Creditreform Bank Rating
Luminor Bank AS (Group)

Creditreform Rating

Rating Object	Rating Information	
Luminor Bank AS (Group)	Long Term Issuer Rating / Outlook:	Short Term:
	A- / stable	**L2**
Creditreform ID: 400991898 Management: Peter Bosek (CEO) and 6 others	Type: Initialrating / Unsolicited	
Rating Date: **20 April 2022** Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.1" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.1" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3" Rating History: www.creditreform-rating.de	Rating of Bank Capital and Unsecured Debt Instruments: Preferred Senior Unsecured: A- Non-Preferred Senior Unsecured: - Tier 2: - Additional Tier 1: -	

Contents

Key Rating Driver

+ Above average potential profitability, good cost-income ratio excluding transformation costs
+ Very good capitalization with very high regulatory capital ratios
+ Good asset quality with steady improvement in the last year

+/- Transformation of the bank to become the leading independent bank in the Baltics

- Continuously high transformation costs burden earnings
- High RWA/Risk Exposure Amount ratios compared to larger corporate banks in mature markets

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Executive Summary

The initial rating of Luminor Bank AS is set at A-. The short-term rating is L2. The outlook is stable. The bank has developed strongly since its establishment in 2017 and has built up a good market position. Since the change of the majority owner in 2019, the bank is in a further transformation process, at the end of which it aims to be the leading independent bank in the Baltics. The costly transformation process forces persistently low annual profits, but the equity situation is excellent, the asset quality good and steadily improving.

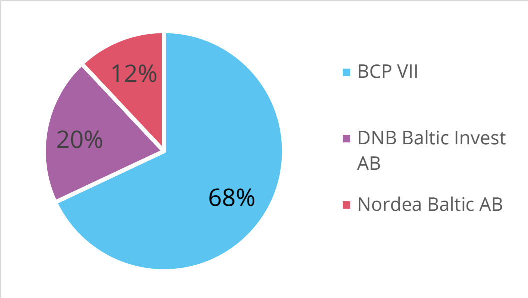
Company Overview

Luminor Bank AS (hereinafter: Luminor or Bank) is a large, independent bank operating primarily in the Baltic region with headquarters in Tallinn, Estonia. As the third largest universal bank in the region, it serves around 900,000 individual and corporate customers as well as 2,300 working professionals. Formed in 2017 by pooling DNB and Nordea operations through a merger of six smaller banks, the bank competes with two larger Swedish players and a smaller regional bank in all three main markets. In the Baltics, the market share in lending is 17%. As of 2019, Blackstone acquired a 60.1% stake in Luminor Holding (Ultimate Parent of Luminor Bank AS), DNB and Nordea now hold only a minority stake. In 2021, this stake was increased to 68% through shares held by Nordea.

With Blackstone as a partner, a far-reaching reorganization of Luminor began, with the goal of becoming the leading independent bank in the Baltics. The transformation is taking place in three phases. First, the bank was stabilized after the original mergers, the headquarters established in Tallinn, the legal structure finalized with a bank in Estonia and branches in Lithuania and Latvia, and IT consolidated. The second phase aims to simplify the organization and improve profitability and funding position, while the third phase will put the bank on a growth path and make it fit for the future.

Luminor operates several subsidiaries in each major market, including leasing subsidiaries and pension funds, among others. In 2021, a number of subsidiaries were liquidated, all of which were active in buying and selling of own real estates.

Chart 1: Major shareholders of Luminor Holding AS. | Source: Annual Report 2021 Luminor Bank AS



At the end of January 2022, an agreement was signed to acquire 99% of Maksekeskus, the leading e-commerce payment service in the Baltics. The acquisition is expected to strengthen Luminor's competitive position in the payments sector and correspondingly its fee and commission income. Maksekeskus will remain as a separate entity and the management in the form of the CEO of Maksekeskus will remain unchanged. Closing is expected in the coming months, subject to approval by the Competition, and Supervision and Resolution Authorities.

Exposure of Luminor Bank AS in regards to the Russian invasion of Ukraine is limited, both directly and indirectly via customer's relation with Russia.

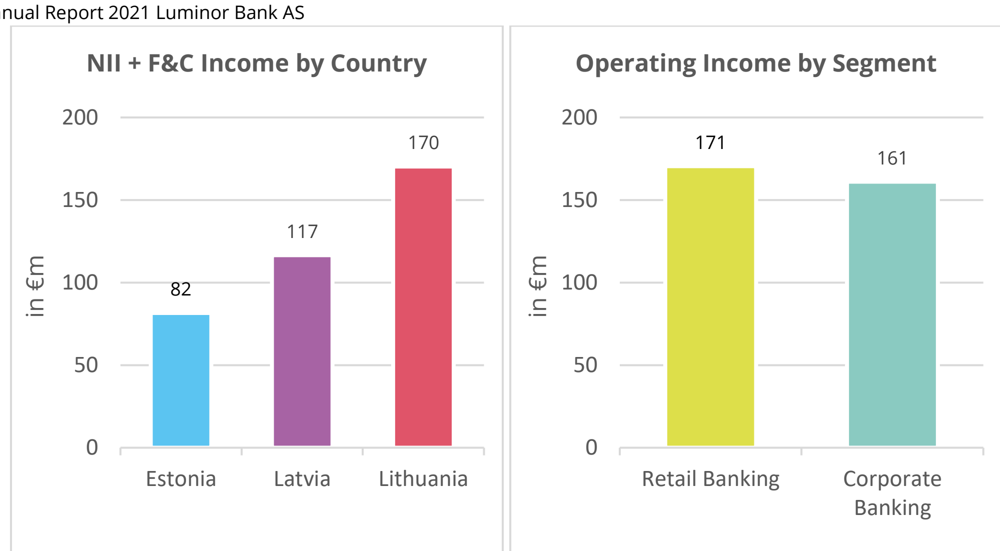
Business Development

Profitability

Creditreform Rating AG follows a "structural approach" in the presentation of P&L and balance sheet data. The P&L and balance sheet are presented according to a standardized framework; key figures and absolute values may therefore differ from the bank's presentation, but serve to improve the analysis and comparability between all banks rated by Creditreform Rating.

Net profit rebounded in 2021 and reached EUR 74.7 million, compared to EUR 33.1 million in the crisis year 2020. This result was mainly achieved by a positive risk cost contribution and an improvement in the cost-income ratio.
Operating income increased slightly by just under EUR 6 million. The main drivers, net interest income and net fee and commission income, recorded very robust growth, while net trading and fair value income declined by almost EUR 7 million. Other Income also decreased by more than EUR 5 million, so that the bottom line was only a slight increase in Operating Income. Net interest income increased only as a result of a decline in interest expense, in particular for customer deposits and former parent funding loan commitments. Interest income was down, in particular due to lower income from customers as a result of the low interest rate environment. In the Chart below one can observe each share of income by country and segment. More than half of the operating income is generated in Lithuania, while roughly a third is generated in Latvia and a more than a fifth in Estonia. This mirrors the actual geographical distribution in assets. Retail Banking and Corporate Banking share almost equal parts of Operating Income generation.

Chart 2: Net Interest Income and Fee and Commission Income by Country and Operating Income by Segment. | Source: Annual Report 2021 Luminor Bank AS



No particular driver for the growth in Net Fee and Commission Income could be identified, growth was broad and robust across the board. Within the category of Net Trading and Fair Value income, valuation losses from foreign currency customer liabilities were offset by derivative valuations, with which these liabilities were hedged.

Operating expenses were reduced compared to the previous year, savings were achieved in particular in the area of Tech & Communications Expense, while personnel costs increased only marginally. Operating expenses continue to be impacted by extraordinary costs resulting from the transformation. Since 2019, a total of just over €270 million has already been spent on the restructuring of the bank, with the most recent figure of around €76.8 million in 2021, compared with €102.6 million in the previous year. A large part of this was spent on IT.

As a result, operating profit amounted to EUR 67.7 million, compared with EUR 53.9 million in the previous year. A positive contribution to risk costs, particularly through derecognition/repayment and management overlay adjustments, led to the strongly improved result. The difference compared to the previous year due to risk costs amounted to EUR 32 million, or around three quarters of the total increase in pre-tax profit.

A detailed group income statement for the years of 2018 through 2021 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement (EUR m)	2021	%	2020	2019	2018
Income					
Net Interest Income	239	+5,4	227	254	259
Net Fee & Commission Income	79	+6,6	74	77	84
Net Insurance Income	-	-	-	-	-
Net Trading & Fair Value Income	21	-24,7	28	34	29
Equity Accounted Results	2	+85,2	1	1	1
Dividends from Equity Instruments	-	-	0	0	0
Other Income	2	-76,6	7	9	5
Operating Income	**342**	**+1,7**	**336**	**375**	**378**
Expense					
Depreciation and Amortisation	12	+0,0	12	13	9
Personnel Expense	101	+0,8	100	111	111
Tech & Communications Expense	97	-9,0	106	94	55
Marketing and Promotion Expense	7	> +100	3	4	4
Other Provisions	-	-	-	-	-
Other Expense	58	-4,2	61	80	66
Operating Expense	**274**	**-2,8**	**282**	**302**	**245**
Operating Profit & Impairment					
Operating Profit	**68**	**+25,4**	**54**	**73**	**133**
Cost of Risk / Impairment	-15	< -100	18	23	-6
Net Income					
Non-Recurring Income	-	-	0	9	-
Non-Recurring Expense	-	-	1	-	-
Pre-tax Profit	**82**	**> +100**	**36**	**59**	**140**
Income Tax Expense	8	> +100	3	5	16
Discontinued Operations	-	-	-	-	-
Net Profit	**75**	**> +100**	**33**	**54**	**123**
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	-	-	-	-	-

The key earnings figures generally improved in the wake of the increase in net income, mainly due to net reversals of provisions for losses on loans and advances. At the same time, total assets and balance sheet equity decreased, which made a further contribution for technical reasons. Overall, profitability is again average, following rather below-average previous years in the period under review. At the same time, the net financial margin is well above average, indicating high earning power despite the persistently low interest rate environment of recent years. However, the cost-income ratio (CIR) is still to be assessed as very high, which the bank mainly justifies with extraordinary charges. It should be noted, however, that the CIR has now been above 80% for three years in the CRA calculation. At best, the retail business is operating at break-even, while Corporate Banking is posting significantly lower expenses with similar operating income.

Excluding the extraordinary charges, the CIR would have been below 60% in the reporting period as in previous years (calculations based on CRA figures) and thus at a very good level. Due to the necessity of the rebuild, it is not straightforward to exclude the costs incurred, but they do provide an indicator of possible future profitability. At the same time, the CIR before the change of ownership was around 65% in 2019, which makes the projection appear reasonable.

A detailed overview of the income ratios for the years of 2018 through 2021 can be found in Figure 2 below:

Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2021	%	2020	2019	2018
Cost Income Ratio (CIR)	80,23	-3,73	83,97	80,48	64,73
Cost Income Ratio ex. Trading (CIRex)	85,46	-6,06	91,52	88,48	70,12
Return on Assets (ROA)	0,56	+0,34	0,22	0,39	0,81
Return on Equity (ROE)	4,82	+2,83	1,99	3,31	6,87
Return on Assets before Taxes (ROAbT)	0,62	+0,38	0,24	0,43	0,91
Return on Equity before Taxes (ROEbT)	5,32	+3,17	2,15	3,63	7,77
Return on Risk-Weighted Assets (RORWA)	1,07	+0,60	0,47	0,68	1,34
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,18	+0,67	0,50	0,74	1,52
Net Financial Margin (NFM)	1,97	+0,37	1,60	1,80	1,70
Pre-Impairment Operating Profit / Assets	0,51	+0,15	0,36	0,53	0,87
Cost of Funds (COF)	0,23	-0,12	0,36	0,40	0,29
Change in %Points					

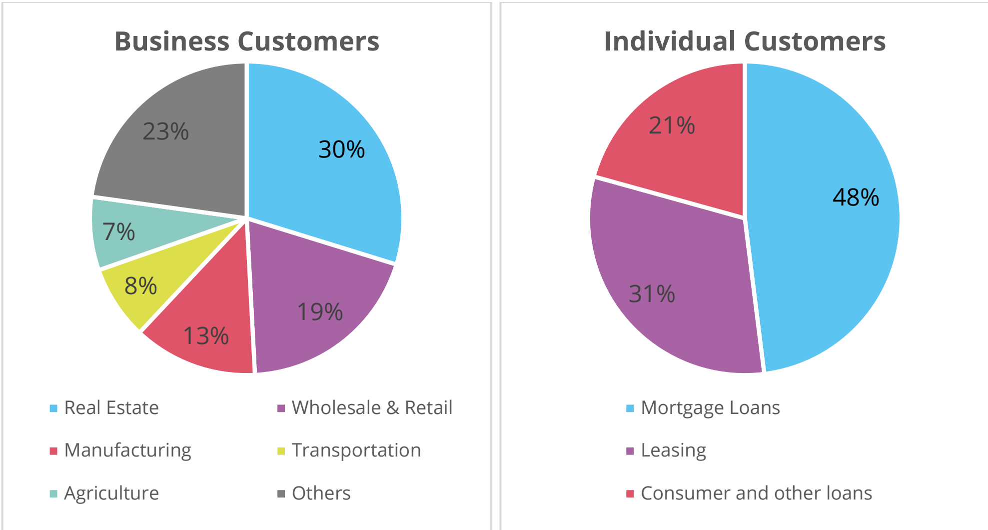
Asset Situation and Asset Quality

Total assets decreased by EUR 1.6 billion to EUR 13.3 billion in the current financial year. This was mainly due to the reduction in cash and cash equivalents (EUR -2.4 billion), while customer loans (EUR +0.5 billion) and securities (EUR +0.3 billion) only partially counteracted the decline. The bank's total assets fluctuated strongly during the period under review. As recently as 2018, total assets amounted to €15.3 billion. After a sharp decline in 2019, there was a sharp increase in the COVID 19 crisis year 2020 and most recently the aforementioned decline. These fluctuations were driven on the one hand by liquidity positions and loans to customers on the other hand, the latter decreasing steadily in volume until 2021.

Approximately two-thirds of the increase in net customer loans came from Corporate Banking and one-third from Retail Banking. In addition to organic growth, a significant share of the increase in Corporate Banking came from the acquisition of portfolios from Danske Bank (approx. EUR 71 million) and Nordea Bank (approx. EUR 118 million). The growth in Retail Banking was achieved through strong growth in both secured lending (mortgages) and unsecured lending.
Growth in the debt securities portfolio was achieved in the low-risk sector (mostly ECB-eligible), while excess liquidity was consequently reduced.

The retail banking loan portfolio accounts for approximately a little more than half of the volume, while the rest is attributable to corporate banking, of which more than 90% are dedicated to business customers. Overall, almost half of the business loans originate from the Real Estate Activities and Wholesale & Retail sectors, while another quarter come from the Manufacturing, Transportation and Agriculture sectors. By type, almost half of individual customer loans were attributed to mortgages, a strong leasing segment with almost a third of the volume, the rest to consumer and other loans.

Chart 3: Loans to business and individual customers by segment/type | Source: Annual Report 2021



A detailed look at the development of the asset side of the balance sheet for the years of 2018 through 2021 can be taken in Figure 3 below:

Figure 3: Development of assets| Source: eValueRate / CRA

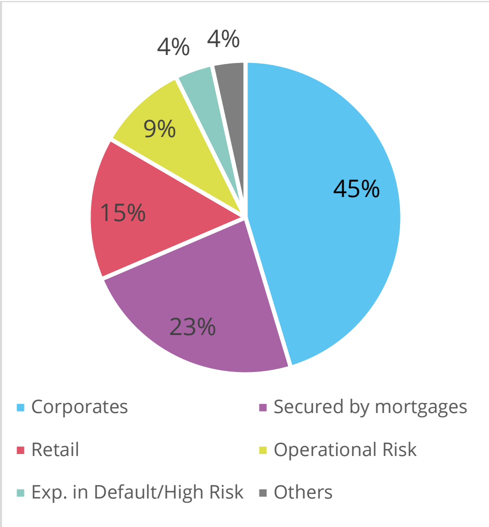
Assets (EUR m)	2021	%	2020	2019	2018
Cash and Balances with Central Banks	2.494	-49,4	4.927	2.924	3.293
Net Loans to Banks	64	-37,8	104	142	185
Net Loans to Customers	9.947	+5,5	9.431	10.223	11.472
Total Securities	611	> +100	287	227	149
Total Derivative Assets	76	+73,9	43	59	44
Other Financial Assets	-	-	-	4	4
Financial Assets	**13.192**	**-10,8**	**14.792**	**13.578**	**15.149**
Equity Accounted Investments	6	+20,9	5	6	6
Other Investments	0	-84,0	1	2	24
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	3	+100,0	1	3	31
Tangible and Intangible Assets	57	-10,0	63	76	24
Tax Assets	11	+15,2	10	3	2
Total Other Assets	47	-9,5	52	70	71
Total Assets	**13.317**	**-10,8**	**14.924**	**13.739**	**15.306**

Luminor's asset quality has steadily improved in recent years, even despite the COVID-19 crisis. The share of NPLs (IFRS9 Stage 3) in customer loans has almost halved within two years. The decline compared with the previous year was particularly pronounced. The level of potential problem loans (IFRS9 Stage 2) remains elevated due to the health crisis. The RWA ratio increased significantly again following the sharp regulatory decline, but this can be explained by the substantial decrease in total assets. In absolute terms, RWA[1] decreased slightly. RWAs are dominated by credit risk (ca. 90%), the rest accounting for operational risks. Of credit risk, corporates accounts for half, followed

[1] At Creditreform Rating, the term RWA is used interchangeably with Risk Exposure Amount (REA), but represents the same subject matter.

by secured mortgage lending at about a fourth and retail about a fifth of credit risk. Generally, corporates have associated risk weight of around 91% per Q4 2021, while mortgages and retail account for an average weight of 66% and 35%, respectively. Collectively, RWA as a percentage of total assets is higher than that of larger European banks in mature markets, which generally operate in the range of about 30-35%.

Chart 4: RWA | Source: Pillar 3 Report, Q4 2021



A detailed overview of the asset quality for the years of 2018 through 2021 can be found in Figure 4 below:

Figure 4: Development of asset quality| Source: eValueRate / CRA

Asset Ratios (%)	2021	%	2020	2019	2018
Net Loans/ Assets	74,69	+11,50	63,19	74,41	74,95
Risk-weighted Assets/ Assets	52,47	+4,99	47,48	58,00	60,15
NPLs*/ Net Loans to Customers	2,20	-1,44	3,64	4,22	5,61
NPLs*/ Risk-weighted Assets	3,14	-1,71	4,84	5,41	6,99
Potential Problem Loans**/ Net Loans to Customers	13,85	+0,42	13,43	8,28	13,47
Reserves/ NPLs*	46,49	+6,60	39,89	43,07	31,80
Reserves/ Net Loans	1,02	-0,43	1,45	1,82	1,78
Cost of Risk/ Net Loans	-0,15	-0,34	0,19	0,22	-0,06
Cost of Risk/ Risk-weighted Assets	-0,21	-0,46	0,25	0,29	-0,07
Cost of Risk/ Total Assets	-0,11	-0,23	0,12	0,17	-0,04
Change in %Points					

* NPLs are represented by Stage 3 Loans where available.
** Potential Problem Loans are Stage 2 Loans where available.

Refinancing, Capital Quality and Liquidity

The decrease in volume on the equity and liabilities side is primarily a result of the reduction in excess deposits, partly due to negative interest rates on high-volume deposits of major and public-sector customers. By contrast, deposits from individual customers continued to increase over the year.
The volume of debt securities outstanding decreased slightly as a result of maturities, new issues of senior preferred debt and repurchases. Refinancing costs were reduced

as a result of the new issues.
Despite the relatively high net profit, equity decreased due to a high dividend payment of EUR 190 million, although this appears justifiable given the very generous equity base. With the distribution, an 8% stake was acquired by Blackstone from Nordea by previous agreement.

A detailed overview of the development of liabilities for the years of 2018 through 2021 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (EUR m)	2021	%	2020	2019	2018
Total Deposits from Banks	84	+77,1	47	957	3.939
Total Deposits from Customers	10.305	-12,8	11.822	10.259	9.070
Total Debt	1.164	-3,1	1.201	652	351
Derivative Liabilities	70	+39,0	51	58	41
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	29	+97,2	15	45	28
Total Financial Liabilities	**11.652**	**-11,3**	**13.136**	**11.971**	**13.430**
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	1	> +100	0	4	9
Provisions	9	-1,7	9	4	6
Total Other Liabilities	106	-6,7	114	127	64
Total Liabilities	**11.768**	**-11,2**	**13.259**	**12.106**	**13.509**
Total Equity	**1.549**	**-7,0**	**1.665**	**1.632**	**1.797**
Total Liabilities and Equity	**13.317**	**-10,8**	**14.924**	**13.739**	**15.306**

The equity and capital base is considered to be very good. Not only are the ratios of regulatory equity very high, despite a lack of AT1 and T2 issues, but balance sheet equity is also at 11.6% of total assets. The high distribution did not reduce the balance sheet equity ratio, as total assets declined sharply overall. The Leverage ratio was also very high at 10.3%. The minimum regulatory capital requirement under SREP was 10.1% for CET1 at year-end. By March 2022, Luminor must maintain a 10.24% CET1 ratio. Management buffers and Pillar 2 guidance provide for a minimum ratio of 10.94%, which the bank intends to maintain. Overall, Luminor thus maintains a very comfortable capital buffer of 10.26% and 9.56% (incl. P2G and management buffer), respectively, which leaves room for distributions or other capital measures.

A detailed overview of the development of capital and liquidity ratios for the years of 2018 through 2021 can be found in Figure 6 below:

Figure 6: Development of capital and liquidity ratios | Source: eValueRate / CRA

Capital Ratios and Liquidity (%)	2021	%	2020	2019	2018
Total Equity/ Total Assets	11,63	+0,47	11,16	11,88	11,74
Leverage Ratio	10,30	+0,10	10,20	10,90	10,40
Common Equity Tier 1 Ratio (CET1)*	20,50	-1,90	22,40	19,70	-
Tier 1 Ratio (CET1 + AT1)*	20,50	-1,90	22,40	19,70	-
Total Capital Ratio (CET1 + AT1 + T2)*	20,50	-1,90	22,40	19,70	-
SREP/ CET1 Minimum Capital Requirements	10,10	+0,00	10,10	11,70	11,00
MREL / TLAC Ratio	-	-	-	-	-
Net Loans/ Deposits (LTD)	96,52	+16,74	79,78	99,64	126,49
Net Stable Funding Ratio (NSFR)	140,80	-18,20	159,00	123,00	114,00
Liquidity Coverage Ratio (LCR)	137,30	-59,90	197,20	150,00	189,00
Change in %Points					

* Fully-loaded where available

Due to Luminor's bank capital and debt structure, the Preferred Senior Unsecured Debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the lack of AT1, T2 and Non-Preferred Senior Issues, no rating was assigned for these rating classes.

Environmental, Social and Governance (ESG) Score Card

Luminor Bank AS has one significant and two moderate ESG rating drivers

• Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated positive due to Luminor's strong equity and capital base as well as good asset quality and convincing intrinsic profitability net of transformation charges.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating drivers. While Green Financing / Promoting is rated negative due the bank's efforts still being in infancy, Coporate Behaviour is rated neutral.

ESG Bank Score
3,4 / 5

Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2022	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating, and is rated negative in terms of the CRA ESG criteria.	3	(-)
	1.2 Exposure to Environ-mental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	( )

Factor	Sub-Factor	Consideration	Relevance Scale 2022	Eval.
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	1	( )

Factor	Sub-Factor	Consideration	Relevance Scale 2022	Eval.
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating, and is rated positive in terms of the CRA ESG criteria.	4	(+)
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating, and is rated neutral in terms of the CRA ESG criteria.	3	( )
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, and is rated positive in terms of the CRA ESG criteria.	1	(+)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

Creditreform Rating has assigned an initial Long-Term Issuer Rating of 'A-', a Short-Term Issuer Rating of 'L2' and an Outlook of 'stable'. Although Luminor Bank AS is a young bank itself with its foundation in 2017, it was consolidated from six predecessor banks. This is also a reason for its favorable market position, which did not have to be built from the bottom up. Under the aegis of the new majority owner, a further transformation process has been initiated, which is intended to develop Luminor into the leading independent bank in the Baltic region. The transformation costs continue to weigh on the bank's results, which from an external perspective does not appear to be very profitable. Capitalization, on the other hand, appears to be very good, and asset quality is good and steadily improving. It remains to be seen when and to what extent the transformation costs will decrease and a true picture of profitability and cost effectiveness will emerge.

From a business perspective, 2021 can be described as successful. Operating income increased slightly in a difficult market environment, while operating expenses were significantly reduced due to lower transformation costs. As a result, operating profit increased by a quarter. Thanks to a positive risk contribution, after-tax profit was at €75 million, more than double the prior-year figure. The trend of a reduction in net loans did not continue, with net loan growth occurring for the first time in the period under review. Excess liquidity was reduced and ECB-eligible debt was used as a partial substitute. Asset quality improved further overall, and the NPL ratio is now low. The funding side is solid and dominated by customer deposits, which were, however, reduced in the reporting year. The equity situation is excellent, with very high regulatory capital ratios despite the high RWA ratio. The liquidity situation is adequate.

Outlook

The outlook for the long-term issuer rating is stable. In the medium term, Creditreform Rating AG expects the transformation to be completed, which should thus yield a significant improvement on the cost side. It remains to be seen what impact the sharp increase in inflation in the euro zone and the war in Ukraine will have on stability of doing business in the euro periphery. The direct and indirect impact of the war so far remains low, however.

Scenario Analysis

Best-case scenario: A

Worst-case scenario: BBB

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In a scenario analysis, Luminor Bank can achieve an 'A' rating in the best case and a 'BBB' in the worst case. The rating grade of the Preferred Senior Unsecured Debt (PSU) would behave analogously, based on our rating methodology. The rating of the PSU is particularly sensitive to changes in the bank's capital adequacy and the structure of liabilities in general.

Creditreform Rating would consider an upgrade of the Long-Term Issuer Rating if the high transformation costs decrease sustainably and the bank's profitability increases. At the same time, capital adequacy and asset quality should remain at current high levels.

In contrast, Creditreform Rating would consider a downgrade of the Long-Term Issuer Rating if, cost-wise, the bank does not make any progress or the transformation drags on. A deterioration in asset quality and capitalization, e.g. due to excessive distributions, could also result in a downgrade.

Appendix

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Outlook / Short-Term **A- / stable / L2**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

Preferred Senior Unsecured Debt (PSU): **A-**
Non-Preferred Senior Unsecured Debt (NPS): **-**
Tier 2 (T2): **-**
Additional Tier 1 (AT1): **-**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 7: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	20.04.2022	A- / stable / L2
Bank Capital and Debt Instruments	**Rating Date**	**Result**
PSU / NPS / T2 / AT1 (Initial)	20.04.2022	A- / - / - / -

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating. The following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings (v3.1), the methodology for the rating of bank capital and unsecured debt instruments (v2.1), as well as the rating methodology for Environmental, Social and Governance Score for Banks (v1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (v1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 20 April 2022, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Luminor Bank AS (Group), and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

Rating Endorsement Status: The rating of Luminor Bank AS (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) of the CRA-Regulation.

Conflict of Interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee," all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

5. Public and internal market analyses

6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the disclosure of the credit rating to the rated entity and the public disclosure no amendments were made to the credit rating.

The "Basic data" information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In case where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating and indicates how the different methodologies or these other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions, such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the rating report or the "Basic data" card as a "Rating action"; first release is indicated as "initial rating", other updates are indicated as an “update”, “upgrade or downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available in the rating report or in the „Basic data“ information card.

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