	87	**5 948**
Accumulated depreciation and impairments as at 31 December 2020	**273**	**-19 105**	**-11 573**	**-27**	**-11 600**	**-30 432**
Carrying amount as at 31 December 2019	**2 958**	**10 132**	**54 330**	**52**	**54 382**	**67 472**
Carrying amount as at 31 December 2020	**867**	**9 137**	**46 643**	**0**	**46 643**	**56 647**

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

thousand EUR	2020
As at 31 December 2019	**57 051**
Lease modifications	-197
Interest	-1 020
Payments	-6 162
As at 31 December 2020	**49 672**

thousand EUR	2019
As at 1 January 2019	**33 207**
Additions	31 037
Interest	-1 228
Payments	-5 965
As at 31 December 2019	**57 051**

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

Short-term leases, low-value leases, variable lease payments and income from subleasing is immaterial and therefore not disclosed.

20. INVESTMENT PROPERTIES

thousand EUR	31 December 2020	31 December 2019
Carrying amount at the beginning of the period	2 427	23 970
Acquisitions	0	105
Assets classified as held for sale	0	0
Net result from adjustments of fair value	-140	-1 653
Disposals (sale)	-1 662	-19 995
Carrying amount at the end of the period	**625**	**2 427**

21. LOANS AND DEPOSITS FROM CREDIT INSTITUTIONS

thousand EUR	31 December 2020	31 December 2019
Term deposits*	29 974	951 612
Demand deposits	17 337	29 080
Total	**47 311**	**980 692**

*As at the end of May 2020 Luminor repaid funding from former parent banks under the debt facility agreement, no exposure as at 31 December 2020.

thousand EUR	31 December 2020	31 December 2019
Due to credit institutions, registered in Estonia, Latvia, Lithuania	42 267	68 467
Due to credit institutions, registered in EU (except Estonia, Latvia, Lithuania)	4 985	458 953
Due to credit institutions, registered in other countries	59	453 272
Total	**47 311**	**980 692**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

	Division by remaining maturity			Interest rate	Base currency	Termination
thousand EUR	**in 12 months**	**1-5 years**	**Total**			
As at 31 December 2020						
Related parties	3 112	0	3 112	0-(+0,01%)	EUR	2021
Central banks	0	30 000	30 000	<0%	EUR	2023
Other credit institutions	14 217	0	14 217	0-(+0,01%)	EUR	2021
Interest payable	-18	0	-18			
	17 311	**30 000**	**47 311**			
As at 31 December 2019						
Related parties	910 398	0	910 398	0-(+1,5%)	EUR	2020
Central banks	45 000	0	45 000	<0%	EUR	2020
Other credit institutions	23 975	0	23 975	-1%-(+2%)	EUR	2020
Interest payable	1 319	0	1 319			
	980 692	**0**	**980 692**			

22. DEPOSITS FROM CUSTOMERS

thousand EUR	31 December 2020	31 December 2019
Term deposits	1 087 023	2 161 030
Demand deposits	10 734 527	8 074 389
	11 821 550	**10 235 419**
Due to customers by type of customers		
Due to corporate customers	4 617 780	4 578 060
Due to public sector customers	2 694 406	1 623 323
Due to individuals	4 509 364	4 034 036
	11 821 550	**10 235 419**
Due to customers, registered in Estonia, Latvia, Lithuania	11 614 039	9 825 510
Due to customers, registered in EU (except Estonia, Latvia, Lithuania)	110 538	326 379
Due to customers, registered in other countries	96 973	83 530
	11 821 550	**10 235 419**

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23. DEBT SECURITIES ISSUED

LUMINO 1.5% 18/10/21

In October 2018 Luminor Bank AS issued its inaugural bond under the Luminor Euro Medium Term Notes (EMTN) Programme. The Bank issued 350 000 000 EUR of fixed-rate bonds maturing October 2021, with annual coupons and bearing interest at an annual rate of 1.50%. There were no specific covenants related to the bond issuance. On the 23rd of November 2020 Luminor announced tender offer to buy back any and all Luminor bonds maturing in October 2021 subject to successful issuance of new bonds with longer maturity. As a result, 250 705 000 EUR of bonds were bought back and cancelled by the Bank. Outstanding amount was equal to 99 925 000 EUR as at 31 December 2020.

LUMINO 1.375% 21/10/22

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

LUMINO 0.01% 11/03/2025

In March 2020 Luminor Bank AS issued its inaugural covered bond under the Luminor EMTN and Covered Bond Programme. The Bank issued 500 000 000 EUR of fixed-rate bonds maturing in March 2025, with annual coupons and bearing interest at an annual rate of 0.01%.

LUMINO 0.792% 12/03/24

In December 2020 Luminor Bank AS issued the bond under the Luminor EMTN Programme. The Bank issued 300 000 000 EUR of fixed-rate bonds maturing December 2024, with annual coupons and bearing interest at an annual rate of 0.792%. The bond is callable and allows the issuer to call is back at par in December 2023. After that date coupon changes from fixed to floating and becomes equal to 3 months EURIBOR + 1.2888% reset quarterly. There were no specific covenants related to the bond issuance.

Reconciliation of movements in the carrying amount of debt securities

thousand EUR	Total
Carrying amount as at 31 December 2018	**351 235**
New issuance	300 000
Intragroup transactions	-1 000
Interest accrued	7 676
Interest paid	-6 863
Amortization of transaction costs, discounts	-252
Hedge effect	920
Carrying amount as at 31 December 2019	**651 716**
Carrying amount as at 31 December 2019	**651 716**
New issuance	800 000
Intragroup transactions	-508
Premium	4 750
Interest accrued	9 464
Interest paid	-10 023
Amortization of transaction costs, discounts	-1 499
Buyback	-250 705
Hedge effect	-1 963
Carrying amount as at 31 December 2020	**1 201 232**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

thousand EUR	31 December 2020	31 December 2019
LUMINO 1.5% 18/10/21		
Nominal amount*	99 295	350 000
Intragroup transactions	0	-1 000
Discount	-156	-1 269
Accrued interest	291	1 079
Hedged item fair value changes	714	2 982
Carrying amount	**100 144**	**351 792**
LUMINO 1.375% 21/10/22		
Nominal amount	300 000	300 000
Discount	-625	-982
Accrued interest	813	814
Hedged item fair value changes	1 357	92
Carrying amount	**301 545**	**299 924**
0.01% COVERED BONDS		
Nominal amount	500 000	0
Premium	2 760	0
Accrued interest	41	0
Hedged item fair value changes	-776	0
Carrying amount	**502 025**	**0**
LUMINO 0.792% 12/03/24		
Nominal amount	300 000	0
Intragroup transactions	-1 508	0
Discount	-977	0
Accrued interest	188	0
Hedged item fair value changes	-185	0
Carrying amount	**297 518**	**0**
Total	**1 201 232**	**651 716**

*Nominal amount at the beginning of the period was 300 000 thousand EUR, in December 2020 there was a buyback of bonds in the amount of 250 705 thousand EUR, outstanding nominal amount as at 31 December 2020 was 99 295 thousand EUR.

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

24. INCOME TAX

thousand EUR	31 December 2020	31 December 2019
Current tax for the year	-8 076	-7 287
Adjustment of current tax for previous years	-836	-99
Deferred tax	6 468	2 078
Reversal of deferred tax	-212	43
Income tax for the year	**-2 656**	**-5 265**
Profit before tax*	35 689	59 227
Impact of the tax imposed on the Bank's profit or loss*	5 144	2 162
Difference in overseas tax rates	-8 285	-8 138
Tax on dividends	436	481
Adjustment of current tax	-501	2
Effect of non-deductible expenses/non-taxable income/tax loss carry forward	550	228
Income tax for the year	**-2 656**	**-5 265**
Effective tax	7%	9%
Deferred tax recognised in the balance sheet		
Opening balance, deferred tax assets	**3 031**	**908**
Charged/(credited) to other comprehensive income	0	-933
(Charged)/credited in income statement	1 112	901
Tax loss carry forwards	5 144	2 155
Other	9	0
Closing balance, deferred tax assets	**9 353**	**3 031**
Closing balance, deferred tax liabilities	**-57**	**0**

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

25. OTHER FINANCIAL LIABILITIES

thousand EUR	31 December 2020	31 December 2019
Payments in transit	14 392	41 865
Other	313	3 438
Total	**14 705**	**45 303**

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

26. OTHER LIABILITIES

thousand EUR	31 December 2020	31 December 2019
Accrued expenses		
Accrued expenses	23 726	32 178
Other accrued liabilities to employees	10 945	12 628
	34 671	**44 806**
Other liabilities		
Prepayments	2 403	1 627
Payables	19 838	16 852
Other liabilities*	7 318	6 529
	29 559	**25 008**
Total other liabilities	**64 230**	**69 814**

* Other liabilities include payments under assignment agreements, and VAT

27. PROVISIONS

The movement of provisions was as follows:

thousand EUR	Loan commitments and guarantees	Legal disputes	Restructuring	Other	Total
As at 31 December 2019	**3 401**	**93**	**550**	**204**	**4 248**
Arising during the year	10 427	333	34	75	10 869
Other movements*	-7 195	-93	-560	1 991	-5 857
As at 31 December 2020	**6 633**	**333**	**24**	**2 270**	**9 260**

Loan commitments and guarantees:

thousand EUR	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2019	**1 552**	**365**	**1 484**	**3 401**
Arising during the year	10 427	0	0	10 427
Other movements*	-8 383	2 102	-914	-7 195
As at 31 December 2020	**3 596**	**2 467**	**570**	**6 633**

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

In the comparative period the movement of provisions was as follows:

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

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Loan commitments and guarantees:

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

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

Credit quality of loan commitments and guarantees

31 December 2020

thousand EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	566 665	20 455	0	0	**587 120**
Moderate risk	809 553	255 051	0	2	**1 064 606**
High risk	35 630	69 999	0	0	**105 629**
Default	0	0	22 301	0	**22 301**
Off balance amount total	**1 411 848**	**345 505**	**22 301**	**2**	**1 779 656**
Less: provisions	-3 596	-2 467	-570	0	**-6 633**
Net	**1 408 252**	**343 038**	**21 731**	**2**	**1 773 023**

31 December 2019

thousand EUR	Stage 1	Stage 2	Stage 3	POCI	Total
Low risk	475 984	8 107	0	0	**484 091**
Moderate risk	959 975	70 089	0	14	**1 030 078**
High risk	17 635	21 093	0	0	**38 728**
Default	0	0	21 291	5	**21 296**
Off balance amount total	**1 453 594**	**99 289**	**21 291**	**19**	**1 574 193**
Less: provisions	-1 552	-365	-1 484	0	**-3 401**
Net	**1 452 042**	**98 924**	**19 807**	**19**	**1 570 792**

28. ISSUED CAPITAL

	2020	2019
Share capital (thousand EUR)	25	25
Number of shares	250 000	250 000
Nominal value of share (EUR)	0,10	0,10

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

29. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

thousand EUR	31 December 2020	31 December 2019
Pledged assets		
Loans*	887 747	1 999 895
Total	**887 747**	**1 999 895**
Contingent liabilities		
Loan commitments given	1 199 076	973 491
Financial guarantees given	433 502	502 330
Performance guarantees	147 078	98 372
Total	**1 779 656**	**1 574 193**

* As at 31 December 2020 includes 548 541 thousand EUR (for 2019 it was 0 thousand EUR) of loans pledged for Covered Bond and 292 826 thousand EUR (for 2019 it was 1 928 900 thousand EUR) pledged for former parent funding.

Tax authorities have the right to review the Group's tax records for up to 5 years after submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The tax authorities have not performed any tax audits at the Group during 2019-2020. The Group's management estimates that in 2020 there are no such circumstances which may lead the tax authorities to impose material additional taxes on the Group.

The retained earnings of Luminor Holding AS as at 31 December 2020 were 235 795 thousand EUR (as at 31 December 2019 it was 202 912 thousand EUR). Distribution of retained earnings as dividends to the owners is subject to the income tax at the maximum rate of 20/80 on the amount paid out as net dividends. Therefore, taking into account regulatory requirements for net own funds and capital, from the retained earnings available at the reporting date, it is possible to pay out to the shareholders as dividends 188 636 thousand EUR and the corresponding income tax would amount to 47 159 thousand EUR. As at 31 December 2019, taking into account regulatory requirements for net own funds and capital the comparatives are 162 330 thousand EUR and corresponding income tax would amount to 40 582 thousand EUR. Please note the current calculation of income tax does not take into account prepaid advance income tax and also derived dividends which underlie participation exemption regime. For more information, refer to the Note 5, please.

30. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2020:

thousand EUR	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position			Net amount of exposure
				Financial instruments	Cash collateral received	Cash collateral pledged	
Assets							
Financial derivatives	43 407	0	43 407	0	3 900	0	39 507
Loans to customers	548 541	0	548 541	502 025	0	0	46 516
Total	**591 948**	**0**	**591 948**	**502 025**	**3 900**	**0**	**86 023**
Liabilities							
Financial derivatives	50 583	0	50 583	0	0	32 980	17 603
Debt securities issued	502 025	0	502 025	502 025	0	0	0

pwc Initialled for identification purposes only Initials L.L. Date 15.04.2021

Total	**552 608**	**0**	**552 608**	**502 025**	**0**	**32 980**	**17 603**

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows as at 31 December 2019:

thousand EUR	Gross amounts before offsetting in the statement of financial position	Gross amounts set off in the statement of financial position	Net amount after offsetting in the statement of financial position	Amounts subject to master netting and similar arrangements not set off in the statement of financial position			Net amount of exposure
				Financial instruments	Cash collateral received	Cash collateral pledged	
Assets							
Financial derivatives	59 217	0	59 217	0	0	0	59 217
Total	**59 217**	**0**	**59 217**	**0**	**0**	**0**	**59 217**
Liabilities							
Financial derivatives	58 304	0	58 304	0	0	4 130	54 174
Total	**58 304**	**0**	**58 304**	**0**	**0**	**4 130**	**54 174**

31. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of the major part of the Group's assets and liabilities is a reasonable approximation of their fair value. Where the fair values of financial assets and liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined in a way that unobservable inputs used to measure fair value would reflect the assumptions that market participants would use when pricing assets and liabilities, including assumptions about the risk. Where observable market data is not available, expert judgment is required to establish fair values. For the purposes of current financial statements, the above-mentioned techniques related to unobservable inputs were not used as no such financial assets and liabilities exist on the statement of financial position of the Group.

FAIR VALUE OF FINANCIAL INSTRUMENTS AT AMORTISED COSTS

thousand EUR	Carrying amount 31 December 2020	Fair value 31 December 2020	Carrying amount 31 December 2019	Fair value 31 December 2019
Assets				
Financial assets at amortised cost				
Cash and balances with central banks	4 926 520	4 926 520	2 924 019	2 924 019
Due from other credit institutions	103 559	103 559	141 645	141 645
Loans to customers	9 430 683	9 107 048	10 222 547	10 324 772
Other financial assets	11 999	11 999	29 113	29 113
Total financial assets	**14 472 761**	**14 149 126**	**13 317 324**	**13 419 549**
Liabilities				
Financial liabilities at amortised cost				
Loans and deposits from credit institutions	47 311	47 311	980 692	980 692
Deposits from customers	11 821 550	11 821 550	10 235 419	10 235 419
Debt securities issued*	1 201 232	1 200 230	651 716	653 967
Other financial liabilities	14 705	14 705	45 303	45 303
Total financial liabilities	**13 084 798**	**13 083 796**	**11 913 130**	**11 915 381**

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* of which fair value of Covered bonds 499 265 thousand EUR as at 31 December 2020.

The next table below summarises 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 prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available;
- Level 2 — valuation techniques for which inputs other than quoted prices included within Level 1 are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for a substantial part of the term of the asset or liability;
- Level 3 — valuation techniques for which inputs are unobservable for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about the risk.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments as at 31 December 2020 was as follows:

Fair value measurement using thousand EUR	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash on hand	123 809	0	0	**123 809**
Balances with central banks	0	4 802 711	0	**4 802 711**
Due from other credit institutions	0	103 559	0	**103 559**
Loans to customers	0	0	9 107 048	**9 107 048**
Other financial assets	0	0	11 999	**11 999**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	2 857	0	0	**2 857**
Financial assets at fair value through profit or loss				
Equity instruments	0	2 682	0	**2 682**
Debt securities				
General governments	251 143	0	0	**251 143**
Credit institutions	24 085	0	0	**24 085**
Other financial corporations	0	0	6 239	**6 239**
Derivative financial instruments				
Derivative financial instruments	0	42 739	668	**43 407**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	**140**

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Total	**401 894**	**4 951 691**	**9 126 094**	**14 479 679**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	0	47 311	0	**47 311**
Deposits from customers	0	10 734 527	1 087 023	**11 821 550**
Debt securities issued*	499 265	700 965	0	**1 200 230**
Other financial liabilities	0	0	14 705	**14 705**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	49 236	1 347	**50 583**
Total	**499 265**	**11 532 039**	**1 103 075**	**13 134 379**

* of which fair value of Covered bonds 499 265 thousand EUR as at 31 December 2020.

Fair value measurement of financial instruments as at 31 December 2019 was as follows:

Fair value measurement using thousand EUR	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Assets for which fair values are disclosed				
Cash on hand	140 518	0	0	**140 518**
Balances with central banks	0	2 783 501	0	**2 783 501**
Due from other credit institutions	0	141 645	0	**141 645**
Loans to customers	0	0	10 324 772	**10 324 772**
Other financial assets	0	0	29 113	**29 113**
Financial assets at fair value				
Financial assets held for trading				
Debt securities	3 021	0	0	**3 021**
Financial assets at fair value through profit or loss				
Equity instruments	0	4 033	0	**4 033**
Debt securities				
General governments	195 989	0	0	**195 989**
Credit institutions	15 023	0	0	**15 023**
Other financial corporations	0	0	12 851	**12 851**
Derivative financial instruments				
Derivative financial instruments	0	58 087	1 130	**59 217**
Financial assets at fair value through other comprehensive income				
Equity instruments	0	0	140	**140**

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Total	**354 551**	**2 987 266**	**10 368 006**	**13 709 823**
Liabilities				
Liabilities for which fair values are disclosed				
Loans and deposits from credit institutions	0	980 692	0	**980 692**
Deposits from customers	0	8 074 386	2 161 033	**10 235 419**
Debt securities issued	0	653 967	0	**653 967**
Other financial liabilities	0	0	45 303	**45 303**
Financial liabilities at fair value				
Derivative financial instruments				
Derivative financial instruments	0	56 042	2 262	**58 304**
Total	**0**	**9 765 087**	**2 208 598**	**11 973 685**

Change in debt securities in level 3:

thousand EUR	Shares 2020	Shares 2019
Beginning balance	**12 851**	**7 607**
Additions/disposals	-7 204	0
Unrealised gains/losses for assets held at the end of the reporting period	592	5 244
Closing balance	**6 239**	**12 851**

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

- Non-trading financial assets mandatorily at fair value through profit or loss (Pension Funds) - the value date method is used in the acquisition of pension fund units managed by Luminor Pensions Estonia AS and they are initially recognised at acquisition cost, which is the fair value paid for them. Pension fund units are revalued according to the effective net asset value on the balance sheet date;
- Cash and cash balances with central banks – the fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction;
- Due from other credit institutions – the fair value equals to its carrying amount as the assets can be realized at the same price in an orderly transaction. Due from other credit institutions are demand deposits;
- Loans to customers – fair value has been estimated by discounting estimated future cash flows with the loan portfolio average rate which was calculated based on the Bank new sales margin of the fourth quarter of 2020 and total volume of the loan portfolio that included credit risk factors. Same valuation technique is applied to all loan classes and accordingly all loan classes are classified under fair value level 3. As at 31 December 2019 fair value was estimated by discounting estimated future cash flows with the base curve used by the Bank (6m Euribor curve as average for all loans) as adjusted by credit risk factors;
- Financial assets at fair value through profit or loss (debt securities) - for domestic debt instruments issued in the Baltic states, the quotes of local (Baltic) market makers shall be the priority source. Local market makers (usually banks) publish the trading offers in the form of prices, yields or equivalent figures. If there are more than one market maker locally, the average of bid prices shall be used taking the data from Bloomberg. If the debt instrument is issued outside the Baltic states, or there are no quotes available from local market makers on particular debt issue, or quotes of local market makers are clearly incorrect or artificial, the prices of particular debt securities shall be derived from liquid market data using sources like Bloomberg or similar;
- The fair value of interest-bearing financial instruments is estimated based on discounted cash flows using the interest rates for items with similar terms and risk characteristics. The fair value of a liability is measured using the assumptions that market participants would use when pricing the liability, assuming that market participants act in their economic best interest;
- Financial assets at fair value through other comprehensive income (equities, debt securities):
    - The quotes of local (Baltic) market makers shall be the priority source for local equities. These are securities for which active market exists based on the turnover, meaning availability of quotes at which market participants transact in the local stock market. The quotes of foreign equities shall be taken from Bloomberg giving the priority to the primary

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market, and then to the country of issuer if the active market exists there. Otherwise, the market with the highest liquidity (turnover) shall be used as a source for pricing. If the quotes in primary data sources are clearly incorrect or artificial, the price of particular equity shall be derived from liquid market data using sources like Bloomberg or similar. Correctness of the quotes described above are the subject of expert judgment of the Market & Liquidity Risk Department member together with the Bank's Markets Department's dealer responsible for equity trading. For equities of non-listed companies for which active market does not exist, any available trusted public information on recent trades shall be used for the pricing of the equity. Alternatively, dividend discount model shall be used to determine the price of equity. Expert opinion based on other available related market data shall be used for pricing of equity if the previously described methods are not possible;

  - For domestic debt instruments issued in the Baltic states, the quotes of local (Baltic) market makers shall be the priority source. Local market makers (usually banks) publish the trading offers in the form of prices, yields or equivalent figures. If there are more than one market maker locally, the average of bid prices shall be used taking the data from Bloomberg. If the debt instrument is issued outside the Baltic states, or there are no quotes available from local market makers on particular debt issue, or quotes of local market makers are clearly incorrect or artificial, the prices of particular debt securities shall be derived from liquid market data using sources like Bloomberg or similar;

- Derivative financial instruments – market data from financial data vendors, electronic trading platforms or third-party valuation are used for valuation purposes. The derivatives represent non-complex products valued with generally accepted models. Valuation inputs are derived from the market data;
- Loans and deposits from credit institutions – the fair value of loans equals to their carrying value. Pricing of the loans from credit institutions is under market conditions. Expected cash flows of the liabilities from the banks are discounted with the same market rates as loans. Loans from credit institutions are long-term. Deposits from credit institutions are demand deposits. The fair value of deposits equals to their carrying value. Pricing of the deposits from credit institutions is under market conditions;
- Deposits from customers – the gross carrying amount of demand deposits as a fair value is applied as an approximation due to very short maturities;
- Debt securities issued – Covered bonds are actively traded on market using the market rate yield curve (swap curve) provided by Bloomberg. The fair value of covered bonds issued by the Bank is calculated in a similar way as for actively traded covered bonds i.e. using spread level based on the existing bond and prevailing market level. The debt securities issued by the Bank are initially recognized at fair value less transaction costs and are subsequently carried at amortised cost using effective interest rate (EIR) method. The fair value is calculated by discounting the future cash flows using the market interest rate yield curve. Covered bonds are classified as Level 1 as they are actively traded on market using the market rate yield curve (swaps curve) provided by Bloomberg.

32. 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 with significant influence, control or joint control, members of the Supervisory Council and the Management Board as key management personnel, their close relatives and companies in which they have a controlling interest as well as associated companies.

The immediate parent of Luminor Holding AS is Braavos BidCo Limited that is ultimately controlled by BCP VII, an investment fund managed by an affiliate of Blackstone Group Inc. BCP VII is treated to be both the ultimate parent and ultimate controlling entity of Luminor Holding AS. Other shareholders of Luminor Holding AS - Nordea Bank Abp and DNB BANK ASA - are considered to be the entities with significant influence over the Group. For more information, refer to the Note 1, please. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, foreign currency transactions and financial instruments. These transactions were carried out on commercial terms and at market rates. There have been no doubtful debts due from related parties as well as allowances for doubtful debts as at 31 December 2020 and 31 December 2019.

The volumes of related party transactions outstanding balances and related income and expense were as follows:

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TRANSACTIONS WITH RELATED PARTIES

thousand EUR	2020	2019
Interest income		
Entities with significant influence over the entity	38	1 469
Key management personnel	13	7
Interest expenses		
Entities with significant influence over the entity	-11 130	-7 885
Key management personnel	-2	-3
Net commission and fee income		
Entities with significant influence over the entity	-108	-21
Key management personnel	2	0
Net gain from financial derivatives		
Entities with significant influence over the entity	-26 783	4 267
Other administrative expenses		
Entities with significant influence over the entity	-14 428	-8 851
Other expenses		
Entities with significant influence over the entity	-1 360	833
Total	**-53 758**	**-10 184**

thousand EUR	31 December 2020	31 December 2019
Loans to credit institutions		
Entities with significant influence over the entity	55 899	77 572
Loans to customers		
Key management personnel	1 015	697
Derivative instruments		
Entities with significant influence over the entity	18 650	46 519
Other assets		
Entities with significant influence over the entity	80	199
Total assets	**75 644**	**124 987**
Due to credit institutions		
Entities with significant influence over the entity	3 112	912 807
Deposits from customers		
Key management personnel	1 150	983
Derivative instruments		
Entities with significant influence over the entity	41 282	19 849
Other liabilities		
Entities with significant influence over the entity	4 430	1 345
Total liabilities	**49 974**	**934 984**

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Payments of fixed and variable remuneration to the key management personnel of Luminor Bank AS and Luminor Holding AS in 2020 amounted to 2 873 thousand EUR (in 2019 the amount was 2 581 thousand EUR). Risk-adjusted performance based variable remuneration is applied according to Luminor Total Reward Policy. No other short- or long-term variable remuneration payments are applied.

Members of Management Board and other key management personnel of Luminor Holding AS and Luminor Bank AS are entitled for 6 up to 12 months of non-compete restriction in case of employment termination. Besides risk-adjusted performance based variable remuneration no other short-term nor long term benefits are applied.

As at 31 December 2020 loans and advances with associate ALD Automotive (3 entities) amounted to 11 189 thousand EUR (as at 31 December 2019 it was 15 919 thousand EUR), deposits 777 thousand EUR (as at 31 December 2019 it was 985 thousand EUR), interest income for 2020 was 27 thousand EUR (for 2019 it was 31 thousand EUR). Net fee and commission income for 2020 was 3 thousand EUR (for 2019 it was 4 thousand EUR).

33. LITIGATIONS AND CLAIMS

In the ordinary course of business, the Bank has been involved in a number of legal proceedings to recover outstanding credit balances and maintain collaterals. The Management of the Bank believes that any legal proceedings pending as at 31 December 2020 will not result in material losses for the Bank.

Luminor Holding AS is not involved in any litigation (as plaintiff nor defendant).

34. SIGNIFICANT EVENTS AFTER REPORTING PERIOD

On 1 January, Peter Bosek became Chief Executive Officer and Chairman of the Management Board of the Bank.

Marilin Pikaro announced her decision to resign as Head of the Compliance Division and Member of the Management Board of Luminor Bank AS effective from 5 January. Mari Mõis, Luminor Head of the Legal Division, was appointed as Luminor Chief Compliance Officer from 6 January.

On 19 January, Luminor Bank and IBM announced a new five-year agreement. Under the agreement Luminor will migrate its IT infrastructure to IBM Cloud for Financial Services. IBM will support Luminor in accelerating its digital transformation and strengthening further its security and regulatory compliance processes. As part of the agreement, some 200 people from Luminor's Technology Division will be transferred to IBM. We expect the agreement will lead to a reduction of at least one fifth in the relevant costs we would otherwise incur.

The Supervisory Council of the Bank mandated the Luminor Head of Products and Offering with the responsibility of owning, leading, developing and coordinating the ESG topics in Luminor, effective from 1 February.

On 2 February, Luminor announced the acquisition of part of Danske Bank's corporate portfolio worth approximately 35 million EUR. The portfolio consists of corporate customers of Danske Bank in Latvia and includes loan, leasing and guarantee agreements. On 15 February, Luminor assumed from Nordea loans to two corporate customers in Latvia totaling approximately 54 million EUR.

On 16 February, Moody's Investor Service (Moody's) affirmed Luminor Bank's Baa2 long term debt rating and changed its outlook on its ratings to positive.

On 26 February, Luminor announced the appointment of Palle Nordahl as Chief Financial Officer and member of the Management Board of Luminor, effective 1 May 2021.

From 1 March, Luminor Operations Department will be part of the Technology Division.

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Initials L.L. Date 15.04.2021

35. PRIMARY STATEMENTS OF LUMINOR HOLDING AS AS A SEPARATE ENTITY

The parent company's unconsolidated primary financial statements have been prepared in accordance with the Accounting Act of the Republic of Estonia and do not constitute the separate financial statements of Luminor Holding AS in the meaning of IAS 27 "Separate financial statements".

35.1 STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020 FOR LUMINOR HOLDING AS

thousand EUR	2020	2019
Salaries and other personnel expenses	-45	0
Other administrative expenses	-90	-35
Profit before tax	**-135**	**-35**
Tax expense	0	0
Profit (loss) for the period	**-135**	**-35**
Total other comprehensive income	**0**	**0**
Total comprehensive income	**-135**	**-35**

35.2 STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020 FOR LUMINOR HOLDING AS

thousand EUR	31 December 2020	31 December 2019
Assets		
Cash	142	24
Accounts receivables	75	0
Investments in subsidiaries and associates	1 611 959	1 611 959
Total assets	**1 612 176**	**1 611 983**
Liabilities		
Loan liabilities	150	0
Accounts payables	20	0
Tax liabilities	177	0
Other liabilities	15	34
Total liabilities	**362**	**34**
Shareholders' Equity		
Issued capital	25	25
Retained earnings	182 727	182 862
Other reserves	1 429 062	1 429 062
Total shareholders' equity attributable to the shareholders	**1 611 814**	**1 611 949**
Total liabilities and shareholders' equity	**1 612 176**	**1 611 983**

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35.3 STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020 FOR LUMINOR HOLDING AS

Attributable to equity holders of the holding

thousand EUR	Share capital	Other reserves	Retained earnings	Total equity
Total equity as at 31 December 2018	**0**	**0**	**0**	**0**
Profit (loss) for the period	0	0	-35	**-35**
Total comprehensive income for the period	**0**	**0**	**-35**	**-35**
Increase in share capital	25	0	0	**25**
Voluntary reserve	0	1 429 062	0	**1 429 062**
Other	0	0	182 897	**182 897**
Total equity as at 31 December 2019	**25**	**1 429 062**	**182 862**	**1 611 949**
Total equity as at 31 December 2019	**25**	**1 429 062**	**182 862**	**1 611 949**
Profit (loss) for the period	0	0	-135	**-135**
Total comprehensive income for the period	**0**	**0**	**-135**	**-135**
Total equity as at 31 December 2020	**25**	**1 429 062**	**182 727**	**1 611 814**

thousand EUR	31 December 2020	31 December 2019
Equity capital of the parent undertaking	1 611 814	1 611 949
Value of subsidiaries in the unconsolidated statement of financial position of the parent (minus)	-1 611 959	-1 611 959
Value of subsidiaries under equity method	1 665 292	1 632 270
Total	**1 665 147**	**1 632 260**

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35.4 STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020 FOR LUMINOR HOLDING AS

thousand EUR	2020	2019
Cash flows from operating activities		
Profit before tax	**-135**	**-35**
Change in accounts receivables	-75	0
Change in accounts payables	20	0
Change in tax liabilities	177	0
Change in other liabilities	-19	34
Cash flow from operating activities	**-32**	**-1**
Financing activities		
Proceeds from borrowings	150	0
Payment from the shareholder	0	25
Cash flows from financing activities	**150**	**25**
Net increase/(decrease) in cash and cash equivalents	**118**	**24**
Cash and cash equivalents at the beginning of the period	24	0
Net increase/(decrease) in cash and cash equivalents	118	24
Cash and cash equivalents at the end of the period	**142**	**24**
Cash and cash equivalents comprise		
Cash on hand	142	24
Total	**142**	**24**

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Initials L.L. Date 15.04.2021

Independent Auditor's Report

To the Shareholders of Luminor Holding AS

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Luminor Holding AS and its subsidiary (together – the "Group") as at 31 December 2020, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of profit or loss and other comprehensive for the year ended 31 December 2020;
- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

Other information

The Management Board is responsible for the other information. The other information comprises the annual report, including Contact details, the CEO Statement and the Management report (but does not include the consolidated financial statements and our auditor's report thereon).

AS PricewaterhouseCoopers
Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Translation note:

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

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.

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- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

AS PricewaterhouseCoopers

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

15 April 2021
Tallinn, Estonia

Translation note:

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PROFIT ALLOCATION PROPOSAL

In accordance with the audited financial results, the Management Board recommends the annual shareholders' meeting that the Luminor Holding AS 2020 net profit and retained earnings from previous financial periods to be distributed as shown below:

Net profit for the period ended 31 December 2020	33 033 thousand EUR
Retained earnings from previous periods	202 912 thousand EUR
Total retained earnings as at 31 December 2020	235 795 thousand EUR
Balance of undistributed profit	235 795 thousand EUR

SIGNATURES OF THE MANAGEMENT BOARD TO THE ANNUAL REPORT 2020

The Company's Management Board has approved the Management Report and Annual Accounts for the year 2020.

The Annual Report as compiled by the Management Board consists of the Management Report Annual Accounts Profit allocation proposal and Auditor's Report. The Company's Supervisory Council has reviewed the Annual Report and has approved it for submission to the General Meeting of the Shareholders.

15 April 2021

Mari Mõis
Chairwoman of the Management Board

CONTACT DETAILS

Luminor Holding AS

Location and address	Liivalaia 45 10145 Tallinn Estonia
Registered country	The Republic of Estonia
Main activity:	Holding company
Commercial Register code	14723133
Telephone	+372 628 3300
Website	www.luminor.ee
E-mail	info@luminor.ee
Investor relations	ir@luminorgroup.com

Balance sheet date	31 December 2020
Reporting period	1 January to 31 December 2020
Reporting currency	Euro