

Luminor Bank

Issuer View • 10 May 2022

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Luminor Bank AS (Luminor) operates as a pan-Baltic credit institution in the countries of Estonia (head office), Latvia and Lithuania, with business in each of the latter two countries being conducted through branches since 2019. Services in leasing, pension funds and other activities are offered through own subsidiaries. The bank was formed in 2017 from the merger of DNB Bank AS and Nordea Bank Abp and their business activities in the three countries mentioned above. According to the bank's own data, it is the third-largest bank in the Baltics, serving about 900,000 retail and corporate customers with about 2,262 employees. Its market share in Baltic lending was 17% and in deposits 15% at the end of Q4/2021. The share of non-performing loans decreased recently was 1.7% as of Q1/2022 (12/2021: 1,8%; 12/2020: 3.2%). Customer deposits dominated the institute's funding at the end of the first quarter of 2022 with around 90%. Covered bonds have supplemented the funding mix since last year. The MREL requirement was 26.9% and the MREL ratio was reported at 29.7% at the end of the first quarter of 2022. The CET1 ratio was 21.2% in Q1/2022 (12/2021: 20.5%; Q1/2021: 23.4%). The LCR (137%, Q1/2021: 197%), NSFR (136%, Q1/2021: 160%) and leverage ratio (10.4%, Q1/2021: 10.8%) exceeded regulatory requirements. In late January 2022, Luminor signed an agreement to acquire 99% of Maksekeskus, the largest provider of e-commerce payment services in Estonia (2,600 merchants). According to Luminor, the acquisition supports its strategic direction as well as digital transformation and strengthens its presence in the digital payments market.

Ratings

	Rating	Outlook
Fitch	-	-
Moody's	Baa1	Stable
S&P	-	-

Homepage

luminor.ee

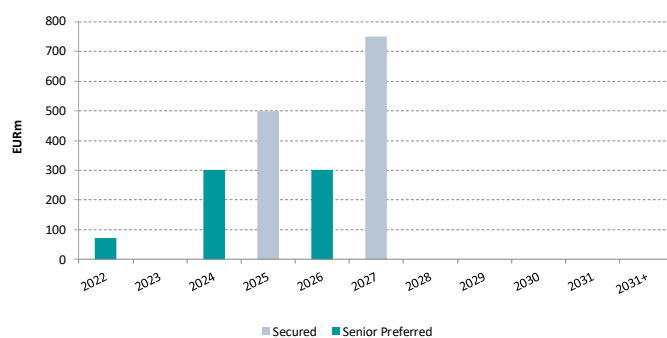
Balance Sheet

(EURm)	2020Y	2021Y	2022Q1
Net Loans to Customers	9,431	9,947	10,123
Total Securities	331	687	920
Total Deposits	11,822	10,305	10,561
Tier 1 Common Capital	1,586	1,430	1,504
Total Assets	14,924	13,317	13,830
Total Risk-weighted Assets	7,086	6,988	7,099

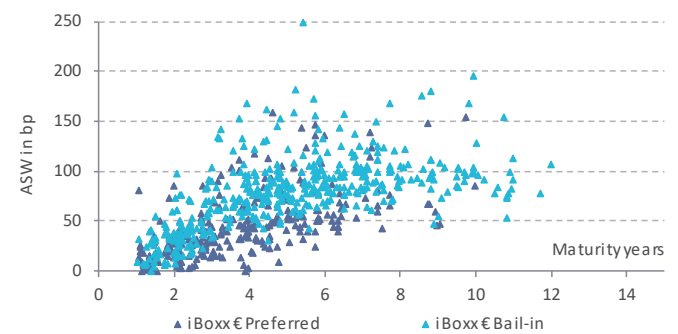
Income Statement

(EURm)	2020Y	2021Y	2022Q1
Net Interest Income	227	239	63
Net Fee & Commission Inc.	74	79	18
Net Trading Income	28	21	5
Operating Expense	279	261	55
Credit Commit. Impairment	-	-	-
Pre-tax Profit	36	82	82

Redemption Profile



Senior Unsecured Bonds (EUR BMK)



Company Ratios

	2020Y	2021Y	2022Q1		2020Y	2021Y	2022Q1
Net Interest Margin	1.66	1.70	-	Liquidity Coverage Ratio	197.20	137.20	136.6
ROAE	2.03	4.47	-	IFRS Tier 1 Leverage Ratio	10.67	10.80	10.40
Cost-to-Income	84.57	78.95	-	NPL/Loans at Amortised Cost	3.24	1.87	-
Core Tier 1 Ratio	22.39	20.46	21.20	Reserves/Loans at Amort. Cost	1.43	1.01	-

As of: 10.05.2022; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Markets Strategy & Floor Research

Strengths / Opportunities

- Capitalization
- Funding profile

Risks / Weaknesses

- Profitability
- Upcoming Investments

Covered Bonds

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Luminor Bank is the only EUR-BMK issuer in the Baltics

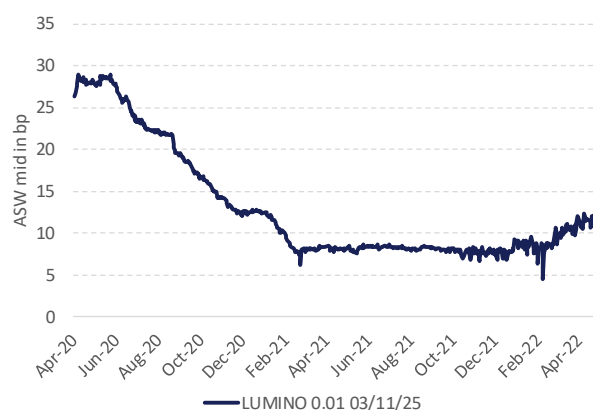
Luminor Bank is the only credit institution from the Baltic States that is active in the EUR benchmark segment. The outstanding bonds of Luminor are issued on the basis of the Estonian Covered Bond Act. The Act is also embedded in the initiative of a pan-Baltic covered bond market, which is to promote the issuance of covered bonds in the Baltic region. The implementation of the European Covered Bond Directive has also already taken place. In the EUR benchmark segment, Luminor made its debut in March 2020 with a EUR 500m issue, making the covered bond maturing in March 2025 the only Baltic benchmark represented in the iBoxx EUR Covered.

Programme data

31 March 2022	Mortgage
Covered bonds outstanding	EUR 1,250m
Cover pool volume	EUR 2,570.1m
Current OC (nominal / legal)	105.6% / 5.0%
Type	100% residential
Main country	40.1% Lithuania
Main region	18.0% Vilnius
Number of mortgage loans	52,489
ØLTV (unindexed / indexed)	62.6% / 51.1%
Share of 10 largest exposures	0.2%
Fixed interest (Cover Pool / CBs)	1.5% / 40.0%
WAL (Cover Pool / CBs)	11.0y (contractual) / 4.5y
CB Rating (Fitch / Moody's / S&P)	- / Aa1 / -

Source: Issuer, rating agencies, Bloomberg, NORD/LB Markets Strategy & Floor Research

Spread trend (BMK) – Estonia



Granular cover pool of Baltic assets

Luminor's cover pool amounted to EUR 2,570 million as of March 31, 2022 and, apart from 2.9% substitute cover assets (100% exposure to central banks), consisted exclusively of residential cover assets. Around two-thirds of the volume was used to purchase condominiums, with the remainder being accounted for by houses. Geographically, mortgage loans can be allocated to the three countries Estonia (28.1%), Latvia (31.8%) and Lithuania (40.1%). The share of owner-occupied properties is reported at 93%, followed by vacation homes and second homes at 5%. The assets are also entirely euro-denominated loans. 100% of the mortgage exposure is amortized and thus not subject to a bullet maturity. Variable interest rates account for 98.5% of the portfolio. The cover pool comprises 52,489 financings, which are owed to 49,653 borrowers. Within Lithuania, the geographical focus is on the capital Vilnius with 18.0%, in Latvia the capital Riga with 15.5% and in Estonia the capital Tallinn with 12.0%. Based on the number of loans, the average loan volume is EUR 47,520; the share of the ten largest exposures is 0.2%, which reflects the granularity of the assets in the pool.

Aa1 covered bond rating from Moody's

The rating agency Moody's has assigned a rating of Aa1 to Luminor's covered bonds. Issues can thus benefit from a preferential risk weighting of 10% according to CRR. Bonds in benchmark format (≥EUR 500 million) can also be used as Level 1 LCR assets in our view. As a member of the euro area, covered bonds from Estonia can be purchased by the Eurosystem under the CBBP3 and are eligible for repo transactions with the ECB.

Appendix

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