Luminor

# INTERIM REPORT FOR Q4 2018

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

**LUMINOR BANK AS**, Estonia

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# MANAGEMENT REPORT

## Overview

Luminor (or "Luminor Group") was established on 1 October 2017 as a result of the merger of DNB Bank ASA (Commercial Register no. 984 851 006) and Nordea Bank AB (Swedish Commercial Register no. 516406-0120) operations in the Baltic countries to create a new-generation financial service provider for local businesses and financially active people.

Luminor is the third-largest financial services provider in the Baltics, with ca 1.1 million clients, ca 3,000 employees, 16% market share in deposits and 22% market share in lending. Total shareholder equity of Luminor amounts to 1.8 billion euros and is capitalized at CET1 18%. Luminor's vision is to become the best financial ecosystem for its customers.

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

This transaction represents the largest majority-stake acquisition of a universal bank by private equity in the last decade globally, and one of the largest M&A transactions in Baltic history.

Luminor Bank AS (or "Luminor Estonia") offers a wide range of products and services to its customers in all channels, digital and physical, with 10 offices including headquarter in Tallinn and customer service centers in Tartu, Pärnu, Viljandi, Rakvere and Jõhvi, in addition a cashless advisory desk in Kuressaare. Luminor has a total of 100 ATMs throughout Estonia.

At the end of Q4 2018, Luminor Estonia employed 671 full-time employees and served ca 138,000 clients in the private and business segments, with a market share of 16% in lending and 10% in deposits, making it the third largest financial service provider on the market. Luminor Estonia's capital ratio at the end of Q4 2018 was 18.80%.

Luminor Estonia has five subsidiaries: Luminor Liising AS, which provides leasing for vehicles, heavy equipment and other assets; Luminor Pensions Estonia AS, which focuses on growing the pension assets of clients; Luminor Kindlustusmaakler OÜ, which provides insurance broker services; and Promano OÜ and Uus-Sadama 11 OÜ, which provide asset management services.

Moody's has assigned long- and short-term, foreign and local currency deposit ratings of Baa1/Prime-2, as well as a local currency long-term (P)Baa2 senior MTN rating to Luminor Bank AS.

## Macroeconomic overview

Despite all the macro headwinds and challenges emanating from the external sector including trade tensions and slowing global trade, 2018 was still overall a rather good growth year for Estonia. Estonia's open economy is highly integrated with the economies of the Euro area and the Nordic countries and has developed hand in hand with them, supported by strong labour markets. As expected, economic momentum did only marginally moderate last year from a robust 4.9% y/y pace in 2017 to 3.8% y/y (Q1-Q3 18). As a key positive development, export revenues picked up speed as from Q2 following a weak start of the year, and remained on the modest growth trend at year-end. However, the key drag to GDP growth resulted from investments with growth affected last but not least by last year's strong base (one-off large investment transactions) and elevated uncertainty in the external environment.

In terms of industry branches, the contributions to decent Q3 growth (4.2% y/y) were the strongest by construction and export-orientated manufacturing sector, followed by science and technology plus the pivotal ICT branches. Expectedly, consumers appetite remained rather elevated on the back of strong labour markets with somewhat softer demand for large ticket items at year end (confirming moderation in the housing market activity). The consumers have not really opted for opening the purses to spend the extra boost received from the past taxation reform (which effectively increased the non-taxable income). As a positive development inflation has expectedly trended lower with waning pressure from energy prices, which is expected further to exert downward price pressure in H1 2019. Overall, Estonia's underlying growth is expected to continue broad-based with risks in the external sector pointing towards gradual moderation of current strong growth trend. In comparison with the euro-area average the deceleration of growth in Estonia has remained limited with cyclical indicators in domestic and external sectors (including economic and consumer confidence) pointing to only soft moderation ahead.

## Activities

In Q4 2018, Luminor continued with the finalization of the legal aspects of its merger, which will see the full integration of the banks, continuing operations in all three Baltic states through the Estonian bank and its registered branches in Latvia and Lithuania. In May 2018, Luminor received confirmation from the European Central Bank that the branches in Latvia and Lithuania could be established and commence operations. Starting from 2 January 2019 Luminor continues its operations as one integrated pan-Baltic bank.

### HOUSEHOLD SEGMENT

By the end of Q4 2018, Luminor Estonia had approximately 116,000 household clients. In Q4 2018 Luminor Estonia focused on increasing volumes of saving and investment products through educating and advising our customers. Dedicated team of advisors were established and trained in order to give the best professional saving and investment advice to the customers. As a result, in Q4 2018 household segment customers deposits in Luminor Estonia increased by 2.7%.

Total lending average volume remained stable. In Q4 2018 new housing loan volumes were decreasing compared to Q3 2018, whereas new housing loan average margin has increased. In December 2018 Luminor Estonia started with external Consumer lending campaign in order to help the customers to cover unforeseeable expenses or to pay for larger purchases.

Luminor's goal is to become the home bank for the target customers by offering professional advice and excellent customer service. Delivering good customer experiences and meeting our customers' needs are essential to Luminor.

### PRIVATE BANKING SEGMENT

Private Banking customer activities are centered on everyday banking and growing the savings portfolio. We help high net worth individuals and their families to grow, manage and preserve their wealth. By the end of Q4 2018, Luminor Estonia had around 1,000 Private Banking customers. In Q4 2018, Private Banking focused on strategic positioning and attracting new funding through collaboration with Luminor's other business segments and marketing to help deliver results.

### BUSINESS AND CORPORATE CLIENT SEGMENTS

In Q4 2018, Luminor Estonia continued to serve its ca 21,000 customers in the corporate and business client segments. Luminor Estonia continued profitable lending growth to small and medium-sized business clients. Our activities towards business clients were supported by sales campaign that focused attracting new customers. In the year end Luminor Estonia together with Eesti Meedia AS and Regional Development Centers started an Entrepreneurial Courage Award to recognize strong local and regional companies who have made a remarkable change in their business.

Q4 corporate client segment results were in line with macroeconomic developments. Lending to large corporations and international customers had a positive impact in lending profitability and deposit balance.

Our corporate customers value our tailored financial products and relationship banking concept. In Q4 2018 special focus was given to diversify customer portfolios and deposit book and to double check our AML internal routines towards corporate customers.

On 13 December 2018 Private Banking and corporate client segment invited its customers to hear about insights on upcoming macroeconomic and foreign policy trends.

## LEASING

Leasing services for vehicles, heavy equipment and other assets for private individuals and business clients are provided through the subsidiary Luminor Liising AS. End of Q4 2018, the total leasing portfolio amounted to 937 million euros and new financing volume in last quarter was 68 million euros. About 50% of new financing was granted to passenger cars which is biggest single asset group in leasing portfolio.

## PENSIONS

In Q4 2018 Luminor Estonia continued to provide 2nd and 3rd pillar and employer pension fund management services to its customers through its subsidiary Luminor Pensions Estonia AS.

Luminor Pensions increased its investments in activities that brought the information of pension funds and funds closer to the client. Global capital markets fell in Q4 2018 and had a negative impact on pension fund short-term results. By the end of Q4 2018, assets under management had reached 317 million euros, a minor decrease compared to previous quarter.

At the same time, Luminor's long-term performance of Estonian pension funds is among the best in the market in both second and third pillar funds. In Q4 2018 the customer portfolio had a healthy growth and reached to 51,000 customers.

## CORPORATE SOCIAL RESPONSIBILITY IN LUMINOR

We are creating a new-generation financial services provider because we are determined to build a better tomorrow – for families and businesses and for the communities and countries in which we live and operate. We believe in contributing to the development of the local communities in which we operate.

We are committed to taking into account corporate governance, social conditions and environment in all of our activities, including product and service development, advisory services and sales, investment and credit decisions, and other operations. We do not contribute to the infringement of human or labor rights, corruption, environmental harm or other actions that could be regarded as unethical.

Luminor has a responsibility to make an effort to ensure that the banking industry delivers ethical products and services. We take responsibility for who our products and services are offered to and how.

## ANTI-MONEY LAUNDERING RELATED MATTERS

Luminor has chosen to serve primarily customers having strong presence and connection to the Baltic countries. Focusing on serving the Baltic customers we continuously aim for a full transparency in customers background, availability of KYC data and economic rational in activities. At Luminor, we have zero tolerance towards money laundering and other financial crime risk. Luminor has developed and implemented a comprehensive set of measures to identify, manage and control its risks. We comply with sanctions laws and follow the guidelines, recommendations and standards issued by local regulatory and supervisory authorities and relevant international organizations, as well as those issued by local banking associations and financial intelligence units in each Baltic state.

Our Compliance and Anti-Money Laundering (AML) functions are operating at the pan-Baltic level, having competence centers and highly experienced professionals in the following areas: data protection, AML/ Certified Fraud Examiners (CFT),

FATCA, IT compliance and digital channels, business integrity, bank products and new product development. Luminor's AML, Compliance and Anti-Financial Crime units employs over 100 professionals, maintaining a robust compliance framework and processes through the organization.

## SIGNIFICANT EVENTS AFTER 31 DECEMBER 2018

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

During 2019 Luminor will be simplifying its operating model and reducing its staff numbers from the current ca 3000 employees, at all levels (including management), comprising around 130 employees in Estonia, 250 employees in Latvia and 420 employees in Lithuania.

Starting from 2 January 2019, the deposits and financial instruments of the depositors and investment services clients of Luminor Bank AS Latvian branch and Luminor Bank AS Lithuanian branch will be guaranteed by the deposit guarantee and investor protection scheme established and operated by the Estonian Guarantee Fund.

The new simplified structure and governance model enables the bank faster decision making, provides excellent cross-border collaboration opportunities and improves efficiency.

As of 2 January 2019, after completion of the merger, Luminor has a new organizational set up, a new governance structure and new members of management bodies. Erkki Raasuke will continue as Luminor ´s CEO and Nils Melngailis will be chairing the supervisory board.

### The new governance structure of Luminor:

**Supervisory Council of Luminor Bank AS**

- Nils Melngailis, Chairman of the Council
- Bjørn Erik Naess, Member of the Council
- Jörgen Christian Andersen, Member of the Council
- Michael Jackson, Member of the Council
- Trygve Young, Member of the Council

On 23 January 2019 two additional council members, were appointed to Luminor—Ari Kaperi and Nadine Faruque.

**Management Board of Luminor Bank AS**

- Erkki Raasuke, Chairman of the Management Board
- Christian Wallentin, Member of the Management Board, CFO, Head of Financial division
- Kristina Siimar, Member of the Management Board, Head of Products and Offerings
- Kerli Gabrilovica, Member of the Management Board, Head of Luminor Latvian branch
- Andrius Načajus, Member of the Management Board, Head of Luminor Lithuanian branch
- Hannu Saksala, Member of the Management Board, Head of Risk division

On 31 January 2019 Christian Wallentin, CFO and Head of Financial division has resigned from his position and management board, to pursue other interests. Following Wallentins resignation, Tina Kukka Head of Transformation Management Office, will assume the role of interim CFO and lead the financial division along with her current duties. New CFO will be appointed soon.

The permanent Supervisory Council committees which were previously established for each Baltic country separately are going forward and operating as single committees on a group level, comprising Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee.

After completing the cross-border merger, Luminor has taken steps to re-organize its operating model. On 7 January 2019 Luminor has decided to proceed with the next phase of transformation, including changing operating model. The bank aims to transform its operating model by simplifying its structure and decision process, unifying and executing IT consolidation, strengthening its controls, and becoming more efficient, more resilient and more resolvable.

Luminor is customer-driven organization and our operating model is built to support regional scale, business development and efficiency, but also high relevance in customer intimacy. With the adjusted operating model, Luminor expects to significantly reduce the operating expenses and create the capacity to invest for the future.

## Financial Results

The merger of the Baltic businesses of DNB and Nordea in October 2017 has had a significant impact both on the financial result and operational focus. The consolidated financial information prior to the merger represents consolidated results of DNB's respective entities, whereas starting from 1 October 2017, such financial information also reflects the effects of the acquisition of assets and liabilities of Nordea. As a result, comparability of consolidated financial information between January-December 2017 and January-December 2018 is limited in light of the effects of the merger.

Net profit earned in Q4 2018 was 0.6 million euros, which was 6.5 million euros less than Q3 2018 mainly due to tax on dividends recorded in Q4 2018. Net interest margin was 1.7%. Net total operating income increased 3% in Q4 2018 compared to Q3 2018, while total operating expenses increased 51% in the same period, driven by higher IT development costs.

### KEY FIGURES*

| T EUR | Jan-Dec 2018 | Q4 2018 |
|---|---|---|
| Net profit | 25 095 | 620 |
| Average equity | 468 377 | 473 530 |
| Return on equity (ROE), % | 5.4 | 1.3 |
| Average assets | 3 828 926 | 4 012 451 |
| Return on assets (ROA), % | 0.7 | 0.1 |
| Net interest income | 69 957 | 16 752 |
| Average Interest Earning Assets | 3 794 325 | 3 976 956 |
| Net interest margin (NIM), % | 1.8 | 1.7 |
| Cost / Income ratio (C/I), % | 69.4 | 82.9 |

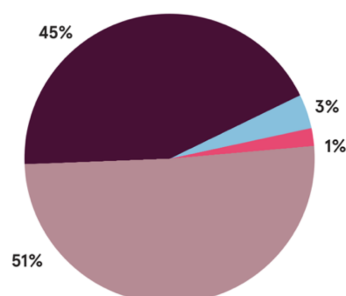
* Quarterly ratios and Jan-Dec 2018 ratios (ROE, ROA, NIM, C/I) have been expressed on an annualized basis.

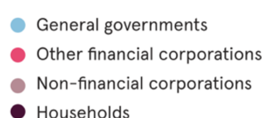
### Explanations

Average equity (belonging to owners of company) = (equity at end of reporting period + equity at end of previous period) / 2
Return on equity (ROE) = Net profit / Average equity * 100%
Average assets = (assets at end of reporting period + assets at end of previous period) / 2
Return on assets (ROA) = Net profit / Assets, average * 100
Average interest earning assets = (interest-earning assets at end of reporting period + interest-earning assets at end of previous period) / 2
Net interest margin (NIM) = Net interest income / Interest earning assets, average * 100
Cost / Income ratio = Total operating expenses / Total net income * 100

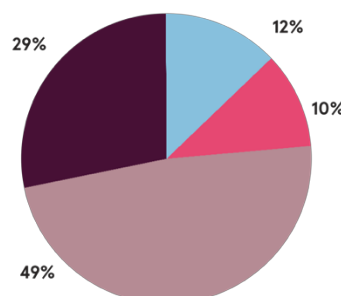
Loans to customers decreased 1% compared to 30 September 2018 to 3.2 billion euros at 31 December 2018. Loans to non-financial corporate customers comprised 51% and loans to households 45% of the credit portfolio of Luminor. The market share of Luminor's loans in Estonia was approximately 16%.

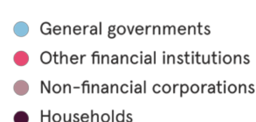
**Lending**




**Deposits**




Deposits from customers (excluding deposits from credit institutions) totalled 1.7 billion euros at 31 December 2018, decreasing 3% from 30 September 2018. Deposits from non-financial corporate clients comprised 49% and deposits from households 29% of the customer deposit portfolio of Luminor. The market share of Luminor's deposits in Estonia was approximately 10%.

The loan-to-deposit ratio increased in Q4 2018 to 189% from 185% in Q3.

## ASSET QUALITY FOR Q4

The credit quality of the Luminor Estonia lending portfolio as at the end of Q4 2018 has slightly improved. At the end of December 2018 allowances for on-balance expected credit losses were calculated as 34 million euros, i.e. approximately 1.1% of the Luminor Estonia's loan portfolio. Decrease in the amount and share of allowances is related mostly to the decreased loan portfolio volume, however, in some particular client segments increase in the allowances has taken place. The share of impaired loans in total loan portfolio has slightly decreased and amounts to 3.4%, what is mostly caused by improvement of the large customers performance.

| T EUR | Household | Non-financial corporations | Other financial corporations | General governments | Total* |
|---|---|---|---|---|---|
| Gross Loans | 1 447 887 | 1 673 532 | 39 868 | 85 854 | 3 248 141 |
| Allowances | -7 095 | -27 133 | -117 | -9 | -34 354 |
| Net Loans | 1 440 792 | 1 646 399 | 39 751 | 85 845 | 3 212 787 |
| Gross Impaired Loans | 21 183 | 89 223 | 0 | 0 | 110 406 |
| Impairment ratio % | 0.49% | 1.62% | 0.29% | 0.01% | 1.06% |
| Gross impaired Loans vs Gross Loans (NPL ratio) % | 1.46% | 5.33% | 0.00% | 0.00% | 3.40% |
| Allowances vs Gross impaired Loans % | 33.49% | 30.41% | N/A | N/A | 31.12% |

* excluding Loans to Credit Institutions

**Explanations:**

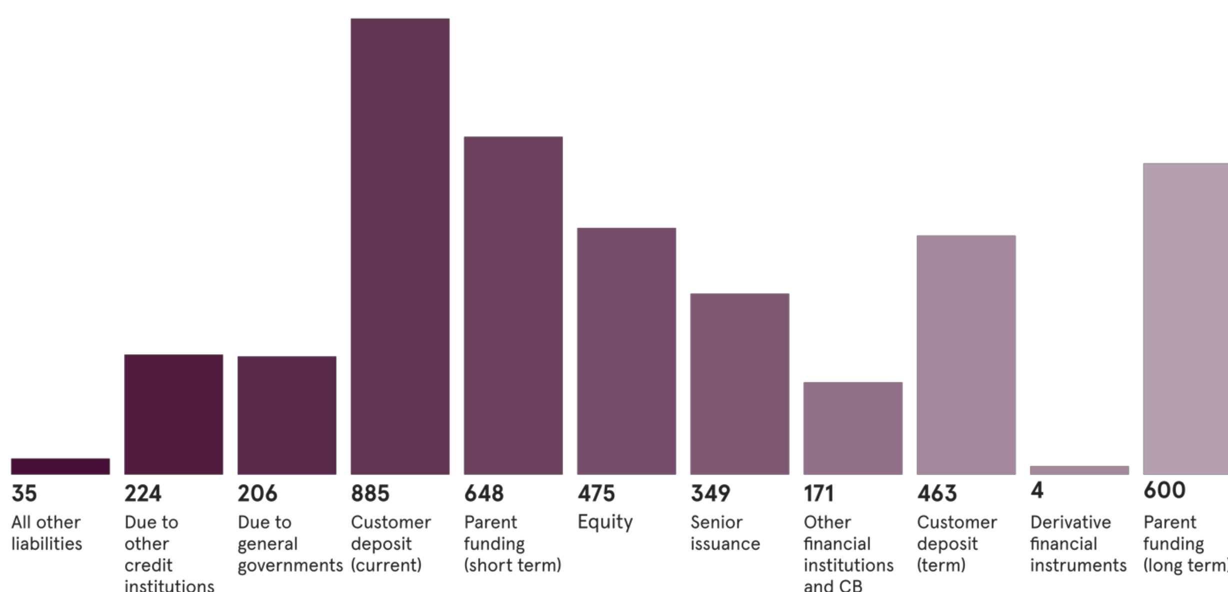
Impairment ratio % = Allowances / Gross Loans
Gross impaired loans vs Gross Loans (NPL ratio) % = Gross impaired Loans / Gross Loans
Allowances vs Impaired Loans = Allowances(Provisions)/ Gross Impaired Loans

## FUNDING

Luminor Estonia has a strong and prudent liquidity risk profile. The funding base consists of a large deposit base, issued debt securities and funding from parent banks, among other items. The funding base is mainly euro-denominated.

In September 2018 Moody's assigned Luminor Estonia a Senior Unsecured Medium-Term Note Program rating of Baa2. The assignment of rating was followed by a 350 million senior unsecured inaugural public bond issue with a maturity of 3 years and coupon of 1.50%. The bond is listed on the Euronext Dublin Stock Exchange. Despite the market turbulence at the time of issuance, Luminor was able to attract investors around Europe supported by strong local demand.

At the end of Q4 2014, Luminor Estonia had utilised 1.25 billion euros in funding from the parent banks.




Utilized parent funding amounts to 3.71 billion euros at the Luminor group level and is provided by the two parent banks in the form of a syndicate, where each parent bank provides 50%. Long-term funding was committed for 6 years (4+2), beginning from the 1 October 2017 when Luminor was established and short-term funding in the form of revolving credit of 364 days. In addition to the current outstanding utilized funding, there is also a committed credit line of 0.9 billion euros in place (not utilized at present). When Luminor attracts wholesale long-term (longer than one year) funding externally, the intent is to amortize an equal amount of parent funding.

### Rating

Moody's Investors Service has assigned to Luminor Bank AS (Luminor Estonia) foreign and local currency long- and short-term deposit ratings of Baa1/Prime-2, as well as a long-term Baa2 senior MTN credit rating. On 11 October 2018, Moody's confirmed the local currency long-term senior unsecured debt rating of Baa2 to Luminor Bank AS (Estonia) prior to the EMTN issuance.

As of 2 January 2019 Luminor Bank AS (Latvia) and Luminor Bank AB (Lithuania) are branches of Luminor Bank AS (Estonia).

## LIQUIDITY

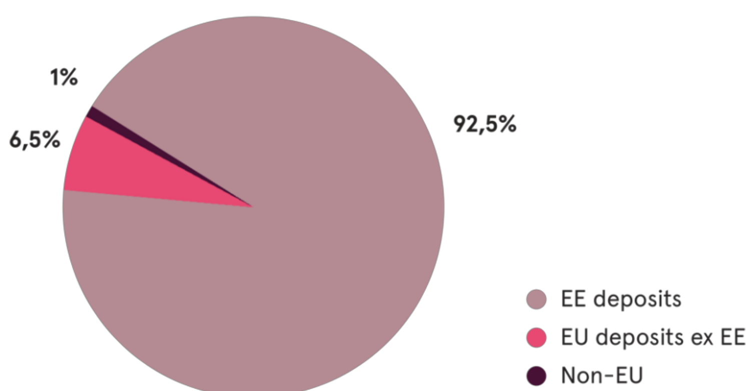
The LCR (liquidity coverage ratio) for Luminor Estonia was 238.0% at the end of Q4 2018, according to the Delegated Act's LCR definition. The liquidity buffer is composed of highly liquid central bank eligible securities and cash.

At the end of Q4 2018, Luminor Estonia's NSFR (net stable funding ratio) was 112.0% using an RSF (required stable funding) factor of 85% for qualifying collateralised mortgages.

| Ratio | 31 Dec 2018 | 30 Sep 2018 | 30 Jun 2018 | 30 Mar 2018 | 31 Dec 2017 |
|---|---|---|---|---|---|
| LCR | 238.0% | 162.9% | 160.7% | 133.3% | 112.0% |
| NSFR** | 112.0% | 111.3% | 108.4% | 100.5% | 102.0% |

**mortgages that would qualify for 35% or lower risk weight are calculated with 85% RSF factor.

### Deposit structure




Deposits from customers are mainly from residents of Estonia. In total, 99.0% of all deposits from household and non-financial corporates are from EU residents.

## CAPITAL

Luminor Estonia's capital adequacy ratio reached 18.80% by 31 December 2018 (31 December 2017: 17.69%), which is well above the internal target of 17.0% and the applicable regulatory requirements. Capital adequacy increased as a result of the decrease of total risk exposure amount for the period ended on 31 December 2018. The capital adequacy of Luminor Estonia is fully covered by CET1 capital.

### Capital ratios

| Position | Q4 2018 | Q3 2018 | Q2 2018 | Q1 2018 | Q4 2017 |
|---|---|---|---|---|---|
| Capital adequacy | 18.80% | 18.09% | 17.55% | 17.57% | 17.69% |
| Leverage Ratio | 11.30% | 11.45% | 11.22% | 11.24% | 11.72% |
| CET 1 Ratio | 18.80% | 18.09% | 17.55% | 17.57% | 17.69% |
| T1 Capital Ratio | 18.80% | 18.09% | 17.55% | 17.57% | 17.69% |
| Total Capital Ratio | 18.80% | 18.09% | 17.55% | 17.57% | 17.69% |

## Statement of the Management Board

The interim report of Luminor Bank AS for Q4 2018 consists of the following parts and reports:

- Management Report;
- Condensed Consolidated Interim Financial Statements.

The data and additional information presented in the interim report of Luminor Bank AS for Q4 2018 are true and complete. The Condensed Consolidated Interim Financial Statements present a fair and true view of the financial status, economic performance and cash flow of the group.

The Condensed Consolidated Interim Financial Statements have been prepared according to the principles of the International Accounting Standard IAS 34 "Interim Financial Reporting" and the requirements established by the Bank of Estonia for the disclosure of information.

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

**Erkki Raasuke**
Chairman of the Board

**Tina Kukka**
Interim CFO

Tallinn, 28 February 2019

# CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| T EUR | Note | 01 Jan 2018 to 31 Dec 2018 | 01 Jan 2017 to 31 Dec 2017 | Q4 2018 | Q4 2017 |
|---|---|---|---|---|---|
| Interest income | 5 | 82 259 | 31 034 | 21 349 | 20 291 |
| Interest expense | 6 | -12 302 | -3 822 | -4 599 | -2 027 |
| **Net interest income** | | **69 957** | **27 212** | **16 751** | **18 264** |
| Fees and commission income | 7 | 19 548 | 5 529 | 4 604 | 4 750 |
| Fees and commission expense | | -4 544 | -1 119 | -1 345 | -1 091 |
| **Net fees and commission income** | | **15 004** | **4 410** | **3 259** | **3 659** |
| Net gain from operations with foreign currency | | 3 547 | 970 | 803 | 938 |
| Net gain from financial assets designated at fair value through profit or loss | | -169 | 88 | -267 | 88 |
| Other operating income | | 5 297 | 811 | 2 722 | 280 |
| Other operating expenses | | -216 | -460 | -103 | -267 |
| **Net other operating income** | | **8 459** | **1 408** | **3 155** | **1 039** |
| **Net total operating income** | | **93 420** | **33 030** | **23 165** | **22 962** |
| Salaries and other personnel expenses | | -34 600 | -11 110 | -7 798 | -7 882 |
| Other administrative expenses | | -28 274 | -6 920 | -10 321 | -6 220 |
| Depreciation and impairment of tangible and intangible assets | | -1 980 | -856 | -1 080 | -299 |
| **Total operating expenses** | | **-64 854** | **-18 885** | **-19 199** | **-14 400** |
| Impairment of financial assets | | -352 | 98 | 2 127 | 553 |
| Gain or loss on derecognition | | 5 301 | 0 | 1 272 | 0 |
| Share of the profit of investments in associates | | 192 | 69 | 65 | 69 |
| **Profit before Tax** | | **33 706** | **14 311** | **7 429** | **9 183** |
| Tax (tax on dividends and corporate income tax) | | -8 610 | -1 497 | -6 809 | 0 |
| **Profit after tax** | | **25 095** | **12 814** | **620** | **9 183** |
| **Profit attributable to:**<br>Equity holders of the Bank | | 25 095 | 12 814 | 620 | 9 183 |
| **Profit for the period** | | **25 095** | **12 814** | **620** | **9 183** |
| **Total other comprehensive income** | | **25 095** | **12 814** | **620** | **9 183** |
| **Total comprehensive income for the period attributable to:**<br>Equity holders of the Bank | | 25 095 | 12 814 | 620 | 9 183 |

*Financial results of year 2017 include the figures of the merged banks – 9 months of DNB data and 3 months of Luminor data.

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

| T EUR | Note | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with central banks | 8 | 701 963 | 199 250 |
| Due from other credit institutions | 9 | 109 208 | 148 893 |
| Derivative financial instruments | | 2 330 | 4 161 |
| Financial assets at fair value through profit or loss | | 4 356 | 4 526 |
| Loans and receivables | 10 | 3 212 788 | 3 221 001 |
| Investments in an associate | | 1 509 | 1 465 |
| Intangible assets | | 2 965 | 4 226 |
| Tangible assets | | 797 | 591 |
| Other assets | | 24 654 | 13 169 |
| **Total assets** | | **4 060 571** | **3 597 282** |
| **Liabilities** | | | |
| Loans and deposits from credit institutions | 11 | 1 471 984 | 1 397 509 |
| Deposits from customers | 12 | 1 724 550 | 1 648 598 |
| Debt securities issued | 13 | 351 235 | 65 007 |
| Derivative financial instruments | | 2 312 | 4 161 |
| Tax liabilities | | 7 587 | 0 |
| Other liabilities | | 25 284 | 17 832 |
| Provisions | 14 | 3 098 | 1 942 |
| **Total liabilities** | | **3 586 050** | **3 135 050** |
| **Shareholders' Equity** | | | |
| Share capital | | 9 376 | 9 376 |
| Share premium | | 402 141 | 402 141 |
| Retained earnings | | 62 340 | 50 423 |
| Other reserves | | 664 | 291 |
| **Total shareholders' equity attributable to the shareholders of the Bank** | | **474 521** | **462 232** |
| **Total shareholders' equity** | | **474 521** | **462 232** |
| **Total liabilities and shareholders' equity** | | **4 060 571** | **3 597 282** |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 31 DECEMBER 2018

| T EUR | Share capital | Share premium | Other reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Total equity at 1 January 2017** | **9 376** | **92 505** | **0** | **9 943** | **111 825** |
| Dividends | 0 | 0 | 0 | -5 989 | **-5 989** |
| Increase of reserve capital | 0 | 309 637 | 291 | -291 | **309 637** |
| Total profit and other comprehensive income for the reporting period | 0 | 0 | 0 | 12 814 | **12 814** |
| Changes related to merger | 0 | 0 | 0 | 33 945 | **33 945** |
| **Total equity at 31 December 2017** | **9 376** | **402 141** | **291** | **50 423** | **462 232** |
| Changes on initial application of IFRS 9 | 0 | 0 | 0 | -12 805 | **-12 805** |
| **Restated equity as at 1 January 2018** | **9 376** | **402 141** | **291** | **37 618** | **449 427** |
| Total profit and other comprehensive income for the reporting period | 0 | 0 | 0 | 25 095 | **25 095** |
| Other | 0 | 0 | 373 | -373 | **0** |
| **Total equity at 31 December 2018** | **9 376** | **402 141** | **664** | **62 339** | **474 521** |

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD ENDED 31 DECEMBER 2018

| T EUR | Note | 01 Jan 2018 to 31 Dec 2018 | 01 Jan 2017 to 31 Dec 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before tax | | **33 705** | **14 311** |
| **Adjustment for:** | | | |
| Depreciation and impairment of tangible and intangible assets | | 1 980 | 856 |
| Impairment and derecognition gain/loss of financial assets | | -5 203 | 52 |
| Decrease/(Increase) in Provisions | | 255 | 63 |
| Interest income | 5 | -82 259 | -31 034 |
| Interest expenses | 6 | 12 302 | 3 822 |
| Loss/(Profit) from foreign currency revaluation | | 2 243 | -970 |
| **Cash flow from operating activities before changes in assets and liabilities** | | **-36 978** | **-12 899** |
| Decrease/(Increase) in financial assets fair value | | -46 | -88 |
| Decrease/(Increase) in loans and advances to customers | 10 | 2 568 | 20 877 |
| (Increase)/Decrease in due from credit institutions | | -21 500 | -18 344 |
| (Increase)/Decrease in due to credit institutions | 11 | -116 524 | 142 901 |
| (Increase)/Decrease in receivables from parent pledged as collateral | 1 | 37 647 | 26 117 |
| Decrease/(Increase) in other assets | | -11 549 | -1 878 |
| Increase/(Decrease) in client deposits | 12 | 76 055 | -599 098 |
| (Decrease)/Increase in other liabilities | | 7 219 | 4 764 |
| Interest received | | 83 322 | 18 436 |
| Interest paid | | -9 910 | -1 875 |
| Income tax paid | | -1 801 | -1 497 |
| **Increase/(decrease) in cash and cash equivalents as a result of operating activities** | | **8 503** | **-422 584** |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment and intangible assets | | -923 | -764 |
| Disposal of property and equipment and intangible assets | | 0 | 19 |
| Acquired an associate | | 0 | -69 |
| Dividends received | | 0 | 0 |
| Acquired cash and cash equivalents during merge transaction of Nordea branch | | 0 | 245 448 |
| Purchase of subsidiaries during merge transaction of Nordea branch | | 0 | -118 031 |
| **(Decrease)/Increase in cash and cash equivalents as a result of investing activities** | | **-923** | **126 603** |
| **Cash flows from financing activities** | | | |
| Dividends paid | | 0 | -5 989 |

| | | |
|---|---|---|
| Increase in Share capital | 0 | 309 636 |
| Debt Securities Issued | 347 840 | 65 000 |
| Repayments of Debt Securities Issued | -65 000 | 0 |
| Proceeds from long term borrowings from other banks | 200 000 | 0 |
| Repayment of long term borrowings from other banks | -9 000 | 0 |
| **(Increase)/decrease in cash and cash equivalents as a result of financing activities** | **473 840** | **368 647** |
| **Net increase/(decrease) in cash and cash equivalents** | **481 420** | **72 666** |
| Cash and cash equivalents at the beginning of the year | 292 083 | 219 417 |
| Effects of currency translation on cash and cash equivalents | -2 243 | 0 |
| Net increase/(decrease) in cash and cash equivalents | 481 420 | 72 666 |
| **Cash and cash equivalents at the end of the period** | **771 260** | **292 083** |
| **Cash and Cash equivalents comprises** | | |
| Cash on hand | 3 699 | 7 245 |
| Non-restricted current account with central bank | 698 264 | 192 005 |
| Due from credit institutions on demand or with original maturity of three months or less | 69 296 | 92 832 |
| | **771 260** | **292 083** |

Luminor

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. SUMMARY OF SIGNIFICANT EVENTS AND TRANSACTIONS

Luminor Bank AS is a local credit institution whose sole owner is Luminor Group AB and ultimate owners, parents are Nordea Bank AB, DNB Bank ASA and Luminor MiCom AB. The Luminor Bank's registered legal address is Liivalaia 45, 10145, Tallinn, Estonian Republic.

On October 1st, 2017 Nordea Bank AB (Swedish company registration No 516406-0120) and DNB Bank ASA (Org. No. 984 851 006) after all regulatory approvals and competition clearance were received, have combined their Baltic business into a jointly owned bank, Luminor. By business transfer Nordea Bank AB Lithuania branch, Nordea Bank AB Latvia branch and Nordea Bank AB Estonia branch assets and liabilities, including shares of leasing, pension and distressed assets companies in Baltics were transferred to Luminor Bank AB (prev. AB DNB bankas), Luminor Bank AS in Latvia (prev. DNB banka AS) and Luminor Bank AS in Estonia (prev. Aktsiaselts DNB Pank).

In 2018 an internal corporate restructuring of Luminor Group has been taken place with an aim to concentrate the entire Baltic businesses of Luminor Group in Luminor Bank AS, a credit institution in Estonia; where Luminor Bank AS in Estonia remains as the acquiring entity while Luminor Bank AB in Lithuania and Luminor Bank AS in Latvia are merged into Luminor Bank AS in Estonia and cease to exist. A cross border merger is pursued under Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law as implemented in Lithuania, Latvia and Estonia respectively. All assets and liabilities of the respective subsidiaries are, in accordance with the relevant laws, transferred into the Luminor Bank AS in Estonia as a matter of universal succession, and each subsidiary ceased to exist as a legal entity upon registration of the cross-border merger.

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

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

**As at 31 December 2018 Bank owned following subsidiaries:**

- Luminor Liising AS (leasing and factoring activities),
- Luminor Pensions Estonia AS (management of funds),
- Promano Est OÜ (real estate managment),
- Uus-Sadama 11 OÜ (real estate management),
- Luminor Kindlustusmaakler OÜ ( insurance brokerage).

As at 31 December 2018 the Bank owned 100% of the share capital of all subsidiaries.

# NOTE 2. ACCOUNTING PRINCIPLES

## BASIS OF PREPARATION

The condensed interim financial information of Luminor Bank AS (the Bank or the Group) was prepared in accordance with IAS 34 Interim Financial reporting as adopted by the European Union. The condensed interim financial information does not contain all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

The accounting policies adopted in the preparation of the condensed interim financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017, except for the accounting policy of Hedge Accounting and the new accounting standards which came into force from 1 January 2018 and are described below.

## CHANGES IN ACCOUNTING POLICIES

### 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 result 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 hedged item.

The Group applies fair value hedge. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment.

The change in the fair value of a hedging instrument is recognized 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 recognized in the statement of profit or loss.

For fair value hedges relating to items carried at amortized cost, any adjustment to carrying value is amortized through profit or loss over the remaining term of the hedge using the effective interest (EIR) method. The EIR amortization 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 derecognized, the unamortized fair value is recognized immediately in profit or loss. When an unrecognized 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 recognized as an asset or liability with a corresponding gain or loss recognized in profit or loss.

## IFRS 9 Financial Instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of adoption of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early-adopt IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustment to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings of the current period.

The adoption of IFRS 9 has resulted in the changes in accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets.

### Classification and measurement

At initial recognition, the Group measures trade receivables that do not have a significant financing component (determined in accordance with IFRS 15) at their transaction price. Other financial assets and financial liabilities are measured at initial recognition at their fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability**.**

Subsequent measurement of the financial assets depends on the classification performed by the Group at initial recognition. At initial recognition, financial assets can be classified into one of the following categories:

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

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

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

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

**A financial liability is classified as measured at fair value through profit or loss if:**

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

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

### Impairment of financial assets

IFRS 9 fundamentally changed the credit loss recognition methodology. The standard replaced IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Bank is required to recognize an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial

guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset. Loss allowances based on lifetime expected credit losses are calculated also for purchased or originated credit-impaired assets (POCI) regardless of the changes in credit risk during the lifetime of an instrument. The Bank has established a policy to perform an assessment at the end of each reporting period of whether credit risk has increased significantly since initial recognition by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assets to test for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk or which are classified as low risk (rating categorised as “Investment grade” or higher), stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the allowances equal the 12-month expected credit loss. In stage 2 and 3, the allowances equal the lifetime expected credit losses.

One important driver for size of allowances under IFRS 9 is the trigger for transferring an asset from Stage 1 to Stage 2. The Bank has decided to use a mix of absolute and relative changes (0.6 p.p. and 2.5 times) in 12-month point-in-time Probability of Default (PD) to determine whether there has been a significant increase in credit risk. In addition, customers with forbearance measures, included on the watch list and contracts with payments more than thirty days past due are also transferred to Stage 2.

The agreed IFRS 9 impairment methodology is documented in internal procedures and applied in daily life. Integration into front office business processes follows and is intended to be finalized during the year 2018, but this does not impact impairment calculation. In general, IFRS 9 impairment model results in earlier recognition of credit losses for the respective items and increases the amount of loss allowances recognised for these items. Moreover, the impairment calculations under IFRS 9 are more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward-looking scenarios. IFRS 9 impairment requirements are applied retrospectively, with transition impact recognized in retained earnings at 1 January 2018.

## Impact of the adoption of IFRS 9

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group.

**Classification and measurement of financial instruments**

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 as at January 2018 are compared as follows:

| Financial assets<br>T EUR | Original measurement category under IAS 39 | New measurement category under IFRS 9 | IAS 39 carrying amount 31 Dec 2017 | New carrying amount under IFRS 9 1 Jan 2018 |
|---|---|---|---|---|
| Cash and balances with central banks | Loans and receivables | Amortised cost | 199 250 | 199 250 |
| Due from other credit institutions | Loans and receivables | Amortised cost | 148 893 | 148 888 |
| Financial assets at fair value through profit or loss | Financial assets at FVTPL | Financial assets at FVTPL | 4 526 | 4 526 |
| Derivatives | Fair value through profit or loss | Fair value through profit or loss | 4 161 | iu2 144 |
| Loans and receivables | Loans and receivables | Amortised cost | 3 221 001 | 3 210 268 |

There were no changes for classification and measurement of financial liabilities.

| Financial liabilities T EUR | Original measurement category under IAS 39 | New measurement category under IFRS 9 | IAS 39 carrying amount 31 Dec 2017 | New carrying amount under IFRS 9 1 Jan 2018 |
|---|---|---|---|---|
| Derivatives | Fair value through profit or loss | Fair value through profit or loss | 4 161 | 3 310 |

**Reconciliation of impairment allowance balance from IAS 39 to IFRS 9**

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model as at 1 January 2018:

| Financial assets T EUR | Loss allowance under IAS 39/Provision under IAS 37 | Reclassifications | Remeasurements | Credit loss allowance under IFRS 9 |
|---|---|---|---|---|
| **Amortised cost** | | | | |
| Cash and balances with central banks | - | - | - | - |
| Due from other credit institutions | 0 | - | -5 | -5 |
| Loans and receivables | -43 699 | - | -10 733 | -54 432 |
| **Total** | **-43 699** | **-** | **-10 738** | **-54 437** |

| Financial liabilities T EUR | Provision under IAS 37 | Reclassifications | Remeasurements | IFRS 9 carrying amount 1 Jan 2018 |
|---|---|---|---|---|
| Provisions | 650 | - | 901 | **1 551** |
| **Total** | **650** | **-** | **901** | **1 551** |

**Reconciliation of statement of financial position balances from IAS 39 to IFRS 9**

The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

| Financial assets T EUR | IAS 39 carrying amount 31 Dec 2017 | Reclassifications | Remeasurements | IFRS 9 carrying amount 1 Jan 2018 |
|---|---|---|---|---|
| **Amortised cost** | | | | |
| **Cash and balances with central banks** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | **199 250** | - | - | **199 250** |
| **Due from other credit institutions** | | | | |
| Closing balance under IAS 39 | **148 893** | - | - | - |
| Remeasurement (ECL allowances) | **-** | - | -5 | - |
| Opening balance under IFRS 9 | **-** | - | - | **148 888** |
| **Loans and receivables** | | | | |
| Closing balance under IAS 39 | **3 221 001** | - | - | - |

| | | | | |
|---|---|---|---|---|
| Remeasurement (ECL allowances) | – | – | -10 733 | – |
| Opening balance under IFRS 9 | – | – | – | 3 210 268 |
| | | | -10 738 | 3 558 406 |
| **Financial assets measured at amortised cost – total** | **3 569 144** | **–** | **-10 733** | **–** |
| **Fair value through profit or loss** | | | | |
| **Financial assets at fair value through profit or loss** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | 4 526 | – | – | 4 526 |
| **Derivatives** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | 4 161 | – | -2 017 | 2 144 |
| **Financial assets at fair value through profit or loss – total** | **8 687** | **–** | **-2 017** | **6 670** |

| Financial liabilities T EUR | IAS 39 carrying amount 31 Dec 2017 | Reclassifications | Remeasurements 31 Dec 2017 | IFRS 9 carrying amount 1 Jan 2018 |
|---|---|---|---|---|
| **Provisions** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | 650 | – | 901 | 1 551 |
| **Derivatives** | | | | |
| Closing balance under IAS 39 and opening balance under IFRS 9 | 4 161 | | -851 | 3 310 |
| **Financial liabilities – total** | **4 811** | **–** | **50** | **4 861** |

### IFRS 15 Revenue from Contracts with Customers

The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. Management has assessed that the application of the standard did not have any effect on the Group financial statements.

The core principle of IFRS 15 is that revenue must be recognised to reflect the transfer of services to customers at an amount that reflects the consideration that is expected to be received in exchange for such services. This core principle is applied through a five-step model:

1. Identify the contract with the customer,
2. Identify the performance obligation in the contract,
3. Determine the transaction price,
4. Allocate the transaction price to the performance obligation in the contract,
5. Recognise revenue when the performance obligation is satisfied.

For each performance obligation identified, the Group determines at contract inception whether it satisfies the performance obligation over time or at a point in time, and whether the consideration is fixed or variable, including whether consideration is constrained due to external factors. Consideration is subsequently allocated to the identified performance obligation.

For services provided over time, consideration is recognised when the service is provided to the customer assuming that a significant reversal of consideration will not occur. Examples of income earned for services satisfied over time include the fee income earned for the asset management services.

If a performance obligation is satisfied at a point in time, then the income is recognised when the service is transferred to the customer. Examples of such income include fee income for executing transactions (clearing and settlement, customers' securities trading, payment cards transaction fees).

### IFRS 15 Revenue from Contracts with Customers (Clarifications)

The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principles and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. As described above, management has assessed that the application of the standard did not have any material effect on the Group financial statements.

### IFRS 16 Leases

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group decided that it will apply the standard using the modified retrospective method. The Group recognised a right of use asset of 4,998 thousand Euro against a corresponding lease liability of 5,337 thousand Euro on 1 January 2019, the impact to the equity as of 1st of January 2019 amounts to 339 thousand Euro.

## NOTE 3. RISK MANAGEMENT

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

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

## KEY JUDGMENTS, INPUTS, ASSUMPTIONS AND ESTIMATION TECHNIQUES USED FOR ASSESSING EXPECTED CREDIT LOSSES

With the adoption of IFRS 9, a three-stage model was introduced:

- 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 – 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 financial instrument is credit-impaired and all of these events are considered by Luminor as having a detrimental impact on the estimated future cash flows from the instrument.

Additional category is POCI financial assets - financial assets that were purchased or originated as credit-impaired. POCI assets are subject to unchanging classification, i.e. financial asset once classified as POCI remains in this group until derecognized. The POCI classification is determined at the financial instrument level.

**Luminor applies low credit risk exemption to the following classes of exposures:**

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

The counterparty must fulfil the condition of having a credit rating indicating investment grade.

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

- Significant increase of 12-month PD – significant increase of point-in-time (PIT) forward-looking 12-month PD since initial recognition until reporting date (2.5 times and 0.6 p.p. jointly),
- Risk grade 9 or 10 – risk grade 9 or 10 as of reporting date,
- 30 days past due – more than 30 days past due as of reporting date,
- Forborne performing – forborne performing status as of reporting date (forbearance not triggering non-performing status) in accordance with FINREP instruction reporting requirements,
- Watch list – watch list status as of reporting date.

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

**Luminor identifies default when either or both of the following default indicators have taken place:**

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

For exposure to banks, the default is recognized when payments are due more than 7 days.

**For the purpose of identifying unlikelihood of payment, the elements taken as indications of unlikelihood of payment include the following:**

- Distressed restructuring of credit obligation (forbearance triggering non-performing status in accordance with FINREP instruction requirements);
- Major financial problems of the customer (present or expected), i.e. significant financial difficulties;
- Recognition of specific credit risk adjustment resulting from a significant decline in credit quality of the exposure;
- Bankruptcy of the customer or similar protection;
- Disappearance of an active market for a financial asset because of the financial difficulties of the customer;
- Sell of credit obligation at material credit-related economic loss;
- Purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses;
- Credit fraud;
- External rating indicating default.

The default is recognised at the customer level.

Return to a non-defaulted status is possible not earlier than after 3 months when all default triggers cease to be met. During these 3 months of the probation period, the timely payments by the customer should be ensured. The exemption from the general rule of probation is distressed restructuring where at least 1 year needs to pass since the moment that restructuring measures were extended 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 treatment of forborne non-performing exposures.

With the shift from IAS 39 to IFRS 9 approach, the incurred loss model was replaced by the expected credit loss (ECL) model. For Stage 1 financial assets, loss allowances equal the 12-month ECL while for Stage 2 and Stage 3 financial instruments, lifetime ECL is calculated.

For Purchased or Originated Credit Impaired (POCI) financial assets, ECL is estimated in the lifetime horizon until the maturity. The loss expected at initial recognition is referred to as Initial impairment. In subsequent periods, only the cumulative changes in the lifetime expected credit losses since initial recognition are recognised in profit or loss. Collective assessment of impairment is performed for all financial instruments that are not defaulted as of the reporting date, i.e. are classified as 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. Expected loss in concrete macroeconomic scenario is calculated as the multiple of probability of default (PD), loss given default (LGD), exposure at default (EAD) and cumulative prepayment rate and is discounted using the effective interest rate. PD curves, LGD curves and EAD curves are estimated for all months until the maturity date of the facility. If the facility is classified as Stage 1, expected losses are estimated over the period of up to 12 months. If the facility is classified as Stage 2, then the expected loss is estimated over the period up to maturity date of the facility.

Estimation of PD and LGD curves take into account forward-looking macroeconomic information. The methodology of estimation of these risk parameters includes modelling of the relationship between risk parameters and macroeconomic variables. Forecasts of macroeconomic variables under different scenarios for 3 upcoming years together with scenario probabilities are prepared by Luminor macroeconomists. Three macroeconomic scenarios are considered: the baseline/realistic, positive, and pessimistic scenarios (with the probability weights of 60%, 25% and 15% respectively). Macroeconomic scenarios that are prepared for the estimation of expected losses are consistent with scenarios which are used in credit risk stress testing process. Macroeconomic variables that are included in the modelling are annual change in real GDP, unemployment rate and annual change of residential real estate price. Starting from the fourth year. it is assumed that risk parameters (PD and LGD) converge to their long-term average levels.

For Stage 3 exposures (or defaulted POCI assets), which are classified as material, Luminor evaluates the impairment amount on individual basis (individual assessment) under discounted cash flows (DCF) method. Two scenarios – base case and risk case – are used. For exceptional cases, usage of one scenario can be sufficient. The circumstances when only one scenario might be acceptable could be the deep workout case or the case when total exposure of defaulted borrower falls below the materiality threshold.

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

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

## NOTE 4. CAPITAL MANAGEMENT

The new expected loss approach model had a negative impact on the Bank's regulatory capital. By decision of the Board of Directors of Luminor Group AB, the Bank did not apply transitional arrangements allowed by EU Regulation 2017/2395 and recognised the full effect of the implementation of IFRS 9 from 1 January 2018. The capital adequacy ratio is still significantly above the regulatory minimum and in line with the internal Risk Appetite statement.

| T EUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **OWN FUNDS** | | |
| 1. TIER 1 CAPITAL | 466 008 | 445 165 |
| 1.1. COMMON EQUITY TIER 1 CAPITAL | 466 008 | 445 165 |
| 1.1.1. Capital instruments eligible as CET1 Capital | 411 518 | 411 518 |
| Paid-up capital instruments | 9 377 | 9 377 |
| Share premium | 402 141 | 402 141 |
| 1.1.2. Retained earnings | 56 544 | 37 609 |
| 1.1.3. (-) Other intangible assets | -2 965 | -4 226 |
| 1.1.4 Other reserves | 1 348 | 291 |
| 1.1.5 Adjustments to CET1 due to prudential filters | -14 | -25 |
| 1.1.6 CET1 capital elements or deductions - other | -423 | -2 |

## NOTE 5. INTEREST INCOME

| T EUR | 01 Jan 2018 to 31 Dec 2018 | 01 Jan 2017 to 31 Dec 2017 | Q4 2018 | Q4 2017 |
|---|---|---|---|---|
| Loans | 51 974 | 18 668 | 13 446 | 13 205 |
| Leasing | 29 245 | 11 540 | 7 400 | 7 058 |
| Deposits with other banks | 824 | 2 | 287 | 2 |
| Interest rate SWAP | 215 | 0 | 215 | 0 |
| Negative interest on interest bearing liabilities | 1 | 824 | 1 | 27 |
| | **82 259** | **31 034** | **21 349** | **20 292** |

## NOTE 6. INTEREST EXPENSE

| T EUR | 01 Jan 2018 to 31 Dec 2018 | 01 Jan 2017 to 31 Dec 2017 | Q4 2018 | Q4 2017 |
|---|---|---|---|---|
| Credit institutions | 6 791 | 1 292 | 2 669 | 1 192 |
| Time and other saving deposits | 2 839 | 1 344 | 821 | 362 |
| Negative interest on interest bearing assets | 1 777 | 850 | 516 | 254 |
| Derivative financial instruments | 299 | 0 | 299 | 0 |
| Other | 596 | 335 | 294 | 218 |
| | **12 302** | **3 822** | **4 599** | **2 027** |

## NOTE 7. FEE AND COMMISSION INCOME

| T EUR | 01 Jan 2018 to 31 Dec 2018 | 01 Jan 2017 to 31 Dec 2017 | Q4 2018 | Q4 2017 |
|---|---|---|---|---|
| Credit contracts | 5 866 | 1 050 | 1 523 | 884 |
| Transaction fees | 5 578 | 2 599 | 1 350 | 2 560 |
| Brokerage fees | 2 088 | 742 | 502 | 406 |
| Asset Management | 4 392 | 1 103 | 1 137 | 1 103 |
| Other | 1 624 | 35 | 93 | -203 |
| | **19 548** | **5 529** | **4 605** | **4 750** |

## NOTE 8. CASH AND BALANCES WITH CENTRAL BANKS

| T EUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Cash on hand | 3 699 | 7 245 |
| Non-restricted current account with central banks | 698 264 | 192 005 |
| *- of which mandatory reserve requirement* | 26 758 | 27 311 |
| | **701 963** | **199 250** |

## NOTE 9. DUE FROM OTHER CREDIT INSTITUTIONS

| T EUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Due from other credit institutions** | | |
| Republic of Estonia credit institutions | 1 004 | 2 358 |
| EU (except Estonia) credit institutions | 62 477 | 83 079 |
| Other credit institutions | 45 727 | 63 455 |
| | **109 208** | **148 893** |

## NOTE 10. LOANS AND RECEIVABLES TO CUSTOMERS

| T EUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Loans to Corporates | 964 299 | 945 902 |
| Leases | 879 421 | 924 758 |
| Factoring | 148 926 | 150 874 |
| Public sector loans&leases | 86 008 | 79 623 |
| Housing loans | 1 138 966 | 1 144 595 |
| Other loans to private individuals | 29 522 | 18 949 |
| Impairment allowances | -34 354 | -43 699 |
| *- of which to business customers* | -27 258 | -38 841 |
| *- of which to individuals* | -7 095 | -4 858 |
| | **3 212 788** | **3 221 001** |
| Due from customers, registered in Estonia | 3 115 505 | 3 087 599 |
| Due from customers, registered in EU (except Estonia) | 67 053 | 94 079 |
| Due from customers, registered in other countries | 30 229 | 39 324 |
| | **3 212 788** | **3 221 001** |

## NOTE 11. DUE TO CREDIT INSTITUTIONS

| T EUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Demand deposits | 2 882 | 8 907 |
| Time deposits and loans (remaining maturity up to 1 year) | 506 423 | 640 704 |
| Time deposits and loans (remaining maturity more than 1 year) | 962 000 | 747 000 |
| Accrued interest payable to credit institutions | 679 | 898 |
| | **1 471 984** | **1 397 509** |
| Due to credit institutions registered in Estonia | 9 200 | 36 950 |
| Due to credit institutions registered in EU (except Estonia) | 838 464 | 731 568 |
| Due to credit institutions registered in other countries | 624 321 | 628 991 |
| | **1 471 984** | **1 397 509** |

| T EUR | Division by remaining maturity | | Total | Interest rate | Base currency | Termination |
|---|---|---|---|---|---|---|
| | in 12 months | 1-5 years | | | | |
| **31.12.2018** | | | | | | |
| Other related parties | 13 403 | 200 000 | **213 403** | 0% - 1% | **EUR** | 2019-2020 |
| Ultimate owners of Luminor Bank AS | 486 000 | 762 000 | **1 248 000** | 0% - 1% | **EUR** | 2019-2021 |
| Other credit institutions | 9 902 | 0 | **9 902** | < 1% | **EUR** | 2019 |
| Interest payable | 45 | 634 | **679** | | | |
| | **509 350** | **962 634** | **1 471 984** | | | |
| **31.12.2017** | | | | | | |
| Other related parties | 94 686 | 0 | **94 686** | 0% - 1% | **EUR** | 2018 |
| Ultimate owners of Luminor Bank AS | 546 000 | 711 000 | **1 257 000** | 0% - 1% | **EUR** | 2018 - 2021 |
| Central banks | 0 | 36 000 | **36 000** | < 1% | **EUR** | 2018 |
| Other credit institutions | 8 904 | 0 | **8 904** | 0% - 1% | **EUR** | 2018 |
| Interest payable | 91 | 828 | **919** | | | |
| | **649 681** | **747 828** | **1 397 509** | | | |

## NOTE 12. DEPOSITS FROM CUSTOMERS

| T EUR | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Demand deposits | 1 152 802 | 850 245 |
| Time deposits and other saving deposits | 570 521 | 797 810 |
| Accrued interest payable to customers | 1 227 | 545 |
| | **1 724 550** | **1 648 600** |
| Non-residents | 143 870 | 134 291 |
| Residents | 1 580 680 | 1 514 308 |
| | **1 724 550** | **1 648 599** |
| **Due to customers by type of customers** | | |
| Due to corporate customers | 1 011 607 | 939 058 |
| Due to public sector customers | 205 786 | 211 897 |
| Due to individuals | 507 157 | 497 644 |
| | **1 724 550** | **1 648 599** |
| Due to customers registered in Estonia | 1 580 680 | 1 514 308 |
| Due to customers registered in EU (except Estonia) | 89 068 | 52 536 |
| Due to customers registered in other countries | 54 802 | 81 755 |
| | **1 724 550** | **1 648 599** |

## NOTE 13. DEBT SECURITIES ISSUED

In October 2018 Luminor Bank AS issued its inaugural bond under the Luminor Euro Medium Term Notes (EMTN) program. The company issued EUR 350 000 000 of fixed-rate bonds maturing October 2021 with annual coupons and bearing interest at an annual rate of 1.50%. There were no specific covenants related to the bond issuance. The amortised cost of debt securities issued amounts to 349 333 thousand EUR as at 31 December 2018.

## NOTE 14. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

| T EUR | Contract amount | |
|---|---|---|
| | Assets | Liabilities |
| **31.12.2018** | | |
| **Irrevocable and conditionally revocable transactions** | | |
| Guarantees and other similar off-balance sheet irrevocable liabilities and claims | 0 | 170 709 |
| Loan commitments | 0 | 216 188 |
| Leasing and factoring commitments | 0 | 96 239 |
| | **0** | **483 136** |
| **31.12.2017** | | |
| **Irrevocable and conditionally revocable transactions** | | |
| Guarantees and other similar off-balance sheet irrevocable liabilities and claims | 0 | 190 256 |
| Loan commitments | 0 | 318 327 |
| Leasing and factoring commitments | 234 | 27 954 |
| | **234** | **536 537** |

## NOTE 15. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The carrying amount of the major part of Group's assets and liabilities is a reasonable approximation of their fair value. Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data is not available, judgment is required to establish fair values.

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

In assessing the fair value for financial assets, the management has performed discounted cash flow analysis; up-to-date market information at the moment of assessment is used for assessing cash flows. For loans, where base interest rates are pegged to floating market interest rates, the Group has considered the difference between the average interest margin of issued loans and average interest margin for newly issued loans. Given that for part of the loan portfolio this margin has not been changed (increased) since issuance, the Group has estimated that for such loans the carrying value is considered equal to fair value.

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

The table below summarizes the fair value measurement hierarchy of the Bank financial assets and liabilities accounted for at fair value. Financial instruments are distributed by 3 levels of fair value:

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

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

There were no movements of financial instruments between the levels during 2018 and 2017.

Valuation of all financial assets and liabilities measured at fair value was performed as at 31 December 2018

## FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS

| | | Fair value measurement using | | | |
|---|---|---|---|---|---|
| T EUR | Date of valuation | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| **Assets** | **31.12.2018** | | | | |
| Cash and cash balances with central banks | | 701 963 | 0 | 0 | 701 963 |
| Due from other credit institutions | | 0 | 0 | 109 208 | 109 208 |
| Derivative financial instruments | | 0 | 2 330 | 0 | 2 330 |
| Financial assets at fair value through profit or loss | | 0 | 4 356 | 0 | 4 356 |
| Loans and receivables | | 0 | 0 | 3 212 788 | 3 212 788 |
| **Total** | | **701 963** | **6 686** | **3 321 996** | **4 030 645** |
| **Liabilities** | **31.12.2018** | | | | |
| Loans and deposits from credit institutions | | 0 | 0 | 1 471 984 | 1 471 984 |
| Deposits from customers | | 0 | 0 | 1 724 550 | 1 724 550 |
| Debt securities issued | | 0 | 351 235 | 0 | 351 235 |
| Derivative financial instruments | | 0 | 2 312 | 0 | 2 312 |
| **Total** | | **0** | **353 547** | **3 196 534** | **3 550 081** |
| **Assets** | **31.12.2017** | | | | |
| Cash and cash balances with central banks | | 199 250 | 0 | 0 | **199 250** |
| Due from other credit institutions (demand) | | 0 | 0 | 92 832 | **92 832** |
| Receivables from parent pledged as collateral | | 0 | 0 | 37 647 | **37 647** |

| | | | | | |
|---|---|---|---|---|---|
| Derivative financial instruments | | 0 | 4 161 | 0 | **4 161** |
| Financial assets at fair value through profit or loss | | 0 | 4 526 | 0 | **4 526** |
| Loans and receivables | | 0 | 0 | 3 239 414 | **3 239 414** |
| **Total** | | **199 250** | **8 687** | **3 374 419** | **3 577 830** |
| **Liabilities** | **31.12.2017** | | | | |
| Loans and deposits from credit institutions | | 0 | 0 | 1 397 509 | **1 397 509** |
| Deposits from customers | | 0 | 0 | 1 648 598 | **1 648 598** |
| Debt securities issued | | 0 | 0 | 65 007 | **65 007** |
| Derivative financial instruments | | 0 | 4 161 | 0 | **4 161** |
| **Total** | | **0** | **4 161** | **3 111 114** | **3 115 275** |

Demand deposits due from credit institutions and loans and receivables to customers are issued on market conditions. Therefore, the fair value of these financial assets does not materially differ from their carrying amount as at 31 December 2018 and 31 December 2017. The rates for the financial instruments are mostly floating. In determining the fair value of loans and receivables to customers, management judgements are used. Loans and receivables from customers are thus categorised under hierarchy level 3.

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

## NOTE 16. RELATED PARTIES

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

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

The majority shareholders of the parent company Luminor Group AB are DNB Bank AB and Nordea Bank AB.

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.

The volumes of related party transactions, outstanding balances at the period end, and relating income and expense for the period are as follows:

| T EUR | 01 Jan 2018 to 31 Dec 2018 | 01 Jan 2017 to 31 Dec 2017 | Q4 2018 | Q4 2017 |
|---|---|---|---|---|
| **Interest income** | | | | |
| Parent company | 625 | 846 | 251 | 54 |
| Other related parties | 2 513 | 621 | 2 212 | 621 |
| | **3 138** | **1 466** | **2 463** | **674** |
| **Other income** | | | | |
| Parent company | 7 | 6 | 0 | 6 |
| Other related parties | 5 345 | 1 221 | 2 878 | 1 131 |
| | **5 352** | **1 227** | **2 878** | **1 137** |
| **Interest paid on money market deposits/loans** | | | | |
| Parent company | 3 789 | 1 261 | 706 | 394 |
| Other related parties | 3 152 | 133 | 2 362 | 31 |
| | **6 941** | **1 394** | **3 068** | **425** |
| **Other expenses** | | | | |
| Parent company | 1 768 | 628 | 1 339 | 332 |
| Other related parties | 5 730 | 960 | 1 729 | 951 |
| | **7 498** | **1 588** | **3 068** | **1 283** |

| T EUR | 31 Dec 2018 | 31 Dec 2017 |
|---|---|---|
| **Nostro balances** | | |
| Parent company | 3 959 | 99 942 |
| Other related parties | 62 237 | 1 520 |
| | **66 196** | **101 462** |
| **Receivables pledged as collateral** | | |
| Parent company | 0 | 37 647 |
| | **0** | **37 647** |
| **Loans and advances** | | |
| Parent company | 39 712 | 0 |
| Other related parties | 0 | 0 |
| | **39 712** | **0** |
| **Loans and deposits from** | | |
| Parent company | 1 248 642 | 1 257 449 |
| Other related parties | 213 243 | 95 312 |
| | **1 461 885** | **1 352 761** |
| **Liabilities** | | |
| Parent company | 11 | 1 200 |
| Other related parties | 2 831 | 715 |
| | **2 842** | **1 915** |
| **Contingent loan commitments from parent company** | | |
| Parent company | 0 | 168 200 |
| | **0** | **168 200** |

## NOTE 17. SEGMENT REPORTING

### MEASUREMENT OF PERFORMANCE OF OPERATING SEGMENTS

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM), as required by IFRS 8. At Luminor, the CODM has been defined as Group Executive Management.

The Executive Management Committee monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profits or losses and is measured consistently with operating profits or losses in the consolidated financial statements. Interest income is reported net as management primarily relies on net interest revenue as a performance measure, along with the gross income and expense.

From 1 October 2017, Luminor Group implemented new reportable operating segments, and therefore there is no comparable data with respective segmentation for previous periods.

## BASIS OF SEGMENTATION

Financial results are presented for the four main business areas: Corporate Banking, Business Clients, Household and Private Banking. Other operating segments below the quantitative thresholds in IFRS 8 and that are not completely allocated are included in the Other segment.

## REPORTABLE OPERATING SEGMENTS

Corporate Banking service large corporate customers and Business service small and medium-sized corporate customers. Corporate & Business Banking works with a relationship-driven customer service model with a customer-centric value proposition for Luminor's corporate customers. The Household segment serves Luminor's household customers in the Baltic markets, through various channels offering a full range of financial services and solutions. The business area includes advisory and service staff, channels, product units, back office and IT under a common strategy, operating model and governance across markets.

Private Banking provides high-quality investment, savings and risk management products. It also manages customers' assets and gives financial advice to affluent and high net worth individuals as well as to institutional investors. The Other segment includes results not fully allocated to any of the operating segments.

| 01 Jan 2018 to 31 Dec 2018<br>T EUR | Corporate Banking | Business clients | Household | Private Banking | Other | Total |
|---|---|---|---|---|---|---|
| Net interest income | 26 633 | 12 677 | 22 307 | 1 815 | 6 525 | **69 957** |
| Net fees & commission income | 6 170 | 2 355 | 6 678 | 495 | -694 | **15 004** |
| Trading income | 2 444 | 565 | 771 | 224 | 0 | **4 004** |
| Other income | 274 | 145 | 51 | 0 | 3 984 | **4 454** |
| **Total income** | **35 521** | **15 742** | **29 807** | **2 534** | **9 816** | **93 420** |
| Personnel costs, administrative costs and depreciation | -15 427 | -8 412 | -29 077 | -1 645 | -10 293 | **-64 854** |
| Net impairment (losses/ reversal) | 3 326 | -1 573 | 3 321 | 10 | -136 | **4 948** |
| Other | 0 | 0 | 0 | 0 | 192 | **192** |
| **Profit before tax** | **23 420** | **5 757** | **4 051** | **899** | **-421** | **33 706** |

| Q4 2018<br>T EUR | Corporate Banking | Business clients | Household | Private Banking | Other | Total |
|---|---|---|---|---|---|---|
| Net interest income | 13 185 | 6 322 | 11 262 | 903 | -14 921 | **16 751** |
| Net fees & commission income | 3 099 | 1 219 | 3 314 | 243 | -4 616 | **3 259** |
| Trading income | 1 410 | 274 | 380 | 144 | -1 045 | **1 163** |
| Other income | 182 | 1 | 34 | 0 | 1 775 | **1 992** |
| **Total income** | **17 876** | **7 816** | **14 990** | **1 290** | **-18 807** | **23 165** |
| Personnel costs, administrative costs and depreciation | -8 032 | -4 143 | -15 304 | -864 | 9 144 | **-19 199** |
| Net impairment (losses/ reversal) | -1 637 | 2 730 | -490 | -3 | 2 799 | **3 399** |
| Other | 0 | 0 | 0 | 0 | 65 | **65** |
| **Profit before tax** | **8 207** | **6 403** | **-804** | **423** | **-6 799** | **7 430** |

| 31.12.2018 | Corporate Banking | Business clients | Household | Private Banking | Other | Total |
|---|---|---|---|---|---|---|
| Loans and receivables | 1 322 348 | 484 703 | 1 403 211 | 34 358 | -31 832 | 3 212 788 |
| **Total assets** | **1 322 348** | **484 703** | **1 403 211** | **34 358** | **-31 832** | **3 212 788** |
| Deposits from customers | 803 045 | 274 975 | 382 860 | 262 456 | 1 214 | 1 724 550 |
| **Total liabilities** | **803 045** | **274 975** | **382 860** | **262 456** | **1 214** | **1 724 550** |

## NOTE 18. TAX

Starting from 1 April 2018, the quarterly profits of credit institutions are subject to corporate income tax at the rate of 14%. The tax is payable by the 10th day of the third month of the following quarter. Once the profits are distributed, an additional income tax of up to 6% is further payable, which adds up to the total tax rate of up to 20%. The rate of the additional tax depends on the regularity of the dividend payments. If no dividends are paid, the advance tax payments are not refunded. Advance income tax was first time applied to the bank's profit for 2018 Q2 in the amount of 1 144 thousand euros. As of 31 December 2018 the advance income tax payable was recognized in the amount of 305 thousand euros.

## NOTE 19. EVENTS AFTER THE REPORTING PERIOD

On 2 January 2019 Luminor has completed its cross-border merger and continues its operations in all Baltic countries through the Estonian registered bank and its branches in Latvia and Lithuania. The bank will continue the same activities in Latvia and Lithuania through its locally established branches. After the completion of the merger, all assets and liabilities of three Banks have been consolidated as of 02 January 2019.

Luminor

# CONTACT DETAILS

## Luminor Bank AS

| | |
|---|---|
| **Location and address** | Liivalaia 45<br>10145 Tallinn<br>Estonia |
| **Registered country** | Republic of Estonia |
| **Main activity:** | Credit institution |
| **Commercial Register code** | 11315936 |
| **Telephone** | +372 628 3300 |
| **Fax** | +372 628 3201 |
| **Nordea SWIFT/BIC** | NDEAEE2X |
| **DNB SWIFT/BIC** | RIKOEE22 |
| **Website** | www.luminor.ee |
| **E-mail** | info@luminor.ee |
| **Balance sheet date** | 31 December 2018 |
| **Reporting period** | 01.10.2018 – 31.12.2018 |
| **Reporting currency** | Euro |

## Consolidation group

**Luminor Liising AS**
Commercial Register code: 10237140

**Luminor Pensions Estonia AS**
Commercial Register code: 11469303

**Luminor Kindlustusmaakler OÜ**
Commercial Register code: 11588048

**Promano Est OU**
Commercial Register code: 11681888

**Uus-Sadama 11 OÜ**
Commercial Register code: 11954914

**Location and address:** Liivalaia 45 10145 Tallinn Estonia
**Registered country:** Republic of Estonia